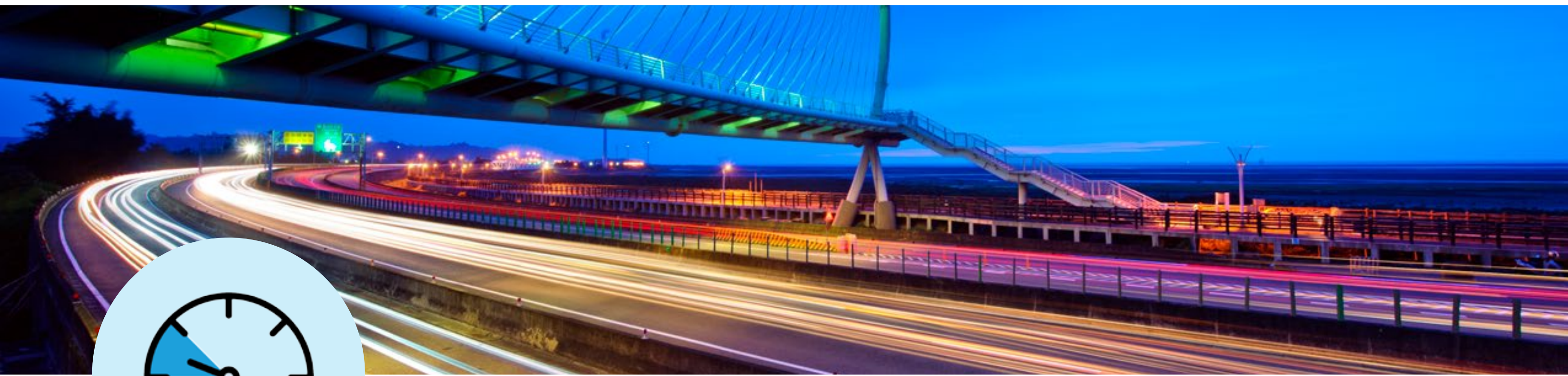


# **Deloitte 2017 Survey of US Health System CEOs:** Moving forward in an uncertain environment

> The transition to population health and value-based payments is a concern, but also a huge opportunity for our country to provide better health care at lower cost.
>
> *—CEO of a large nonprofit health system*

### Introduction

As a follow-up to our 2015 Deloitte Survey of US Health System CEOs, we interviewed 20 health system CEOs during May 2017. We found that, of all the issues that may keep these hospital CEOs up at night, they are most concerned about:

» The future of Medicaid
» Moving towards population health
» Declining margins
» Finding, recruiting, and retaining forward-thinking and adaptable health care leaders
» Keeping up with new technology
» Adapting to evolving consumer expectations

In chapter 2 of our series, we explore CEOs' survey responses on the topic of population health and value-based care. Public policy got things cooking; will market forces and the new administration continue to turn up the heat or put value-based payment models on the back burner?

### About the survey

The Deloitte Center for Health Solutions interviewed 20 hospital and health system CEOs during May 2017. In 2016, their organizations collectively generated $91 billion in annual operating revenue, with all generating more than $1 billion annually.*

**Based on Deloitte analysis of DACBond, Hoovers, and organization websites*

The CEOs represent a wide range of organization types, including:

» Seven nonprofit hospitals/health systems
» Seven academic medical centers (AMCs)
» Three faith-based nonprofit hospitals/health systems
» Three children's hospitals

CHAPTER 2

# **Population health** and value-based care

### Transition to value-based payments slower than expected

Value-based payment models reward efforts to improve quality and reduce cost. Payments to hospitals and physicians are based, in part, on episodes of care, and providers might face some financial risk. The use of value-based payments is increasing due to policies such as the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), initiatives from the Center for Medicare and Medicaid Innovation, state Medicaid programs and, to some extent, private-sector health plans. Many surveyed CEOs state that population health management is the key to success under value-based care models.

Survey participants say the transition to value-based care is happening, but at a slower rate than initially anticipated. Still, many of the CEOs report that they are developing and expanding innovative delivery and payment models, and are focusing on MACRA and physician activation. Many CEOs also are looking into strategies to generate physician buy-in and encourage behavioral change, which will help them be better prepared for the transition to population health and value-based care.

> "Value-based care simply means to me that the recipients see the value of the care we provide, and if we can't distinguish ourselves by demonstrating that we can provide more value in terms of outcomes, in terms of quality, in terms of delivering care in a more effective way and in a way that better suits individuals in terms of where they live and work, then people are not going to be willing to pay for it. Fee-for-service is never going to go away, but it is going to shrink as a component in how we are going to be reimbursed. Over the next five years, we are going to be at risk for the services we provide, and that risk will be tied into demonstrating value in terms of things like readmissions, ER visits, etc."
>
> —*CEO of a large academic medical center*

### What is population health?

Population health takes a broad look at the management of outcomes for all of a health system's patients. Specifically, population health includes efforts to use health care resources effectively and efficiently to improve the lifetime health and well-being of a specific population.[1]

Population health activities include:

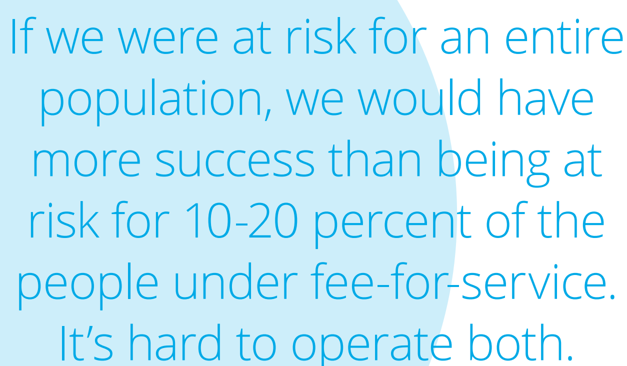
» Promoting health and well-being
» Primary, secondary, tertiary, and disease prevention

Population health requires data and analytics to identify at-risk patients and target services that reduce their use of expensive and low-quality care. Under a population health model, providers manage care—from preventive and maintenance care to acute and long-term care—for a defined population. Those who are most successful often deploy innovative delivery models; analyzing data and trends in a population's health, quality, and costs; and bearing financial risk. Value-based payment contracts reward providers for successfully executing these processes.

According to an industry adage, "As Medicare goes, so goes the private market." Although value-based payment models are not gaining momentum in the private market as quickly as anticipated, many health system CEOs are preparing for a future that will place greater emphasis on value-based care. Moreover, most health systems have fewer contracts requiring them to take on risk than they expected.

> "[Value-based care] is a major [concern], [but] it is moving backwards. We can't find payers, whether it be insurers or businesses, who seem tremendously interested in moving in that direction. As a large integrated delivery system, I could be stuck between a Medicare payment system that rewards outcomes, and a commercial payment system that is stuck in a fee-for-service world. That makes constructing and managing and leading an organization like this challenging as the economic incentives will essentially point to polar opposite directions."
>
> *—CEO of a large nonprofit health system*

Many of the surveyed CEOs express concern about operating under two different payment systems—FFS and value-based care—and having misaligned incentives. Moreover, moving towards population health and bearing financial risk likely will require a large patient population.



While five of seven AMC CEOs say population health is a major concern, many other survey respondents consider it to be a moderate or minor concern. They indicate that a true population health "model" does not yet exist. Many of these CEOs are more concerned about issues such as Medicaid cuts and shrinking margins.

### Preparing for value-based care and population health models

> "[Currently] our financial success doesn't always equal the success of the people we care for. How do we turn towards aligning our market rewards for the things that really matter most for the people we are serving?"
>
> *—CEO of a large nonprofit health system*

According to survey results, the CEOs of children's hospitals are more likely than other CEOs to use innovative delivery and payment models such as accountable care organizations (ACOs), retail clinics, telehealth, and advanced nurse practitioners to manage their patients' health.

> "We're beginning to [develop capacities to] work in a different risk-sharing model with payers. But, a lot of that has just been paused until people know what the feds will do. It's like all that momentum that was building towards value-based care model[s], towards innovative, care coordination and delivery models...has pretty much been paused."
>
> *—CEO of a large children's hospital*

Additionally, many CEOs think health plans that participate in Medicare Advantage (MA) will continue to emphasize value-based care, and that they can move health systems towards population health. Although a majority of providers are still reimbursed under FFS in MA, others have moved towards alternative payment models (APMs). The 2016 HCP-LAN survey estimated that roughly 41 percent of spending by MA plans was through population-based accountability models.[2] Researchers found that providers in risk-based MA models had better patient outcomes than providers in FFS MA plans. For example, patients had a six percent better survival rate when treated by clinicians in risk-based APMs than patients in the FFS MA.[3]

> "I think if MA is going to grow, or if there's going to be a successor to the exchanges, it's likely to be in a population health model rather than a FFS model."
>
> *—CEO of a large academic health center*

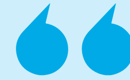
Surveyed CEOs expect they will need to partner with other players to stay connected with patients. For example, many hospitals and health systems are partnering with outpatient ambulatory care organizations and using technology such as telehealth to expand their reach.

To connect with and care for patients outside of the hospital setting, CEOs are often looking for partnering opportunities. From triaging patients to urgent care clinics and collaborating with post-acute care (PAC) facilities to keep patients out of the hospital, these new relationships can turn traditional FFS on its head.

> "The engagement along the full continuum of care is a major focus of ours as well; i.e., digital connectivity and connecting with customers, urgent care centers, micro-hospitals, in-patient activity, out-patient activity, post-acute care. We are looking at how we partner with those in that part of the world, post-acute care specifically, since that plays a huge role in our overall cost of care for that Medicare beneficiary."
>
> *—CEO of a large academic health center*

Additionally, CEOs are commonly wondering how to manage a community's health needs:

> "That goes back to the social determinants of health issue. I'm much more interested in defining population health as how you manage a community. That's a major concern in the long run if we want to improve health overall."
>
> *—CEO of a large academic health center*



"I think the next…improvements in care delivery are going to come from new models. Getting away from physician offices [and] looking at alternative models, (e.g., more use of non-licensed professionals, more use of technology). We have to find alternatives to how we've always done it in the past, with the goal of not only reducing cost but improving care, and [gaining] more reliability in how we manage the care of patients."

*—CEO of a large academic medical center*

## Many CEOs are uncertain how MACRA will play out but see it driving population health and physician activation initiatives

> "You can really combine MACRA and population health. They are mutually overlapping; that is, MACRA is simply a form of population health. It really is our ability to deliver health care outside the four walls of our medical centers and it moves away from hospital-based care. And while all our hospitals are full, we need to reach out and learn how to deliver health care with providers who can do it better than we can and at a lower cost, and to be able to deliver care in the communities where patients live and work."
>
> *—CEO of a large academic medical center*

MACRA pays clinicians five percent above their regular Medicare rates if they participate in APMs. Even clinicians who do not participate in these models will see their payments vary based on quality and cost measures. However, hospital CEOs' approaches to MACRA differ. Not surprisingly, many CEOs who previously had acquired and invested in physician practices report being more engaged and prepared for MACRA implementation than other survey respondents. However, researchers have projected that under varying models, hospitals could see Medicare cuts as high as $250 billion by 2030.[4]

> We've grown so much in our employed-physician model now that [MACRA] is a major concern.
>
> *—CEO of a large faith-based hospital*

Many surveyed CEOs say they are concerned that physicians are largely unaware of how MACRA would affect their practices. This is consistent with the Deloitte Center for Health Solutions 2016 Survey of US Physicians, which found that 50 percent of physicians had never heard of the law, and 32 percent recognized it by name but were not familiar with its requirements.[5] Though Deloitte's survey was conducted a year ago, more recent industry surveys have had similar findings.[6]

> "Depending on how it's implemented and adjusted, it's going to have a profound impact on our physicians' ability to continue to practice, succeed, or thrive. And, they don't have the capabilities to manage the data, create the data, do what's necessary day-to-day to change the delivery model. So, there's a profound implication for our physician community that they are not capable already of delivering upon."
>
> *—CEO of a large nonprofit health system*

## Physician activation: Continued priority for health system CEOs

A CEO from an academic medical center mentioned that priorities have not changed but the resources his organization is putting into developing the capabilities for population health management have increased. Additionally, instead of just discussing population health management with hospital leadership, many physicians are now part of the conversation. Many organizations are striving to achieve a "quadruple" aim that adds clinician and employee engagement/activation to the triple aim of experience, health, and affordability.

> "How do I create the alignment with our physicians, in particular, when they are under a different set of economic incentives than we are, to transform both the payment system and the care delivery system?"
>
> —*CEO of a large nonprofit health system*

A majority of CEO respondents are having a difficult time engaging physicians in care redesign, value-based care transformation, and care coordination because of differing financial incentives, according to the report *Alignment: Driving Clinical Integration and Collaboration by Health Leaders Media*.[7]

In our survey, some respondents indicate they are using tools including clinical integration, employment contracts with incentives, ACOs and risk-sharing agreements, among others to better activate physicians in care delivery transformation.

Specifically, CEOs surveyed report they are:

- Creating or partnering with payers for alternative payment models, which could result in reduced cost and improved patient care
- Forming clinically integrated networks, partnerships, and infrastructure to support population health and create a referral base for tertiary partnering services
- Positioning their organization to work in a risk-sharing model with payers
- Emphasizing patient quality, safety, and experience
- Investing in appropriate technology that will help enhance patient care
- Changing the culture around patient access to physicians and developing communication skills at the staff and physician level.

## Successful transition to population health

> "We are trying to consolidate. We are trying to be more efficient. But there's only a certain amount that you can do under the current situation. As long as mixed incentives are in place [FFS vs. value], it's going to be really hard to fix the system or more appropriately put the resources in place to serve our community."
>
> —*CEO of a large faith-based health system*

Even if health systems are not yet seeing value-based and population health management contracts, they should still prepare for their arrival. CEOs surveyed agree that the industry is moving in this direction and, therefore, say their fellow CEOs should focus on the health outcomes and costs of their patient population. CEOs tell us they intend to partner, grow business purposefully, and create incentives and support for physicians to operate under the new value-based model. Health systems preparing for value-based care and population health also should consider expanding their patient network and reach, as providers managing the care of larger populations likely will be able to better manage their margins and financial risk.

## Endnotes

[1] Es Nash, "Defining and delivering population health," A view from the Center: Deloitte's Life Sciences & Health Care Blog, October 15, 2015. Available at [http://blogs.deloitte.com/centerforhealthsolutions/defining-and-delivering-population-health/].

[2] Christopher Kunkel, Michael Polakowski, Drew Osborne, Noah Champagne, Lynn Dong, Charlie Mills, "MACRA and Medicare Advantage plans: Synergies and potential opportunities," Milliman White Paper, February 2017. Available [http://www.milliman.com/uploadedFiles/insight/2017/2267HDP_MACRA-and-Medicare_20170221.pdf].

[3] Aloke Mandal, Gene Tagomori, Randell Felix, Scott Howell, "Value-Based Contracting Innovated Medicare Advantage Healthcare Delivery and Improved Survival," American Journal of Managed Care, Volume 23, January 10, 2017. Available at [http://www.ajmc.com/journals/issue/2017/2017-vol23-n2/value-based-contracting-innovated-medicare-advantage-healthcare-delivery-and-improved-survival].

[4] Peter Hussey, Jodi Liu, Chapin White, "The Medicare Access and CHIP Reauthorization Act: Effects on Medicare Payment Policy and Spending," Health Affairs, April 2017. Available at [http://content.healthaffairs.org/content/36/4/697.full].

[5] Mitch Morris, Wendy Gerhardt, "Deloitte 2016 Survey of US Physicians: Findings on health information technology and electronic health records," Deloitte Center for Health Solutions, 2016. Available at [https://www2.deloitte.com/content/dam/Deloitte/us/Documents/life-sciences-health-care/us-lshc-physician-survey-hit-factsheet.pdf].

[6] 2016 Survey of America's Physicians Practice Patterns & Perspectives, Merritt Hawkins, September 2016. Available at [http://www.physiciansfoundation.org/uploads/default/Biennial_Physician_Survey_2016.pdf]

[7] "Physician Alignment: Driving Clinical Integration and Collaboration," Health Leaders Media, September 2016. Available at [http://www.healthleadersmedia.com/report/intelligence/physician-alignment-driving-clinical-integration-and-collaboration].

## Authors

**Steve Burrill**
Vice Chairman
US Health Care Providers Leader
Deloitte LLP
sburrill@deloitte.com

**Arielle Kane, MPP**
Deloitte Center for Health Solutions
Deloitte Services LP
arkane@deloitte.com

## Acknowledgements

The authors would like to thank Wendy Gerhardt, Ryan Carter, Kiran Vipparthi, Ken Abrams, Anne Phelps, Brian Flanigan, Olive O'Rourke, Bill Fera, Steve Davis, Lauren Wallace, Amy Hoffmaster, Sarah Thomas, Samantha Gordon, Jessica McCann, and the many others who contributed to this project.

## Deloitte Center for Health Solutions

To learn more about the Deloitte Center for Health Solutions, its projects, and events, please visit
www.deloitte.com/centerforhealthsolutions

**Sarah Thomas, MS**
Managing Director
Deloitte Services LP
sarthomas@deloitte.com

Email: healthsolutions@deloitte.com
Web: www.deloitte.com/centerforhealthsolutions

We encourage you to bookmark our hospital CEO series at
www.deloitte.com/us/ceo-survey

For more on the population health content, please visit
www.deloitte.com/us/ceo-survey-population-health

Deloitte Center *for*
Health Solutions

**About the Deloitte Center for Health Solutions**
The source for fresh perspectives in health care: The Deloitte Center for Health Solutions (DCHS), part of Deloitte LLP's Life Sciences and Health Care practice, looks deeper at the biggest industry issues and provides new thinking around complex challenges. Cutting-edge research and thought-provoking analysis gives our clients the insights they need to see things differently and address the changing landscape.

Deloitte.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

**About Deloitte**
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the “Deloitte” name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

Copyright © 2017 Deloitte Development LLC. All rights reserved.