The Future of Healthcare

National Cooperative Rx

Helping Members Through the Politics of Reform

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Chief Risk Management Officer

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Anchorage, AK
Goals of Presentation

Review 4 Elements of Change...
- Insurance Market Revolution
- The Affordable Care Act Continues...in Crisis Mode?
- Medical Innovation
- Election Results
Insurance Market Revolution

- Insurance Market Consolidation
- Consumer Role in Driving Change
- Emergence of Value-Based Reimbursement Systems
Insurance Market Consolidation: Major Shifts Continue
Insurance Market Consolidation

Three possible mergers currently under review
Predicted Effects of Insurance Consolidation

Increase in Insurance Concentration

Increase in Medicare Advantage Concentration

Source: Leavitt Partners Internal Resources
Potential Implications of Enhanced Payer Market Power

- Lower product costs and increase coverage value?
- Leverage providers to bear greater risk?
- Spark additional payer consolidation?
- Spark additional provider consolidation?
Consumers Driving Change: Lessons Learned from Public Insurance Exchanges
Individual consumers are price sensitive, willing to trade narrower networks for lower monthly premiums.

Enhanced decision support tools and greater transparency will play an increasingly important role in facilitating purchasing decisions.
Predict increasing use of public health insurance exchanges

Economic pressures and other factors will lead to an increase of those who get insurance through public health insurance exchanges

Source: Leavitt Partners Internal Resources
Consumers Are Price Sensitive When Choosing Plans

Effect of Plan Price on Enrollment

Internal reporting shows that increase in price leads to a decrease in market share

Source: Leavitt Partners Center for Health Insurance Exchanges Intelligence
Value-Based Reimbursement Systems: Transition Away from Traditional Fee-for-Service
Today's Headlines

- Transforming payment models have been driven by many stakeholders throughout the industry, not just from CMS.
- Accountable care models continue to expand, however growth has not been consistent across all markets.
- The end result of payment reform has not been determined; many differing approaches are being tested.
- Creative strategies are being adopted to reduce health care cost, beyond basic management & coordination tactics.
- Significant regulatory activity is often unlikely in an election year; the next President will have direct impact on policy trends.
Progression of Payment Arrangements

Population-Based:

- FFS
- Care Management
- P4P
- Shared Savings
- Shared Savings/Losses
- Partial Capitation
- Full Capitation

Episode-Based:

- Usual & Customary
- Fee Schedule
- Prospective Payments
- Bundled Payments

Increasing Risk
Overall Trajectory

ACO Growth and Contract Growth

Source: Leavitt Partners Center for Accountable Care Intelligence
HEALTH CARE TRANSFORMATION TASK FORCE

75% of all business activity will be in alternative payment model contracts with triple aim goals by 2020

Patients, Payers, Providers and Purchasers: Committed to Better Value Now
The Affordable Care Act Continues...in Crisis Mode?

- Delays in Cadillac and Medical Device Taxes
- Sustainability of the Insurance Marketplace
- Litigation & the ACA
Delay the Cadillac Tax

- Delayed until 2020, shifting opportunity for full repeal to the next Administration
- Originally only applicable to high-end plans
- 40% tax will be imposed on modest plans as well as employer-sponsored coverage
- Could it be the “tipping point” away from employer-sponsored healthcare?

The Cadillac Tax could have a greater impact than initially projected for employer-based coverage
Delay the Medical Device Tax

- 2.3 percent tax on medical devices delayed until 2020
- Proponents of tax say it would be a loss of more than $30 billion dollars in revenue needed for health funding
- Though it appears to be a minor loss, HHS warns that the tax would widen the deficit and be difficult to offset

Litigation and the ACA...

- It continues...
  - Challenges to contraception carve-outs
  - Challenges based on ‘rate increases’
- With increasing recognition that challenging already-implemented *programs* is far more disruptive than reversing *policies*
Medical Innovation:

- Congress Considers Drug Pricing
- Incentivizing Innovation
- Reauthorization of FDA User Fees
- Precision Medicine
Drug Pricing:
Sufficient Common Pain?
Rising Drug CPI

Source: CED, 2016
Congress Considers Drug Pricing

Pressures

• Recent price spikes from some pharmaceutical companies
• Rising healthcare spend
• Drug share of total health spend is increasing

Solutions Under Debate

• Implement risk-based contracting
• Importation
• Permit government to negotiate prices
• Compounding
• Reduce time to approve generic drug
• Social impact bonds
• Increase price transparency
• Revise incentives to use higher-cost products
Congress and the FDA Agenda

- 21st Century Cures
- User Fee Reauthorization
Congress Debates Drug Innovation

- House passed ‘21st Century Cures’ bill
  - Amalgam of FDA ‘fixes’, NIH funding and payment revisions
- Senate companion bill is on a slower path...
  - Breadth of bill slows it down (multiple committees of jurisdiction)
  - Debate over inclusion of mandatory funding for medical innovation in NIH

Source: The Hill, 2016
Reauthorization in User Fees

- Reauthorization of 4 FDA User Fee Programs
  - Next user fee reauthorization is due 9/30/17 and will address the next 5-year cycle (through September 2022)
  - Allows FDA to maintain predictable and efficient review processes for drugs (brand and generic), biosimilars and medical devices
  - User fee package nearly always includes others changes in FDA authority/activity
  - Potential to roll 21st Century Cures in the ‘UFA’ package
## 2013-2017 FDA User Fees

( in millions)

<table>
<thead>
<tr>
<th>Program</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Total</th>
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<td>PDUFA</td>
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<td>756</td>
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Source: Committee Report, 112th Congress, 2012
Precision Medicine: On the Cusp of Change?
Restructure Average Patient Treatment to Personalized Medicine

• Most medical treatments take a “one-size-fits-all” approach, where many decisions are based on the “average patient”
• Precision Medicine:
  • Allows for a personalized approach, where medicine takes into account individual differences
  • Gives prescribers tools to better understand complexity behind patient’s health, disease, or condition
  • Allows prescribers to better predict which treatments will be most effective

End Goal: Linking Precision Medicine to Value
What happens as a result of the election?
**Election 2016**

**Affordable Care Act Support**

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<table>
<thead>
<tr>
<th>Support for Access/Subsidies</th>
<th>Support for Value/Integration</th>
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<tr>
<td>Low</td>
<td>Kasich</td>
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<tr>
<td>Moderate</td>
<td>Trump</td>
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<tr>
<td>High</td>
<td>Clinton, Sanders</td>
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**Key:**

**Access/Subsidies:**
- Medicaid expansion
- Premium support

**Value/Integration:**
- ACOs
- Bundled payments
- CMS initiatives

**Desire to Repeal ACA:**
- Low
- Moderate
- High

Source: Leavitt Partners Internal Resources
2016 Senate Election

4 (5) Seats needed for Dem Majority
(2 Seats likely to change)
To gain majority: Dems need to win 4 out of 10 states (AZ, CO, FL, IN, LA, MO, NH, NV, OH, PA)

Current Seats:
54 GOP
44 Dems
2 Independents

Safe Dem (44 Seats)
Leaning D (1)
Likely Party Change (2)
Too Close (3)
Leaning R (6)
Safe GOP (44 Seats)

(44 Seats)
Bennet – CO
Kirk - IL
Johnson – WI
Rubio (Ret.) – FL
Reid (Ret.) – NV
Portman – OH
McCain – AZ
Coats (Ret.) – IN
Vitter (Ret.) – LA
Blunt – MO
Ayotte – NH
Toomey – PA

(44 Seats)
## 2016 Election Outcomes

<table>
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<tr>
<th></th>
<th>Dem Dominance</th>
<th>Dem-Status Quo</th>
<th>GOP-Dem Split</th>
<th>GOP Triple Slam</th>
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Source: Leavitt Partners Internal Sources
## Election Outcome Impact

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<th>Target</th>
<th>Dem Dominance</th>
<th>GOP-Dem Split</th>
<th>GOP Triple Slam</th>
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<td>Medical device tax</td>
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<td>IPAB</td>
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<td>Cadillac Tax</td>
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<td>30-hour work week</td>
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<td>Employer mandate</td>
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<td>Exchanges</td>
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<td>HSA Changes</td>
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<td>Medicaid waiver/FMAP changes</td>
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<td>Risk corridors/risk adjustment</td>
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<td>DSR – Value Based</td>
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</tbody>
</table>

- **Red** Action Unlikely
- **Yellow** Potential Action
- **Green** Action Likely

Source: Leavitt Partners Internal Resources
How Do These Pieces Fit Together?

- Insurance Market Revolution... Likely Continued Consolidation
- The Affordable Care Act Continues... Revisions Still Pending
- Medical Innovation... “Value” Proposition Emerges
- Elections... Some Things Change, Some Stay the Same
Questions?