November 8, 2022 (Noon)

NOTICE

The Board of Directors of the Kaweah Delta Health Care District will meet in the Sequoia Regional Cancer Center Maynard Faught Conference Room on Wednesday November 9, 2022 beginning at 4:00PM in a special open board meeting.

All Kaweah Delta Health Care District regular board meeting and committee meeting notices and agendas are posted 72 hours prior to meetings (special meetings are posted 24 hours prior to meetings) in the Kaweah Health Medical Center, Mineral King Wing entry corridor between the Mineral King lobby and the Emergency Department waiting room.

The disclosable public records related to agendas can be obtained by contacting the Board Clerk at Kaweah Health Medical Center – Acequia Wing, Executive Offices (Administration Department) {1st floor}, 400 West Mineral King Avenue, Visalia, CA via phone 559-624-2330 or email: cmoccio@kaweahhealth.org, or on the Kaweah Delta Health Care District web page http://www.kaweahhealth.org.

KAWEAH DELTA HEALTH CARE DISTRICT
Mike Olmos, Secretary/Treasurer

Cindy Moccio

Cindy Moccio
Board Clerk / Executive Assistant to CEO

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KAWEAH DELTA HEALTH CARE DISTRICT
SPECIAL BOARD OF DIRECTORS MEETING

Sequoia Regional Cancer Center {4945 W. Cypress Avenue}
Maynard Faught Conference Room

Wednesday November 9, 2022

SPECIAL OPEN MEETING AGENDA {4:00PM}

1. **CALL TO ORDER**

2. **APPROVAL OF AGENDA**

3. **PUBLIC PARTICIPATION –** Members of the public may comment on agenda items before action is taken and after it is discussed by the Board. Each speaker will be allowed five minutes. Members of the public wishing to address the Board concerning items not on the agenda and within the jurisdictions of the Board are requested to identify themselves at this time. For those who are unable to attend the beginning of the Board meeting during the public participation segment but would like to address the Board, please contact the Board Clerk (Cindy Moccio 559-624-2330) or cmoccio@kaweahhealth.org to make arrangements to address the Board.

4. **STATE OF THE INDUSTRY** – Presentation from the Advisory Board – State of the Industry; global economic stressors, demand volatility, vertical ecosystems, and innovaton investment.

   Advisory Board: Julie Jaquiss-Collins, Director, Expert Partner and Ashley Antonelli, Director, Executive Strategy Research

5. **REPORTS**

   5.1. Chief Executive Officer Report - Report relative to current events and issues.
   Gary Herbst, Chief Executive Officer

   5.2. Board President **-** Report relative to current events and issues.
   David Francis, Board President

6. **ADJOURN**

In compliance with the Americans with Disabilities Act, if you need special assistance to participate at this meeting, please contact the Board Clerk (559) 624-2330. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accessibility to the Kaweah Delta Health Care District Board of Directors meeting.

State of the Industry 2022

Guideposts for strategically reshaping the industry

Prepared for Kaweah Health
November 9, 2022

Ashley Antonelli, Director, Executive Strategy Research
Julie Jaquiss-Collins, Director, Expert Partner, Health System Strategy

Messages to take from today

1. **The present feels aggressively urgent**. Today's market dynamics—financial crisis, workforce upheaval, regulatory change—require health system leaders to focus disproportionately on short-term crises and opportunities. But your strategic choices now will determine your future—positive or negative—long-term.
2. **Health equity *may* soon define margins.** What happens when health equity is considered a reimbursable measure of clinical quality? Equity has been central to the mission of health care, but the industry is now building it into a business imperative that may define margins. Early movers are taking steps to integrate health equity into quality metrics—which could transform the health care business model or relegate equity initiatives to just another target on a dashboard.
3. **Value-based care will increase, but along what path?** Public programs continue towards population-based downside risk, but commercial plans and providers have not coalesced around a sustainable model to meet employers' experience and cost needs. The industry must decide which will yield greater savings: contracting based on employee utilization trends or standardizing clinical models.
4. **The rise of physician "superpractices" requires health systems to beat them, join them, and/or both.** Volumes will shift as physician practices integrate into well-resourced, innovative superpractices focused on avoiding hospital care. As payers and financiers increasingly support these models, health systems will have to choose how to leverage their hospitals—as either complementary vehicles of partnership with or as a competitive advantage against these superpractices.
5. **Consumer choice gets both bigger *and* smaller in the competition to steer patients.** More care options and data hasn't made health care consumers better shoppers. So, health care organizations are curating their navigation experience for them—and could steer consumers between increasingly granular choices about specific services or immerse them in a managed ecosystem.
6. **Will the future of telehealth be about winning consumers or delivering care?** Provider organizations' focus on virtual visits as a replacement for in-person care leaves remote monitoring and asynchronous tools under-developed. As organizations broaden their telehealth strategy, they're competing to capture consumer attention, possibly at the expense of improved care efficiency.
7. **Competing in home care may stress other parts of the health care system.** There are lots of opportunity in home care but also many challenges, especially reimbursement. Leading organizations overcome reimbursement barriers by selectively integrating home-based care into care delivery models but doing so may strain finances and the provider workforce or worsen inequities.

Advisory Board interviews and analysis.

The present feels aggressively urgent

Today's market dynamics put health care organizations in a position of unusually disproportionate focus on short term crises and opportunities. Leaders' strategic choices now will have an outsized impact—positive or negative—on their trajectory toward long-term goals.

Advisory Board

Advisory Board interviews and analysis.

Current responses enable—or impede—future ambitions

Current and future priorities of various health care industry organizations

Create **capacity** for urgent cases

Offer highly generous, expansive **benefits**

Capture innovation **investment**

Immediate **staff** wage and experience investments

Pursue immediate revenue and asset **growth** opportunities

Capitalize on opportunity to attract **talent**

Prepare for equitable, complex **evidence** evaluation

Manage **total** cost of care

Retain desired strategic **autonomy**

Secure sustainable case and payer **mix**

Support appropriate delivery infrastructure for **population** needs

Invest in infrastructure and partnerships for future **site of care** shifts

NEAR TERM
Challenges and Opportunities

?

LONG TERM
Strategic Trajectory

Advisory Board interviews and analysis.

The most disruptive market forces the industry faces

Global stressors

- Broader labor and supply pressures raise costs
- Labor shortage exposes structural vulnerabilities and prompts opportunistic recruitment

Demand volatility

- Compounding health crises complicate care delivery response for evolving needs
- Massive shift into Medicaid poised to decline while MA accelerates

Vertical ecosystems

- Health solutions giants continue strides toward vertical integration
- Health systems seek vertical assets but may merge defensively

Innovation investment

- Unprecedented tech venture investments face increasing scrutiny
- Enormous therapeutic pipeline upcoming will challenge industry capacity

IMMEDIATE IMPACT → BUILDING MOMENTUM

Advisory Board interviews and analysis.

GLOBAL STRESSORS > DEMAND VOLATILITY > VERTICAL ECOSYSTEMS > INNOVATION INVESTMENT

Elevated spending creates a tough business climate

UTILIZATION SPOTLIGHT

92%

Health system strategic planners report volumes are no more than 5% lower than pre-pandemic levels, 2022

EXPENSE SPOTLIGHT

Median labor expense per adjusted discharge

ERODED MARGINS

69%

Health system strategic planners report operating margins **below** pre-pandemic performance, 2022

HIGHER PREMIUMS

10%

Median proposed premium increase for individual market plans across 72 insurers in 13 states and Washington, D.C., 2023

CAPITAL SCRUTINY

159%

Increase in VC investment in health, 2019-2021

-45%

Decrease in valuation of newly-public health tech companies in 2021

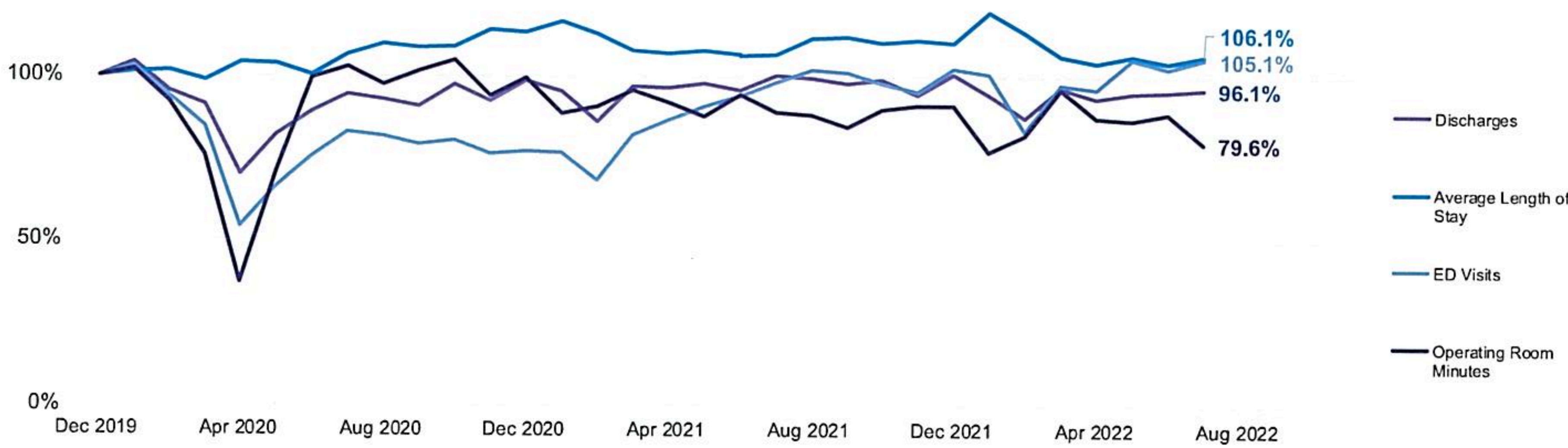
Source: 2022 Strategic Planning Survey, Advisory Board, May 2022; "An early look at what is driving health costs in 2023 ACA markets," Peterson-KFF Health System Tracker, July 2022; Healthcare Dive, May 2022; "The Financial Effects of Hospital Workforce Dislocation," KaufmanHall, May 2022; "Health tech's sky-high projections in 2021 have already been punctured," STAT News, December 2021; "Healthcare investments and exits," Silicon Valley Bank, January 2022.

Advisory Board interviews and analysis.

Advisory Board

Volume growth hasn't kept up with expense growth

Kaufman Hall data (indexed to December 2019)



Source: KaufmanHall National Hospital Flash Reports, www.kaufmanhall.com.

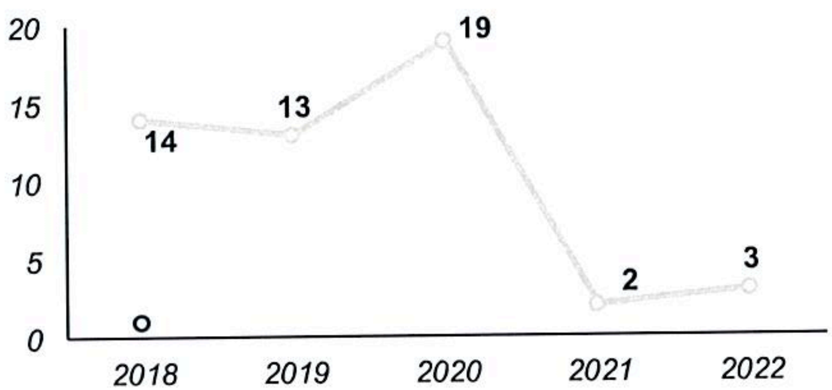
Advisory Board interviews and analysis.

Advisory Board

No wave of hospital closures yet

Federal funding slowed hospital closures last year

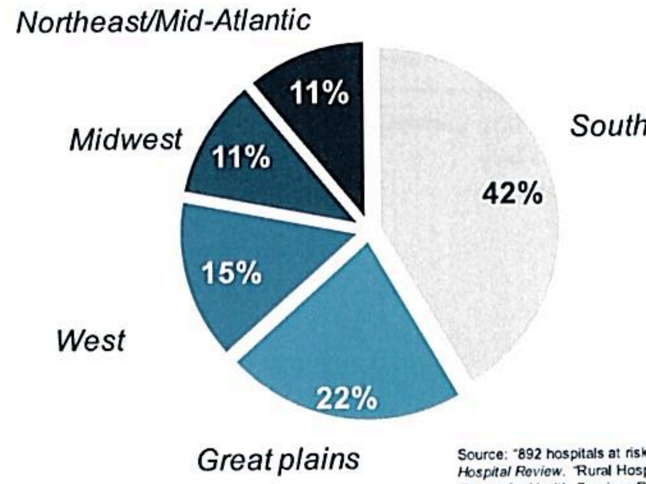
Number of rural hospital closures 2018-2022



Rural hospitals face difficult future

892 Rural hospitals at risk of closing

Percentage of hospitals at risk of closure by region



Source: "892 hospitals at risk of closure, state by state" *Becker's Hospital Review*. "Rural Hospital Closures", *The Cecil G. Sheps Center for Health Services Research.*

Advisory Board interviews and analysis.

The economic future is not set in stone

Scenario 1:
Stabilization avoids a painful recession

Guided intervention and market self-corrections alleviate economic crises indefinitely

Federal interest rate hikes appropriately stem demand and curb consumer prices

Unemployment overall remains low and health care workforce challenges persist

Labor costs overall remain high, including for the health care workforce

Supply chain challenges improve, bringing down input costs

Indicators to watch

FEDERAL INTEREST RATE
▲ 3.75% *Nov. 2022*

UNEMPLOYMENT RATE
3.5% *Sept. 2022*

EMPLOYMENT COST INDEX
▲ 5.1% *June 2022 YOY[1]*

PRODUCER PRICE INDEX
▲ 8.5% *Sept. 2022 YOY*

Scenario 2:
Mitigation now triggers a recession later

Intervention now improves economic indicators in the near term, but triggers a recession in reaction

Federal interest rate hikes are too aggressive, so businesses struggle to borrow and invest capital

Unemployment overall spikes, but with limited potential to ease health care labor shortages in time

Labor costs overall decline, but remain high for much of the health care workforce

Supply chain challenges and costs improve for some sectors, but remain high for others

1. Year-over-year

Source: "Employment Cost Index Summary," BLS, July 2022; "Federal Funds Target Range," Federal Reserve Economic Data; "Civilian unemployment rate," BLS, August 2022; "Producer Price Index News Release Summary," BLS, August 2022; "Fed raises interest rates another 0.75 percentage point," Axios, November 2022.

Advisory Board interviews and analysis.

GLOBAL STRESSORS > DEMAND VOLATILITY > VERTICAL ECOSYSTEMS > INNOVATION INVESTMENT

"Great Resignation" is more likely a great realignment

Relative impact of the workforce crisis on key industry segments

*Staff limitations and margin crunch force some organizations to **pull back on strategic priorities***

*Non-traditional organizations position themselves to **siphon talent from provider organizations***

POTENTIAL TO **LOSE** TALENT ⟵⟶ POTENTIAL TO **GAIN** TALENT

Hospitals & post-acute care

- Elevated staffing costs
- Worsened experience-complexity gap
- Capacity constraints

Physician practices

- Care team burnout
- Referral constraints
- Heightened partnership expectations

Life sciences

- Challenge to engage target client base
- Delayed clinical trials
- Difficulty building RWE collection workflows

Health plans and purchasers

- Pressure to offset provider costs
- Membership churn
- Demand for hyper attractive benefits

Ambulatory and virtual providers

- Increased appeal of alternative clinician employment
- Opportunity to capture market share

Big tech, big retail, and startups

- Arms race to
- attract talent
- Increased urgency and appetite for innovation

STRATEGIC IMPERATIVES AND DISRUPTED INITIATIVES

Advisory Board

Advisory Board interviews and analysis.

Compounding crises demand resources and bandwidth

Covid-19 still straining resources

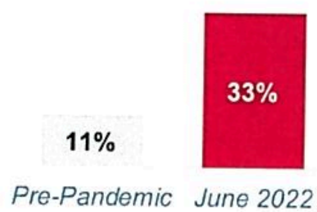
CASE EXAMPLE

Fresno County, CA

- Latest Covid-19 surge forces emergency medical providers to **deny non-emergency patients**
- ER patient volumes **"close to disaster levels"**

Behavioral health crisis worsens

Percentage of adults reporting symptoms of anxiety or depression



Reproductive care access shock

"New Insurance to Cover Docs' Post-Roe Legal Battles Over Abortion"

Washington state's largest **malpractice insurer**, Physicians Insurance, will offer the "add-on" rider beginning 2023

Medscape

Pressure from other public health concerns

- Monkeypox public health emergency
- Opioid epidemic
- Flu season
- R.S.V. surges
- Natural disasters

Challenges amid evolving care demand pressures

Staff engagement | Supply management | Clinical quality | Leadership bandwidth | Care complexity | Clinician recruitment | Strategic initiatives

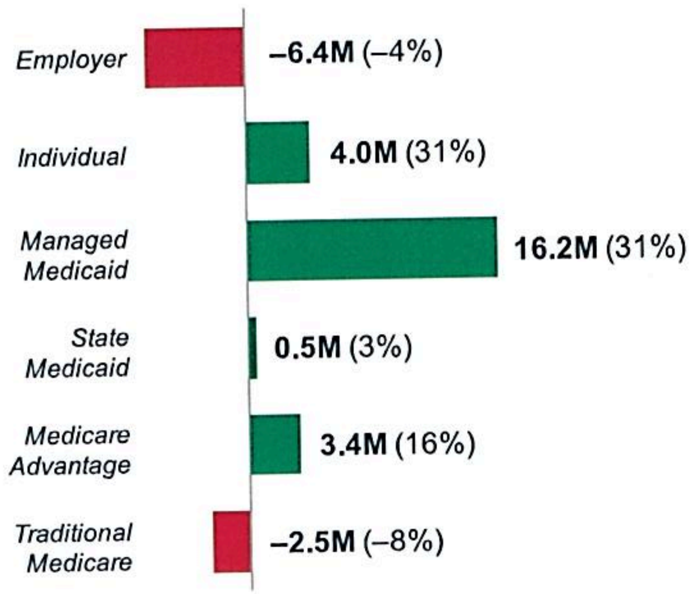
Source: "Latest COVID surge forces Fresno-area emergency medical providers to take dire step: deny non-emergency rides." The Fresno Bee, July 2022; "Adults Reporting Symptoms of Anxiety or Depressive Disorder During COVID-19 Pandemic," KFF, June 2022; "2022 Monkeypox Outbreak: Global Trends," WHO, August 2022

Advisory Board interviews and analysis.

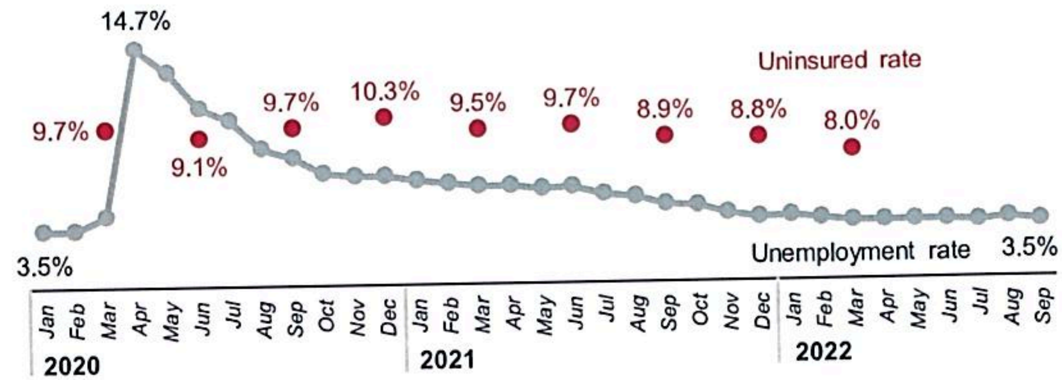
Today's coverage mix is a temporarily skewed picture

Insurance enrollment changes

2019 Q4 to 2022 Q1



Unemployment and uninsured rate



A looming Medicaid coverage cliff?

15M enrollees could lose coverage after Covid PHE[1] ends

65% of adults who could be disenrolled likely eligible for employer coverage

92% decrease in bad debt and charity care as revenue item, March 2020 to April 2022

Source: AIS Directory of Health Plans, 2019 Q4 & 2021 Q3; "Health Insurance Coverage: Estimates from the National Health Interview Survey," CDC; "Labor Force Statistics from the Current Population Survey," BLS; "National Hospital Flash Report," KaufmanHall, April 2022; "What Will Happen to Unprecedented High Medicaid Enrollment after the Public Health Emergency?," Urban Institute/Robert Wood Johnson Foundation, Sept. 2021.

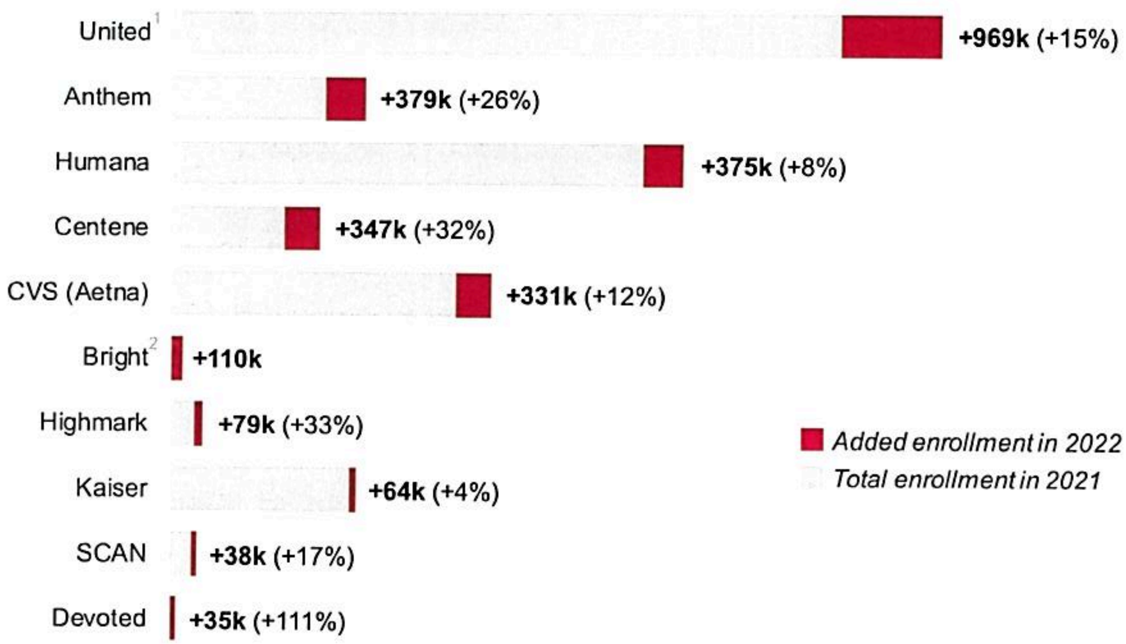
1. Public health emergency.

Advisory Board interviews and analysis.

Insurance giants and disruptors make leaps in MA

Largest Medicare Advantage enrollment increases

January 2021 to January 2022



MA growth is an integral strategic priority

"[We will] create the needed capacity to **fund growth and investments** in our Medicare Advantage business, which we believe will **further drive** significant improvement in our membership growth as well as **further expansion** of our health care service capabilities."

Bruce Broussard, CEO, Humana

1. Advisory Board is a subsidiary of Optum, owned by UnitedHealth Group. All Advisory Board research, expert perspectives, and recommendations remain independent.
2. Bright Health made its main entry into Medicare Advantage in 2021, and thus a percentage calculation is misleading.

Source: "Quarterly Results," Humana, Q1 2022; "Monthly Enrollment by Plan," CMS, January 2021 & January 2022.

Advisory Board interviews and analysis.

National plans focus on growth through vertical assets

National health plans' *relative* vertical integration strategies and 2021 segment revenues[1]

OWNERSHIP

Functional capability

PARTNERSHIP

Humana + CenterWell

$73B

- Will partially divest **Kindred** hospice and personal care assets to focus on home-based strategy for MA

UnitedHealthcare + Optum[2]

$68B | $155B | $91B | $54B

- Will acquire **Atrius Health** and **Kelsey-Seybold** to grow OptumCare clinic scale
- Plans to acquire **LHC** and **Change Healthcare** to broaden service capabilities

Cigna + Evernorth

$126B

- Invests $750M into **Bright HealthCare**
- Expands co-branded small group plans with **Oscar Health**

CVS + Aetna[3]

$82B | $153B | *Includes retail care services*

- Plans to specialize CVS retail stores into primary care, HealthHUB, and traditional models and close 900 unneeded stores to focus on "omnichannel" health strategy

Centene

$102B

- Will divest from **Magellan Rx** and **PANTHERx** PBMs to focus on core managed care insurance business

Elevance (*fka* Anthem)

$39B | $83B

- Joint investments with **CareMax**, **Privia**, and **Vera Whole Health** to expand value-based care

Business segment

Insurance:
- Commercial
- Government
- PBM
- Provider
- Other

SEGMENT SPECIALIZATION — **Consumer population focus** — *BROAD REACH*

1. Sum of segment revenues is larger than total revenues due to internal transfers and eliminations.
2. Advisory Board is a subsidiary of Optum, owned by UnitedHealth Group. All Advisory Board research, expert perspectives, and recommendations remain independent.
3. CVS's 10-K filing does not further break its Aetna insurance business into specific insurance segment revenues.

Source: 2021 year-end earnings reports and 10-K filings from $ANTM, $CI, $CNC, $CVS, $HUM, and $UHC; "Humana's Intriguing $2.8 Billion, 60% Sale of Kindred's Hospice, Personal Care Assets," Home Health Care News, April 2022; "Anthem relies on flexible partner-not-build strategy in shift to value," Healthcare Dive, February 2022; "Bright Health nabs $750M capital infusion with help from new investor (and competitor) Cigna," Healthcare Dive, December 2021; "CVS to close 900 drugstores under omnichannel health strategy," Supermarket News, November 2021.

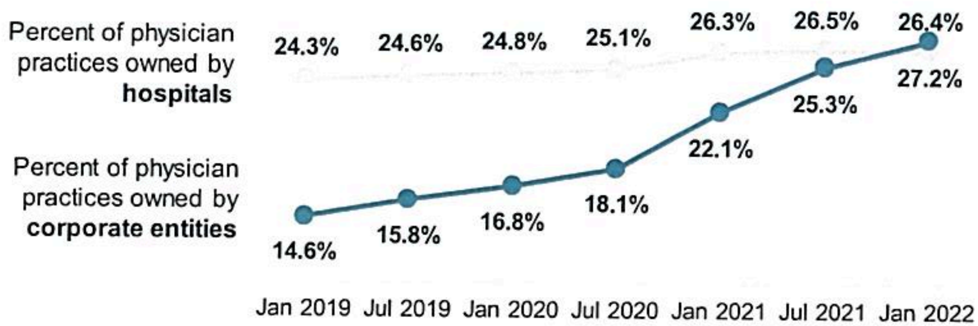
Advisory Board

Advisory Board interviews and analysis.

Practice acquisition is the real alignment shift to watch

Physician practice ownership trends

n= ~248,000 primary practice locations of physicians with NPIs in the IQVIA OneKey database



In 2018, practices with 10 or fewer physicians represented:

75% of practices owned by physicians

41% of practices owned by hospitals

Large independent groups are....

...hesitant to work with hospitals

"We collaborate where things **have to** be done in the hospital…but if it can be done outpatient, we ignore the system."

CEO OF A LARGE PRIMARY CARE GROUP

...not afraid to negotiate

Sample partnership deal-breakers:

1. Partnership exclusivity
2. Right of first refusal to employ

...intentionally playing the field

"We work with multiple systems so we aren't beholden to any single system."

EXECUTIVE OF A LARGE SINGLE SPECIALTY GROUP

Source: "COVID-19's Impact On Acquisitions of Physician Practices and Physician Employment 2019-2020," PAI June 2021; PAI-Avalere Health Physician Employment Trends report, April 2022; "Policy Research Perspectives," AMA, 2019; "Policy Research Perspectives," AMA, 2021.

Advisory Board interviews and analysis.

The "superpractices" driving physician realignment

National physician superpractice archetypes

PRESERVE AUTONOMY

Service partner

Organization that sells services to physician practices, often forming a loose affiliation between practices

Coalition

Organization formed by physician practices who share knowledge and resources while maintaining individual identities

ENABLE INTEGRATION

Aggregator

Corporate entity that acquires physician practices and strives to create an integrated group at scale

National chain

Corporate entity that seeks to replicate a physician practice model and brand across multiple markets, often through building new practices

Growth trends in representative organizations, 2017-2022

Estimated increase in providers:

- **Summit Health:** +1,100
- **OptumCare[1]:** +23,000

Estimated increase in clinics:

- **ChenMed:** +50
- **Oak Street Health:** +100
- **One Medical:** +50

Common features of superpractices

- Holistic, coordinated care team
- Standardized care pathways
- Centralized referral management
- Complementary ambulatory infrastructure
- Care and risk management analytics
- Shared, integrated EHR

1. Advisory Board is a subsidiary of Optum, owned by UnitedHealth Group. All Advisory Board research, expert perspectives, and recommendations remain independent.

Source: "Optum's $4.9B deal to buy DaVita Medical Group further expands UnitedHealth's care delivery portfolio," Fierce Healthcare, December 2017; "ChenMed Celebrates 28% Membership Growth in 2017," ChenMed, 2017; "Oak Street Health expanding to Philadelphia," Philadelphia Business Journal, October 2017; "One Medical opens new tech-driven, membership-based primary care center in Seattle," Geek Wire, May 2017; Summit Health, 2022, summithealth.com; OptumCare, 2022, optumcare.com; ChenMed, 2022, chenmed.com; Oak Street Health, 2022, oakstreethealth.com; One Medical, 2022, onemedical.com.

Advisory Board

Advisory Board interviews and analysis.

A brief history of superpractices in diverse partnerships

Sample partnerships with superpractices

Hospital is the core network partner

"Health First forms strategic partnership with **Privia Health"**

- Privia assisting system's owned medical group with population health and care coordination

"Hartford HealthCare, One Medical announce collaboration on coordinated care"

- One Medical will enable primary care coordination with system

"OhioHealth and **ChenMed** open three dedicated senior medical centers in underserved areas"

- ChenMed training system's clinicians in high-touch model

Privia | **One Medical** | **ChenMed**

Alternative partner seeks to avoid hospitals

"**Privia Health** inks capitated Medicare Advantage agreements with **Humana**"

- Privia will take health plan PMPM payments to cover total care cost

"**One Medical** and **ParetoHealth** partner to bring innovative healthcare solutions to employers"

- One Medical will be offered to employers seeking lower total costs

"**Independence Blue Cross** & Miami-based **ChenMed** form provider partnership"

- Health plan supporting ChenMed's entry into local market

Source: "Health First Forms Strategic Partnership with Privia Health," Health First, March 2019; "Privia Health Enters into Capitated Medicare Advantage Agreements," Seeking Alpha, January 2022; "Hartford HealthCare, One Medical Announce Collaboration on Coordinated Care," Hartford Healthcare, February 2022; "One Medical and ParetoHealth Partner to Bring Innovative Healthcare Solutions to Employers," One Medical, March 2021; "OhioHealth and Chenmed Open Three Dedicated Senior Medical Centers in Underserved Areas of Columbus," Ohio Health, October 2019; "IBC, ChenMed align to expand health care access for seniors," Philadelphia Business Journal, June 2018.

Advisory Board

Advisory Board interviews and analysis.

Amazon iterates… on an unprecedented scale

Services shuttering with Amazon Care closure

Chat function
Text-based chat with nurses initiated with in Amazon's app

Video visits
Virtual visits with a doctor or nurse practitioner for low-acuity care needs and referrals

House calls
Nurses dispatched to home or office for in-person services

Services Amazon is keeping (or seeking)

✓ **Amazon Pharmacy**
Prescriptions delivered to patients' home or office

? **One Medical** *(pending acquisition)*
Access to 188 offices and virtual care services in 29 markets with a $199 annual membership

✗ **Signify Health** *(reported bidder, but failed)*
Value-based care platform with home-based care services

Key questions to consider for sector disruption potential

- Can Amazon-One Medical expand to more markets?
- How strong is the appetite to disrupt owned businesses?
- Which Amazon business goals take priority?
- How urgently will peers feel compelled to respond?

Source: "Amazon scoops up primary care company One Medical in deal valued at $3.9B," Fierce Healthcare, July 2022; "Amazon to shut down its telehealth offering," The Washington Post, August 2022;" Amazon's Signify Health Interest Another Indicator Of At-Home Care Capabilities Buildout," Home Health Care News, August 2022. Advisory Board interviews and analysis.

MA growth attracts increased federal scrutiny

MA accounts for a large, and growing, share of HI Trust Fund spending

104% Per capita spending on MA beneficiaries compared to FFS

6.9% Growth in 2019 per capita MA spending, compared to 4% in FFS

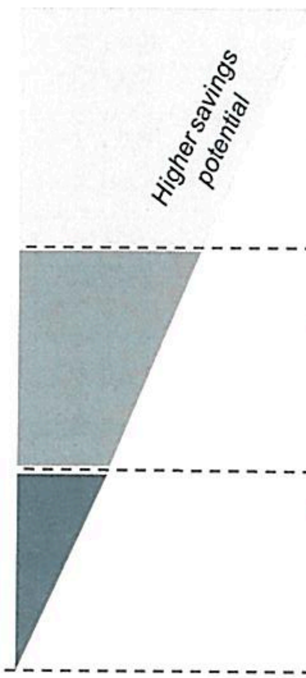
Upcoming proposals could boost or curtail plan revenues

RADV[1] audit proposal

Extrapolate risk adjustment audit data for contract-level payment recovery

Delayed to November 2022

Opportunities to save vary in impact to stakeholders and spending



- Lower plan payment rates
- Establish more competitive benchmarking

Raises enrollee premiums and/or lowers plan margins

▶ MedPAC recommends changing benchmark calculations

- Rein in risk coding

Long-standing areas of focus

▶ CMMI Director Liz Fowler named improving risk adjustment methodology as a key priority

- Reevaluate Stars bonus program

Ongoing strategic evolution

▶ Patient experience and access metric weights increasing from 1.5 to 4

1. Risk adjustment data validation.

Source: Cubanski, J. et al. "FAQs on Medicare Financing and Trust Fund Solvency," Kaiser Family Foundation, March 2021; "Report to the Congress: Medicare Payment Policy," MEDPac, March 2021; Goldstein J et al., "Becerra commits to private-sector Medicare but indicates it is too generous," The Washington Post, February 2021.

Advisory Board

Advisory Board interviews and analysis.

Participants keep moving, but overall still sitting at 60%

Payments made in CY 2020 and percentage point change from payments made in 2017

Progression to alternative payment methodology

	Traditional fee-for-service	Fee-for-service linked to quality and value[1]	Shared savings and bundles[2]	Population-based payment[3]
Medicare Advantage	38.0% -10 pts	4.0% +1.5 pts	36.2% -3 pts	21.8% +11.5 pts
Original Medicare	15.0% +4.5 pts	42.2% -9 pts	37.8% +5 pts	5.0% +0.5 pts
Medicaid	59.0% -8.8 pts	5.5% -1.7 pts	29.1% +8.3 pts	6.4% +2.2 pts
Commercial	51.5% -4 pts	13.0% -2.2 pts	32.1% +5.5 pts	3.4% +1.7 pts
All-payer	**39.3% -1.7 pts**	**19.8% -5.6 pts**	**34.2% +4.4 pts**	**6.7% +2.5 pts**

1. Includes foundational payments for infrastructure and operations (e.g., care coordination fees) and fee-for-service plus pay-for-reporting payments and pay-for-performance payments.
2. Includes alternative payment models with shared savings with upside risk only and shared savings with downside risk. These are built on FFS architecture.
3. Includes condition-specific payments (e.g., PMPM for oncology or mental health), comprehensive population-based payment (e.g., global payments), and integrated finance and delivery systems (e.g., global budgets).

Source: "APM Measurement Effort", HCP LAN, 2020 & 2021; "Progress of alternative payment models," HCP LAN, 2018.

Advisory Board interviews and analysis.

Cross-sector alignment on weaving equity into quality

Industry players include health equity in quality performance

Blue Cross Blue Shield of Massachusetts becomes first health plan in market to incorporate equity measures into its payment models

PR Newswire, September 2021

JPMorgan and Kaiser Permanente plan to roll out performance guarantees tied to health equity on certain quality measures for JPMorgan employees.

Fierce Healthcare, January 2022

National Committee for Quality Assurance adds health equity metrics to quality data

Modern Healthcare, August 2022

How it works: BCBSMA's role

Across 2022

- Gather **member demographic data**, including race, ethnicity, and language
- Distribute **tailored reports** to participating provider organizations that highlight disparities in quality within their patient population
- Offer **coaching and support** to help providers organizations reduce disparities in quality

Starting 2023

Begin **tying payments to health equity performance** for participating provider organizations

Source: "JPM 2022. Morgan Health, Kaiser Permanente partner on health equity," Fierce Healthcare, January 2022.

Advisory Board interviews and analysis.

Tumultuous investing will pressure sectors differently

Sector status

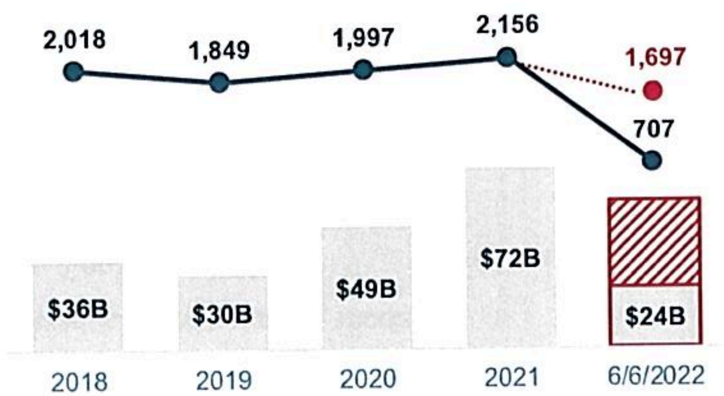
Total amount invested (billions)

Number of deals

Projected total for EOY 2022 at current pace

BIOTECH VENTURES

Global biotech startup funding and total rounds[1]



DIGITAL HEALTH VENTURES

U.S. digital health startup funding and deal counts[1]

Business need

- Secure regular buyer for innovation (via sales partnership or acquisition)
- Demonstrate a sustainable benefit (such as consumer data) that constitutes predictable value

Open question

- How will Big Pharma weigh further valuation drops against need for pipeline diversification?
- How much will ventures need to integrate into traditional health care business structures?

1. Not to scale.

Source: "H1 2022 digital health funding," Rock Health, July 2022; "Biotech Startup Funding Has Also Slowed In 2022," crunchbase, June 2022; "Q3 2022 digital health funding," Rock Health, October 2022. Advisory Board interviews and analysis.

Service scaling outlook will vary by market and model

Assessment of whether services meet threshold criteria required for widespread growth

Criteria for growth	SNF-at-home	Hospital-at-Home	Home primary and specialty care	Home dialysis	Home infusion	Telehealth
Reimbursement status	✗	⚠[1]	⚠	✓	⚠	✓
Staffing supply	✗	✗	✓	✓	✓	✓
Unpaid caregiver requirements	✗	⚠	⚠	✗	✓	✓
Logistics and supplies	⚠	⚠	✓	⚠	⚠	✓
Clinician and patient comfort	⚠	⚠	✓	⚠	⚠	✓

Criteria status

- ✓ Generally met currently
- ⚠ Some challenges to overcome
- ✗ Extreme barriers in place

← Scale of use →

Targeted deployment in markets with capacity constraints or risk payments

Broad implementation by most providers as a care standard

1. Reimbursement for Hospital-at-Home is currently bolstered by the public health emergency, but may subside in the future.

Advisory Board interviews and analysis.

Still room to go on asynchronous and remote monitoring

RPM and virtual visit service volumes (in FFS)[1]

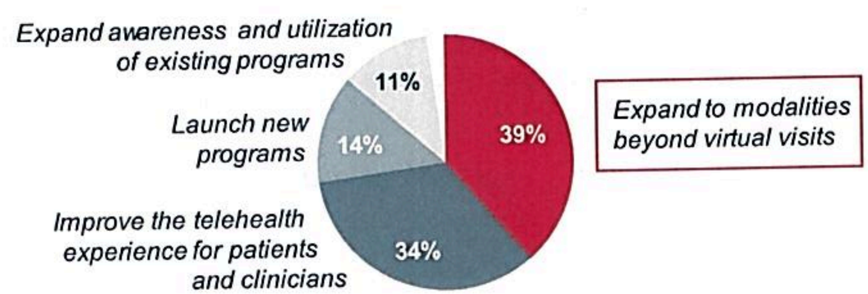
Providers intend to invest in closing their modality gaps

Providers with specific telehealth platforms in place

n=146 leaders from care delivery organizations, 2021

Top provider telehealth investment priority[2] for 2021

n=44 strategic planning leaders at provider organizations, 2021



1. RPM claims data retrieved from Chronic Disease Management (CDM) commercial claims dataset and virtual visits data retrieved from CMS' Physician/Supplier Procedure Summary (PSPS) file.
2. "Which telehealth priority will receive the greatest investment and focus in 2021?"

Source: "Telehealth Growth and Development: Telehealth's Place in the Industry Beyond the Pandemic," Xtelligent Healthcare Media, June 2021; 2021 Strategic Planning Survey Results, Advisory Board, March 2021; Optum's de-identified Clinformatics® Data Mart Database; CMS' Physician/Supplier Procedure Summary (PSPS) file.

Advisory Board interviews and analysis.

Plans experiment with a new "digital-front door"

National plans launching virtual-first products

Health plan	Virtual provider	Gatekeeping method
Cigna	MDLive *(owned by Cigna)*	$0 copay for access to MDLive primary care providers, chronic condition management and care navigation
United Healthcare[1]	Optum	$0 copay for virtual primary, urgent, and behavioral health services
Ambetter (Centene)	Teladoc	$0 visit costs for all virtual care when delivered through the Teladoc Primary360 service
Aetna	Teladoc	$0 copay for virtual and in-person services at CVS MinuteClinics

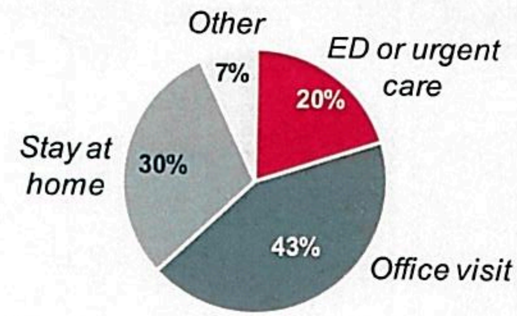
DATA SPOTLIGHT

14+ Virtual-first health plans announced across 2021

CASE EXAMPLE Wilbur Health Plan[2]

- Plan offered virtual-first product to individual market members
- Early analysis shows product diverted care from costlier settings in first year of offering

Survey question: Where would you have gone if telehealth wasn't an option?



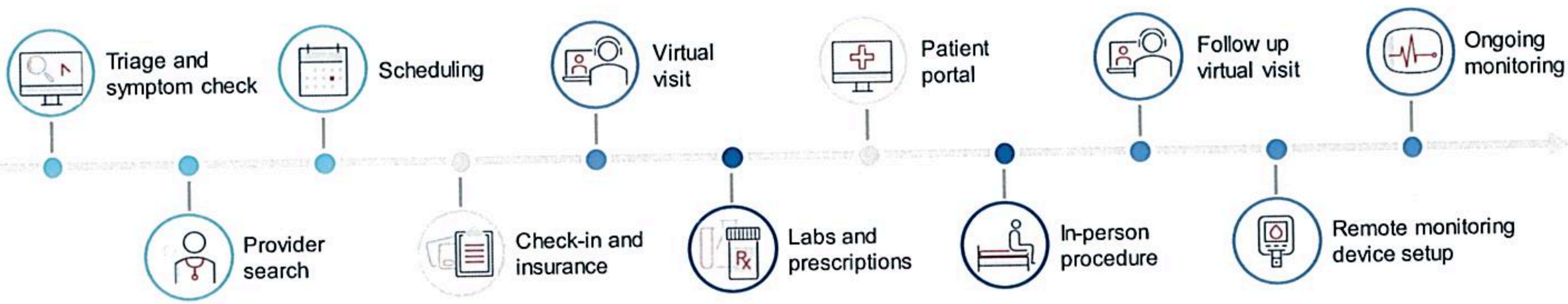
1. Advisory Board is a subsidiary of Optum, owned by UnitedHealth Group. All Advisory Board research, expert perspectives, and recommendations remain independent.
2. Pseudonym.

Source: "How UnitedHealth, Aetna and Centene are tackling virtual-first care," Modern Healthcare, October 2021.

Advisory Board interviews and analysis.

The broader digital picture offers wider care influence

The modern patient's health care journey



- Digital tools with ability to influence downstream care
- Potential replacements for traditional care services or management, with ability to influence downstream care
- Downstream care services that often vary in cost and quality

Advisory Board interviews and analysis.

Current responses enable—or impede—future ambitions

Current and future priorities of various health care industry organizations

Create **capacity** for urgent cases

Offer highly generous, expansive **benefits**

Immediate **staff** wage and experience investments

Capture innovation **investment**

Capitalize on opportunity to attract **talent**

Pursue immediate revenue and asset **growth** opportunities

Prepare for equitable, complex **evidence** evaluation

Manage **total** cost of care

Retain desired strategic **autonomy**

Secure sustainable case and payer **mix**

Support appropriate delivery infrastructure for **population** needs

Invest in infrastructure and partnerships for future **site of care** shifts

NEAR TERM
Challenges and Opportunities

?→

LONG TERM
Strategic Trajectory

Advisory Board interviews and analysis.

The present feels aggressively urgent. Today's market dynamics put health care organizations in a position of unusually disproportionate focus on short term crises and opportunities. Leaders' strategic choices now will have an outsized impact—positive or negative—on their trajectory toward long-term goals.

HEALTH EQUITY

Health equity *may* define your margins.

Health equity is now clearly central to the mission of health care, and the industry is beginning to build it into a business imperative. Early movers are taking steps to integrate health equity into quality metrics—which could form a foundation for transforming the health care business model, or relegate equity initiatives to specific, granular targets.

VALUE-BASED PAYMENT

Decide which cost to target for employers.

While public programs have a clear trajectory toward population-based downside risk, commercial plans and providers have not coalesced around a viable model that meets employers' experience and cost needs. To progress, the industry must decide whether tailoring to utilization trends or standardizing clinical models will yield greater savings.

PHYSICIAN PARTNERSHIP

Practices will inevitably shift volumes.

Physician practices are integrating into well-resourced, innovative "superpractices" which often orient their operations around avoiding hospital care. As payers and financiers increasingly support the models, health systems will have to choose whether to wield their hospital assets in partnership with superpractices—or hyper-consolidate to keep power.

CONSUMER NAVIGATION

Consumer choice gets bigger *and* smaller.

A surge in care options and data is escalating the competition over influencing consumers' care decisions. But as consumers aren't well positioned to shop, health care organizations are focused on curating their navigation experience—and could steer consumers between increasingly granular choices about specific services, or engulf them in a managed ecosystem.

TELEHEALTH

Consumer attention is a tempting goal.

The industry has approached virtual visits as a direct replacement for in-person care, leaving opportunities from remote monitoring and asynchronous tools unexplored. As organizations broaden their telehealth strategy, they are competing to capture consumer attention—possibly at the expense of improved care efficiency.

HOME-BASED CARE

Competing in home care may stress all.

As industry stakeholders push forward their growth ambitions in home-based care, their challenges to scale vary with the diversity of services. Aggressive movers overcome reimbursement barriers by integrating services into total cost of care or high-cost service management levers, but may strain other providers or worsen inequities.

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Advisory Board interviews and analysis.


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