The North Carolina Healthcare Landscape
Environmental Overview

Unprecedented pressure and uncertainty from health care reform and other factors

Economic Pressures:
- Health cost burden at a tipping point
- Economic slowdown and erosion in employer health coverage
- Repositioning of the health business model
- Explosion in medical technology and pharmacology advances

Competitive Trends:
- Intensifying competition
- Consolidation of providers
- Shrinking of the commercial insurance pool
- Emergence of new products, competitors and delivery models

Consumer Pressure:
- Consumers are more knowledgeable, demanding, empowered and diverse
- Consumerism fueling demand for new products and transparency
- Growing out-of-pocket health expense is driving the “retailization” of health care

Political/Regulatory Pressures:
- State and federal mandates
- Regulatory and legislative actions
- Healthcare Reform
Significant Changes Taking Place in NC

Provider Market

- Shortage of Physicians
- Accelerating Consolidation
- ACO Preparation
- Lifestyle concerns
- Retirements
- Increased Overhead and Capital Needs

- Limitations to primary care access inadequate in the future
- As medical practices are consolidated with hospital systems, providers will gain leverage with health plans
- Medical Expense will continue to increase
- Move from fee-for-service to value-based system
Examples of Cost Drivers

+ Cost per Unit (similar to M-CPI)
+ Utilization
+ Federal mandates
+ Intensity: In general, new procedures or drugs are developed at a very high cost and often for a fairly limited population. The competition that drives down costs in other fields does not work effectively in the medical field. The highest cost and fastest growing segments of medical technology market are:
  – Diagnostic imaging
  – Cardiovascular procedures
  – Diagnostic in-vitro
  – Specialty drugs
  – Genetically targeted drugs
Provider Consolidation in North Carolina

- 82% of hospital medical spend is **within** the top ten health care systems

BCBSNC, 2013
NC LANDSCAPE

Provider Consolidation

2000

- Baptist
- UNC
- Mission
- Duke
- Novant
- FirstHealth
- Tenet
- Cape Fear
- HMA Only
- WakeMed

- MedWest (Managed by CHS)
- Carolinas Healthcare System
- Appalachian Regional Healthcare System
- Moses Cone Health System (Managed by CHS)
- HMA (30% Novant ownership)
- Vidant Health
- New Hanover Health Network
- County has 1 or more independent hospital(s)
- Duke LifePoint Healthcare
- HMA Only
- No hospital in the county
Provider Consolidation

Five years later

2005

Baptist
UNC
Mission
Duke
Novant
FirstHealth
Tenet
Cape Fear
HMA Only
WakeMed
MedWest (Managed by CHS)
Carolinas Healthcare System
Appalachian Regional Healthcare System
Moses Cone Health System (Managed by CHS)
HMA (30% Novant ownership)
Vidant Health
New Hanover Health Network
County has 1 or more independent hospital(s)
Duke LifePoint Healthcare
No hospital in the county
Provider Consolidation

Fourteen years later

2014

Baptist
UNC
Mission
Duke
Novant
FirstHealth
Tenet
Cape Fear
HMA Only
WakeMed

MedWest (Managed by CHS)
Carolinias Healthcare System
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Provider Consolidation
LESS COMPETITION AND HIGHER COSTS

Research demonstrates that when hospitals consolidate, either merging with other hospitals or buying up physician practices, healthcare costs go up. Provider consolidation gives hospitals greater negotiating strength and limits competition, resulting in higher prices for services, higher costs for patients, and no improvement in the quality of care delivered.

Physicians Are Becoming Hospital Employees¹

In 2000 1 in 20 specialists was a hospital employee...

...Today 1 in 4 specialists is a hospital employee.

2000

2012

“Last year, a 15-minute visit to a doctor in private practice cost $69...That same visit to a hospital-employed physician cost $124.”
- Orlando Sentinel

Increasing Market Concentration Leads to Higher Prices for Consumers²

Percentage increase in market concentration from 1999-2003.

WEST +5.5%

SOUTHWEST +6.7%

MIDWEST +7.4%

SOUTH +9.4%

EAST +7%

“Research suggests that hospital consolidation in the 1990s raised prices by at least five percent and likely significantly more. Prices increase 40 percent or more when merging hospitals are closely located.”
- Robert Wood Johnson Foundation


## Impact of Provider Consolidation in NC

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<tr>
<th>Stated Benefits of Consolidation</th>
<th>Actual Impact in NC</th>
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<tbody>
<tr>
<td>Larger, more integrated health system</td>
<td>Typically enhances bargaining power resulting in increased reimbursement, added facility fees, increased out-of-pocket for members, higher rates for drugs</td>
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<td>Improved health care delivery</td>
<td>Consolidation without integration rarely leads to enhanced performance</td>
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<tr>
<td>Realize operating efficiencies needed to operate in a market increasingly shaped by a more risk-based health insurance market: realign services, reduce excess capacity, adopt economies of scale</td>
<td>Often a lag time between integration and financial benefit for the consumer</td>
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<td>Referral patterns staying within the system</td>
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<td>Pressure on independent providers to join a system which ultimately leads to a decrease in patient choice</td>
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Impact on Commercial Business

Provider consolidation primarily impacts commercial payers, including BCBSNC, due to reimbursement rate negotiation. Other payers are not affected as much due to their fixed rates.

Although there are multiple factors that are increasing the cost of healthcare, commercial members are especially impacted by provider consolidation when higher reimbursement rates are a direct result of the consolidation.

### Average Hospital Payer Charges

*Source: NCHA CON Presentation to NC Legislature*

http://www.ncleg.net/documentsites/committees/BCCI-6610/February%202018,%202014/Hospital%20Association%20CONCommitteePresentation.pdf