Overview of the Healthcare Industry: Challenges and Opportunities

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Is Healthcare a Right or Privilege?

The Universal Declaration of Human Rights

- The General Assembly of the United Nations adopted and proclaimed these principles in 1948

- Article 25

Everyone has the **right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services,** and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

A Working Definition of the Healthcare Industry

- **Provides diagnostic, healing, rehabilitation, and preventive services** to patients (consumers) through physicians and other clinical service providers and their staff.

- **Develops and delivers health plans that finance the cost of care/reimburse providers** through a combination of private (employer, consumer, provider) and public (e.g. government programs) administrators

- **Researches, innovates and deploys new technologies, devices and therapies that improve the cost/outcomes of consumers health and wellness** (e.g. pharmacy, biotechnology, nanosciences, informatics)

- **Manages and supports the provision and payment of health care services** (e.g. administrators, underwriters, lawyers, product developers, marketers)

Basic Healthcare Models*

1. **Bismark Model** – Statutory health insurance system with goal of universal coverage and private nonprofit insurers (e.g. Germany, Japan)

2. **Beveridge Model** – Healthcare provided by government – socialized medicine with no medical bills/claims (e.g. Great Britain, Spain)

3. **National Health Insurance** – Single-payer system that is government run insurance program that citizens pay for in monthly premiums (e.g. Canada, South Korea)

4. **Out-of-Pocket Model** – exists primarily in rural/undeveloped countries

Currently, most developed countries use hybrid approaches that deploy specific features to address national goals

* See CommonwealthFund.Org for overview of 19 developed countries current HC system and outcomes

Healthcare Value – 11 Global Comparisons

EXHIBIT ES-1. OVERALL RANKING

COUNTRY RANKINGS

Top 2*
Middle
Bottom 2*

	AUS	CAN	FRA	GER	NETH	NZ	NOR	SWE	SWIZ	UK	US
OVERALL RANKING (2013)	4	10	9	5	5	7	7	3	2	1	11
Quality Care	2	9	8	7	5	4	11	10	3	1	5
Effective Care	4	7	9	6	5	2	11	10	8	1	3
Safe Care	3	10	2	6	7	9	11	5	4	1	7
Coordinated Care	4	8	9	10	5	2	7	11	3	1	6
Patient-Centered Care	5	8	10	7	3	6	11	9	2	1	4
Access	8	9	11	2	4	7	6	4	2	1	9
Cost-Related Problem	9	5	10	4	8	6	3	1	7	1	11
Timeliness of Care	6	11	10	4	2	7	8	9	1	3	5
Efficiency	4	10	8	9	7	3	4	2	6	1	11
Equity	5	9	7	4	8	10	6	1	2	2	11
Healthy Lives	4	8	1	7	5	9	6	2	3	10	11
Health Expenditures/Capita, 2011**	$3,800	$4,522	$4,118	$4,495	$5,099	$3,182	$5,669	$3,925	$5,643	$3,405	$8,508

Notes: * Includes ties. ** Expenditures shown in $US PPP (purchasing power parity); Australian $ data are from 2010.
Source: Calculated by The Commonwealth Fund based on 2011 International Health Policy Survey of Sicker Adults; 2012 International Health Policy Survey of Primary Care Physicians; 2013 International Health Policy Survey; Commonwealth Fund *National Scorecard 2011*; World Health Organization; and Organization for Economic Cooperation and Development, *OECD Health Data, 2013* (Paris: OECD, Nov. 2013).

The US Healthcare Dilemma

- **High Spending**
  - $3.2 Trillion in 2016 – nearly 18% of GDP
  - Expected to continue to grow 5-6%/year
- **Subpar Outcomes** - lower life expectancy and higher infant mortality rates than other industrialized countries
- **Limited Access** - 27 million uninsured or 10% of population (down from 47M in 2010 due to ACA)
- **Lack of Consumer-Centricity and Education/Understanding**
- **Fragmented Care Delivery and Information**
- **Lack of Cost/Outcome Transparency**
- **Growing Political and Policy Quagmire**
- **Cultural Norms and Expectations**

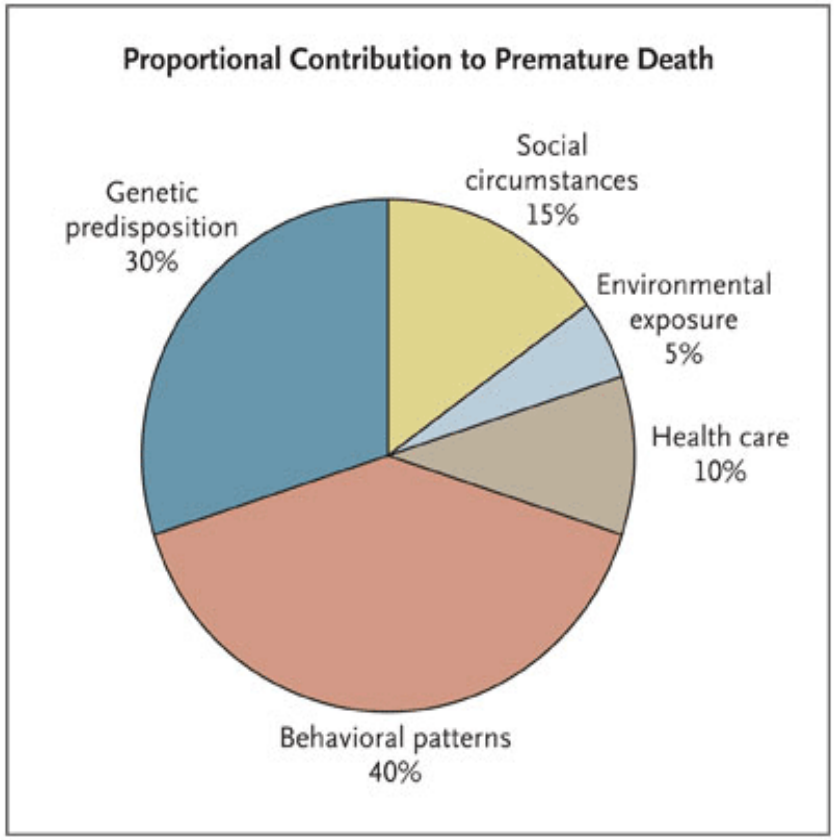
Healthcare Sector: 5 Major Focus Areas

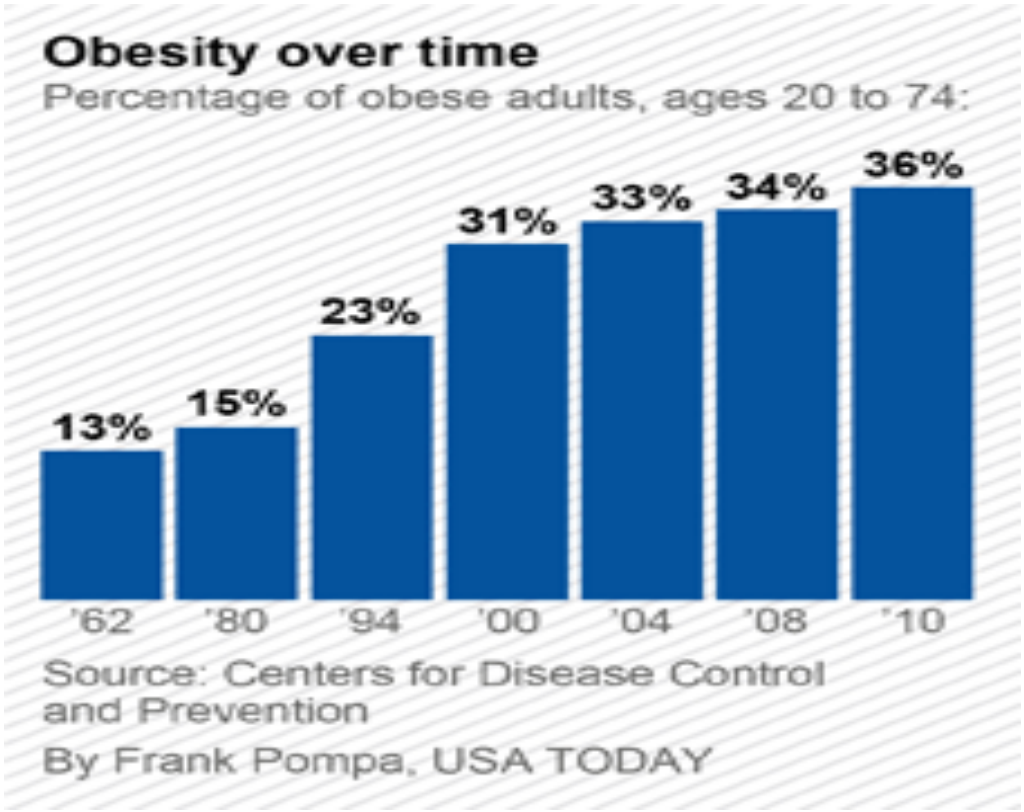
1. Customer/Patient Centricity
2. Healthcare Delivery
3. Manufacturing and Distribution
4. Innovation and Technology
5. Administration and Financing

1. Customer/Patient Centricity Issues

- Complex Decision-Making Roles/Responsibilities
  - Patient/Family
  - Employer/School
  - Government
- Education and Understanding – unique lexicon and processes
- Affordability Challenges – 10% of total pocketbook, rising faster than wages
- Purchasing Transparency at Point of Care
- Impact of Satisfaction and Loyalty
- Wellness/Lifestyle/Care Compliance Implications
- Aging Population
- Privacy Concerns

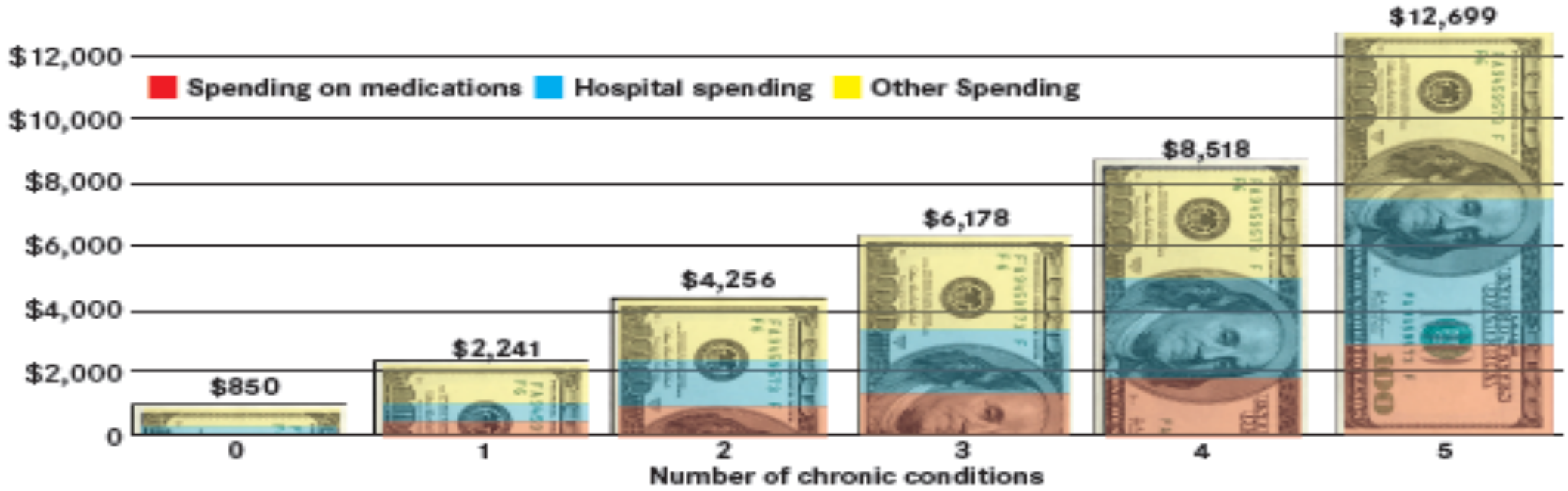
Customer/Patient Lifestyle has a dramatic impact……





……on the health needs, outcomes, costs and quality

FIGURE 2: ANNUAL HEALTH CARE COSTS PER PERSON BY NUMBER OF CHRONIC CONDITIONS (BOOMER AND NON-BOOMER)



Adapted from *When I'm 64: How Boomers Will Change Health Care*, American Hospital Association, 2007.

2. Healthcare Delivery (Providers, Hospitals, Support Staff)

- New/Emerging Delivery Systems/Models (e.g. ACOs, MCOs, Hospital-Owned, Provider-Owned)
- Continuing Mergers and Acquisitions/Partnerships
- Clinical Standards and Quality Outcomes
- Provider Reimbursement Models (e.g. Pay for Quality, Risk-Sharing)
- Modalities of Care Delivery (telephonic, virtual, AI triaging, self-help)
- 360 Patient Information at the Right Time (Cradle to Grave)
- Proactive Capacity Management and Access
- High Administrative Cost and Overhead
- Physician/Medical Community Mindset, Training and Disillusionment
- Defensive Medicine and Waste

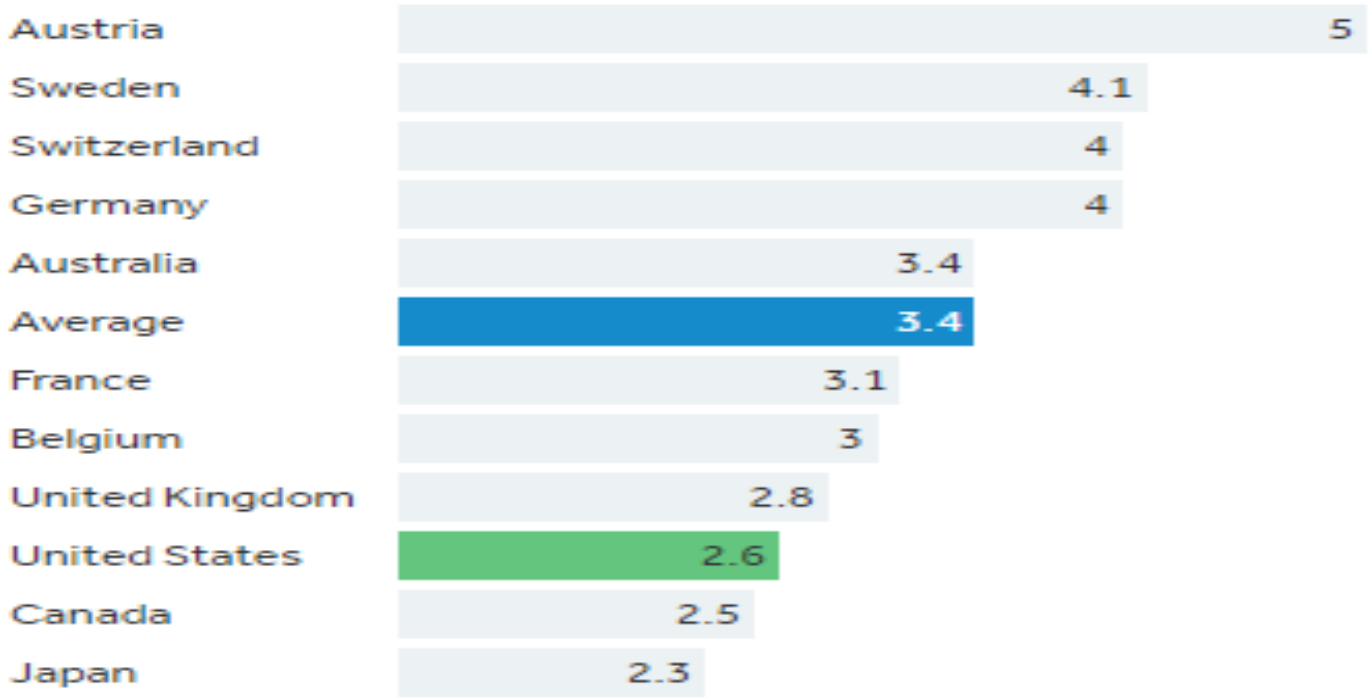
Physician Capacity

CAPACITY

Physicians per capita

The U.S. has fewer doctors than most comparable countries.

View More



3. Manufacturing and Distribution

- Pharmaceuticals and BioTechnology
  - Developing new medicines can cost $1.2B-$2.6B – lots of noise in estimates
  - 12% of drugs making it to clinical trials are approved by the FDA
  - Limited patent protections (approx 12 yrs) result in increased Gen 2.0 activity
  - Exciting progress in “personalized therapies” – esp. in biotech
  - Generic usage driven by many payers
  - Domestic and global Rx pricing strategies raise public concerns
  - Growing opiod crisis and spillover effects
- Medical Devices
  - Diagnostic and therapeutic devices
  - Potential over-capacity driving over-utilization

Other Pharma Soundbytes

- Rx spending approx $350B in the US in 2016:
  - Private Insurance pays for 44%
  - Government covers 38%
  - OOP and other pays for the remaining 18%
- Pharma spent $5.4 B in advertising in 2015 – a 19% increase over prior year
- DTC TV advertising accounted for nearly 70% of advertising spend
- 9 out of 10 of the largest Pharmaceutical companies spent more on advertising than R&D

4. Innovation and Technology

- Business, academic and government-sponsored research on how to reshape the HC cost curve while improving outcomes and employee productivity

- Significant public and private interest in predictive modeling, data mining and informatics to support:
  - Treatment protocols/standards
  - Predict, prevent and/or proactively manage major health events
  - Focus population health management activities
  - Eliminate waste

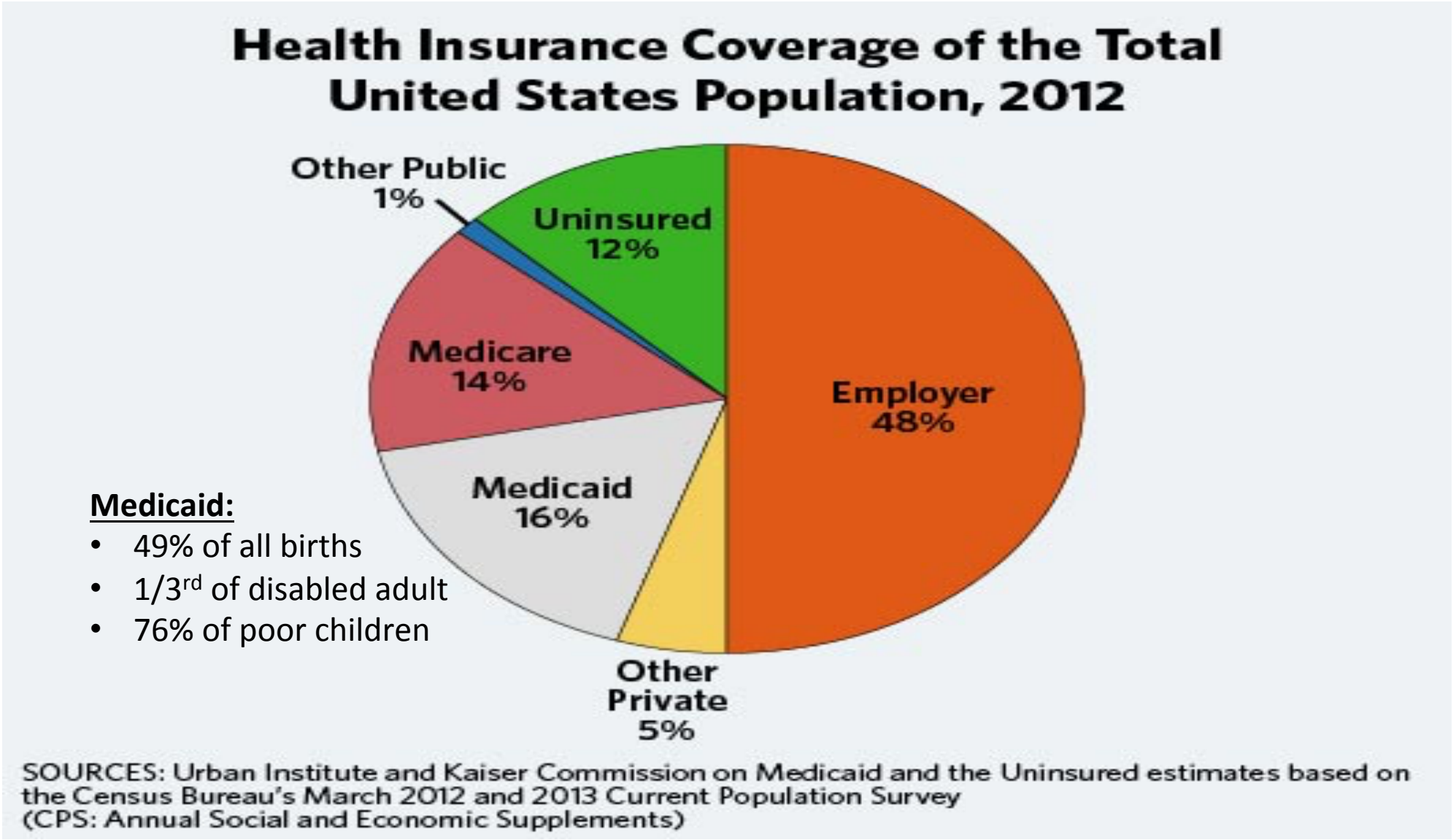
- Need for more integrateable information systems/data sharing (hospital, provider, payer, RX) across customer lifecycle

- Increased Venture Capital interest and funding of HC breakthrough opportunities- it is a “sellers” market for start-ups

- Ownership of patient information/personal medical record– concerns over PHI and usage

5. Administration and Financing

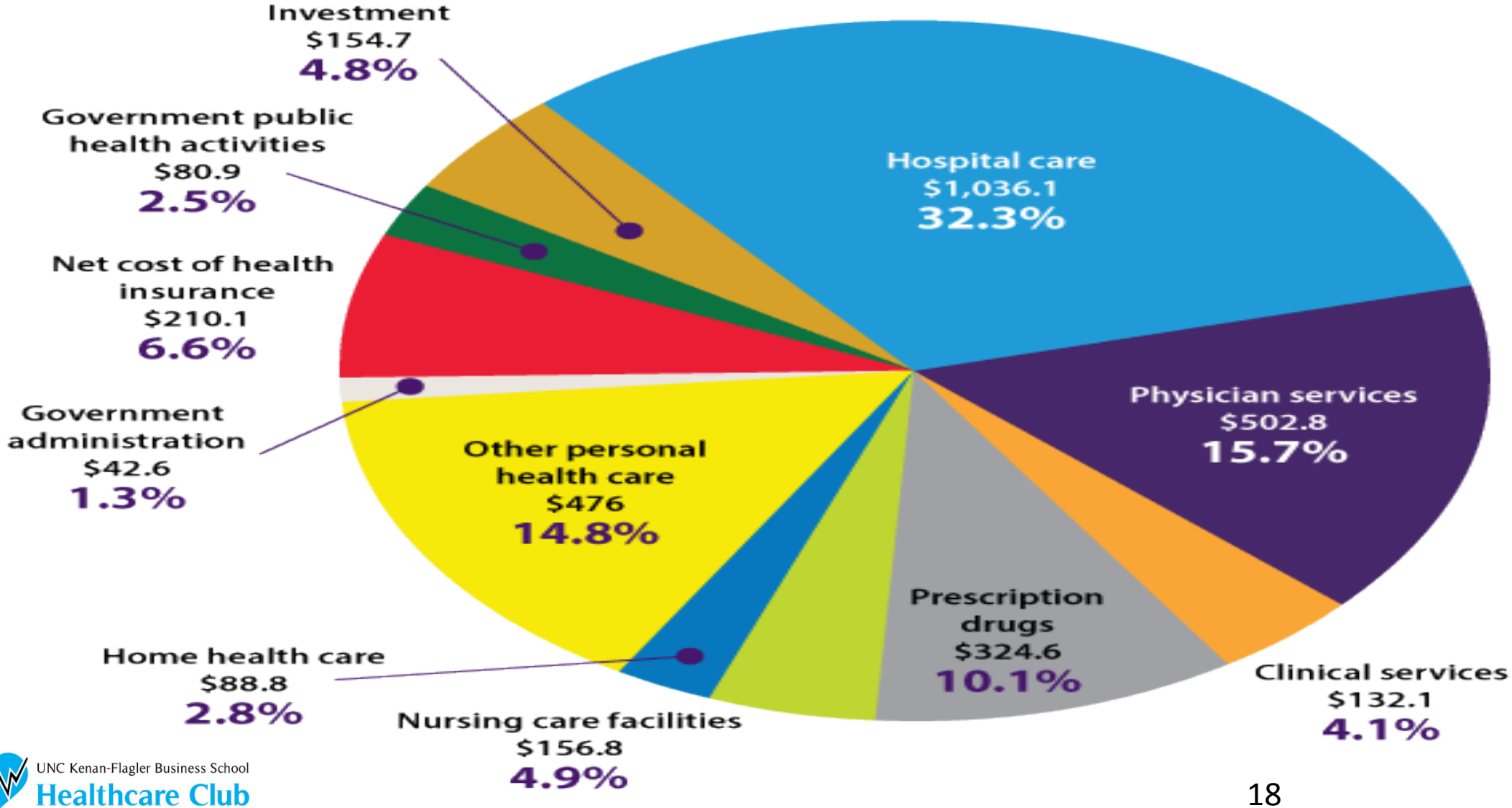
- Program Funding – Who's Going to Pay?
- Products and Marketing - What will be Paid For?
  - Private Insurance Products (HDHP/CDHP, Limited Networks, Concierge)
  - Government Mandates – (e.g. ACA essential health benefits, no lifetime maxs, no pre-existing conditions, tax penalties)
  - Medicare and Medicaid Coverage – including Medicare Advantage and Managed Medicaid
  - Pay for quality outcomes/performance
  - Insurance 80/20 rule – 80-85% of premium dollars spent on medical treatment (MLR)
- Regulation and Compliance Implications and Uncertainty – ACA vs AHCA vs ???
- Reimbursement Models – Driving quality/risk-sharing
- Operational Efficiencies (e.g. system redundancy, fragmentation)
- Waste and Fraud Reduction –Defensive medicine drives 2-3% of HC spend



Medicaid:

- 49% of all births
- 1/3rd of disabled adult
- 76% of poor children

The U.S. Spent $3,205.6 Billion on Health Care in 2015 Where Did It Go?*



Change in Healthcare Will Be Hard but Necessary……

There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things.

Niccolo Machiavelli
The Prince (1532)

The price of doing the same old thing is far higher than the price of change.

Bill Clinton

It is not the strongest or the most intelligent who will survive but those who can best manage change.

Charles Darwin