



POUDRE VALLEY HEALTH SYSTEM
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Fort Collins Chamber of Commerce 2012 Health Care Summit

What's the Problem with Health Care and How Did We Get Here?

Rulon F. Stacey, PhD, FACHE

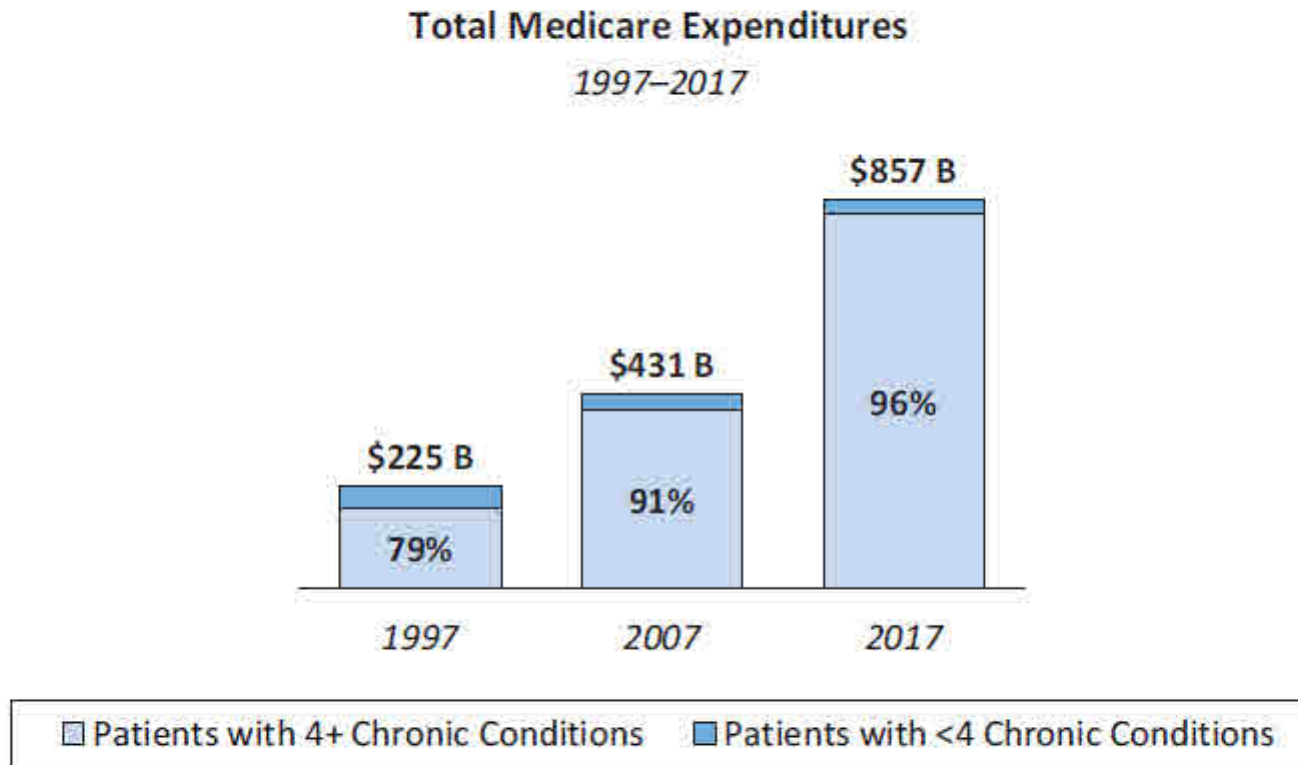
President/CEO, Poudre Valley Health System



pvhs.org

Fueling an Unsustainable Trend

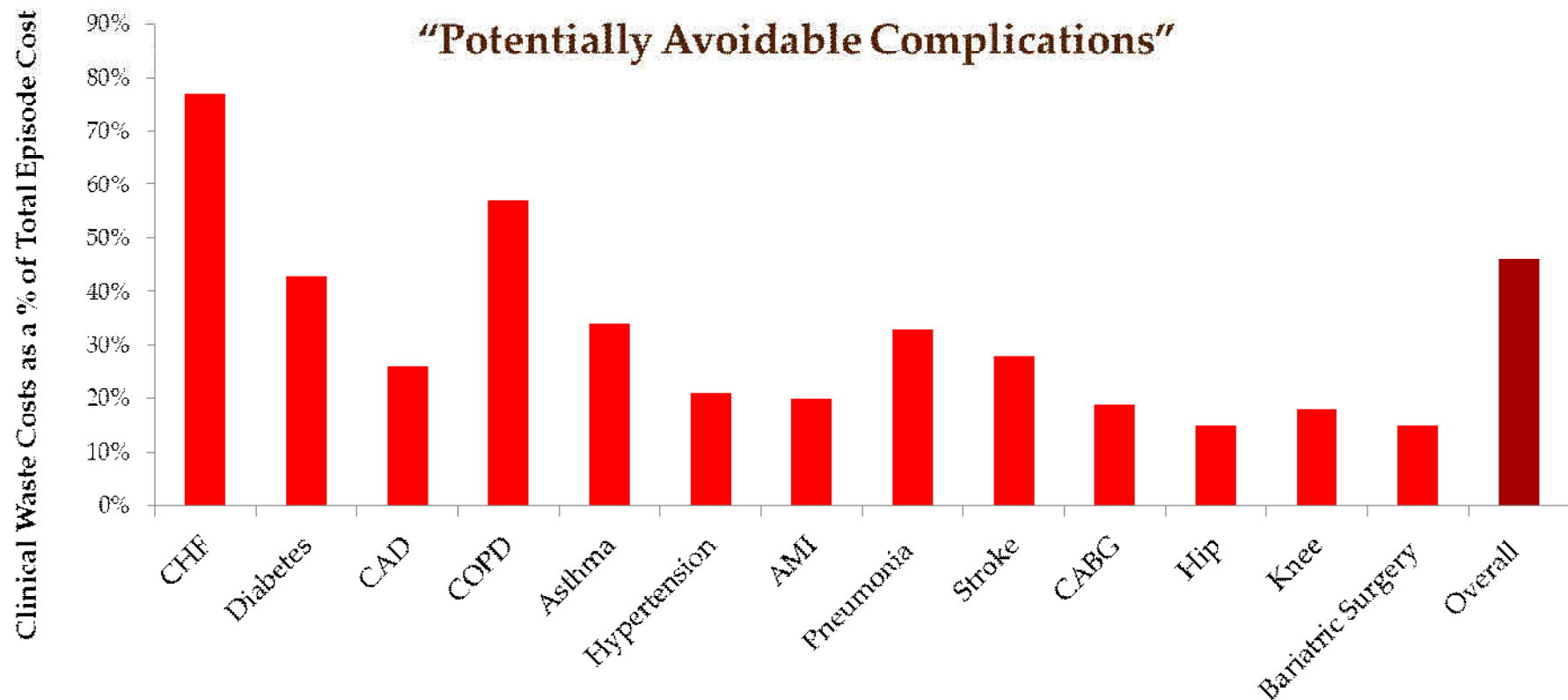
Complex Patients Spurring Medicare Cost Growth



Source: Thorpe K and Howard D, "The Rise in Spending Among Medicare Beneficiaries: The Role of Chronic Disease Prevalence and Changes in Treatment Intensity," *Health Affairs*, 379, August 2006; Innovations Center Futures Database; Health Care Advisory Board interviews and analysis.

Opportunities Exist to Reduce “Waste” in Healthcare

Private groups like Prometheus have devised models to “encourage physicians, hospitals and other providers to work as a team, centered around each patient’s needs, irrespective of their administrative integration.” The Prometheus model aims to improve margins and reduce clinical waste by creating a patient-specific severity adjusted price for an episode of care.



Result of bundling = alignment = reduced waste = economic opportunity for all providers (e.g., physician-hospital P4P bonus payments)

An Older, Sicker Population



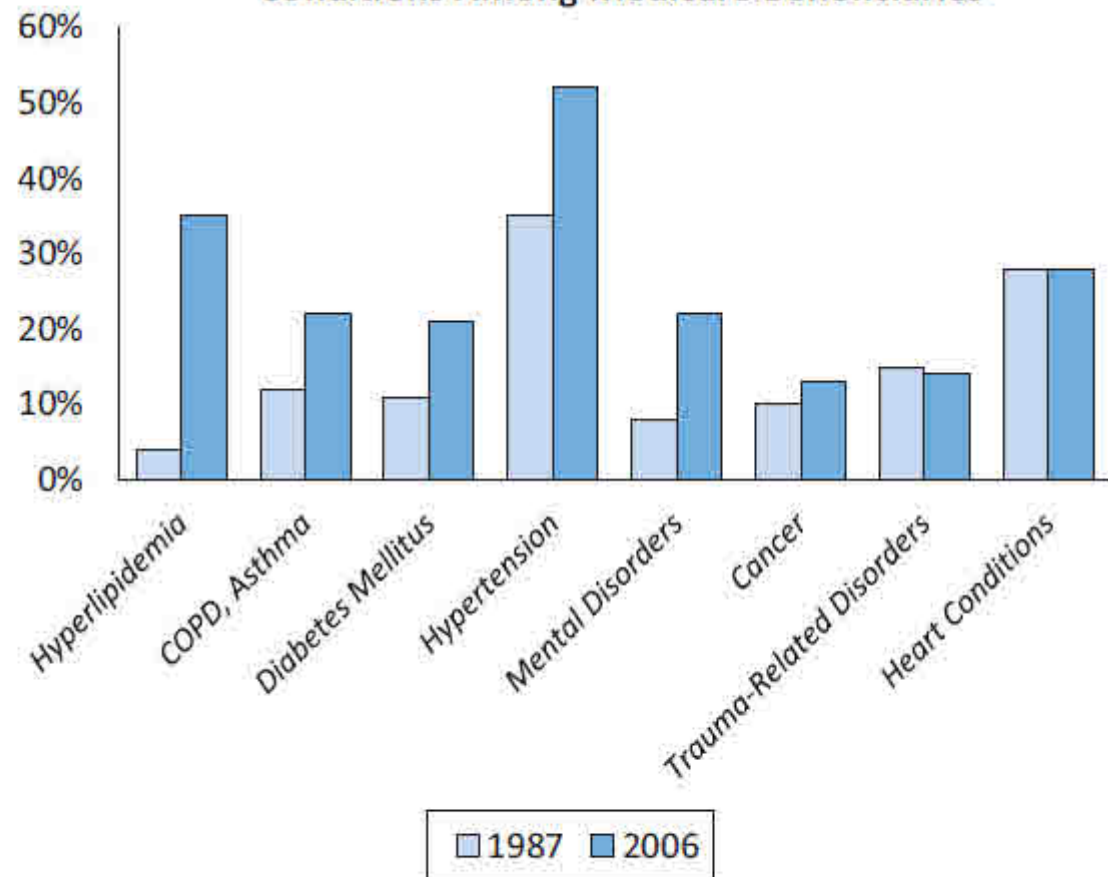
13%

Americans who are aged 65 and older in 2008, 35 million people

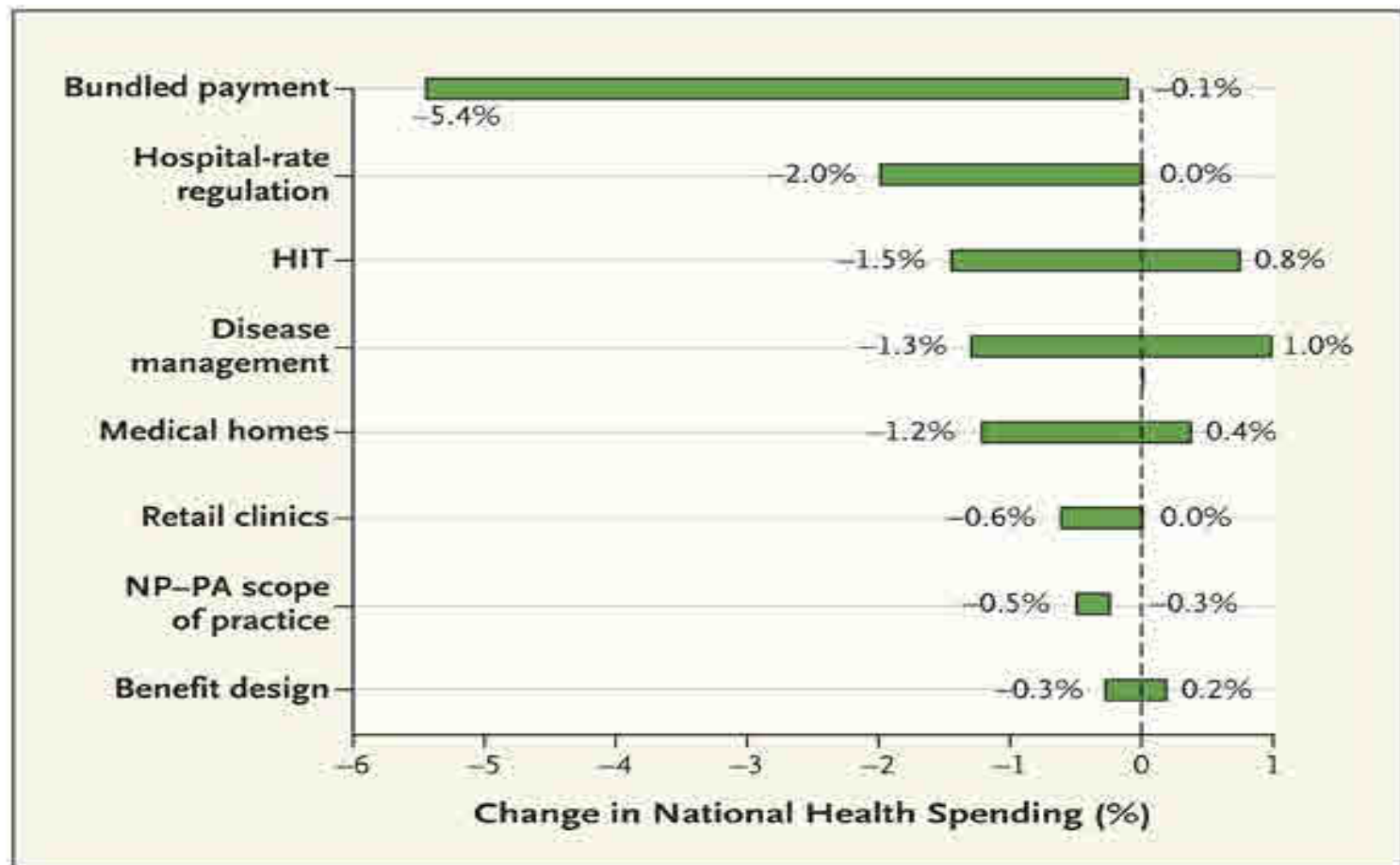
20%

Americans who are aged 65 and older in 2030, 70 million people

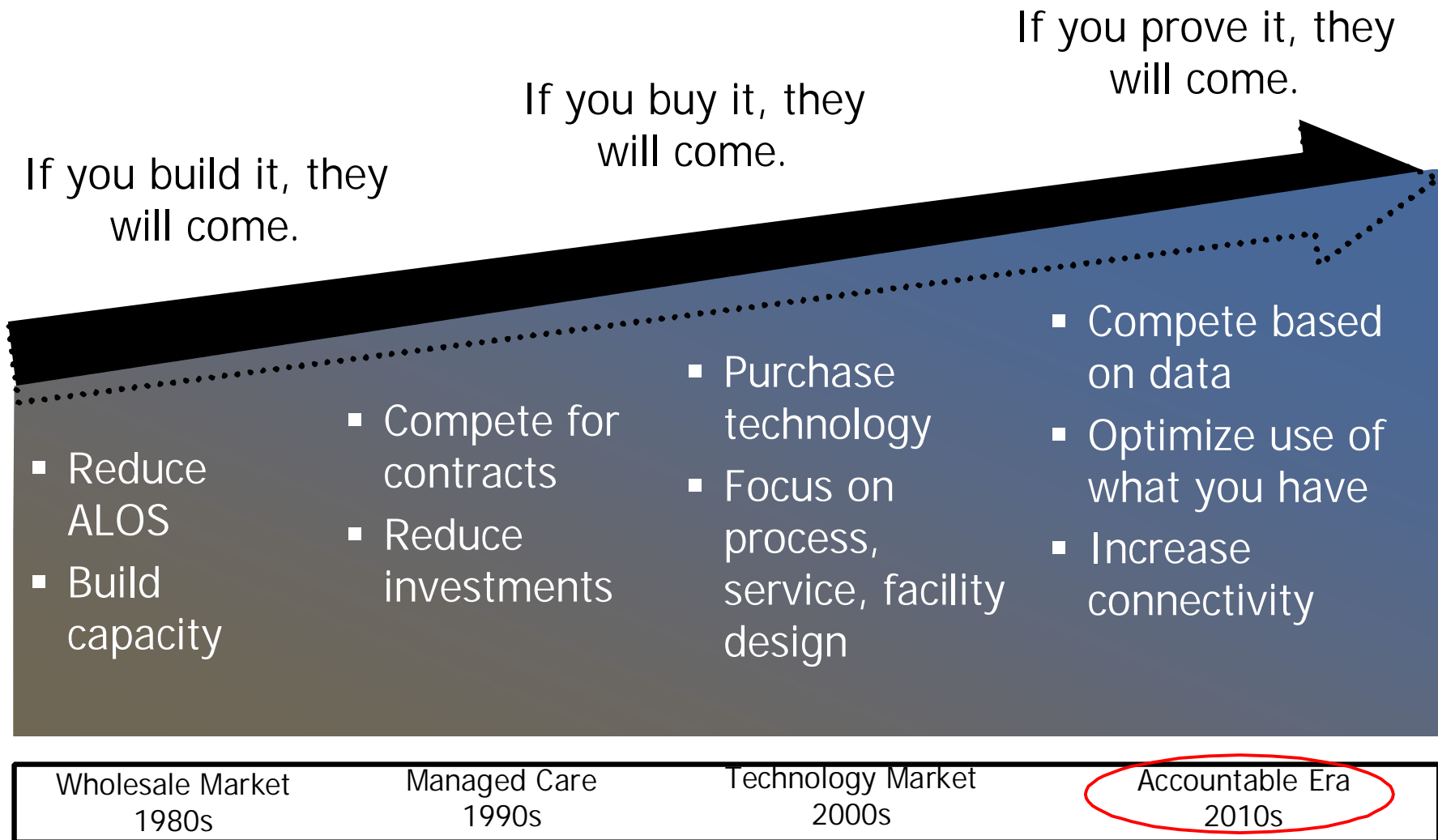
Treated Prevalence of the Top Health Conditions Among Medicare Beneficiaries



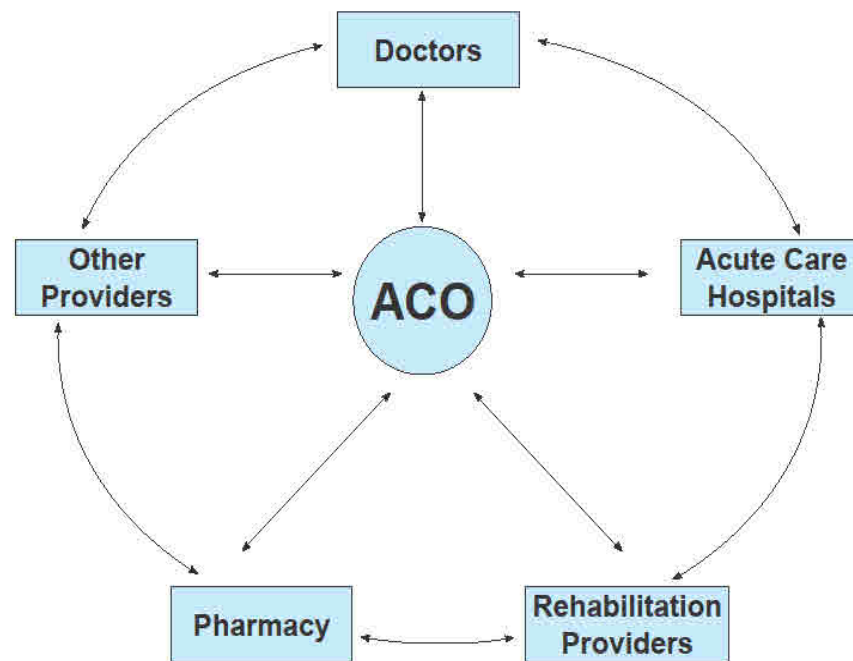
Change in National Healthcare Spending



PPACA: The *Accountable* Era is Here



True Clinical Integration



What is an ACO?

The signature delivery system reform piece in the Affordable Care Act, ACOs are envisioned to couple payment and delivery system transformation

The United States Senate (HR 3590) Definition

- Groups of providers of services and suppliers meeting criteria, as specified by the Secretary, who may *work together to manage and coordinate care* for Medicare fee-for-service beneficiaries through an accountable care organization...the ACOs that meet quality performance standards established by the Secretary are eligible to receive payments for shared savings.

The MedPAC Definition

- A group consisting of a hospital, primary care physicians and possibly specialists that would have *joint responsibility for the quality and cost of health care* delivered to a population of Medicare beneficiaries. Providers in the ACO would share in efficiency gains from improved care coordination and could be subjected to penalties for poor performance, depending upon the structure of the ACO.

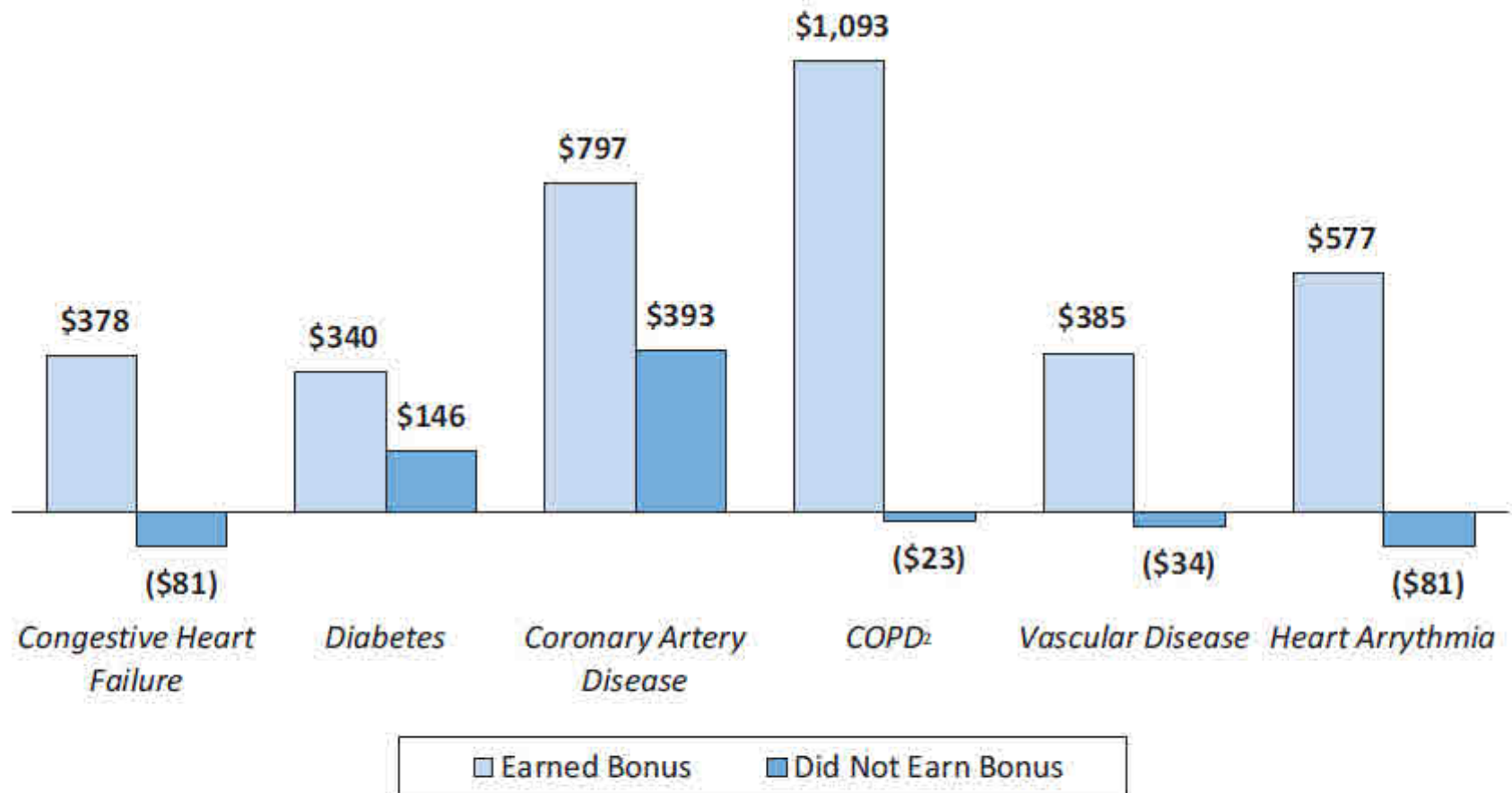
Consistency in Definitions

Providers, working as a team, taking responsibility for outcomes and costs for a defined population.

Chronic Conditions Central to Success as ACO

Success in PGP Largely Attributed to Effective Chronic Management

Savings Per Person For Select Chronic Conditions Among PGP Sites¹



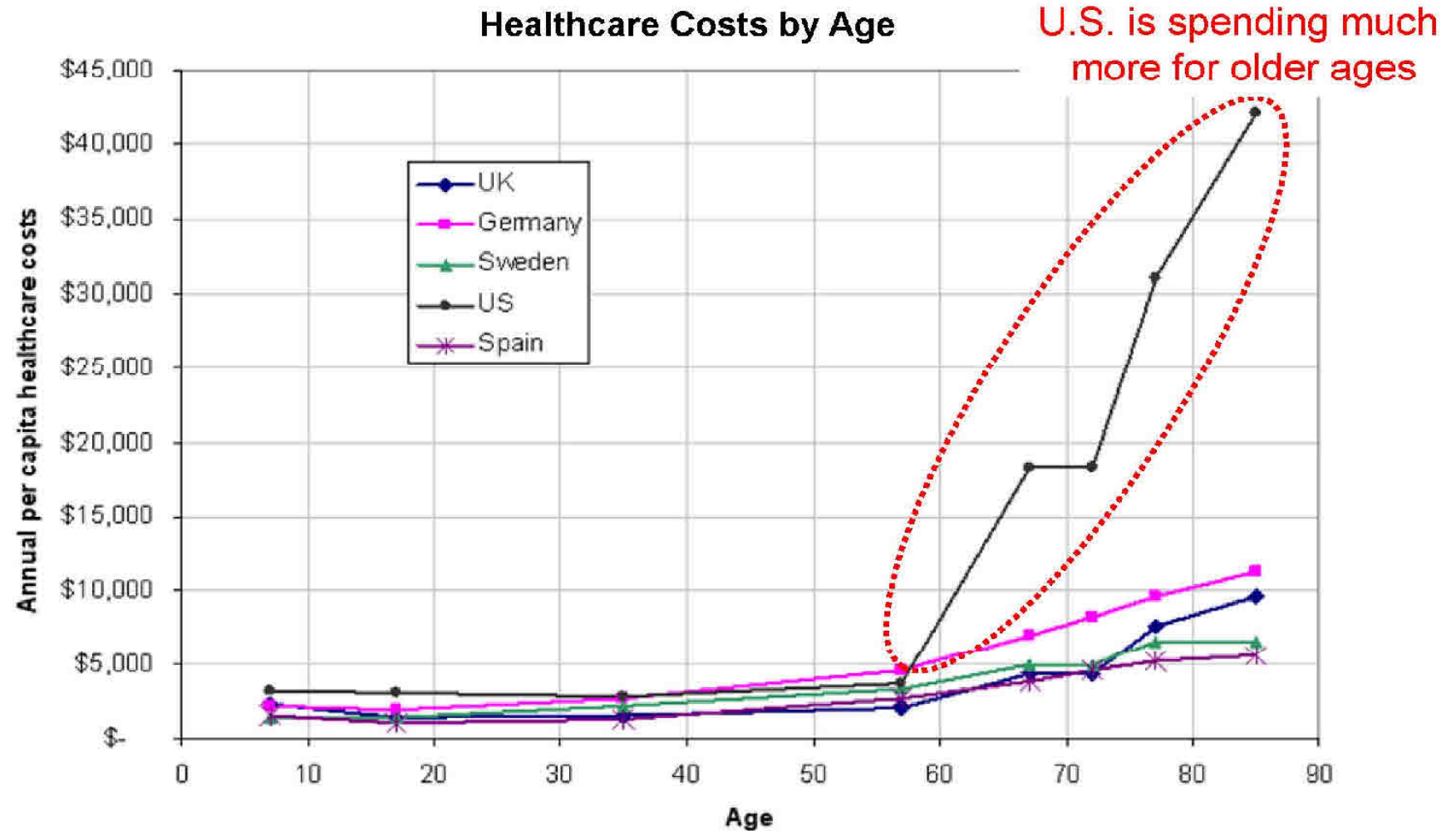
¹ Negative numbers reflect increased costs compared to control group.

² Chronic Obstructive Pulmonary Disease.

What values will guide the successful ACO?

- Patients, not doctors, are the customer
- Value is a value: We're responsible for delivering quality outcomes and high levels of service at a reasonable cost.
- Learn, grow, and change

Costs by Age Categories

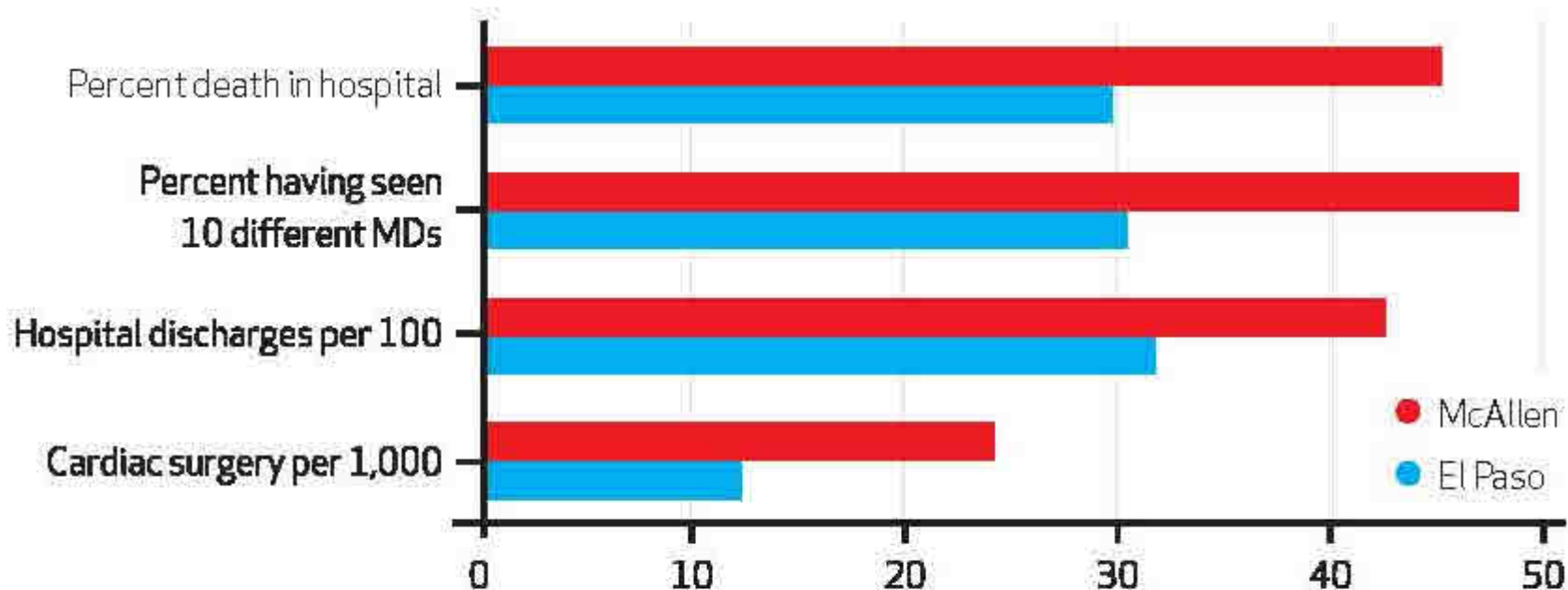


Source: Fischbeck, Paul. "US-Europe Comparisons of Health Risk for Specific Gender-Age Groups." Carnegie Mellon University; September, 2009.

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EXHIBIT 2

Medicare Utilization Rates In McAllen And El Paso, Texas, 2006

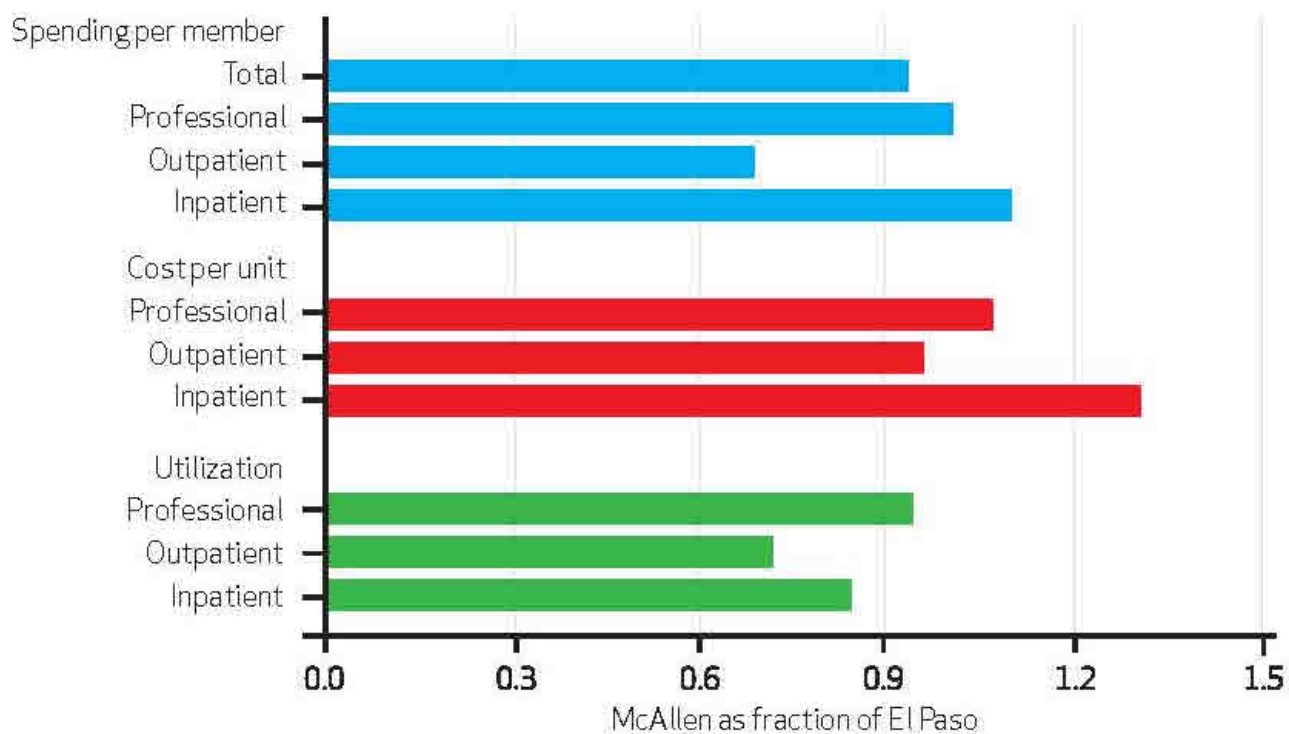


SOURCE Dartmouth Atlas of Health Care.

Source: Health Affairs 29, No. 12, "McAllen And El Paso Revisited: Medicare Variations Not Always Reflected In The Under-Sixty-Five Population," December 2010

EXHIBIT 3

Spending, Cost Per Unit, And Use, Per Blue Cross And Blue Shield Of Texas Enrollee In McAllen As A Fraction Of El Paso, 2008



SOURCE Blue Cross and Blue Shield of Texas.

Source: Health Affairs 29, No. 12, "McAllen And El Paso Revisited: Medicare Variations Not Always Reflected In The Under-Sixty-Five Population," December 2010

PPACA: Newsflash - Don Berwick's Goals for ACOs and the Role of Federal Oversight

Don Berwick's Five Expectations for Accountable Care Organizations (ACOs)

1. Reducing dependence on hospitals. Instead, "patients will be home where they want to be" he said.
2. Using a proactive approach. ACOs will advance ways to help people stay healthy, he said.
3. Using a rich trove of healthcare data. ACOs will use data-driven approaches such as patients registries.
4. Taking an innovative approach. ACOs will draw upon the best advances in models of care. "We want to help integrated care to thrive in America," he said.
5. Maintaining and executing plans. "I don't view the ACO as primarily a financing mechanism," Dr. Berwick said. "It's a care delivery system."

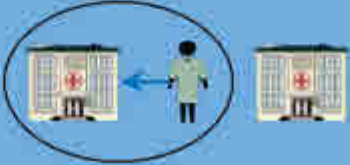





Example: Optimizing Your ICU

- Intermountain Healthcare
 - 60% reduction in ventilator time
 - Resulted in a 30% reduction in thoracic ICU length of stay
 - 15% reduction in the total costs of performing open-heart surgery
 - Approximately, \$3,000 per patient; or net of \$5.5 million per year, system-wide

Distinguishing Shared Savings from Capitation

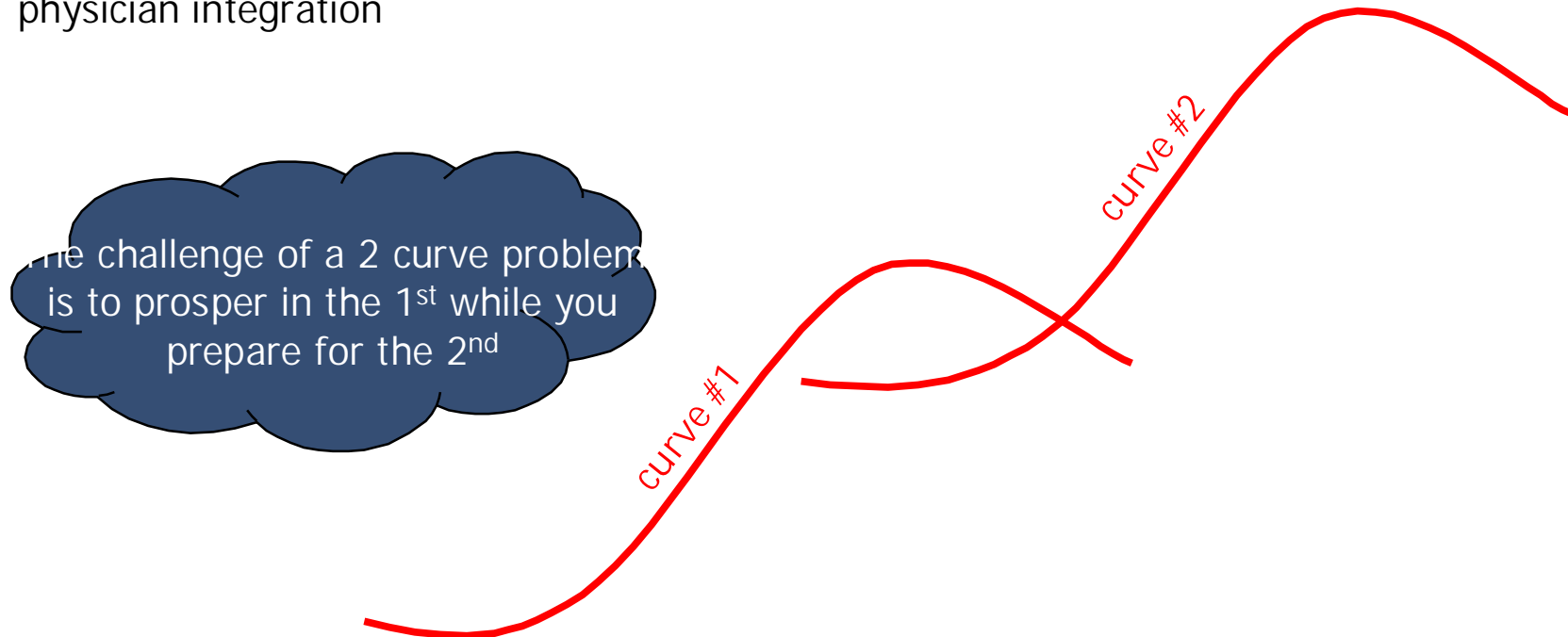
Accountable Care, Managed Care Very Different in Concept, Implication

Key Differences Between Capitation, Shared Savings

	Patient Choice	Payment Structure	Value Capture
Capitation	 Patient joins HMO, coverage limited to narrow subset of participating providers	 Fixed PMPM payment regardless of care volume	 Provider retains all excess value created by lowering population cost
Shared Savings	 Invisible assignment; patient free to choose, change providers at will	 Fee-for-service payments plus additional bonuses	 Provider shares value from population management success with payer

Changing Dynamics in Healthcare Industry

- Industry faces a classic “two curve” planning scenario
 - Strategy #1 addresses Curve #1 (“heads in beds”): “milk” the current environment for all that you can, maintaining the strategic direction and tactics that have been successful in the past to drive reimbursement and volume, while banking resources for the future
 - Strategy #2 “jumps” to Curve #2 (“integrated care continuum”): proactively explore growth alternatives today with associated upfront costs (both \$\$\$ and management bandwidth) that may negatively impact organization’s status on Curve #1, but position it for the emerging challenges requiring hospital-hospital and hospital-physician integration



Demanding More Value from Acute Care

Efficiency

Reimbursement Cuts

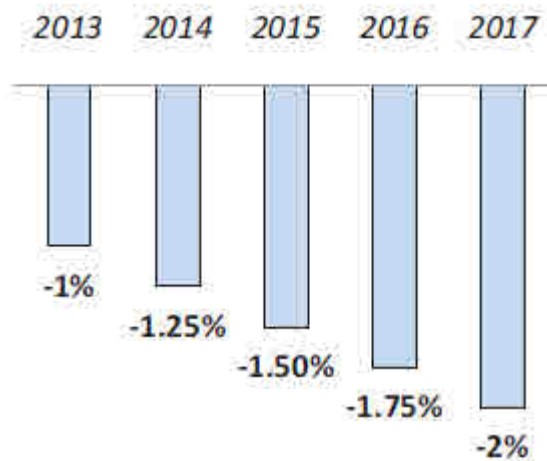
PPACA, Billions



Quality

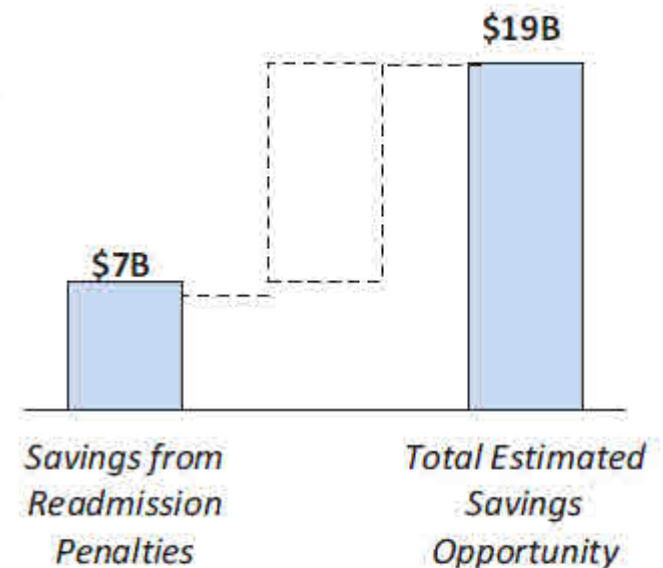
Value-Based Purchasing

Medicare Withhold, Percent



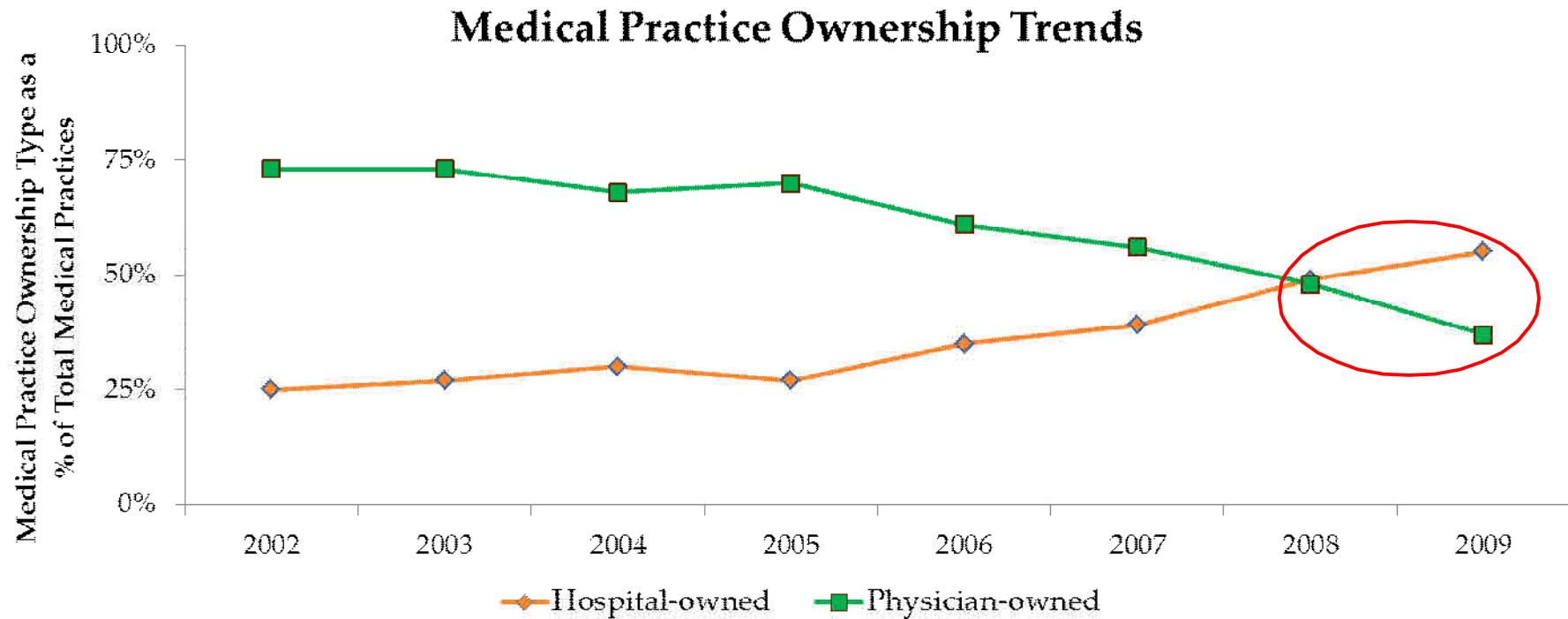
Reliability

Potential Medicare Readmission Savings



Source: Congressional Budget Office, "Budget Options Volume 1: Health Care," December 2008; "Transforming the Health Care Delivery System: Proposals to Improve Patient Care and Reduce Health Care Costs," Senate Finance Committee, April 2009; US House of Representatives, "Amendment in the Nature of a Substitute to H.R. 4872, as Reported," March 18, 2010; US Senate, "The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act," December 24, 2009; Health Care Advisory Board interviews and analysis.

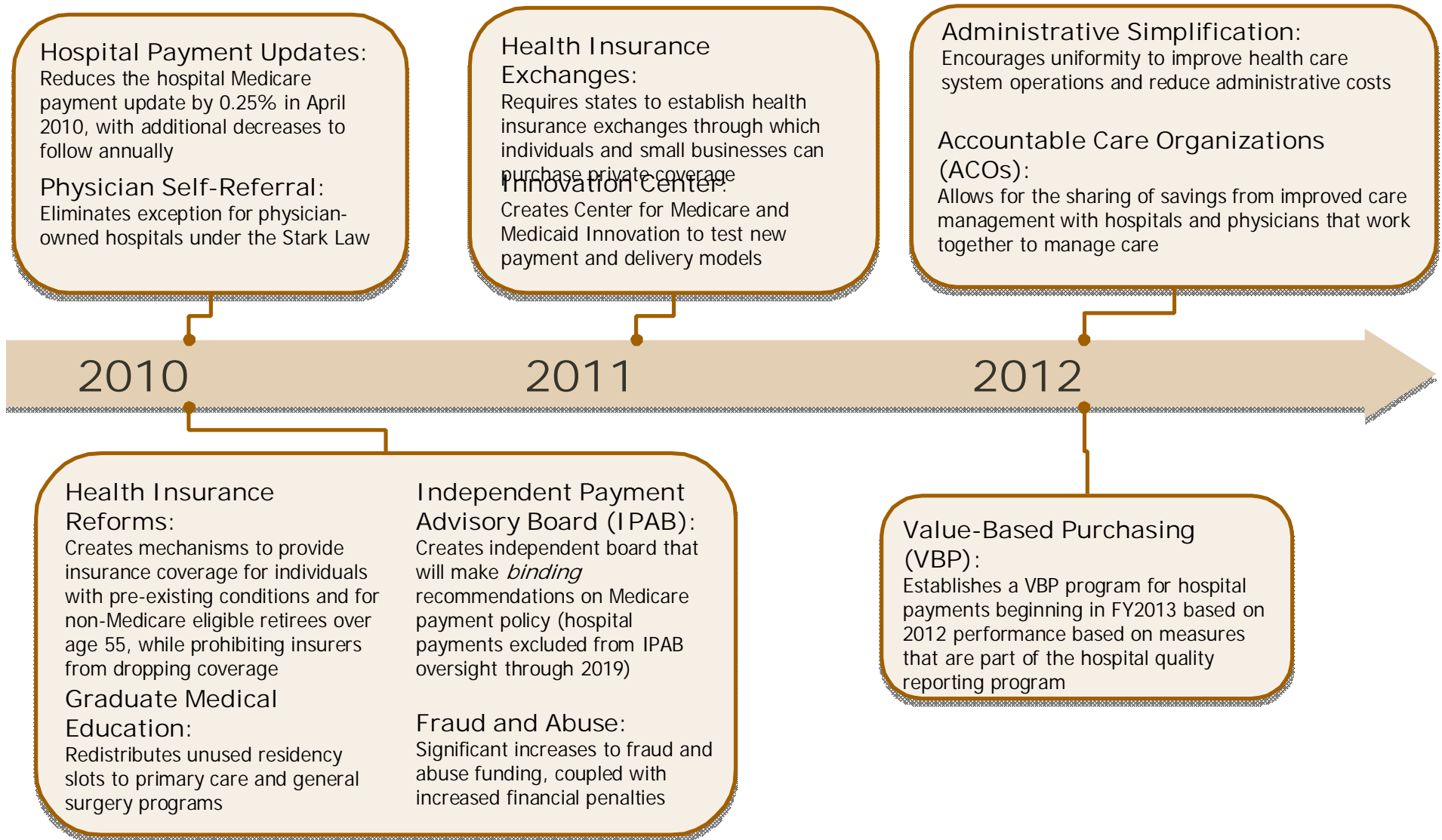
Competition Preempts Reform: Hospitals are Competing to Employ Physicians



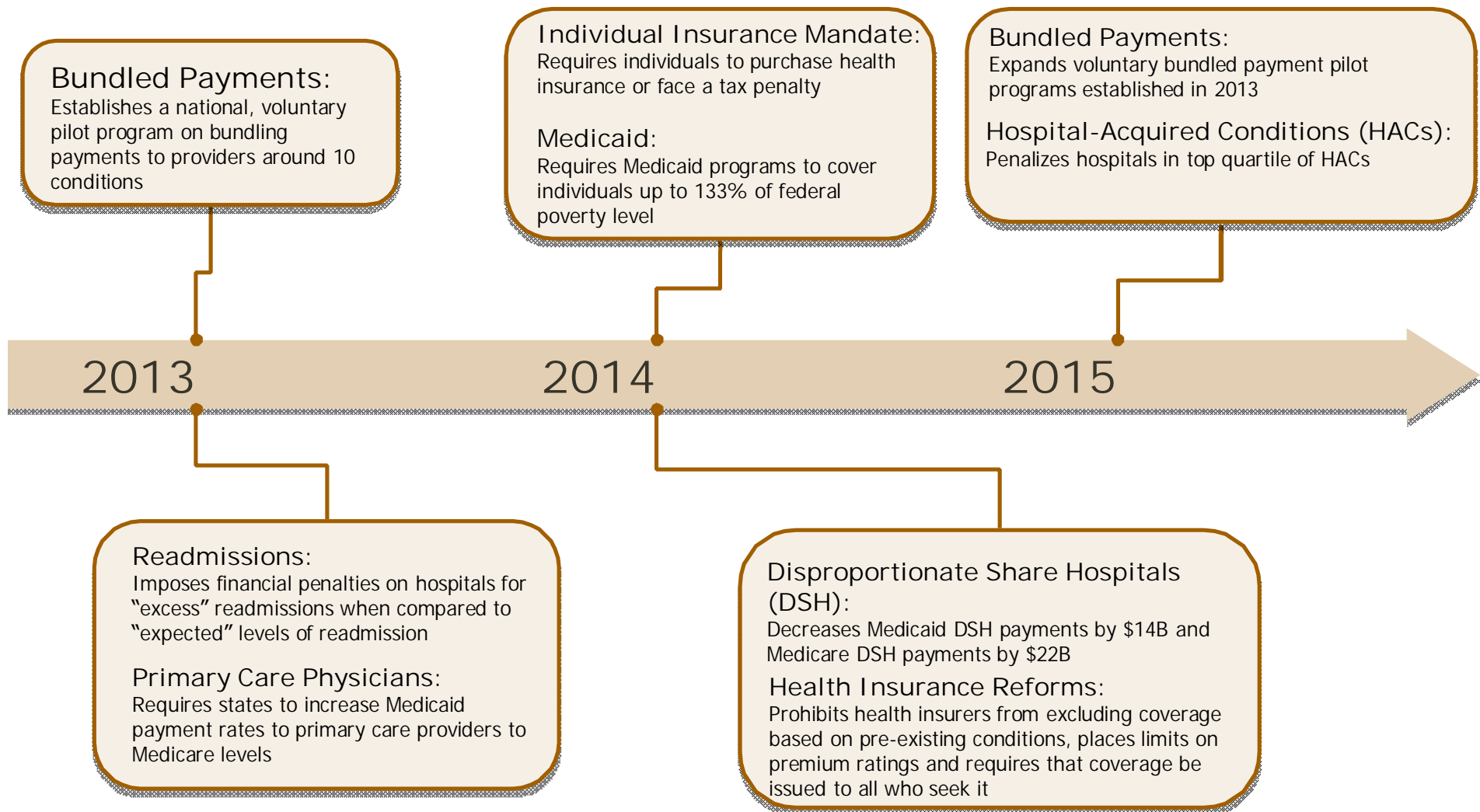
- In 2009, MGMA found that the share of hospital-owned practices reached 55% vs. 30% in 2004
- Hospitals have been increasingly employing physicians, in part to position themselves to become accountable care organizations
- Physicians are increasingly seeking employment in order to “lock-in incomes” in a declining reimbursement environment, shifting this risk from their practices to the hospital

Source: MGMA Physician Compensation and Production Survey Report; Wall Street Journal, “Shingle Fades as More Doctors Go To Work for Hospitals,” November 8, 2010

PPACA: Major Provisions of the Bill



PPACA: Major Provisions of the Bill *(continued)*



Chipping Away at PPACA

Selective Changes More Likely

No Clear Strategy

"It would be hard to get enough votes to do away with the health care bill altogether...But that doesn't mean there aren't some pieces with bipartisan support to deny some funding to implement some of those rules and regulations."

Rep. Rodney Alexander (R-La.)

Targets to Watch for Repeal or Revision

Coverage

- Individual mandate
- Employer responsibility assessment
- Public health and prevention fund
- Medicaid expansion

Financing















- Disproportionate share hospital payment reductions
- Medicare Advantage cuts
- Market basket reductions
- Corporate information reporting requirement
- Medicare taxes
- Flexible savings accounts limits
- Independent Payment Advisory Board

U.S. Healthcare – 3 Future Trends

- Integration
- Value (Cost & Quality)
- Transparency

Hospitals are Consolidating to Achieve Scale & Drive Value-Based Health

Taxables are Fueling Uptick in Hospital M&A in 2010

Acquirer	 Brentwood, TN	 Nashville, TN	 New York, NY	 Brentwood, TN	 Franklin, TN	 Nashville, TN	 Naples, FL
Target	 Russellville, AL	 Detroit, MI	 Boston, MA	 Gallatin, TN	 King of Prussia, PA	 Marion, SC	 Rockledge, FL
Deal Type	Taxable Acquired Tax-exempt	Taxable Acquired Tax-exempt	Taxable Acquired Tax-exempt	Taxable Acquired Tax-exempt	Taxable Acquired Taxable	Taxable Acquired Tax-exempt	Taxable Acquired Tax-exempt
Deal Value	\$140 M	\$417 M	\$830 M	\$145 M	\$3.1 B	Undisclosed	\$152 M
Key Details	RegionalCare outbid HMA; includes 3 hospitals and a pledge to build a new hospital within 3.5 yrs	Includes 6 hospital system with \$2 B in revenue; assumption of \$850 M in debt	Private equity deal includes 6 hospitals, assumption of pensions, debt & \$400 M in hospital upgrades	Publicly traded LifePoint beat out 10 bidders to take over the 3 hospital health system currently in Chapter 11	Purchase price is combination of cash (\$2 B) & debt (\$1.1 B); includes 94 facilities in 32 states	Community Health Systems owns, operates or leases 123 hospitals in 29 states	HMA owns 54 hospitals in 15 states; Acquires two-hospital system on Florida's space coast

Pew Study: Internet Utilization for Health

59% of all adults in the U.S. look for health information online.

Eight in ten internet users look online for health information, making it the third most popular online activity among all those included in the Pew Internet Project's surveys.¹

Activity	Millennials Ages 18-34	Gen X Ages 35-46	Younger Boomers Ages 47-56	Older Boomers Ages 57-65	Silent Gen. Ages 66-74	G.I. Gen. Age 75+	All online adults Age 18+
Go online	95%	86%	81%	76%	58%	30%	79%
For the following activities, the youngest and oldest cohorts may differ, but there is less variation between generations overall:							
Email	96	94	91	93	90	88	94
Use search engine	92	87	86	87	82	72	87
Look for health info	78	84	80	83	73	69	80
Get news	76	79	76	76	67	54	75
Buy a product	68	66	64	69	59	57	66

Source: Pew Research Center's Internet & American Life Project surveys, 2008-2010. Findings for individual activities are based on adult internet users. For survey dates of all activities cited, please see the Methodology section at the end of the Generations 2010 report: <http://pewinternet.org/Reports/2010/Generations-2010/Methodology/Note-on-survey-dates.aspx>