



Health Trends Post-Obama: Where are Health, Health Costs and Payment Reform Headed

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SUSTAINABLE HEALTH SPENDING SYMPOSIUM

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What are We Going to Talk About?

- ▶ Why is US Health Spending at Record Levels but Life Expectancy Declining?
- ▶ State of Health Insurance Market and Payment Reform
- ▶ Health System Financial Performance
- ▶ Implications for Policy

In 2015, We Added 21 Million People to Coverage and Life Expectancy Declined!



Life Expectancy Declined Again in 2016!



**In 2016, US Life Expectancy (78.6)
was 0.1 years higher than Albania's**

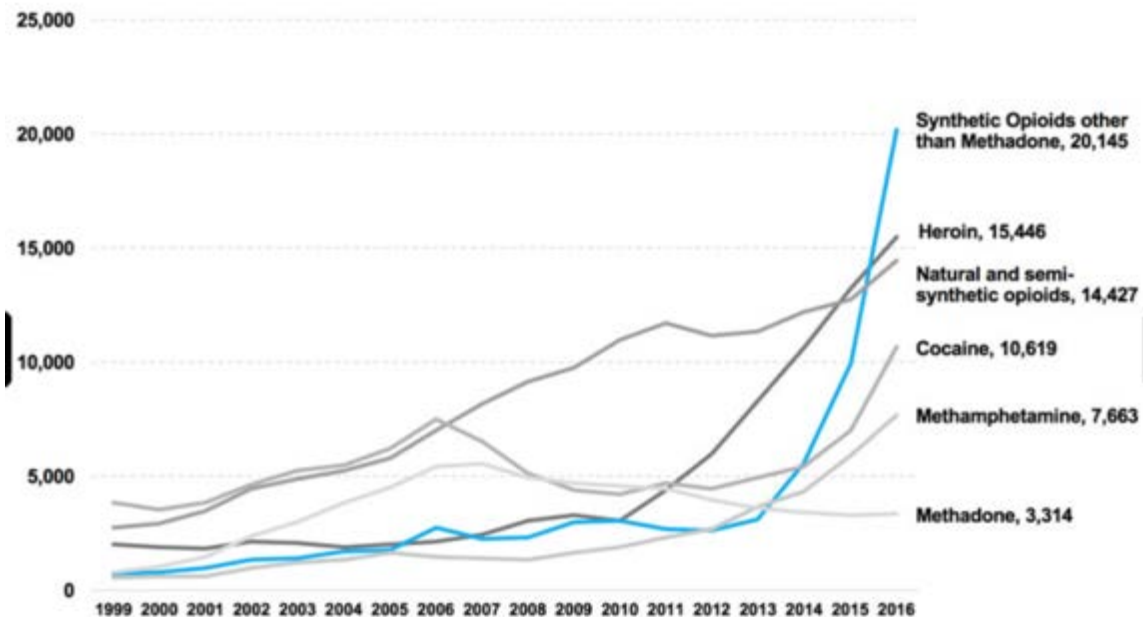


Overdose Deaths: The SuperStorm Sandy of Public Health Threats



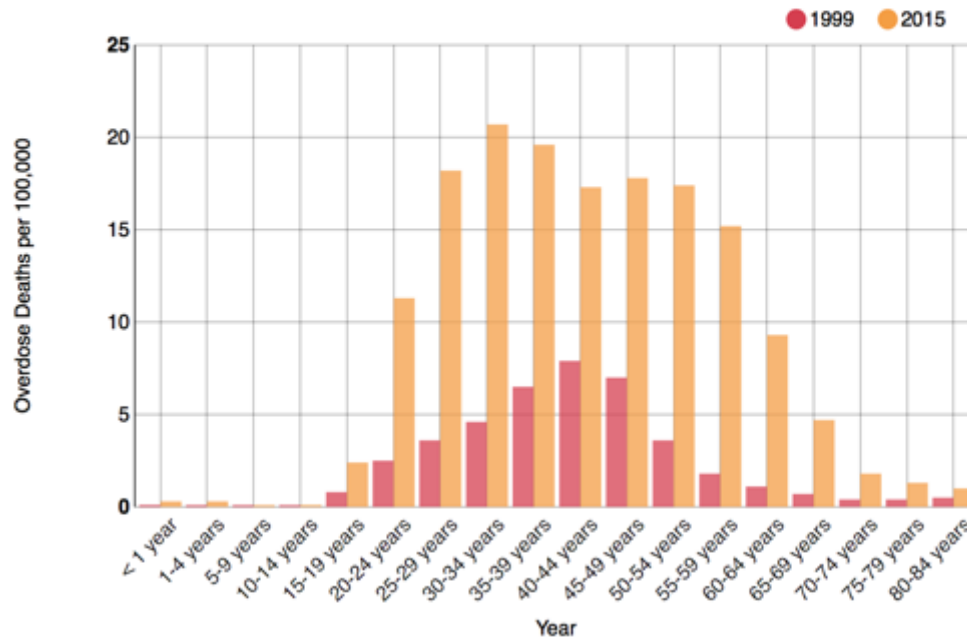
And It Isn't Just Opiates. . .

Drugs Involved in U.S. Overdose Deaths, 2000 to 2016



Three Plus Generations at Risk!

Figure 4. Opioid Overdose Deaths by Age Group, 1999 and 2015



But there are Orders of Magnitude Larger Public Health Challenges Than Opiates

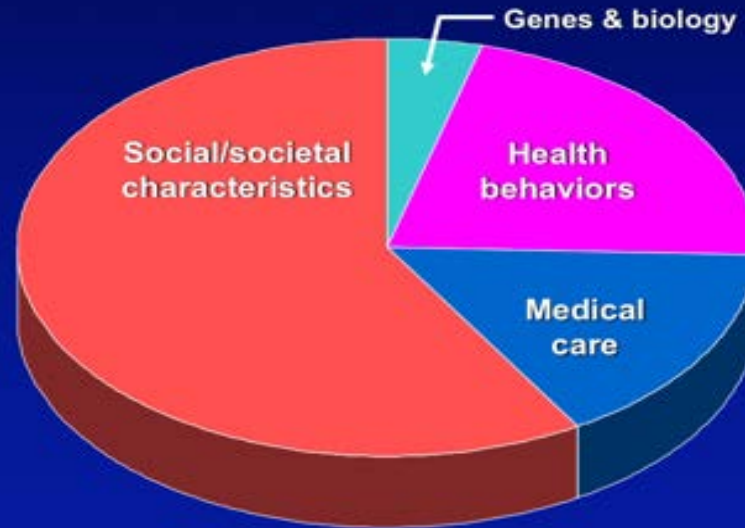
- ▶ **2.5-5 million Opioid Addicts**
- ▶ **15-20+ million Alcoholics**
- ▶ **30 million+ Type Two Diabetics**
- ▶ **80 million Obese Adults (and 12 Million Obese Children)**

Bold Forecast

- ▶ **In 2018, We are in the *Fourth Year* of *at Least* a Five Year Run of Declining US Life Expectancy**
- ▶ **Explosion of Drug Deaths is Proximate Cause, BUT**
- ▶ **Long Term Trend of Declining Death Rates from Heart Disease and Stroke is Over; Expect Both to Rise in the Next Decade**
- ▶ **Obesity is Most Powerful Long Term Driver, Not Drug Deaths**
- ▶ **Obese have Only a 50% Chance to Reach Age 70**
- ▶ **(Do Present Medicare Cost Estimates Reflect Mortality Risks?)**
- ▶ **Declining Life Expectancy Will Be A Major Political Issue by 2020**

What Creates Health?

DETERMINANTS OF POPULATION HEALTH



4. Tarlov, A.R., Public Policy Frameworks for Improving Population Health. *Annals of the New York Academy of Sciences*, 1999, 896 (SOCIOECONOMIC STATUS AND HEALTH IN INDUSTRIAL NATIONS: SOCIAL, PSYCHOLOGICAL, AND BIOLOGICAL PATHWAYS): p. 281-293.

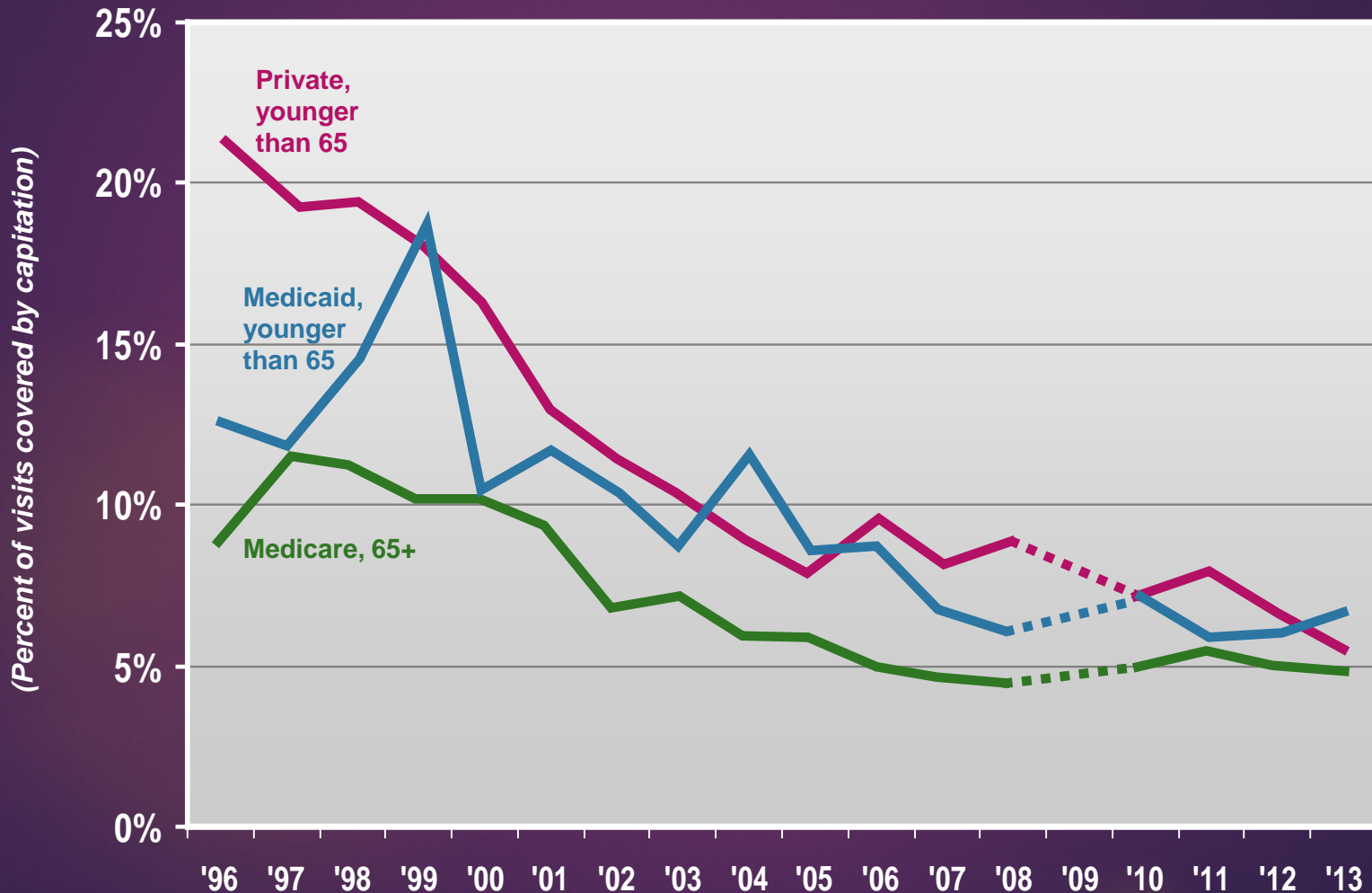
Social Determinants of Health

- ▶ **Poverty/Lack of Economic Options**
- ▶ **Homelessness**
- ▶ **Broken Families**
- ▶ **(Mental Health Leading Co-morbidity)**
- ▶ **Poor Nutrition/Diet/Food Deserts**
- ▶ **Unemployment**
- ▶ **Inadequate Education**

We're Moving From Volume to Value, Right?

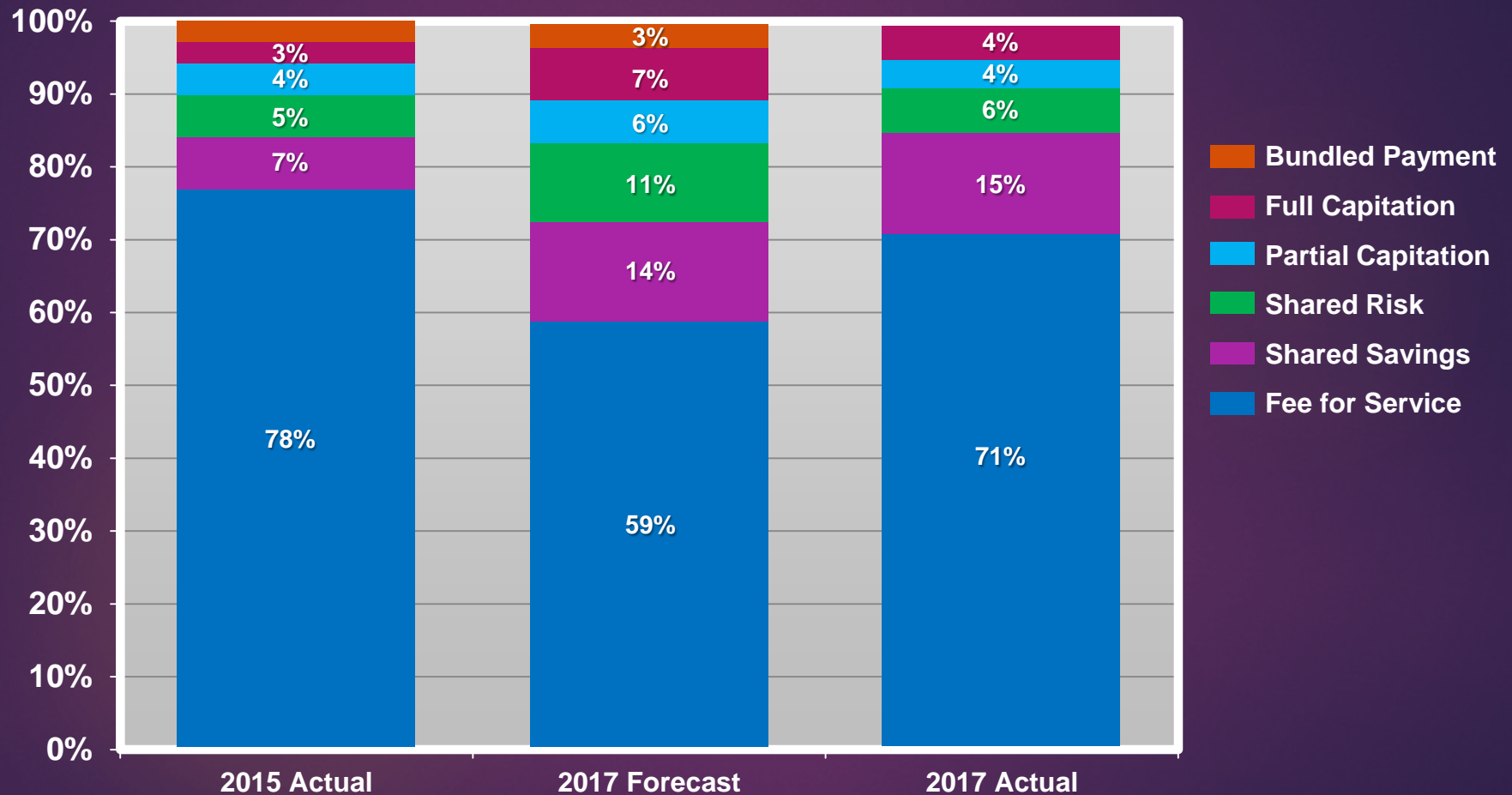
- ▶ **Capitation (Per Capita Payment for a Defined Population) is the Only Effective Way to Control Cost Growth**
- ▶ **ACOs are a Forerunner of Capitation**
- ▶ **Regular Medicare Will Pay Providers on a Global (e.g. population) Basis**
- ▶ **Commercial Insurers Will Have to Follow**

Percentage of U.S. Office-Based Physician Visits Covered Under Capitation Arrangements



SOURCE: Medical Expenditure Panel Surveys, 1996-2013

AMGA Risk 3.0: Risk Expectations vs. Reality for Commercial Market



Source: American Medical Group Association Risk 3.0 Survey, Nov, 2017

We are NOT Moving from Volume to Value (in Most Places)

- ▶ **We are Moving from Moderately Cumbersome Fee for Service to:**
- ▶ **INCREDIBLY Cumbersome “Fee for Check the Box”**
- ▶ **For TIPS! (per Uwe Reinhardt)**
- ▶ **”Value-Based Payment” is Actually a COMPLIANCE Scheme**
- ▶ **Requiring a Permanently More Costly IT Infrastructure and**
- ▶ **A Permanently Costly Revenue Cycle Operation**
- ▶ **And Massive Diversion of Clinician Time into Documentation**
- ▶ **Actual Net Income from “Value Based” Contracts in Short Supply!**

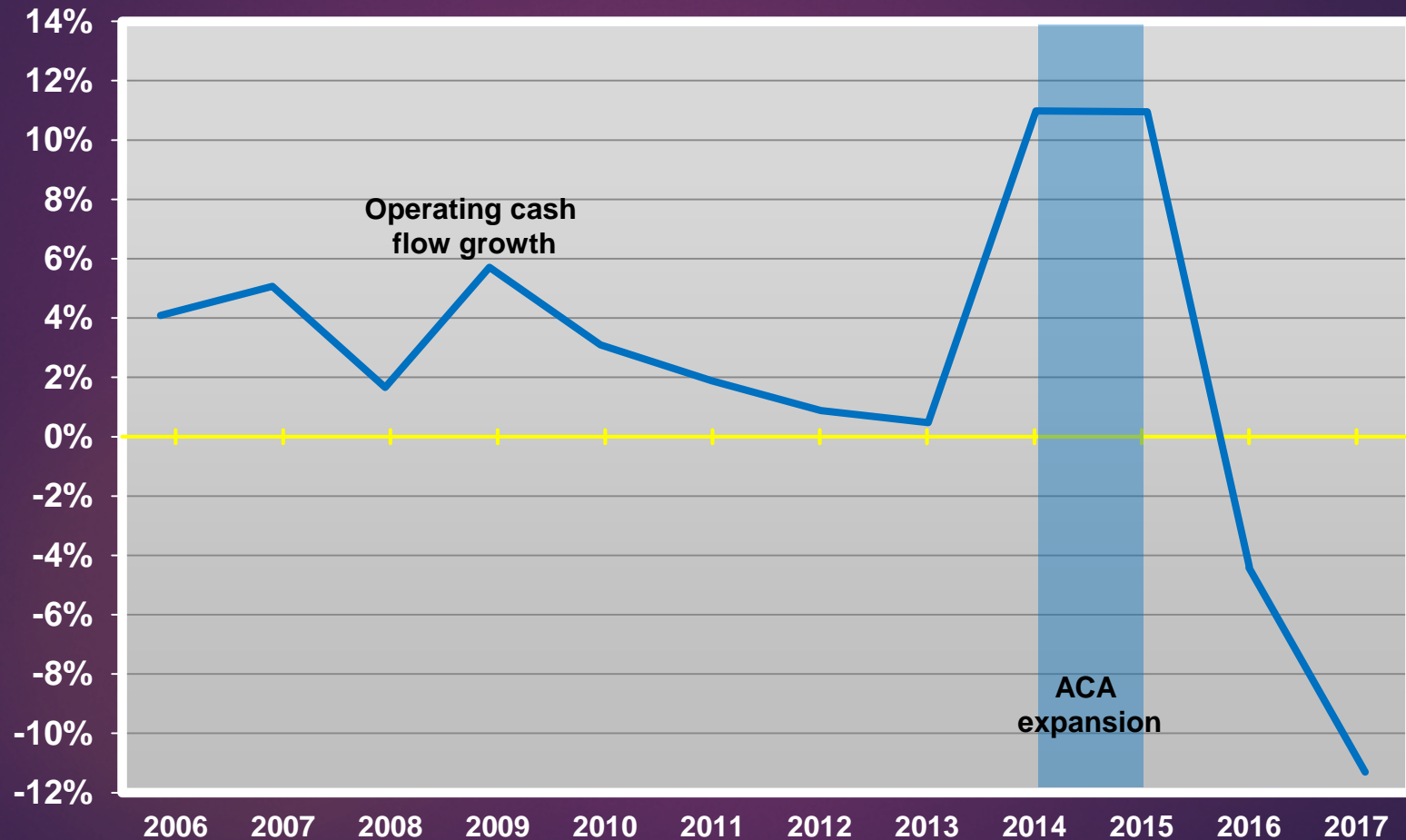
Meanwhile, Health Systems Are Encountering Freshening Winds . .



SCALE AND MARKET DOMINANCE HAVEN'T HELPED!

- ▶ **In our Navigant analysis of 104 largest US Health Systems, two-third saw declines in Operating Income from FY15-FY17**
- ▶ **One in Five Had Negative Operating Income**
- ▶ **22 Dominant Systems had Nine Figure Declines in Op Earnings**
- ▶ **Big Name Powerful Systems Had Negligible Operating Earnings: Mayo, Partners, Henry Ford, Ochsner, Providence/St/ Joes.**
- ▶ **Tenet and Community Health being Sold Off for Parts**
- ▶ **Things Get Real When Investment Earnings Disappear. . . .**

Hospital Operating Cash Flow Trend 2006-2017



And It's Happening at the Top of An Economic Cycle!

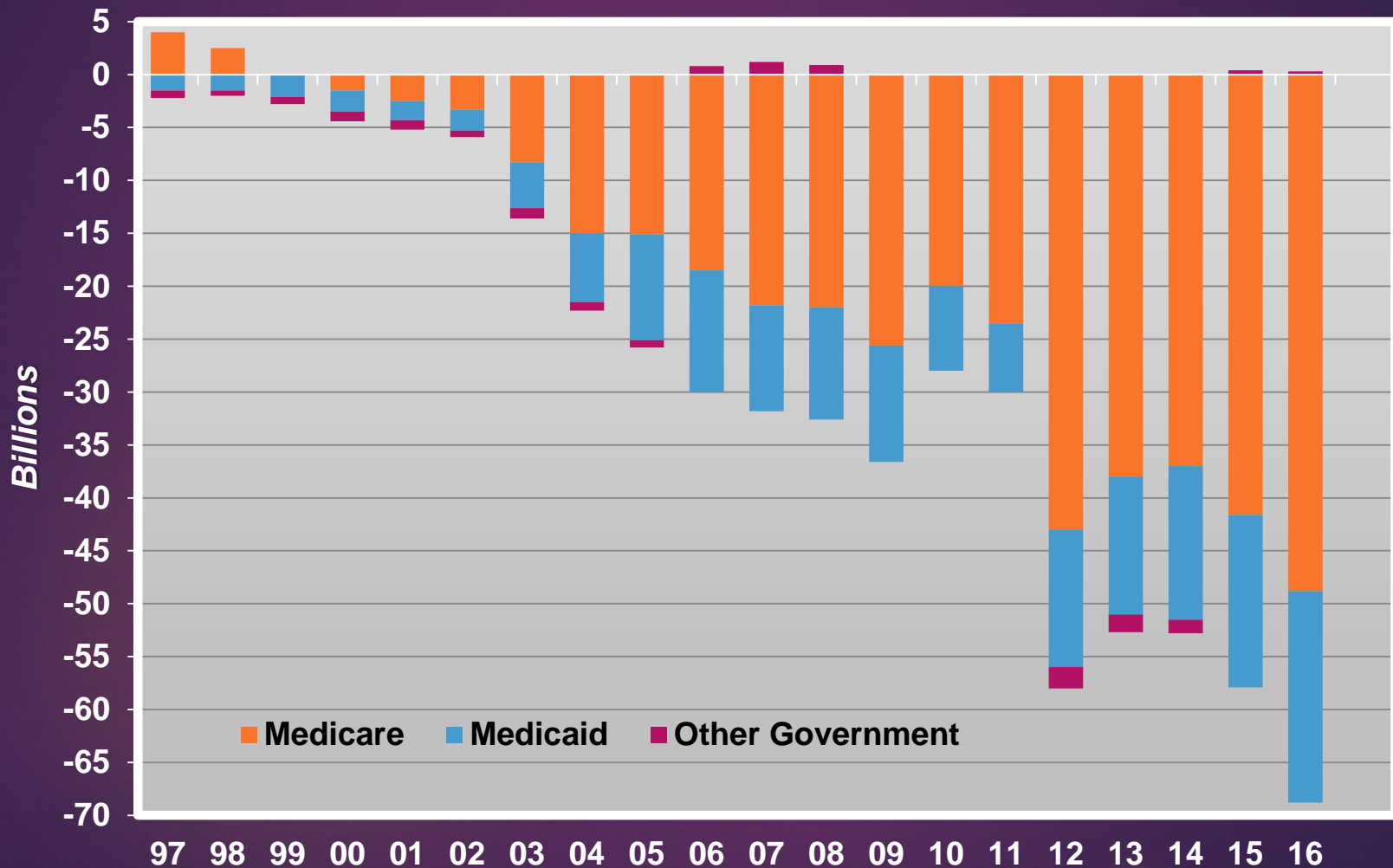


And While Hospital Executives Waited for the Unicorns to Come . .

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Hospitals Lost Nearly \$50 billion on Regular Medicare Patients in 2016



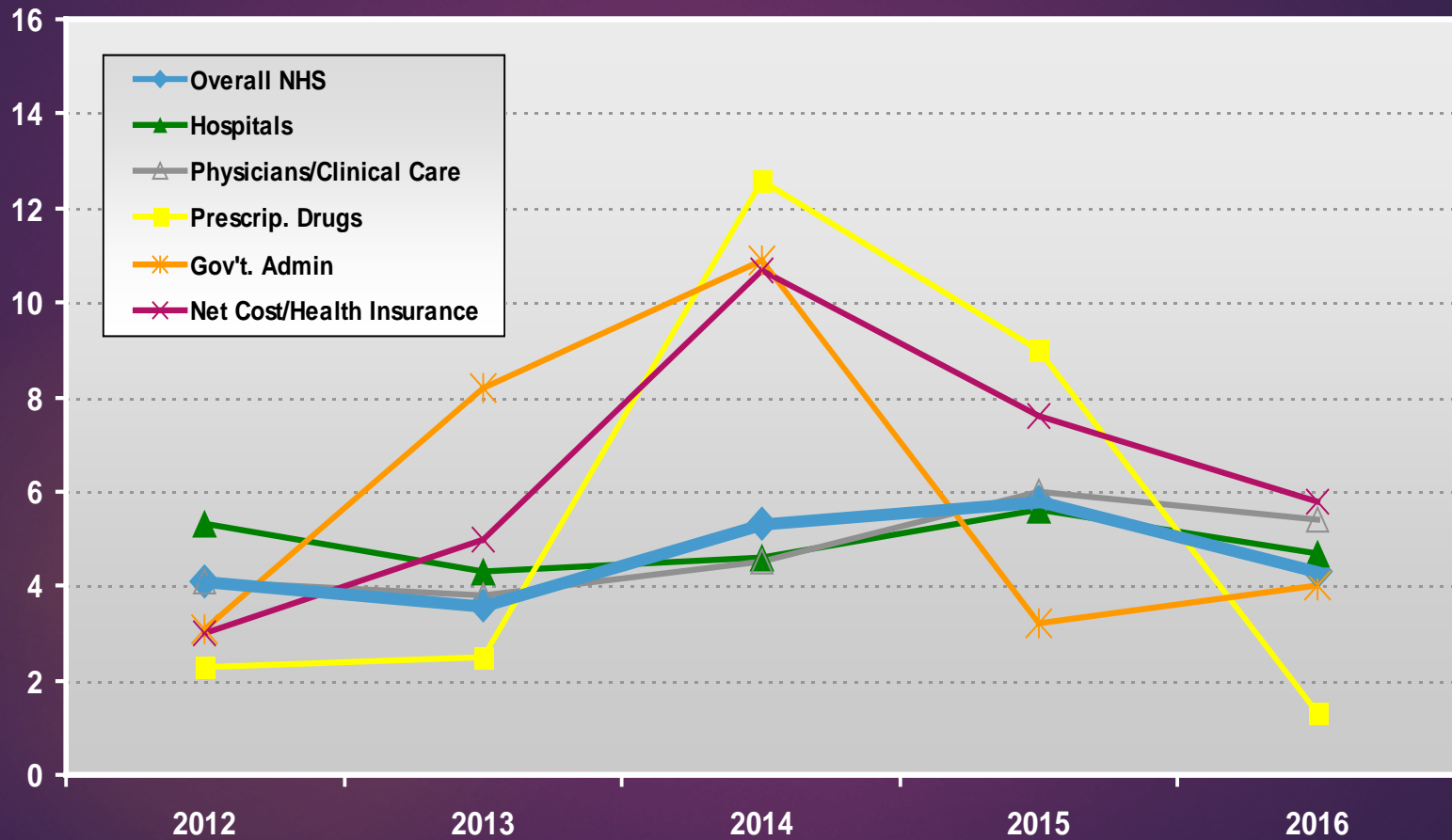
Source: MedPac Data Book, 2017

Some Possible Explanations

- ▶ **Expenses Rising 3 points Faster than Revenues**
- ▶ **CDHPs Have Crushed Demand AND**
- ▶ **Damaged Provider Cash Flows**
- ▶ **Also Lots of Self Inflicted Wounds (e.g. Poor Management Decisions)**
- ▶ **Serious Shortage of "Economies of Scale" from Past Mergers**
- ▶ **Corporate Overhead Rising 10% + a year**
- ▶ **"Integration" Outlays (e.g. \$195k per doc physician practice losses in 2016)**
- ▶ **Questionable "Risk" Investments (e.g. Poor Contracts and Ill-timed Health Plan Start-ups)**

Cost Trend Reverted to “New Normal” in 2016

(Annual Percentage Increase, 2012-2016)



Looking Ahead?

- ▶ **Don't Expect Current Provider Losses to Continue**
- ▶ **Warfare between Dominant Providers and their Local Payers Expected**
- ▶ **Provider Price Controls Are a 1970's Solution to a 2020 Problem**
- ▶ **Politicizing Price Increases Means Grandfathering in Today's Unacceptably High Costs!**
- ▶ **Massive Consumer Front End Cost Shares are a Blunt Instrument**
- ▶ **That is Likely Damaging Public Health**
- ▶ **Payers, including Medicare, Must Share Savings with Patients from Intelligent Choices to Expect Meaningful Change**
- ▶ **Reference Pricing Means Changes in Medicare and Commercial Benefit Design**