SEIZE THE DAY: Aligning Laboratory Executive Leadership with How Health System CEOs are Responding to Current Healthcare Trends

TO

Position the Lab More Strategically
Overview of Presentation

1. What are the Major Changes Occurring with Healthcare Reform
   • A quick refresher on health reform and its impact on providers

2. Perspectives and Implications for the IDN C-Suite
   • Four key healthcare trends

3. Next Steps to Position the Lab More Strategically
   • Link your services to your IDN strategy – solve problems the C-suite cares about!
What are the Major Changes Occurring with Healthcare Reform and How is it Impacting Providers?
How are we Doing as a Country with Healthcare?

<table>
<thead>
<tr>
<th>Measure</th>
<th>United States</th>
<th>Rest of World</th>
<th>How does the U.S. Compare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of GDP</td>
<td>17.8%</td>
<td>9.6 to 12.4%</td>
<td>Worst</td>
</tr>
<tr>
<td>Population ≥ Age 65, Percent</td>
<td>14.5%</td>
<td>18.2%</td>
<td>Youngest</td>
</tr>
<tr>
<td>Smoking Percent</td>
<td>11.4%</td>
<td>16.6%</td>
<td>Second Lowest</td>
</tr>
<tr>
<td>Overweight/Obese</td>
<td>70.1%</td>
<td>55.6%</td>
<td>Worst</td>
</tr>
<tr>
<td>Life Expectancy (years)</td>
<td>78.8</td>
<td>81.7</td>
<td>Worst</td>
</tr>
<tr>
<td>Infant Mortality, deaths per thousand live births</td>
<td>5.8</td>
<td>3.6</td>
<td>Worst</td>
</tr>
<tr>
<td>Administration cost as a percent of total health costs</td>
<td>8%</td>
<td>1 – 3%</td>
<td>Worst</td>
</tr>
<tr>
<td>Pharmaceutical Costs per capita</td>
<td>$1,443</td>
<td>$466 - 939</td>
<td>Worst</td>
</tr>
<tr>
<td>Annual Salaries – Generalist Physician</td>
<td>$218,173</td>
<td>$86,607 – 154,126</td>
<td>Highest</td>
</tr>
</tbody>
</table>

Countries: United States and ten other highest-income countries (United Kingdom, Canada, Germany, Australia, Japan, Sweden, France, the Netherlands, Switzerland, and Denmark)

Macroeconomic Drivers of the U.S. Economy and of Healthcare

1. America cannot afford our healthcare system and cannot compete in a world economy if it keeps spending more on healthcare
   - Health spending share of Gross Domestic Product (GDP) is expected to rise from 17.9 percent in 2016 to 19.7 percent by 2026.¹
   - Average cost of a family health insurance premium will equal 50% of the household income by the year 2021.²

2. The average Medicare couple retiring in 2015 pays $140,000 into the Medicare and gets $422,000 in benefits³

3. The governmental debt crisis only deepens this issue - we cannot borrow our way out of this. Our economy is going through a major “re-set”.

Healthcare Reform is Accelerating and is Here to Stay

2009

The Patient Protection & Affordable Care Act
11th Congress of the United States
H.R. 3590

2010

2013 to 2022
$260+ billion in reduced Medicare payments

The Mark Dixon Group, LLC
6
Healthcare Reform is Accelerating and is Here to Stay

The Patient Protection and Affordable Care Act (ACA) of 2010 is having a major impact on the entire U.S. Health Care System

• The Health Information Technology for Economic and Clinical Health (HITECH) Act
• Value-based purchasing
• Accountable Care Organization (ACO)
• Insurance reform – coverage for all, insurance regulation

• Over 2013 to 2022, $260 Billion in Medicare payment reductions

• The vast majority of industry growth will be Medicare patients

• Reform is designed to achieve the “Triple Aim” of reduced cost and improved quality/patient experience

The Institute for Healthcare Improvement (IHI) “Triple Aim”

ACA’s Overarching Goals
• Healthier communities
• Better health care
• Lower costs

Quadruple Aim – 2019
*Improve the work life of health care clinicians and staff*

The Next Wave of Health Reform

Focus Shifting From Coverage Expansion to Health Spending

Evolution of Health Reform Goals

Last Era of Health Reform: Expanding Coverage

Next Era of Health Reform: Reducing the Price of Care

National Health Expenditures

Time

Current Spending Trajectory

Reform-Enabled Trajectory

Payers pulling pricing levers to decrease health spending and drive providers to reduce cost of care

Source: Health Care Advisory Board interviews and analysis, 2018.
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Perspectives and Implications for the IDN C-Suite: Four Key Healthcare Trends

1. Healthcare Consumerism is Here

2. Population Health: Volume to Value

3. Scale will Win: Continued Industry Consolidation and New Market Entrants

4. A Relentless Focus to Reduce Total Cost of Care – the New Normal
Healthcare Consumerism is Here

2018 Total Employee Costs are Greater than $5,000 per Employee
Worker Out of Pocket Health Costs are up 70 Percent in Five Years

Median Silver Deductible in the 2018 Public Exchanges is $3,937


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**Healthcare Consumerism is Here**

**Drivers of Point-of-Care Consumerism**

<table>
<thead>
<tr>
<th>Market Shift</th>
<th>Why Is This Changing?</th>
<th>Effect on Market</th>
</tr>
</thead>
</table>
| **Consumers adopt greater financial responsibility** | • Prevalence of HDHPS increasing  
• Magnitude of OOP responsibility continues to grow | • Price sensitivity  
• Shopping behavior |
| **Emergence of meaningful alternatives** | • New market entrants providing attractive alternatives | • Competition  
• More (and better) choices for consumers |
| **Greater transparency** | • Proliferation of third party transparency vendors continues  
• Providers’ improved communications on value | • More information to make educated decisions about care and providers |
| **Weakening of physician recommendations** | • Growth of new primary care options, transparency could undermine traditional PCP relationships | • Increase in self-referrals  
• More steerage of provider referrals |

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**Competitive, Retail Race For Value and Health**

Source: Health Care Advisory Board interviews and analysis.

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Population Health: Volume to Value

**FAD 2010**

Pay for volume
- Fragmented care
- Fee For Service
- Treating sickness
- Adversarial payors
- Little HIT
- Duplication & waste

**TREND 2014**

**REALITY 2017**

Pay for value
- Accountable care
- Global payment
- Fostering wellness
- Payer partners
- Fully wired systems
- Right care, right setting, right time

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Population Health: Volume to Value

Journey to transform healthcare – moving from volume to value

Creating Value and Outcomes

Change Care

Consumer

Provider

Value

Change Experience

Employer / Plan

Change Payment

Realizing Economic Return for New Value

Patient Activation and Consumer Engagement
Population Health: Volume to Value

Creating Accountable Care Organizations, population health capabilities, and new models of care

- Fundamental care model changes with triple aim focus
  - Care bundles, pathways, care coordinators, care management, and more
  - Patient-centered medical home
  - Evidence-based medicine incorporated into care models
- Clinically integrated networks of physicians
- High lab volume no longer equals high profit in ACO world
- As care bundles expand dramatically, the focus needs to be beyond the acute care setting

To succeed, you need to actually change the care. This is not merely a change in financing models
Population Health: Volume to Value
It is Truly a Journey…

Value-driven coordinated care

Volume-driven fragmented care

Discounted fee for service
Episode payment
Shared savings models
Partial capitation
Global payment

Past
Today
Present
Future

Payment

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Scale Will Win:
Continued Industry Consolidation

2020 Provider Landscape Dominated by 100+ Super Regional Mega Systems

- $10B+ of Revenue
- 30+ Hospitals
- 300+ Clinics

SIZE

ABILITY TO MANAGE RISK

LOW

HIGH

Small IDN
Independent Hospital
Standalone AMC
National Mega System ACO

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Five Days that Shook the Healthcare World

Five Days in December 2017

- Dec. 3 – CVS Health and Aetna
- Dec. 4 – Advocate Health Care and Aurora Health Care
- Dec. 6 – UnitedHealth Group and DaVita Medical Group
- Dec. 7 – Dignity Health and Catholic Health Initiatives
- Dec. 10 – Ascension and Providence
Scale will Win: New Market Entrants
Scale will Win: Physician Employment and Integration

For the first time ever, less than half of physicians are independent

By Alex Kacik | May 31, 2017

Less than half of practicing physicians in the U.S. owned their medical practice in 2016, marking the first time that the majority of physicians are not practice owners, according to a new study.

Only 47.1% of physicians in 2016 had ownership stakes in a medical practice, an American Medical Association study released Wednesday found. That's down from 53.2% in 2012, and research shows that doctors, especially young doctors, have been shifting from owning their own practice to joining larger practices.

Scale will Win: IDNs Moving from Holding Company to Operating Company Business Models

• More decision making regarding capital, supplies, and operations is centralized across an entire enterprise, less local decision-making

• Consolidated large IDN system service lines emerge
  • CV, Oncology, Ortho, and Mom’s/Kids most often

• Changing decision-makers and influencers
  • System level roles will make more decisions with less local decision-making; System-wide VAC/P&T Committee
  • CEO, IDN President(s), System VP Laboratory Services, Chief Medical Officer (CMO), Chief Quality Officer (CQO), and others

• Different sectors of IDNs are going to behave differently
  • Academic Medical centers, rural hospitals, children’s hospitals, large integrated systems, and physician-led organizations
A Relentless Focus to Reduce the Total Cost of Care: The New Normal

Nine Price and Cost Pressures Squeezing Margins

1. Direct reimbursement pressure
2. Federalism and state-based coverage reform
3. Dilution of commercial coverage
4. Deregulation and the new era of competition
5. Shifting demographics and payer mix evolution
6. Rising pharmaceutical costs
7. Uncontrolled labor spending growth
8. Increasing reliance on IT enablement
9. Growth in purchased services

Source: Health Care Advisory Board interviews and analysis.
A Relentless Focus to Reduce the Total Cost of Care: The New Normal

- **Action:** Reduce costs and improve operating margin to make money on Medicare; cut costs 15 – 25+ percent.
  - Average 2017 Medicare margin was **negative 9.9%**; Projected to be **negative 11%** in 2019.\(^{14}\)
- **Key areas of focus**
  - Cutting direct costs (FTEs, Drugs, Services)
    - **Salaries, wages, contract labor, benefits** – 46 percent of total expenses
    - Supplies/Pharma – 18 percent
    - Purchased services – 16 percent
    - All other expenses – 20 percent
    - Reducing variation of care is KEY
  - Leveraging size to negotiate better pricing
  - Increasing operational efficiencies, reducing LOS
  - VBP, creating value through population health management

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Reducing Unwarranted Care Variation is a Key IDN Strategy

- A major opportunity for cost, quality improvement
- $355B estimated annual U.S. health care waste due to care variation
- EHR analytics are finally arriving to allow clinicians to tackle this serious problem
- Reducing this variation results in cost, quality, and experience improvement in most cases
- Value-based purchasing – improving quality and experience
- Creating value through population health management

Source: The Advisory Board Company, 2016
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2019 - 2021: A Convergence of Forces

Regulatory Change

Healthcare Providers
IDNs, Hospitals, ASCs, Doctors, and other HCPs

Consumerism

MA, Population Health, Total Cost of Care

Mergers and Consolidations

Post-Acute and Long Term Care
SNFs, LTACHs, Home Health, and other alternative sites

Significant Cost Pressures

Federal Programs
Veterans Health Administration, DoD
Military Health System, Department of Defense, and Indian Health Service

VA Choice Expansion, Pop Health, MA Pilot

Consumerism driving more choice

Physician Employment
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Key questions from the C-suite

1. How can we shift our model from “grow by being bigger” to “grow by being better”?
2. How can we change the care model with employed and independent physicians?
3. How fast should we design and implement the new care model and the new payment systems that recognize value?
4. Does our hospital/system have enough scale to succeed?

Implications for laboratory leaders:
1. Find a connection between your product/services and the strategic goals of the Hospitals and IDNs.
2. Understand, align, and solve their strategic problems!
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Cost cutting initiatives are in place at every IDN and health system in the U.S. How do you stay relevant and in the game?

- Become a part of the strategy for the IDN
- Find a connection between your laboratory services and the cost, quality and service goals of the Hospitals and IDNs
- Work more broadly across the health system and get involved in the key initiatives of the system
- Understand the elements impacting value of your product
- Focus on measures that matter
- Ensure an enterprise return on investment (ROI)

Secure a seat at the table with organizational leadership
How Processes and Systems Work in IDNs

<table>
<thead>
<tr>
<th>Level</th>
<th>Scope</th>
<th>Detail</th>
<th>Impact</th>
<th>Audience</th>
</tr>
</thead>
<tbody>
<tr>
<td>C – Suite</td>
<td>Agency/Organization</td>
<td>Low</td>
<td>Strategic Outcomes</td>
<td>Decision Makers</td>
</tr>
<tr>
<td>Managers and VPs</td>
<td>Line of Business</td>
<td>Medium</td>
<td>Business Outcomes</td>
<td>Decision Makers</td>
</tr>
<tr>
<td>Front Line Clinicians and Staff</td>
<td>Function/Process</td>
<td>High</td>
<td>Operational Outcomes</td>
<td>Decision Influencers</td>
</tr>
</tbody>
</table>
Value Story and Organizational Needs Change at Different Levels

• Value and needs are defined differently at the enterprise level of the organization versus the local hospital/department
  • Features and benefits versus enterprise-wide strategic levers

• New elements of strategic value
  • Decreasing inappropriate care or care variation
  • Increasing keepage/decreasing leakage
  • Moving care to the lowest cost setting of care; Ambulatory is key!
  • Determining strategies that work in today’s world AND tomorrow’s world
  • Acquiring physician practices to strategically create value and often to rationalize capacity in a system
  • Hospital-based pricing (facility) versus office-based pricing
    • It will narrow over the next 3 – 5 years

Know what is important to your customer!
Message Creation and Delivery
How to Create Value and Win

Differentiate How you Deliver the Value Story

Utilize Them – Us – Fit – Action (TUFA) story sequence
• To position yourself and your departments as a credible and strategic thought partner
Key Takeaways: Them-Us-Fit Action

- Strategic sequence for telling your value story

- Requires discipline and structure so you can repeat your success

- **Them:** Only focus on the customer
  - Key priorities & challenges
  - Share insights uncovered from previous meetings
  - Confirm your understanding in humble way

- **Us:** Share your strategic direction and relevant information
  - Be careful this portion doesn’t get too long

- **Fit:** Connect the dots on win-win relationship
  - Bridge back to their key priorities, challenges and share relevant ideas

- **Action:** Propose next steps you believe make sense
  - Discussion will occur to create action plan
Final Comments and Recommendations

- Be part of the solution! Link your services and value proposition and business model to your IDNs needs and challenges
- Help me achieve the triple aim of cost, quality, patient experience
- Help your IDN achieve a 15 – 25 percent reduction in cost (or improvement in net profit) both in today’s and tomorrow’s world
- Quantify the beneficial results of your services
  - Lab leaders need to add true and meaningful measureable value – measureable is the key adjective here!
  - Quantify what is best practice (cost, quality, experience) for your services and bring that process improvement to your IDN
  - Transform clinical leadership – help lab leaders and directors/VPs/chief pathologists become ACO leaders
- ACOs, bundling, pricing transparency, consolidation and population health will impact your lab – be ready!
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   • Link your services to your IDN strategy – solve problems the C-suite cares about!
Thank You

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