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CPAs & BUSINESS ADVISORS

HFMA NATIONAL UPDATE REGION 9

(presented on behalf of Richard Gundling)

David A. Williams, CPA, MPH, FHFMA
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November 9, 2018

hfma
healthcare financial management association

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AGENDA

- Where Do We Stand?
- The Political Process
- Fiscal Reality
- Transformation & Disruption
- Closing Comments

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THE FUTURE THAT IS BUILT, NOT TALKED ABOUT

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WHERE DO WE STAND?

- Affordable Care Act Is the Foundation of the U.S. Healthcare System
- More Active Department of Health & Human Services
- Medicaid – More Active in Medicaid
- Increased Efforts in Price Transparency & Consumer Access

Recently Passed Tax Reform Will Impact Providers in Multiple Ways

Key Health Care Tax Reform Elements

Individual Mandate:	Penalty for not having creditable coverage is reduced to $0 for 2019.
NFP Executive Compensation:	21% excise tax levyed on income over $1m for the top five employees of a NFP. Physicians and other clinicians are excluded.
NFP Financing:	Eliminates ability of municipal issuers to advance refund bonds.
Lower Corporate Tax Rate:	The corporate tax rate for for-profit providers will decrease to 21%
Lowers Medicial Expense Deduction:	Lowers the threshold to 7.5% of AGI for 2017 & 2018, and then reverts back to 10% of AGI in 2019 and thereafter.

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2018 ELECTIONS

What happens to Healthcare with a:

1. House and Senate with two parties?
2. House and Senate with one party?
3. House and Senate with super majority?

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KEY ELEMENTS OF PENDING COVERAGE WAIVERS

(New or Amended) Waiver Proposals Undergoing Public *Comment or CMS Review*

	AR	AZ	IA	IN	KY	MA	ME	UT	WI
Premiums/Lockout	✓	✓	✓	✓	✓	✓	✓		✓
Cost Sharing	✓	✓	✓	✓	✓	✓	✓	✓	✓
Healthy Behavior Incentives	✓	✓	✓	✓	✓				✓
NEMT Waiver			✓	✓	✓	✓			
IMD Exclusion Waiver		✓		✓	✓	✓		✓	✓
Retro Waiver	✓		✓	✓	✓	✓	✓	✓	
Delay in Enrollment				✓	✓				
Drug Screening									✓
Time Limits		✓						✓	✓
Partial Expansion (w/ Enhanced Federal Funding)	✓					✓			
Work-Related Provisions	✓	✓		✓	✓		✓	✓	✓
Health Savings-Like Accounts		✓		✓	✓				
Late Renewal Paperwork Penalty/Lockout				✓	✓				
Closed Formulary						✓			

✓ = For childless adults (expansion state)

✓ = For childless adults & other populations (expansion state)

✓ = For childless adults (non-expansion state)

✓ = For other populations (non-expansion state)

Source: Cindy Mann, Partner, Manatt Healthcare, Presentation to HFMA Large System CFO Council, October 6, 2017

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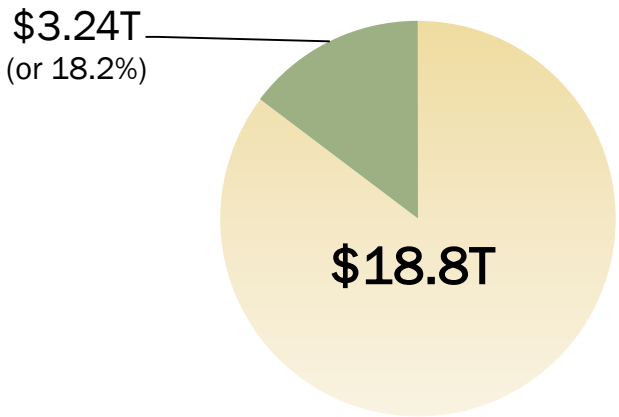
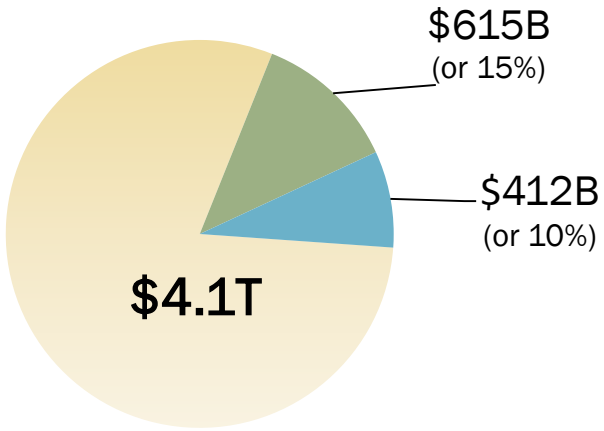
HEALTHCARE STATISTICS

How Much of the Total U.S. Gross Domestic Product (GDP) Does the Nation Spend on Health?



- Total U.S. GDP
- U.S. National Health % of Total GDP

How Much of the Total U.S. Federal Government Budget Does the Nation Spend on Medicare & Medicaid?



- Total U.S. Federal Gov't Budget (2018)
- U.S. National Medicare % of Total Budget
- U.S. National Medicaid % of Total Budget (Fed. Share 63%)

Amount Spent on Medicaid at the State Level – $242B

DELIVERY TRANSFORMATION

- Fee for service reimbursement
- Value or outcomes based reimbursement
- Triple Aim (sometimes referred to as Quadruple Aim)
    - Quality
    - Access
    - Cost
    - Professional talent
- Right vs. Privilege – $3.42T would use 80+% of Federal Budget
- U.S. Debt $21+T

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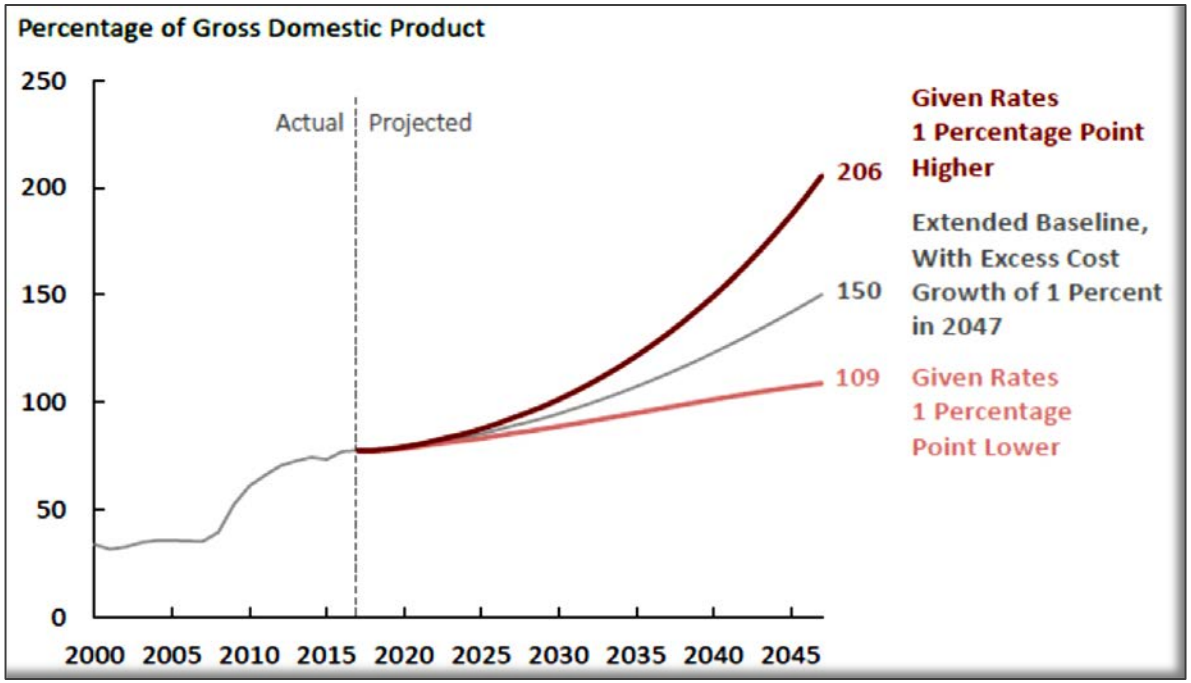
UNSUSTAINABLE GROWTH

Excess Medicare & Medicaid Cost Growth Threatens Long-Term U.S. Fiscal Stability

Federal Debt Given Different Rates of Excess Cost

GROWTH FOR MEDICARE / MEDICAID SPENDING



Source: https://www.cbo.gov/system/files/115th-congress-2017-2018/presentation/52913-presentation.pdf

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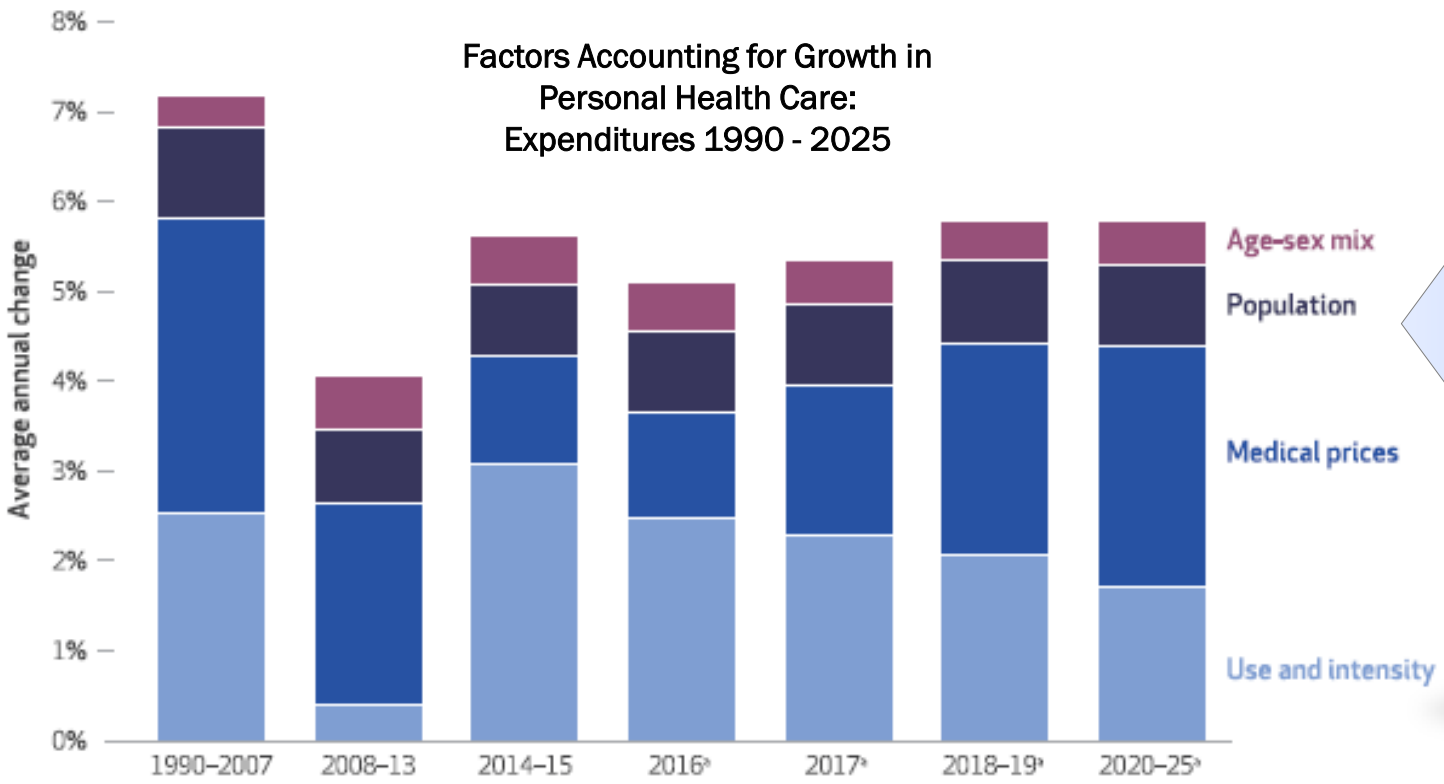
DRIVING FACTORS

Slowing Cost Growth Will Require Restraining Growth in Prices, Use & Intensity



Strategies to Restrain Growth

Consumer Engagement

Network Design

"Accountable" Payment Models

Source: http://content.healthaffairs.org/content/early/2017/02/14/hlthaff.2016.1627.full.pdf+html

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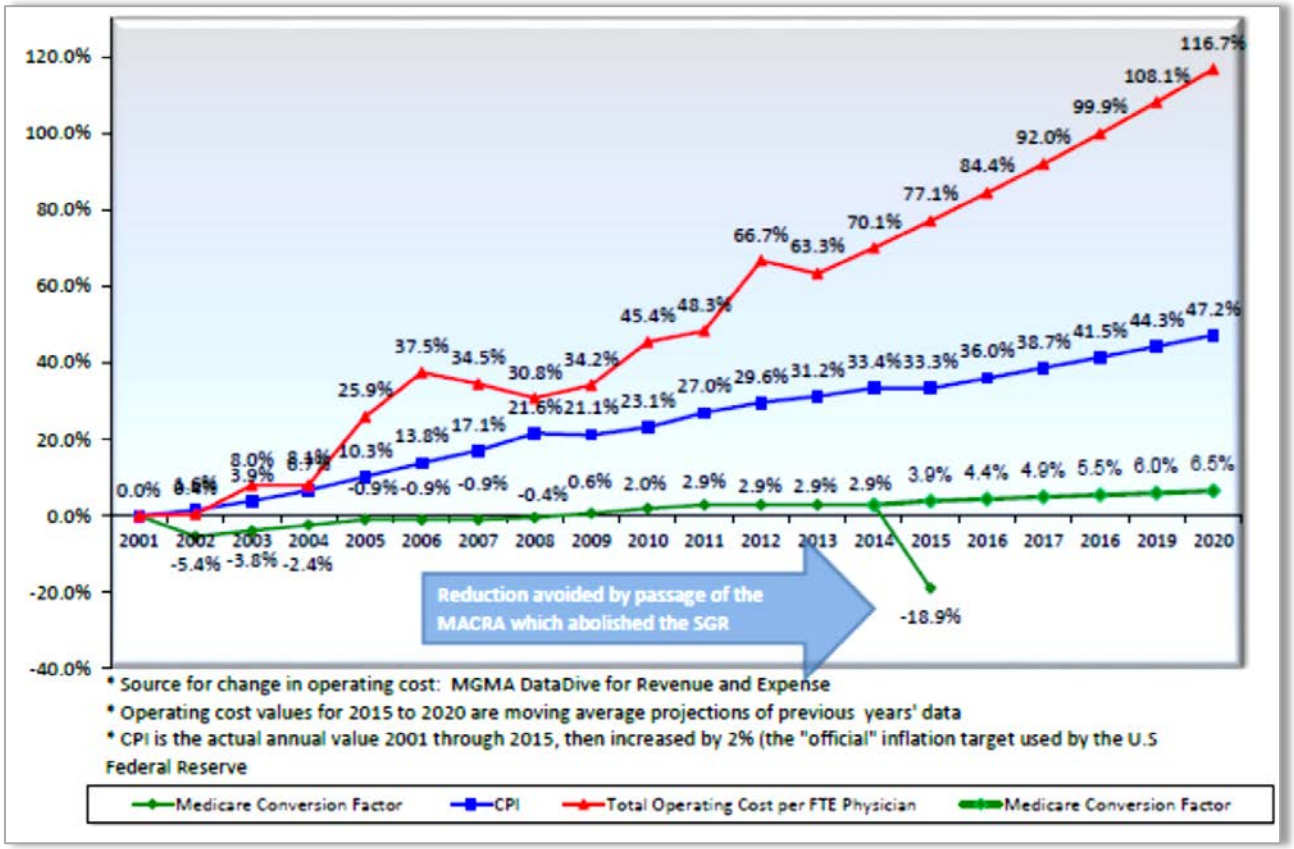
INADEQUATE MD REIMBURSEMENT

Medicare Payment Growth Will Not Keep Up with Practice Expenses

Medical Group Management Association

Cumulative % Change Since 2001 for Physician Owned Multispecialty with Primary Care Only Groups for Operating Cost, the Consumer Price Index & Medicare Physician Payments



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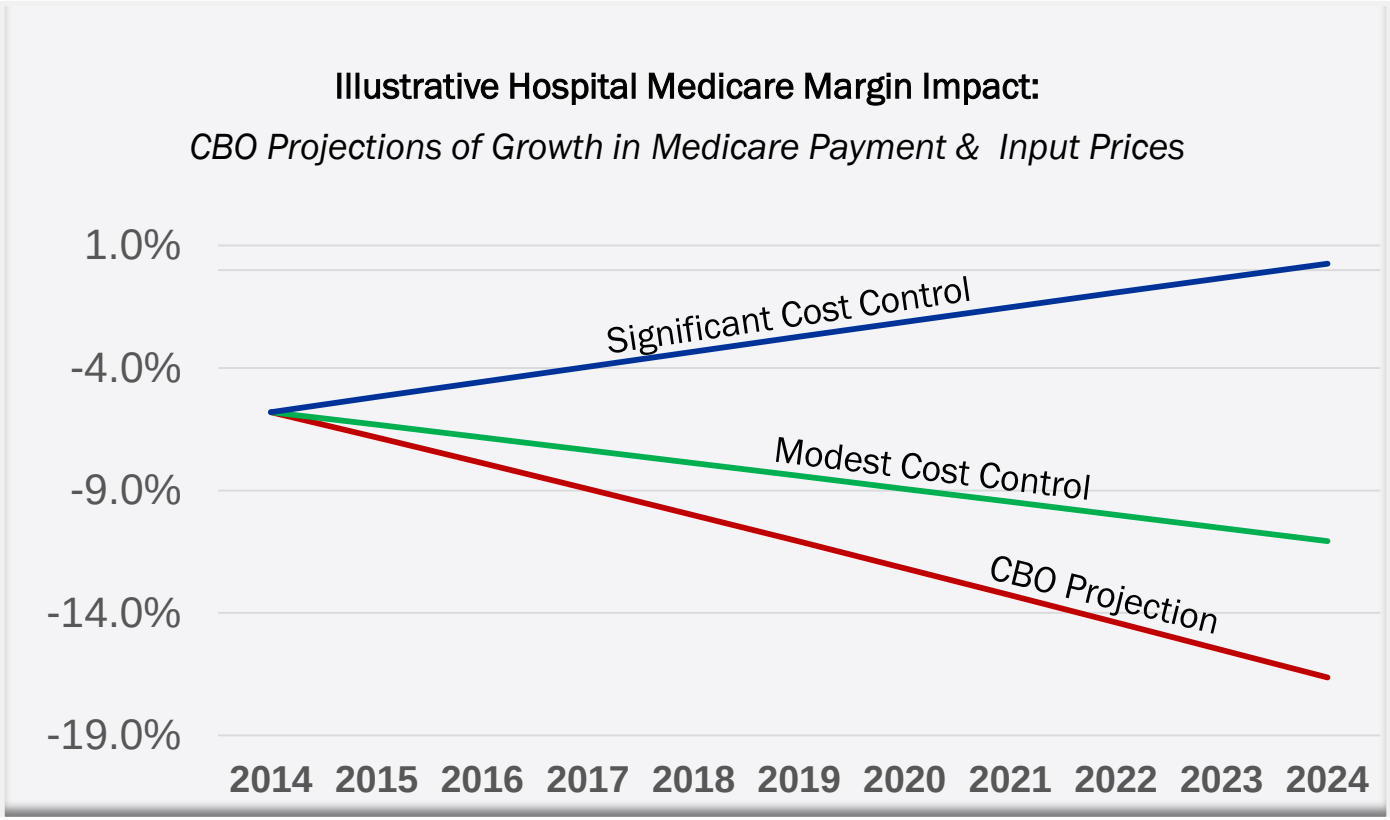
HOSPITAL BOTTOM LINES

The CBO Projects Input Price Growth Will Continue Outstripping Medicare Payment Increases



Sources: 1) 2014 Margin: MedPAC; Assessing Payment Adequacy and Updating Payments: Hospital Inpatient and Outpatient Services; December 10, 2015, 2) Growth in Medicare Revenue and Input Prices: The Congressional Budget Office Economic Outlook: 2016 – 2026, pg 67, 3) HFMA Analysis

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FEDERAL MEDICAID REFORM

"Capping" or "Block Granting" Medicaid Has Been Proposed to Reform the Program & Reduce Expenditures

Comparison of Traditional Medicaid to Caps or Block Grants

Program Feature	Traditional Medicaid	Per Capita Allotment	Block Grant
Federal Funding	The federal government "matches" state spending for qualifying services/ populations.	A per capita allotment is the product of the state's per capita allotment for the four major beneficiary categories. Allotment is determined by a state's average medical assistance & non-benefit expenditures per full-year-equivalent enrollee.	Funding is determined using a base year, assuming states transition expansion individuals into other coverage. Spending & benefit decisions for able-body adults & children rest solely with states.
ACA Expansion Population	Yes	Phased Out Starting in 2019	No
Inflation Adj	Yes	No	No
Population Adj	Yes	Yes	No

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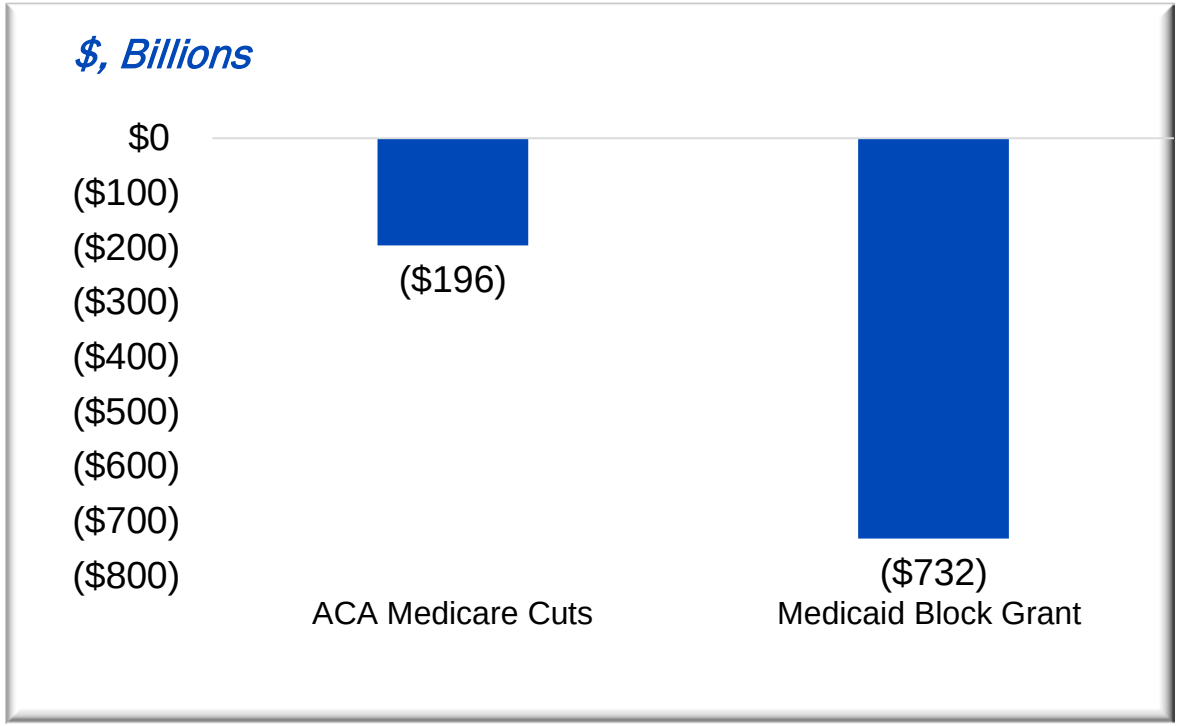
BLOCK GRANTING'S IMPACT

"Capping" or "Blocking" Will Reduce Federal Funding for Medicaid

Comparison of 10-Year Savings from ACA Medicare Market

Basket Reductions to a Medicaid Block Grant Proposal



Sources:
1) https://fas.org/sgp/crs/misc/R40486.pdf
2) https://www.cbo.gov/sites/default/files/111th-congress-2009-2010/costestimate/amendreconprop.pdf

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EMERGING VBP TRENDS

- Medicare Push
  - Bundled Payment Changes
- Focus on Mental Health Care
- Prospects for ACO Expansion
- Mix & Match Models
- Advantages for Medicare Advantage
- Commercial Plan Models
- More Medicaid Models

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UNBUNDLED

CMS Cancelled a New Round of Mandatory Cardiac & Orthopedic Bundles, Leaving Some to Wonder about the "Future of Value"

What Will Follow Pullback From Mandatory Bundles?

RICH DALY, HFMA SENIOR WRITER/EDITOR

13 9

PROPOSED RULES OUTLINING A SUCCESSOR TO THE POPULAR BPCI PROGRAM ARE EXPECTED VERY SOON, ACCORDING TO INDUSTRY ADVISERS.

Dec. 1—Medicare recently issued a final rule that drastically scaled back its use of mandatory bundled payments. Now providers are preparing for a new round of voluntary, hospital-led bundles.

The Centers for Medicare & Medicaid Services (CMS) followed through on an August proposal to cancel mandatory bundled payment programs for cardiac care and surgical hip and femur fracture treatment (collectively known as episode payment models [EPMs]). The agency also canceled the cardiac rehabilitation (CR) incentive payment model.

The mandatory models were scheduled to start Jan. 1, 2018.

Source: http://www.hfma.org/Content.aspx?id=57173

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BPCI RESULTS - GENERAL

Results from the Year Three BPCI Report are Based on Limited Data & Therefore Largely Inclusive

Savings

One of the 23 episodes evaluated reduced costs.

Quality

Systematic improvements in quality have not occurred.

Admin Burden

Participants in prospective episodes withdrew due to the administrative burden.

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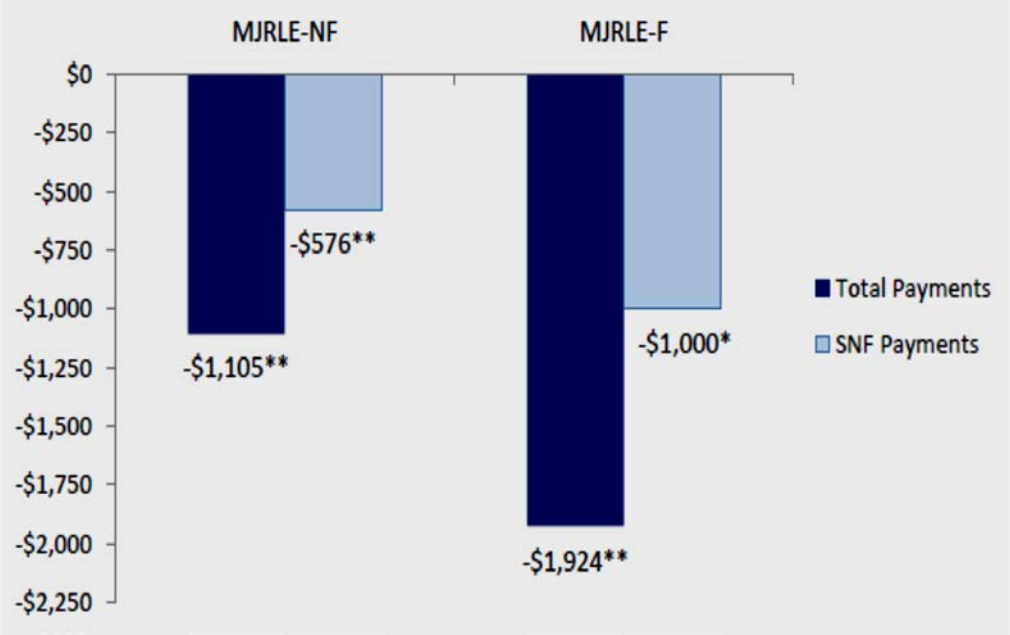
BUNDLES – LEJR RESULTS

Hospital-Initiated Lower Joint Replacement Episodes Show Promise

Reductions in Total & SNF Episode Spending for Fracture & Non-Fracture Cases

BPCI Hospital Compared to Control Hospital



Key Findings

Episodes at BPCI hospitals cost $1,273 less

BPCI Participants reduced SNF LOS by 1.0 & 2.4 days for non-fracture & fracture cases

Source: https://downloads.cms.gov/files/cmmi/bpci-models2-4yr3evalrpt.pdf

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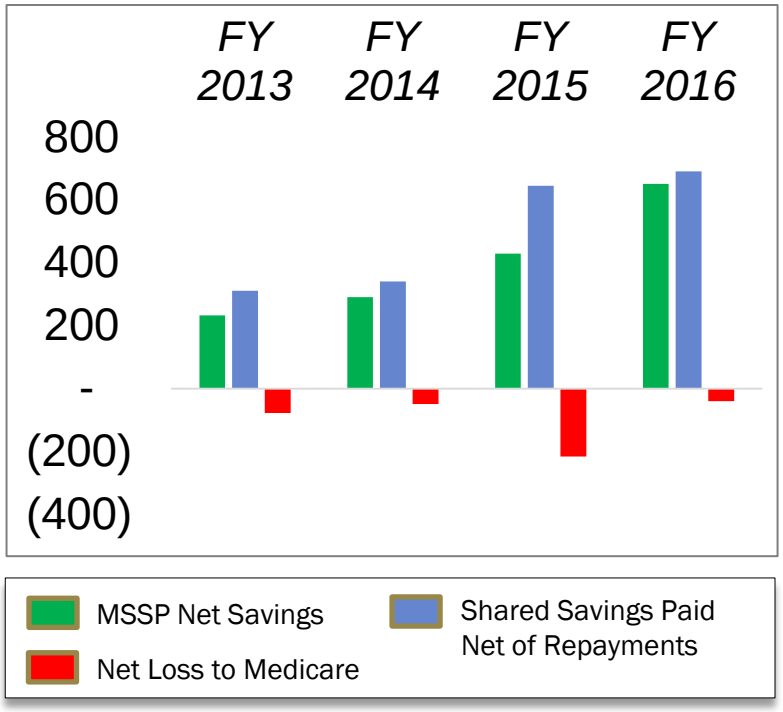
MUDDLED MSSP RESULTS

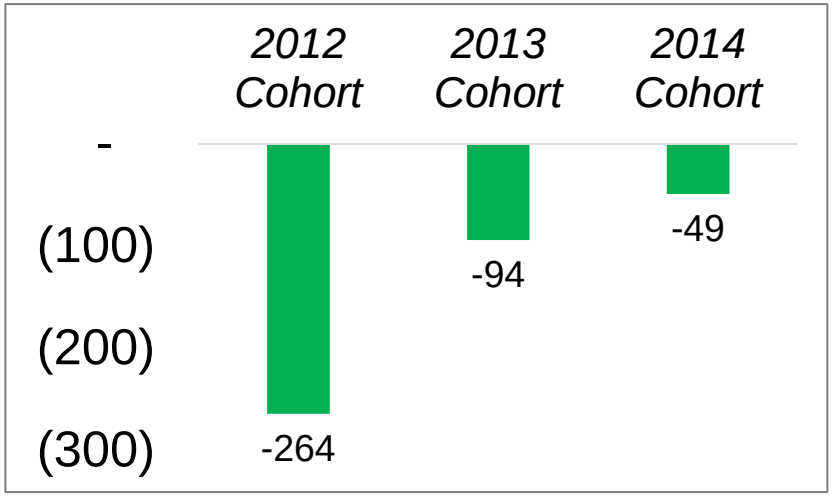
Compared to the Benchmark, the MSSP Costs CMS $400M…

MSSP Benchmark vs. Actual Spending
$, Millions



…More Sophisticated Analysis Suggests Savings Is Occurring

FY 2014 "Difference in Difference Analysis"
MSSP Change in Per Beneficiary Per Year Spending Relative to Comparison



% Target Price	-2.6%	-.9%	-.5%

Sources:
1) https://www.cms.gov/Research-Statistics-Data-and-Systems/Downloadable-Public-Use-Files/SSPACO/,
2) HFMA Analysis, 3) https://jamanetwork.com/journals/jama/fullarticle/2552452

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MSSP OBSERVATIONS

Several Trends Emerge When Comparing ACOs That Generate Savings to those That Don't

It Takes Time. The longer an ACO is in the program the more likely it will generate "sharable" savings.

More to Cut. ACOs that share savings typically have higher benchmarks ($11,614) than those that don't ($10,563).

Risk Changes Behavior. Risk bearing ACOs account for 10% of participants but are responsible for 30% of savings.

Physicians Save More. In 2016 42% of MD led ACOs received savings compared to 23% of ACOs with hospitals.

Sources:

1) http://www.ajmc.com/printer?url=/contributor/travis-broome/2017/10/cms-releases-medicare-shared-savings-program-2016-results,
2) https://www.healthaffairs.org/do/10.1377/hblog20171212.585293/full/ 3) https://jamanetwork.com/journals/jama/fullarticle/2552452
4) https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2017.0814

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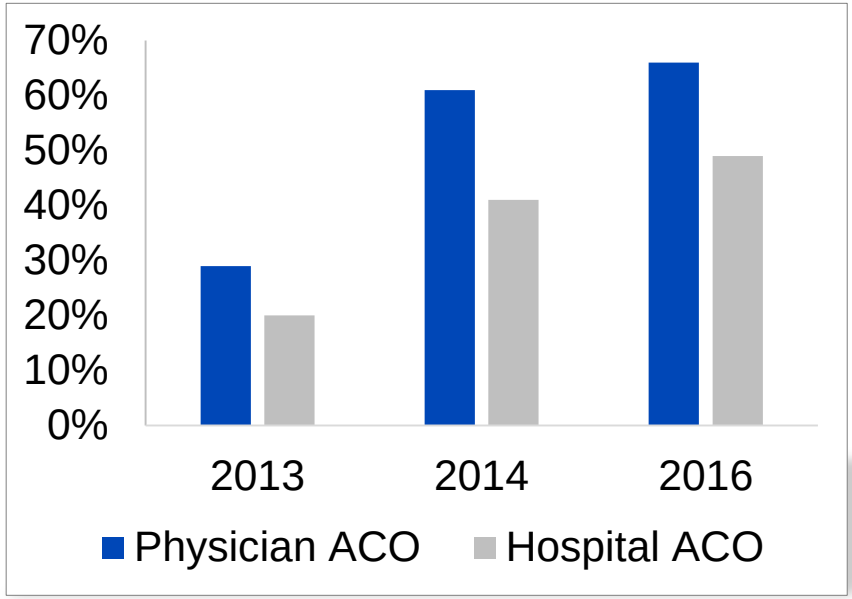
RE-THINKING REFERRALS

Early Results Suggest MD Led ACOs Generate More Savings…

% MSSP Participants with Expenditures below the Benchmark



… Referral Management Has Been a Key Strategy

Example: Palm Beach ACO

2013 Gross Savings: $39M
2014 Gross Savings: $32M

Key Strategies

Provide feedback to MDs on use patterns

Partner with post-acute providers

Improve care transitions

Invest in patient outreach

Sources:
1) http://jama.jamanetwork.com/article.aspx?articleid=1861359#jvp140051r5
2) Email communication with David Muhlestein, Leavitt Partners, 1/4/15
3) HFMA Analysis of CMS MSSP Financial Data PUF Files

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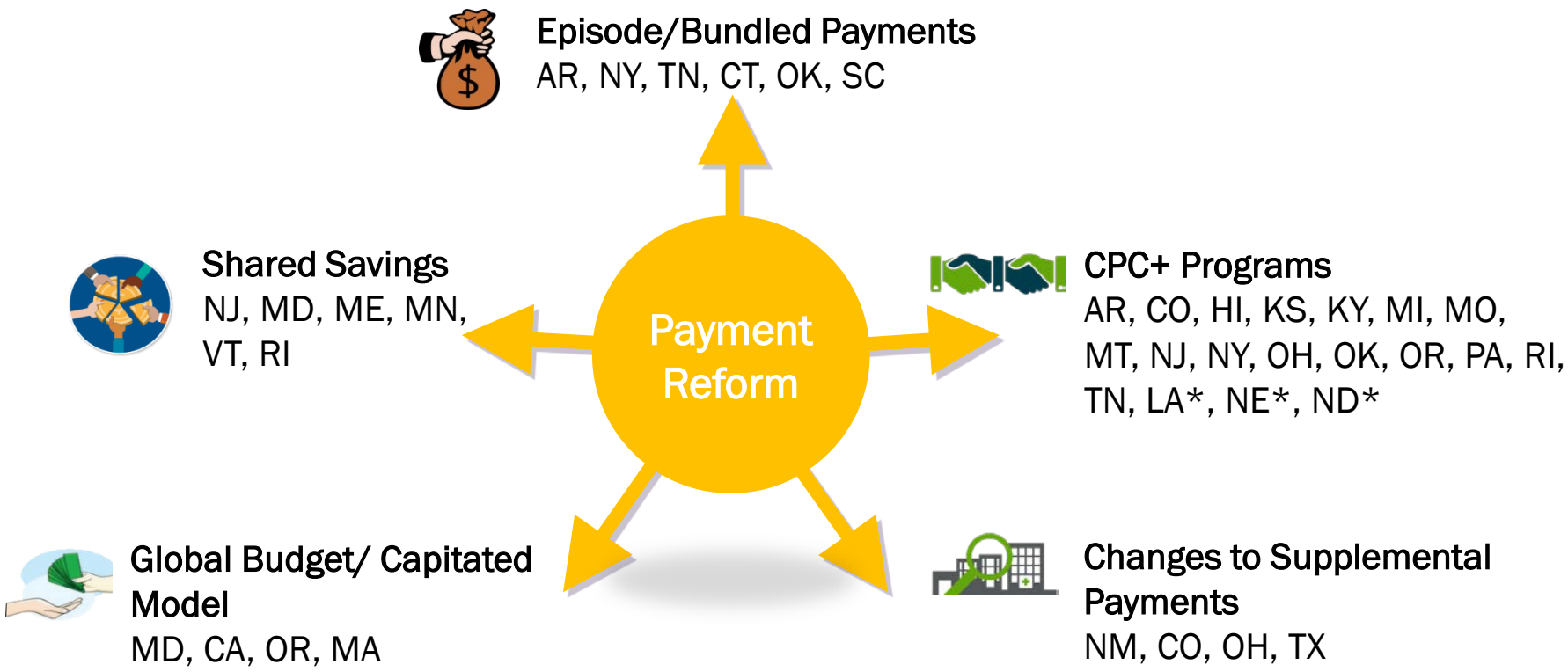
MEDICAID PAYMENT REFORMS

Many States Taking the Lead in Payment Reform Efforts



Source: Cindy Mann, Partner, Manatt Healthcare, Presentation to HFMA Large System CFO Council, October 6, 2017

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CHALLENGES TO VALUE TRANSITION

Participants at HFMA's thought Leadership Retreat Identified Several Challenges to the Successful Adoption of APMs

Commonly Cited Challenges by APM Participants

- Uncertainty from CMS & other purchasers
- Intensive capital & staffing requirements to execute

- Complex APM designs that vary across purchasers
- Lack of critical mass of patients in APMs
- Insufficient risk to drive behavioral change

- Data availability limited, not timely, & complex to manipulate

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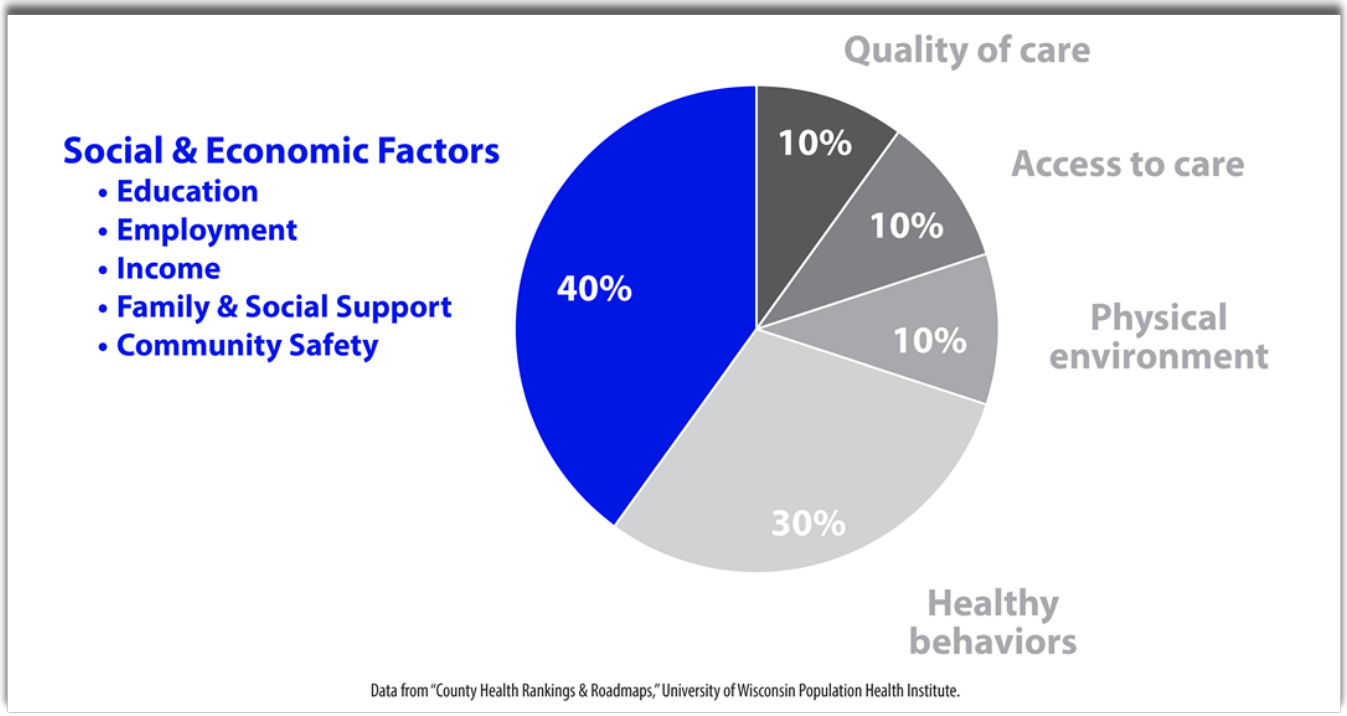
SOCIAL SUPPORTS MATTER

Evidence Suggests Social, Economic & Environmental Factors Are Better Predictors of Health Than Access to Care

Contribution of Various Factors to Health Outcomes



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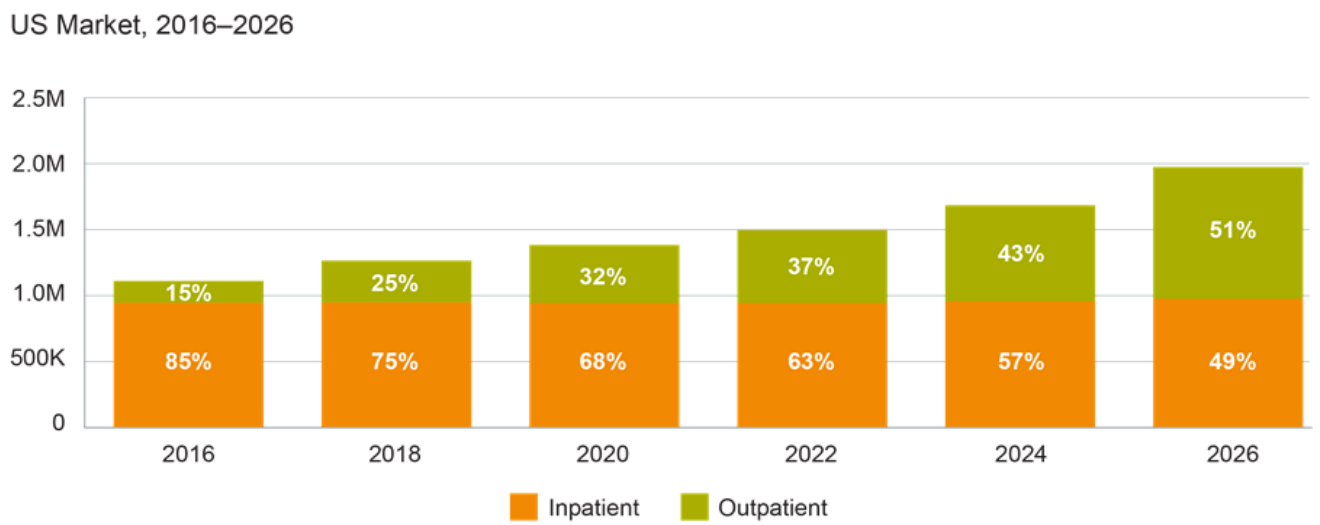
OUTPATIENT GROWTH

Half of Hip & Knee Replacements Will Occur in the Outpatient Setting within 10 Years, According to Projections

Figure 1. Primary hip and knee replacement growth across settings



Note: Analysis excludes 0–17 age group. Inpatient forecast indicates discharges; outpatient forecast indicates volumes. Discharges and volumes are for osteoarthritis only and include partial knee replacements. **Sources:** Impact of Change® v16.0; HCUP National Inpatient Sample (NIS). Healthcare Cost and Utilization Project (HCUP). 2013. Agency for Healthcare Research and Quality, Rockville, MD; OptumInsight, 2014; The following 2014 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; The Nielsen Company, LLC, 2016; Sg2 Analysis, 2016.

Source: http://newsroom.vizientinc.com/newsletter/research-and-insights-news/outpatient-joint-replacement-unnecessary-concern-or-market-rea

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NEW COMPETITORS

M&A Activity Could Increase Health Plans' Ability to Manage Care

Merger	Lives	Care Delivery Assets	Geographic Span
OPTUM DaVita Medical Group	40m	o 32,200 MDs o 285 Urgent Care Clinics o 211 ASCs	o In 30 markets today. o Targeting 75 markets covering 2/3s of the population.
CVSHealth aetna	22m	o 10,000 CVS Locations o Limited number employed MDs	o 70% of the population is within 3 miles of a CVS. o Minute Clinic has 50% of retail clinic marketshare.
Humana Kindred at Home	9m	o 2,600 MDs o 55 MD Practices o 40,000 Home Health Caregivers	o HHA assets cover 65% of Humana's MA members. o Located in 40 states.

Sources:
1) https://www.wsj.com/articles/unitedhealth-to-buy-major-doctor-group-for-4-9-billion-from-davita-1512560700?mg=prod/accounts-wsj
2) https://www.nytimes.com/2017/12/06/health/unitedhealth-doctors-insurance.html?_r=0
3) https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2017.0858
4) https://www.manatt.com/uploadedFiles/Content/5_Insights/White_Papers/Retail_Clinic_RWJF.pdf
5) https://www.pressreader.com/usa/los-angeles-times/20171107/281981787862549
6) https://www.wsj.com/articles/SB10001424052970203347104578100774135846646
7) https://www.humana.com/about/careers/what-we-do/physicians
8) https://www.forbes.com/sites/brucejapsen/2017/12/19/humana-wants-to-modernize-home-care-with-stake-in-4b-kindred-deal/#13fbb3952710

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MEDICARE ADVANTAGE & ITS ADVANTAGE

- Faster MA growth
  - Projected to cover more than half Medicare enrollees over next decade
- Bigger impact on care delivery reforms compared to CMS
- Key to MA plan goals is improved star ratings
  - Requires health plans to collaborate with providers through VBP arrangements

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Despite the Uncertainty, Several Themes Emerge

Common Themes in the Current Environment

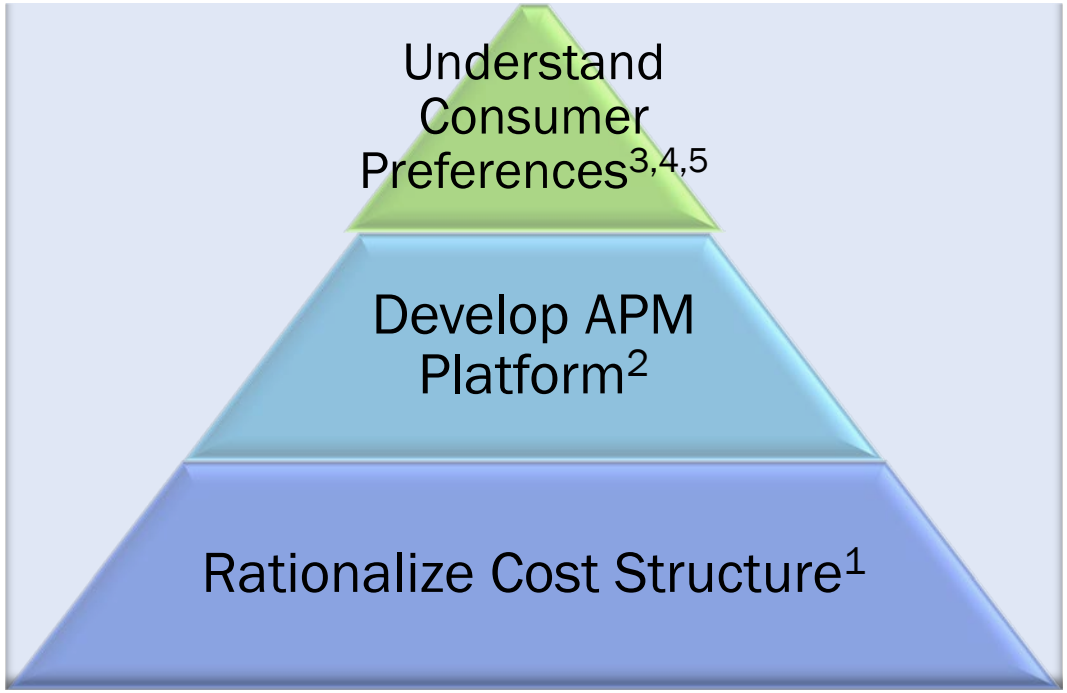
- Uncertainty at federal level will continue
- More authority for healthcare programs shifted to states
- Price transparency coming into focus

- Federal debt load is on unsustainable trajectory
- Future significant cuts to federal health care spending are likely
- Incremental cuts will continue to stress provider margins

- Transition to value will likely be lead by states
- Health systems need to offer strong AAPM platform to grow market share
- Changes in technology, payment models & care delivery will shift volume to lower cost sites of service

KEY ACTIONS

Steps Health Systems Should Take to Navigate the Uncertain Environment



HFMA Resources:

1) Strategies for Reconfiguring Cost Structure (https://www.hfma.org/valuereconfiguration/)
2) Strategies for Physician Alignment & Engagement (http://www.hfma.org/valuephysicians/)
3) Health Care 2020: Consumerism (https://www.hfma.org/healthcare2020/)
4) Preparing to Succeed in a Retail Health Environment (https://www.hfma.org/Content.aspx?id=25734)
5) Giving a Consumer Focus to Strategic Planning in Health Care (https://www.hfma.org/Content.aspx?id=56575)

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QUESTIONS?

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