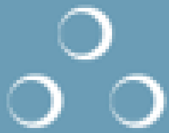
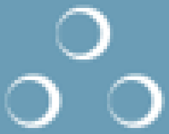


The Future of Health Care and how to prepare

Ron Howrigon, President & CEO

FULCRUMSTRATEGIES

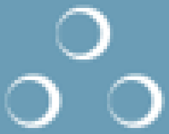
SUPERIOR PROVIDER ADVOCATES



Economists

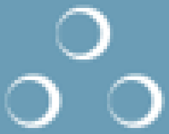
Economists are people who are too smart for their own good and not smart enough for anyone else's.

The First Law of Economists: For every economist, there exists an equal and opposite economist. The Second Law of Economists: They're both wrong.



Economists

- New analysis by the Penn Wharton Budget Model forecasts that the real cost of health insurance premiums will increase by 90% over the next 40 years, after adjusting for inflation and economic growth over that time.



FULCRUMSTRATEGIES

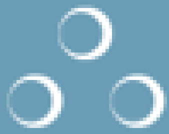
Economists

- The higher cost of premiums, relative to income, means fewer people will buy and more will go uninsured. The Penn Wharton model forecasts an increase in the uninsured rate from 10% now to 27% in 2060.

BRACE YOURSELF

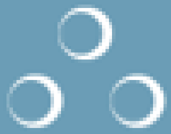
WINTER IS COMING

makeameme.org



Agenda

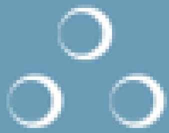
- Health Care and the Housing Crisis
- History of Health Care in the US
- Current State of Affairs
- The Future of Health Care
- What you Should do



2008 – Housing: The Big Short

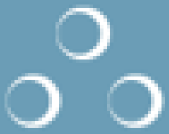
The Housing Crisis – Why?

- Unsustainable trends in housing prices
- People were allowed to buy houses they couldn't afford
- Lack of understanding for market financing
- Belief that it could never fail because it never had



The Housing Crisis - Impact

- The Dow lost 34%
- $1 Trillion of wealth disappeared
- In 2008 alone, 2.6 million jobs were lost
- Unemployment went over 7%
- The rest of the world (Germany, Japan, China etc.) all experienced recessions



Housing & Healthcare

Construction

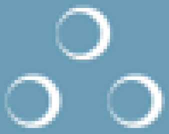
- Unsustainable trends
- Complex financing
- Consumers over purchase
- 6% of GDP
- 6.1 million employment
- Highly concentrated
- Critical part of economy

Healthcare

- Unsustainable trends
- Complex financing
- Consumers over purchase
- 17% of GDP
- 18 million employment
- Not concentrated
- Critical part of economy

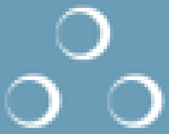
Healthcare – History

- Health insurance started in the 1920s
- WWII and tax changes pushed employer funded insurance
- 1965 – Medicare and Medicaid, the government became the largest insurance company.
- 1970s – Push for HMOs
- 1990s – Hillary Care
- 2009 – Obama Care
- 2019 and beyond – Medicare for all? Haven? Other models?



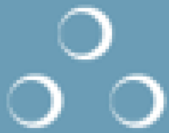
Follow the Money

• Federal	$1.12 Trillion	37%
• States	$0.57 Trillion	19%
• Employers	$1.00 Trillion	33%
• People	$0.31 Trillion	10%
• Total	$3.00 Trillion	



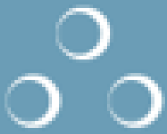
Economics of Healthcare

- Consumer not the purchaser
- Not rational purchasing decisions
- Inefficient rationing
- Supplier controls demand
- Right vs. privilege
- Market entry controlled



Current State of Affairs

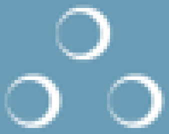
- Unsustainable inflation
- Impact on wages
- Impact on deficits
- Impact on the economy
- ACA – Help or hurt?
- What happens after the next election?
- Yield curve inversion



Unsustainable Inflation

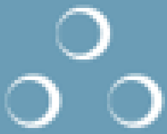
- During the last 25 years, general inflation CPI-U averaged 3.0% while healthcare inflation CPI-M averaged almost 6%
- 5 years prior to ACA – CPI-M inflated at 1.5 times that of CPI-U
- 5 years right after ACA – CPI-M inflated at 1.8 times that of CPI-U
- First 5 years of the ACA produced average premium increases of 15% per year

Total national health expenditures as a percent of Gross Domestic Product, 1970-2018



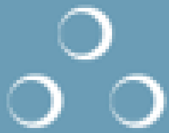
Impact on Wages

- Rand Study – 1999 to 2009
  - Wage increase after paying for healthcare $95 per month.
  - Part of this is artificial because of the federal debt used to finance healthcare.
  - If taxes had increased to cover cost increases, average wage would have decreased by $295 per month.



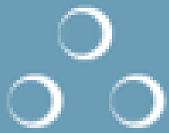
What Does the Future Look Like?

- Increase in the uninsured
- Shift of more cost to consumers
- How are we going to control costs?
- Continued inflation puts pressure on budgets and economy
- Transparency
- Reference based pricing – Employer Specific Rates
- Narrow networks



What Does the Future Look Like?

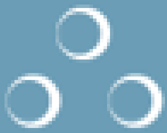
- Direct compensation to patients for choosing lower cost options
- Surprise Billing Legislation
- Buffett, Diamond, Bezos ? - Haven
- Defined benefit plans
- Value based?
- Healthy California? Medicare for all?
- Medicare buy in
- Public Option



FULCRUMSTRATEGIES

Transparency – Trump Executive Order

- “Reforming America’s Healthcare System Through Choice and Competition"
- Price and Quality Transparency – Actual costs and patient out of pocket costs
- Health Care Quality Road Map
- Increased Access to Data
- High Deductible Plans combined with HSAs
- Surprise Medical Billing

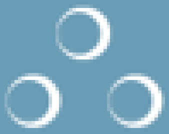


Reference Based Pricing – Employer Specific Rates

- Everyone payed the same
- Take it or leave it contract offers
- Employer specific not payer specific
- Can’t negotiate with Payer – Driven by employer
- Could develop into multiple levels of payment for employer choice
- NC SEHP Example

Surprise Billing

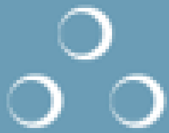
- Apply to all cases where the hospital is in network and a physician group isn't
- Payment at "Benchmark rate" payer median contracted rate
- Allow for arbitration for cases over $1,250
- Prohibits balance billing
- Currently has senate bipartisan support
- Creates the first income cap in this country since WWII



FULCRUMSTRATEGIES

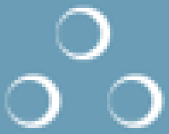
Surprise Billing – The Payer Response

ER Contracts	$ Volume
120% of MC	$ 200,000
125% of MC	$ 250,000
125% of MC	$ 600,000
140% of MC	$ 500,000
150% of MC	$1,000,000
180% of MC	$1,200,000
200% of MC	$1,500,000
210% of MC	$2,000,000
250% of MC	$2,500,000
Median Rate = 150% of MC	



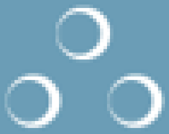
Terminate Contract #10

ER Contracts	$ Volume
120% of MC	$ 200,000
125% of MC	$ 250,000
125% of MC	$ 600,000
140% of MC	$ 500,000
150% of MC	$1,000,000
180% of MC	$1,200,000
200% of MC	$1,500,000
210% of MC	$2,000,000
Non – Par	$2,500,000
Median Rate = 140% of MC	



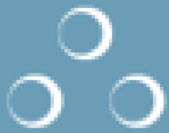
Surprise Billing – Payer Contract Termination Results

- Median rate drops from 150% to 140%
- Payment to Contract 10 goes from $2,500,000 to $1,400,000
- Payer banks $1,100,000 for terminating a contract
- What do they do next?
- Terminate Contract #9. This saves another $450,000

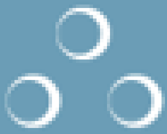


Defined Benefit Plan

- Member gets a “voucher” for a service and has to pay anything above that
- Think optical benefits
- Encourages consumerism and price shopping
- Fits very well with transparency push
- Allows employers more control of expenses.
- Works very well with self funded employers

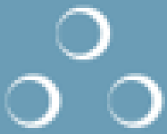


Value Based Reimbursement



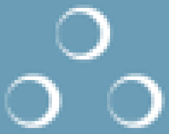
Value Based Reimbursement

- Increases and decreases tied to performance metric
- Very simple right now
- Who's definition of "value"?
- Straight scale or constant improvement?
- Rad examples
  - CT/MRI utilization
  - Mammo Call back
  - Contrast rates



Healthy California?

- 2018 Bill. Free health care to every California resident
- Transfer of Federal funds to CA?
- Conservative Cost - $400 Billion
- Current CA budget - $265 Billion
- Tax increase?
- Impact on business and immigration?
- Killed in committee



Medicare for All?

- Everyone included
- One standard of care – No cash medicine
- Everything covered – No cost to patient
- Regional budgets for hospitals
- Physicians FFS?
- Two year phase in
- Sect. of HHS develop coverage and guidelines
- Individual doctors can override guidelines
- How and how much are providers paid?
- How are we going to pay for all this free care?

Impacts of Medicare for All

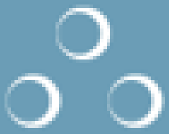
- Spike in demand
- Hospital revenue down. Avg commercial revenue 80% higher than MC
- Physician revenue down. Avg commercial revenue 30% higher than MC. Specialists hit harder than PCP
- Drop in supply – doctors retire in the face of declining income. 42% of practicing physicians are over 55. Specialists higher than PCP
- As specialist supply drops it pushes more patients to the ER
- Increased taxes slow down economic growth and increase unemployment
- Does the system collapse?

Haven

"We believe it is possible to deliver simplified, high-quality, and transparent health care at a reasonable cost. We are focused on leveraging the power of data and technology to drive better incentives, a better patient experience, and a better system. Our work may take many forms, and solutions may take time to develop, but Haven is invested in making health care much better for all of us."

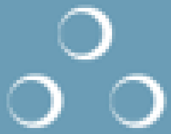
Medicare "Buy In"

- Individuals would be allowed to "buy" Medicare
- Subsidies or tax breaks?
- Underwriting profits to shore up Medicare
- Public option and Exchanges
- What happens to provider revenue?
- Is this the middle of the road compromise?



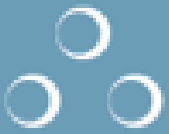
Public Option version 2.0

- Govt. plan to compete on exchanges
- Small group and self funded?
- What if it pays Medicare rates?
- How do the payers react
- Unfair competition?



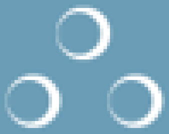
What Should We Do?

“We cannot direct the wind, but we can adjust the sails.”



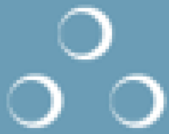
What Should We Do?

- Understand the environment – surprise billing?
- Focus on cost and value
- Plan for the future – what happens if revenue is capped?
- Be part of the solution not the problem
- Be flexible and agile
- Prepare for the shift to even more patient involvement - Transparency
- Have a Plan "B"
- Compete in service and proven quality



Things to Remember

- "Truth is like poetry. Unfortunately most people hate poetry."
- "Facts are stubborn things; whatever may be our wishes, our inclinations, or the dictates of our passion, they cannot alter the state of facts."
- "People hate to think about bad things happening so they always underestimate their likelihood."



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Questions?

Thank you.

Contact:
Ron Howrigon
Fulcrum Strategies
r.howrigon@fsdoc.com
919-436-3380