The Health Industry Forum
Health Care Payment Reform

April 2, 2015
Lahey Clinic Performance Network (LCPN) Governance

Lahey Health

Lahey Clinical Performance Accountable Care Organization, LLC (ACO)

Lahey Clinical Performance Network, LLC (MSO)

NEPHO Accountable Care Unit

Lahey Accountable Care Unit

Winchester PHO Accountable Care Unit
# Current Lahey Clinic Performance Network Board Participation

<table>
<thead>
<tr>
<th>Board Members (MSO)</th>
<th>Lahey</th>
<th>Northeast</th>
<th>Winchester</th>
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<tr>
<td><strong>PCP Directors</strong></td>
<td>Richard Kalish, M.D. Judith Melin, M.D. Carl Soderland, M.D.</td>
<td>Pierre Ezzi, M.D. Suzanne Graves, M.D. William Medwid, M.D.</td>
<td>Salvatore Albanese, MD R. Chris Herron, MD Najmuddin Patwa, MD Joel Solomon, MD</td>
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<tr>
<td><strong>SCP Directors</strong></td>
<td>Kinan Hreib, M.D. Mark Lemos, M.D.</td>
<td>Francis Cleary, M.D. Lou DiLillo, M.D.</td>
<td>Arlan Fuller, MD</td>
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<td><strong>Institutional Directors</strong></td>
<td>Tim O’Connor</td>
<td>Phil Cormier</td>
<td>Dale Lodge</td>
</tr>
<tr>
<td><strong>At-Large Director</strong></td>
<td>Nathan Pulsifer – ACO Robert Irwin - MSO</td>
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Lahey Health
Lahey Health: The Strategic Direction

To develop and maintain a healthcare system that will successfully compete in the Massachusetts and southern New Hampshire marketplace through:

• Demonstrated high quality clinical care, patient satisfaction and employee engagement

• Sustainable financials

• Effective management of population health and financial risk

• Physician centric and community focused care at all points of the care continuum

• Lower cost to payers, consumers, and the Commonwealth sufficient to move market share from competitors with higher prices and equivalent or lesser quality

Cost, Quality, Access = Value
Marketplace Assumptions
Key Environmental Assumptions
Driven by Healthcare Reform

The payment system will shift from a volume-based payment system to a value-based payment system.

Revenue growth will be determined more in relation to the number of covered lives served and less in relation to the amount of services utilized.

With the population in our PSA “aging in place” and connector products proliferating in the market, LHS will experience a shift toward less favorable governmental payers.

The growth in payment rates are expected to trend below inflation as a result of both regulatory and market pressure.

Volume for acute inpatient and long-term nursing home care will shift to acute outpatient, primary care, and home health and community-based services.
The Massachusetts Environment
Massachusetts Spending vs. US

Massachusetts per capita health care expenditures are greater than the rest of the country.

# CMS State level personal health care expenditure data have been published through 2009.
* 2010-2012 MA figures estimated on 2009-2012 expenditure data provided by CMS for Medicare, ANF budget information statements and expenditure data from MA and CHIA TME reports for commercial payers.
State Budget Consequences

Reform has exacerbated the cost challenge.

**Massachusetts State Budget ($ Billions)**

**FY2001 vs. 2011**

+$5.1 B
(+59%)

Health Care Coverage (State Employees/GIC; Medicaid/Health Reform)

-$4.0 B
(-20%)

Public Health (-38%)
Mental Health (-33%)
Education (-15%)
Infrastructure/Housing (-23%)
Human Services (-13%)
Local Aid (-50%)
Public Safety (-11%)

Source: Massachusetts Budget and Policy Center
Academic Medical Center Utilization

The Massachusetts delivery system uses major teaching hospitals for far more of its inpatient care than the rest of the nation.

40% of Medicare discharges in Massachusetts are in major teaching hospitals

16% of Medicare discharges nationwide are in major teaching hospitals
The Partners Settlement Rejection

- Continued, albeit slower growth
- Statewide cap (Chapter 224) exacerbates payment advantage
- Two decades of premium advantage
- Fragmented and weak competition
The Lahey Model
Highly Coordinated Delivery System
Shared Governance

Lahey Health System Board

Lahey Clinic Foundation
4 members (2 MD - 2 non MD)

Northeast Health System
4 members (2 MD - 2 non MD)

Winchester Hospital
4 Members (2 MD – 2 non MD)

Community Representatives*
4 members

Lahey Health CEO (ex-officio)

* No prior relationship to any of the three institutions.
Lahey Health By The Numbers

Lahey Health

Hospitals
(7 Campuses
3 Licenses)

Behavioral
Medicine Practice
(39 Locations)

Employed
Physicians
(626 FTEs)

Primary
Care Practices
(38 Locations)

Senior
Care
(5 Facilities)

Home Health &
Private Duty
Nursing

ACO/MSO
Lahey Health: Right Care, Right Location

• Patients treated in the lowest cost setting appropriate for their care
• More accessible, closer to home
• PCP centered, inclusive of employed and independent practitioners
• Competitive savings to payers, consumers and Commonwealth
Lahey Health has demonstrated great reliance on community hospitals.

- Based on 2014 admissions:
  - At competitor health systems—68-74% of admissions were to tertiary institutions
  - At Lahey Health—38% of admissions were to tertiary institutions
Volume Growth

Beverly & Addison Gilbert Hospitals
Medical/Surgical, Maternity and Observation admissions

May 2012 – Affiliation Began

Lahey Health
Volume Growth

Winchester Hospital Medical/Surgical

Lahey Health
Lahey PCP Referrals to NEPHO Specialists

Non-HMO is an estimate
Lahey Physician Referrals to Winchester IPA Specialists Have Increased

Given the “green light”: for Lahey PCPs to refer to local specialists in the WH medical staff,
Keeping Care Local:
Economic Savings to the Payers & Commonwealth

$5,072,634 savings in Hospital expenditures in one year of development

(1) LHMC vs Downtown $2,156,000
(1) LHMC to WH $1,885,882
(1) LHMC to BH $1,030,752

(1) Twelve month period ended June 30, 2014. Hospital only (IP & OBS)
Lahey Health
Why Size and Scale Matters
The Result

130 ➔ 65 ➔ 64 ➔ 63
Lahey Health: Why Size and Scale Matters

- A Broader footprint is more attractive to payers, employers and consumers

- Has the potential for financial stability
  - Access to capital
  - More effective use of declining margin
  - Ability to sustain risk

- Access to expertise: Population Health Management

- Covered Lives
Lahey Health: Why Size and Scale Matters

• Political Influence

• Opportunity to add insurance capability

• **PRODUCTS THAT WILL MOVE MARKET SHARE**
  • Active encouragement from insurers seeking competitive limited network products
  • Lower cost/price is our primary differential
Discussion