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State of the Industry: Trends in Healthcare 2020

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Our Presenter

State of the Industry: Trends in Healthcare 2020

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HEALTHTRUST UNIVERSITY CONFERENCE

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Learning Objectives

At the end of this session, participants should be able to:

1. Explain the potential impact of Covid-19 on the healthcare sector.
2. Discuss strategies that employers, health plans and providers are using to manage revenue and control spending.
3. Describe the changes taking place in healthcare delivery strategies.

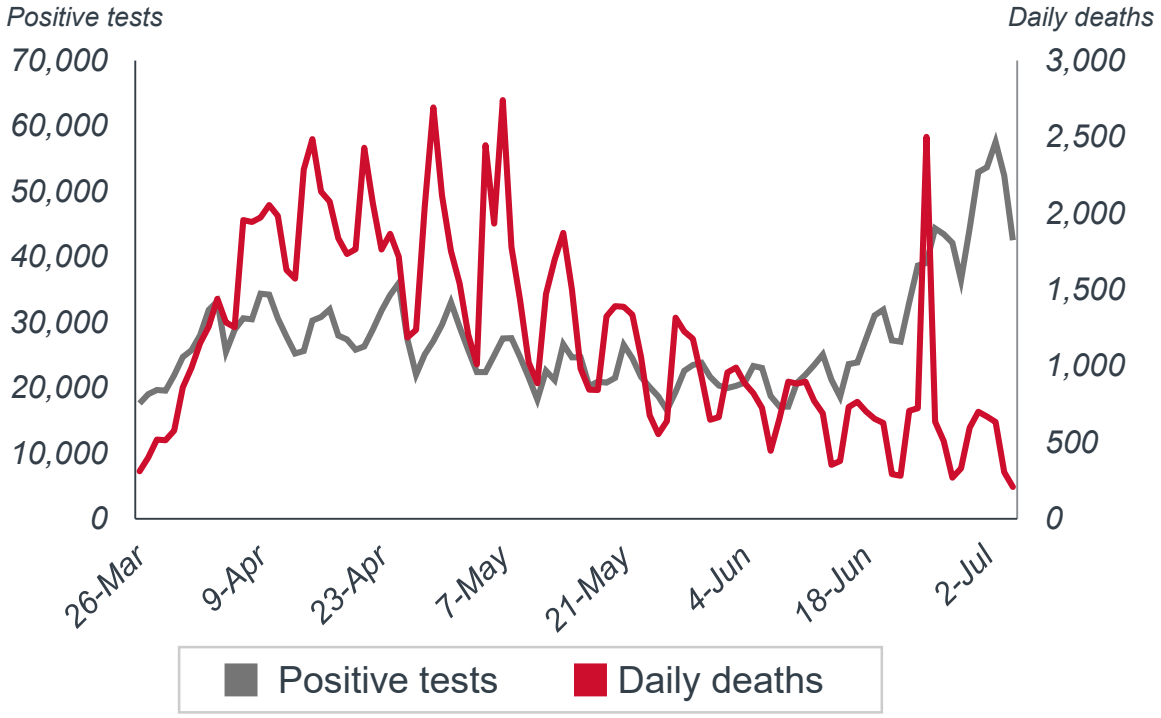
State of the Industry: Trends in Healthcare 2020

A fearsome foe, risen from the mat

As cases and hospitalizations rise, resource shortages threaten anew

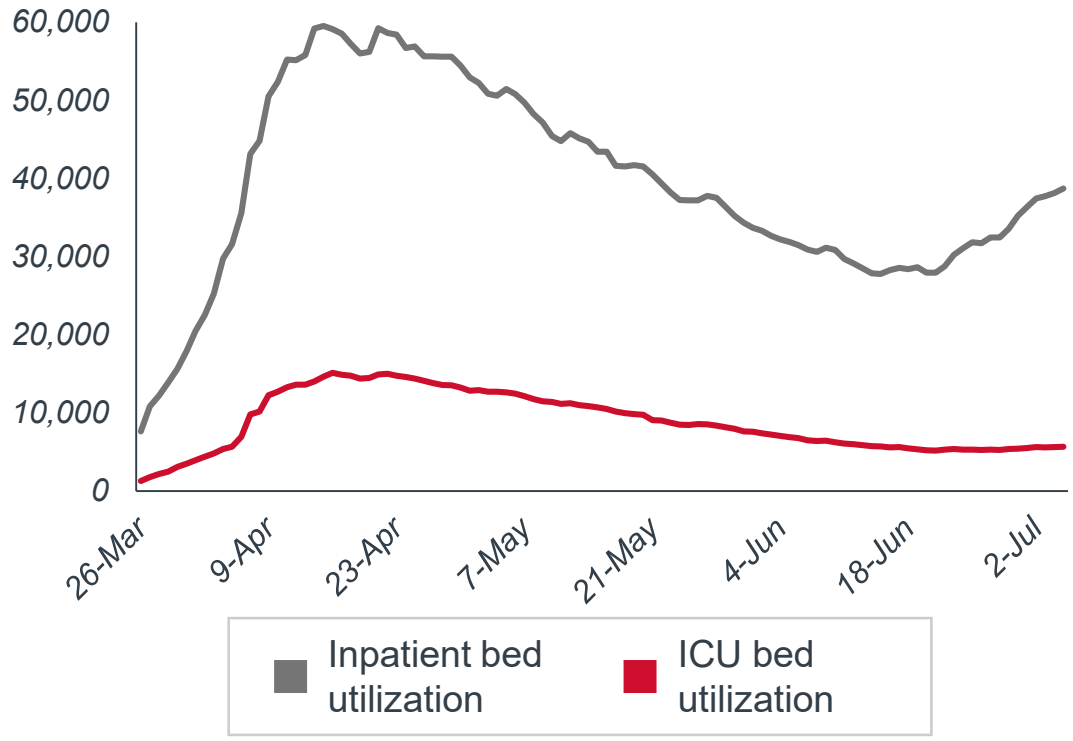
Daily Covid-19 deaths and positive tests

From March 26 to July 5



U.S. Covid-19 inpatient bed and ICU bed utilization

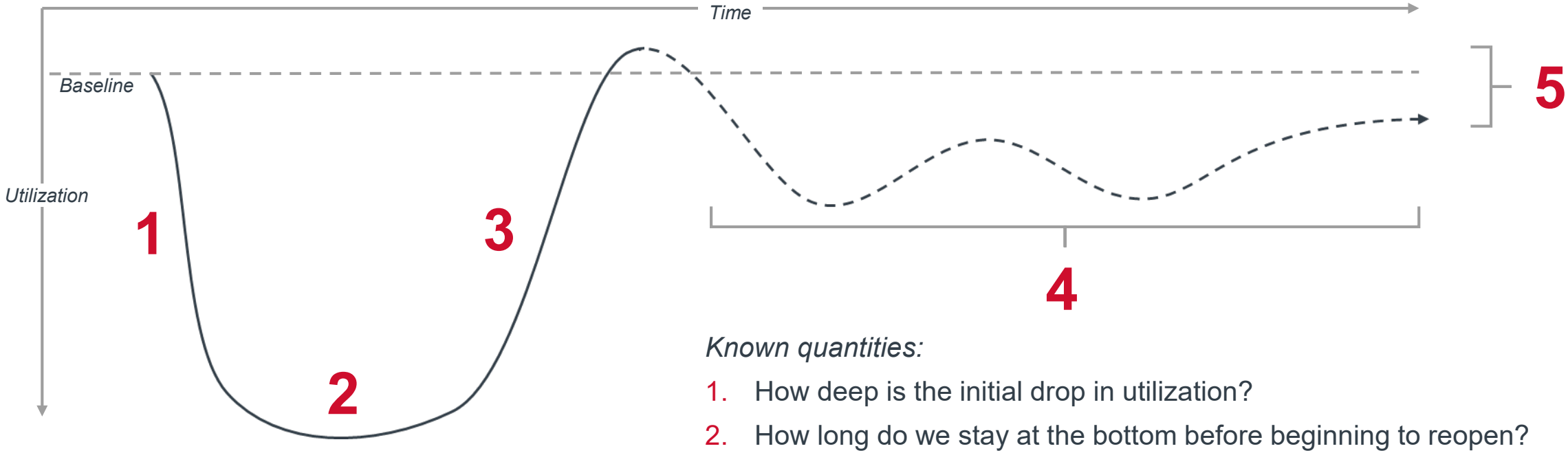
From March 26 to July 5



Source: "US Historical Data," The COVID Tracking Project.

What will the new normal look like?

New questions emerge as others come into focus



Known quantities:

1. How deep is the initial drop in utilization?
2. How long do we stay at the bottom before beginning to reopen?
3. How fast is the operational rebound as supply returns?

Outstanding questions:

4. How does utilization fall and rise in the medium to long term?
5. Is the “new normal” baseline different than before?

Advisory Board interviews and analysis.

Consumer mindsets and circumstances suddenly reshaped

Covid-19 to have lasting—and potentially permanent—impacts on behavior

Profile of the "peri-Covid" consumer

More fearful	Financially insecure	More experienced	Sicker	More likely to self-ration?
70% of consumers are very or somewhat concerned about contracting Covid-19 at a health care facility[1]	36% of consumers have experienced a change in employment status due to Covid-19[2]	19% of consumers who used a virtual visit during the pandemic were new to telehealth[2]	15% of consumers with a chronic condition lost insurance coverage due to Covid-19[2]	45% of healthy consumers say they are skipping their annual physical due to Covid-19[3]

1. As of April, 2020.
2. As of June, 2020.
3. As of May, 2020.

Source: "Covid-19," American College of Emergency Physicians, April 2020; "The COVID-19 pandemic is influencing consumer health behavior. What does this mean for healthcare providers?" PricewaterhouseCoopers, May 2020.

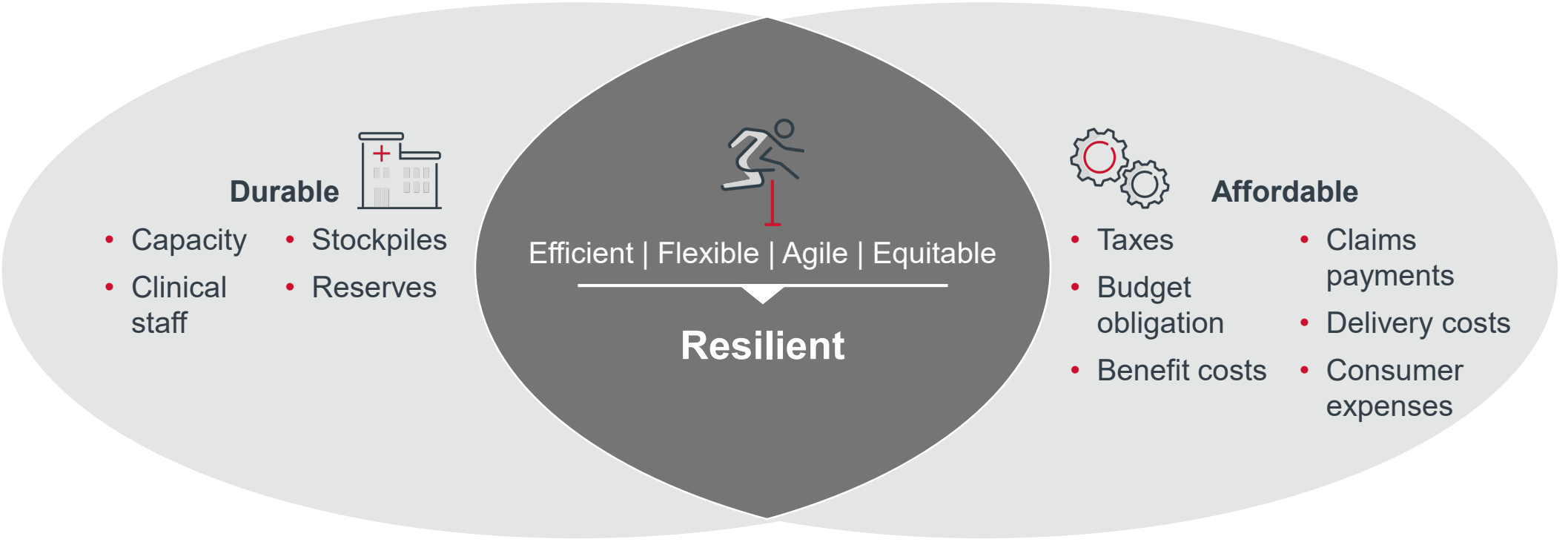
Advisory Board interviews and analysis.

Resilience is not a zero-sum game

Efficient, flexible, agile and equitable strategies bridge the gap

Delivery system needs

Purchaser demands



Advisory Board interviews and analysis.

For purchasers, Covid-19 amplifies preexisting pressures

Purchasers all facing budget pressures but with widely variable urgency, tool sets

To what extent will Covid-19 shift purchaser **motivation** and **ability** to control health spending?

Medicare

Despite spending trillions of dollars on Covid-19 relief, the federal government has more flexibility than any other purchaser

Medicaid

Need to balance state budgets offers a clear mandate; solution set limited but also straightforward

Employers

Despite substantial revenue pressure, deferred care means health care costs trending below budget—for now

Health Plans

Short-term dynamics favor insurers, but looming uncertainty around pricing, revenue, future utilization make correct strategy extremely difficult to judge

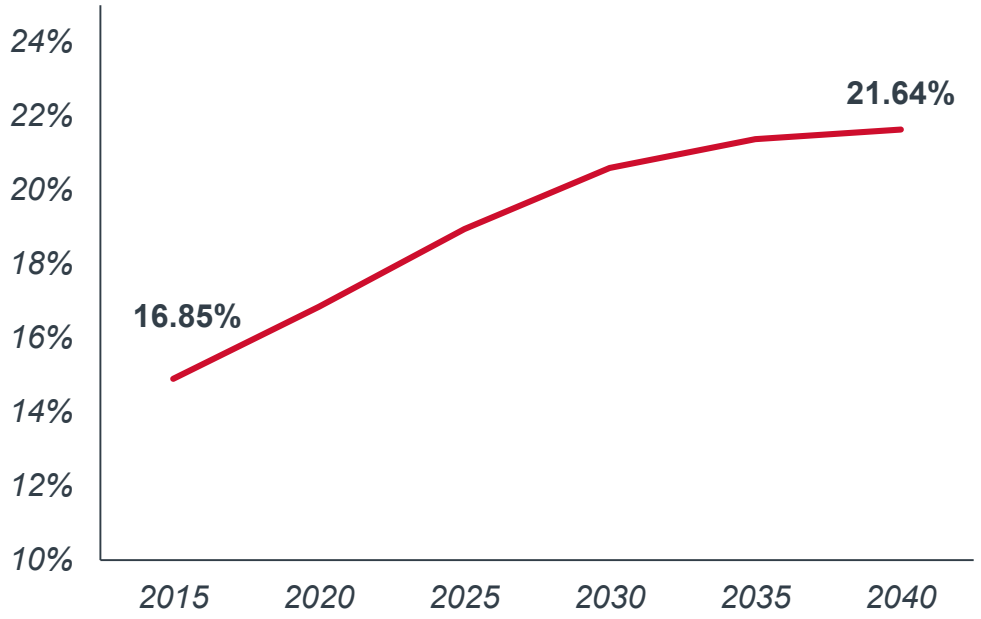
Advisory Board interviews and analysis.

Medicare spending continues to accelerate

Per-capita spending overtakes enrollment as primary driver of spending growth

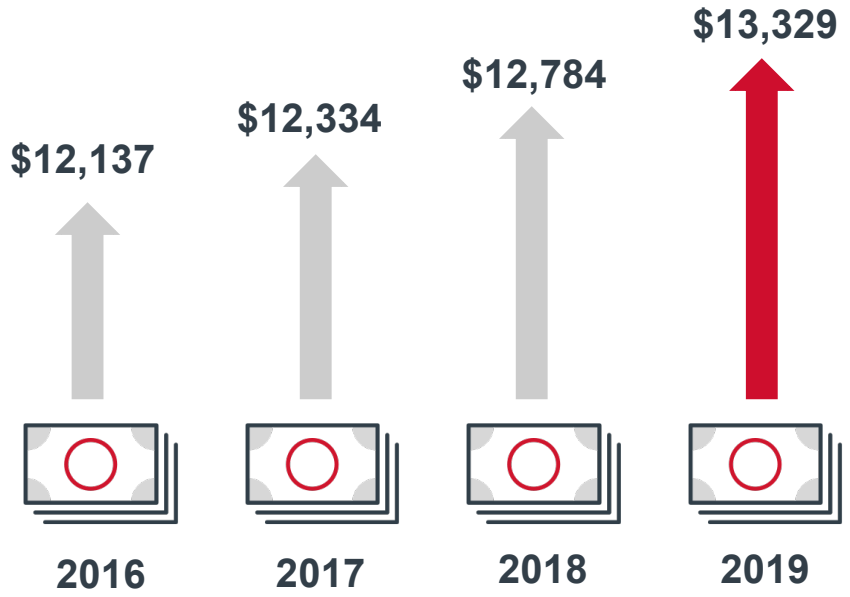
Medicare-eligible seniors make up an increasing share of the population…

Percent of U.S. population ages 65+



…and every year the amount that Medicare spends on each enrollee grows

Per capita Medicare beneficiary spending



Source: "2017 National Population Projections Tables" US Census Bureau; Keehan S et al., "National Health Expenditure Projections, 2019–28" Health Affairs, Mar 2020.

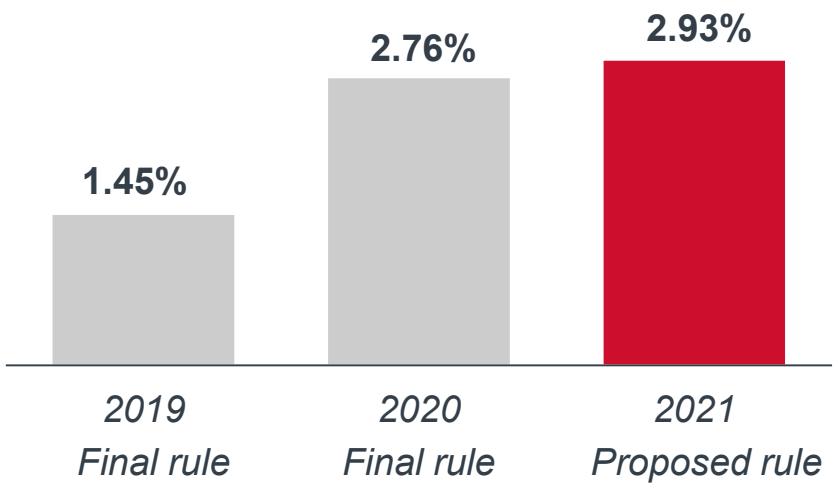
Advisory Board interviews and analysis.

No Medicare price cuts in 2021

But CMS will continue to pursue other cost savings levers

CMS does not opt for provider reimbursement cuts during acute phase of pandemic…

IPPS[1] rate increase remains steady



…but other cost savings options are still moving forward

Site-of-care shifts

Value-based care programs

1. Inpatient Prospective Payment System.

Source: "The winners (and losers) in Medicare's 2021 inpatient proposed rule," Advisory Board Daily Briefing, May 2020.

Advisory Board interviews and analysis.

Medicare policy continues to impel site-of-care shift

Momentum growing across wider range of services

Recent changes to Medicare reimbursement favor moving patients out of the hospital

Inpatient to outpatient

Example: Total hip arthroplasty removed from inpatient only list

Provider-based setting to home

Example: Reimbursement for infusions delivered at home

Outpatient to ambulatory

Example: Three PCI[1] procedures added to ASC covered procedures list

Bricks-and-mortar setting to virtual

Example: Expanded telehealth reimbursement

1. Percutaneous coronary intervention.

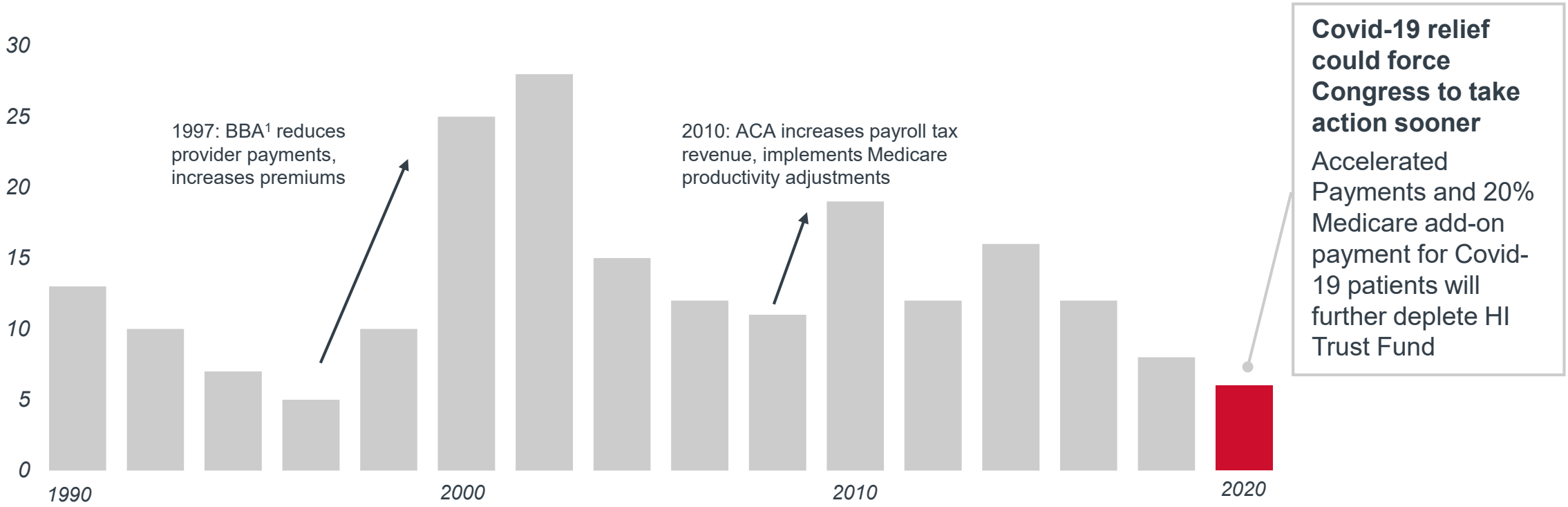
Advisory Board interviews and analysis.

Medicare price cuts still on the table if other measures fail

Depleted Trust Fund approaching levels that have triggered firmer action in past

The longevity of the Medicare Hospital Insurance (HI) Trust Fund has fluctuated since its inception

Number of years projected until HI Trust Fund insolvency



1. Balanced Budget Act of 1997.

Source: "Medicare: Insolvency Projections," Congressional Research Service, May 2020.

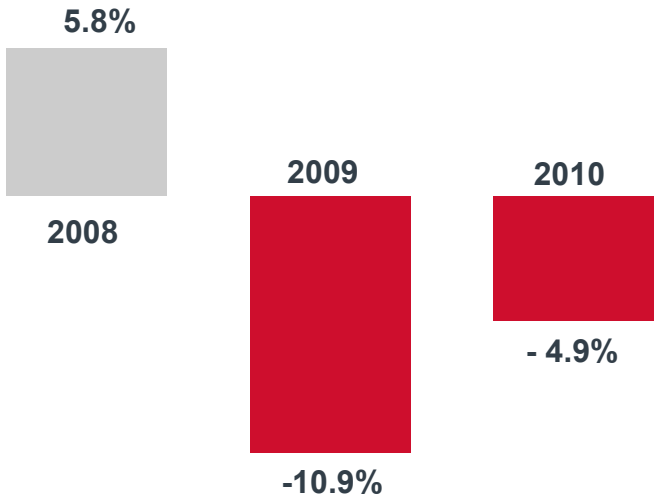
Advisory Board interviews and analysis.

Medicaid a massive state budget item—and a massive target

States' efforts during last recession portend even more focus this time

A clear target in 2008 recession

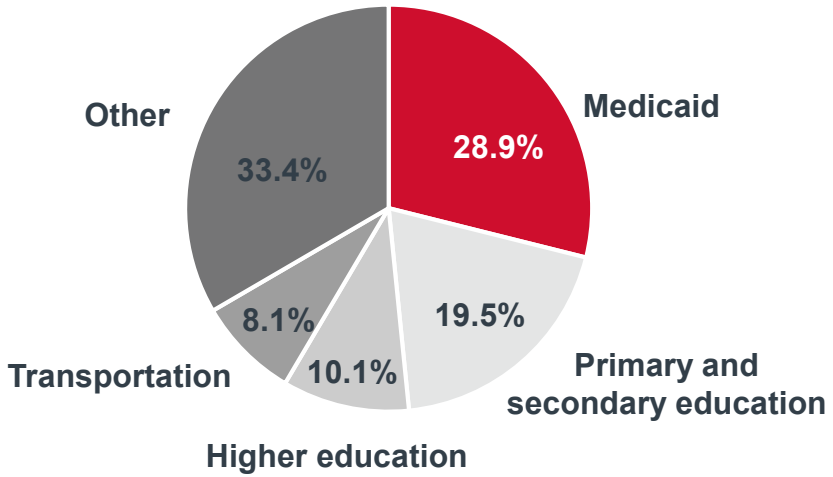
Percent change in state Medicaid spending



While state spending decreased in 2009 and 2010, *total* spending grew due to increased Federal Medical Assistance Percentage

Likely to be an even bigger target this time around

State budget expenditures, FY 2019



The average share of a state's budget going toward Medicaid increased from **19.1%** in 2000 to **28.9%** in 2019

DATA SPOTLIGHT

12.7M

Estimated number of individuals who became eligible for Medicaid between March 1 and May 2, 2020 due to unemployment

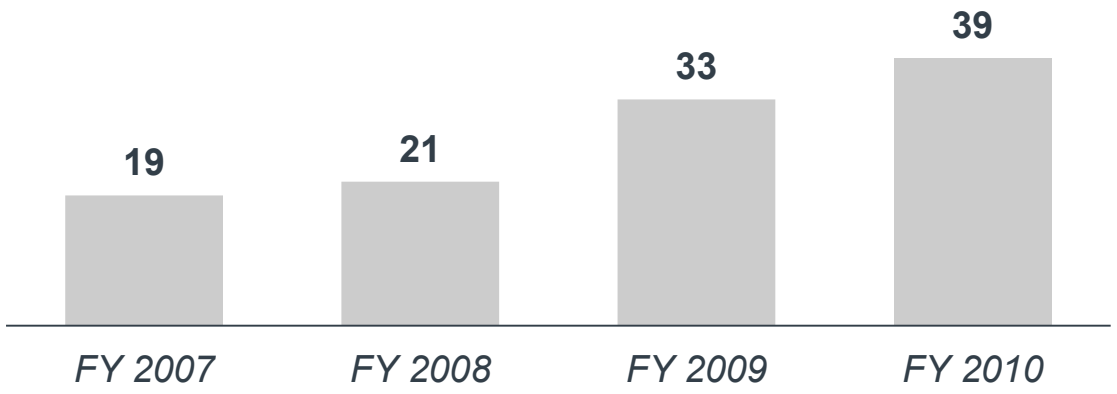
Source: Rudowitz R et al., "Medicaid Enrollment & Spending Growth: FY 2019 & 2020," Kaiser Family Foundation, October 2019; "2019 State Expenditure Report," NASBO, November 2019; Garfield R et al., "Eligibility for ACA Health Coverage Following Job Loss," Kaiser Family Foundation, May 2020.

All things considered, Medicaid price cuts likely

State strategies likely to revisit tactics deployed during Great Recession

Majority of states were forced to turn to price cuts during last recession

States reporting at least one provider rate cut or freeze



Only 18 states made cuts to optional benefits like physical therapy, medical supplies or dental coverage

> [The looming crisis facing Medicaid programs] is going to be the ’09 recession on steroids. It’s going to hit hard, and it’s going to hit fast.”
>
> Matt Salo, Executive Director
> NATIONAL ASSOCIATION OF MEDICAID DIRECTORS

Source: Snyder L, “Trends in State Medicaid Programs,” Kaiser Family Foundation, June 2016; Roubein R et al., “States cut Medicaid as millions of jobless workers look to safety net,” Politico, May 2020; Pellegrin M, “The Budget in Brief: Summary of Gov. Lee’s FY 2021 Recommended Budget,” The Sycamore Institute, February 2020.

Advisory Board interviews and analysis.

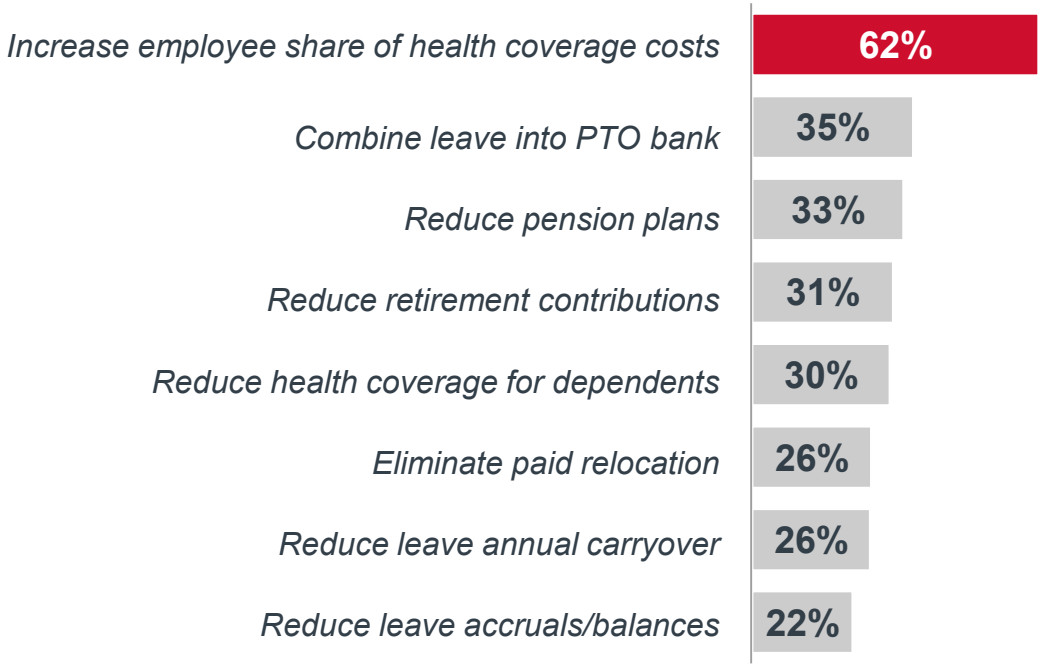
Employers unlikely to reuse Great Recession playbook

Cost-shifting opportunity not completely exhausted, but less attractive now

Common employer benefit changes post-2008 recession

Percent indicating likely or very likely to make or keep changes after economy recovers, 2009

n=329 human resources professionals



Critical distinctions between employer landscape in 2009 vs. 2020

Employers have already pursued easy savings opportunities and additional progress will require significant time and effort

Optics of cutting health care benefits during a pandemic are poor

3-5%

Typical employer savings due to canceled elective procedures through First Half 2020

Source: Fronstin P, "The Impact of the Recession on Employment-Based Health Coverage," Employee Benefit Research Institute, May 2010; "The Post-Recession Workplace: Competitive Strategies for Recovery and Beyond," Society for Human Resource Management, September 2010.

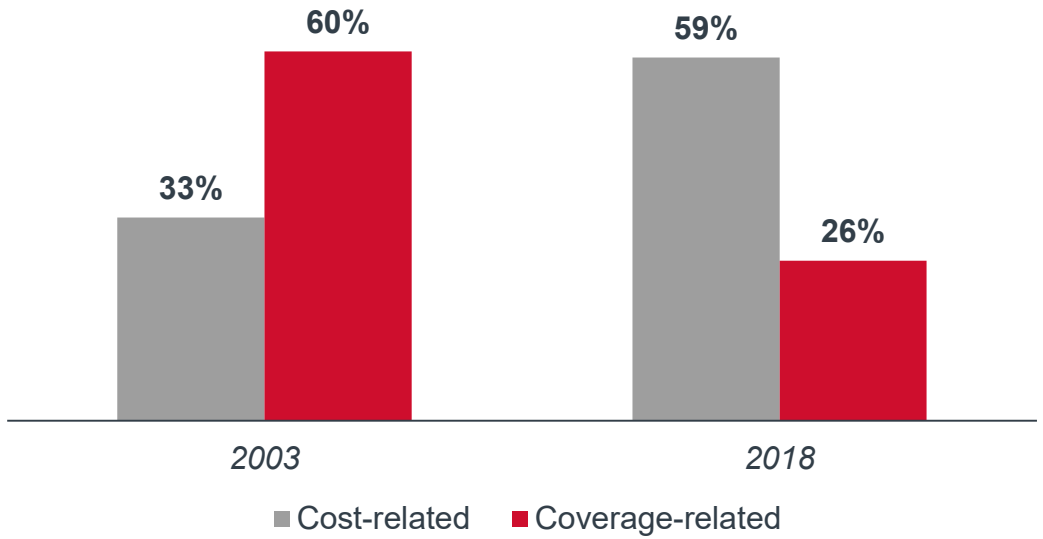
Advisory Board interviews and analysis.

Referral management increasingly a top priority

Consumers now more tolerant of managed care—if the price is right

Cost sharing increased acceptance of managed care

Percent of people who report cost- or coverage-related features as the most important aspects in a health plan



Likely employer strategic approach post-Covid-19

High-touch member navigation support

+

Patient steerage methods

Network alignment	Price incentives	Referral management
• Hyper-narrow networks • Dedicated (or owned) providers	• Value-based cost sharing • Advance price information • Reference pricing	• HMO gating • Virtual visit-based triage • Second opinion service

Source: Kirzinger Ashley, "Data Note: Americans' Challenges with Health Care Costs," Kaiser Family Foundation, June 2019.

Advisory Board interviews and analysis.

At first glance, Covid-19 a windfall for insurers

Insurance one of few industries with short-term financial shelter during pandemic

Early data shows stable finances

DATA SPOTLIGHT

30%

Decrease in non-elective procedures

-$101B to -$10B

Net cost impact on health plans in 2020 at a baseline infection rate of 20%

11% increase

Q1 revenue of the seven largest health insurers over same time period in 2019

"It very well could be that under the circumstances, deferrals of services **outweigh COVID-19 costs**,"

United HealthGroup,[1] Q1 2020 Earnings Call

"As for medical cost, we expect somewhat **offsetting impacts** from elevated COVID-19 claims cost and lower medical costs from deferred procedures."

Cigna, Q1 2020 Earnings Call

"As a result of the higher unemployment rate in the U.S., the suspension of eligibility redeterminations and our product mix, we are **increasing our total revenue guidance** by an additional $4 billion…"

Centene, Q1 2020 Earnings Call

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

Source: Goldberg D et al., "Coronavirus drives health insurers back to Obamacare," Politico, May 2020. Livingston S, "Large health insurers appear immune to COVID-19", Modern Healthcare, May 2020; "COVID-19 Cost Scenario Modeling Update," AHIP, June 2020.

Premium pricing subject to considerable uncertainty

Plans unsure of total impact—or even direction—to future rates and margins

Factors influencing future premium pricing

Expected utilization

- Deferred care
- Covid-19 treatment
- Covid-19 testing
- Covid-19 vaccination

Revenue shifts

- Premium discounts
- Membership changes
- Risk coding accuracy
- Rate increase approvals

Provider reimbursement

- Supportive payments
- Risk-based surplus sharing
- Consolidation impacts on rate negotiation

Financial adjustments

- Available reserves
- Medical loss ratio rebates
- Reinsurance premiums
- Risk mitigation policies

Advisory Board interviews and analysis.

Physician outlook not (yet) as dire as some headlines suggest

Covid-19 has not prompted fire sales, but long-term outlook still unclear

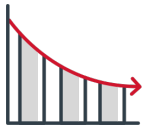
Media predicts extinction of independent physicians

247wallst

"American Doctors Will Go Out of Business by the Thousands"

Bizjournal

"Expect exodus of physicians from health care after Covid-19 pandemic, survey says"



Washington Post

"The coronavirus is bankrupting primary care doctors"

Variety of structures propping up practices (for now)

Government loans and grants
CARES act advanced payments and small business loans have provided temporary relief

Advanced payments from health plans
Some insurers have followed the government's lead in advancing payments to physicians

Loosened telehealth restrictions
Have enabled practices to maintain revenue streams with relatively minimal investment

Voluntary pay cuts, furloughs, PTO
Physician shareholders have opted to take a short-term hit in hopes of maintaining viability

Advisory Board interviews and analysis.

Covid-19 will drive some physicians to seek or switch partners

Nature of deals will depend on underlying physician motivation, post-Covid finances

		Small groups seeking financial support *Ex: Small primary care and single specialty practices*	**Disgruntled individuals seeking new home** *Ex: Employed physicians with adjusted compensation*	**Big influential groups making strategic plays** *Ex: Large multispecialty groups, risk-based primary care groups*
Prevalence		Common	Rare—but increasing	Few and far between
Time frame		Near-term (need immediate capital infusion)	Medium-term (“wait and see”)	Longer-term (considering their options)
Agency in deal-making		Compromising when necessary	Depends on strategic value of individual physician / specialty	Can afford to be choosy

Advisory Board interviews and analysis.

Hospital consolidation hitting a rough patch before Covid-19

Exhibiting either cold feet or prudent restraint, leaders second-guessing rush to scale

Prominent deals called off

Partners HealthCare + Care New England	Gundersen Health System + Marshfield Clinic	Baylor, Scott & White Health + Memorial Hermann Health System
Sanford Health + UnityPoint Health	Beaumont Health + Summa Health	Jefferson Health + Einstein Healthcare Network

Why have deals been falling through? *Hint: FTC approval isn't always the barrier*

1. Conflicts and disagreements between leadership teams lead to dissolution of deals
2. Premature mergers motivated by defensive moves rather than true organizational alignment
3. Acknowledgement that gains beyond pricing leverage are practically challenging and empirically rare

Advisory Board interviews and analysis.

M&A likely to remain slow through 2020, but not indefinitely

New motivations for deal-making may emerge

Factors contributing to a near-term slowdown

Management teams actively redeploying resources and investing time to manage Covid-19 crisis

Reduced cash on hand as a result of delayed and cancelled care

Organizations waiting for health care demand to stabilize before committing to mergers and acquisitions

Possible drivers of long-run M&A acceleration

Mounting financial challenges (“have-to” scenarios)

Will financial pressure from Covid-19 force previously unwilling partners to seek shelter in scale?

New returns to scale (“want-to” scenarios)

Will the emerging competitive landscape offer organizations new opportunities to find value in scale and achieve true “systemness?”

More regulatory freedom

Will regulators accept new (or old) arguments for the benefits of consolidation and permit M&A where they had not before?

Advisory Board interviews and analysis.

Put to the test: Were larger systems more resilient?

Some systems able to reap rewards of systemness (not just scale)

CLINICAL ADVANTAGE

Montefiore Medical Center
11 hospitals • Bronx, NY

Created a command center to enable critical care physicians to provide virtual support to staff across the system; enabled the system to manage with a 1:50 critical care physician ratio

STRUCTURAL ADVANTAGE

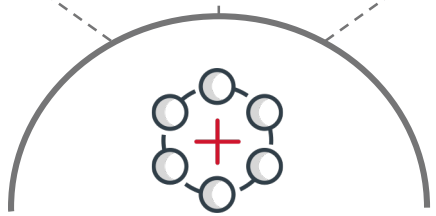
NorthShore University HealthSystem
5 hospitals, 140+ practices • Evanston, IL

- Transformed a single hospital campus into a dedicated Covid-19 treatment center for the system
- Allowed the system to triple its ICU surge capacity

OPERATIONAL ADVANTAGE

Novant Health
15 hospitals, 350+ practices • NC, SC, VA

- Built an interactive, real-time dashboard at the system, region, facility, and clinic levels to preempt supply shortages and shift resources across system
- As of June, no Novant facility had experiences shortfalls in ventilators, PPE or other resources



TRANSFORMATIONAL ADVANTAGE

UC San Diego Health
2-hospital academic system • San Diego, CA

- University engineers developed a monitoring platform for Covid-19 patients to recover at home using a wearable device and an app
- System is being tested by patients in a clinical trial at the health system

Source: "Q&A: How Novant Health is harnessing real-time data to safely reopen," Advisory Board, June 2020; "How Montefiore stood up an ICU command center for Covid-19—in just 2 weeks," Advisory Board, April 2020; "Q&A: How NorthShore's CEO fought Covid-19 as a patient—and a health system leader," Advisory Board, May 2020; "eCOVID platform provides remote patient monitoring", Medical Xpress, May 2020.

Advisory Board interviews and analysis.

Stay-at-home economy opens new frontier for site-of-care shift

Covid-19 exposes more patients to benefits of home care

"Demand for In-Home Care Rises during Coronavirus"

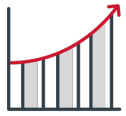
Wall Street Journal

"Home healthcare looks to step in to care for Covid-19 patients"

Modern Healthcare

"Hospital-at-Home to Support Covid-19 Surge – Time to Bring Down the Walls?"

JAMA



"Home Healthcare Market 2020 Surprising Growth due to Covid-19"

Global News Wire

"Coronavirus concerns show increased need, demand for home care"

NBC News

Factors encouraging increased utilization of home care during pandemic

- Patients feel **safer** getting care at home rather than going to a health care facility
- Patients experience **convenience** of receiving care at home during Covid-19 lockdown
- Patients are getting **comfortable** using technology for virtual care and remote monitoring

Advisory Board interviews and analysis.

Many pushing for transition of senior care into the home

Bleak funding outlook for SNFs[1] intensifies focus on home-based care

Advocates rally for more funding in facility-based care…

$4.9 billion vs. **$200 billion**

First federal Covid-19 relief funds specifically assigned to **skilled nursing facilities** in late May

Federal relief funds allocated to **hospitals** by the end of April

> "I'm encouraged that HHS is finally recognizing the need to respond to the severity of this crisis in our nursing homes and assisted living facilities. **However, this amount is still far short of the funding desperately requested** by our long-term care facilities and their advocates"
>
> *—U.S. Representative Abigail Spanberger (D-VA)*

…but others instead propose a shift toward the home

Increasing consumer preference to age in place

Growing stigma associated with long-term care due to frequent Covid-19 outbreaks

DATA SPOTLIGHT

67% Family members say they plan to substitute in-home care for facility-based care even after the pandemic

Source: Huang B, "Why Were Nursing Homes Devastated by the Coronavirus? Low Pay and Staff Shortages Are Among the Reasons," The Morning Call, June 2020; "Spanberger: HHS Nursing Home Funding Announcement Step in Right Direction, But 'Not Nearly Enough' to Address COVID-19 Crisis in Long-Term Care Facilities," U.S. Representative Abigail Spanberger, May 2020; Donlan A, "Long-Term Care Decision-Makers More Likely to Choose Home Care in Covid-19 Aftermath," Home Health Care News, June 2020.

1. Skilled Nursing Facilities.

Advisory Board interviews and analysis.

Plenty of practical barriers remain

Patient preference is not the factor preventing transition to the home

Clinical limitations

- Many patients have multiple comorbidities
- Requires access to high-licensure staff
- Necessitates 24/7 monitoring, therapy and nursing support

Environmental constraints

- Patient needs frequent access to equipment not easily available in home
- Patient's home has stairs or other obstacles reducing navigability

Reimbursement barriers

- Lack of specific codes to bill for under Medicare fee-for-service
- Non-provider caregivers cannot bill for services

Personal and family challenges

- Patient lacks caregiver at home
- Patient faces housing instability
- Patient has limited health literacy

Advisory Board interviews and analysis.

Telehealth adoption off the charts during shutdown

Investment boom a big opportunity for Big Tech?

Huge increase in amount of virtual care provided

3,500% Increase in telehealth claims at **Blue Cross Blue Shield of Massachusetts** between February and March 2020

1,300 New providers added to **NYU Langone Health's** telehealth platform during crisis

1.7M **Medicare** fee-for-service beneficiaries received telehealth services in the last week of April

Significant telehealth investments made in 2020

DATA SPOTLIGHT

$788M

Venture capital funding raised by telehealth companies in Q1 2020; over three times more than raised in Q1 2019

Amwell files for IPO

1,818% YoY[1] increase in funding for telemedicine startups

168% YTD increase in **Teladoc** valuation[2]

168% YoY increase in funding for remote patient monitoring startups

1. Year-over-year.
2. Through July 8, 2020.

Source: Drees J, "NYU Langone Health Adds 1,300 Providers to Telemedicine Platform," Beckers Hospital Review, March 2020; "Telehealth Companies Lead Digital Health to Record VC Funding in Q1 2020 with $3.6 Billion," Mercom Capital Group, April 2020; Landi H, "Telemedicine Companies See Funding Boom of $788M in Q1," Fierce Healthcare, April 2020; Lovett L, "Amwell Xcores $194M, as Telehealth Business Booms During Coronavirus Pandemic," mobihealth news, May 2020; Pifer R, "Amwell Files for IPO," Healthcare Dive, June 2020; "Telehealth: A Quarter-Trillion-Dollar Post-Covid-19 Reality?" McKinsey and Company, May 2020.

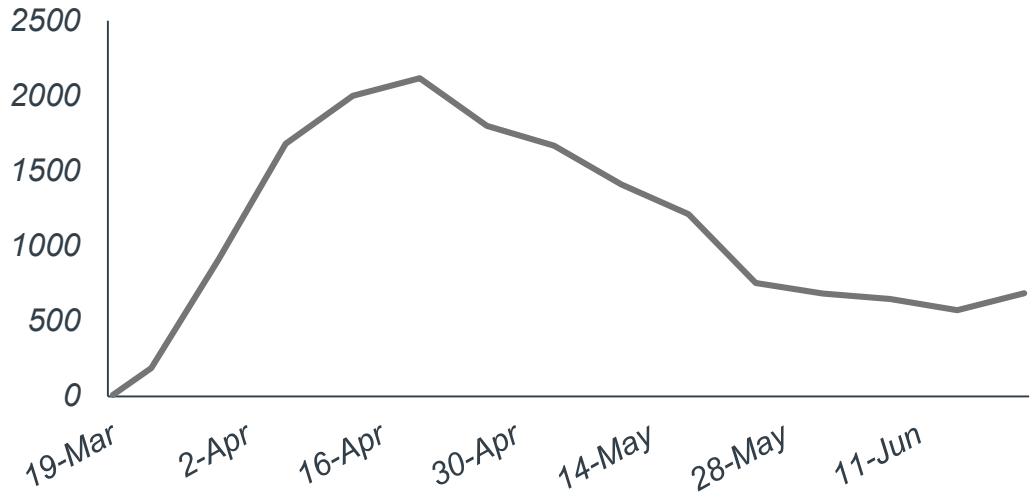
Advisory Board interviews and analysis.

Future telehealth utilization likely to land on middle ground

Providers must take advantage of fleeting experience, flexibility and urgency

Telehealth visits are on the decline

Weekly average of daily telehealth visits at Crestone Health System[1]



Advisory Board perspective: It is unrealistic to expect telehealth use to maintain its unnatural peak achieved during widespread shutdowns, but also to expect it to drop back to pre-crisis levels.

No-regrets telehealth investments

1. Implement telehealth platform that could withstand reinstatement of security regulations
2. Seize opportunity to build “healthy habits” for appointment scheduling
3. Engage all providers, not just early champions, in telehealth use
4. Make believers of patients through positive, supported experience
5. Collect outcome and cost data to prepare case for favorable reimbursement, regulatory posture, stakeholder adoption

1. Pseudonym.

Advisory Board interviews and analysis.

Federal stance on telehealth beginning to come into focus

But complex interplay of interests and authority may slow progress

What's likely to stay?

Covering telehealth when patients are in their **homes or other facilities** (i.e., SNF, hospice)

Permanently including telehealth reimbursement for **home health providers**

Expanding the **number of services** Medicare reimburses as telehealth visits

What's likely to go?

Reimbursement parity for telehealth services as if they were delivered in-person

Allowing hospitals to bill **facility fees** for out-patients treated in their homes

Suspending **HIPAA enforcement** to allow providers to use unsecured services such as Skype

Who controls what?

Congress

- Where patients must be located to receive services
- Which practitioners can bill for telehealth care
- Whether facility fees will be permitted

CMS

- Which telehealth services will be covered
- Whether risk adjustment can continue virtually
- What reimbursement rates will be

Source: "Making Telehealth Flexibilities Permanent" AHA, June 2020.

Covid-19 forces a closer look at hospital operating models

Tension between durability and affordability especially clear during crisis

> "There was this notion that for true change to happen in health care, it had to come from outside of the industry… But Covid-19 has convinced me even more that we have a moral obligation—as well as a path forward—to be the ones transforming health care from within."
>
> Dr. Gianrico Farrugia, President and CEO
> MAYO CLINIC

Covid-19 prompts executives to rethink the largest components of hospital cost structure

1. *Supplies*
2. *Physical infrastructure*
3. *Workforce*

- How much money do we have to spend to get access to future PPE?
- Should we rationalize our ambulatory office space?
- Do we need to build flexible inpatient rooms?
- Should we change how our staff get paid?
- How can we engage clinicians that put their lives in danger for our patients?

Source: "Mayo Clinic CEO Gianrico Farrugia on why he doesn't want to go back to a pre-pandemic world," At the Helm, Advisory Board, July, 2020.

The supply chain paradox

Supply chain lacking in resilience—but also not particularly efficient

Historical approach to supply chain management

- Laser-like focus on lowering the unit cost for commodities and PPI[1]
- "Just in time" inventory management to minimize holding costs and waste
- Insufficient line of sight into the contracting and purchasing activities of third parties (such as GPOs and distributors)

Net result of supply chain initiatives

Lacking resilience

- No transparency to identify shortfalls in supply chain and proactively implement changes
- Inability to access or produce the increased quantities of supplies needed to respond to Covid-19

Lacking efficiency

- Despite low unit costs on specific supplies, other components of the supply chain remain inefficient
- Severe lack of transparency inhibits efficient use of supplies once purchased

1. Physician preference items.
2. Group purchasing organizations.

Advisory Board interviews and analysis.

Visibility a necessary component of the solution

Transparency the critical factor in building a more flexible and agile supply chain

Problems with the current U.S. supply chain

Sourcing and manufacturing

Manufacturers rely on the same sources for raw materials, creating potential for large scale shortages across product categories

Logistics and distribution

Tendency to hold limited reserves, instead favoring "just-in-time" purchasing

Purchasing and product use

Inability to accurately forecast demand to predict spikes

Solutions

Visibility into shared sources enables manufacturers to shift practices to avoid significant production interruptions

Visibility into upstream product availability, location of products, and how quickly they can be distributed to care facilities

Visibility into the quantity and location of inventory and individual purchaser demand

SPOTLIGHT

Advisory Board Insight

Effective communication between IT teams, supply chain workers, and vendor organizations will be vital to building a more resilient health care supply chain

Advisory Board interviews and analysis.

Clearer sightlines can redefine what's possible

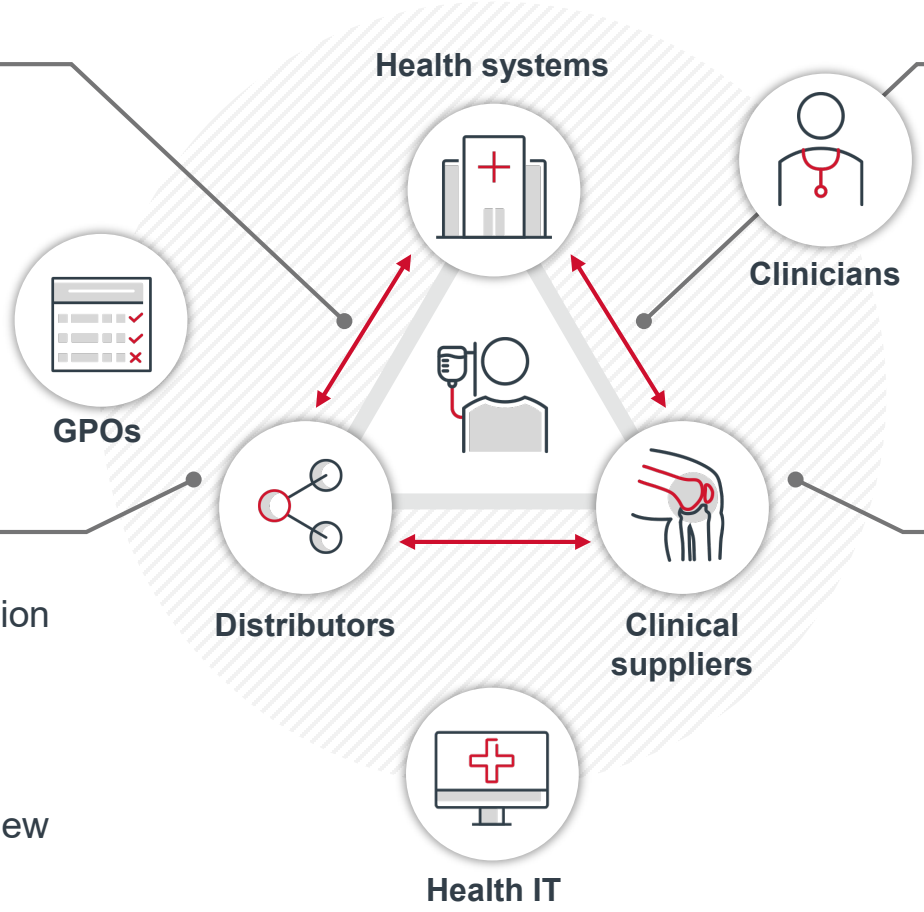
Shared cost, inventory, forecast data unlock collaboration, savings opportunities

Health systems and distributors

- Distributors can more easily anticipate and accommodate demand spikes
- Systems can "see" their allocated stock within distributor-managed service centers

Distributors and suppliers

- Suppliers can alert distributors more quickly to emerging threats to production volumes
- Distributors (and third-party trading platforms) can increase purchaser awareness of smaller, pre-approved new suppliers



Health systems and clinicians

- Clinicians gain confidence that right products will be available at right time
- Health systems gain greater clinician compliance with contracts and formularies

Health systems and suppliers

- Suppliers can help customers reduce spend on expedited shipping
- Health systems can reduce amount of wasted, unused, or expired product

Advisory Board interviews and analysis.

Fixed cost structure not keeping pace with clinical efficiency

Despite reduction in bed count, U.S. still maintains more excess capacity

DATA SPOTLIGHT

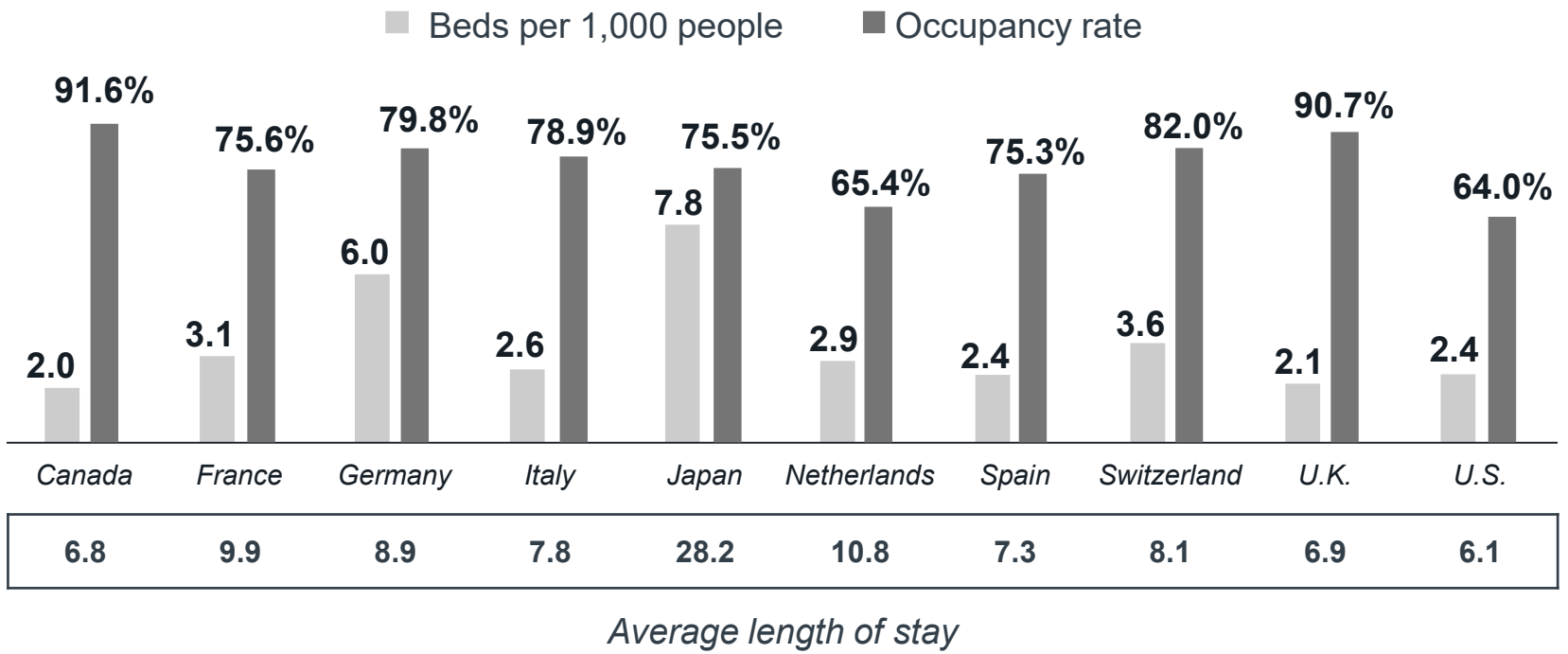
962,301

Number of acute care beds in the U.S. in 1992

789,197

Number of acute care beds in the U.S. in 2016

Inpatient beds per capita, average occupancy, and average length of stay, by country



1. In-patient.

Source: "Health Care Resources," Organization for Economic Co-Operation and Development, April 2020.

Advisory Board interviews and analysis.

Ambulatory, administrative facilities getting a closer look

Virtualization of care, commerce suggests opportunity for lighter footprint

Virtual care could shrink ambulatory footprint—but savings likely modest

SPOTLIGHT

Lincoln Medical Group[1] calculated reduction in demand for physical exam space if visits shifted virtually

8% Reduction in facility space needed if one third of visits and procedures done virtually, despite 20% reduction in exam rooms

Determined there wasn't enough justification to scale down office footprint – especially given rate of ambulatory growth

Rationalization of administrative footprint more likely

- Encouraging continued telecommuting on a regular and permanent basis
- Cutting back on a portion of offices when existing leases are renewed
- Consolidating administrative offices that require workers to maintain in-person presence
- Canceling new construction of administrative offices, eliminating footprint altogether

1. Pseudonymed 600-physican medical group.

Advisory Board interviews and analysis.

A agreement for the crisis (and beyond)

Mutual sacrifice unavoidable—challenge is in mutual understanding

I need you to….

- …trust that our workplace is safe.
- …be productive while I'm making cuts.
- …be more flexible.
- …be comfortable with ongoing uncertainty.

Clinicians

In return, I will…

- …address disengagement and burnout.
- …invest in diversity and inclusion.
- …ensure fair compensation.
- …sufficiently staff the mission.

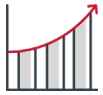
Executives

Advisory Board interviews and analysis.

Clinical labor to remain an indispensable asset

Underlying demographics guarantee critical role for constrained resource

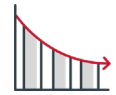
Clinical labor market



Increasing care demand

Aging population — First baby boomers reaching age of 75

Sicker population — Growing incidence of chronic conditions



Decreasing workforce supply

Retirement wave — Baby boomer clinicians approaching retirement

Experience gap — Tenured clinicians replaced by new and/or recent grads

Potential impact of Covid-19

- ↓ Depressed demand due to Covid-19 fears, financial fears
- ↑ Increased patient complexity due to deferred care
- ↑ Increased patient complexity due to Covid-19 complications
- ↑ Increasing behavioral health needs and comorbidities
- ↑ Deferred retirement due to Covid-19-induced financial concerns
- ↓ Accelerated retirement due to Covid-19-induced burnout
- ↓ Interruption of education and clinical rotations
- ↓ Variable volumes limiting opportunities to get hands-on practice

Advisory Board interviews and analysis.

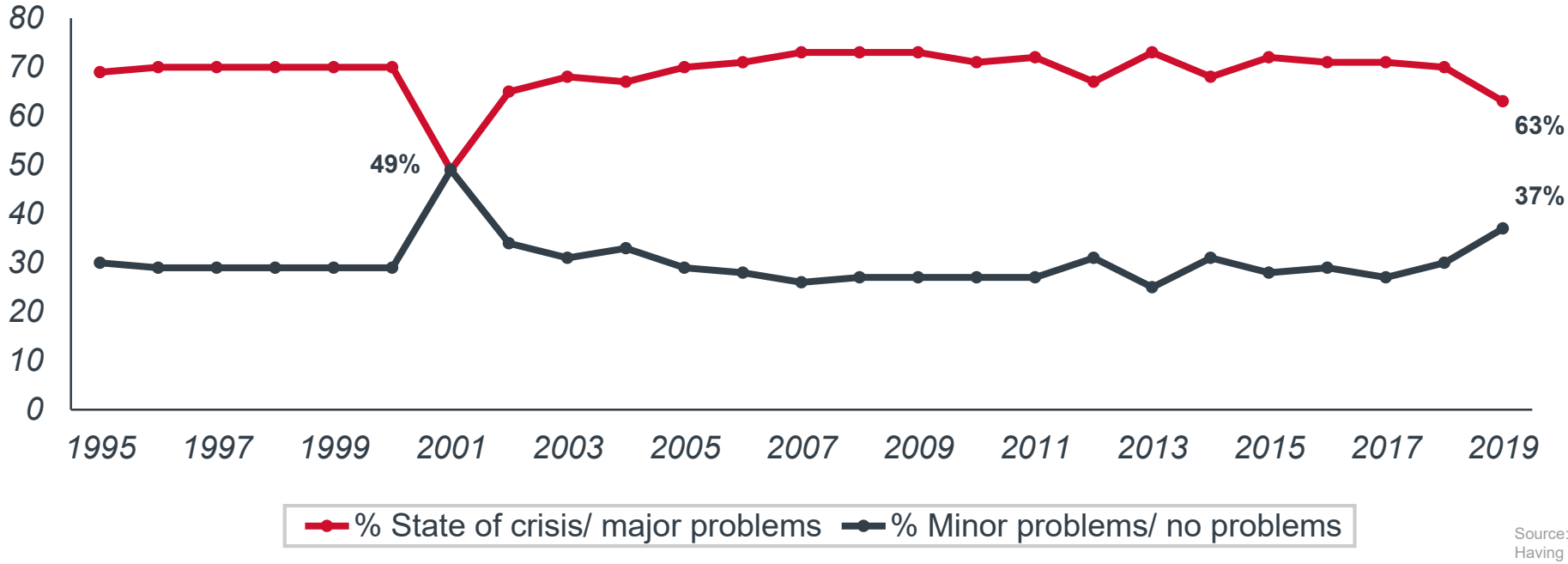
Don’t take goodwill for granted

Dramatic improvement in perceptions after 9/11 also dramatically brief

Negative view of health system mostly holds steady

Is the U.S. health care system today in a state of crisis, has major problems, has minor problems, or it does not have any problems?

n= 1,015 adults in all 50 states



DATA SPOTLIGHT

23/25

How health care industry is rated by consumers, compared to 25 other major industries

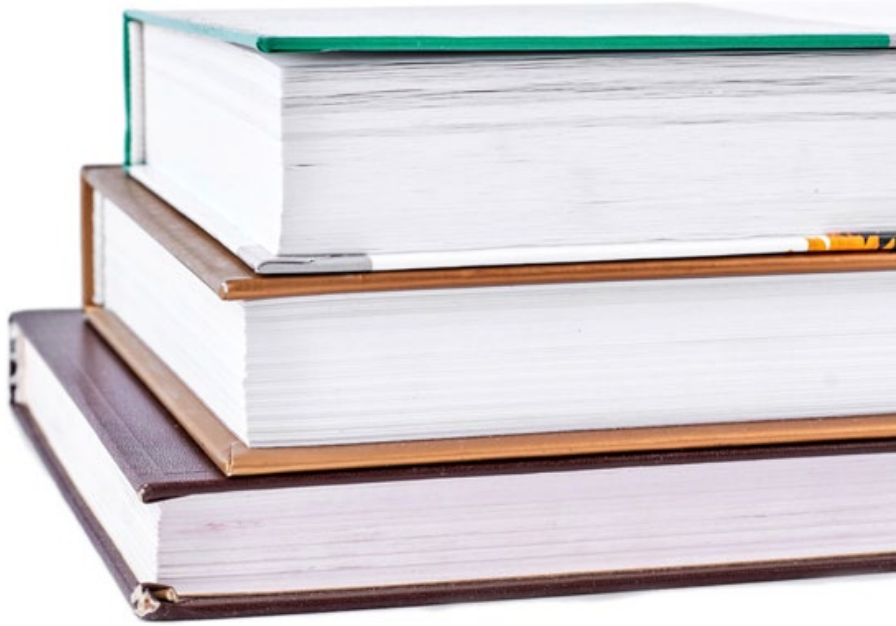
Source: McCarthy J, “Fewer in U.S. See Health System as Having Major Problems,” Gallup, December 2019; “Business and Industry Sector Ratings,” Gallup, August 2019.

Advisory Board interviews and analysis.

Assessment Question 1

Which of the following represents an example of the impact Covid-19 is having on revenue across employers, health plans, and providers?

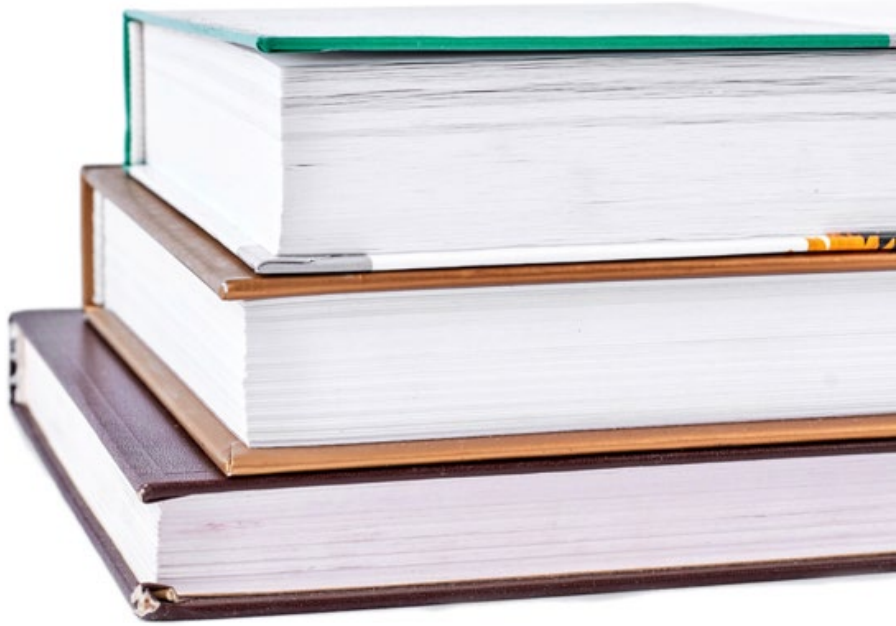
a. Deferral of healthcare services
b. Loss of insurance coverage due to unemployment
c. Employer savings due to canceled elective procedures
d. All of the above



Assessment Question 2

To alleviate the impact of COVID-19, which of the following state or federal tactics are being used?

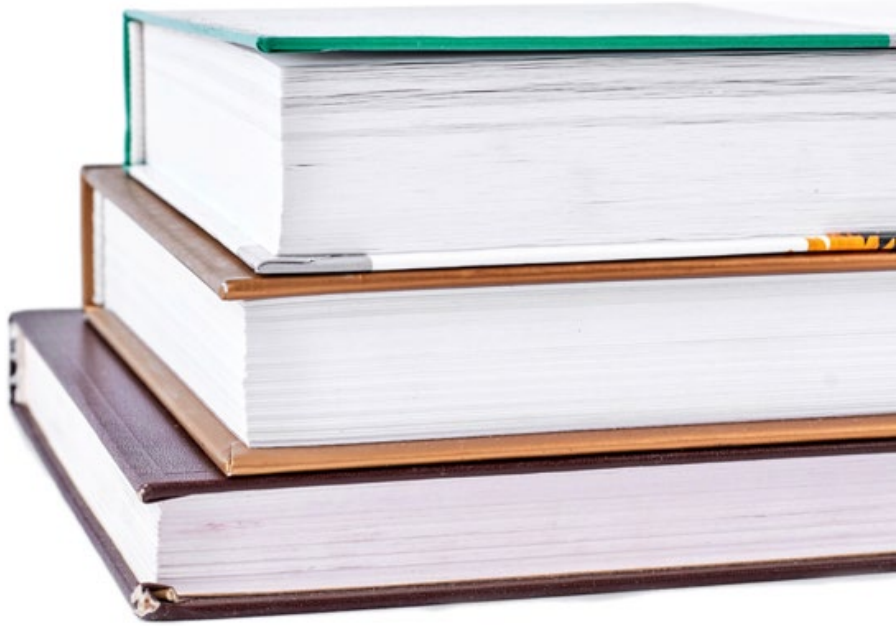
a. Medicaid provider rate cut or freeze
b. Decreased reimbursement for telehealth
c. Reimbursement for infusion services delivered in the home
d. Both A and C



Assessment Question 3

Which of the following strategies are emerging ways in which providers are delivering care?

a. Shifting site-of-care to home healthcare
b. Expansion of telehealth
c. Increased transparency related to product availability
d. All of the above



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Thank you...

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