Competition and Strategies in Minnesota's Provider and Payer Markets

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Overview

- ACA gave a push to trends already in motion:
  - Consolidation of health plans, provider systems
  - Move to narrow networks, high deductible health plans
  - Renewed interest in hospital-owned health plans
- What is different about Minnesota? “We excel in recounting all the ways that we excel”

Presentation Outline -1

- Key health plan trends
  - Growth and profitability by line of business
  - Disruption in state programs
  - Transition from Medicare Cost plans
- Key provider system trends –focus on growth
  - Continued profitability with declining inpatient days
  - Significant capital investment
  - Further consolidation and expansion of market boundaries

Presentation Outline - 2

- Strategies of health plans
  - Focus on niche lines of business/growth opportunities
  - Narrow networks and risk-sharing
- Strategies of provider systems:
  - Consolidation, partnerships and convenient care
  - Focus on small clinics
  - Emergence of regional systems
  - Health insurance plans
- Outlook for 2017
  - Looking beyond the ACA coverage expansions – the big picture of likely changes

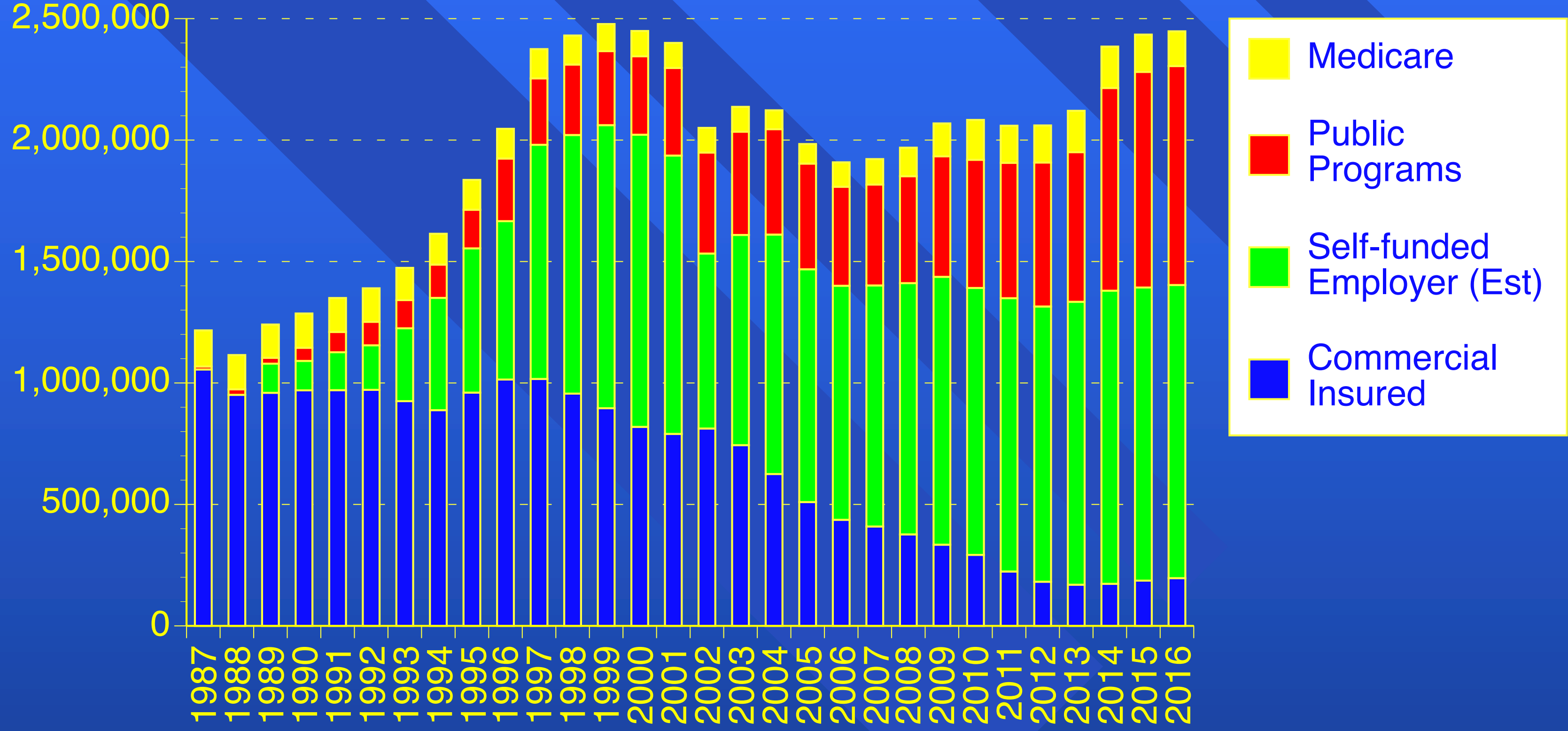
Health Plan Trends

- Growth, profitability by line of business
  - Evolution of Minnesota HMOs
  - Medicare Advantage and Cost plans
    - Transition for 2018: uncertainty and opportunity
  - Individual plans, narrow (or high performance) networks and risk-sharing
- State public programs
  - Administrative shortcomings – compare to Michigan
  - Impact of competitive bid

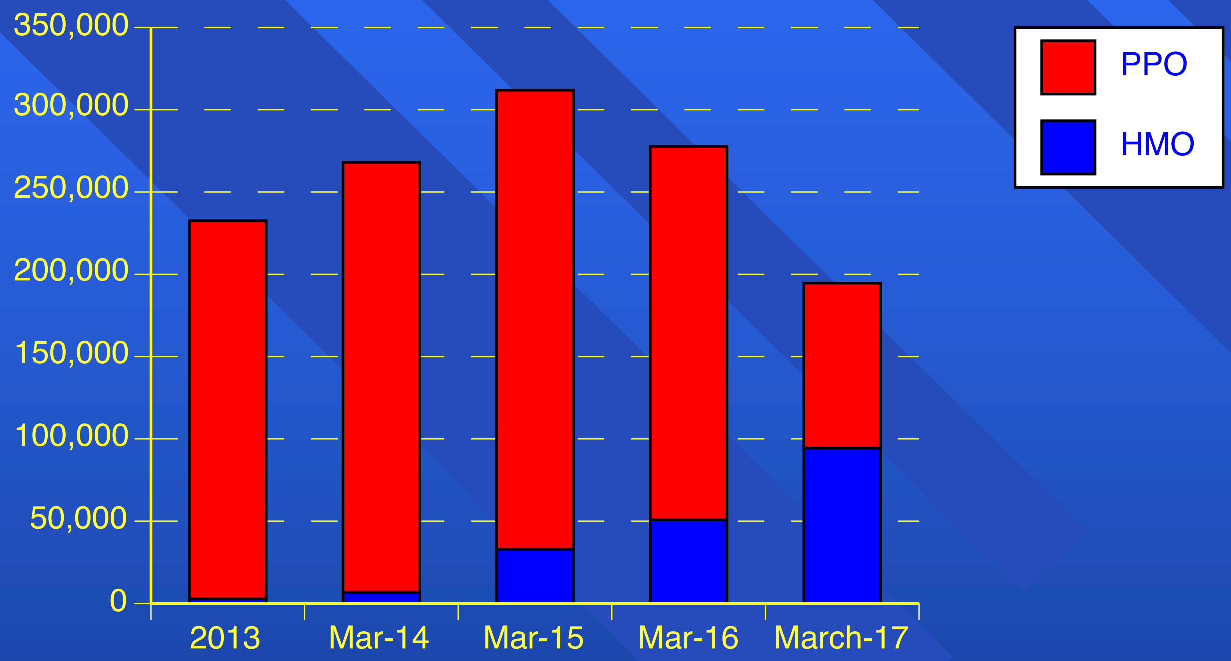
Health Plan Trends -2

- Decline of full risk capitation arrangements
  - Impact of limited risk contracts for Medicare
  - Incentives under commercial contracts
- Challenges of individual market – declining enrollment, even with rebates
- Role of national health plans:
  - Goal of new competition: Possible entry of national, for-profit HMO companies through new plans or acquisitions: what is the likelihood?

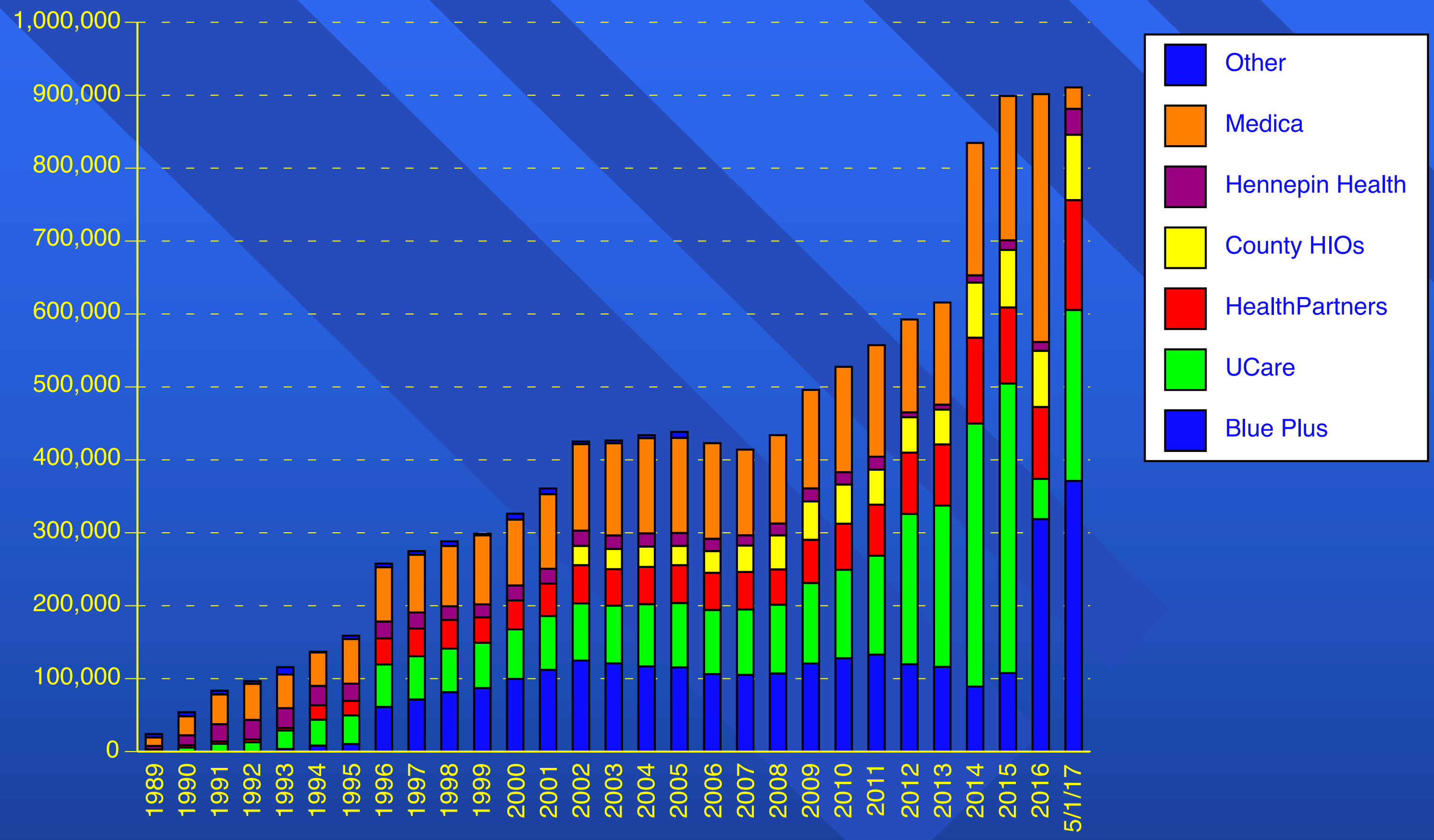
Health Plan Trends: HMO Enrollment, 1987-2016



Enrollment in Individual Plans, 2013-2017



Enrollment in Public Programs, 1989-2017



Provider System Trends

- Evolution of systems, market share
- Continued strong profitability
- Declining or flat inpatient utilization
- Expanding geographic reach, moving toward population health and risk-sharing; also covering bets for volume incentives

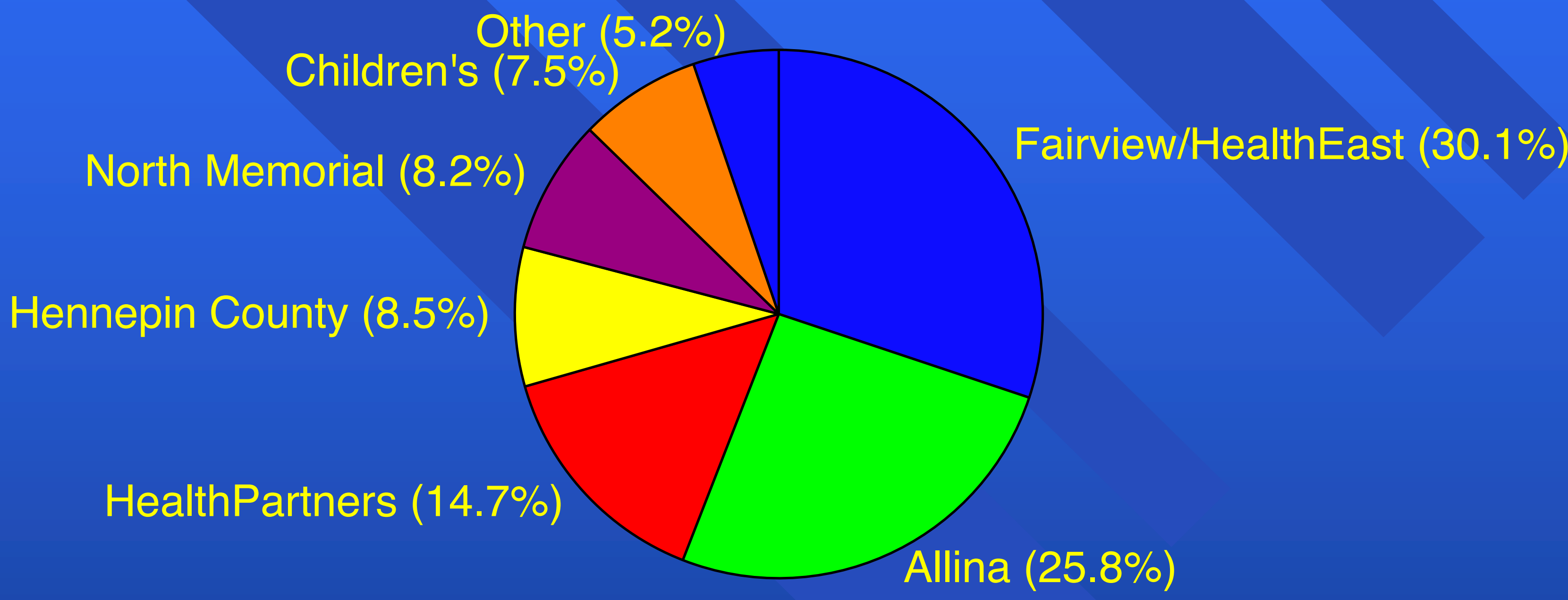
Largest Hospital Systems in Minnesota by Revenues

System	Net Patient Revenues	Net Income	Margin
Fairview/HealthEast	$3,115,066,513	$232,076,123	7.5%
Allina	$2,966,580,029	$272,337,613	9.2%
Mayo Clinic	$2,862,845,059	$504,702,663	17.6%
Sanford Health	$2,234,177,344	$275,393,591	12.3%
Essentia	$1,650,580,496	$109,305,794	6.6%
HealthPartners	$1,431,401,372	$35,864,005	2.5%
Avera	$1,064,566,699	$46,108,699	4.3%
CentraCare	$956,503,870	$184,882,103	19.3%
Hennepin Health	$831,624,000	$40,273,000	4.8%
North Memorial	$800,627,280	-$3,051,084	-0.4%
Children's	$730,224,727	$38,842,115	5.3%

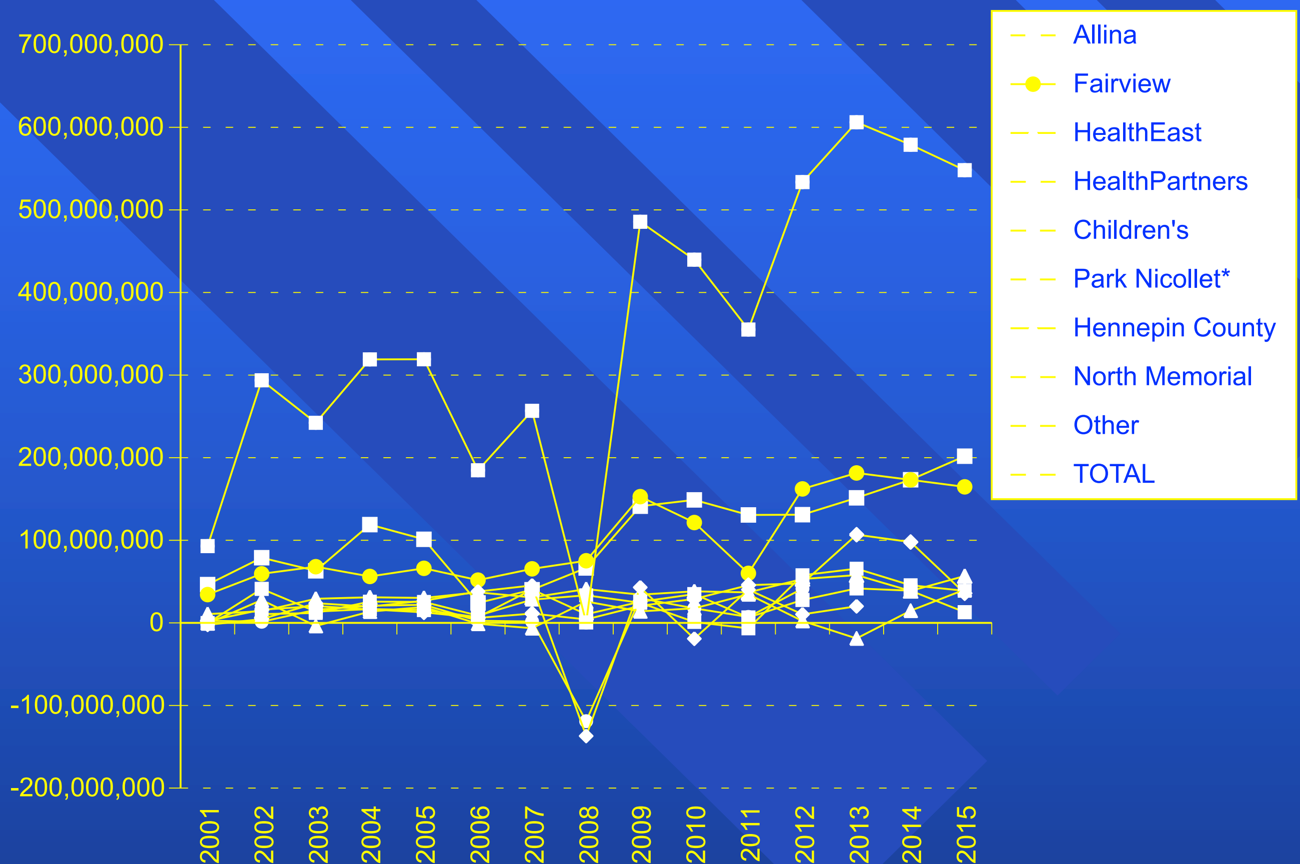
Largest Hospital Systems in Minnesota by Inpatient Days

System	Set Up Beds	Inpatient days	Occupancy
Fairview/HealthEast	1,888	471,098	68.5%
Allina	1,653	425,966	70.6%
Mayo Clinic	1,637	364,625	61.0%
Sanford Health	1,188	253,780	58.7%
Health Partners	944	225,118	65.9%
Essentia	890	177,099	56.2%
CentraCare	598	126,557	58.0%
Avera	523	124,027	65.0%
North Memorial	479	110,236	63.1%
Children's	411	101,111	73.5%
Hennepin Health	340	86,850	71.1%

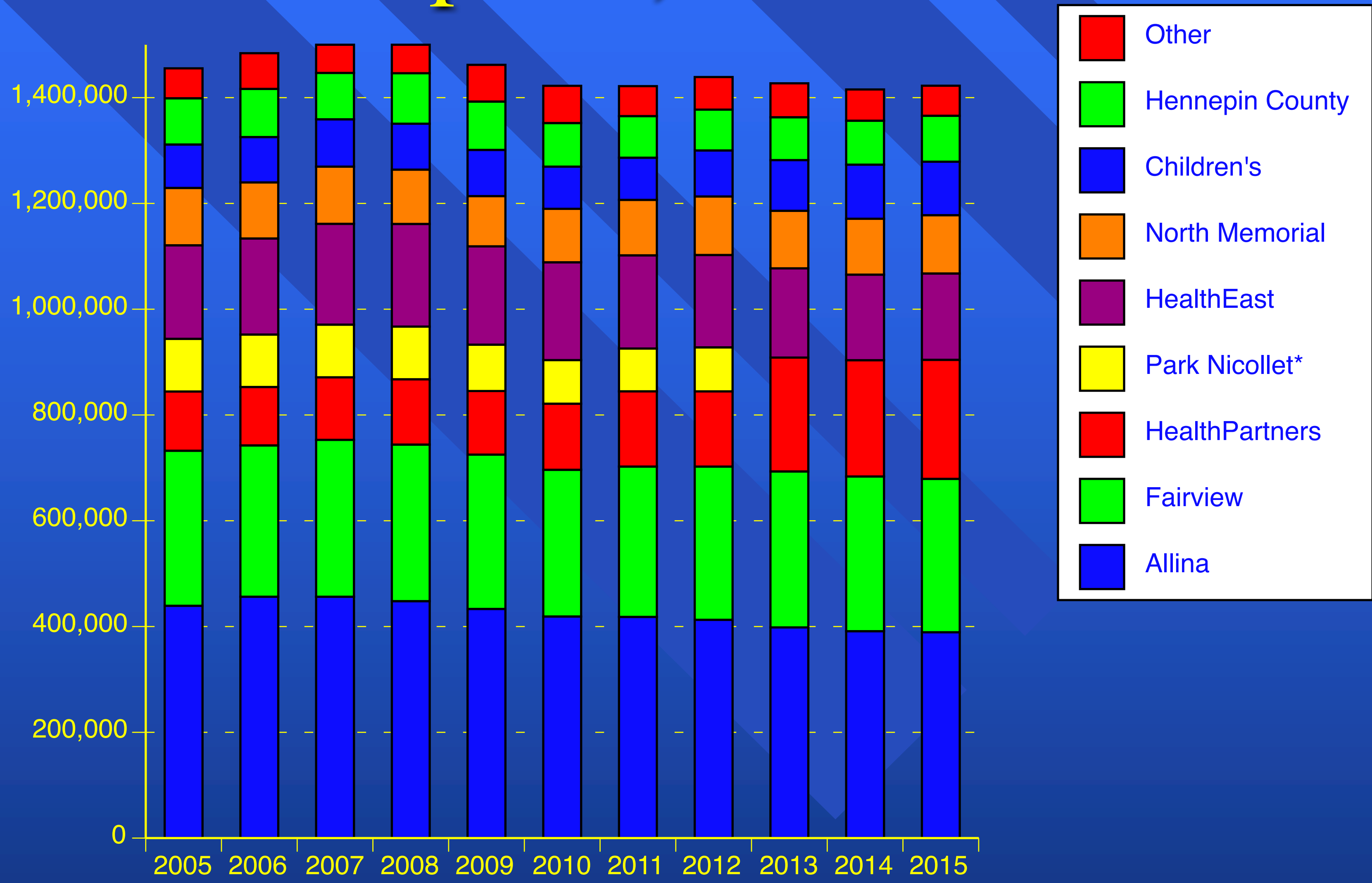
Twin Cities Hospital Market Share by Revenue, 2015



Net Income for Twin Cities Hospitals, 2001-2015



Inpatient Days in Twin Cities Hospitals, 2005-2015



Health Plan Strategies

- Limited networks, high deductible health plans
- Provider payment increases tied to performance, participation in primary care home models, care coordination
- Expansion of Medicaid plans into individual and small business
- Transition to Medicare Advantage

Provider System Strategies-1

- Expansion/Consolidation/Capital Investment; Going beyond traditional local market boundaries
  - Impact of Fairview/HealthEast merger
  - Case of HealthPartners - UnityPoint
  - Challenge for independent hospitals – recent examples of Grand Itasca, District One
- Convenient care – retail, urgent care and free-standing emergency departments

Provider System Strategies - 2

- Moving toward population health and Triple Aim; preparing for increased performance-based payment and risk sharing while also covering bets for volume incentives
- Strategic partnerships – Clinically integrated networks – do they add value?
- National networks: Mayo, Cleveland Clinic, MD Anderson

Provider System Strategies 3

- Clinically integrated networks: Where is the extra value?
- Accountable Care Organizations
- Insurance plans – what is the outlook for provider-sponsored health plans?
- Look at largest provider systems and their strategies: Fairview, HealthPartners, Allina
- Transition for Medicare Cost to full-risk: new opportunities for providers?

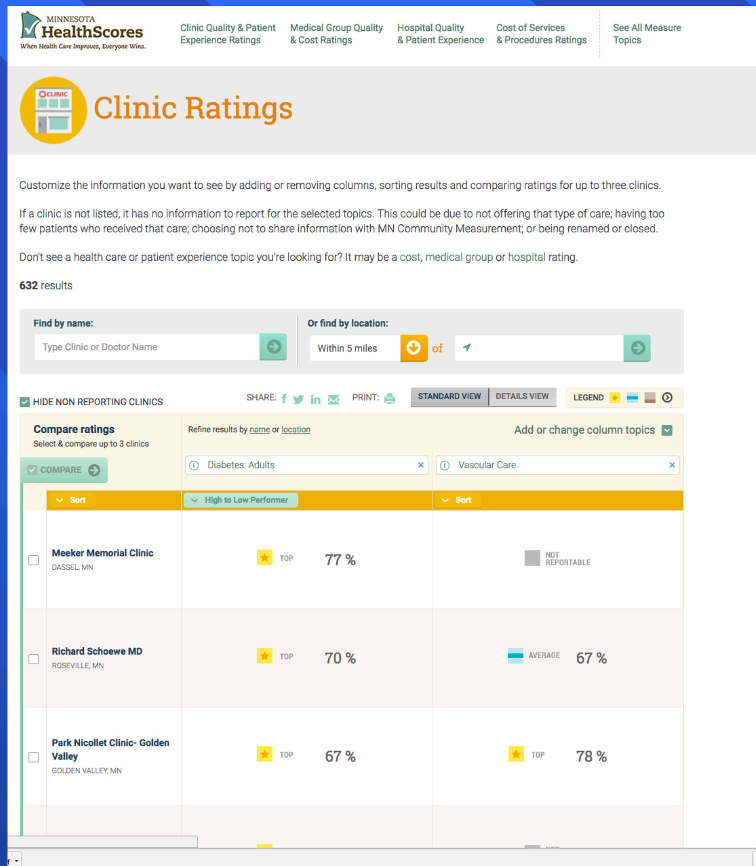
Provider Payment Trends

- Most payment still tied to discounted fee-for-service – rewarding volume
- CMS goal: 50% of Medicare payments based on quality by 2018. MACRA pushes movement to alternative payment methods
- UnitedHealthcare goal: increase payments tied to value to $65 billion in 2018
- What is actually happening for commercial insurance?

Provider System Strategies 4: Smaller Clinics

- Impact of MACRA, general trend toward performance-based payment
- Participation in data reporting on quality and cost measures
- Impact of trends toward narrow networks, high deductible plans

Solo Practitioners With Highest Diabetes Care Ratings



Outlook

- Continued consolidation and partnerships for both health plans and provider systems
- Impact of Republican bills – look beyond reversing ACA coverage expansions to:
  - Undoing Medicaid expansion, slashing $$
  - Loss of group consumer protections
  - Medicare ACOs, bundled payments
  - Medicare change to premium support
  - Medicaid block grants to states

For Additional Information

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