The Advisory Board Company | Philanthropy Leadership Council

NACCDO 2014

State of the Industry 2013 - 2014

Current Challenges to the Case for Support of Hospitals and Health Systems

Michael Hubble
hubblem@advisory.com

Taking the Donor Perspective

Three Lenses for Evaluating the Philanthropic Environment in Health Care

Donor-Centric Lenses

The Economy and Perception of Personal Economic Security

"MY CHECKBOOK"

Am I in the financial position to donate?

Hospital Performance and Perception of Need in Health Care

"THEIR STORY"

Is the organization a worthy cause?

Personal Motives and Perception of Value and Impact

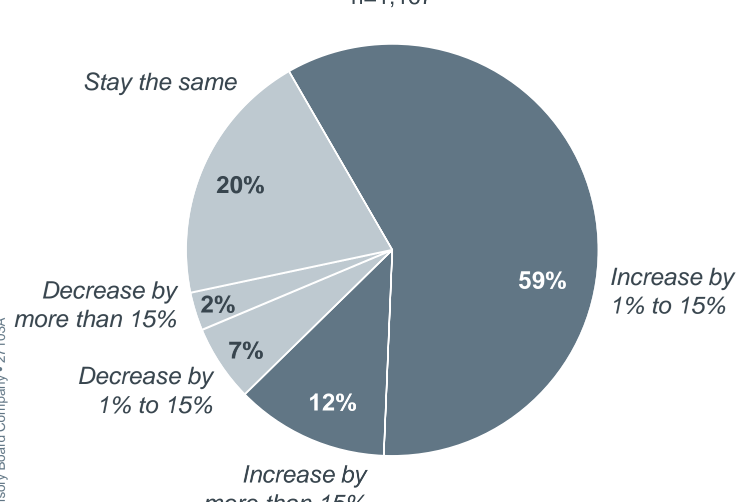
"OUR IMPACT"

Will my gift make a difference?

©2013 The Advisory Board Company • 27103A

Source: Philanthropy Leadership Council interviews and analysis.

Charities Feeling Bullish About 2013



Rising Consumer Confidence

"Overall consumer confidence in the economy rose last year and that created a more positive environment for charities to go out in and build relationships [with donors]."

Andrew Watt, President
Association of Fundraising Professionals

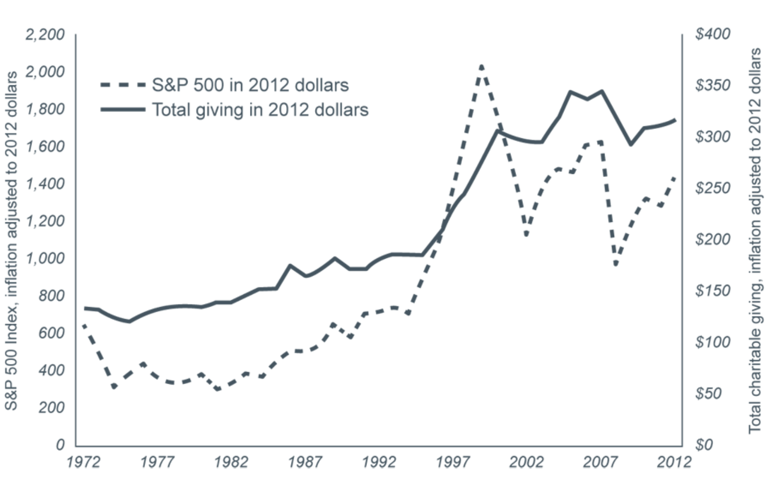
Source: Flandez R, "70% of Charities Forecast Rise in Donations in 2013," *Chronicle of Philanthropy*, April 8, 2013, available at: www.philanthropy.com, accessed June 6, 2013; Philanthropy Leadership Council interviews and analysis.

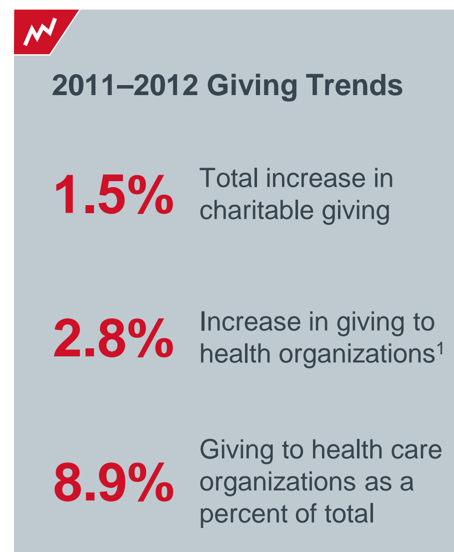
©2013 The Advisory Board Company • 27103A

Giving Tends to Follow the Economy

Total Charitable Giving and S&P 500 Index

1972-2012 (in billions of inflation-adjusted dollars)





1) Health organizations include: Health care institutions and services; mental health and crisis intervention; diseases, disorders, and medical disciplines; and medical research.

Source: Giving USA Foundation™, "GIVING USA 2013," *Lilly Family School of Philanthropy, Indiana University*, 2013; Philanthropy Leadership Council interviews and analysis.

©2013 The Advisory Board Company • 27103A

Taking the Donor Perspective

Three Lenses for Evaluating the Philanthropic Environment in Health Care

Donor-Centric Lenses

The Economy and Perception of Personal Economic Security

"MY CHECKBOOK"

Am I in the financial position to donate?

Hospital Performance and Perception of Need in Health Care

"THEIR STORY"

Is the organization a worthy cause?

Personal Motives and Perception of Value and Impact

"OUR IMPACT"

Will my gift make a difference?

Source: Philanthropy Leadership Council interviews and analysis.

©2013 The Advisory Board Company • 27103A

Other Headwinds Challenging Our Case for Support

Health Care Issues at the Forefront

Top Three Case Vulnerabilities

1 Increasing Transparency into Hospital Finances

2 Politics of the Affordable Care Act

3 The Health System “Identity Crisis”

©2013 The Advisory Board Company • 27103A

Source: Philanthropy Leadership Council interviews and analysis.

That's One Way to Sell Magazines

"Exposé" Shines Spotlight on Hospital Pricing

"When you look behind the bills that Sean Recchi and other patients receive, you see nothing rational—no rhyme or reason—about the costs they faced in a marketplace they enter through no choice of their own. The only constant is the sticker shock for the patients who are asked to pay."

Steven Brill
Time Magazine
March 2013

Cited Examples of Hospital Pricing

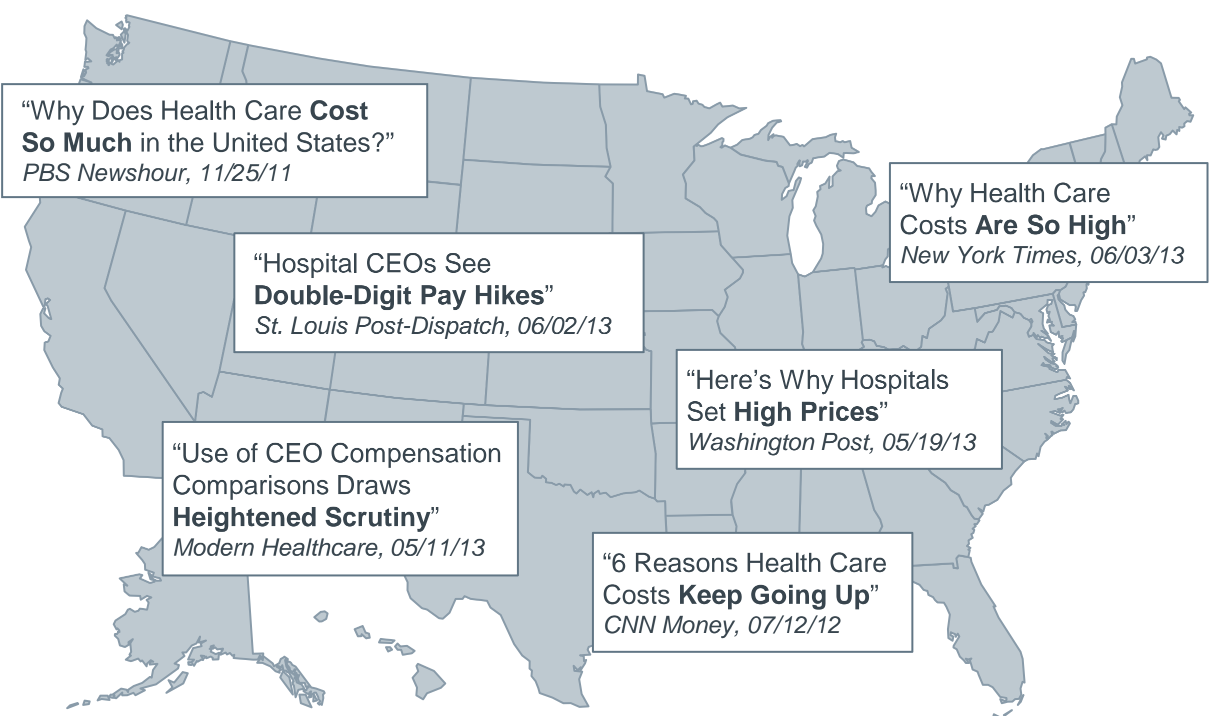
$1.50	$18	$77
Single pill of acetaminophen	One diabetes test strip	Box of sterile gauze pads

Source: Brill S, "Bitter Pill: Why Medical Bills Are Killing Us," *Time*, March 4, 2013; Advisory Board interviews and analysis. The TIME logo is the registered trademark of Time, Inc.

©2013 The Advisory Board Company • 27103A

The PR Bombardment Continues

Health Care Costs Making National Headlines

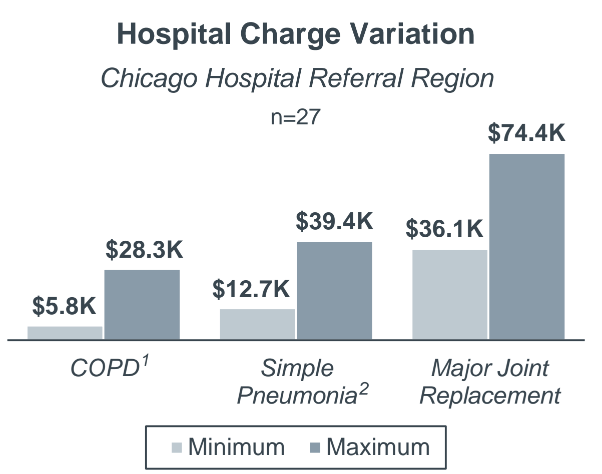


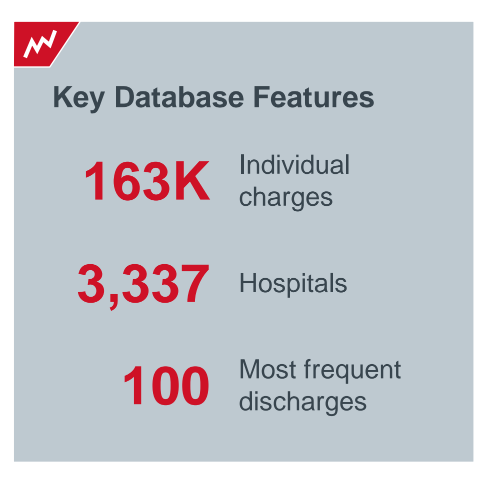
Source: Clune S and Kane J, "Why Does Health Care Cost So Much in the United States?" *PBS Newshour*, November 25, 2011; Doyle J, "Hospital CEOs See Double-Digit Pay Hikes," *St. Louis Post-Dispatch*, June 2, 2013; Evans M, "Use of CEO Compensation Comparisons Draws Heightened Scrutiny," *Modern Healthcare*, May 11, 2013; Kavilanz P, "6 Reasons Health Care Costs Keep Going Up," *CNN Money*, July 12, 2012; Kliff S, "Here's Why Hospitals Set High Prices," *Washington Post*, May 19, 2013; "Why Health Care Costs Are So High," *New York Times*, June 3, 2013; Philanthropy Leadership Council interviews and analysis.

©2013 The Advisory Board Company • 27103A

CMS Fans the Flames on Hospital Pricing

New Database Profiles Charges for Most Frequent Discharges





"Our purpose for posting this information is to shine a much stronger light on these practices. What drives some hospitals to have significantly higher charges than their geographic peers? I don't think anyone here has come up with a good economic argument."

Jonathan Blum
Deputy Administrator, CMS

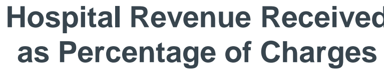
1) Chronic obstructive pulmonary disease.
2) Simple Pneumonia and Pleurisy with complications and comorbidities.

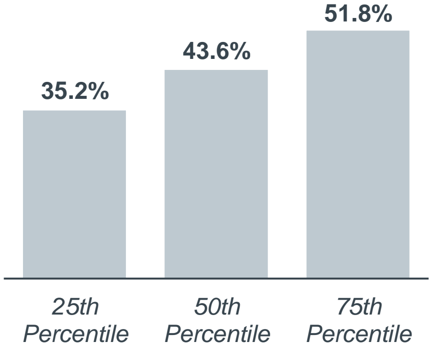
Source: CMS, Medicare Provider Charge Data, May 2013, available at: www.cms.gov; Young J and Kirkham C, "Hospital Prices No Longer Secret As New Data Reveals Bewildering System, Staggering Cost Differences," *Huffington Post*, May 8, 2013; Advisory Board interviews and analysis.

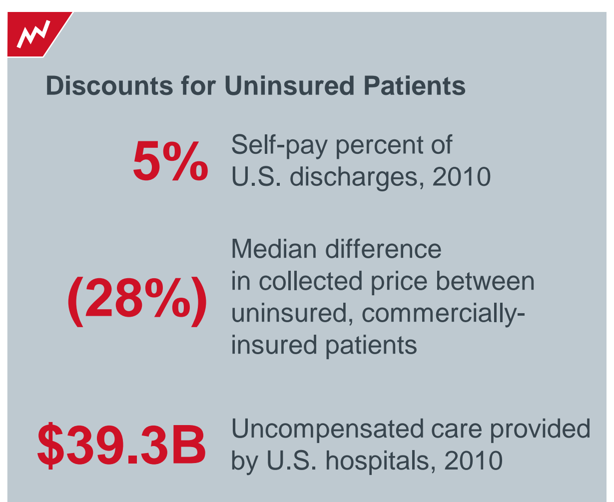
©2013 The Advisory Board Company • 27103A

Charges a Far Cry from Paid Prices

Most Pay Less than Fifty Cents on the Dollar





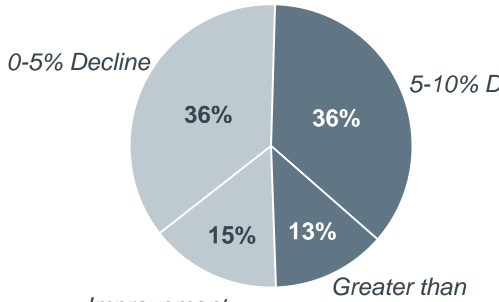


Source: *2012 Almanac of Hospital Financial and Operating Indicators*, Optuminsight Inc, 2011; CDC, "National Hospital Discharge Survey," 2010, available at: www.cdc.gov/nchs; Melnick GA and Fonkych K, "Hospital Pricing and the Uninsured: Do the Uninsured Pay Higher Prices?" *Health Affairs*, 2008, 27: w116-22; AHA, "Uncompensated Care Cost Fact Sheet," January 2013, available at: http://www.aha.org; Advisory Board interviews and analysis.

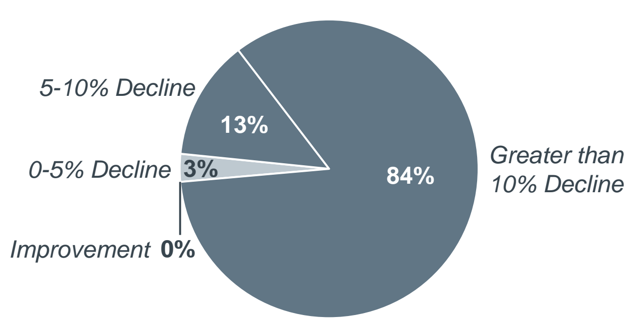
©2013 The Advisory Board Company • 27103A

Cross-Subsidy Economics on the Brink of Failure

Margin Improvement Analysis Results[1]



Ten-Year Margin Projections



Four Forces Eroding Future Margins

- Shifting payer mix: most demand growth over the next decade comes from publicly insured patients
- Continuing cost pressure: projected annualized commercial price growth half of historical norms
- Decelerating growth in reimbursement rates: commercial cost shifting stretched to the limit
- Deteriorating case mix: medical demand from aging population threatens to crowd out profitable procedures

1) Projected results for health care industry if hospitals do nothing to alter current course, based on the Health Care Advisory Board's *Margin Improvement Intensive* that projects margin performance based on key financial and operational metrics from 158 hospitals.

Source: Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27103A

Responding to "Sticker Shock"

Talking Points for Donor Conversations

Explain that hospitals and health systems are facing more financial pressures than they ever have; be prepared to talk about cuts to Medicare, Medicaid payments and that the population is becoming more expensive to care for

Emphasize that philanthropy has essential role to play in ensuring that hospitals can continue to serve their communities, especially as pressure increases on operating margins; know your institution's operating margin

If your operating margin is particularly healthy, reinforce the concept that, as not-for-profit institutions, hospitals reinvest profits into providing services rather than pay them out to shareholders; position philanthropic opportunities as sound financial investments

Be equipped to discuss the "community benefit" the institution provides, whether that is charity care for low-income patients, free wellness services and diagnostic screenings, or something else; know how much charity care and community benefit your institution provides each year

©2013 The Advisory Board Company • 27103A

Source: Philanthropy Leadership Council interviews and insights.

Other Headwinds Challenging Our Case for Support

Health Care Issues at the Forefront

Top Three Case Vulnerabilities

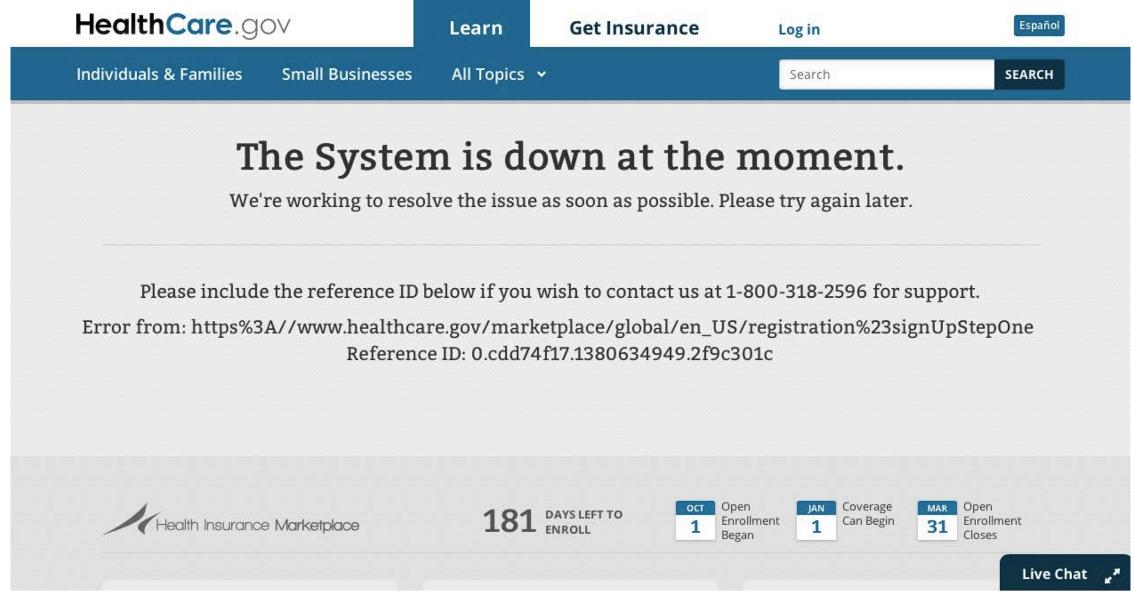
1. Increasing Transparency into Hospital Finances
2. Politics of the Affordable Care Act
3. The Health System "Identity Crisis"

©2013 The Advisory Board Company • 27103A

Source: Philanthropy Leadership Council interviews and analysis.

Not the Smoothest of Starts

Federal Exchange Slow to Answer the Bell

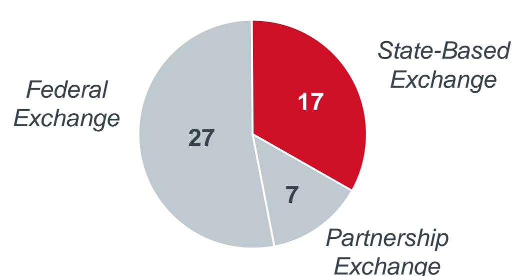


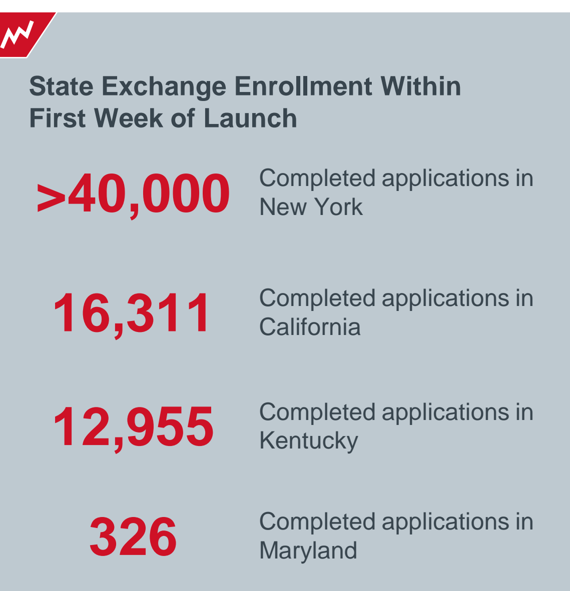
©2013 The Advisory Board Company • 27497A

Some State Exchanges Faring Better

Enrollment Slow, But Most Websites Working

State Decisions on Exchange Participation





Source: Kaiser Family Foundation, "State Decisions for Creating Health Insurance Exchanges, as of May 28, 2013," available at: www.kff.org; CNBC, "One Washington gets Obamacare Right," available at: http://www.cnbc.com/id/101096445, Kentucky Governor's Office, "2.6 Million Page Views on Kynect for Affordable Health Insurance," available at: http://migration.kentucky.gov/newsroom/governor/20131005kynect.htm; Health Care Advisory Board interviews and analysis.

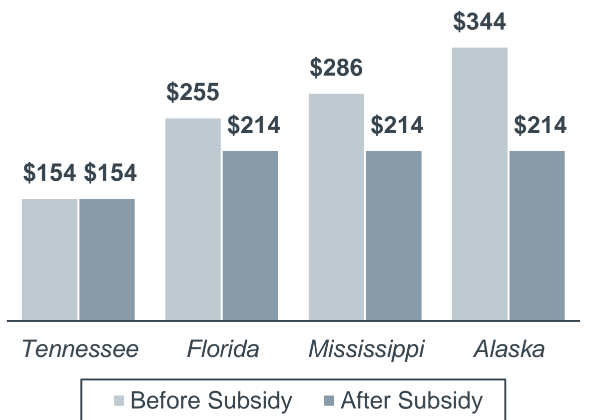
©2013 The Advisory Board Company • 27497A

Post-Subsidy Premiums Within Reach for Many

But Penalties Still Smaller than Cost of Coverage

Weighted Average Monthly Premiums for Adult Individual Aged 27

For Second Cheapest Silver Plan, by State, 2014, Pre and Post subsidy[1] for Income of $30,000

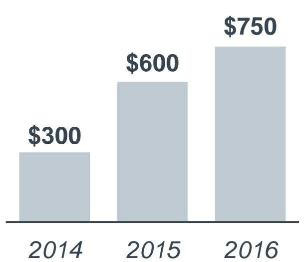


Penalties for Non-compliance

Year	Annual Penalty
2014	$95 or 1% of income
2015	$325 or 2% of income
2016	$695 or 2.5% of income

Annual Penalty

Income: $30,000



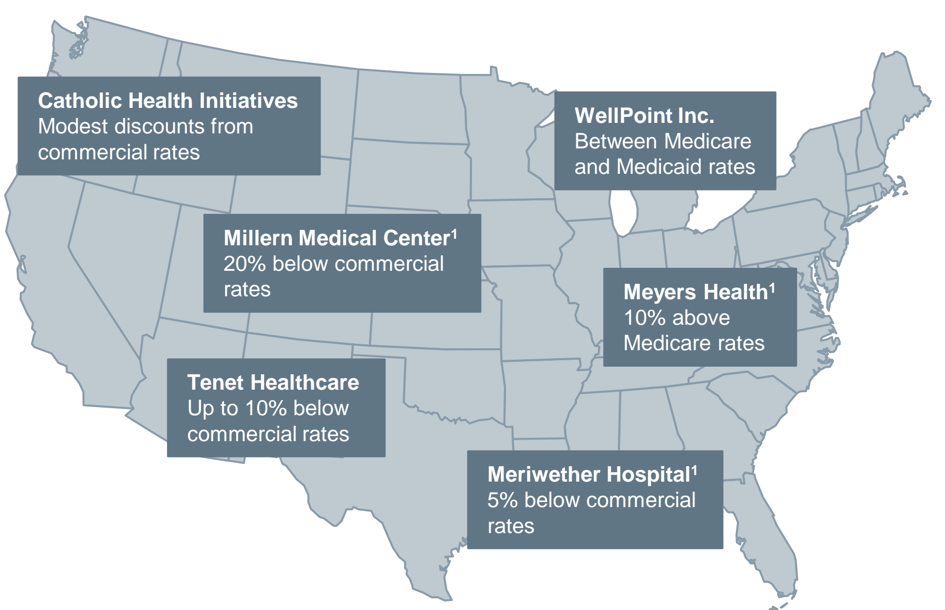
Source: Kaiser Family Foundation, "Kaiser Health Tracking Poll," March 2013, available at: kff.org; PwC, "Health Insurance Exchanges: Long on Options, Short on Time," October 2012, available at: www.pwc.com; Health Care Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27497A

Trading Price for Volume on the Public Exchanges

Reimbursement Information Still Anecdotal , but Rates Not Generous

Anticipated Provider Reimbursement Rates for Exchange Plans



1) Pseudonym.

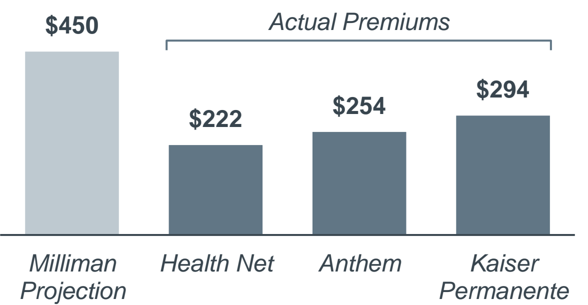
Source: Mathews AW and Kamp J, "Another Big Step in Reshaping HealthCare," Wall Street Journal, February 28, 2013, available at: www.online.wsj.com;; Health Care Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27497A

Lower Prices through Narrower Networks

Monthly Health Insurance Premiums

Select California Exchange Plans, 2014[1]



Prominent Health Systems Largely on the Sidelines

Cedars-Sinai Medical Center not participating in any exchange plan networks

UCLA Health System participating in only one exchange plan network

5M
Individuals expected to be eligible for Covered California exchange, 2014

13
Insurers offering plans on Covered California exchange

36%
Blue Shield of California network physicians in payer's exchange plans

80%
California physicians, hospitals participating in at least one exchange plan

1) Silver plan premiums for 40-year old individual, before subsidy; actual rates represent HMO plans in Northern Los Angeles.

Source: Covered California, "Health Plans & Rates for 2014: Making the Individual Market in California Affordable, May 23, 2013, available at: www.coveredca.com; Kliff S, "California Obamacare premiums: No 'rate shock' here," Washington Post, May 23, 2013, available at: www.washingtonpost.com; Terhune C, "Insurers limit doctors, hospitals in state-run exchange plans," LA Times, May 24, 2013, available at: www.articles.latimes.com; Health Care Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27497A

Employer-Sponsored Coverage at a Crossroads

Employers Choosing Between Abdication, Activation

Spectrum of Options for Controlling Health Benefits Expense

"Abdication" ⟷ *"Activation"*

No Health Benefits

Pros:

- Total escape from cycle of rising premium costs

Cons:

- Fine for violating employer mandate
- Loss of important labor market differentiator

Defined Contribution/ Private Exchange

Pros:

- Health benefits still part of compensation package
- Predictable, controllable cost growth

Cons:

- Fundamental disruption in benefit design
- Employees may under-insure

Self-Funded Benefits

Pros:

- Full control over networks
- Exemption from minimum benefits requirements

Cons:

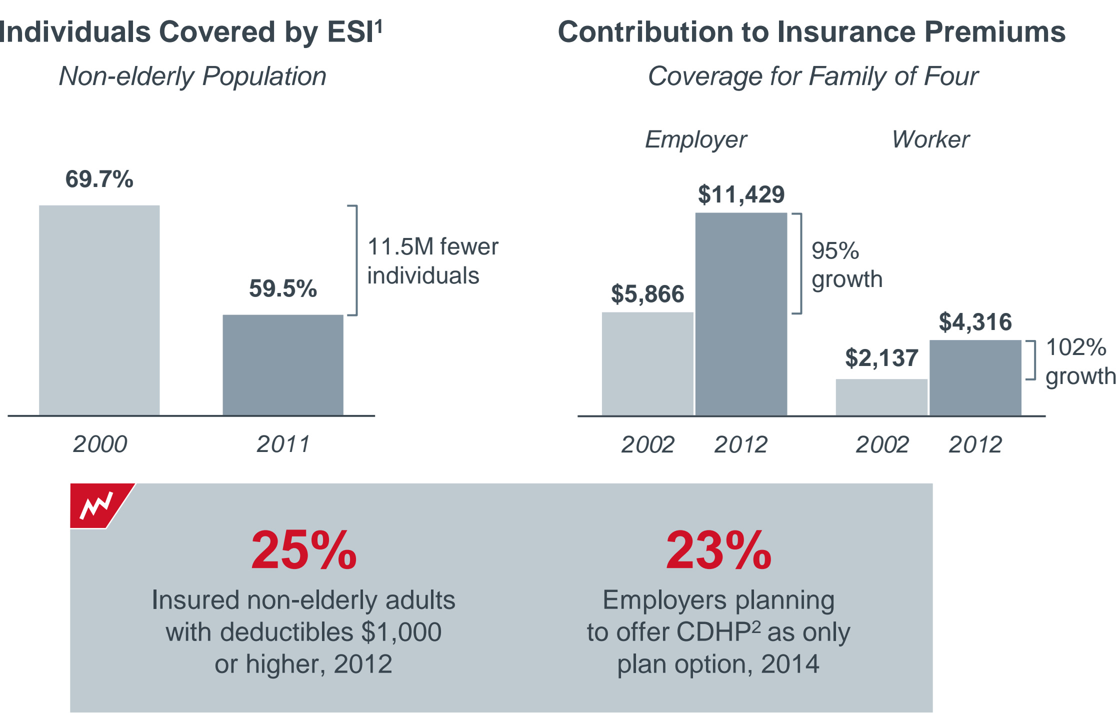
- Greater exposure to unexpected expenditures
- Complex network negotiations

Source: Health Care Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27497A

Employers Already Scaling Back Coverage

Erosion of Employer-Sponsored Coverage Well Underway



1) Employer-sponsored insurance.
2) Consumer-directed health plan.

Sources: Sonier J, et al., "State-Level Trends in Employer-Sponsored Health Insurance," Robert Wood Johnson Foundation, April 2013, available at: www.rwjf.org; Collins R, et al., "Insuring the Future," The Commonwealth Fund, April 2013, available at: www.commonwealthfund.org; Towers Watson, "Reshaping Health Care," 2013, available at: www.towerswatson.com; Health Care Advisory Board interviews and analysis.

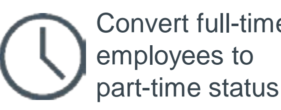
©2013 The Advisory Board Company • 27497A

Some Employers Dodging Their Mandate

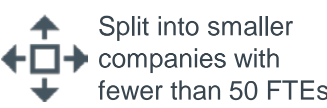
Despite Delay, Employers Finding Ways to Avoid Insurance Requirement

Strategies to Avoid ACA Penalties

Cut jobs to remain under 50 FTEs[1]


Convert full-time employees to part-time status

Hire all new employees at part-time status


Split into smaller companies with fewer than 50 FTEs

Memo to Managers

To comply with the Affordable Care Act, Regal had to increase our health care budget to cover those newly deemed eligible based on the law's definition of a full time employee. **To manage this budget, all other employees will be scheduled in accord with business needs and in a manner that will not negatively impact our health care budget…**

31% Franchisees that plan to cut jobs to stay under 50-employee threshold[2]

32% Retail and hospitality companies that plan to "change workforce strategy" to avoid penalties[3]

Case in Brief: Regal Entertainment Group

- In March 2013, reduced number of work shifts for non-salaried employees to ensure part-time status
- First public company to institute policy

1) Full-time equivalents.
2) n=72 franchisees, all industries.
3) n=1,203 employers.

Source: Reynolds J and Merin J, "Business Leaders Give 2013 Outlook Mixed Reviews," International Franchise Association, January 2013, available at: www.franchise.org; Mercer, "Health Reform Poses Biggest Challenges to Companies with the Most Part-Time and Low-Paid Employees," August 8, 2012, available at: www.mercer.com; "Regal Entertainment Group Cuts Employee Hours, Explicitly Blames Obamacare in Memo: Report," The Huffington Post, April 17, 2013, available at: www.huffingtonpost.com; Health Care Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27497A

New Path for Employer Cost Shifting

Private Health Insurance Exchanges Open for Business

Private Health Insurance Exchanges

- Over 100,000 employees enrolled in Aon Hewitt's private health insurance exchange in fall 2012
- Benefits offered by nine national, regional carriers

- Launching private health insurance exchange in nine states
- Expect to serve employers covering approximately 30,000 individuals

- Offering suite of exchange offerings to employers
- Will include coverage from 10 major insurers

15%

Employers considering private exchange model for 2014

Responding to Market Demands

"The high-caliber carrier participation in Mercer's private benefits exchange matches the increasing interest displayed by our clients and prospects."

Julio A. Portalatin
President and CEO, Mercer

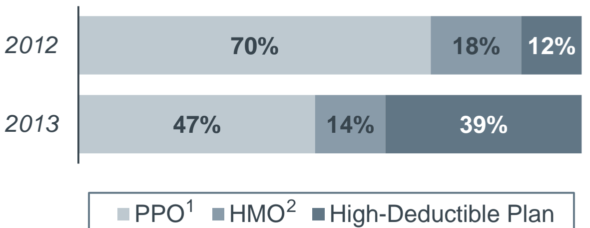
Source: Towers Watson, "18th Annual Towers Watson Employer Survey on Purchasing Value in Health Care," 2013, available at: www.towerswatson.com; Wall JK, "Mercer Courts Employers with Private Exchange," Indianapolis Business Journal, April 22, 2013, available at: www.ibj.com; Health Care Advisory Board interviews and analysis.

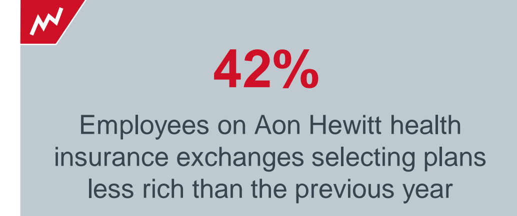
©2013 The Advisory Board Company • 27497A

Igniting a Race to the Bottom

Exchange Shoppers Trading Premiums for Deductibles

Results of Open Enrollment Process





Case in Brief: Sears, Darden Restaurants

- For 2013 open enrollment, self-insured large employers redesigned benefits to reduce health spend through defined contribution model
- Employers offered employees lump sum credit to choose coverage in Aon Hewitt's online marketplace

1) Preferred provider organization.
2) Health maintenance organization.

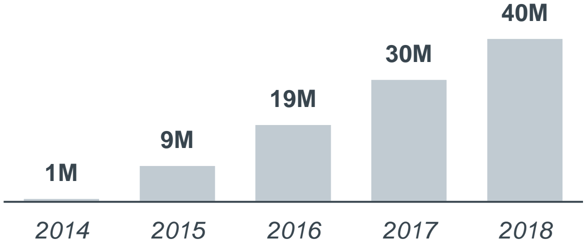
Source: Mathews AW, "To Save, Workers Take On Health-Cost Risk," Wall Street Journal, March 17th, 2013, available at: www.wsj.com; Health Care Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27497A

The Future of Employer-Sponsored Insurance?

Private Exchanges Poised For Rapid Growth

Projected Private Exchange Enrollment



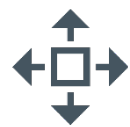
27%

Percentage of consumers receiving employer-sponsored coverage today projected to receive benefits through private exchanges in 2018

Factors Influencing Move to Private Exchange Models

Logistical difficulty of benefit renegotiations

Internal politics of benefit changes

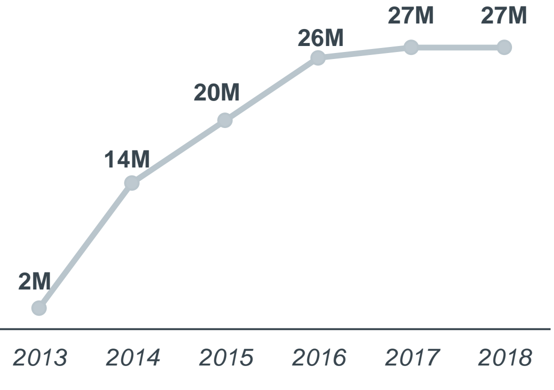


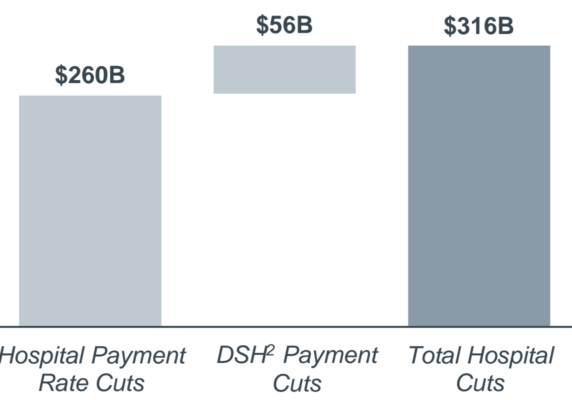
Attractiveness of other options

Source: Accenture, "One-in-Four Consumers Will Receive Employer Health Benefits Through Insurance Exchanges in Five Years, Accenture Research Shows," available at: http://newsroom.accenture.com/news/one-in-four-consumers-will-receive-employer-health-benefits-through-insurance-exchanges-in-five-years-accenture-research-shows.htm, Health Care Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27497A

Reexamining the ACA "Grand Bargain"





Provider "Get": Higher Revenue

- Medicaid expansion
- Insurance exchanges
- Employer mandate

Provider "Give": Lower Payment

- Medicare rate cuts
- DSH cuts

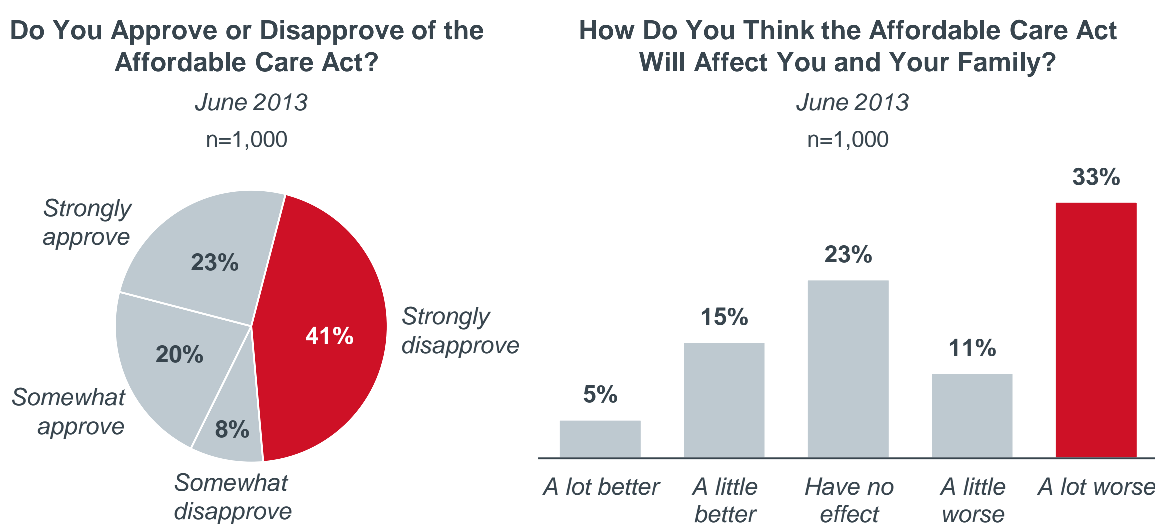
1) Non-elderly population.
2) Disproportionate Share Hospital.

Source: CBO, "Letter to the Honorable John Boehner Providing an Estimate for H.R.6079, The Repeal of Obamacare Act," July 24, 2012, available at: www.cbo.gov; CBO, "Effects of the Affordable Care Act on Health Insurance Coverage—February 2013 Baseline," February 5, 2013, available at: www.cbo.gov; Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27497A

Divided Public Opinion of Health Care Reform

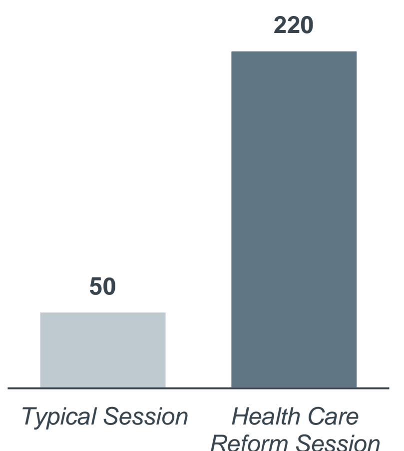
Opponents Taking Stronger Stance



Source: Ramlet M and Dropp K, "Memo on the Poll Findings – Public Opinion on the Affordable Care Act," June 12, 2013, available at: www.themorningconsult.com, accessed June 14, 2013; Philanthropy Leadership Council interviews and insights.

©2013 The Advisory Board Company • 27497A

Many Donors Interested, but Uncertain



Common Sentiments from Million-Dollar Health Care Donors

"We don't know what's going to happen. The hospital president went to a meeting [about health care reform], and he came out more confused than before. Nobody has their finger on the pulse."

"It's hard to plan when you don't know what the future is."

"I defy anyone to make sense of the current medical care situation."

"Health care has become too political, and I'll be on the sidelines until things are sorted out."

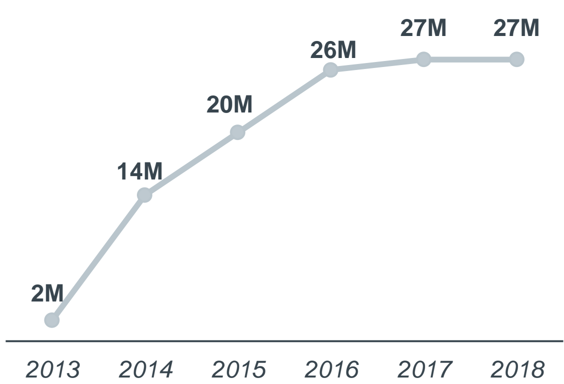
©2013 The Advisory Board Company • 27497A

1) Pseudonym.

Source: Philanthropy Leadership Council interviews and insights.

Coverage Expansion Reducing Perception of Need

Less Charity Care Provided, Less Charity Required



A Threat to Giving?

"If everybody would truly be able to receive treatment under ObamaCare, it probably would at that point impact what we may be giving. People will already be covered, and we're probably going to be taxed a lot more to get to that point anyway."

Million-dollar health care donor

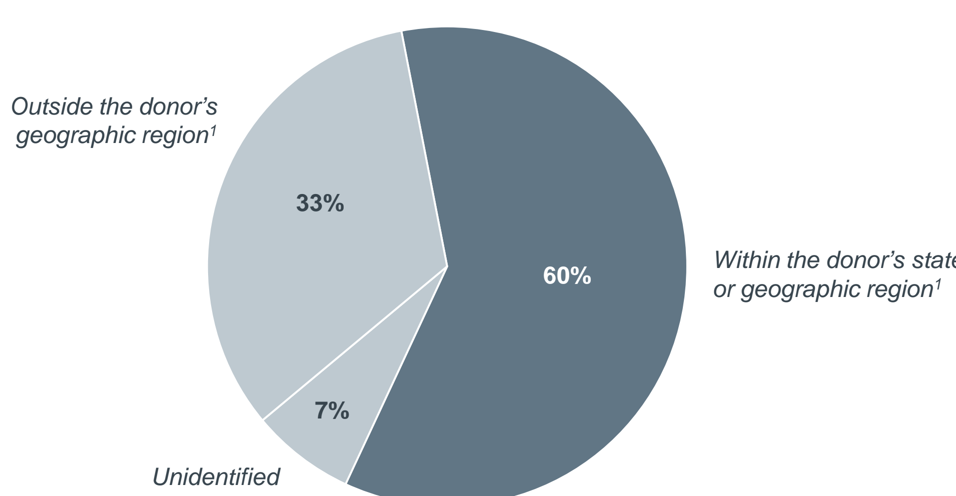
1) Non-elderly population.

Source: CBO, "Effects of the Affordable Care Act on Health Insurance Coverage—February 2013 Baseline," February 5, 2013, available at: www.cbo.gov; Philanthropy Leadership Council interviews and analysis.

©2013 The Advisory Board Company • 27497A

Key to Emphasize Local Impact

Most Large Gifts to Health Care Organizations Stay Local



1) Geographic regions include Northeast, Midwest, South, and West.

Source: "The Million Dollar Gift Next Door," Indiana University Lilly Family School of Philanthropy, April 17, 2013; Philanthropy Leadership Council interviews and analysis.

©2013 The Advisory Board Company • 27103A

Other Headwinds Challenging Our Case for Support

Health Care Issues at the Forefront

Top Three Case Vulnerabilities

1. Increasing Transparency into Hospital Finances
2. Politics of the Affordable Care Act
3. The Health System “Identity Crisis”

©2013 The Advisory Board Company • 27103A

Source: Philanthropy Leadership Council interviews and analysis.

What Business Are We In?

Businesses Displaced by Focusing on the Means Rather than the Ends

Timeline for Eastman Kodak Business

1976
90% market share of commercial film business

1990s
Digital cameras enter mainstream market

2012
Kodak files for bankruptcy

Providing Health, Not Health Care

"…It's always better to define a business by what consumers want than by what a company can produce…whereas doctors and hospitals focus on producing health care, what people really want is health. Health care is just a means to that end—and an increasingly expensive one."

Researchers featured in New England Journal of Medicine

Study in Brief: What Business Are We in?

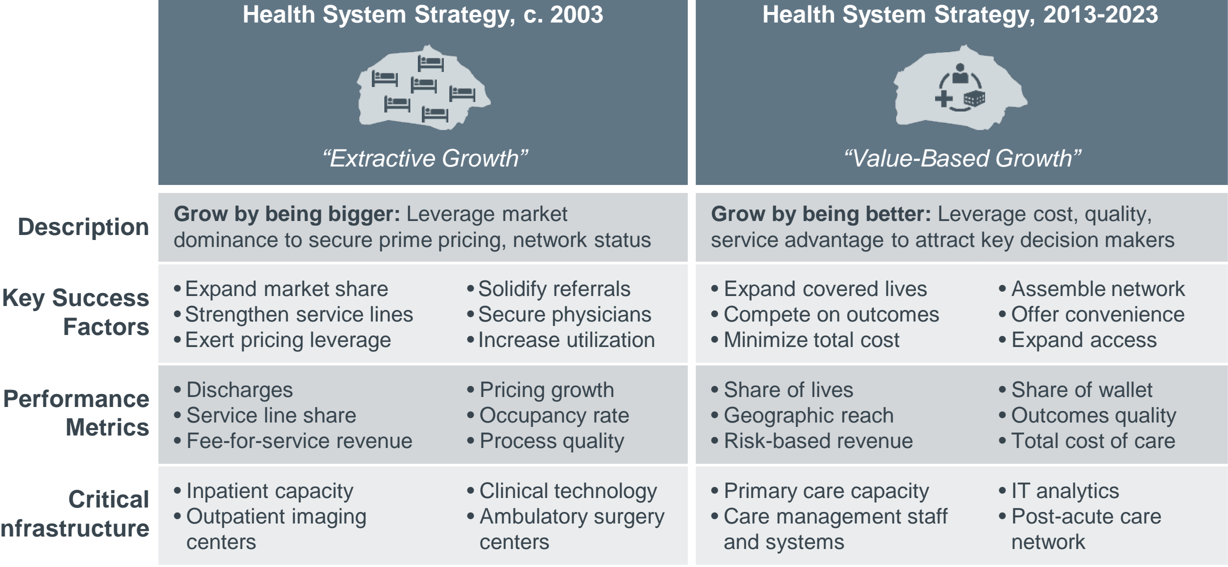
- Explores how Eastman Kodak Company's camera and film business was displaced by alternate mediums that fulfilled customers' desires for images
- Draws parallels to the challenges that provider organizations face in shifting activities from delivering health services to a broader spectrum of tactics for health

Source: Asch D., "What Business Are We In? The Emergence of Health as the Business of Health Care," *NEJM*, 367,2012: 888-889; Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27103A

Toward an Economics of Value

Adapting to New Rules of Competition



	Health System Strategy, c. 2003 *"Extractive Growth"*	Health System Strategy, 2013-2023 *"Value-Based Growth"*
Description	**Grow by being bigger:** Leverage market dominance to secure prime pricing, network status	**Grow by being better:** Leverage cost, quality, service advantage to attract key decision makers
Key Success Factors	• Expand market share • Strengthen service lines • Exert pricing leverage • Solidify referrals • Secure physicians • Increase utilization	• Expand covered lives • Compete on outcomes • Minimize total cost • Assemble network • Offer convenience • Expand access
Performance Metrics	• Discharges • Service line share • Fee-for-service revenue • Pricing growth • Occupancy rate • Process quality	• Share of lives • Geographic reach • Risk-based revenue • Share of wallet • Outcomes quality • Total cost of care
Critical Infrastructure	• Inpatient capacity • Outpatient imaging centers • Clinical technology • Ambulatory surgery centers	• Primary care capacity • Care management staff and systems • IT analytics • Post-acute care network

©2013 The Advisory Board Company • 27103A

Source: Advisory Board interviews and analysis.

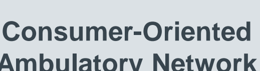
Carving a New Growth Path

Competing Under Distinct, but Not Mutually Exclusive, Identities

Four Emerging Provider Identities

Best-in-Class Acute Care Destination

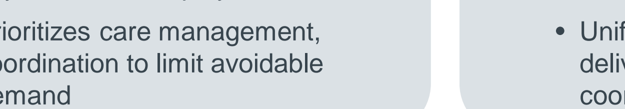
- Consistently delivers efficient, effective acute care episodes
- Ensures reliable coordination, communication, data sharing across the care continuum



Consumer-Oriented Ambulatory Network

- Maintains extensive network of outpatient care sites
- Offers convenient primary care, diagnostic, procedural services at competitive prices

Full Service Population Health Manager



- Assumes delegated risk from payers and/or employers
- Prioritizes care management, coordination to limit avoidable demand

Integrated Finance and Delivery System

- Assumes full risk by offering health plan to subscribers
- Unifies care financing and delivery into single coordinated care enterprise

Source: Advisory Board interviews and analysis.

©2013 The Advisory Board Company • 27103A

Fundraising's Role in Carving a New Growth Path

What Can You Make the Case For?

Investment Priorities

Best-in-Class Acute Care Destination

- EMR, meaningful use
- Employee utilization liaisons
- Inpatient care coordinators

Consumer-Oriented Ambulatory Network

- Outpatient clinics
- Primary care offices
- Post-acute care facilities
- Outpatient lab, imaging centers
- Non-urgent care navigators
- Transition partners
- EMR, meaningful use
- Telemonitoring services

Full Service Population Health Manager

- Home health initiatives
- Primary care offices
- Outpatient lab, imaging centers
- Wellness centers
- EMR, meaningful use
- Outpatient clinics
- Outpatient care managers
- Clinical patient guides
- Disease management
- Palliative care

Integrated Finance and Delivery System

- IT systems
- Cash/unrestricted funds

Source: Philanthropy Leadership Council interviews and analysis.

©2013 The Advisory Board Company • 27103A

Taking the Donor Perspective

Three Lenses for Evaluating the Philanthropic Environment in Health Care

Donor-Centric Lenses

The Economy and Perception of Personal Economic Security

“MY CHECKBOOK”

Am I in the financial position to donate?

Hospital Performance and Perception of Need in Health Care

“THEIR STORY”

Is the organization a worthy cause?

Personal Motives and Perception of Value and Impact

“OUR IMPACT”

Will my gift make a difference?

©2013 The Advisory Board Company • 27103A

Source: Philanthropy Leadership Council interviews and analysis.

Focusing on What We Can Control

Underlying Values

"I do believe that we need to give; those of us that have, we need to help."

"Charitable giving for us is really from following what the Lord has taught us… where much is given, much is expected."

"Blaming the government and taxes is just an excuse for not acting."

Desire for Impact

"You feel like it's just not fundraising as it is solving a problem."

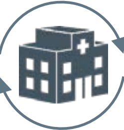
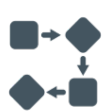
"We want to give all our money away while we're still young enough to appreciate the impact … it's such a joy to see how lives are changed."

"We can afford it, and I'm a great believer in giving while I'm living."

©2013 The Advisory Board Company • 27103A

Source: Philanthropy Leadership Council interviews and analysis.

Revisiting the Conversation About Impact

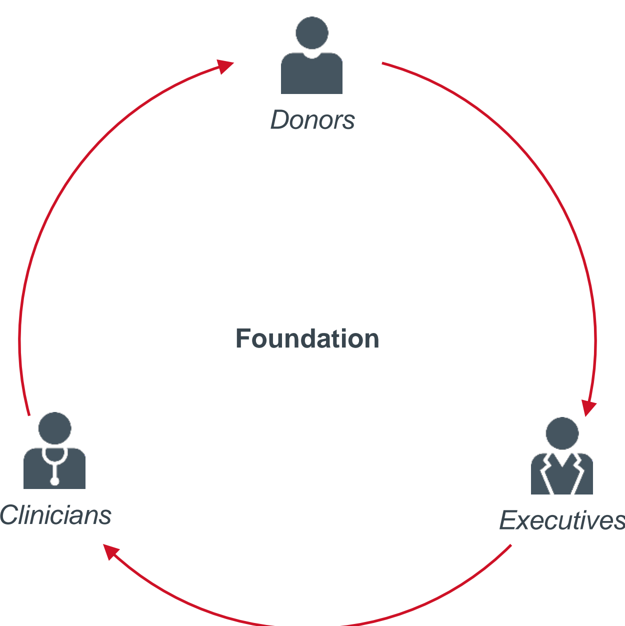
Donor Comprehension Barriers			Reframed Donor Perspective		
A Bridge Too Far	Priorities focused outside hospital sphere		**Institutional Priority**		Non-traditional but current priorities of broader health system
Far Removed	Impact several steps away from meaningful donor experience		**Direct Impact**		Affecting lives of people throughout community
Intangible	Concept lacks physical manifestation		**Concrete Initiative**		Easily articulated explanation

Source: Philanthropy Leadership Council interviews and analysis.

©2013 The Advisory Board Company • 27103A

Elevating Philanthropy's Strategic Value

Translate Our Relevance and Impact to Key Stakeholders



©2013 The Advisory Board Company • 27103A

Source: Philanthropy Leadership Council interviews and analysis.