



# **A Practical Overview of Consumer-Driven Health Initiatives**

**What Happened? What's Next?**

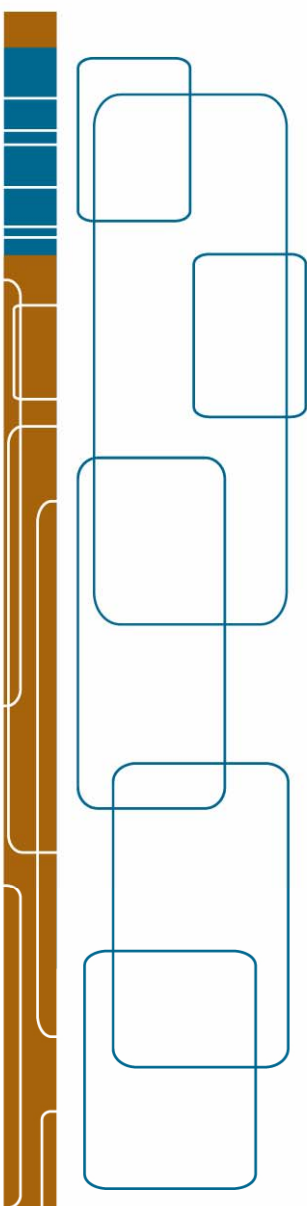
**TAHP Annual Conference**

**Wednesday, October 25, 2006**

- **The National Picture**
  - Economics of Healthcare: Pressure at the Polls
  - Hospitals and Physicians
  - America's Public Medical Care and Implications
  - The Coverage Gap: Rising Numbers of Uninsured
- **Implications for the Industry**
- **Key Strategic Questions**
- **Important Backdrop Considerations**
- **A Futuristic View: Three Scenarios and Their Impact**



# The National Picture



***“Even small healthcare institutions are complex, barely manageable places...Large institutions may be the most complex organizations in human history”***

**~ Peter Drucker**

# America's Healthcare Dollar

|                   | Sources       | Uses          |                |
|-------------------|---------------|---------------|----------------|
| Private Insurance | 36¢           | 31¢           | Hospital Care  |
| Medicare          | 17¢           | 22¢           | Physician      |
| Medicaid          | 16¢           | 11¢           | Rx             |
| Out-of-Pocket     | 14¢           | 7¢            | Home Care      |
| Other*            | 17¢           | 7¢            | Administration |
|                   |               | 22¢           | Other**        |
|                   | <b>\$1.00</b> | <b>\$1.00</b> |                |

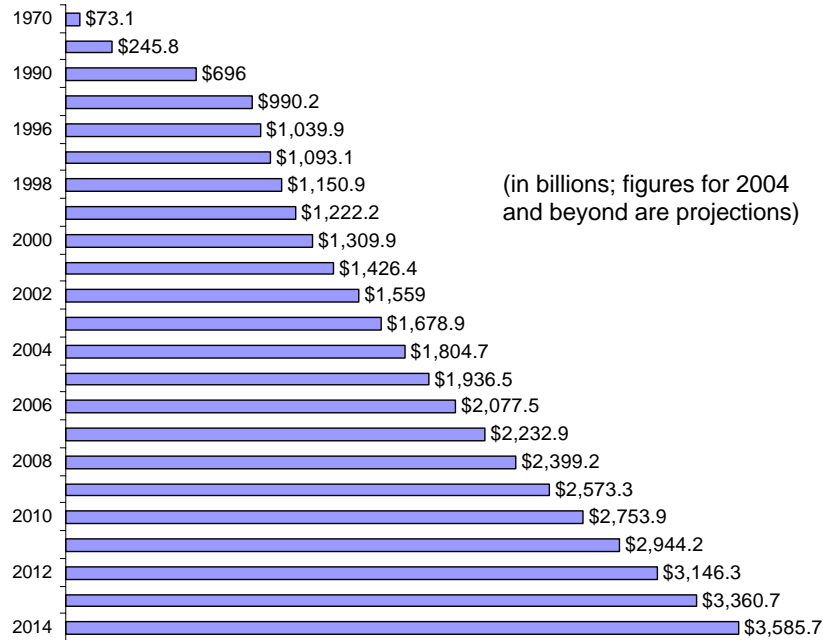
\*Workers Comp, VA, Defense Dept., Philanthropy, etc.

\*\*Dental, DME, Over-the-Counter Medicine, Research, Construction, etc.

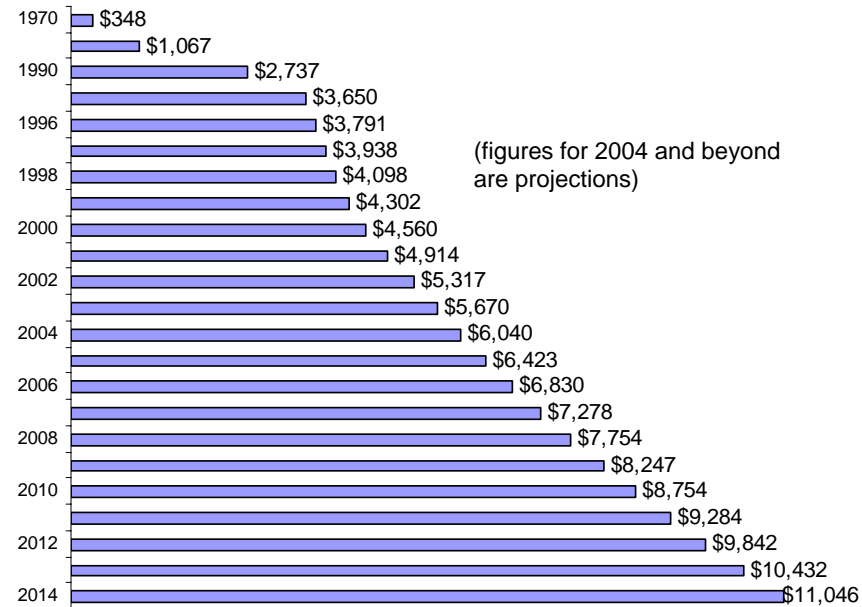
Source: CMS, 2003

# National Health Expenditures & National Health Expenditures per Capita

## National Health Expenditures

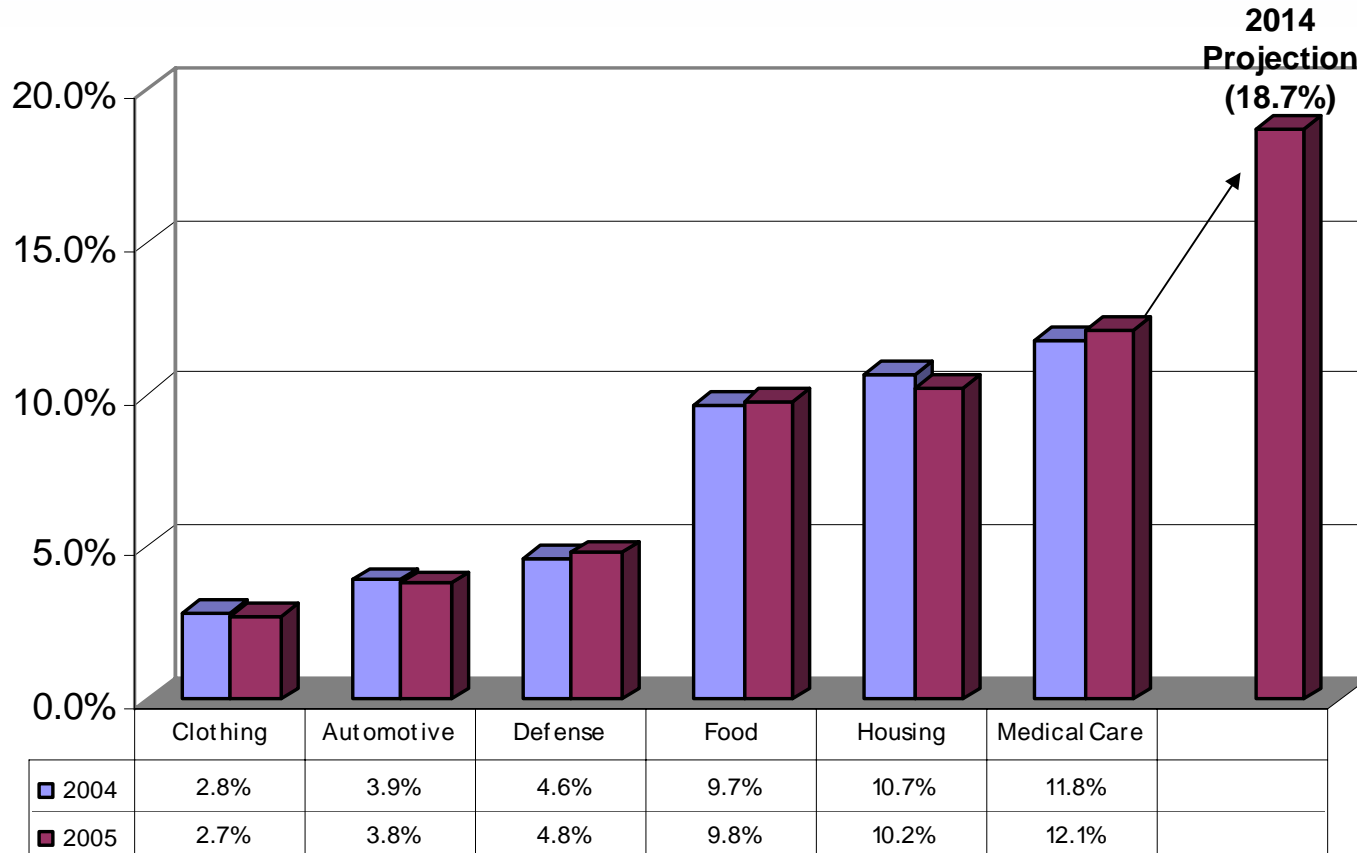


## National Health Expenditures per Capita



Source: CMS

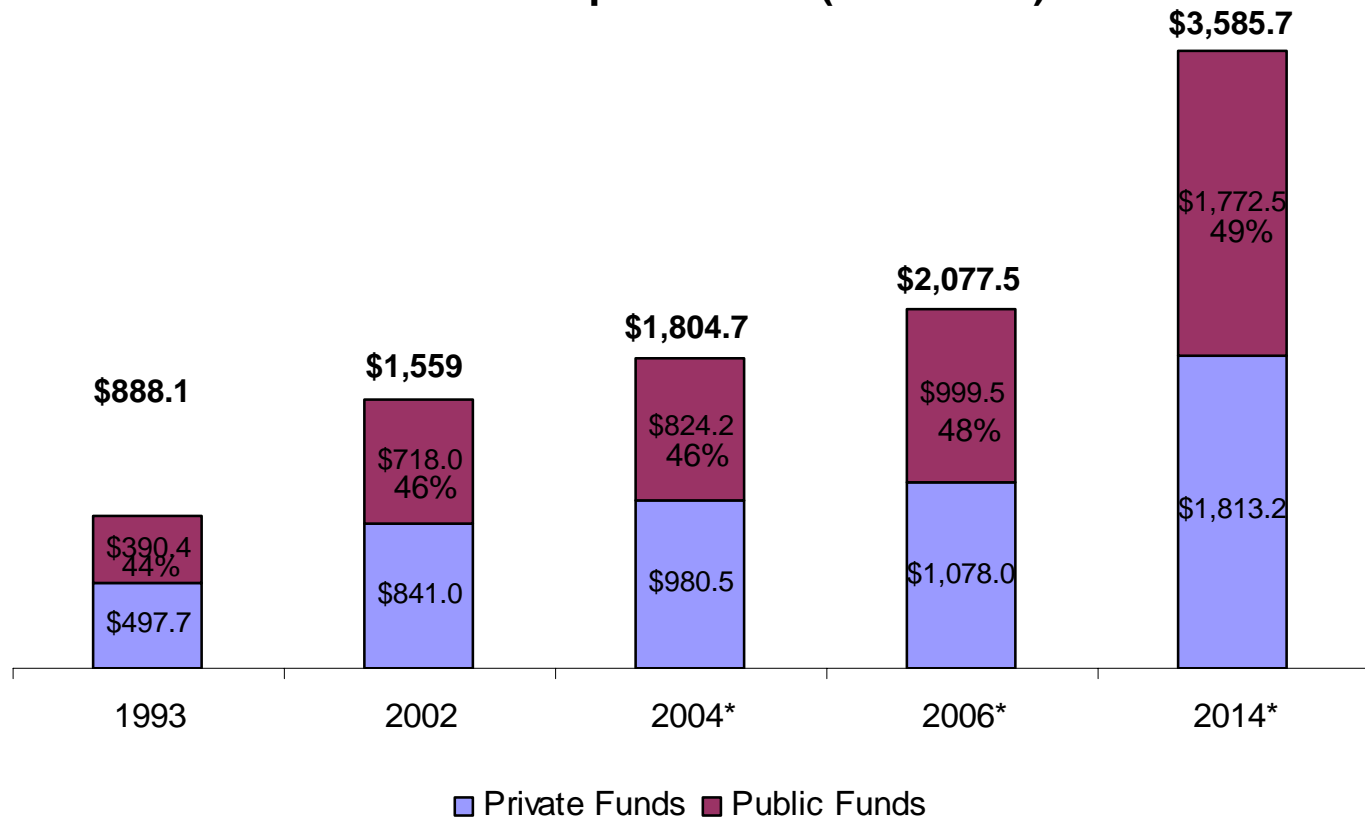
# Selected Components of the GDP\*



\* Personal consumption, excludes Defense Department. **CMS recently reported overall medical care spending for 2004 reached 16% of GDP, a 7.9% increase in 2004.** Overall inflation rate for 2004 was 2.7%.

# Breakdown of National Health Expenditures by Public and Private Funding

National Health Expenditures (in billions)

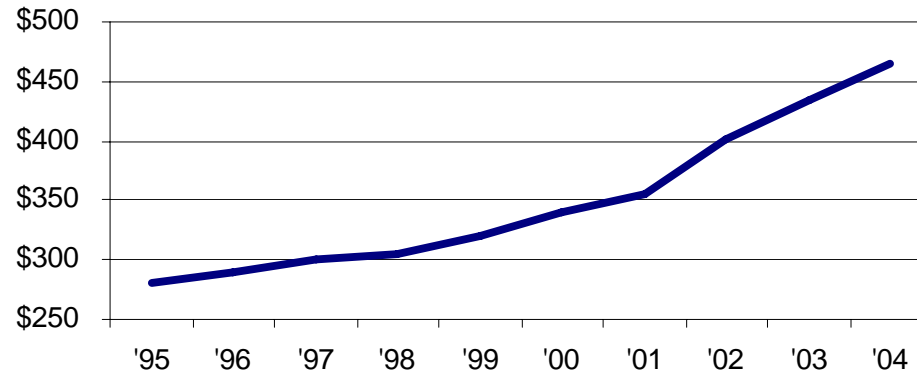


Source: CMS

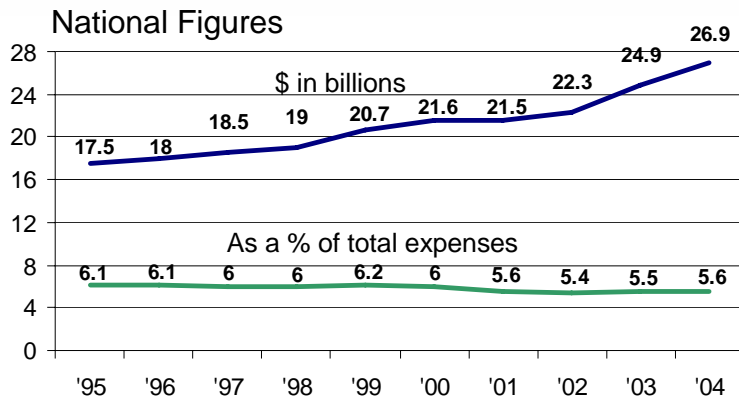
\*Projected  
Note: All figures rounded

# Hospital Performance

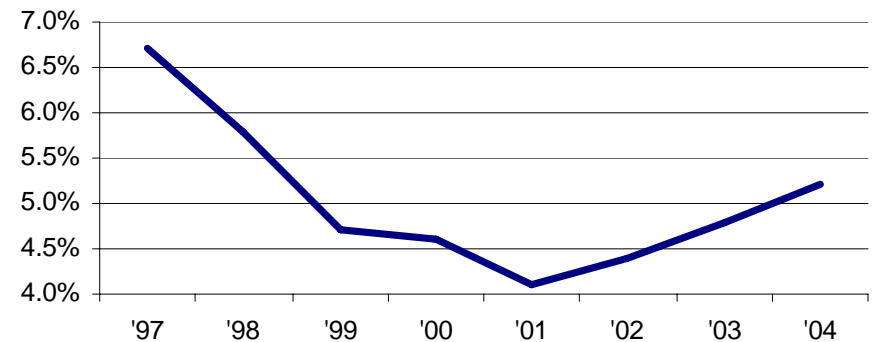
## Net Patient Revenue (In Billions)



## Uncompensated Care at Hospitals 1995-2004



## Total Margins for U.S. Hospitals (%)

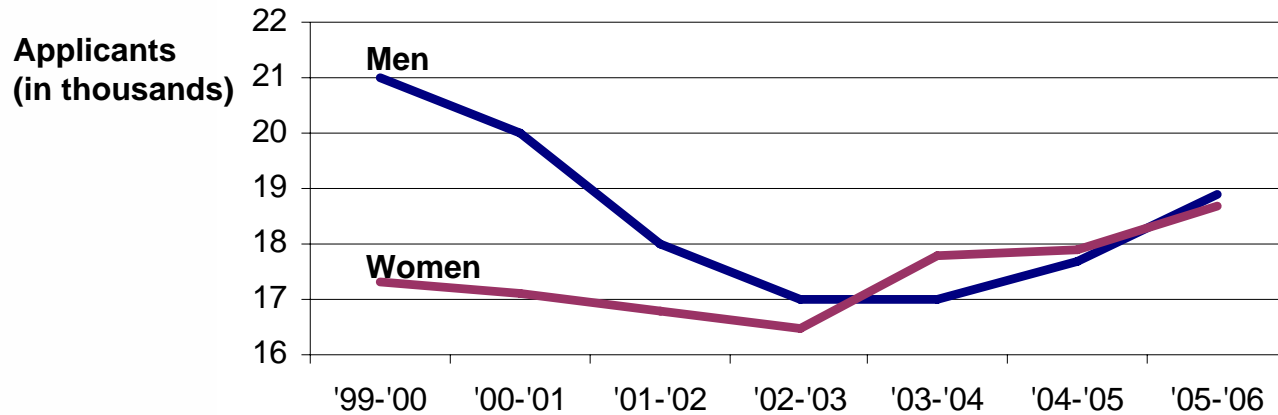


Source: American Hospital Association

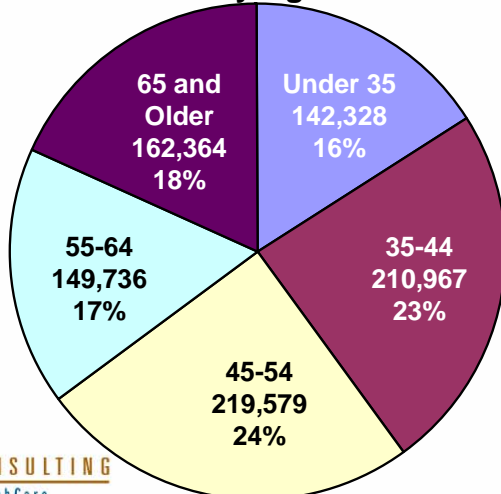
# America's Physicians

## Who's Applying to Med School?

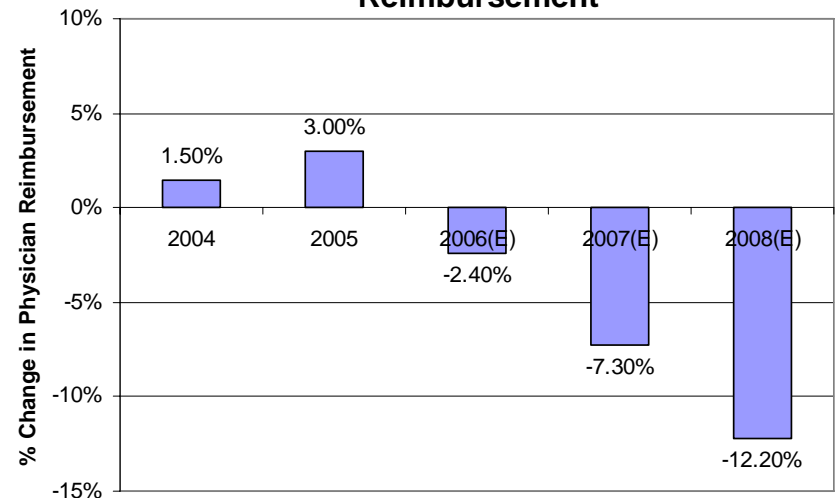
(Total applicants increased 4.6% in 2005 compared with 2004)



## Practicing Physicians (2004) By Age



## Scheduled Cuts in Medicare Physician Reimbursement

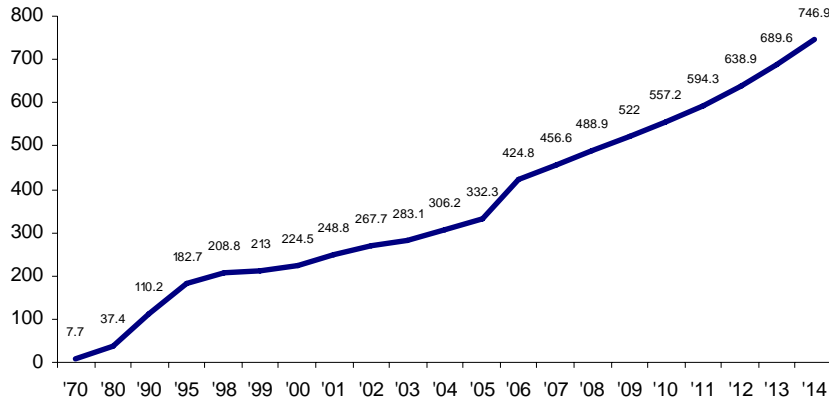


Source: Advisory Board

# America's Public Medical Care - Medicare and Medicaid

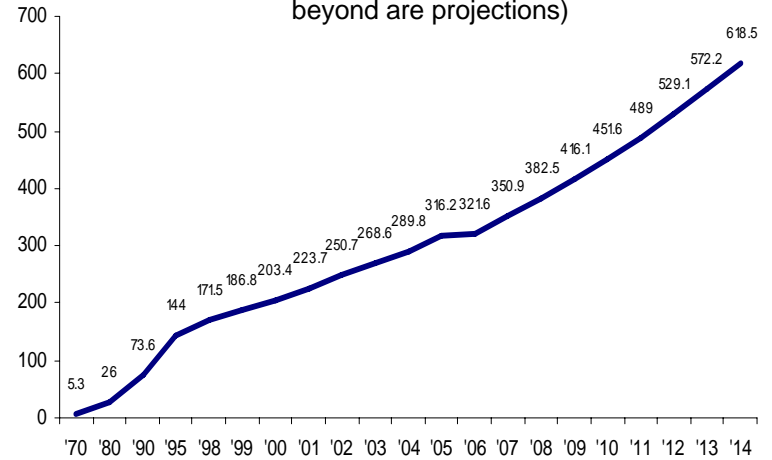
**Total Medicare Spending, 1970-2014**

(\$ in billions; figures for 2004 and beyond are projections)

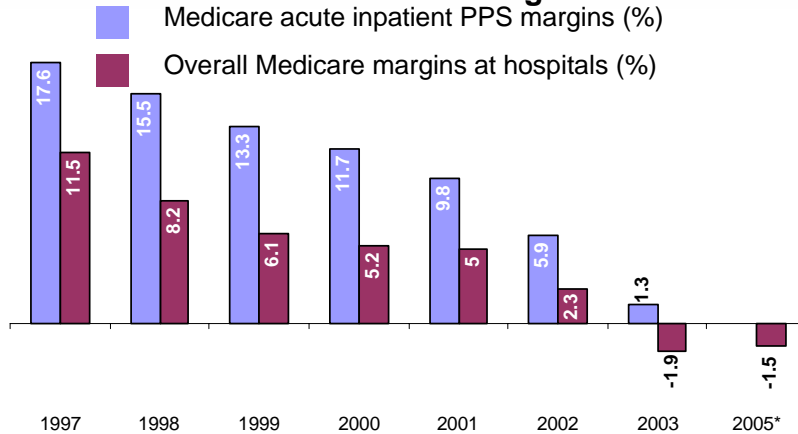


**Total Medicaid Spending, 1970-2014**

(\$ in billions, includes SCHIP expansion; figures for 2004 and beyond are projections)

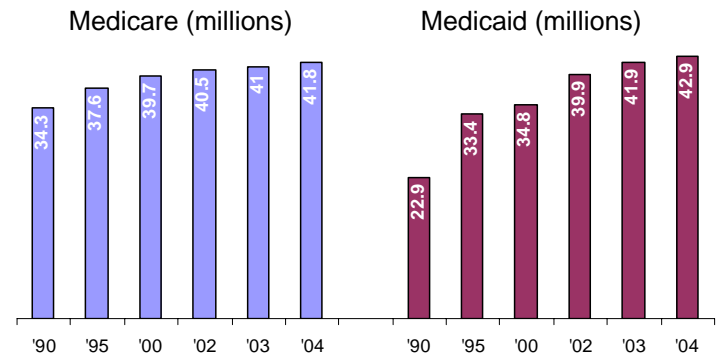


**Medicare Profit Margins**



\*Projections that reflect policy changes implemented in 2004 and 2005

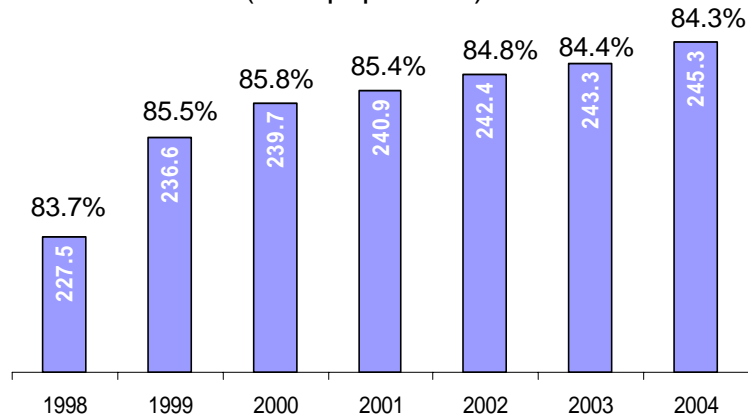
**Medicare and Medicaid Enrollment**



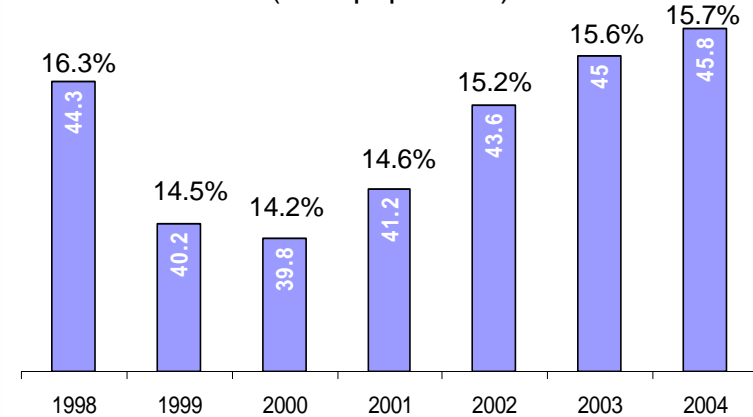
\*Includes State Children's Health Insurance Plan Enrollment  
Source: Medicare Payment Advisory Commission

# America's Healthcare Coverage Gap

**Total Insured**  
(% of population)



**Total Uninsured**  
(% of population)



## Who are the Uninsured?

| <u>%</u> | <u>Category</u>        |
|----------|------------------------|
| 31.4%    | 18-24 years of age     |
| 25.9%    | 25-34 years of age     |
| 24.3%    | Income less than \$25K |
| 32.7%    | Hispanic               |
| 44.1%    | Not a US Citizen       |
| 25.8%    | No work experience     |

(% of uninsured)

Source: U.S. Census Bureau



# Implications for the Healthcare Industry

## A Complex and Uncertain Path



***“Unsustainable trends will not be sustained”***

**~ J.C. Robinson**

# 1. Health Policy

- Soaring governmental deficits and growth in and cost of chronic disease management will force further reductions in reimbursement and expanded rationalization of services
- Healthcare cost outpacing economic growth and impacting competitiveness
- Shift in tax base as “Boomers” enter retirement
- Future hospital and physician payments linked to performance (quality and safety)
- Emergence of “transparency” in cost and quality
- Coverage not expected to expand

## **FACTS:**

- Medicare enrollment today 42M; in 2030 77M
- More than 70M Americans will have two or more chronic conditions in 2010
- Americans paying taxes to the Medicare Trust Fund will fall from 4 to 2 for every retiree in 2040
- 14% of Medicare enrollees responsible for 76% of Medicare spending
- \$849.6B...est. cost of Medicare drug benefit, 2006 – 2015
- \$12B...est. spending on healthcare IT, 2006
- \$20.1B...est. healthcare construction start cost, 2005

# Health Policy..... a “footnote”

- ***Just who are these “Boomers”?*** \*

- Age of oldest “Boomer” in '06..... **60**
- Number of “Boomers” ('06)..... **78.2M**
- # People turning 60 each day ..... **7,918**
- % Women among “Boomers”..... **51%**

*\* Baby Boom generation was born from 1946 through 1964*

Source: Census Bureau and USA Today

## 2. Business, Finance and Competition

- Further shifting of the insurance risk of care.
- Expansion of debt sources and further consolidation
- Continued Uncertainty of revenues and cash flows
- Continued threat of specialty “niche” player competition.
- Capital availability and cost limitations for new technology
- Increasing pressure to provide specialty coverage incentives (ED and Trauma esp.)
- Further shift to “product competition” rather than hospital competition

### **FACTS:**

- *Operating cash flows will become central in credit quality*
- *3 most commonly cited capital projects\*:*
  - *Digital radiology (imaging)*
  - *CPOE*
  - *Information technology*
- *Differentiated out-of-pocket copays and coinsurance will be introduced*
- *Demonstrating value will require “transparency”*
- *ASCs total 3,700 centers (40% growth since 1996); 70% of surgeries performed in ASCs.*

\* HFMA Survey

## 3. Consumers

- Higher expectation of service and value – retail orientation
- More ethnically diverse
- Staying active longer and living longer
- Knowledgeable and web savvy
- Assuming more of the insurance role...consumer driven health plans may add to increased risk burden
- Open to holistic and alternative options and therapies

### **FACTS:**

- 125M Americans have a chronic illness
- 1/3 of US population uses some form of alternative therapy, and it is est. 2/3 of the population will do so by 2010.
- The number of chiropractors is expected to increase from 55,000 in 2004 to 103,00 by 2010.
- 85% of HMOs believe the relationship between alternative and allopathic medicine will grow closer



## The Strategic Imperative

*The American Health System must reconfigure itself in one direction or the other—the precipice of tenability*

# Key Strategic Questions

1. *Why have consumer-directed plans not taken root?*
2. *What is the sentiment among the American public toward the direction of healthcare?.*
3. *How big an issue will healthcare be in the 2008 election, and what is likely aftermath of a change in policy and direction?*
4. *What is the role of health plans under the three scenarios and how does the public view the value of your sector?*

# Important Backdrop Considerations

- **Transparency**
  - Quality: Mounting interest/demand for comparative measures and pay for performance incentives.
  - Pricing: AHA's recent announcement coupled with CMS initiatives and administrative statements.
- **The Rise and Significance of Convenience Care**
  - Minute Clinics as a harbinger.
  - What does it mean on the broader scale for providers?
  - What does it portend for health plans and third-parties?

## A Futuristic View



## Three Scintillating Scenarios that require consideration.....

- *Status-quo and the Quandary*... a.k.a. “Eventual Meltdown”
- *A Move Toward Nationalized Care*... a.k.a. “The Hillary Step”
- *Consumerism as Crown Prince*...a.k.a. “Market Mavens”

# Scenario 1: Status Quo: Quandary and Meltdown

- Not much dramatic change in the next three-five years
- Industry continues business as usual—to a large extent
- Increased emphasis on specialized services (drilling down on the service lines)
- More consolidation, economies of scale come to play
- Quality becomes an eventual differentiator
- Hospitals either play hard ball or get an expansion team with physicians as key players
- Government plays a more active role, but not radically so
- Employers grouse and take much more active role
- Consumerism limps along, some strides, mostly window dressing



# Scenario 1: Implications

- Smaller hospitals/providers may struggle
- Differentiation is based on fierce market competition
- Concerted interest in sub-service line categories (emphasis by SG-2, Advisory Board)
- Thinning margins, graying hair—executives under increasing pressure
- Physician play becomes the key in most markets
- Cost containment only goes so far—new strategies emerge
- Government squeezes more on the reimbursement
- Health plans and providers become more combative
- Consumerism brings heightened emphasis on strategy and market focus

## Scenario 2: Nationalized Care: The Hillary Step

- Government begins gradual assimilation of health care industry—Uncle Sam, MD
- Starts out with nationalized insurance (like Taiwan)
- Most things left unchanged in the near term
- Consolidation of services to low bidder—Centers of Excellence
- Quality measurements as differentiator—CMS the Judge
- Big changes for the insurance world
- Inefficiencies prompt call for greater oversight
- Major consolidation of health plans
- Big winners- Government agencies, efficient providers, maybe managed care
- Big losers—inefficient providers, niche players, entrepreneurial physicians, most health plans



## Scenario 2: Implications

- Emphasis is on efficiency, quality
- Payers and providers will need to rethink their approach to patient and market positioning
- Clear understanding of government operations required to survive
- Operational focus more than market-oriented approach
- Physician play still important in terms of strategic bundling
- Concentration on meeting pre-determined requirements
- Narrowing of services may be essential for survival (gaining contracts)
- Consolidation the greatest within the insurance ranks

## Scenario 3: Consumer-Crown Prince: Market Mavens

- The market-orientated approach is given a chance to reign
- HSAs and rising consumerism take center stage
- Strategic differentiation is based on market factors, such as consumer appeal, convenience, cost, quality
- Consolidation brought about by market discipline—small players and/or financial weaklings are toast
- Insurance companies play reduced role as intermediary
- Emphasis on strategy, marketing, perception positioning
- Niche player nirvana
- Employers accede role to employees/consumers
- Big winners-marquee names, savvy providers, entrepreneurial players and physicians
- Big losers—small, high-priced, low-leverage providers and payers



## Scenario 3: Implications

- Emphasis is on market position and consumer-focus
- Winners will need to ramp up their marketing and strategy
- Strategic planning becomes an imperative
- Marketing and PR function become kingpins
- Communication becomes crucial
- Transparent pricing becomes a reality
- Health plans need to facilitate the consumer engagement
- Hospital and health systems mirror other market-driven-industries
- Physicians and entrepreneurs become even greater competition or more strategic allies
- Prompts the largest # of changes in the C-suite

## At the End of the Day...



## ...Trends with Little Bend

- Strategic planning—ultimate value in the *process*
- Reinvention--emphasis on innovation and new product/revenue stream identification
- Quality and value strategy--with physicians as drivers
- Positioning to key audiences
- Sub-service line focus that matches other markets
- Communication—learning Greek for Healthcare executives
- Pricing—transparent and strategic
- Efficiency is always in style (and demand)
- Physician relations as the missing (but essential) link

- Modern Healthcare, December 19, 2005, “*By the Numbers*”
- Futurescan, “*Healthcare Trends and Implications 2005 – 2010*”

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