Competition and Strategies in Minnesota’s Provider and Payer Markets

Presented to:
Minnesota Medical Group Management Association
July 28, 2017
Allan Baumgarten, J.D., M.A.
Overview

- ACA gave a push to trends already in motion:
  - Consolidation of health plans, provider systems
  - Move to narrow networks, high deductible health plans
  - Renewed interest in hospital-owned health plans

- What is different about Minnesota? “We excel in recounting all the ways that we excel”
Presentation Outline - 1

- **Key health plan trends**
  - Growth and profitability by line of business
  - Disruption in state programs
  - Transition from Medicare Cost plans

- **Key provider system trends – focus on growth**
  - Continued profitability with declining inpatient days
  - Significant capital investment
  - Further consolidation and expansion of market boundaries
Strategies of health plans
- Focus on niche lines of business/growth opportunities
- Narrow networks and risk-sharing

Strategies of provider systems:
- Consolidation, partnerships and convenient care
- Focus on small clinics
- Emergence of regional systems
- Health insurance plans

Outlook for 2017
- Looking beyond the ACA coverage expansions – the big picture of likely changes
Health Plan Trends

- Growth, profitability by line of business
  - Evolution of Minnesota HMOs
  - Medicare Advantage and Cost plans
    - Transition for 2018: uncertainty and opportunity
  - Individual plans, narrow (or high performance) networks and risk-sharing

- State public programs
  - Administrative shortcomings – compare to Michigan
  - Impact of competitive bid
Health Plan Trends -2

- Decline of full risk capitation arrangements
  - Impact of limited risk contracts for Medicare
  - Incentives under commercial contracts
- Challenges of individual market – declining enrollment, even with rebates
- Role of national health plans:
  - Goal of new competition: Possible entry of national, for-profit HMO companies through new plans or acquisitions: what is the likelihood?
Health Plan Trends:
HMO Enrollment, 1987-2016

- Medicare
- Public Programs
- Self-funded Employer (Est)
- Commercial Insured

Year: 1987-2016

- Vertical axis: Number of enrollees (0-2,500,000)
- Horizontal axis: Years (1987-2016)
Enrollment in Individual Plans, 2013-2017

2013 Mar-14 Mar-15 Mar-16 March-17

0 50,000 100,000 150,000 200,000 250,000 300,000 350,000

HMO

PPO

2013 Mar-14 Mar-15 Mar-16 March-17

0 50,000 100,000 150,000 200,000 250,000 300,000 350,000
Provider System Trends

- Evolution of systems, market share
- Continued strong profitability
- Declining or flat inpatient utilization
- Expanding geographic reach, moving toward population health and risk-sharing; also covering bets for volume incentives
## Largest Hospital Systems in Minnesota by Revenues

<table>
<thead>
<tr>
<th>System</th>
<th>Net Patient Revenues</th>
<th>Net Income</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fairview/HealthEast</td>
<td>$3,115,066,513</td>
<td>$232,076,123</td>
<td>7.5%</td>
</tr>
<tr>
<td>Allina</td>
<td>$2,966,580,029</td>
<td>$272,337,613</td>
<td>9.2%</td>
</tr>
<tr>
<td>Mayo Clinic</td>
<td>$2,862,845,059</td>
<td>$504,702,663</td>
<td>17.6%</td>
</tr>
<tr>
<td>Sanford Health</td>
<td>$2,234,177,344</td>
<td>$275,393,591</td>
<td>12.3%</td>
</tr>
<tr>
<td>Essentia</td>
<td>$1,650,580,496</td>
<td>$109,305,794</td>
<td>6.6%</td>
</tr>
<tr>
<td>HealthPartners</td>
<td>$1,431,401,372</td>
<td>$35,864,005</td>
<td>2.5%</td>
</tr>
<tr>
<td>Avera</td>
<td>$1,064,566,699</td>
<td>$46,108,699</td>
<td>4.3%</td>
</tr>
<tr>
<td>CentraCare</td>
<td>$956,503,870</td>
<td>$184,882,103</td>
<td>19.3%</td>
</tr>
<tr>
<td>Hennepin Health</td>
<td>$831,624,000</td>
<td>$40,273,000</td>
<td>4.8%</td>
</tr>
<tr>
<td>North Memorial</td>
<td>$800,627,280</td>
<td>-$3,051,084</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Children's</td>
<td>$730,224,727</td>
<td>$38,842,115</td>
<td>5.3%</td>
</tr>
</tbody>
</table>
### Largest Hospital Systems in Minnesota by Inpatient Days

<table>
<thead>
<tr>
<th>System</th>
<th>Set Up Beds</th>
<th>Inpatient days</th>
<th>Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fairview/HealthEast</td>
<td>1,888</td>
<td>471,098</td>
<td>68.5%</td>
</tr>
<tr>
<td>Allina</td>
<td>1,653</td>
<td>425,966</td>
<td>70.6%</td>
</tr>
<tr>
<td>Mayo Clinic</td>
<td>1,637</td>
<td>364,625</td>
<td>61.0%</td>
</tr>
<tr>
<td>Sanford Health</td>
<td>1,188</td>
<td>253,780</td>
<td>58.7%</td>
</tr>
<tr>
<td>Health Partners</td>
<td>944</td>
<td>225,118</td>
<td>65.9%</td>
</tr>
<tr>
<td>Essentia</td>
<td>890</td>
<td>177,099</td>
<td>56.2%</td>
</tr>
<tr>
<td>CentraCare</td>
<td>598</td>
<td>126,557</td>
<td>58.0%</td>
</tr>
<tr>
<td>Avera</td>
<td>523</td>
<td>124,027</td>
<td>65.0%</td>
</tr>
<tr>
<td>North Memorial</td>
<td>479</td>
<td>110,236</td>
<td>63.1%</td>
</tr>
<tr>
<td>Children's</td>
<td>411</td>
<td>101,111</td>
<td>73.5%</td>
</tr>
<tr>
<td>Hennepin Health</td>
<td>340</td>
<td>86,850</td>
<td>71.1%</td>
</tr>
</tbody>
</table>
Twin Cities Hospital Market
Share by Revenue, 2015

- Fairview/HealthEast (30.1%)
- Allina (25.8%)
- HealthPartners (14.7%)
- Hennepin County (8.5%)
- North Memorial (8.2%)
- Children's (7.5%)
- Other (5.2%)
Net Income for Twin Cities Hospitals, 2001-2015

- Allina
- Fairview
- HealthEast
- HealthPartners
- Children's
- Park Nicollet*
- Hennepin County
- North Memorial
- Other
- TOTAL
Inpatient Days in Twin Cities Hospitals, 2005-2015

- Other
- Hennepin County
- Children's
- North Memorial
- HealthEast
- HealthPartners
- Park Nicollet*
- Fairview
- Allina
Health Plan Strategies

- Limited networks, high deductible health plans
- Provider payment increases tied to performance, participation in primary care home models, care coordination
- Expansion of Medicaid plans into individual and small business
- Transition to Medicare Advantage
Provider System Strategies-1

- Expansion/Consolidation/Capital Investment; Going beyond traditional local market boundaries
  - Impact of Fairview/HealthEast merger
  - Case of HealthPartners - UnityPoint
  - Challenge for independent hospitals – recent examples of Grand Itasca, District One

- Convenient care – retail, urgent care and free-standing emergency departments
Moving toward population health and Triple Aim; preparing for increased performance-based payment and risk sharing while also covering bets for volume incentives

Strategic partnerships – Clinically integrated networks – do they add value?

National networks: Mayo, Cleveland Clinic, MD Anderson
Provider System Strategies 3

- Clinically integrated networks: Where is the extra value?
- Accountable Care Organizations
- Insurance plans – what is the outlook for provider-sponsored health plans?
- Look at largest provider systems and their strategies: Fairview, HealthPartners, Allina
- Transition for Medicare Cost to full-risk: new opportunities for providers?
Provider Payment Trends

- Most payment still tied to discounted fee-for-service – rewarding volume
- CMS goal: 50% of Medicare payments based on quality by 2018. MACRA pushes movement to alternative payment methods
- UnitedHealthcare goal: increase payments tied to value to $65 billion in 2018
- What is actually happening for commercial insurance?
Provider System Strategies 4: Smaller Clinics

- Impact of MACRA, general trend toward performance-based payment
- Participation in data reporting on quality and cost measures
- Impact of trends toward narrow networks, high deductible plans
Solo Practitioners With Highest Diabetes Care Ratings
Outlook

- Continued consolidation and partnerships for both health plans and provider systems
- Impact of Republican bills – look beyond reversing ACA coverage expansions to:
  - Undoing Medicaid expansion, slashing $$
  - Loss of group consumer protections
  - Medicare ACOs, bundled payments
  - Medicare change to premium support
  - Medicaid block grants to states
For Additional Information

Allan Baumgarten
www.AllanBaumgarten.com
4800 W. 27th Street
Minneapolis, MN  55416

- E-mail: Baumg010@umn.edu
- 952/925-9121
- Twitter @allanbaumgarten