



2017 outlook on US health care providers What are the opportunities looking ahead?

James VanOsdol: What's the outlook for health care providers in 2017? What trends are happening? How can they be addressed? And what are the opportunities looking ahead? Dr. Mitch Morris is the vice chair and global leader for the health care sector at Deloitte. He has more than 30 years of health care experience in consulting, health care administration, research, technology, education, and clinical care. I got him on the phone to dive into these questions and I started by asking about [MACRA](#), the Medicare Access and CHIP Reauthorization Act of 2015. Since a recent Deloitte study says a lot of physicians don't even know what MACRA is, I thought I would have Mitch explain.

Dr. Mitch Morris: Well, the MACRA legislation is really quite remarkable and one of the things I find most interesting about it is for all of the fanfare and political arguing and excitement around the Affordable Care Act, Obamacare, MACRA, which in many ways is much more impactful, was completely bipartisan and slipped through almost unnoticed by the industry and the media. And MACRA is a set of laws that cap Medicaid, Medicare reimbursement at zero unless you meet certain criteria of quality of care or are able to accept alternative models where you go at risk.

So it's really going to be driving this country towards value-based care more rapidly and towards transparency around quality. You know, one of the things that people don't like to really contemplate or talk about is if you look at doctors, half of them, by definition, are below average. And the way MACRA is set up is if you can't prove that you have higher than average quality, you do not get a financial bump in your Medicare reimbursement.

James VanOsdol: What will the impact be?

Dr. Mitch Morris: There's going to be a number of impacts of MACRA. MACRA is going to force consolidation in private practice

and physicians who are in small independent practices will have a very hard time with contracting, measuring quality, having the IT infrastructure, and all the things that are going to be necessary. Being able to develop alternative payment models like payment bundles and accountable care organizations or even full on capitation, and as a result, many of them are joining larger organizations, either large medical groups, health systems, or health plans. All of them are aggregating physicians at this point in time and some regions of the country, we're seeing this happen faster than others.

So when [our survey](#) shows that roughly 82 percent really don't know what MACRA is, 50 percent never heard of it, and 32 percent said "yeah, I've kind of heard of it, but I don't really know what it is." That is a reason for some alarm. How are we going to help educate our physicians about some of the steps they need to be taking now? Because you need to start measuring by the end of this calendar year. You need to start measuring your quality. How are physicians going to be getting there? It's going to be a rough road, initially.

James VanOsdol: So I guess that is the question. How do they prepare?

Dr. Mitch Morris: Well, I think there are a number of ways physicians can prepare. There are a number of publications out, both from CMS, but also from specialty societies and media organizations about what is MACRA, what does it mean, how do you begin to get ready for it? I can tell you here at Deloitte, we have meetings all across the country with health systems, insurance companies, and medical groups over what is MACRA, what are the implications. And it's not just the mechanics of setting up reporting so I can measure my quality.

There's a whole strategy around what is the right thing to do in terms of clinical quality, in terms of finances, in terms of setting myself up for the future? How do I strategically deal with the contents of MACRA?

And I think that's what people are slowly coming to grips with in addition to measuring quality and participating in alternative payment models.

James VanOsdol: It seems like a lot of this points to the overall value of data. Can you speak to that?

Dr. Mitch Morris: Well, we know that if you can't measure it, you can't manage it and we have, in our industry, spoken a long time about the need for good analytics in health care. And it goes well beyond claims data, so health plans have had claims data, as well as Medicare and Medicaid. They've all had claims data for a number of years, but that only tells part of the story and doesn't tell the full story about quality.

So for example, on that count, you might know how many days a patient spent in the hospital for a knee replacement and you might know that they got readmitted from claims data. But you don't know whether they actually needed the knee replacement in the first place. Nor do you know that if they got the knee replacement, because they wanted to keep playing golf, whether six months later they were playing golf.

So a lot of the outcomes on quality are not really there. In many of the websites that measure quality, they focus on things like feedback from consumers around how long do they wait in the waiting room and do they have new magazines and where the staff was helpful and friendly. All of which may be important, but not as important as when I had my knee replacement, did I achieve the outcome functionally that I wanted to really achieve. And did I really need the surgery to begin with.

So analytics is really important for that aspect and then also for understanding costs. As we start going into alternative payment models, which we can expand on in a few moments, as we bundle payments, I'll stick with the knee replacement example. Knee replacement involves a surgeon, a rehab doctor, radiologist, an anesthesiologist, hospital, and perhaps a rehab facility so there's lots of different fees and costs, which today, in today's world, are billed independently. In a bundle payment world, there's one payment for all of that and all those parties have to figure out how to split it up. Now, if they're all part of the same health system, health system kind of does that for them, right? But if they're independent of each other, then they've got to come to some kind of an agreement on how to do that. And how can you do that without really understanding your costs and being able to manage to your costs?

So while analytics is tremendously important, not only because of MACRA and alternative payment models, but everything else that's going on in our industry and we'll touch on those things.

But high unit costs, understanding what's happening in the network and the community, understanding the social determinants of health are the things that really impact the health of the community you serve. All these things, you need analytics to be able to measure those things to effectively manage to them.

James VanOsdol: So what does this mean for the 2017 outlook?

Dr. Mitch Morris: Well, I think many of our provider organizations are between a rock and a hard place. They are struggling with decreasing reimbursement, increasing costs, and a weak capital outlook, so not having a lot of capital to invest. And at the same time, they see things ahead of them that are exciting, great opportunities to transform their business, but require investment.

Some examples are how do we better engage with consumers and patients using digital technologies? We know that we can do much more through telehealth and programs, monitoring and measuring people in a home setting than we've been able to do in the past. Reminding them to take their medication, health reminders of a various sort, but really putting the power of health in the hands of consumer and putting the patient truly at the center. Not just in worth, but in reality. But that takes an upfront investment and I think being able to invest in digital enablement and consumer engagement is a challenge right now. Even though organizations want to do it, they're challenged to do it.

Analytics is another area that requires investment and another [survey from the Center for Health Solutions](#) that was done a year ago of health care CIOs said that investment in this area would be flat even though the need is dramatically increasing. Another need is to be able to either own or have an alliance with the entire health care ecosystem. Going back to that example I used with the knee replacement, either you employ and own all those pieces or you have a close alliance with them and that also takes capital and transformation of your organization. So we're seeing health care organizations really struggle with cost and being able to make investments.

Many health systems are actively engaged in cost reduction to bring down their unit cost and much of the low hanging fruit in that area has already been picked. So it's not just a matter of doing some layoffs, but really looking critically at a variety of functions on the cost side. Where are we with things like talent management, supply chain, or IT costs? Do we shed some underperforming parts of our system? Do we have enough clout in the marketplace to effectively negotiate with insurance companies and create programs around alternative payment models? So cost production continues to be something that's also big and I think we'll see in 2017.

Of course, there is also the election. We're going to see continued change. The Affordable Care Act is going to undergo some modifications and exactly what those will look like, we don't really know yet. And I think we'll also see increases in this bipartisan trend towards alternative payment models and pushing down costs. And MACRA was really just the first part of that.

James VanOsdol: All right, so looking at trends in relation to and even beyond MACRA, let's talk a little bit about value-based care. You mentioned it right at the onset. For the outlook 2017, tell me a little bit about where value-based care stands.

Dr. Mitch Morris: The Center for Health Solutions did a [study of physician attitudes around value-based care](#) and it turns out most physicians are still getting fee-for-service, not a big surprise, or some type of salary. So either salary or fee-for-service, 86 percent of physicians and really hadn't changed much from 2014. About a half of physicians report that they're getting performance bonuses, but they're not that big. They're not that impactful. They're less than 10 percent of the total compensation.

What we find is under value-based care, physicians are willing to get a bonus for having certain outcomes, but are very reluctant to take a haircut or have their income go down. So they are more in favor of one-sided risk rather than two-sided risk. And we know that in general, we're moving towards two-sided risk and to tell the truth, most health systems feel the same. They're happy to get a bonus, but are concerned about managing risk. Some of that concern emanates from how am I going to be measured? Is this going to be fair? Do I have enough patients to be statistically significant? And that's one of the things that's driving consolidation is if I'm part of a bigger group, some random fluctuations and outcomes won't impact my income as much. So they're worried about whether it's fair and part of this also might mean incomes may be headed downwards for physicians and we have not – you know, the surveys have not shown that that's happened significantly.

But as we look at other G20 nations around the world, in general, our physicians are compensated at a level about twice what other physicians are compensated. As a result, there is a potential that CMS to put additional financial pressure on. And particularly for physicians who are in their 50s and on the glide path to retirement, this is a particularly bitter pill to swallow and I think there'll be a lot of pushback and controversy over that. But at the end of the day, value-based care, I believe, is here to stay.

James VanOsdol: Considering the move toward consumerism in health care, it seems like innovation will play a key role in 2017.

Dr. Mitch Morris: Well, they are and we see consumers increasingly expecting retail experience from their health care interactions. They have become so used to getting things almost instantly on online shopping and all the different varieties that that offers that they expect to be able to make appointments, see results, and manage their own health to a large degree using some of these kinds of online tools. And we're behind in that. I think we're also seeing a much more educated consumer who has a lot more questions and wants to make decisions actually based on quality in outcomes and not just on how nice the waiting room is.

So consumer demand for progress in this area is higher than ever. And we're starting to see some organizations respond to it. And one of the areas where we see great growth is in telehealth.

An example I use is a working single mom with a fifth grader with asthma. And the kid comes home from school and he's wheezing and the mom goes gee, I can't afford to take off from work and I don't want to take the kid out of school. Just double down on your inhaler,

you'll probably be okay. And two days later, the child's worse, so you do take off from work. You take the kid out of school, you drive to the doctor's office. You park, you wait an hour in the waiting room, you wait 45 minutes in the exam room, you see the doctor for five minutes and your son blows into a little tube to measure how well he moves air, and you get a prescription.

Well, now we can do that without waiting the extra two days and allowing the child to get sicker and just go on an iPhone® [mobile digital device], an iPad® [mobile digital device]*, an Android, and communicate directly with a clinician and blow into a little tube that's connected by bluetooth to this and not have to take off work and school. That's really putting the patient at the center.

The patient and the family, that's doing it at their convenience and I'll say as a physician, many of the things we do put the physician at the center. And to some degree, there's a good reason. I mean, if you had to go see the cardiologist and had a blood test and a scan and all these things, you had to go to some central place to have all those things done and it was done at the convenience of the doctor's schedule. And now, with technology, we're able to do so many things remotely. It really opens the door for a first time truly putting the patient to the center.

James VanOsdol: Considering the move toward consumerism in health care, it seems like innovation will play a key role in 2017.

Dr. Mitch Morris: Innovation is critical in this space and one of the biggest challenges we have is there is no shortage of technology. There's lots of amazing things you can wear, swallow, put up on the wall of your house or at work that help you with your health. The question is who is going to pay for these things? And in general, consumers don't want to pay for these things. Insurance companies and the federal government hasn't paid for some of these new things, and a little bit of it is what is the new business model? What is the new means of reimbursement?

Some of the more forward-thinking organizations and especially those that have both the health plan and the health provider under one roof. They're able to make some of this transition because they're using their own money and don't have to necessarily – they're not reimbursing themselves for Diagnosis-related groups (DRGs) and standard treatment. They can ask the question, what's the best way to take care of people and have them in the highest possible health and state of wellbeing? And also look at some of the social determinants of health, which are increasingly important. Ethnic and economic disparities, obesity, addiction, alcoholism, cultural differences that can have a negative impact on health and if you address some of those things, you can have a healthier population.

So it's not always just about medication. We're starting to really realize both the social determinants of health and doing things outside of the break fix model that we have today. Today, in much of the developed world, we're very reactive in health care. We wait for you to be broken and then we try to fix you. And American manufacturing, long ago, went from a model of break fix to preventive maintenance to

now what they do, predictive maintenance. Constantly monitoring of all the functions and fluids and temperatures and levels of machinery and assembly lines and jet engines, so that they never have to stop and they can just be adjusted as they go.

And we now have the technology capability to do predictive health maintenance with people and help keep them out of a hospital and keep them healthy, but we have to develop the business models to pay for that. That's where some of the real innovation will come not just in technology innovation and exponential medicine, but also in business model innovation, as to how do we create health systems that encourage those kinds of investments and reward the providers for keeping people healthy and out of the hospital. That's going to be the big transformation.

We're not going to get there in 2017, but we're on that journey and I think we're going to continue taking steps in that direction over the next few years and make a lot of progress. And one of the questions will be a truly transformational business model that comes about such as iTunes® [application program]* was for the music business or Uber was for the ride sharing business. Maybe there's something out there like that for health care. I hope so.

James VanOsdol: So, all right, so we talked about some of the opportunities for customer transformation and we looked at the trends of MACRA and value-based care. Where are the opportunity areas for growth for health care providers next year in 2017?

Dr. Mitch Morris: For providers in the next year, growth is going to be difficult and I think many are hunkering down and trying to lower unit costs and maintain margins and maintain their business. Most growth, when it occurs, is going to be through consolidation and acquisition and that type of growth. It will not be much organic growth. I think that's going to be difficult, as we see reimbursements tightening and there'll be a lot of pushing on demand. Something that will trend in the other direction is the aging of the baby boomer population and the fact that we all live longer.

It makes me laugh when people say oh, we're going to have lower health care costs when we know people live longer and longer and there's all kinds of amazing new treatments being invented, so by that very nature, utilization is going to go up. But I think 2017 is going to be a little bit more of a hunkering down and we're seeing many large health systems struggle financially. They've ridden the acute care model as far as they can and they're really having to reinvent themselves and this is true of even some systems that have very low cost models.

That's not the whole answer, it's just to lower costs. It's also to start investing and reinventing yourself. It's how you approach a community and take care of people. So I think organizations are going to grow through acquisitions and in fact, I think there'll be some health systems that are so financially challenged in this new environment that we're going to see some restructuring and some real changes happen.

James VanOsdol: Is there anything else you're seeing from a larger industry perspective, if you can pull up even higher for 2017?

Dr. Mitch Morris: One of the things that's very interesting in the whole health ecosystem right now is the interest of disruptors. And I would call the disruptors – they're not hospital companies, they're not insurance companies, they're not pharmaceutical companies. Who are they? They're technology companies who are investing in health. They're merging health services companies that don't fit into a traditional category and they're retail companies. And we're seeing that play out all over this country with large retailers getting into the health business. Some of them going with at risk models. The emergence of urgent care centers, which are a rapidly growing business. Some very large technology companies have publically announced their interest in health.

So we're seeing a lot of new entrance in the space and that's also going to be putting a lot of pressure on the traditional health insurance companies and hospital companies. And even within those, we're starting to see some disruptors. So we're really starting to see a lot of transformations in both disruptors and existing health care ecosystem companies changing the way they do business and changing the way they're viewed. And I think our ecosystem will look very different five years from now. We're going to continue to see these disruptors have an increasing role in the health care ecosystem.

James VanOsdol: So as we kind of wrap this up here, we've talked about a lot of specifics. Let's narrow this down. For someone who's listening for the 2017 outlook, what are those key takeaways you want someone to have heading into 2017?

Dr. Mitch Morris: Some of the key takeaways in 2017, for health care providers, are scale is important. We're going to see ongoing consolidation and conversions, lowering unit costs is tremendously important, being able to build capabilities to participate in alternatives payment models, at risk payment models, and ultimately, the successful companies will be able to manage clinical and financial risk. It doesn't mean health provider needs to be an insurance company, but they need to manage both sides of clinical and the cost of care, the financial part, effectively. And those who do that well will be rewarded and grow and those who are ineffective at managing clinical and financial risk will continue to struggle and may be overtaken.

James VanOsdol: For more on trends impacting the life sciences and the health care ecosystem in 2017, visit <http://www.Deloitte.com/US/LSHC-Outlooks> and follow @DeloitteHealth on Twitter. Stay connected to Mitch by following him on Twitter, @DrMitchMorris. That's DrMitchMorris.

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