

Why Value?

An Overview of Healthcare Financing

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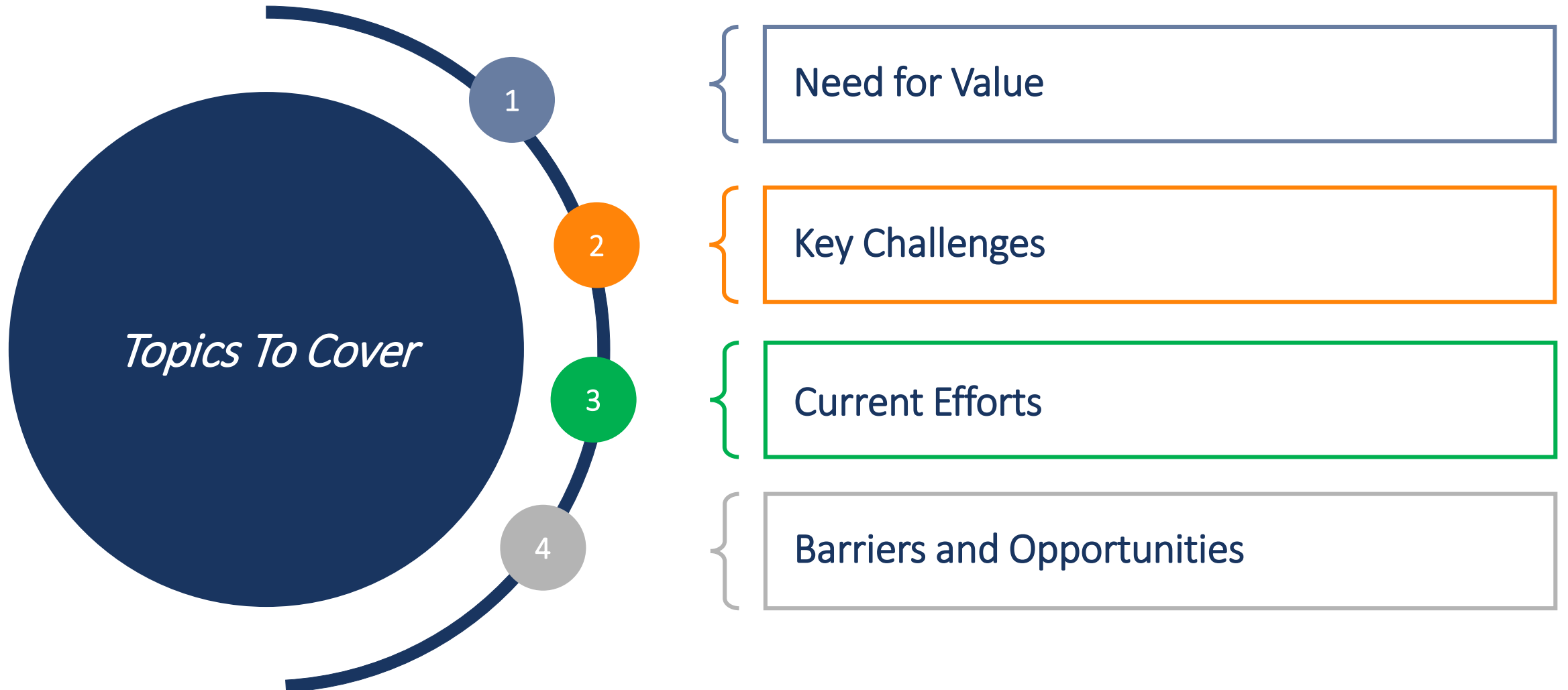
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Learning Objectives



Three Facets of Healthcare



Clinical Care



Financing



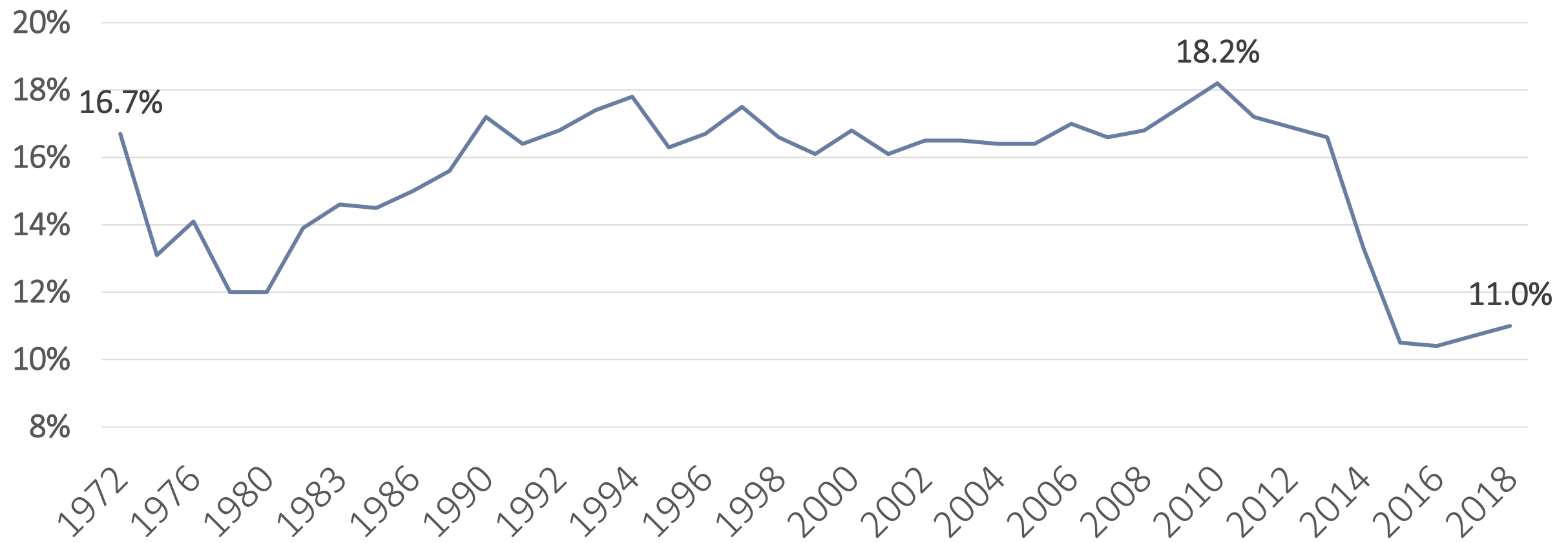
**Administrative
Structure**

See also Reinhardt, Uwe, “Priced Out” 2019

The Need for Value

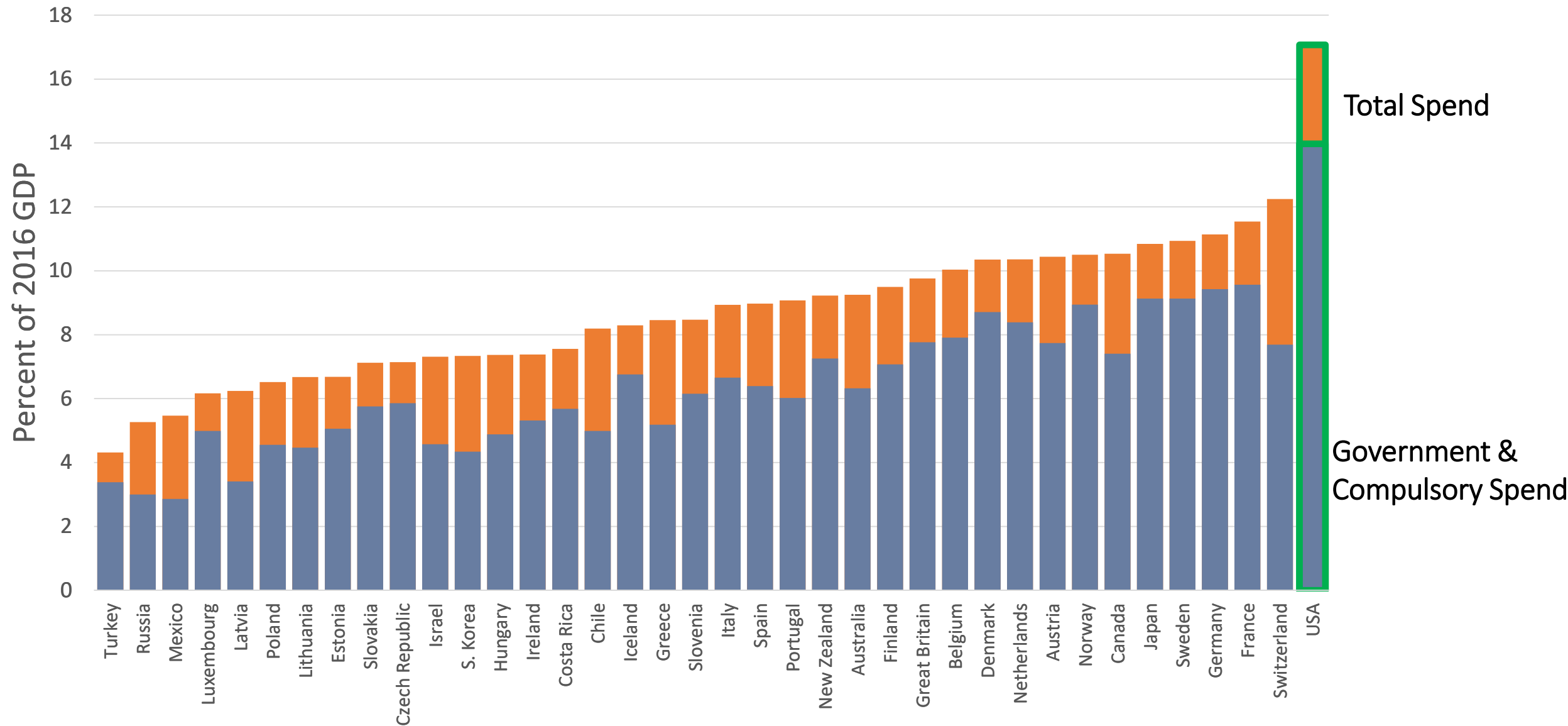
Insurance Coverage

Uninsured Rate Among the Nonelderly Population
1972-2018



Source: CDC, “Long-term Trends in Health Insurance Coverage: Estimates From the National Health Interview Survey, 1968–2018”
https://www.cdc.gov/nchs/data/nhis/health_insurance/TrendHealthInsurance1968_2018.pdf

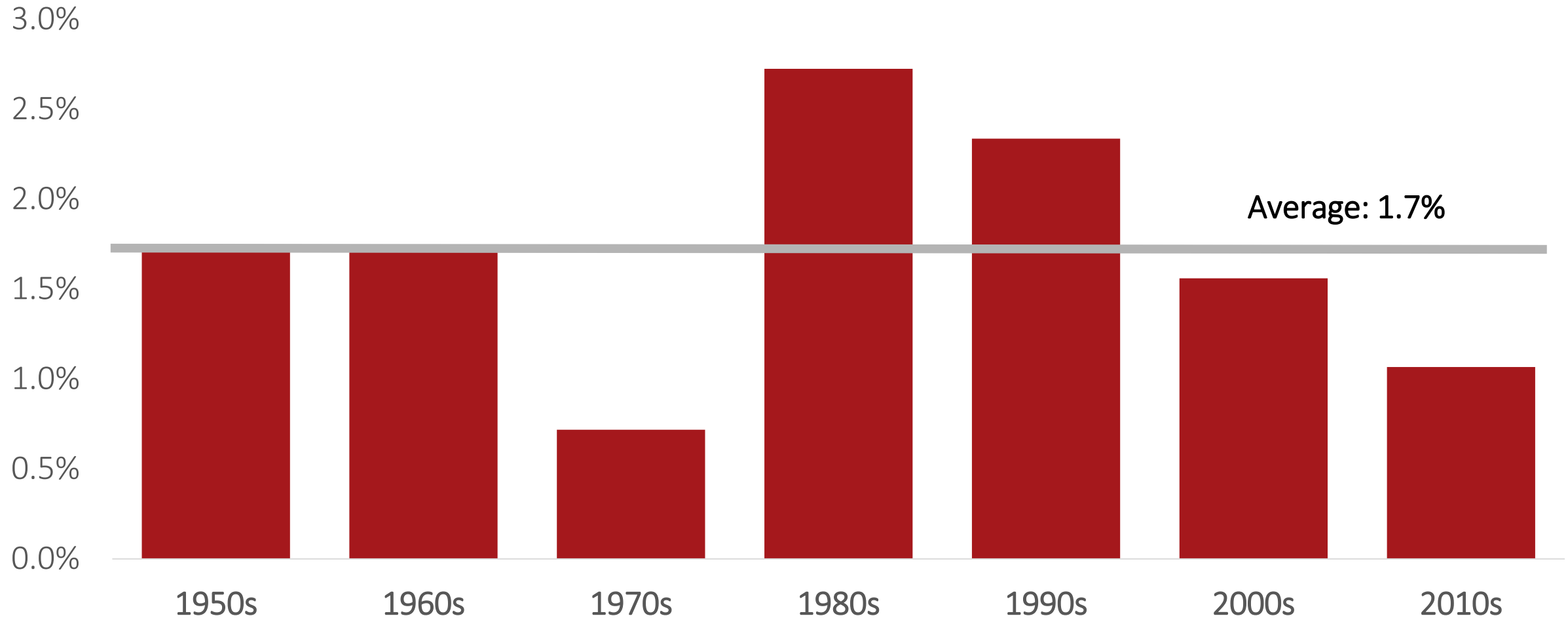
Healthcare Spending by Country



Source: OECD (2019), Health spending (indicator). doi: 10.1787/8643de7e-en

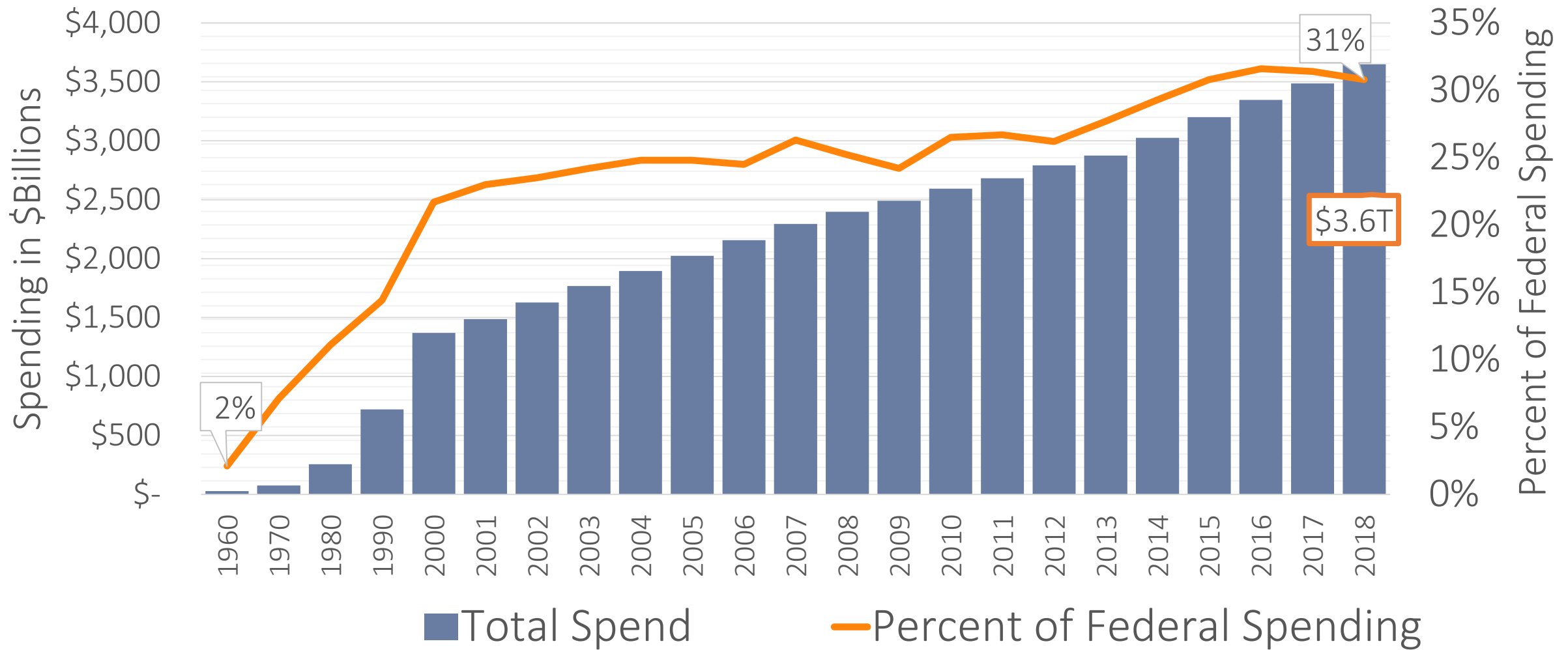
Continued Growth of Medical Care

Average Difference Between Medical Inflation and Total Inflation



Source: St. Louis Reserve, "Inflation in the healthcare industry vs. general CPI"

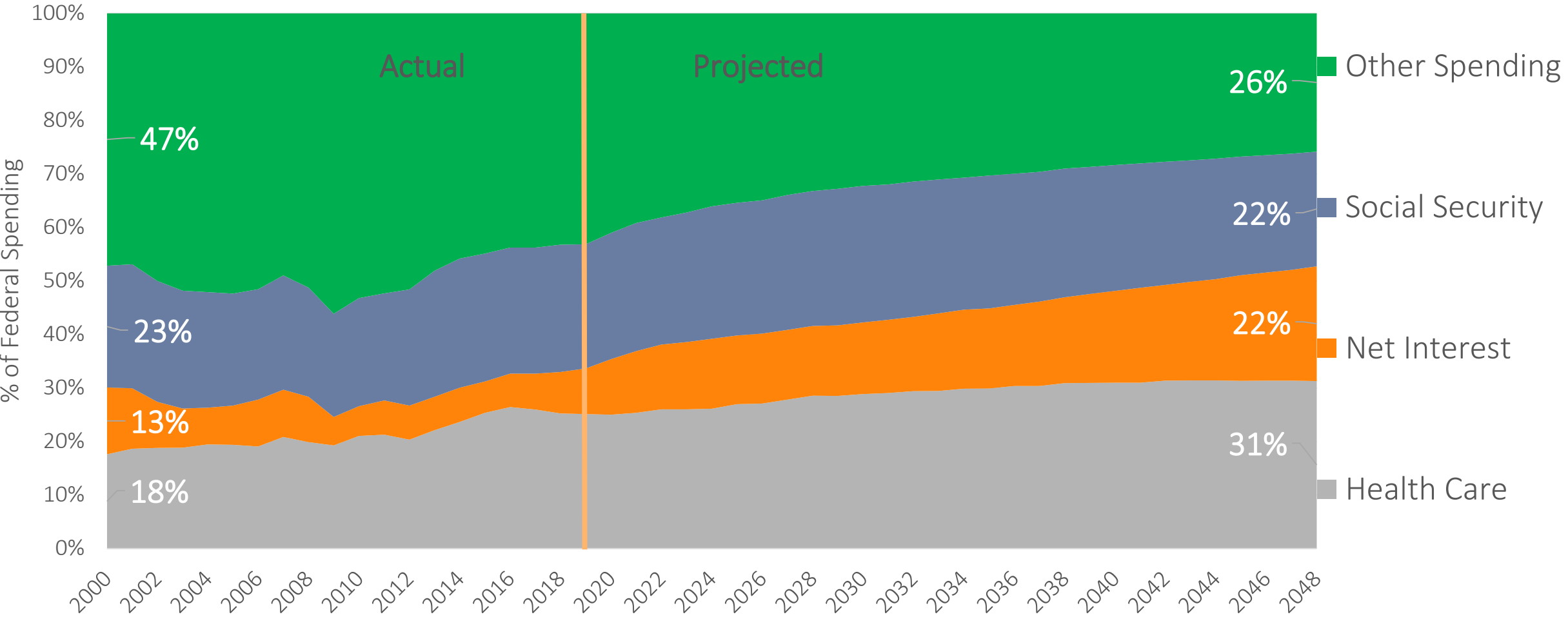
National Health Expenditures



Source: Leavitt Partners Analysis of Federal Health Expenditures and Gov't Spending

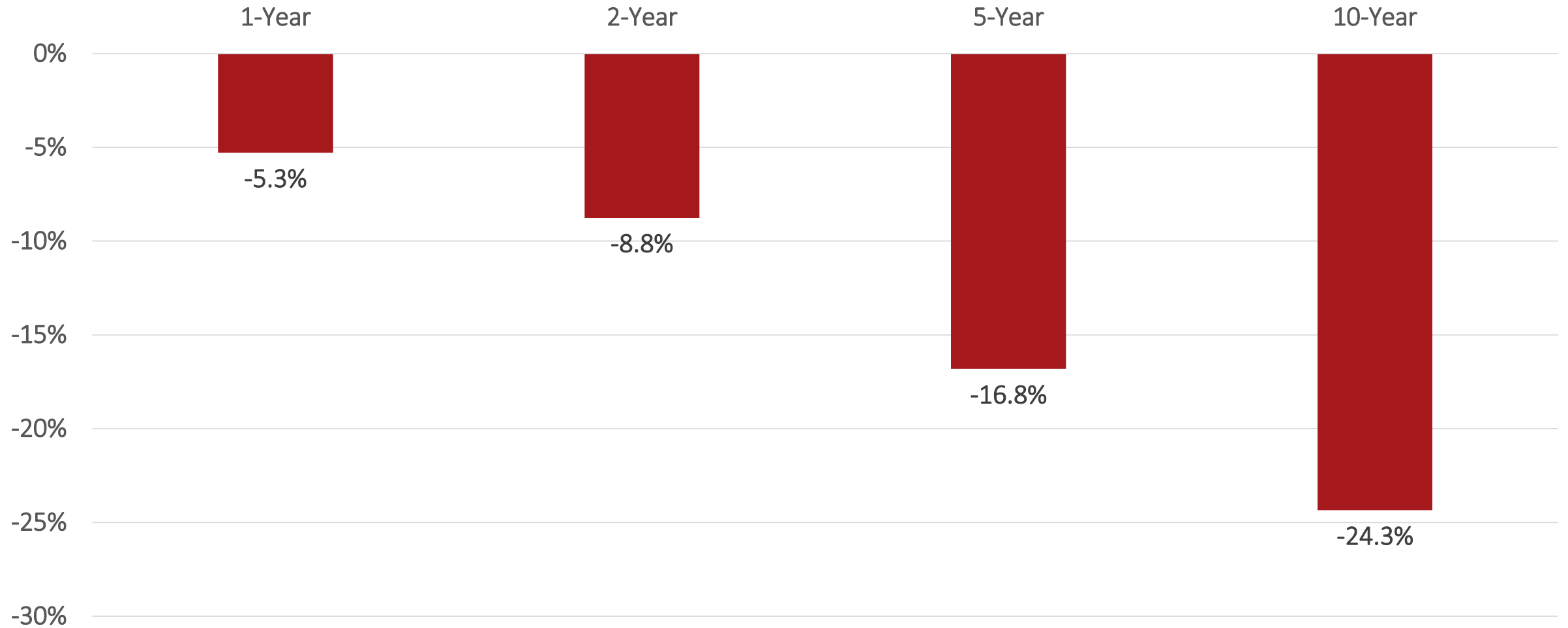
Projected Federal Budget

Federal Spending, 2000-2048



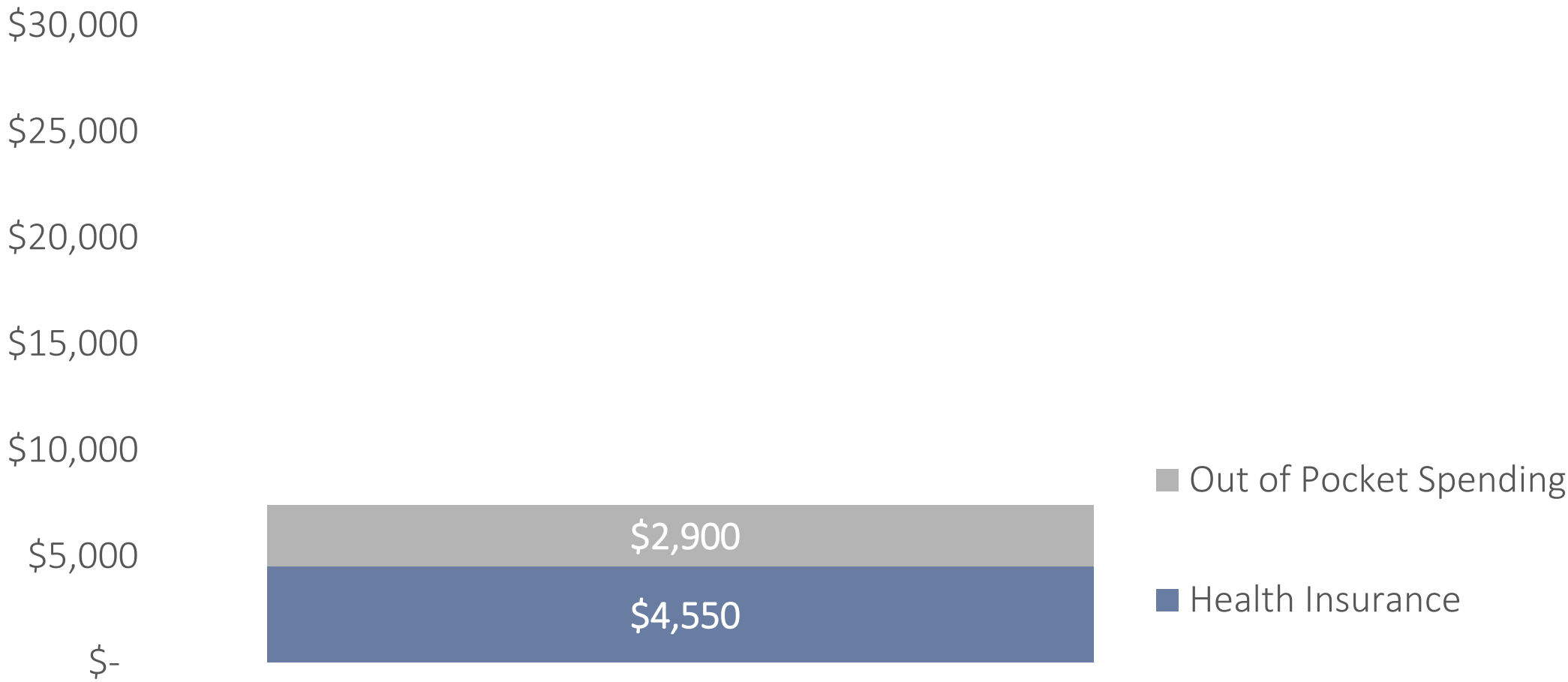
Source: CBO 2019 Long-Term Budget Projections

Projected Relative Reduction in Federal Spending Excluding Healthcare, Social Security and Interest



Healthcare's Impact on Income

Family of Four with Employer-Based Insurance, \$100k Income

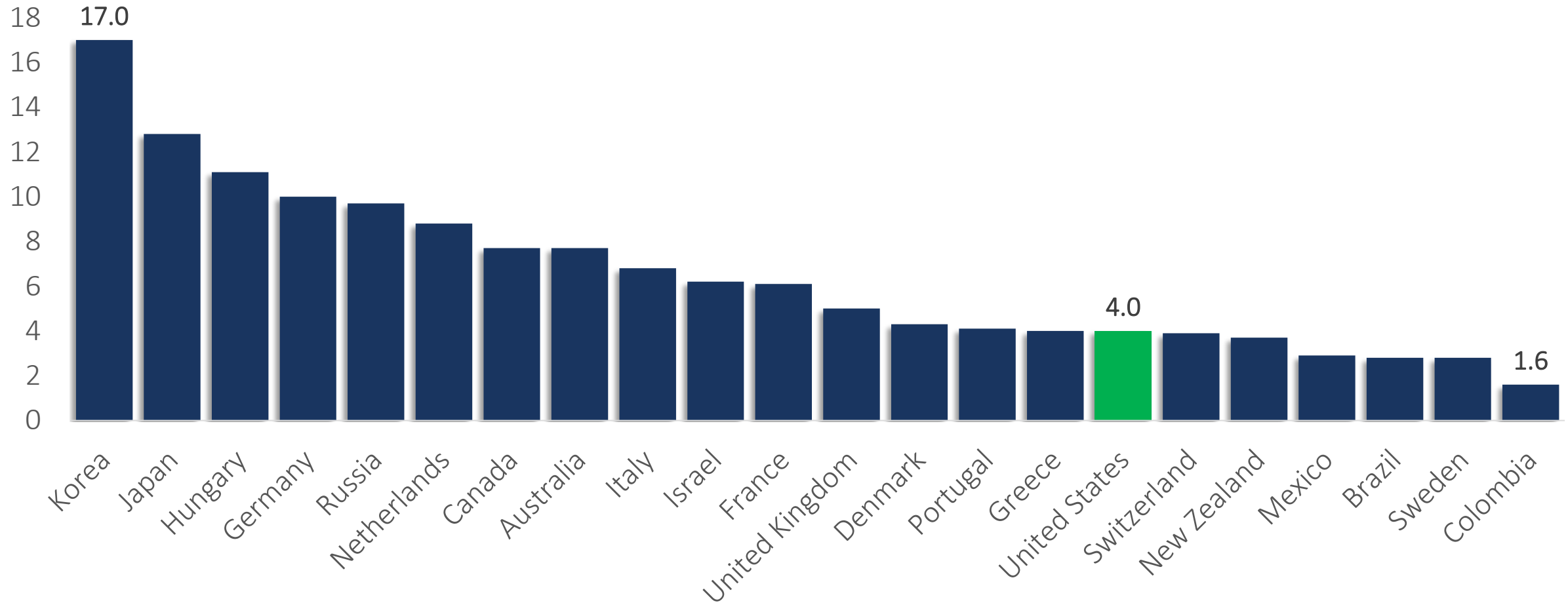


Source: Kaiser Family Foundation. Household Health Spending Calculator, Peterson-Kaiser Health System Tracker

Key Challenges to Change

Volume of Care

Doctor Visits Per Year

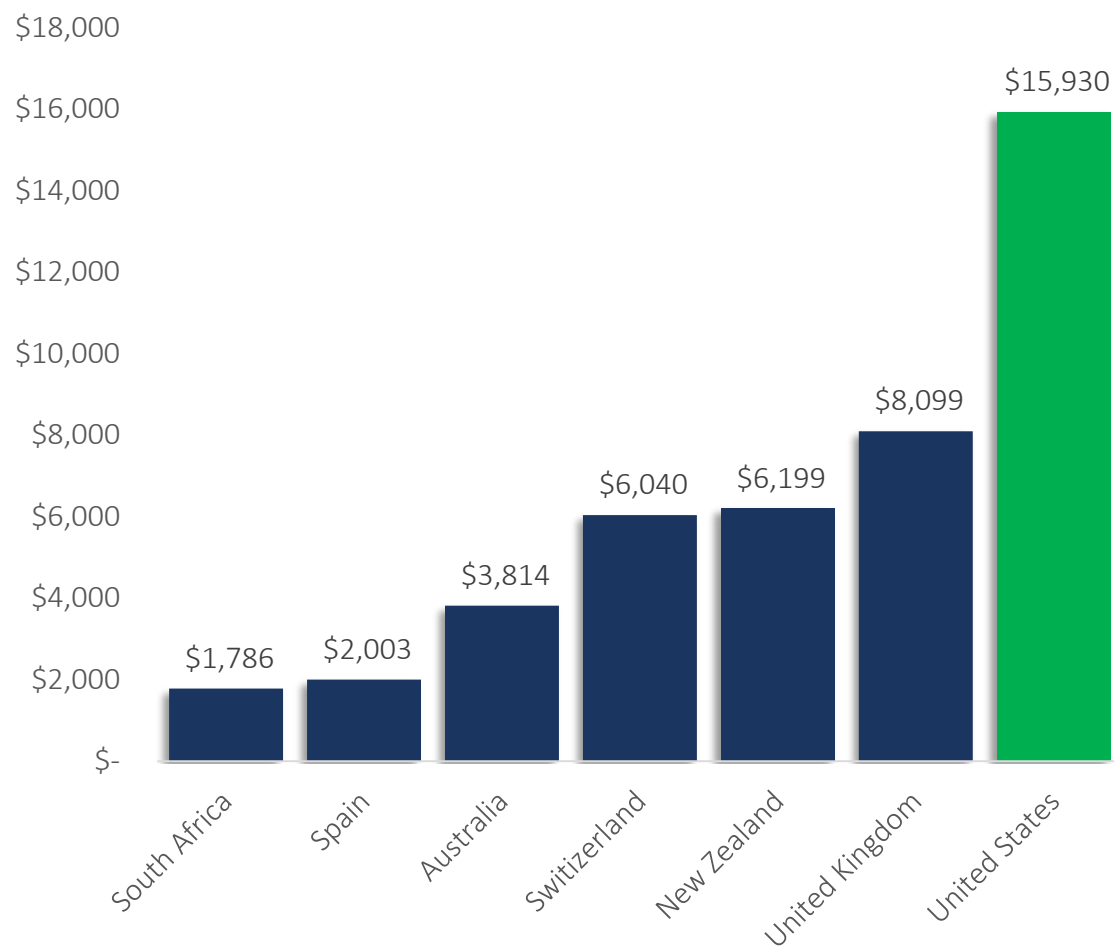


Source: OECD Health Data 2018.

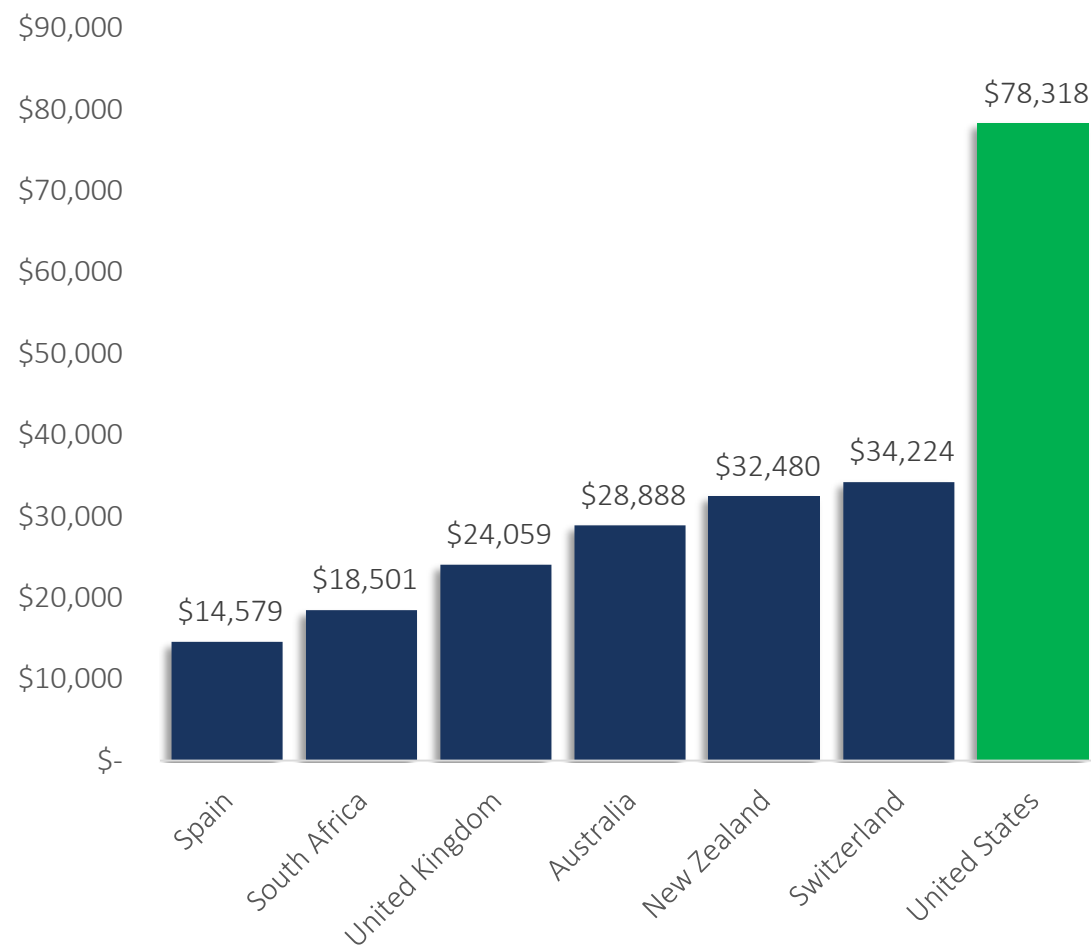
Based on most recent year's reported data for each country

Impact of Pricing: Procedures

Cost of Appendectomy, 2015



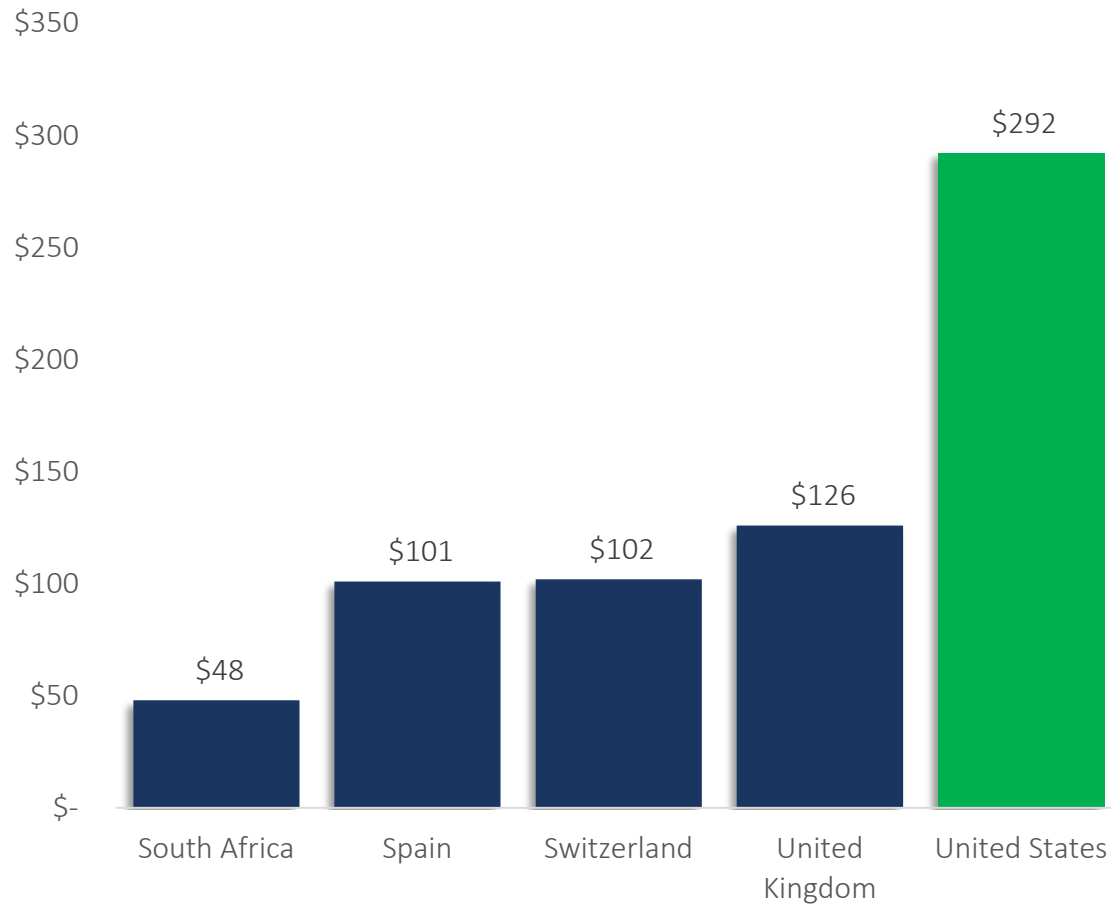
Cost of Bypass Surgery, 2015



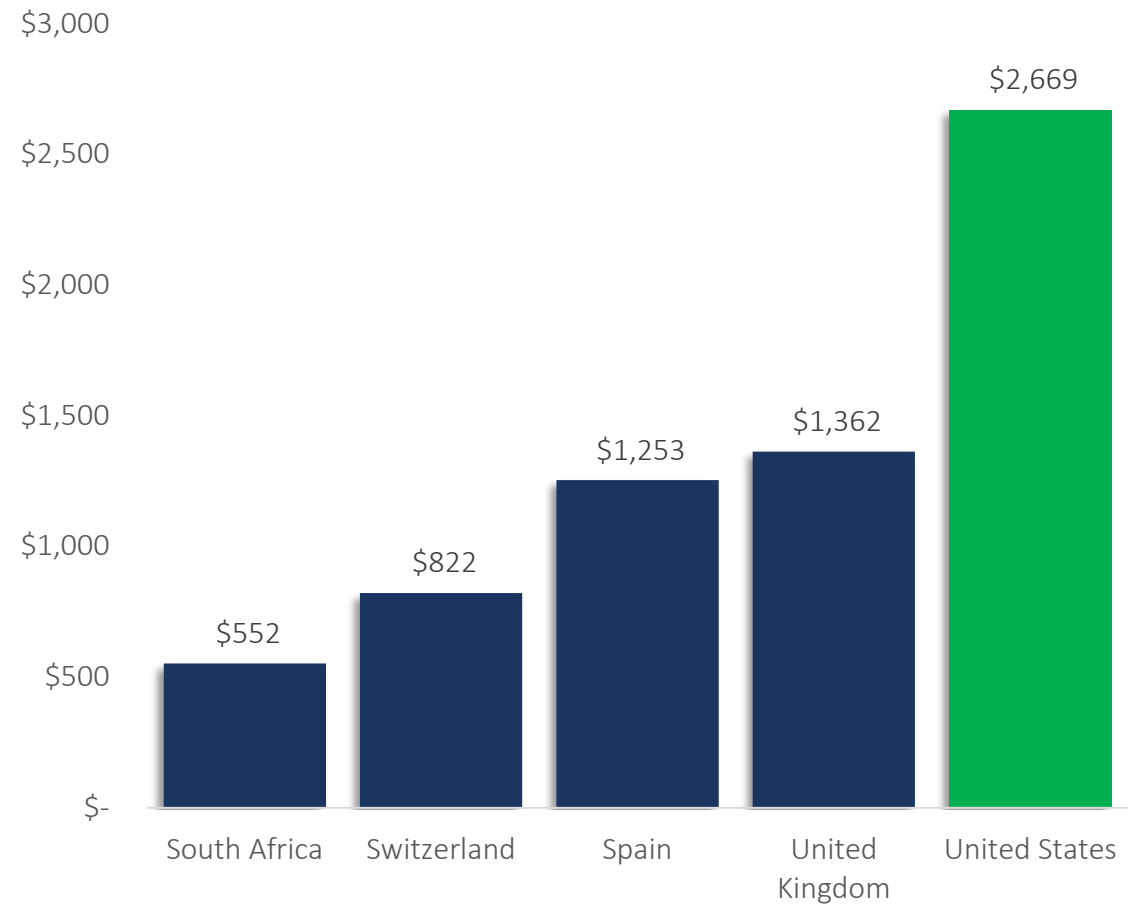
Notes: US refers to the commercial average.
Source: International Federation of Health Plans, 2015 Comparative Price Report.

Impact of Pricing: Drugs

Cost of Xarelto, 2015
Xarelto is used to prevent blood clots



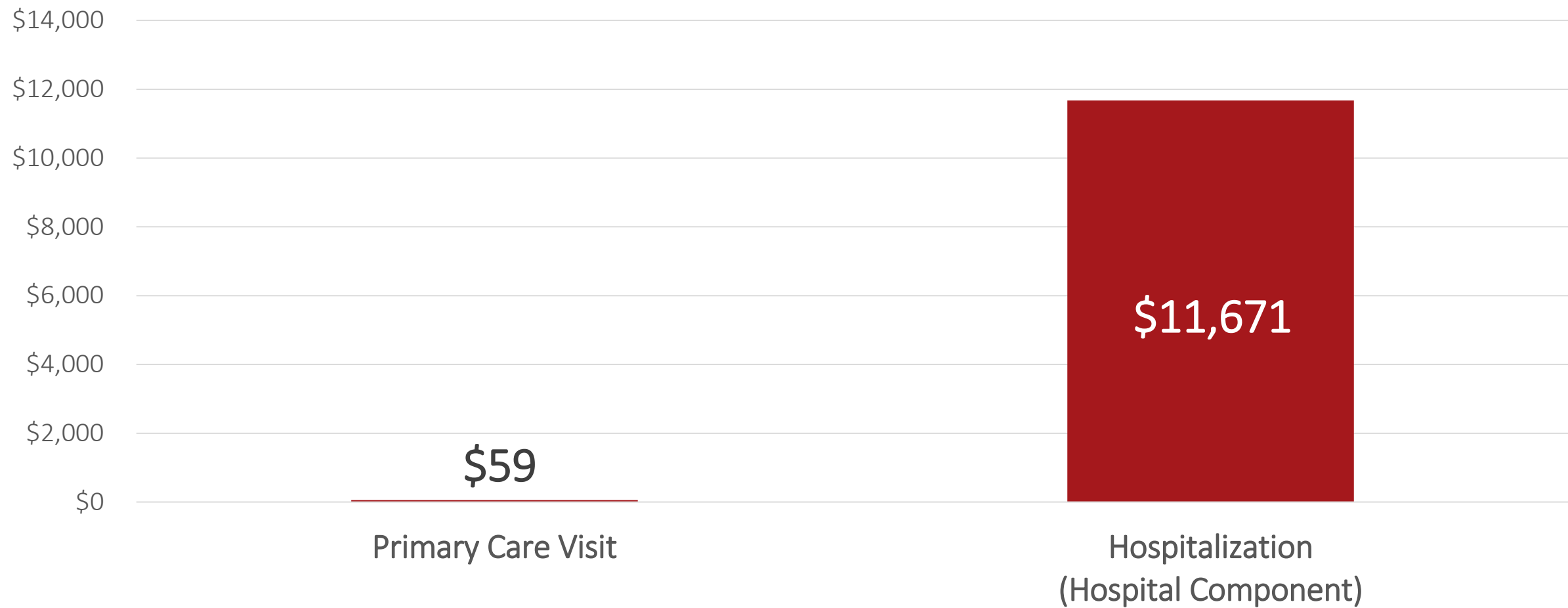
Cost of Humira, 2015
Humira is used to treat rheumatoid arthritis



Notes: US refers to the commercial average.
Source: International Federation of Health Plans, 2015 Comparative Price Report.

Pricing Drives Incentives

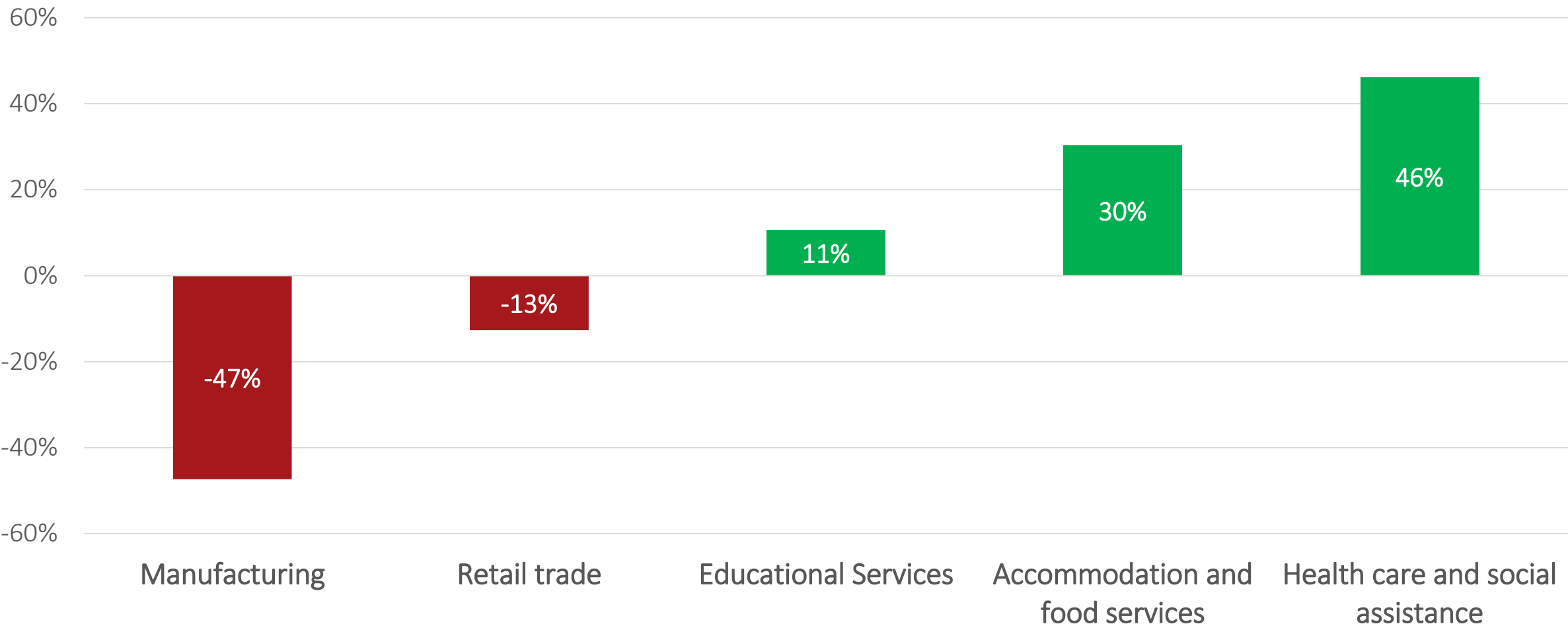
Average Medicare Payments, 2017



Source: Leavitt Partners Analysis of Medicare Claims Data

Healthcare and Jobs

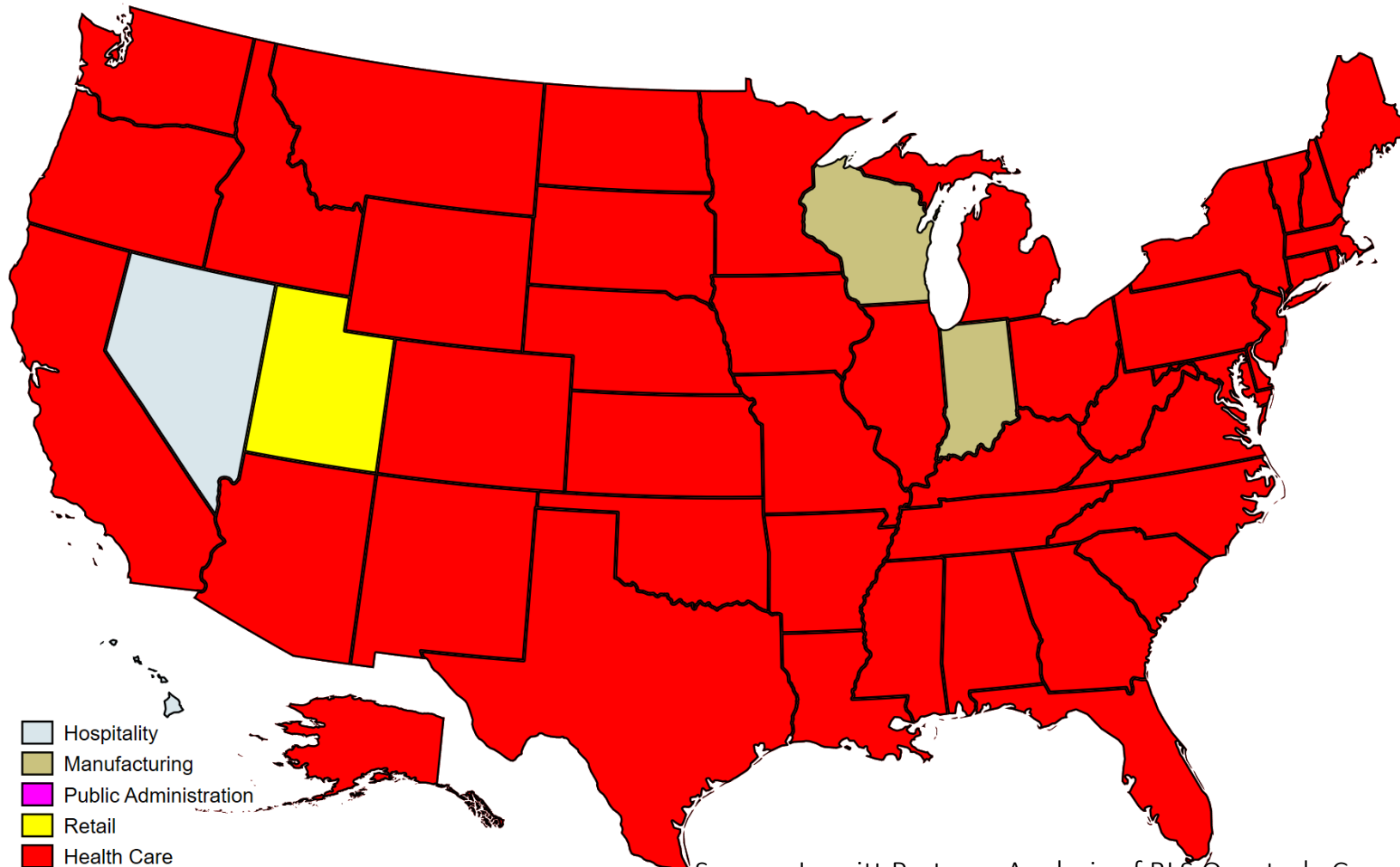
Change in Industry Employment, 1990-2018



Source: Leavitt Partners Analysis of BLS Quarterly Census of Employment and Wages
“Healthcare” is the NAICS segment that Includes healthcare and social assistance employment for government and private employers

Healthcare's Role in the Economy

Dominant Industry by State, 2018

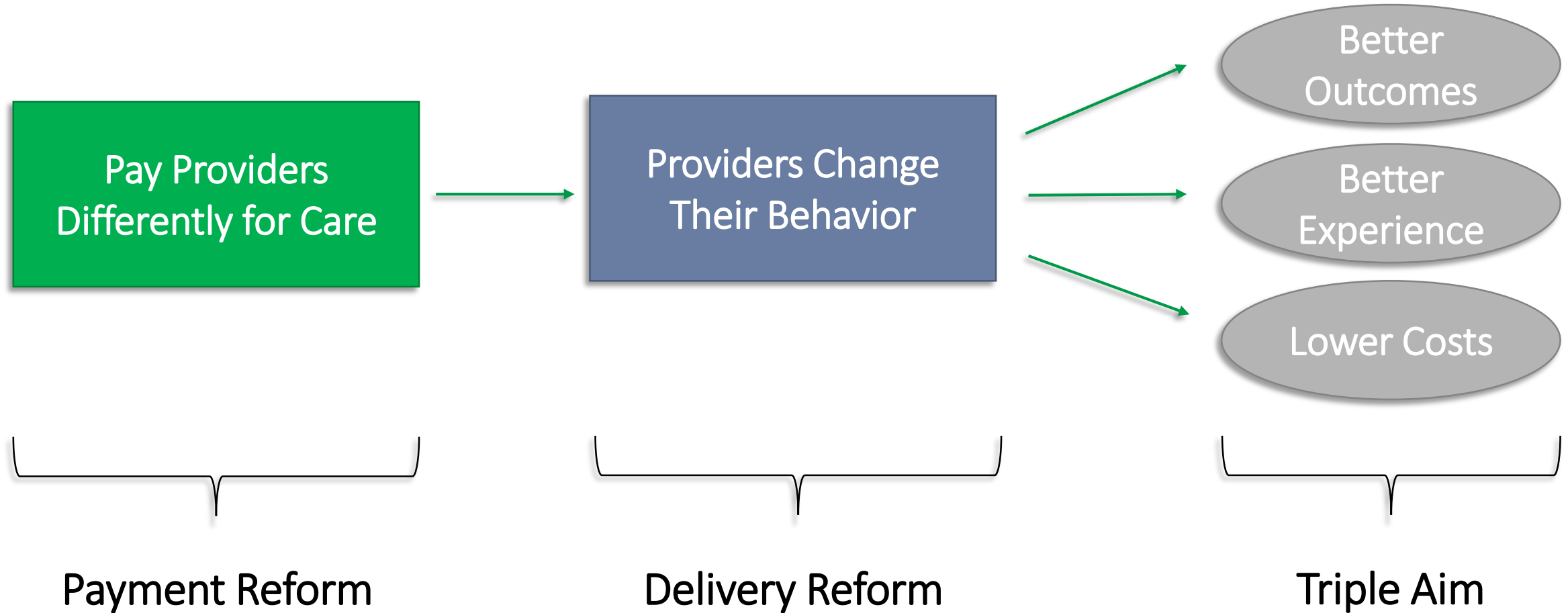


Source: Leavitt Partners Analysis of BLS Quarterly Census of Employment and Wages

“Health care” is the NAICS segment that includes healthcare and social assistance employment for government and private employers

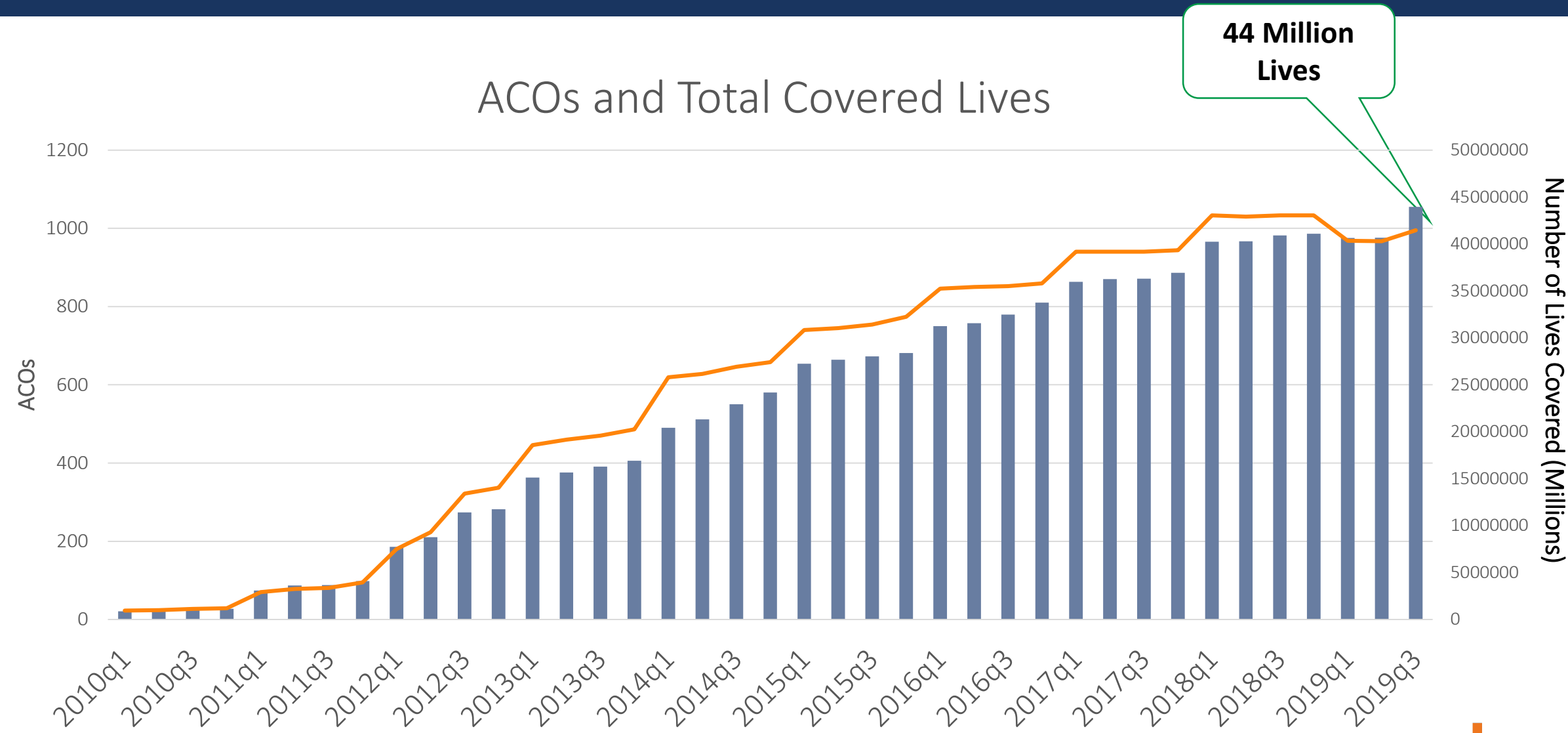
Value-Based Efforts

The Theory of Healthcare Reform



ACO Growth

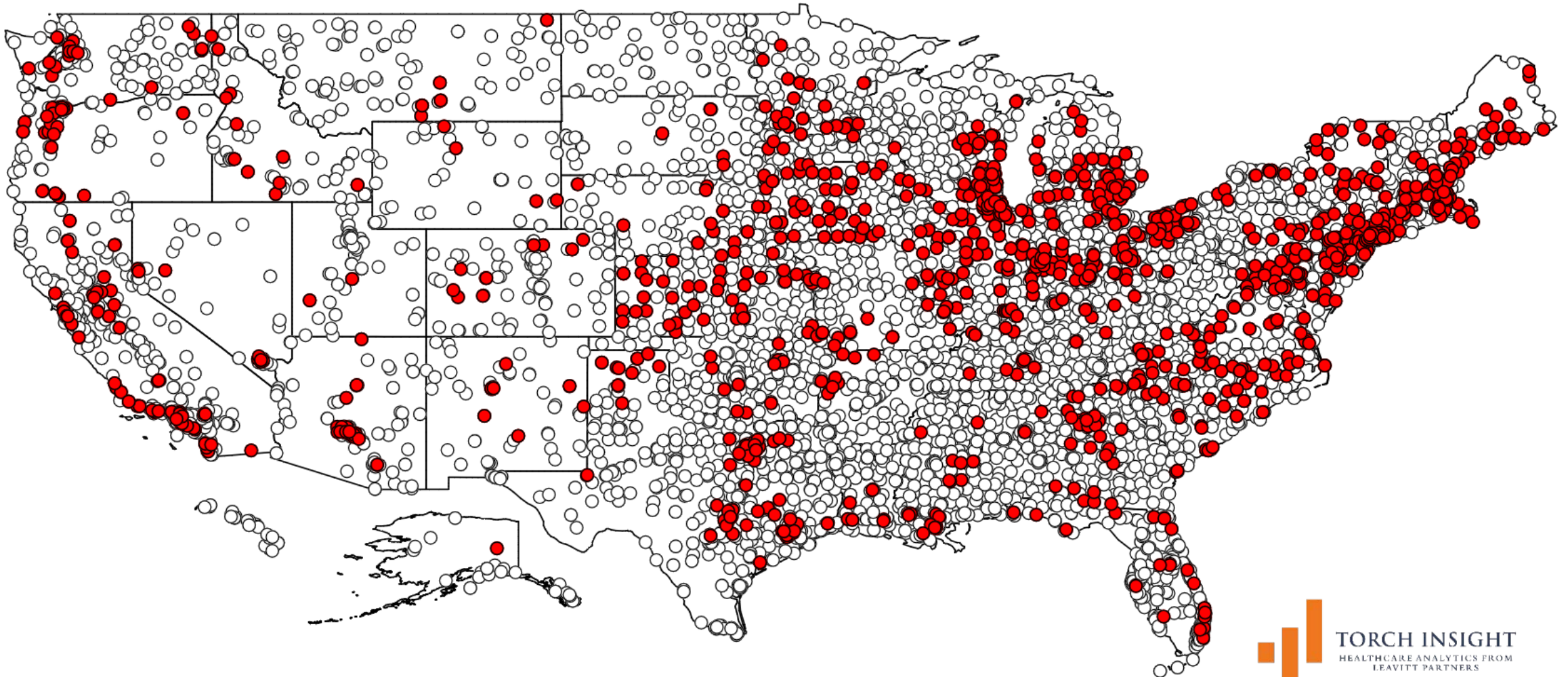
ACOs and Total Covered Lives



Source: Leavitt Partners and Torch Insight

Hospitals in ACOs Over Time

2018



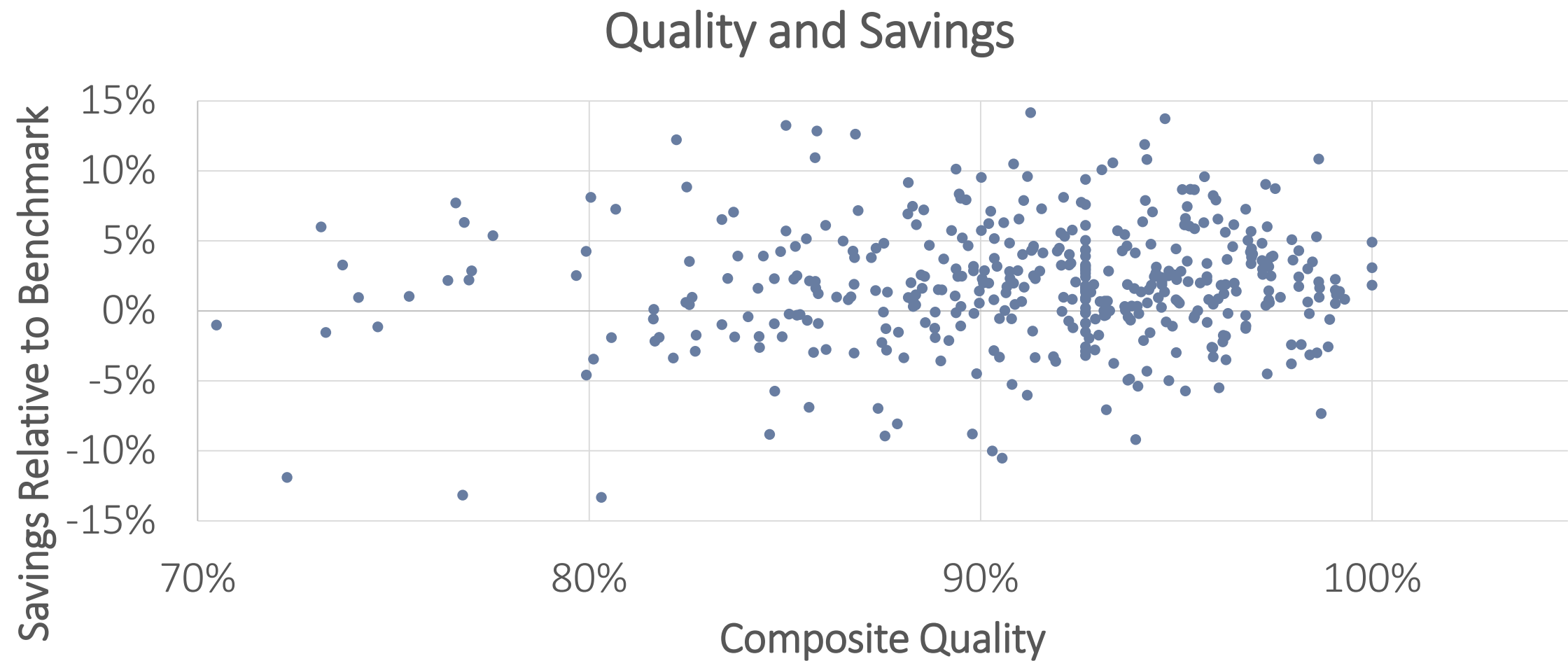
ACO Results - Experience

ACO Performance by Years of Experience



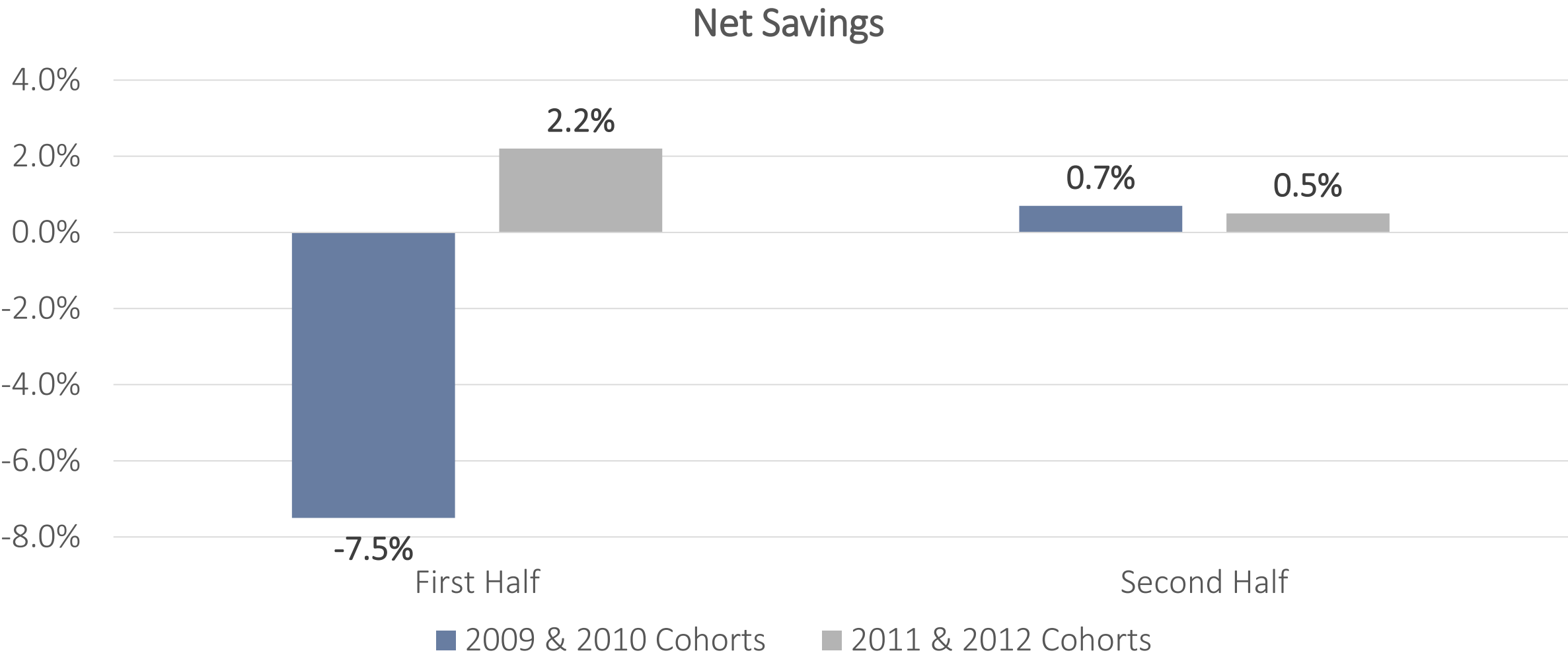
Leavitt Partners Analysis of 2018 Medicare Shared Savings Program Results.

MSSP Quality and Savings



Leavitt Partners Analysis of 2018 Medicare Shared Savings Program Results.

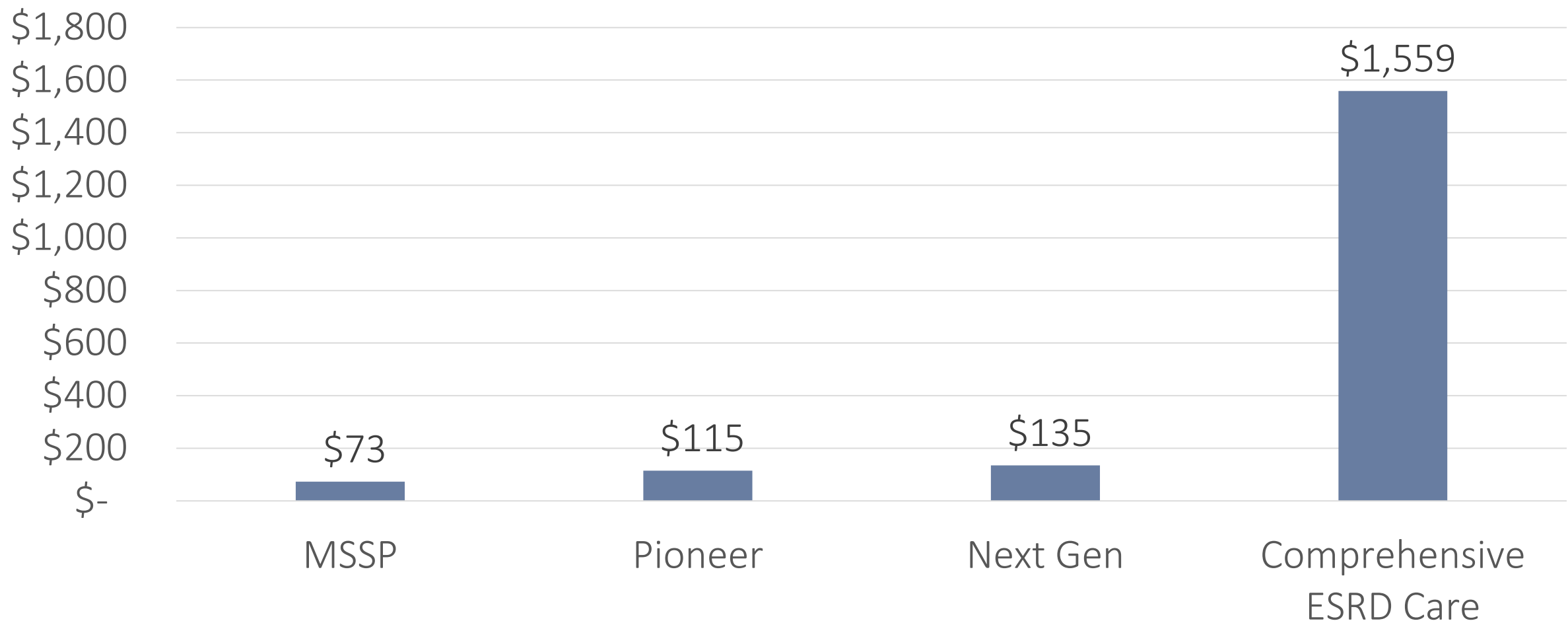
Massachusetts Alternative Quality Contract



See Song, et. Al., “Health Care Spending, Utilization, and Quality 8 Years into Global Payment”, NEJM July 2019, Table 2
Net savings calculated as adjusted average savings less incentive payments

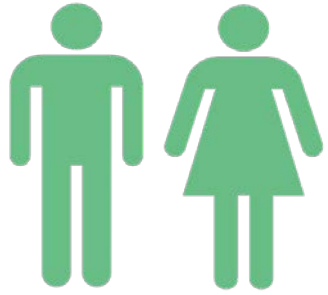
Most Recent Medicare ACO Program Results

Savings Per Beneficiary
Most Recent Year Available



Challenges and Opportunities

Framework To Managing a Population



Identify
Population Needs



Create
Intervention
Opportunities



Partner
Appropriately

Challenges to Success in ACO Arrangements

- 💡 Difficulty finding willing provider partners
- 💡 Inadequate clinical integration
- 💡 Accounting or financial tracking
- 💡 Misaligned quality requirements

💡 Cultural compatibility with value

- 💡 Lack of technology to support value-based care
- 💡 Lack of interest or misalignment of payers or purchasers to engage
- 💡 Difficulty securing reserves necessary for risk

Revising the Business Model

Capacity-Focused Approach

Business model:

1. Identify the best-paid services
2. Build capacity for those services
3. Fill that capacity



Needs-Based Approach

Business model:

1. Identify patients' needs
2. Build low-priced services to fulfill needs
3. Prevent high-cost care





Smart on Value

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