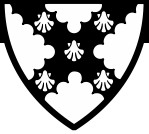




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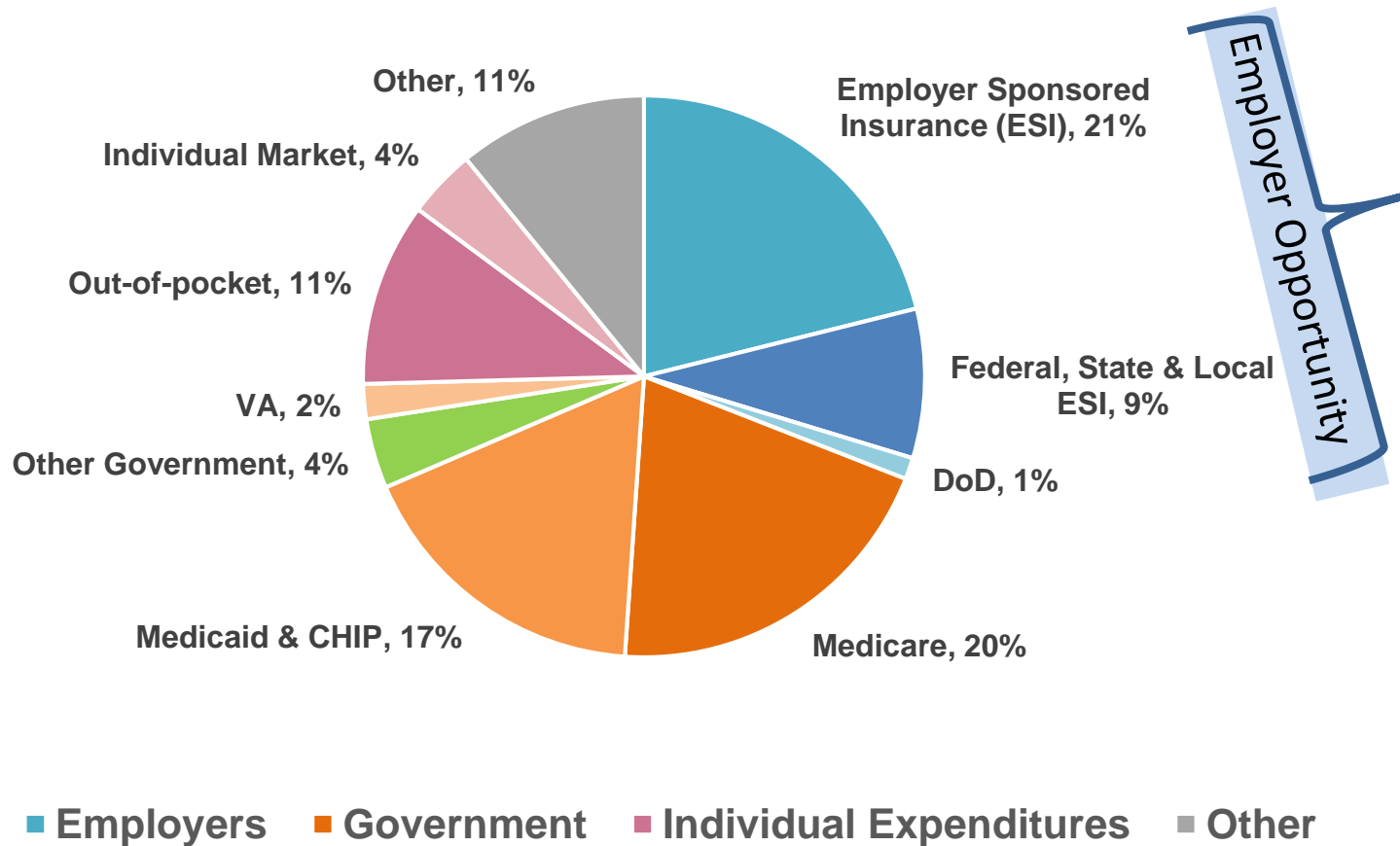
Employers Strike Back

May 2018

Princeton Conference XXV
Navigating Uncertainty in the U.S. Health Care System


Robert S. Kaplan, Senior Fellow and Marvin Bower Professor of Leadership Development, Emeritus

Sources of U.S. Health Care Spending



Source: CMS National Health Expenditure Data (2017)

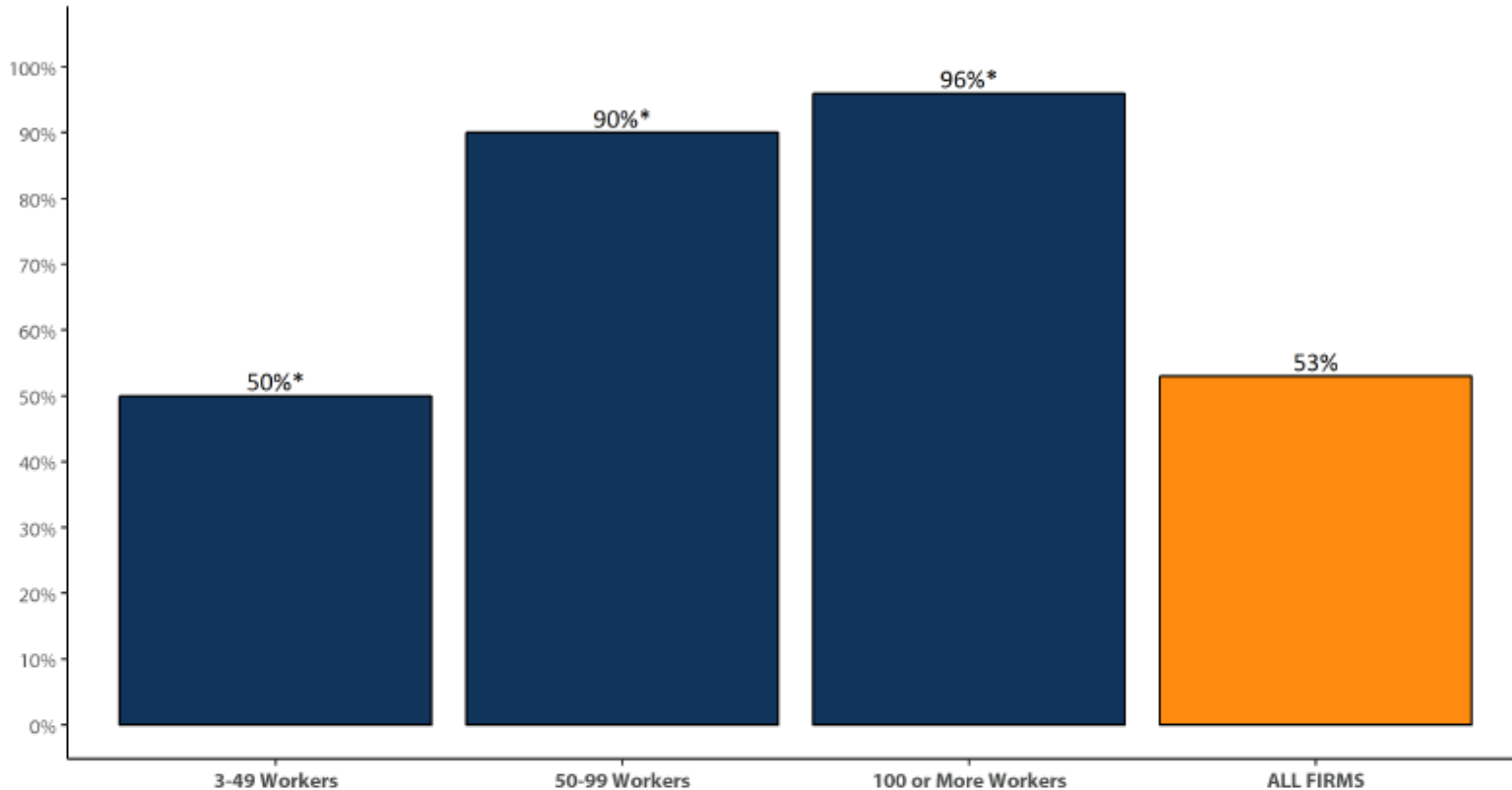
Additional Costs to Employers of Poor Health

- Absenteeism
 - Cost of wage of replacement worker
 - Administrative cost of managing absent worker & finding coverage
 - Morale of overworked employees who have to “make up for those absent”
 - Quality impact of replacement / temporary staff
 - Presenteeism
 - Lack of productivity
 - Decreased quality
- 
- Can be **>2x** out-of-pocket costs

Employers Offering Health Benefits (2017)

Figure 2.4

Percentage of Firms Offering Health Benefits to At Least Some of Their Workers, by Firm Size, 2017



* Estimate is statistically different from estimate for all other firms not in the indicated size category ($p < .05$).

NOTE: As noted in the Survey Design and Methods section, estimates presented in this figure are based on the sample of both firms that completed the entire survey and those that answered just one question about whether they offer health benefits. Firm size categories are determined by the number of workers at a firm, which may include full-time and part-time workers.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2017

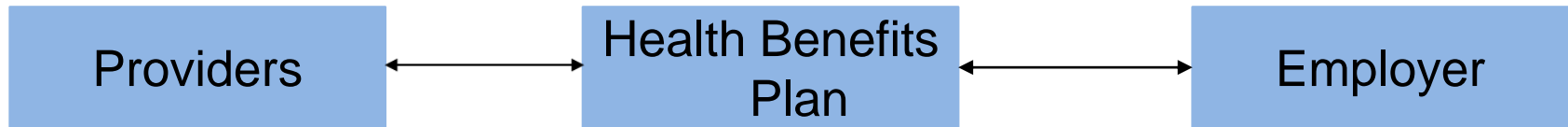
Employers care about the health of their employees

- Motivated to have healthy employees (avoid sick days, absenteeism and use of health care system)
- Cure patients rapidly and well when sick or injured (avoid inappropriate care, encourage effective and efficient care, without complications, readmissions, and revisions)
- Promote rapid recovery and return to work (reduce DAFW)
- Reduce “Presenteeism” – low productivity from workers with chronic conditions, including mental, cognitive and substance abuse disorders
- Optimize care over employer’s long-term relationship with employees; willing to spend more today to reduce much higher spend in future years; unlike commercial carriers who have short horizons and require quick payback from preventive and wellness care



Private Health Insurance – Traditional Business Model

- Build networks
- Negotiate prices
- Claims Processing
- Payment processing
- Utilization review & prior authorization
- Set premiums
- Manage Benefits (customer service, bill pay, etc.)



Charge **15-20%** (above claims) for “insurance,” administrative expenses and profits

- Health care premiums for large employers are ~ 5% of total operating expenses.
- Employers receive little to no information about employee outcomes from their health benefits plans
- Experience rating => Employers ultimately bear the full risk for claims cost

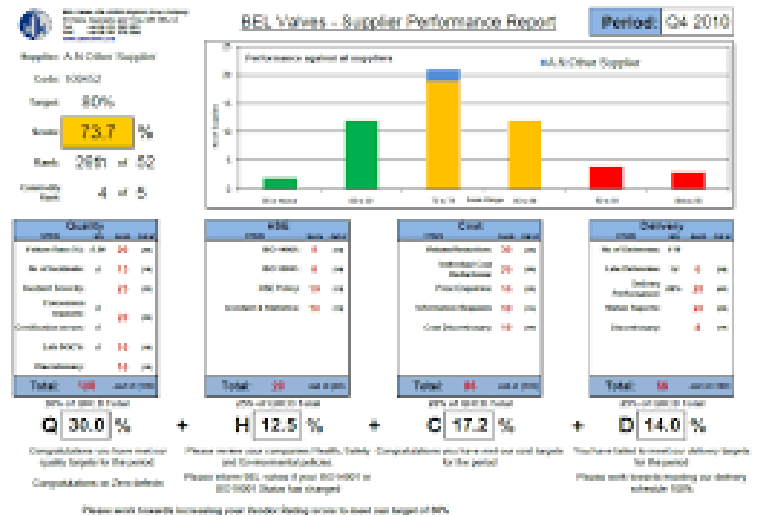


Corporate Myopia

- Most companies use the Benefits Office in HR Department to manage their health care programs
- HR goal: happy employees



- Corporate Purchasing Department Goals
 - Low cost
 - High quality
 - Supplier's accountability for Performance: **“on time, on-spec”**



Employer Opportunity to Innovate in Delivering Health Care to Employees

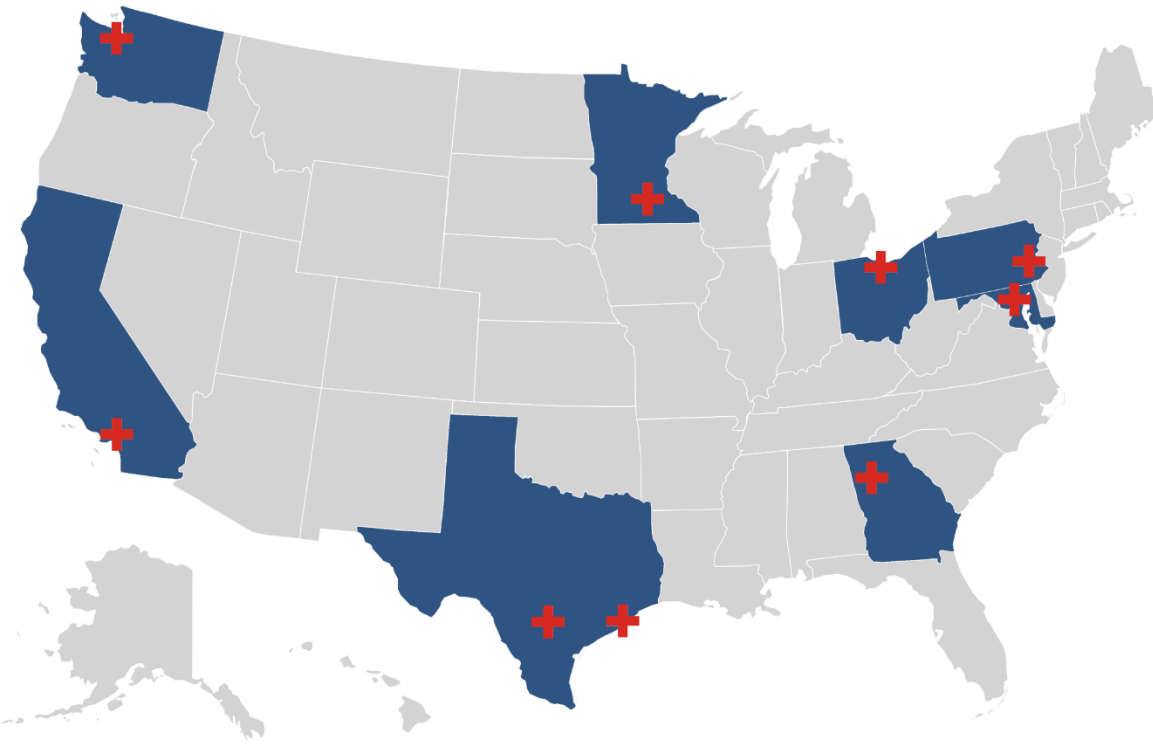
- Design and implement higher value health care solutions
- Experiment, learn from other employers
- Collaborate, in alliances and networks
- Innovation does not require new legislation or working through the political system



Employer Innovators with Centers of Excellence



Walmart Centers of Excellence Programs



Conditions:

- Cardiac
- Cancer
- Joint replacement
- Spine
- Transplant
- Weight loss

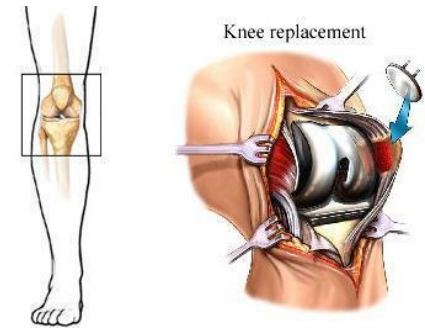
Partnerships:

- Cleveland Clinic (OH)
- Geisinger (PA)
- Kaiser Permanente (CA)
- Johns Hopkins (MD)
- Mayo Clinic (MN)
- Memorial Hermann (TX)
- Northeast Baptist (TX)
- Virginia Mason (WA)
- Emory (GA)

Source: compiled from news.Walmart.com and through publically available news and press releases

General Electric Centers of Excellence Programs

- Established its own CoE programs
- Joint replacement CoEs at high-density employee locations:
 - Northwestern Memorial, HSS, New England Baptist Hospital, Carolinas Hospital, Christ Hospital (Cincinnati), University Hospitals (Cleveland), Holy Cross (FL)
- Maternity bundles (#1 inpatient condition for employers)
 - Outcome metrics from American College of Obstetrics and Gynecology



- Purchases health care services for all public employees and Medicaid enrollees in WA (including mental health, dental, and pharmacy)
 - Largest employer in the state
 - Municipalities, university employees, and transportation agencies can apply to be part of HCA
- Total Knee/Total Hip Replacement Surgery Bundle & 90 Day Warranty
 - Bree Collaborative defined clinical components and quality standards
 - State-wide procurement for COE → Virginia Mason
 - Pricing was arrived at through the bidding process
 - Patients willing to cross the mountain range from eastern WA to Seattle for TJR program (customer satisfaction survey scores 9.5/10)

Washington State: An Emerging Healthcare Ecosystem

Employers

- Select providers based on value
- Pay with bundled contracts
- Utilize value based benefit design
- Extend mental health coverage
- Build culture of health & wellness at workplace

Employers:



Alliances

- Promote accepted outcome standards
- Conduct external outcome measurement evaluation & reporting
- Develop bundled payment models
- Convene all stakeholders

Health Plans:



Alliance Organizations:



Health Plans

- Support and require outcomes measurement from providers
- Standardize bundled payment contracts with market prices
- Enable competitively-priced claims processing and IT / analytics

Providers:



Providers

- Provide integrated care for conditions or primary care populations in which they have expertise
- Measure outcomes & costs at medical condition level
- Care in the right location (regional integration)

What will they do about employer-sponsored healthcare?



Another corporate innovation model: Medtronic, Become a Leading Supplier in a VBHC World

“We need to shift from getting paid for our technology to getting paid for the outcomes our technology produces.”

Omar Ishrak, CEO Medtronic



Medtronic’s Value-Based Health Care Strategy:

Leverage **data** from clinical trials, published data and studies, and extensive experiences with leading clinicians to **help providers deliver more value** for patients.



Example of Medtronic VBHC Initiatives

- **Therapy Optimization**

- Accountability and risk for specific interventions; e.g., the TYRX Envelope reduces infection rates for IEDs in complex patients from 2-4% to near-zero.



- **Episodic Care Bundles**

- Partner with CABG surgery team to minimize incidence of blood transfusions.
- Risk-share with provider to deliver lower total costs within a CABG bundle



- **Chronic Care Management**

- Diabeter type-1 diabetes clinics (NL)
- NOK morbid obesity clinics (NL)



Medtronic Diabeter Clinics for Type-1 Diabetes (NL)

Multi-Disciplinary Team

- Physician Specialists
- Nurses
- Dieticians
- Psychologists
- Care Managers
- VCare IT Platform
- Housed within Single Facility

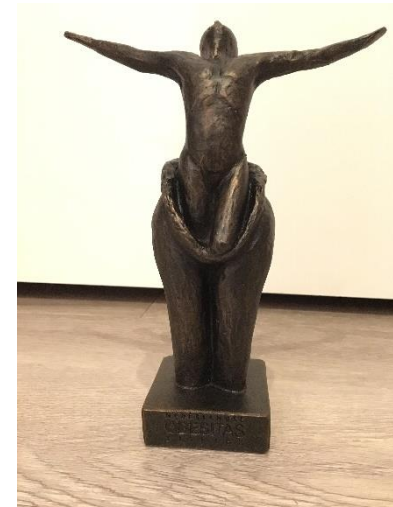


Outcomes at Medtronic Diabeter Clinics

- Highest percentage of patients with HbA1c levels < 7.5%
- Lowest rate (<3%) of hospital admissions in Netherlands for Type-1 diabetes patients
- 10% reduction in annual cost of care
- Highest patient satisfaction (9.5/10) rating in NL

Medtronic Nederlandse Obesitas Kliniek (NOK) for Morbidly Obese Patients

- Largest care giver for Morbid Obesity in Europe (5,000 surgeries per year; 8 outpatient clinics and 6 surgical sites)
- Care Cycle
 - Screening and admission (1/2 day)
 - 6 weekly pre-surgical group sessions (1.5 days each) with multi-disciplinary team of dietician, physiologist, and psychologist
 - Bariatric surgery
 - 12 monthly post-surgical behavioral and lifestyle-change sessions
 - Annual follow-up for 5 years
- Highest performance in NL for % Excess Weight Loss



NOK Outcomes (1 picture > 1,000 words)



A group at the start of the program



Same group 18 months post surgery

Corporation innovations and ability to scale rapidly will accelerate the movement to value-based health care

1. Become a better purchaser of healthcare services for employees
2. Become a better supplier to healthcare providers and consumers

