Leadership and Governance of Rural Hospitals

TRENDS and their Meaning for

BALL of CONFUSION

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Healthcare: Facing the Perfect Storm?

Consistent Themes Nationally, Regionally, and Locally

- Rising Costs
- Shifting Demographics
- Limited Access to Capital
- Increasing Demand for Quality / Cost Performance
- Declining Revenues
- New Payor Strategies / Payment Reform
Healthcare: Facing the Perfect Storm?
With a BIG Wild Card!!

RISING COSTS
DECLINING REVENUES
SHIFTING DEMOGRAPHICS
LIMITED ACCESS TO CAPITAL
INCREASING DEMAND FOR QUALITY / COST PERFORMANCE
NEW PAYOR STRATEGIES / PAYMENT REFORM

TRUMP ADMINISTRATION?!!
Four Key Interrelated Themes

• Total Cost of Care - Affordability
• Consumer Engagement
• Physician Alignment and Performance
• Governance and Leadership
9.1. Health expenditure per capita, 2013 (or nearest year)

Note: Expenditure excludes investments, unless otherwise stated.
1. Includes investments.
2. Data refers to 2012.


StatLink [http://dx.doi.org/10.1787/888933281252]
Benefit for the Cost?

Recent News: More of the Same

- US Health Spending Grew 5.8% in 2015

According to CMS, and reached $3.2 trillion. On a per person basis, spending on health care increased 5.0%, reaching $9,990. The share of gross domestic product devoted to health care spending was 17.8 percent in 2015, up from 17.4 percent in 2014.
Recent News: More of the Same

• US life expectancy DECLINED in 2015!!!

In 2015, rates for 8 of the 10 leading causes of death rose. An American born in 2015 is expected to live 78 years and 9½ months, on average, according to the Centers for Disease Control and Prevention. An American born in 2014 could expect to live about a month longer, and even an American born in 2012 would have been expected to live slightly longer. In 1950, life expectancy was just over 68 years.

The United States ranks below dozens of other high-income countries in life expectancy, according to the World Bank. It is highest in Japan, at nearly 84 years.

Associated Press December 8, 2016
Health Spending Largest Item in the FY 2017 Federal Budget

Federal Budget Authority for - FY 2017

- Defense: 20%
- Education: 3%
- Health Care: 28%
- Pensions: 25%
- Other Spending: 3%
- General Government: 1%
- Transportation: 3%
- Protection: 1%
- Welfare: 9%
- Interest: 7%
Price changes (1996-2016)
Selected Consumer Goods and Services

More Expensive

Overall inflation (+55%)

More Affordable

Mark Perry/American Enterprise Institute
Is This the Metaphor for Our Future?
What Will Happen to Healthcare Under Trump Administration??
Trump as Candidate Position on ACA

- Repeal and replace the ACA
- Permit insurers to sell health insurance across state lines
- Make all health insurance premium payments tax deductible, rather than just premiums for employer-sponsored plans; place limit on employer-sponsored plans.
- Silent on Medicare – except for allowing Medicare to negotiate drug prices
The loss of health insurance coverage under an ACA repeal would have a $399.8 billion negative net impact on hospital revenue over the next decade. This estimate assumes most of the coverage provisions under the ACA would be repealed and coverage would return to similar levels seen before the ACA was implemented.

IF Medicaid Disproportionate Share Hospital payments that were cut under the ACA were restored, Hospitals only lose $165.8 billion between 2018 and 2026.

Future of ACA??

• "Losses of this magnitude cannot be sustained and will adversely impact patients' access to care, decimate hospitals' and health systems' ability to provide services, weaken local economies that hospitals help sustain and grow and result in massive job losses…. Restoring these cuts for the future is absolutely essential to enable hospitals and health systems to provide the care that the patients and communities we serve both expect and deserve"

AHA President and CEO Rick Pollack and FAH President and CEO Chip Kahn said in a letter to President-elect Donald Trump.
Future of Medicare??

Medicare Vouchers? Transfer of Risk from Feds to Medicare Beneficiaries. Even CURRENT Medicare requires significant out-of-pocket cost.

“A 65-year-old couple retiring in 2016 will need an estimated $260,000 to cover health care costs in retirement, according to Fidelity's Retiree Health Care Cost Estimate. This is a six percent increase over last year's estimate of $245,000 and the highest estimate since calculations began in 2002.” - Fidelity
Currently, the federal government pays an agreed-upon percentage of each state's Medicaid costs, no matter how much they rise in any given year.

Republicans have argued that states have little incentive to keep expenses under control, because no state pays more than half the total cost. Both House Speaker Paul Ryan and Trump's pick for secretary of health and human services, Georgia Rep. Tom Price, want to switch to block grants.
Future of Medicaid??

Medicaid Block Grants? Transfer of Risk From Feds to States.

“If this isn’t done right, if the money doesn’t match what needs to be done, this is potentially the greatest intergovernmental transfer of financial risk in the Country’s history.” Matt Salo, Executive Director, National Association of Medicaid Directors.

And Hospitals and Systems...?
Ratings: Stable…for Now

Fitch Ratings' outlook: Stable. Healthcare faces a low risk of deteriorating fundamentals but high levels of event risk due to regulatory and political uncertainty.

"Healthcare providers, specifically acute care hospital companies, have the most to lose if the ACA insurance expansion is gutted because it has resulted in more paying customers in the sector," according to Fitch.

Becker's Hospital CFO. December 7, 2016.
Ratings: Stable…for Now

S&P Global Ratings' outlook on the nonprofit healthcare sector is stable in 2017, despite the sector facing a likely repeal of the ACA.

But, S&P may change its outlook in the near future.

"…we see a growing potential for credit quality deterioration based on the latest results from some providers, and the possibility the outlook could turn negative after the new administration and Congress are sworn in, given their intention to drastically alter the ACA and many long-term legislative tenets of the overall healthcare delivery system."

Becker’s Hospital CFO. January 10, 2016.  
2005-16 rural hospital closures: Where were they?
Between January 2005 and December 2016, 122 rural hospitals have closed
Patient Cost Sharing Rose 6X Faster Than Wages from 2010 to 2015!

Deductibles Rising Much Faster Than Premiums, Wages, and Inflation

- Overall Inflation
- Workers Earnings
- Single Coverage Deductibles, all Workers
- Single Coverage Premiums

2010: Overall Inflation = 9%, Workers Earnings = 10%, Single Coverage Deductibles = 10%, Single Coverage Premiums = 9%
2011: Overall Inflation = 10%, Workers Earnings = 11%, Single Coverage Deductibles = 11%, Single Coverage Premiums = 10%
2012: Overall Inflation = 11%, Workers Earnings = 12%, Single Coverage Deductibles = 12%, Single Coverage Premiums = 11%
2013: Overall Inflation = 12%, Workers Earnings = 13%, Single Coverage Deductibles = 13%, Single Coverage Premiums = 12%
2014: Overall Inflation = 13%, Workers Earnings = 14%, Single Coverage Deductibles = 14%, Single Coverage Premiums = 13%
2015: Overall Inflation = 14%, Workers Earnings = 15%, Single Coverage Deductibles = 15%, Single Coverage Premiums = 14%

NOTE: Average general annual deductible is among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.

Deductibles account for less than a quarter of cost-sharing payments in 2004, but almost half in 2014.

Distribution of cost-sharing payments by type, 2004-2014

- **Deductibles**
- **Copayments**
- **Coinsurance**

Price is only an Issue when there is an absence of value!
How you can find a cheaper MRI

HealthEngine enables people to shop by price for medical treatments

BY KRISTEN SCHORSCH

In a world where people can comparison-shop for everything from an apartment to toothpaste with a few taps on a screen, good luck finding how much a hip replacement or MRI costs. Through a website that lists thousands of health services, employees used the site to book more than a dozen services, reducing their bills by $21,000, Village Manager Paul Grimes says. He estimates the savings will likely increase. "Now that it's the employees' money, they've got skin in the game," he says.

Employees save an average $965 per booking, or 50 percent of the rate their insurer had negotiated with a doctor or facility for the service, says HealthEngine's founder and business focused on the small percentage of people with private insurance in the U.K. and Ireland, saving customers and their employers money by having hospitals and other facilities compete for one fee for a bundle of services. He sold that company in 2011 for an undisclosed amount to private-equity investors.

Chicago-based HealthEngine, which is anticipating up to $9 million in revenue in 2016, has a searchable database with 300 of the largest medical facilities in the city, including Gundersen Health System, Advocate Health Care, and Rush University Medical Center. The company has partnered with airmall operator NHP, which plans to add HealthEngine's technology to the travel hubs at O'Hare and Midway airports later this year.

"HealthEngine is a one-stop resource to help health systems self-promote and compete for business," says Chris Westfall, CEO of NHP.

"We want to offer a user-friendly way to give patients more information and an opportunity to compare costs,“ Grimes says.

NHP plans to roll out the technology to 150 airports nationwide in the next two years.

HealthEngine is one of the latest in a growing number of companies that want to help customers shop for medical services. "HealthEngine is the real deal," says John Kinkade, CEO of inflatable surgery center iSurgery, which started hiring patients in group medical practices in 2012. "I've watched them grow, and they've worked their butts off."
AVOIDABLE DEATH IN HOSPITALS

206,000+
avoidable deaths in hospitals

Your Risk of Death at a Hospital

Compared to an A hospital, your risk of dying increases...

A

B

C

D

F

8.5%

35.2%

49.8%

33,459 lives

could be saved every year if B, C, D, and F hospitals improved their patient safety record to that achieved by A hospitals.

While “A” hospitals have better performance on safety than hospitals with lower grades, they still have opportunities for improvement and to save lives.

Visit hospitalsafetyscore.org to see how your local hospital performed in the Spring 2016 Hospital Safety Score.

Sources:
http://www.propublica.org/story/1407219/1000000-americans_die_each_year_from_prescription_drugs
http://www.hhs.gov/cwu/services/safety-watchdog-reports.pdf
Disruptive Leadership Questions:

How Can You Save Money for Your Patients? Provide VALUE?
Give them Better Experience?
Give them safer care?
And,
Still Stay in Business???
About $165 million was saved in the 17 medical marijuana states in 2013. The rough estimated annual Medicare prescription savings would be nearly half a billion dollars if all 50 states were to implement similar programs.
Andy Slavitts, MD, Administrator for CMS, describes health care as the "trifecta" of data because it includes personal, medical and financial information on millions of individuals. It's literally a treasure trove of information that could be mined for nefarious purposes. Importantly, the health care industry is ill-equipped to handle the challenge.
Cybersecurity/ERM: A Time to Worry. 3 Levels of Risk:

1. Data Breach and Theft.
2. Ransom Attack.
3. Terror Attack using “Internet of Things.” Or, targeted murder or assassination.
Cybersecurity/ERM: A Time to Worry. 3 Levels of Risk:

1. Data Breach and Theft. Has already happened to Hospitals, Systems, and Insurance Companies Many Times. Patient data sells for more money than any other kind of information on the black market.

More than 100 million medical records were stolen in 2015 — some for sale on the black market or use in Medicare fraud, some by state actors, apparently for intelligence purposes.
Cybersecurity/ERM: A Time to Worry. 3 Levels of Risk:

2. Ransom Attack. At least 14 hospitals and systems attacked in 2016 as of October. Adding insult to injury, the healthcare industry is hit significantly harder by ransomware than in any other — 88 percent of attacks hit hospitals.
Cybersecurity/ERM: A Time to Worry. 3 Levels of Risk:

3. Terror Attack using “Internet of Things.”
Imagine: taking control of CT or other medical device to over-radiate patients, or alter Test results, or scramble EHRs, ....
Could be extreme or subtle. Undermine confidence in an individual hospital or system, or in the entire US healthcare system.
Cybersecurity/ERM: A Time for Boards to ACT.

“It’s only a matter of time before someone gets hurt,” Sen. Sheldon Whitehouse (D-R.I.) said during a hearing in July after well-publicized ransomware attacks hit hospitals in Kentucky, California and the nation’s capital.

Politico. "Cyber ransom attacks panic hospitals, alarm Congress". July 18, 2016
U.S. warns of unusual cybersecurity flaw in heart devices

“WASHINGTON (AP) — The Homeland Security Department warned Tuesday about an unusual cybersecurity flaw for one manufacturer’s implantable heart devices that it said could allow hackers to remotely take control of a person’s defibrillator or pacemaker.”
U.S. warns of unusual cybersecurity flaw in heart devices

“The revelations about a hacker’s ability to potentially gain remote access and affect even the workings of a human heart shed light on the pressing problems of cybersecurity in an increasingly networked world.”

“Your average patient isn’t going to be targeted by assassins,” said Matthew Green, an assistant professor for computer science at Johns Hopkins University. “An attack on this level is low-probability but very high-impact.” He called it “probably the most impactful vulnerability I’ve ever seen.”
Cybersecurity/ERM: Why is Healthcare so Vulnerable?

The 35 Billion dollar federal incentive program, which started paying out cash in 2011, “thrust tens of thousands of health care providers into the digital age before they were ready,” says David Brailer, chief of health IT in the second Bush administration. “One area where they were woefully unprepared is security. It created thousands of vulnerabilities in hospitals and practices that lack the budget, staff or access to technical skills to deal with them.”

Politico. "Cyber ransom attacks panic hospitals, alarm Congress". July 18, 2016
Cybersecurity/ERM: Why is Healthcare so Vulnerable?

• The targets of attack within health care are practically limitless. “It’s hard to imagine a more complex and diverse environment than a hospital,” said Dave Palmer of Darktrace, a company whose technology searches for unusual behavior within networks.

• “You have doctors and staff walking around with tablets, millions of dollars worth of scanners and sensitive machinery, all of it digitally integrated. You have visiting consultants there, maybe only a few days a week. Staff, porters, cleaning people.”

Politico. “Cyber ransom attacks panic hospitals, alarm Congress”. July 18, 2016
Cybersecurity/ERM: Questions for Boards to Face A New Governance Challenge

- Do you have a Cybersecurity Strategy? How and how often is your Cyber risk assessed integrity tested?
- How does the Board oversee it? Audit committee, other?
- Do you have IT/Cybersecurity expertise on the board?
- Do you have a CIO position? Is Cybersecurity emphasized in the position description, performance evaluation, compensation?
- Does your hospital/system have Cyber Insurance? What does it cover? What must you do to insure coverage? What does it NOT cover?
Wither the Soul of Healthcare Governance?
Dilemma for Nonprofit Hospitals

Some administrators' and board members' business ties can pose conflicts at facilities

BY ANDREA FULLER AND MELANIE EVANS

Nonprofit hospitals have extensive business ties that can pose conflicts of interests for their administrators and board members, a Wall Street Journal analysis of newly released Internal Revenue Service data shows.

While having relationships with companies doing business with a nonprofit hospital isn't necessarily improper—as long as the deals are disclosed and at market rate—administrators and board members sometimes may be forced to choose between what's best for the hospital and what's best for their private interests.

"Just because something is legal doesn't mean that it's appropriate," said James Orlikoff, a Chicago-based hospital governance consultant. "You run the real risk of violating the public trust."

Hospitals rank among the largest nonprofits in the country. Because they often are big employers and have complex business arrangements, they face these dilemmas far more often than other nonprofits.

<table>
<thead>
<tr>
<th>ORGANIZATION</th>
<th>TOTAL</th>
<th>SHARE THAT HAD A TRANSACTION WITH AN INSIDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>2,353</td>
<td>46%</td>
</tr>
<tr>
<td>Colleges and schools</td>
<td>14,580</td>
<td>12%</td>
</tr>
<tr>
<td>Medical research organizations</td>
<td>313</td>
<td>10%</td>
</tr>
<tr>
<td>Hospital affiliates and clinics</td>
<td>1,558</td>
<td>9%</td>
</tr>
<tr>
<td>Other nonprofits</td>
<td>262,219</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Total nonprofits</strong></td>
<td><strong>281,023</strong></td>
<td><strong>7%</strong></td>
</tr>
</tbody>
</table>

Note: For the fiscal year ending in 2014. Data is based only on nonprofits filing Form 990, typically those with receipts of at least $200,000 or assets of at least $500,000.

Source: IRS

Missouri bankruptcy approved Peabody Energy's $200 million pledge for environmental damage claims in three states, ruling a hearing on Monday. Judge Barry J. Zauzig signed off on the plan, as well as an additional $60 million in bonuses meant to incentivize top executives trying to keep the company afloat.

Louis-based Peabody agreed with the states—Indiana, New Mexico and Wyoming—that up to $200 million in such environmental obligations are secured to creditors tied to the company's reorganization over the finish line.

The company has mines in Illinois and the U.S., where coal is concentrated in the Illinois basin in Colorado and the Illinois basin in the West.

"The coal miner's environment is different than the oil and gas industry," said Orlikoff. "They have a significant amount of environmental obligations."

Dignity Health, the largest for-profit hospital operator in the U.S., says it has received complaints regarding Journey Group's contracts, the company said. "Journey Group is a reputable company with a strong track record of providing quality care. We believe that the patient's best interests are served by these arrangements, and we are confident in our ability to negotiate fair and competitive pricing.

"Dignity Health is committed to providing the highest quality care to our patients, and we will continue to work with Journey Group to ensure that our patients receive the best possible care at the lowest possible cost.

"We are not aware of any conflicts of interest regarding Journey Group's contracts. Any allegations are without merit, and we will continue to work with our partners to ensure that our patients receive the best possible care at the lowest possible cost.

Mr. Fleck said hospital trustees disclose conflicts at each board meeting and, he said, "Journey Group's contracts are not influenced by the hospital's financial needs. We are confident in our ability to negotiate fair and competitive pricing, and we believe that the patient's best interests are served by these arrangements."
“In 2014, 46% of more than 2,300 nonprofit hospitals had at least one trustee or officer with business ties to the hospital—either directly or through a relative. That is compared with 7% of all nonprofits in the Journal’s analysis of tax-return data compiled by the IRS. At more than 270 nonprofit hospitals, the arrangements topped $1 million each. Many of the largest transactions involve hospitals and medical companies that have common board members. But in other instances, hospitals have multimillion-dollar contracts with companies owned by trustees in areas such as advertising and construction.”

http://www.wsj.com/article_email/nonprofit-hospitals-business-relationships-can-present-conflicts-1471797105-IMyQjAxMTE2ODI2MTUyMzE4Wj
“Hospitals frequently conduct business with their board members and officers—far more often than other nonprofits.” Wall Street Journal August 22, 2016
Number of Days a Year Board Currently Spends on Issues

Figures do not sum to total because of rounding
Source: April 2013 McKinsey Global Survey of 772 directors on board practices
The Two Most Common Board Member Complaints I am Hearing:

1. We do not spend enough time as a Board in Strategic or Generative Discussions.

2. Governance is taking more and more of my time. I am a Volunteer and this is too much.
Just like the Population, Board Members are Getting Older...But FASTER!
Figure 2.7 – Board Age

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2011</th>
<th>2014</th>
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<tbody>
<tr>
<td>&lt;= 50</td>
<td>29%</td>
<td>24%</td>
<td>21%</td>
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<tr>
<td>51-70</td>
<td>62%</td>
<td>67%</td>
<td>68%</td>
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<tr>
<td>&gt;= 71</td>
<td>9%</td>
<td>9%</td>
<td>10%</td>
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<td></td>
<td>Freestanding Hospital Board</td>
<td>Hospital Subsidiary Board</td>
<td>System Headquarters Board</td>
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<tr>
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<tr>
<td>Caucasian</td>
<td>90%</td>
<td>86%</td>
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<tr>
<td>African American</td>
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<td>6%</td>
<td>7%</td>
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<tr>
<td>Hispanic/Latino</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
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<tr>
<td>Asian/Pacific Islander</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>American Indian</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>4%</td>
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<td>Male</td>
<td>72%</td>
<td>69%</td>
<td>76%</td>
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<tr>
<td>Female</td>
<td>28%</td>
<td>31%</td>
<td>24%</td>
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<tr>
<td><strong>Age</strong></td>
<td></td>
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<tr>
<td>&lt;=50</td>
<td>17%</td>
<td>19%</td>
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<td>70%</td>
<td>81%</td>
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<td>11%</td>
<td>7%</td>
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<tr>
<td><strong>Clinical Background</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Physician</td>
<td>17%</td>
<td>22%</td>
<td>26%</td>
</tr>
<tr>
<td>Nurse</td>
<td>4%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Other Clinician (e.g., pharmacist, therapist)</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Some Interesting Highlights from the Survey

- Board Members are Getting Older.
- Nearly 40% of Boards DID NOT use competencies in the selection process for new board members OR new Board Chairs.
- 80% of Boards reported that NO Board member has been replaced or not been re-nominated because of failure to demonstrate necessary competencies.
- Just over 50% of Boards did a self assessment in 2014; and hardly ANY did performance evaluation of individual trustees or of Board Chairs.
- Most boards did not use assessment results in determining if a board member should be reappointed.

American Hospital Association’s Center for Healthcare Governance. 2014 National Health Care Governance Survey
Some Interesting Highlights from the Survey

- 88% of Boards Do Not Compensate their Members (same as in 2011).
- Only 52% of Boards use Electronic Board Portals for Governance Information and Agenda Materials.

American Hospital Association’s Center for Healthcare Governance. 2014 National Health Care Governance Survey
But, I Am An Older Board Member and I am HIP!

Old People
It's funny when they think they are 'hip'...
A Leadership Law

There Can Be No Leadership Success without Leadership Succession.
“Real teams don’t emerge unless individuals on them take risks involving conflict, trust, interdependence & hard work.”

Katzenbach & Smith
GREAT TEAMS HAVE GOOD FIGHTS!

• The complete absence of conflict in a board or committee (team) is *not* harmony, it’s more likely apathy.

• Great teams have these characteristics:
  • they focus on the facts or the tasks
  • they generate and truly consider alternatives
  • they create common goals
  • they use humor
  • they balance the power structure
  • they seek consensus with qualification
Critical Questioning, Challenge, Loyal Dissent, Support of Decisions, Strategy, CEO
Critical Questioning, Challenge, Loyal Dissent

Support of Decisions, Strategy, CEO

PRODUCTIVE DISAGREEMENT
“GENTLEMEN, I TAKE IT THAT WE ARE IN COMPLETE AGREEMENT ON THE DECISION HERE. THEN, I PROPOSE THAT WE POSTPONE FURTHER DISCUSSION TO GIVE OURSELVES TIME TO DEVELOP DISAGREEMENT AND PERHAPS GAIN SOME UNDERSTANDING OF WHAT THE DECISION IS ALL ABOUT”

Alfred Sloan: GM Chairman and CEO from 1923-1956

Quoted in New Yorker, March 8, 2004 p. 30
“To make more effective decisions, develop disagreement rather than consensus. Disagreement provides alternatives and makes you think more deeply about the issue.

In fact, if you don’t have disagreement, you are not ready to make a decision”

Peter Drucker
KEY DISRUPTIVE GOVERNANCE PRINCIPLES:

1. Competency-Based Board Composition.
2. Board Member Performance Evaluation.
3. Outside Members!
4. A Clear Leadership Focus. The purpose of Governance is to LEAD, NOT TO REPRESENT Constituencies and Stakeholders.
5. Diversity on the Board – Includes Age Diversity!!
Four Key Interrelated Themes

• Total Cost of Care - Affordability
• Consumer Engagement
• Physician Alignment and Performance
• Governance and Leadership
You Must Have CHAOS Within You to Give Birth to a Dancing Star –

Friedrich Nietzsche  1844-1900