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
Board Clerk / Executive Assistant to CEO

DISTRIBUTION:
Governing Board
Legal Counsel
Executive Team
Chief of Staff
www.kaweahhealth.org
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 innovation 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.
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.
Current responses enable—or impede—future ambitions

Current and future priorities of various health care industry organizations

- Create capacity for urgent cases
- Immediate staff wage and experience investments
- Capitalize on opportunity to attract talent
- Offer highly generous, expansive benefits
- Capture innovation investment
- Pursue immediate revenue and asset growth opportunities
- Prepare for equitable, complex evidence evaluation
- Secure sustainable case and payer mix
- Invest in infrastructure and partnerships for future site of care shifts
- Manage total cost of care
- Retain desired strategic autonomy
- Support appropriate delivery infrastructure for population needs

<table>
<thead>
<tr>
<th>NEAR TERM</th>
<th>LONG TERM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Challenges and Opportunities</td>
<td>Strategic Trajectory</td>
</tr>
</tbody>
</table>
The most disruptive market forces the industry faces

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

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

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

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

IMMEDIATE IMPACT

BUILDING MOMENTUM
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Expense</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$4,009</td>
<td>+37%</td>
</tr>
<tr>
<td>March 2022</td>
<td>$5,494</td>
<td></td>
</tr>
</tbody>
</table>

**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

Volume growth hasn’t kept up with expense growth

Kaufman Hall data (indexed to December 2019)
No wave of hospital closures yet

Federal funding slowed hospital closures last year

Rural hospitals face difficult future

892 Rural hospitals at risk of closing

Percentage of hospitals at risk of closure by region

Northeast/Mid-Atlantic

Midwest

West

Great plains

South

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

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

Indicators to watch:

**FEDERAL INTEREST RATE**
- 3.75% Nov. 2022

**UNEMPLOYMENT RATE**
- 3.5% Sept. 2022

**EMPLOYMENT COST INDEX**
- 5.1% June 2022 YOY

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

Sources:
- "Employment Cost Index Summary," BLS, July 2022
- "Federal Funds Target Range," Federal Reserve Economic Data
- "Citizen Unemployment Rate," BLS, August 2022
- "Producer Price Index News Release Summary," BLS, August 2022
- "Fed Interest Rates another 0.75 percentage point," Axios, November 2022.
“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

- 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

POTENTIAL TO GAIN TALENT

- Ambulatory and virtual providers
- Big tech, big retail, and startups
- Increased appeal of alternative clinician employment
- Opportunity to capture market share
- Arms race to attract talent
- Increased urgency and appetite for innovation

STRATEGIC IMPERATIVES AND DISRUPTED INITIATIVES
Compounding crises demand resources and bandwidth

- Covid-19 still straining resources
- Behavioral health crisis worsens
- Reproductive care access shock
- Pressure from other public health concerns

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”

Percentage of adults reporting symptoms of anxiety or depression

- 11% Pre-Pandemic
- 33% June 2022

“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

- 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-urgent care,” 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

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Today’s coverage mix is a temporarily skewed picture

Insurance enrollment changes
2019 Q4 to 2022 Q1

- Employer: -6.4M (-4%)
- Individual: 4.0M (31%)
- Managed Medicaid: 16.2M (31%)
- State Medicaid: 0.5M (3%)
- Medicare Advantage: 3.4M (16%)
- Traditional Medicare: -2.5M (-8%)

Unemployment and uninsured rate

Uninsured rate
Unemployment 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


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1. Public health emergency.
Insurance giants and disruptors make leaps in MA

### Largest Medicare Advantage enrollment increases

<table>
<thead>
<tr>
<th>January 2021 to January 2022</th>
</tr>
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<tbody>
<tr>
<td>United</td>
</tr>
<tr>
<td>Anthem</td>
</tr>
<tr>
<td>Humana</td>
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<tr>
<td>Centene</td>
</tr>
<tr>
<td>CVS (Aetna)</td>
</tr>
<tr>
<td>Bright</td>
</tr>
<tr>
<td>Highmark</td>
</tr>
<tr>
<td>Kaiser</td>
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<tr>
<td>SCAN</td>
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<tr>
<td>Devoled</td>
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</table>

**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

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

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National plans focus on growth through vertical assets

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

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Humana + CenterWell</th>
<th>UnitedHealthcare + Optum²</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$73B</td>
<td>$68B $155B</td>
</tr>
<tr>
<td></td>
<td>Will partially divest Kindred hospice and personal care assets to focus on home-based strategy for MA</td>
<td>$91B $54B</td>
</tr>
<tr>
<td></td>
<td>Cigna + Evernorth</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$126B</td>
<td>$82B $153B</td>
</tr>
<tr>
<td></td>
<td>Invests $750M into Bright HealthCare</td>
<td>Includes retail care services</td>
</tr>
<tr>
<td></td>
<td>Expands co-branded small group plans with Oscar Health</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Centene</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$102B</td>
<td>$39B $83B</td>
</tr>
<tr>
<td></td>
<td>Will divest from Magellan Rx and PANTHERx PBMs to focus on core managed care insurance business</td>
<td></td>
</tr>
<tr>
<td>Partnership</td>
<td>Elevance (Ika Anthem)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$150B</td>
<td>$150B</td>
</tr>
<tr>
<td></td>
<td>Joint investments with CareMax, Privia, and Vera Whole Health to expand value-based care</td>
<td></td>
</tr>
</tbody>
</table>

**Segment Specialization**

- **Humana + CenterWell**
  - Will partially divest Kindred hospice and personal care assets to focus on home-based strategy for MA
- **UnitedHealthcare + Optum²**
  - 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**
  - Invests $750M into Bright HealthCare
  - Expands co-branded small group plans with Oscar Health
- **Centene**
  - Will divest from Magellan Rx and PANTHERx PBMs to focus on core managed care insurance business

**Consumer Population Focus**


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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

| Percent of physician practices owned by hospitals | 24.3% | 24.6% | 24.8% | 25.1% | 26.3% | 26.5% | 26.4% |
| Percent of physician practices owned by corporate entities | 14.6% | 15.8% | 16.8% | 18.1% | 22.1% | 25.3% | 27.2% |


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

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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

**Enable Integration**
- **Aggregator**
  - Corporate entity that acquires physician practices and strives to create an integrated group at scale
  - Estimated increase in providers:
    - Summit Health: +1,100
    - OptumCare: +23,000

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

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

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

- "Privia Health inks capitated Medicare Advantage agreements with Humana"
  - Privia will take health plan PMPM payments to cover total care cost

One Medical

- "One Medical and ParetoHealth partner to bring innovative healthcare solutions to employers"
  - One Medical will be offered to employers seeking lower total costs

ChenMed

- "Independence Blue Cross & Miami-based ChenMed form provider partnership"
  - Health plan supporting ChenMed's entry into local market

Amazon iterates... on an unprecedented scale

<table>
<thead>
<tr>
<th>Services shuttering with Amazon Care closure</th>
<th>Services Amazon is keeping (or seeking)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chat function</td>
<td>Amazon Pharmacy</td>
</tr>
<tr>
<td>Text-based chat with nurses</td>
<td>Prescriptions delivered to patients' home or office</td>
</tr>
<tr>
<td>initiated with in Amazon's app</td>
<td></td>
</tr>
<tr>
<td>Video visits</td>
<td>One Medical (pending acquisition)</td>
</tr>
<tr>
<td>Virtual visits with a doctor or nurse practitioner for low-acuity care needs and referrals</td>
<td>Access to 188 offices and virtual care services in 29 markets with a $199 annual membership</td>
</tr>
<tr>
<td>House calls</td>
<td>Signify Health (reported bidder, but failed)</td>
</tr>
<tr>
<td>Nurses dispatched to home or office for in-person services</td>
<td>Value-based care platform with home-based care services</td>
</tr>
</tbody>
</table>

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?

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 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
- Reevaluate Stars bonus program

**Long-standing areas of focus**
- CMMI Director Liz Fowler named improving risk adjustment methodology as a key priority

**Ongoing strategic evolution**
- Patient experience and access metric weights increasing from 1.5 to 4

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1. Risk adjustment data validation.


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Participants keep moving, but overall still sitting at 60%

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

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

1. Includes foundational payments for infrastructure and operations (e.g., capital 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 bundled 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).

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

Tumultuous investing will pressure sectors differently

**BIOTECH VENTURES**

Global biotech startup funding and total rounds

- 2018: $36B
- 2019: $30B
- 2020: $49B
- 2021: $72B
- 6/6/2022: $24B

**DIGITAL HEALTH VENTURES**

U.S. digital health startup funding and deal counts

- 2018: $9B
- 2019: $8B
- 2020: $15B
- 2021: $29B
- YTD 2022: $13B

**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?

Source: "2022 digital health funding" - Rock Health, July 2022; "Biotech Startup Funding Has Also Slowed In 2022" - Crunchbase, 2022; "2022 digital health funding" - Rock Health, October 2022.

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Service scaling outlook will vary by market and model

Assessment of whether services meet threshold criteria required for widespread growth

<table>
<thead>
<tr>
<th>Criteria for growth</th>
<th>SNF-at-home</th>
<th>Hospital-at-Home</th>
<th>Home primary and specialty care</th>
<th>Home dialysis</th>
<th>Home infusion</th>
<th>Telehealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursement status</td>
<td>✗</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✗</td>
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<tr>
<td>Staffing supply</td>
<td>✗</td>
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<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>Unpaid caregiver requirements</td>
<td>✗</td>
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<td>✗</td>
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<td>Logistics and supplies</td>
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<td>Clinician and patient comfort</td>
<td>✔️</td>
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Criteria status

- ✔️ Generally met currently
- 🔴 Some challenges to overcome
- ✗ Extreme barriers in place

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 limited by the public health emergency, but may expand in the future.
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

- 96% Real-Time
- 17% Asynchronous
- 35% RPM

Top provider telehealth investment priority² for 2021
n=44 strategic planning leaders at provider organizations, 2021

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

Expanding awareness and utilization of existing programs

- Launch new programs: 39%
- Improve the telehealth experience for patients and clinicians: 34%
- Expand to modalities beyond virtual visits: 11%
- 14%

Plans experiment with a new “digital-front door”

### National plans launching virtual-first products

<table>
<thead>
<tr>
<th>Health plan</th>
<th>Virtual provider</th>
<th>Gatekeeping method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigna</td>
<td>MDLive (owned by Cigna)</td>
<td>$0 copay for access to MDLive primary care providers, chronic condition management and care navigation</td>
</tr>
<tr>
<td>United Healthcare¹</td>
<td>Optum</td>
<td>$0 copay for virtual primary, urgent, and behavioral health services</td>
</tr>
<tr>
<td>Ambetter (Centene)</td>
<td>Teladoc</td>
<td>$0 visit costs for all virtual care when delivered through the Teladoc Primary360 service</td>
</tr>
<tr>
<td>Aetna</td>
<td>Teladoc</td>
<td>$0 copay for virtual and in-person services at CVS MinuteClinics</td>
</tr>
</tbody>
</table>

### Case Example: Wilbur Health Plan²
- 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?

- **Other:** 7%
- **ED or urgent care:** 20%
- **Stay at home:** 30%
- **Office visit:** 43%

Source: “How UniteHealth, Aetna and Centene are tackling virtual first care,” Modern Healthcare, October 2021

¹ Advisory Board is a subsidiary of Optum, owned by UnitedHealth Group. All Advisory Board research, expert perspectives, and recommendations remain independent.
² Pseudonym.
The broader digital picture offers wider care influence
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
- Pursue immediate revenue and asset growth opportunities
- Immediate staff wage and experience investments
- Capitalize on opportunity to attract talent
- Prepare for equitable, complex evidence evaluation
- Secure sustainable case and payer mix
- Invest in infrastructure and partnerships for future site of care shifts
- Manage total cost of care
- Retain desired strategic autonomy
- Support appropriate delivery infrastructure for population needs

NEAR TERM
Challenges and Opportunities

LONG TERM
Strategic Trajectory
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 costs 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 financers 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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