

Ohio Health Market Review: Health Plan and Provider Strategies

Web Seminar for:
Health Action Council
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Presentation Outline

- ❖ Introduction: Approach to local market analysis
- ❖ Trends for health plans and provider systems
- ❖ ACA implementation and impact
 - ✓ Benefit and network design
 - ✓ Coverage expansions
- ❖ Provider strategies: mergers and strategic partnerships
- ❖ Purchaser strategies: responding to health reform and provider market power

Overview:

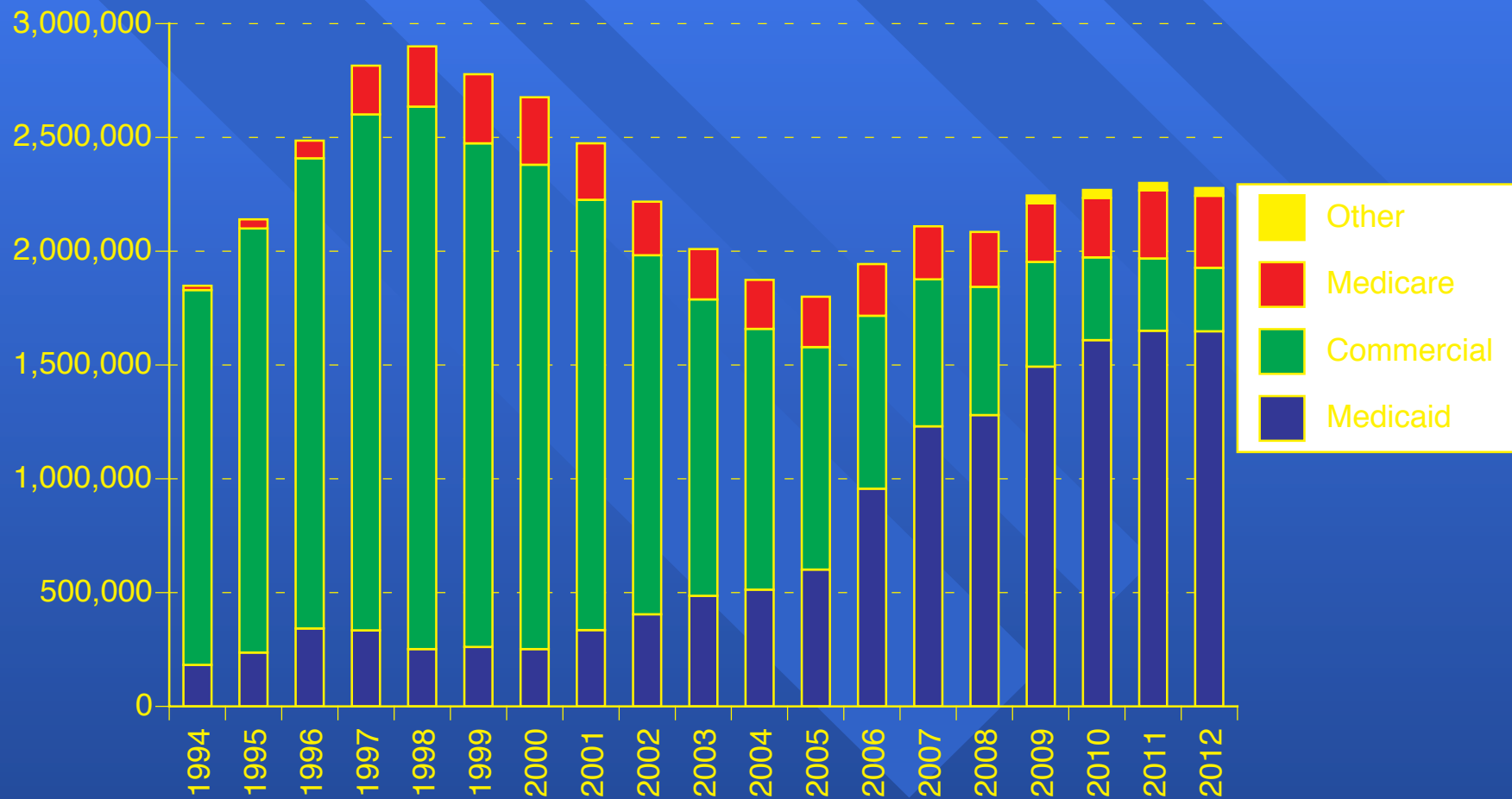
Analyzing Local Markets

- ❖ Health reform a key force: national initiatives implemented in local markets
- ❖ Pay attention to the big picture – the secondary impacts
- ❖ Ask: what trends started before the ACA?
What other forces are driving changes?
Examples: provider consolidation, high deductible health plans, limited networks

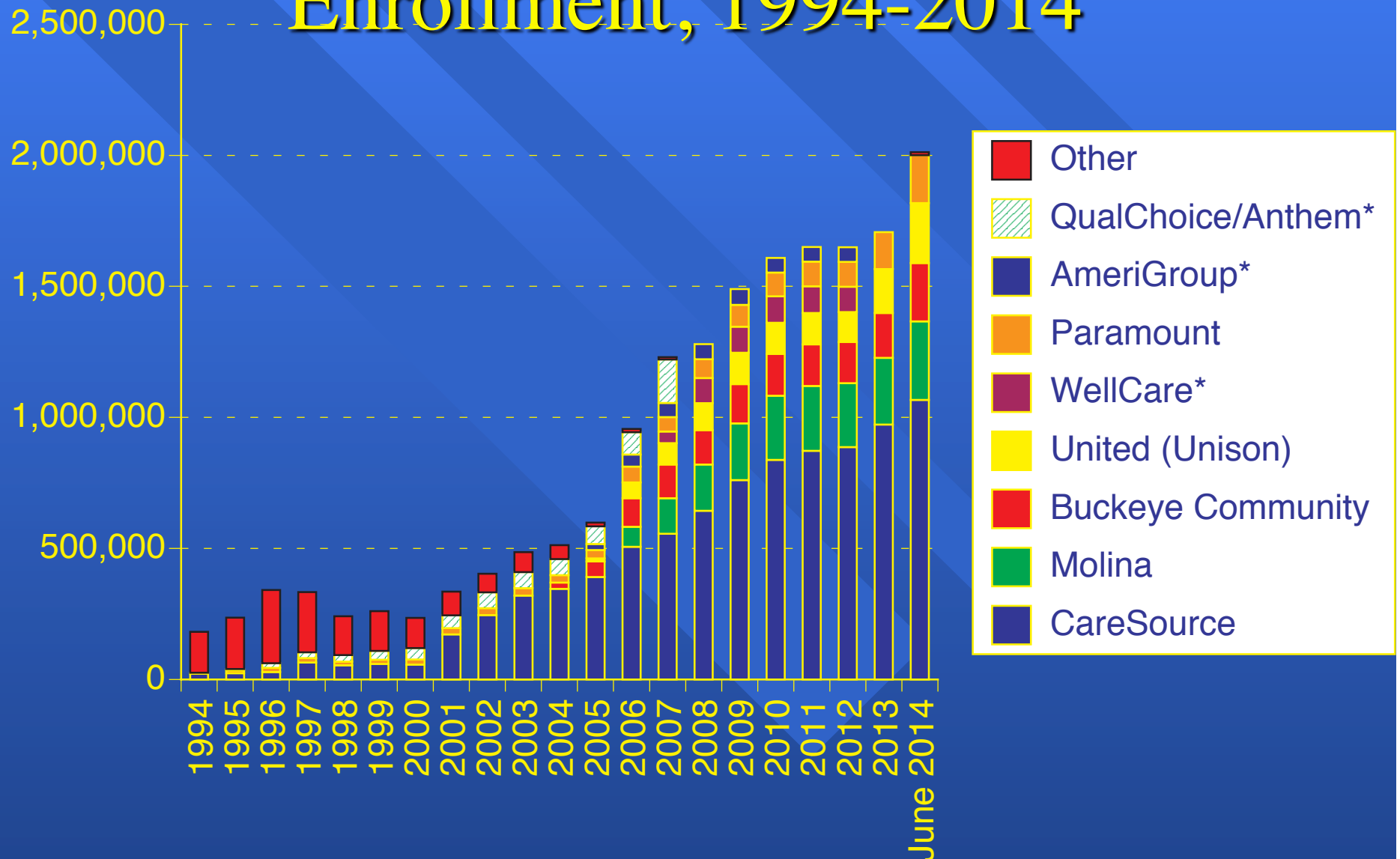
Health Plan Trends

- ❖ Most employers have left HMOs. New benefit plans, such as HDHP/HSA plans, are sold outside of HMOs
- ❖ Niche markets for Medicaid and Medicare Advantage and Medicaid are increasingly important and growth areas
- ❖ Provider-sponsored HMOs go and come – Ohio examples

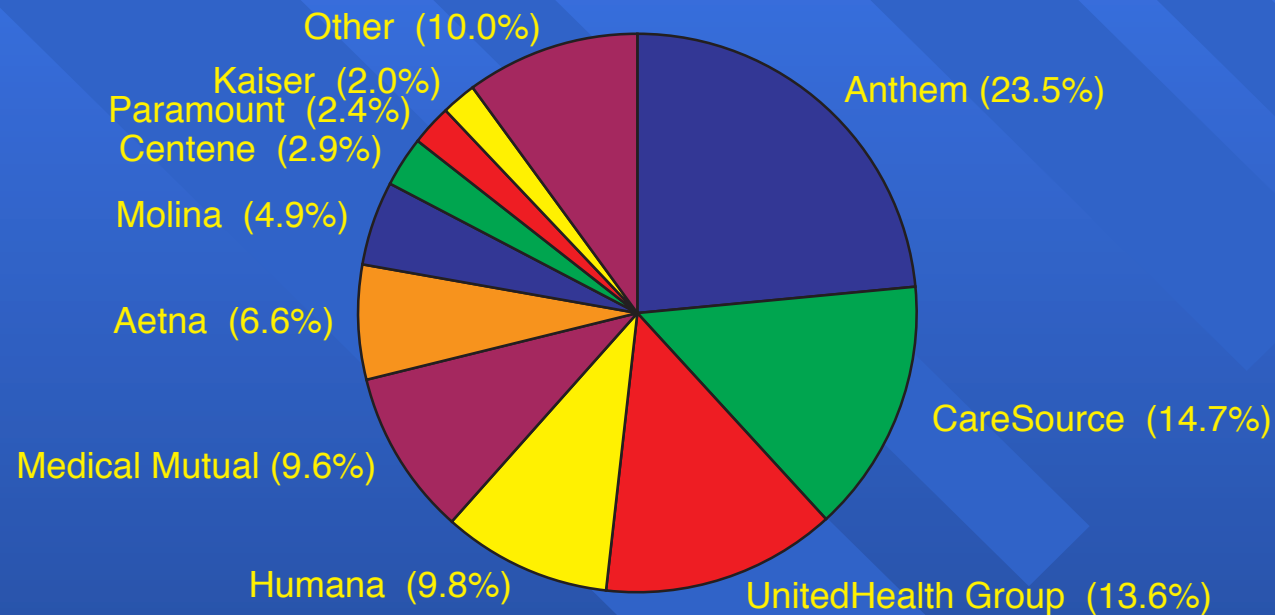
Ohio HMO Enrollment, 1987-2012



Medicaid Managed Care Enrollment, 1994-2014



Market Share of Health Insurers in Ohio, 2012



Based on \$25.035 billion in 2012 health premiums

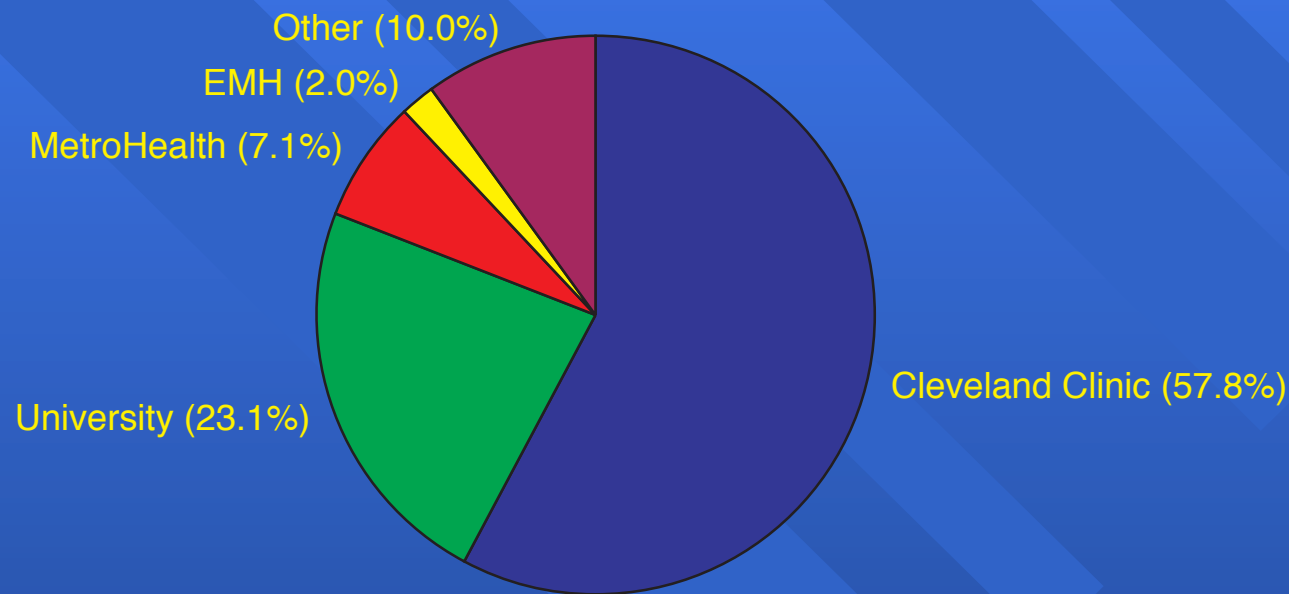
Outlook for Health Plans

- ❖ Prospects for growth and profits in:
 - Public programs, including Medicaid expansions and dual eligibles
 - Medicare, as population ages and looks at options
 - Commercial plans through Healthcare.gov and other sales channels
 - New entrants: Co-operatives, Medicaid plans

Trends for Provider Groups

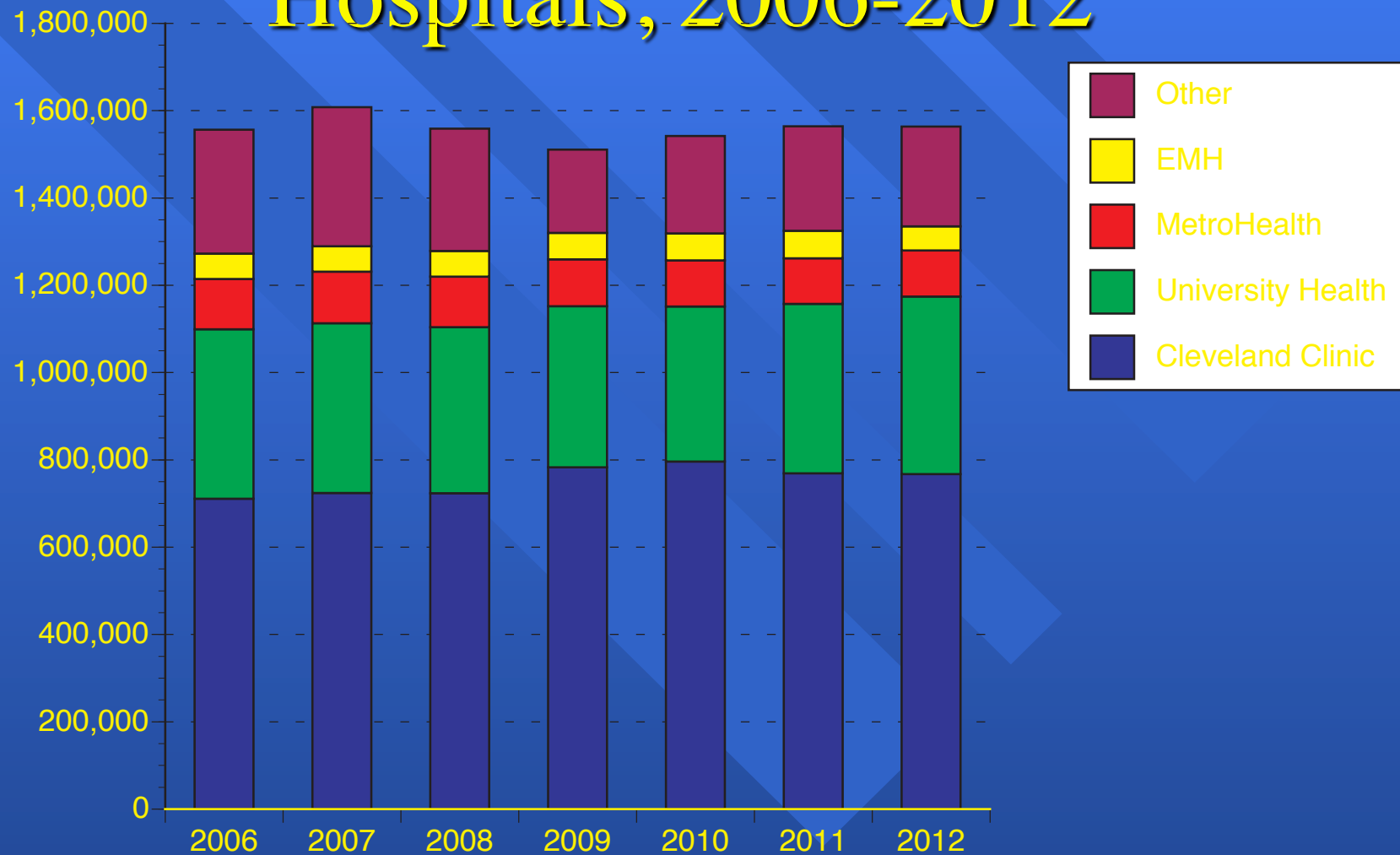
- ❖ Strong hospital profitability, continued high level of capital investment
- ❖ Significant consolidation through mergers and acquisition and vertical integration, to the point where antitrust alarms go off

Market Share for Cleveland-Area Hospital Systems, 2012



Based on \$9.346 billion in net patient revenues

Inpatient Days for Cleveland Area Hospitals, 2006-2012



Hospital Systems Prosper, But Face Risks

- ❖ System consolidation and growth results in better payment terms and higher profitability – “must have hospitals” -- which, in turn, finances enormous construction programs.
- ❖ New stage of system building - adding hospitals to extend geographic reach and specialty centers to compete with entrepreneurs and to cement ties with star physicians. How much capacity is needed?

ACA Implementation and Impact

- ❖ Medicaid expansion
- ❖ Growth of individual plans
- ❖ New entrants
- ❖ Benefit and network design

Medicaid Expansion

- ❖ Eligibility expansion under ACA; what's unique about Ohio? Note growth in enrollment even before expansion approved
- ❖ Shift of aged and disabled to managed care plans (now about 170k)
- ❖ MyCare Ohio for dual eligibles – now above 100K enrollees in health plans

Growth of Individual Market

- ❖ Individual enrollment grew by about 30% - now above 350,000
- ❖ Largest insurers for individuals: Anthem Blue Cross Blue Shield and Medical Mutual
- ❖ Largest gainers in 2014: CareSource and Medical Health Insuring

Exchange Results

- ❖ Open enrollment results for 2014:
 - 155K out of 286K eligible selected a plan; 19% under target
- ❖ Premiums, benefit design and network design
 - Use of limited provider networks
 - High deductibles – issues for providers

Exchange Outlook

- ❖ New entrants for 2015: Assurant, Coordinated Health (InHealth co-operative), Premier and UnitedHealthcare. Prospects for new entrants?
- ❖ Premium trend for 2015: two analyses
 - Department of Insurance: large increases
 - Kaiser Health Foundation: small decreases

Growth of Ohio Provider Systems: Examples

- ❖ In Cleveland area – Cleveland Clinic and University Hospital control 80% of the market
- ❖ In Toledo area – ProMedica controls more than 60% of hospital market
- ❖ Columbus – 4 large, more balanced systems, with Ohio Health extending its reach well beyond.

Large Provider Systems = Market Power

- ❖ Pro arguments: Larger systems can increase quality of care, lower costs, eliminate duplication. Brings investment in IT and medical equipment to struggling hospitals
- ❖ Con arguments: increased prices to insurers, purchasers, consumers because of less competition. Promises of improved quality need to be supported

Goals of Traditional M&A

- ❖ Greater leverage in payer negotiations
- ❖ Spread investments in IT over larger patient base
- ❖ Establish hub and spokes, encouraging doctors to send their patients for specialty care

Provider Consolidation and Partnership: New Strategies

- ❖ National affiliations, and co-branding: examples of Mayo Clinic Care System and Cleveland Clinic (Community Health System partnerships for cardiac care)
- ❖ Formation of state networks, through ownership (Ohio, Colorado, Texas) or alliance (Michigan Ascension-Trinity)

Key Shifts

❖ Erosion of traditional boundaries:

- What is a local geographic market for health care? Emergence of statewide systems, entry into other (distant) states
- Sector lines – for-profit and non-profit and hybrid organizations, such as Cleveland Clinic/Community Health Systems, Ascension Health and equity funds. Goal to acquire hospitals and operate as for-profits

Strategic Partnerships Example: Mayo Clinic Care Network

- ❖ More than 15 partnerships, almost all with hospital in mid-sized markets (St. Elizabeth in Covington, KY; Sparrow in Lansing)
- ❖ Elements of strategy:
 - Conserve capital while growing geographic reach
 - Provide value to local partner while blocking competitors like Sanford, Cleveland Clinic
 - Avoid antitrust and other regulatory issues

ACOs as Partnerships

- ❖ Goal: replace a quest for volume with a quest for value – apply to Medicare, other payers
- ❖ 6 Medicare Shared Savings ACOs in Ohio, including ProMedica Physicians, University Hospitals, Summa
- ❖ Challenge of aligning incentives across partners: hospitals and physicians

Purchaser Strategies: Responding to Provider Market Power

- ❖ Reference pricing: limit insurance benefit to average of local provider prices. What result? See *Health Affairs*: <http://content.healthaffairs.org/content/32/8/1392.abstract>
- ❖ Benefit and network design
- ❖ Transparency of cost and quality: calculators, premium designation, other tools. Lessons learned from exchange plan pricing

Purchaser Strategies

- ❖ Antitrust enforcement as a tool to curb power of dominant local providers
- ❖ Direct contracting with providers

Summing Up: Opportunities and Risks

❖ Risks to providers

- ✓ Mismatch of new capacity and declining inpatient care
- ✓ Pressure to change to different payment models
- ✓ Challenge of narrow networks

❖ Reform creates possible opportunities and risks

- ✓ Exchange and Medicaid expansion presents business opportunity for health insurers and providers - in five years – a million new, government-subsidized enrollees, with significant new dollars coming to safety net providers

Conclusions/Comments

- ❖ Need to think outside the box about reform
- ❖ Will there be fundamental changes in payment, provider organizations strategies?
- ❖ Will purchasers and consumers have tools and leverage to be effective shoppers and decision makers?

For Additional Information

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