

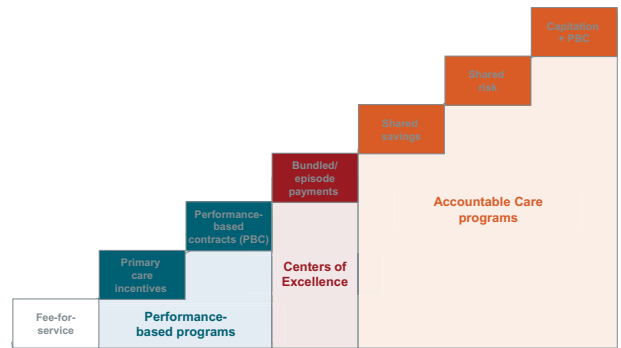


From Fee For Service to ACO and everything in between

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 April 2013

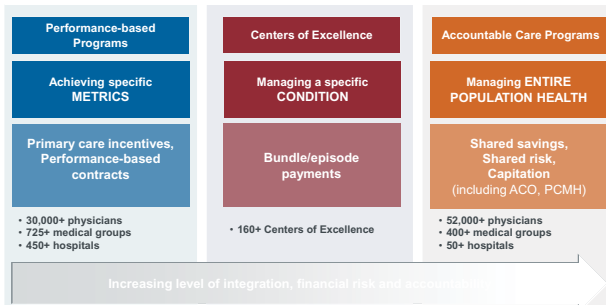


Value-based payment continuum



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Accountable Care Platform



THIS MATTERS | We have value-based engagement with more than 575 hospitals, 1,100 medical groups and 75,000 physicians participating in our Accountable Care Platform.¹

¹ Deployment statistics for executed contracts as of November 2012, net of program overlap.

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Supporting care providers



MANAGING POPULATION RISK

Accountable Care Program requirements

- Physician leadership with clear governance
- End-to-end clinical programs
- Coordinated care
- Health Information Technology
- Financial accounting and systems
- Appropriate distribution of funds
- Risk management
- Patient activation and engagement tools

Accountable Care Program partners

- Membership
- Provider risk readiness
- Performance measurement and reporting
- Member empowerment strategies
- Clinical consultation
- Optum suite of tools
- Incentive programs administration
- Physician/patient portals and transparency tools

THIS MATTERS

Our partners are accountable for managing patients across the care continuum.

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Measuring success

ACHIEVING QUALITY AND EFFICIENCY MEASURES RESULTS IN IMPROVED QUALITY AND REDUCED MEDICAL COST



- HEDIS quality measures
- Optimal/Tier 1 prescription drugs
- Efficient lab and specialty usage
- Risk adjusted emergency room rates
- Admission and readmission rates
- Total cost of care targets

THIS MATTERS

We drive accountability through a shared risk environment focused on quality, cost and patient experience outcomes.

Industry Challenges

Medical Device Recalls/Complaints

The New York Times

August 22, 2011

Hip Implant Complaints Surge, Even as the

Dangers Are Studied

"...Food and Drug Administration has received more than 5,000 reports since January about several widely used devices known as metal-on-metal hips..."

"...some patients have suffered crippling injuries..."

"...face substantial hurdles to conduct sound studies because a lack of patient registries."

"...many all-metal devices were sold without testing in patients or without a requirement that manufacturers track their performance."

Reimbursement Rates Cuts

"... Centers for Medicare and Medicaid Services announced an 11.1% cut in Medicare rates set for October to offset unexpected increases in nursing-home payments this fiscal year."

A.D. Pruitt. (2011, August 1). Medicare Rate Cut is Bad Medicine for Health Care REIT Stocks. *Wall Street Journal*, <http://online.wsj.com/article/B1-CO-20110801-712912.html>

"An undisclosed Florida Health System incurred a \$42M reduction to their bottom line through State reimbursement cuts, made retro-effective to July 1st, 2011."

Medicaid Cuts (Hospitals by state) Effective 7/1/2011

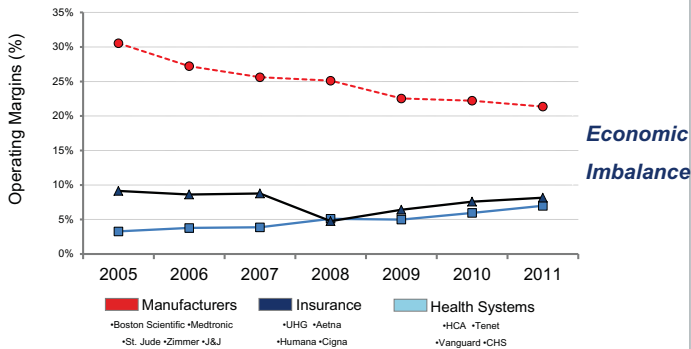
AZ - 5%	CO - 0.75%	FL - 12%	NE - 2.5%
NY - 2%	NC - 7.3%	OR - 11%	PA - 4%
SC - 3%	SD - 11.5%	TX - 8%	VA - 4%
WA - 10%	CT - \$33M	NH - \$126M	

Improve Product Quality

Decrease Cost Profile

Industry Challenges

Average Annual Operating Margins – Industry Specific



Health System Challenges

- "I have to adjust to a Medicare cost profile"
 - 22-28% revenue decrease due to healthcare reform
 - 30-40% supply cost savings targets
- "High cost products are selected by the Dr's"
 - "We probably do not have the lowest price, we have to keep all product options available to the Dr's"
 - "We can reduce our ortho/spine implant costs by 50% if we consolidate to 2-3 suppliers"
- "Where is the objective information on product performance?"

Existing Strategy Options



➤ Traditional Strategies Do Not Work

- Group Purchasing Organizations
- Regional / Local Purchasing Coalitions
- Health System Purchasing Departments

➤ Medical Device Manufacture's Cancel GPO Contracts

- "Medtronic's bold move could represent a positive shift in bargaining power away from the hospitals and back to the device manufactures." **Derrick Sung, Bernstein Research**

➤ New Market Solutions are Expensive and/or Immature

- Access MediQuip
- Implantable Provider Group
- Medical Implant Solutions

How can a Payer and Provider collaborate to make significant improvement?



Focus on PPI's



▪ Physician Preference Items (PPI)

- Medical implants
Stents, hips, knees, pacemakers, etc...
- High cost / technology products
Bracy seeds, nuclear medicine, lap bands, etc...

▪ Significant Clinical and Financial Impact

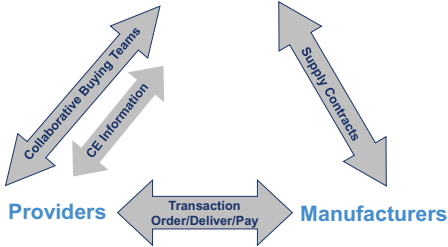
▪ Undermanaged at a Significant Amount of Health Systems

Strategy



- Identify and encourage sourcing utilization to the best performing PPI's, by developing comparative effectiveness (CE) information that supports health care operations.
- Best-in-class supplier contracting, capitalizing on CE information, health system and United Health Services (UHS) influence.

Business Model



Purpose

- Utilize CE information
- Perform collaborative buying

Structure

- Purchasing services company
- Limited Liability Corporation (LLC)
- Members – Dignity Health, UnitedHealth Services, and 9 additional Health Systems

Benefits

- Reduce PPI costs
- PPI quality transparency
- Evidence based decisions
- Improves patient outcomes
- Compliments GPO's
- No "GPO" administrative fees
- PPI pricing for UHG Network

SharedClarity is a Dignity Health & UHS Collaboration

Focus on PPI's



Identified PPI's

Physician Preferred Items (PPI's) – CE Study not Required

- Uncoated Coronary Stents
- Peripheral Stents
- Brachytherapy Seeds
- Contrast Media
- Mesh
- Shunts
- Breast Implants
- Endomechanicals
- Penile Implants
- Cardiac Perfusion Supplies
- Five (5) Additional Items to be identified

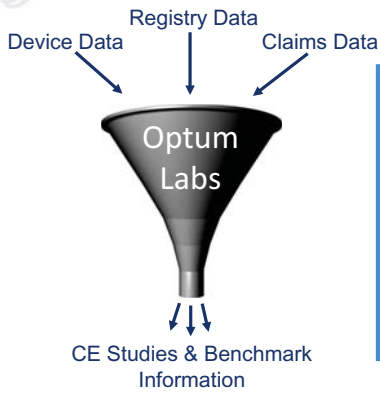
Physician Preferred Items (PPI's) – CE Study

- Coated Coronary Stents
- Urologic Implants "Slings"
- Ophthalmology Implants
- Electrophysiology Supplies
- Knees
- Pacemakers
- AAA Stents
- Lap Bands
- Coronary Diagnostic
- Hips
- Defibrillators
- Vascular Grafts
- Heart Valves
- Neuro Simulators
- Spine

Strategy

- Identify and encourage utilization to the best performing PPI's through the development of comparative effectiveness (CE) information that supports health care operations.
- Best-in-class supplier contracting, capitalization of evidence-based research information, and collaborating efforts between healthcare systems and insurers to address healthcare reform.

Utilize CE Information



- Access to 15 CE studies that are updated every 24 months.
- SharedClarity funds all studies.
- Clinical Review Teams (CRT), consisting of member Physicians, help develop and oversee the studies.
- Utilize Optum's CE study experience and resources.

No industry influence!

Collaborative Buying



PPI Market

- \$40-50B in USA Sales
- SharedClarity will focus in 30 PPI's
 - Represent ~\$32B of US market
 - Members and Customers will account for ~\$3B of the market

Process

- Sourcing strategies
 - CE information
 - Purchase commitments
 - Meaningful PPI consolidation
- Select highest quality PPI's

PPI Pricing


- Member price tier
 - One price for all Members
- Customer price tier
 - Available to United's active Network Providers

Competitive Advantage

- SharedClarity market strength
- Payer/Provider partnership
- Ability to move market share
- Objective CE information
- "Alignment of the willing"

Sourcing Strategy



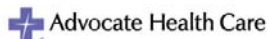
	"Pay-to-Play" (Open Vendor)	"Evidence Based Contracting"
Pricing	Guess the market price	Series of supplier negotiations to determine best available market price
Quality	Assumes all products perform the same	Utilized independent CE studies to identify product performance
Supplier Selection	PPI suppliers choose if they supply PPI's based on price	Members select suppliers based on quality and cost
Typical Outcome	Less established suppliers, eager to gain market share, accept the price. Established suppliers "pass or hold out" and increase "sales efforts" toward the Physicians.	Administrators and Physicians collaborate to select high quality, best value PPI's. 
Strategy Logic	"Path of least resistance"	"Evidence based, proactive decisions"

SharedClarity vs. GPO



	Group Purchasing Organization (GPO)	SharedClarity
Product Strengths	<ul style="list-style-type: none"> Commodity items 	<ul style="list-style-type: none"> Physician Preference Items (PPI)
PPI Quality – Clinical Evaluation	<ul style="list-style-type: none"> Limited objective information Published research (manufacture funded) 	<ul style="list-style-type: none"> Objective CE information Input from provider physicians, researchers, and clinical associations
PPI Contract Coverage	<ul style="list-style-type: none"> All PPI suppliers regardless of clinical performance Creates "access" pricing to initiate Provider negotiations 	<ul style="list-style-type: none"> Suppliers/Products with the best clinical value/efficacy, unless products perform like a "commodity"
PPI Negotiation Strategy	<ul style="list-style-type: none"> Volume leverage (usually non-committed) Some bundled agreements by manufactures 	<ul style="list-style-type: none"> Clinical value/efficacy Commit core provider volume Move industry market share
Ability to Move Market Share	<ul style="list-style-type: none"> Weak GPO influence 	<ul style="list-style-type: none"> Strong Provider members commit volume
Pricing Models	<ul style="list-style-type: none"> Complex Multi tiered pricing (volume and market share) Pricing not standardized within a health system 	<ul style="list-style-type: none"> Simplified Pricing standardized within a health system

Membership



Membership Already Consists of the Largest Commercial Payer and Health System's with over 120 Hospitals and 500 Clinics