PAYORS AS CHANNEL PARTNERS

Proactively Selecting Partners in an Evolving Insurance Marketplace

Christopher Lloyd
CEO MHMD, The Memorial Hermann Physician Network
CEO MHACO, The Memorial Hermann ACO

Brigitte Nettesheim
Principal, The Chartis Group

July 23, 2015
Today’s Discussion

- Memorial Hermann Health System Enterprise
- Memorial Hermann Accountable Care Organization & Network
- Developing a Proactive Go-to-Market Strategy & Approach
  - Enterprise Level Strategic Alignment
  - Understanding the Market from the Payer Perspective
  - Aligning Targeted Market Segments with MH ACO Value Proposition
- Initial Results Leading to a Proactive Position
The Memorial Hermann Enterprise

$5.5B Total Assets
$4.2B Net Operating Revenue
22,000 Employees; 5,000 Physicians

212 Locations

Market Share Ranking

1st: Aggregate Market Share
1st: Burns
1st: Cardiology
1st: ENT
1st: General Medicine
1st: General Surgery
1st: Neurology
1st: Neurosurgery
1st: Obstetrics
1st: Ophthalmology
1st: Orthopedics
1st: Rehab
1st: Thoracic Surgery
1st: Urology
1st: Vascular
2nd: Gynecology
2nd: Neonatology
2nd: Oncology
2nd: Spine

Inpatient Market Share

Greater Houston MSA 6.36 million population, projected to 7.0 million (2019)
In 2012, we made a Board-level commitment to transform our business and the industry.

As one of the three key tenets of our system strategy, we continue to develop and refine our offerings:

- **Care delivery** – Market leader in health delivery
- **Physicians** – Fully integrated physician network
- **Health Solutions** – Value-added health plans and employer solutions
Integrated Delivery System Assets
An aligned physician-led comprehensive is a point of differentiation providing Memorial Hermann a significant market competitive advantage to compete for populations to manage.

**3 Distinct Practice Models**

- **Employment**
- **Private**
- **Faculty**

Clinically Integrated IPA
Clinical Integration – 2,900
ACO – 2,700
Medical Home – 323

Memorial Hermann Accountable Care Organization
## The Results: Early Wins

### Over 220,000 Lives Under Management

#### Medicare Shared Savings Program (MSSP)
- Highest performing ACO in Year 1 (18 months from July 1, 2012 through December 31, 2013)
- Savings to CMS of nearly $60M

#### Commercial Narrow Network
- Aetna, Memorial Hermann’s Owned Health Plan
  - Membership continues to grow at double digit rates
  - Additional payors, even potential new market entrants, requesting access to MH ACO network as part of product portfolio
  - Incremental financial value to health system estimated at $135 PMPY

#### Medicare Advantage Narrow Network
- Memorial Hermann
  - 1/1/15 launch attracted over 1,600 members via AEP and continue to show signs of growth

---

Success has generated demand to access the MH Accountable Care Network, placing Memorial Hermann in a proactive position as a market shaper through payor channels.
Memorial Hermann ACO’s Proactive Approach

- How did MH ACO approach defining a payor strategy?
- How did MH ACO execute on this approach to the market?
Payors bundle and package health services by building networks and corresponding products that cater to the needs of different consumer market segments, leaving providers in a largely reactive role.

**Purchasers’ Key Questions**
- Which payor best fits my needs, providing:
  - Sufficient network access?
  - Quality healthcare options?
  - Cost mitigation?

**Payors’ Key Questions**
- How do we configure provider networks to best meet the needs of the various purchasers?

**Providers’ Key Questions**
- Are we comfortable with what the payor is proposing?
- What else can we demand from this arrangement?
The Memorial Hermann ACO has reimagined this pathway, taking a proactive payor channel strategy that positions the organization to drive to its objectives in support of strategic growth.

Providers’ Key Questions: Defining Internal Goals
• How can our provider network accelerate achievement of our strategic objectives?
• What do we have to offer that is differentiated and meets the needs of the purchaser?

Providers’ Key Questions: Defining an Approach to Channels
• Which channels do we use to accelerate achievement of strategic objectives:
  o Attract populations?
  o Serve additional patients and additional patient needs?
• How might other/direct to employer channels enable us to achieve goals?

Providers’ Key Questions: Targeting Purchaser Segments
• Which purchaser segments are most attractive given our organization’s unique capabilities and market dynamics?
The Approach

Ensure strategic alignment at the Memorial Hermann enterprise level

- Review enterprise strategy, goals and objectives for clarity in establishing MH ACO payor channel strategy
- Confirm consistency in Enterprise payor relations and MH ACO approach to actively go-to-market
- Support enterprise economic model when establishing MH ACO’s financial risk profile

Understand the market landscape from a payor perspective

- Assess the relative size of market segments with emphasis on shifts across segments and identifying high growth areas
- Evaluate the payor competitive landscape by segment to identify potential partners and/or direct relationships

Align market segments with MH ACO value proposition and determine logical payor channels

- Understand the respective needs of various market segments including key buying characteristics
- Articulate unique value proposition of physician-led narrow network highly integrated with leading health system
- Align market needs with value proposition to identify potential target segments to aggressively pursue
Achieving Enterprise Strategic Alignment

VALIDATE STRATEGIC ALIGNMENT WITH ENTERPRISE HEALTH SYSTEM

✓ ALIGN WITH PHYSICIANS
✓ DELIVER QUALITY CARE
✓ VALUE EMPLOYEES
✓ ACHIEVE OPERATIONAL TARGETS
✓ NURTURE GROWTH AND INNOVATION
✓ CONSUMER CENTRIC
✓ ENHANCE POPULATION HEALTH INFRASTRUCTURE
## Understanding the Market: Purchaser Segments

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Market Segment</th>
<th>Buyer Characteristics</th>
<th>Marketplace / Influencer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commercial Group</strong></td>
<td><strong>National Accounts</strong> 3,000+ Employees</td>
<td>• <strong>Self insured</strong>, mitigating total medical cost paramount</td>
<td>• Consultants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Concern for <strong>network access</strong> across large geography</td>
<td>• Brokers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Sophisticated</strong> buyer / population manager</td>
<td>• Private Exchanges</td>
</tr>
<tr>
<td></td>
<td><strong>Public Sector Labor All Sizes</strong></td>
<td>• Price sensitive, mitigating medical cost trend is core focus</td>
<td>• Consultants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Desire <strong>minimal employee disruption</strong></td>
<td>• Direct</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Long sales cycle</strong> (union and local political barriers)</td>
<td>• Private Exchanges in future</td>
</tr>
<tr>
<td></td>
<td><strong>Middle Market 101+ Employees</strong></td>
<td>• <strong>Price sensitive</strong>, influenced by local provider footprint and reputation</td>
<td>• Brokers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Dependent upon brokers/benefit consultants</strong></td>
<td>• General Agents</td>
</tr>
<tr>
<td></td>
<td><strong>Small Group 1-100 Employees</strong></td>
<td>• Highly price sensitive</td>
<td>• Brokers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Willing tradeoff: network and benefits for low cost</td>
<td>• General Agents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Influenced by local provider footprint and reputation</td>
<td>• Private Exchanges in future</td>
</tr>
<tr>
<td><strong>Individual</strong></td>
<td><strong>Individual</strong></td>
<td>• <strong>Highly price sensitive</strong></td>
<td>• Direct</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Willing tradeoff: network and benefits for low cost</td>
<td>• Exchanges</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Influenced by provider brand/reputation</td>
<td>• Brokers</td>
</tr>
<tr>
<td><strong>Government</strong></td>
<td><strong>Medicare Advantage Group</strong></td>
<td>• <strong>Price sensitive</strong>, disruption viewed as unfavorable</td>
<td>• Consultants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Network composition important</td>
<td>• Direct</td>
</tr>
<tr>
<td></td>
<td><strong>Medicare Advantage Individual</strong></td>
<td>• <strong>Price sensitive</strong></td>
<td>• Brokers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Network composition extremely important</strong></td>
<td>• Exchanges</td>
</tr>
<tr>
<td></td>
<td><strong>Managed Medicaid</strong></td>
<td>• Utilization and care mgmt capabilities paramount</td>
<td>• Direct</td>
</tr>
</tbody>
</table>
Evaluating Purchaser Segments: Size & Growth


Knowledge of the evolving insurance segments informs a multi-year approach to payor contracting and partnerships

<table>
<thead>
<tr>
<th></th>
<th>Commercial - Group</th>
<th>Commercial - Individual</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Middle Group</td>
<td>Small Group</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>651,000</td>
<td>658,000</td>
<td></td>
</tr>
<tr>
<td>2019 est.</td>
<td>521,000</td>
<td>527,000</td>
<td></td>
</tr>
<tr>
<td>Δ</td>
<td>-130,000</td>
<td>-131,000</td>
<td></td>
</tr>
<tr>
<td>%</td>
<td>-20.0%</td>
<td>-20.0%</td>
<td></td>
</tr>
</tbody>
</table>

|                  | Public Exchange    | Private Exchange        | Open Market (<65) |
| 2014             | 20,000             | 197,000                 | 81,000           |
| 2019 est.        | 627,000            | 476,000                 | 107,000          |
| Δ                 | 607,000            | 279,000                 | 26,000           |
| %                 | 3034%              | 142%                    | 31.8%            |

|                  | Medicare Advantage | Mgd. Medicaid          | Uninsured       |
| 2014             | 241,000            | 813,000                 | 1,484,000       |
| 2019 est.        | 413,000            | 850,000                 | 1,440,000       |
| Δ                 | 172,000            | 37,000                  | -44,000         |
| %                 | 71.1%              | 4.4%                    | -3.0%           |

Source: HealthLeaders Interstudy Market Survey (Jan. 2014); Health and Human Services; [www.investmentnews.com](http://www.investmentnews.com), Kaiser Family Foundation Survey for exchange segment assumptions; Texas Workforce Commission; internal MHHS membership data; Truven, RWJ Foundation, Accenture

Note: HealthLeaders enrollment data is supplemented with more recent (Apr. 2014) exchange enrollment data;
MHMD used its segmentation of the purchaser market to assess current and future market attractiveness.

<table>
<thead>
<tr>
<th>Purchaser Segment (number of employees)</th>
<th>Examples</th>
<th>Relative Size</th>
<th>Projected Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector All Sizes</td>
<td>[TRS, United Healthcare, bp]</td>
<td>![Relative Size Icon]</td>
<td>![Projected Growth Icon]</td>
</tr>
<tr>
<td>National Accounts (3,000+)</td>
<td>[ExxonMobil, United Healthcare, bp]</td>
<td>![Relative Size Icon]</td>
<td>![Projected Growth Icon]</td>
</tr>
<tr>
<td>Large Group (500-2,999)</td>
<td>[Pfizer, MetroHealth]</td>
<td>![Relative Size Icon]</td>
<td>![Projected Growth Icon]</td>
</tr>
<tr>
<td>Middle Group (100-499)</td>
<td>[Sweeney Community Hospital, United Healthcare]</td>
<td>![Relative Size Icon]</td>
<td>![Projected Growth Icon]</td>
</tr>
<tr>
<td>Small Group (2-99)</td>
<td>[Selmon, Monarch]</td>
<td>![Relative Size Icon]</td>
<td>![Projected Growth Icon]</td>
</tr>
<tr>
<td>Private Exchange</td>
<td>[Towers Watson, Aon, Cigna]</td>
<td>![Relative Size Icon]</td>
<td>![Projected Growth Icon]</td>
</tr>
<tr>
<td>Public Exchange</td>
<td>[HealthCare.gov, UnitedHealthcare]</td>
<td>![Relative Size Icon]</td>
<td>![Projected Growth Icon]</td>
</tr>
<tr>
<td>Open Market (Age &lt; 65)</td>
<td>[Aetna, UnitedHealthcare]</td>
<td>![Relative Size Icon]</td>
<td>![Projected Growth Icon]</td>
</tr>
<tr>
<td>Medicare Advantage</td>
<td>[Memorial Hermann Health Solutions, Universal American]</td>
<td>![Relative Size Icon]</td>
<td>![Projected Growth Icon]</td>
</tr>
<tr>
<td>Managed Medicaid</td>
<td>[Molina Healthcare, Community HealthChoice]</td>
<td>![Relative Size Icon]</td>
<td>![Projected Growth Icon]</td>
</tr>
</tbody>
</table>

*Source: Market Segment Framework developed by Chartis*
Evaluating the Market Landscape: Competition

Major national payors are dominant in the larger commercial group purchaser segments while “down market” segments appear to be more fragmented.

**Market Share (Lives) of BUCA** plans vs. All Others

*Dominated by strong, national players*

- **Public Sector**: 300,330 (BUCA 4.3%, All Other 12.0%)
- **National Accounts**
  - **Large Group**: 712,023 (BUCA 10,846, All Other 4.3%)
- **Middle Group**: 622,998 (BUCA 27,761, All Other 15.3%)
- **Small Group**: 557,580 (BUCA 100,769, All Other 15.3%)

*Smaller, local payers enjoying some success*

- **Private Exchange**
  - **BUCA**: 2,400 (12.0%)
- **Public Exchange**
  - **BUCA**: 40,250 (20.4%)
- **Open Market (<65)**
  - **BUCA**: 16,720 (20.6%)
- **Medicare Advantage**
  - **BUCA**: 131,372 (54.4%)
- **Managed Medicaid**
  - **BUCA**: 88,392 (89.1%)

Suggests working with large national plans to attract populations across the larger Commercial Group Segments with opportunity to build more direct offerings in the individual decision-maker segments.

* Does not include ~ 32,000 MHHS self-insured lives administered by Health Solutions; ** BUCA = BCBSTX, United, Cigna, Aetna

Source: HealthLeaders Interstudy Market Survey (Jan. 2014); BCMS Gold (employer contracts); Hoover’s Dun & Bradstreet, Chartis analysis; Blue = Health Solution value proposition strategic segments
Evaluating the Market Landscape: Competition

A closer look at payor share by market segment further defines who may be best suited for specific partnership arrangements that best fit Memorial Hermann’s objectives for channel partners.

**Commercial** membership is dominated by 4 large payors

**Medicare Advantage** is a more fragmented market, evenly distributed across 10 payors averaging approximately 24K lives each

**Medicaid** populations are managed primarily by three small payors

**MHHS** accounts for 1.6% of total commercial enrollment

---

**Source:** HealthLeaders Interstudy Market Survey (Jan. 2014); Health and Human Services; [www.investmentnews.com](http://www.investmentnews.com), Kaiser Family Foundation Survey for exchange segment assumptions; internal MHHS membership data

**Note:** HealthLeaders enrollment data is supplemented with more recent (Apr. 2014) exchange enrollment data.
Assessing Purchaser Priorities

Health insurance products are designed with numerous components that can be simplified into cost, network access, and experience. Purchasers will make decisions based on their prioritization of tradeoffs across these components.

<table>
<thead>
<tr>
<th>Decision Driver</th>
<th>Purchaser Perspectives</th>
</tr>
</thead>
</table>
| **Cost**         | • Differentiated price at the point of sale  
                  • Cost trend migration over time |
| **Network Access** | • Smaller service area with an integrated provider network  
                          • Larger geographic footprint with choice of providers and services |
| **Experience**   | • Differentiated, high quality, consistent service and care  
                          • Minimal disruption and ease of administration  
                          • Recognition attributed to a brand and established business  
                          • More often a reason to terminate versus selecting coverage |

*Purchaser segments assess value across the similar categories, yet differ significantly in the prioritization of categories.*
MH Accountable Care Network Value Proposition Alignment with Purchaser Segment Priorities

Value Proposition: a unique suite of product offerings from a highly integrated health plan and health system through which the delivery of care is led by a high performing physician organization.

**Attractiveness of Value Proposition to Segments**

- **Cost**
  - Lower priced offerings
  - Ability to mitigate cost trends over time
  - Predictability of cost

- **Network & Access**
  - Comprehensive narrow network in a sub-geography of the market
  - CIN-led with integrated acute, post-acute and primary care

- **Experience**
  - Primary care centric
  - Cohesive service operations between health plan, health system, and physician network

**Define the unique value proposition**

**By segment, examine the relative attractiveness of product attributes**

**Understand and evaluate payor strategies and competencies**

---

**Go-to-Market Approach Effectively Utilizing Payors as Channel Partners**
The Results: Defining Appropriate Targets

Taking a more proactive approach to the market enabled Memorial Hermann to identify a set of targets and respective payor channel partners to support its overall strategic goals.

- Ensure strategic alignment at the Memorial Hermann enterprise level
- Understand the market landscape from a payor perspective
- Align market segments with MH ACO value proposition and determine payor channel partners

Selection of a diverse but targeted set of partners selected to support the organization’s strategic growth objectives
APPENDIX
The Relationship Between Providers and Payors Has Changed and Grown Over Time

- **1929**: Origins of first healthcare co-ops
- **1932**: AMA takes strong position against pre-paid plans favoring indemnity plans
- **1930s-1970s**: Steady health plan growth favoring indemnity plans in most markets
- **1973**: Federal HMO Act (start-up funding and improved access to employer-based market)
- **1985 – Mid-1990s**: Rapid consolidation of HMOs (Height of HMO era)
- **2003**: Medicare Modernization Act (incentives to consumer-driven health plans)
- **2003-2010**: Slow adoption of CDHPs
- **Late 1990s-Early 2000s**: Proliferation of PPO and POS plans (Backlash to HMO era)
- **2010-2014**: Proliferation of PPO and POS plans (Backlash to HMO era)
- **2010**: Enactment of PPACA
- **2010-2014**: Cost shifting to individuals
- **2010-2014**: Individual exchange as new insurance marketplace
- **2010-2014**: Acceleration of value-based reimbursement
- **2010-2014**: Providers are contracting directly with employers

**Impact of Reform**
- Value-based reimbursement accelerates rapidly with varying degrees of success
- Rapid shift of responsibility for healthcare costs to individual consumer
- Consolidation of payers and providers to gain scale and leverage against one another
- Providers have attempted to bypass payers and contract directly with employers

**Source:** P.D. Fox and P. R. Kongstvedt, “Chapter 1: An Overview of Managed Care”