Federal Issues

- Election and fallout
- New government
- Political environment  
  - Partisanship / issues
- ACA
- Violence / homeland security
- Immigration
- Medicare and Medicaid  
  - ACA / other cuts
Federal Issues (cont’d)

- Income inequality
- Tax reform
- Foreign policy
- Environment
- Balance of Power
- Infrastructure
- Civil justice
- Education
Only 56.5% of Voting-eligible Population Voted

Voting-eligible population turnout in presidential elections, 1960-2016

November 11, 2016 | Libbie Wilcox
White Working-Class Voters Carry Trump

Exit poll party preference for non-college educated voters, 2000-2016

Analysis
• Exit poll data showed the largest gap in support based on education levels since the 1980s
• College graduates supported Clinton by a 9-point margin, where as non-college graduates supported Trump by a 8-point margin
• Working-class white voters have traditionally supported Democratic candidates, but Trump’s populist message resonated with them

November 11, 2016 | Libbie Wilcox
### Senate Seats in Play, by Election Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Republican Seats</th>
<th>Democratic Seats</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>24</td>
<td>10</td>
</tr>
<tr>
<td>2018</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td>2020</td>
<td>22</td>
<td>11</td>
</tr>
</tbody>
</table>

*Source: The Cook Political Report, 9/9/16*
Composition of the 115th House

Democrats gain net seven seats, Republicans maintain majority

Democrats: 194
Republicans: 241

Juxtaposition of

- Populist principles espoused by President Trump
- Traditional Republican ideals embodied by U.S. House Speaker Paul Ryan (R-WI)
- Influence of the House of Representatives’ Freedom Caucus

= significant challenges and uncertainty!

- U.S. Supreme Court
Outline Stating **Policy Principles for Health Care**

- Repeal the ACA and replace it with policy that would:
  - Provide for state regulation of health insurance
  - Expand use of health savings accounts
  - Allow cross state purchasing
  - Support state high-risk pools

- Advance research and development in health care
Reform the Food and Drug Administration to put greater focus on the need of patients for new and innovative medical products

Modernize Medicare, so that it will be ready for the challenges with the coming retirement of the Baby Boom generation — and beyond (premium support)

Maximize flexibility for states in administering Medicaid, to enable states to experiment with innovative methods to deliver health care to our low-income citizens (block grants/per capita caps)
Intensity to move repeal legislation quickly

**Budget Reconciliation = most expedient method to pass an ACA repeal**

- Legislative mechanism that requires a simple majority in the U.S. Senate to pass legislation that has a budgetary impact

**Two-stage process:**

- Reconciliation instructions that call for legislation to be developed achieving a desired budget outcome are included in the budget resolution
- The resultant legislation is considered under expedited legislative procedures
Use the current fiscal year (2017) budget to pursue reconciliation legislation focused on the ACA

**Limitations**

- Byrd Rule — a provision can be considered extraneous if it doesn’t change spending or revenues or if its change in spending or revenues is “merely incidental” to the provision’s non-budgetary effects

- Congress used the reconciliation process to pass repeal legislation ([H.R. 3762](https://www.congress.gov/bill/114th-congress/house-bill/3762)) last winter that was ultimately vetoed by President Obama and to pass portions of the ACA
ACA Repeal and Replace (cont’d)

What can be repealed via reconciliations

- H.R. 3762, the Restoring Americans’ Healthcare Freedom Reconciliation Act could be the blueprint
  - Funding for Marketplaces
  - Premium tax credits and cost sharing subsidies
  - Individual and employer mandate penalties
  - Medicaid expanded coverage for adults
  - Taxes (Cadillac, medical devices, insurer fee, tanning tax)
  - Restrictions on “consumer directed” health plans (HSAs, MSAs, FSAs)
What can’t be repealed via reconciliations

- Ban on physician-owned specialty hospitals
- Nationwide budget neutrality for the rural floor
- Insurance reforms: lifetime caps, coverage of kids up to 26, ban on pre-existing conditions
Vulnerabilities for Hospitals

- Coverage

- Medicare & Medicaid cuts
  - -$165 billion net impact of loss of coverage to 22 million individuals (2018-2026) if immediate repeal without replacement;
  - -$289 billion impact in continued Medicare cuts to hospitals nationwide
  - -$50 billion for California in ACA related Medicare cuts (market basket, productivity, DSH)

- Area Wage Index Rural Floor Budget Neutrality
- Physician owned specialty hospitals
- 340B Expansion
- CMMI
Procedural questions – replace with repeal or later?

- Republicans have pledged: no immediate impact
- Repeal bill created a two-year transition period (2016)
- Congressional Budget Office estimated 22 million people would lose insurance after the transition period ended (outright repeal)
- Stability of individual / small group insurance markets?
U.S. House of Representatives GOP Leadership Outline

- Released February 16, 2017
- Conceptual, excluding specific legislative language
- Fits the Reconciliation requirements (Byrd rule)
- Plans to hold committee hearings in early March
- Political challenges in the U.S. Senate
- Based on Speaker Ryan’s “Better Way” Plan, it repeals significant ACA elements:
  - Individual and small group mandates
  - Some taxes
  - Medicaid expansion
Key Elements of GOP Repeal Plan

- Repeals Medicaid expansion
  - Freezes current Medicaid enrollees
  - Expansion states (CA) receive enhanced federal payments for currently enrolled with a phase-out of the enhanced match over a multi-year period (not specified)

- Transition “traditional” Medicaid financing
  - Per Capita allotment (date and base year not specified), OR
  - Block Grant / waiver
Key Elements of GOP Repeal Plan

- Repeals coverage subsidies
  - Provides refundable, advance tax credits to assist with the purchase of health coverage on the individual market

- Expands the availability and use of HSAs

- Provides “State Innovation Grants” to support vulnerable patients
  - States could use for high-risk pools,
  - subsidizing out-of-pocket costs, or
  - targeting resources to super-utilizers
Key for Hospitals

- Medicaid DSH Cuts Repealed
  - Unsure how DSH $$ will be distributed
  - Expansion states may be excluded
  - Non-expansion states looking for equality

- Maintains Medicare Update & Medicare DSH Cuts
  - $26.4 billion in payment cuts to California hospitals in the next ten years
Implications for California Hospitals

UNCOMPENSATED CARE COSTS

Notwithstanding bad debt and charity care have been reduced by increased coverage, growing losses from Medicare and Medi-Cal have resulted in higher uncompensated care.

The hospital fee program mitigates about 40% of the Medi-Cal loss.

1 Annual OSHPD Data 2013 and 2015
2 Annual OSHPD Data 2013 and 2015
3 Annual OSHPD Data 2013 and 2015
4 Estimated, excludes hospital fee
Implications for Hospitals
HOSPITAL FEE AND OTHER PROGRAMS

Federal Block Grant/Per Capita Cap

GF/CMS

Federal dollars for the hospital fee
Federal dollars from IGT/CPE programs
Federal dollars for DSH payments
Federal dollars for Medi-Cal expansion
CHA Priorities and Next Steps

- Size of the Pie
- Comparable Coverage
- Quality & Access
- Engage the delegation
  - Majority & Minority Leaders
    - House split: 241 Republicans to 194 Democrats; California House Split: 39 Democrats to 14 Republicans
    - Senate: 52 Republicans, 46 Democrats, 2 Independents; California’s Senators are both Democrats
- Prepare for an active advocacy year
CMS Policies

- Medicare DSH / Medicaid DSH
- New model would bundle payments to acute care hospitals for heart attack and CABG
- Expands CJR to include surgical treatments for hip and femur fractures beyond replacement (7/1/17)
- Medicaid Managed Care Rule
- Barriers
2017

- Workforce / residency slots
- Expiring rules
- HOPD site-neutral payments (Section 603)
- AWI / Rural floor
- Medicaid Managed Care rule implementation
- Broad RAC reform
- Cybersecurity
- Income inequality
- Executive compensation
• Rural provisions
  – Physician supervision
• GME (IME and DME)
• Readmissions measures for socio-demographic factors
• Bundled payments and global payments
• Evolving risk arrangements/VBP
• MACRA
• Workplace
2017

- Rx pricing
- Behavioral health
- Charity care/community benefit
- Insurance company consolidations
- Tax-exempt status
- Cybersecurity
- Hospital consolidations
- Violence and gun control
- Surprise bills
State Issues

- Power and influence
- 2016 election / aftermath
- Behavioral health
- ACA implementation
- Long-term financial stability
- Special interest priorities
- Pressure points / EMS
- State budget / Medi-Cal
- Rx
State Priorities

- Adversarial actions against hospitals
- Behavioral health / homeless / substance abuse
- Upstream social determinants of health
- Hospital-physician alignment
- Specific issues
  - Executive compensation
  - Community benefit
- Emergency services
Trends

- Consumers’ involvement
- Bundled, global and risk-based payments
- Consolidation of payers and providers
- Transparency and data
- Disruptive technology
- Exchanges – 2017
- Socio-demographics
- Millennials and Gen X
- Boundary erosion / differentiation
- New schools for health care professionals
The New Health Economy is Changing the Health Care Landscape and Driving Deal Activity in the Market

- **New Entrants & Disrupters**: New entrants are redefining care delivery models.
  - Fact: Of the 38 Fortune 50 companies with a major stake in healthcare, 24 are new entrants.

- **Risk Shifting**: Payers are shifting risk to providers & consumers and incentivizing low cost quality care.
  - Fact: By 2018, 50% of health systems are expected to apply for an insurance license.

- **Convergences**: Healthcare players are expanding their scope of services to capture additional revenue streams.
  - Fact: Total hospital transaction value increased from $1.9B in 2012 to $18.6B in 2013.

- **Consolidation & Affiliation**: Healthcare players are coming together to achieve scale and maximize efficiencies.
  - Fact: Consolidation has increased more than 50% since 2009.

Health care leaders will need to adjust their strategy to align with the new definitions of success in the New Health Economy.

Source: Hospital Physician Alignment. The Future of Integrated Health Care, PwC
Future of Hospitals and Physicians

- Changes in utilization and services
- Changes in payment models
- New relationships, alignments and partners
- Aligned clinical and financial incentives
- Coordinated care
- Markets/competition
- Value
- Risk
- CAHs
Challenges for Hospitals and Physicians

- Fixed assets and expenses
- Time / cost of transformation
- Creation of coordinated care partnerships and arrangements
- Leadership
- Differentiation
- Financial stability and risk
- Enterprise entities
Hospitals

- Systems and consolidation
- Partnerships and alliances
- Evolving roles in communities
- Virtual networks
- Integrated systems
- Enterprises
- Future roles
Delivery Innovations

- Predictive modeling
- Multiple networks / differentiation
- Unit cost and utilization focus
- Evolving into pharma, specialty, mental health, long-term care, ambulatory settings
- Provider segmentation
- Case management
Platforms have Become the Next Dominant Business Model
By 2020, 80% of the Global Population will own a Smartphone

and the Smartphone owns our attention

87% of smartphone owners say it never leaves their side

Millennials checks their phones every 10 minutes

Goldfish now have better attention spans than humans

*Human in 2000: 12 seconds
Human in 2013: 8 seconds

Goldfish: 9 seconds
U.S. Consumers Now Spend More Time In Apps Than Watching TV

Source: Techcrunch.com, 2015
The Next Wave(s) of Tech Innovation are Already Underway

3D printing, IoT, VR, AR, Frictionless Payments, etc.
The Future

- Risk for defined populations / care episodes
- Total care / whole person care
- Team orientation
- Actual and virtual models
- Enterprise structures
- Disruptors
- Continuous change
- Technology
Role of Business Community

- Establish relationship with elected officials
- Participate in democratic process
- Maintain connection with hospitals and physicians
- Keep current on major health policy issues and politics
- Stay involved
Role of Business Community

- Educate employees on big issues
- Participate with hospitals in meetings with elected officials
- Respond to Alerts
- Articulate nexus between healthy population, hospitals and business organizations
- Serve as ambassador to communities
Next Steps

- Solidifying position/starting point
- Strategic assessment and planning
- Choosing models and partners
- Strategic development of assets
- Being open, agile and flexible
Creating the Future

- Understanding where we are and what trends are beyond our control
- Knowing where we intend to go
- Having the vision and courage to take calculated risks
THANK YOU