



Health Care Reform: New Perspectives on Contracting and Partnerships

*A nationwide survey of contracting executives in hospitals,
health plans and multi-specialty physician groups*

Overview

Health care reform is creating major changes in the way health care organizations handle managed care contracting. To better understand these changes and how they are occurring, Meyer Consulting contacted 360 executives responsible for contracting in health care organizations nationwide. Survey respondents included both physician and non-physician executives who are responsible for contracting and/or network development. On the provider side, respondents came from large, multi-state hospital systems, for-profit hospital chains, stand-alone hospitals and multi-specialty physician groups. On the health plan side, respondents worked for national, regional and state-wide payors, including those in the not-for-profit, private and publicly-traded sectors. Following is a summary of our findings.

Executive Summary

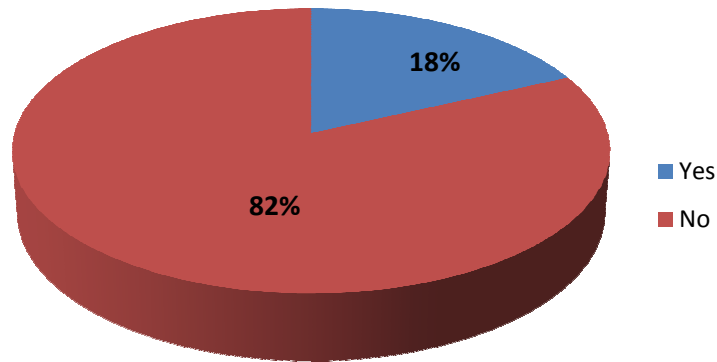
- 82% of our respondents felt that hospitals cannot cost shift at the current level from public to private payors indefinitely.
- On average, respondents believed that 15% cost-savings can be taken out of the healthcare system in the next three years without substantially impacting quality. With total US healthcare expenditures at nearly \$3 trillion, this dollar amount of cost savings is enough to fund much of the cost of Health Care Reform legislation.
- Our respondents made it apparent that health plans are an appropriate partner for hospitals and physicians. 55% responded that the most essential partnership is between hospitals, physicians and health plans. Both provider and health plan executives believe that provider-health plan partnerships allow for better alignment of incentives in the financing of health care. Given the historic adversarial relationship, this implies that the way health plans interact with the provider community will change.
- 100% of respondents are using at least one alternative reimbursement model such as Accountable Care Organizations (ACOs), Pay-for-Performance or Contract Capitation.
- 86% of managed care contracting executives said that their organization is either involved in or considering an ACO.
- Our survey showed that most (59%) believe Health Care Reform will hurt their organization. This answer was much more common from provider respondents than it was from health plan respondents.
- 38% of our respondents are making changes to their contracting staff in response to Health Care Reform, adding clinical and financial bench strength.

Survey Findings

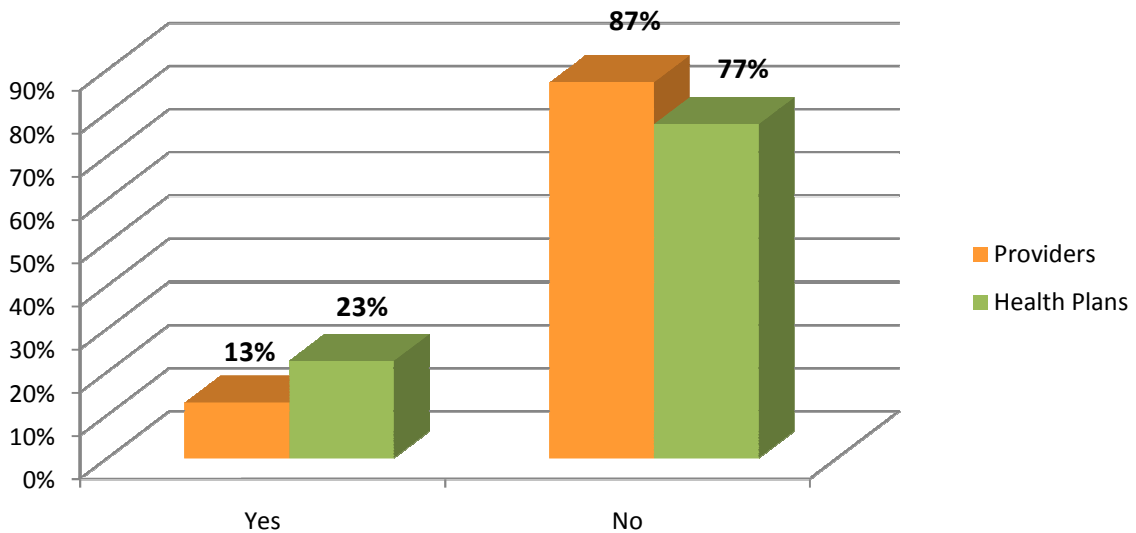
Do you believe that hospitals can cost shift at current levels from public to private payors indefinitely?

As a whole, the large majority (82%) of respondents felt that hospitals cannot cost shift from public to private payors indefinitely. Responses from the provider and payor groups, though, differed by 10%; more health plan respondents believe that hospitals can continue to cost shift at this level.

All Respondents



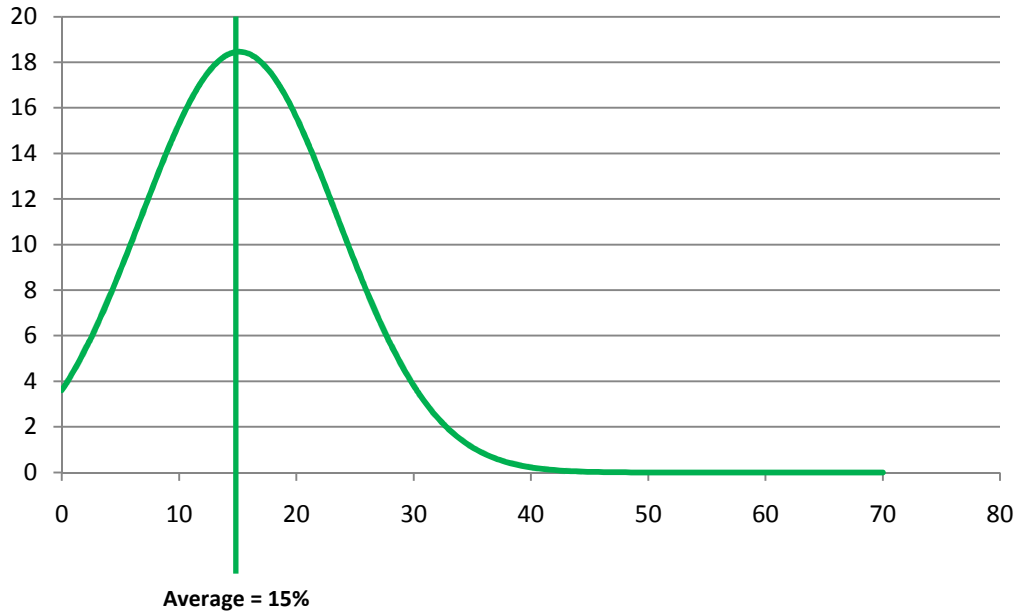
Providers vs Health Plans



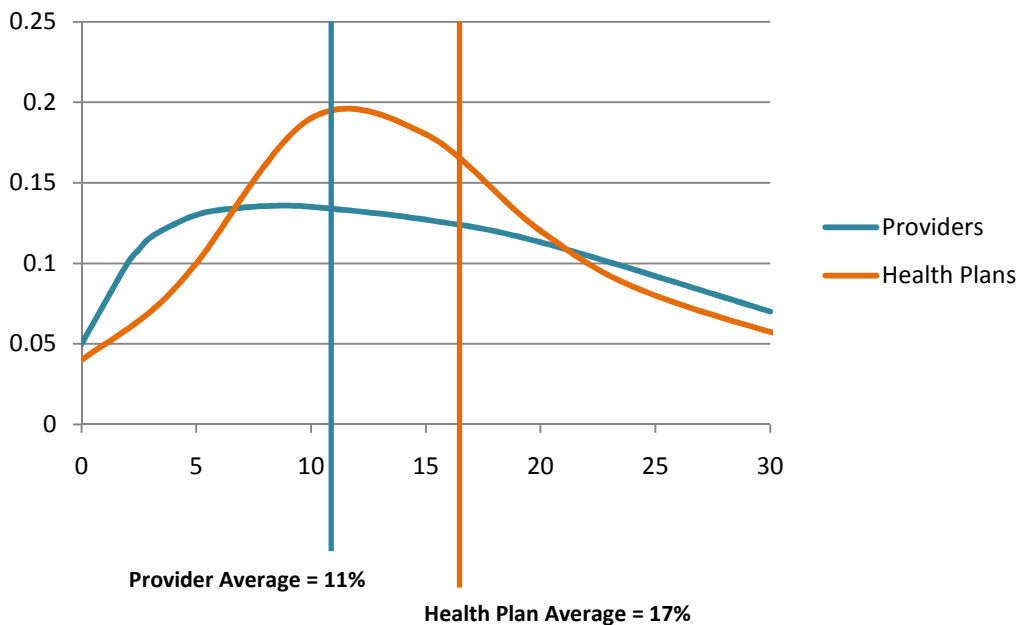
What percentage of cost-savings do you believe can be taken out of the healthcare system in the next three years without substantially impacting quality?

The mean response to this question, from all those surveyed, was a cost-savings of 15%. The response from the health plan and provider side differed significantly. Provider employees felt that 6% more can be taken out of the system.

All Respondents

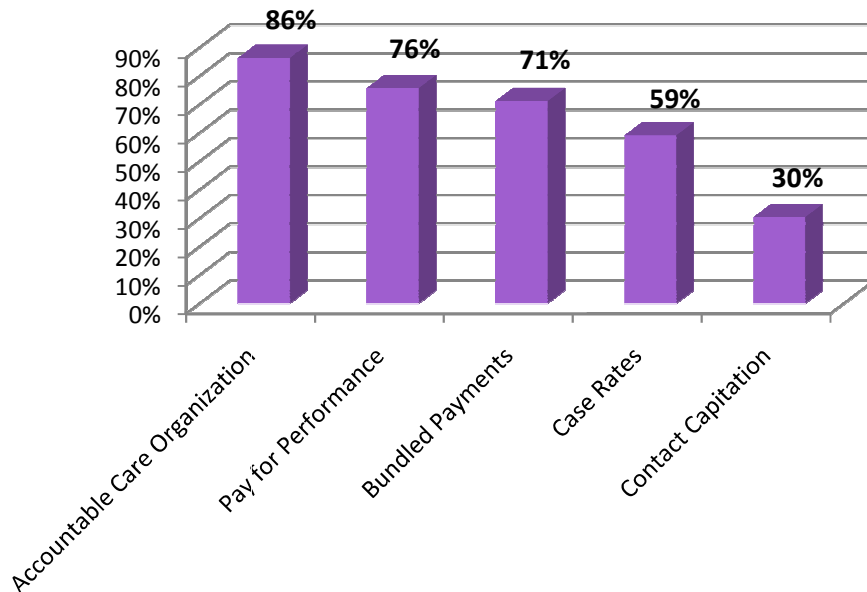


Providers vs Health Plans



What types of alternative contracting approaches are you considering?

Nearly all respondents (86%) are involved in or considering an Accountable Care Organization. At 76%, Pay-for-Performance is a close second. 100% of our respondents are involved in at least one of the alternative contracting approaches listed below.



“We are contracting with PCPs on a pay-for-outcomes basis using a health improvement model focused on the engagement between the PCP and our patients, which ultimately empowers the patients to improve their total health status. The model focuses on five key measures that are intended to address three of the top five diseases that kill.” – *Multi-Specialty Physician Group Respondent*

What are the top two things you are thinking about or doing to position your organization for Health Care Reform?

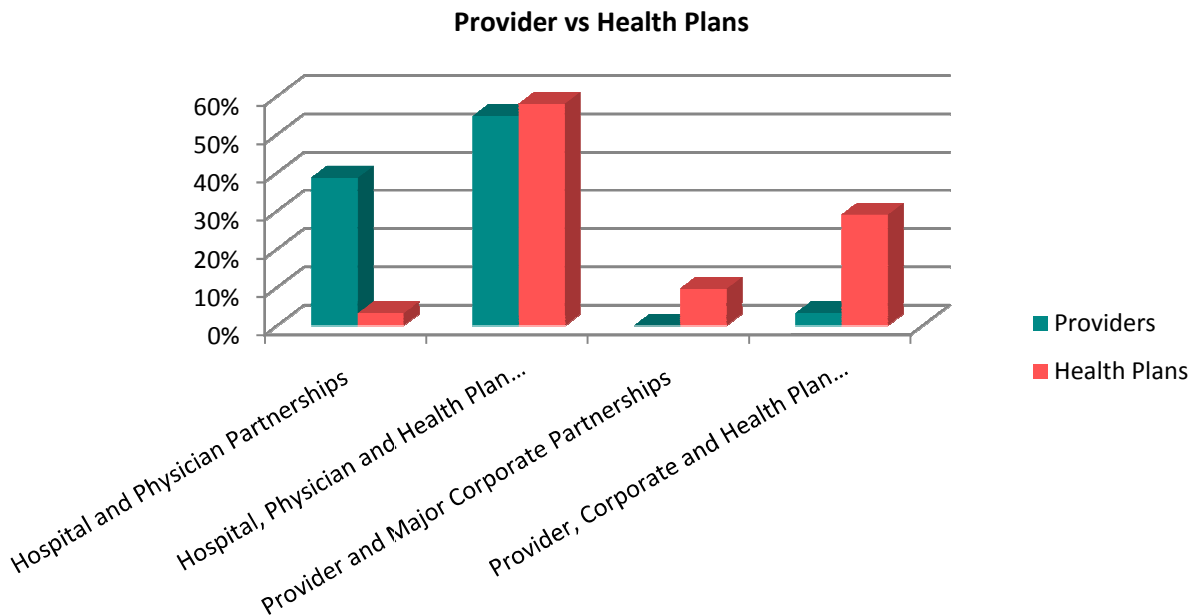
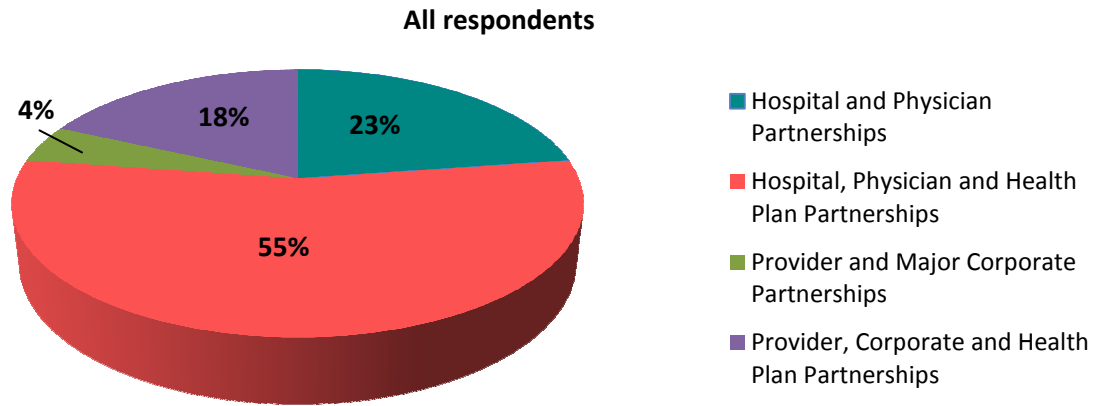
The resounding common answer to this question was the creation of or preparation for Accountable Care Organizations. Nearly half of the provider respondents gave this answer. Payment reform in general was a theme, with Pay-for-Performance being the second-most common answer.

After ACO, provider responses to this question varied greatly. Some were planning to expand service lines; others were “right sizing.” Many cited the need to pick the right partners/alliances, reduce costs and physician integration to position their organizations correctly. Revising physician compensation, risk sharing and better use of technology were also cited.

Health plan executives were more focused in their responses. Expanding services with new products/exchanges and new approaches to contracting/partnering were often cited. Shifting costs to providers, reducing costs and better use of technology were also cited.

In preparing your organization for health care reform, which of these partnerships will be the most essential? Why?

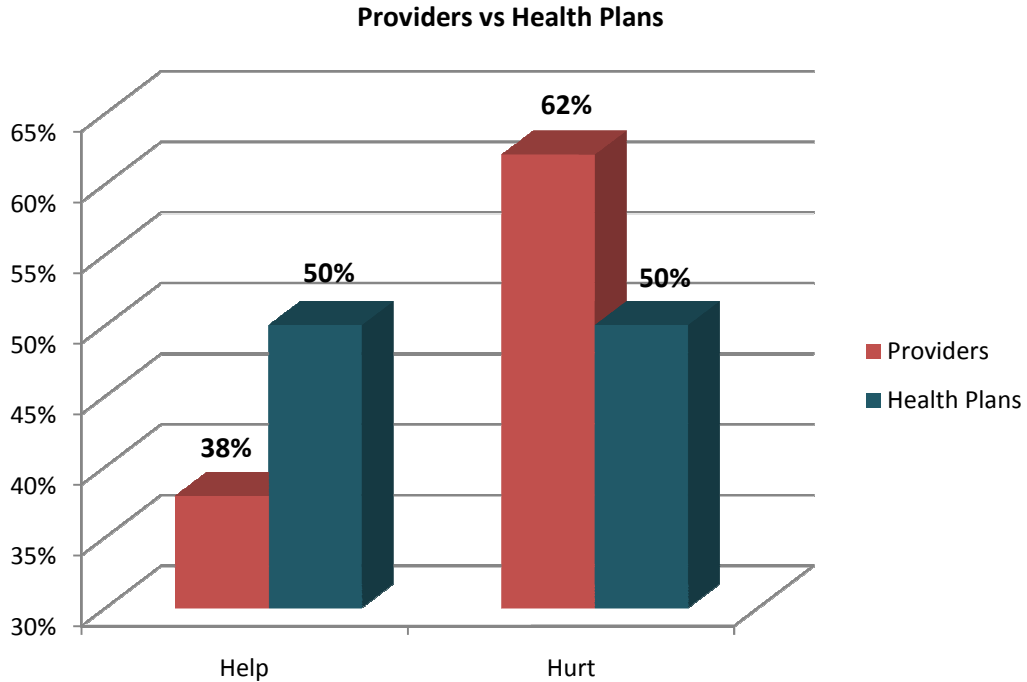
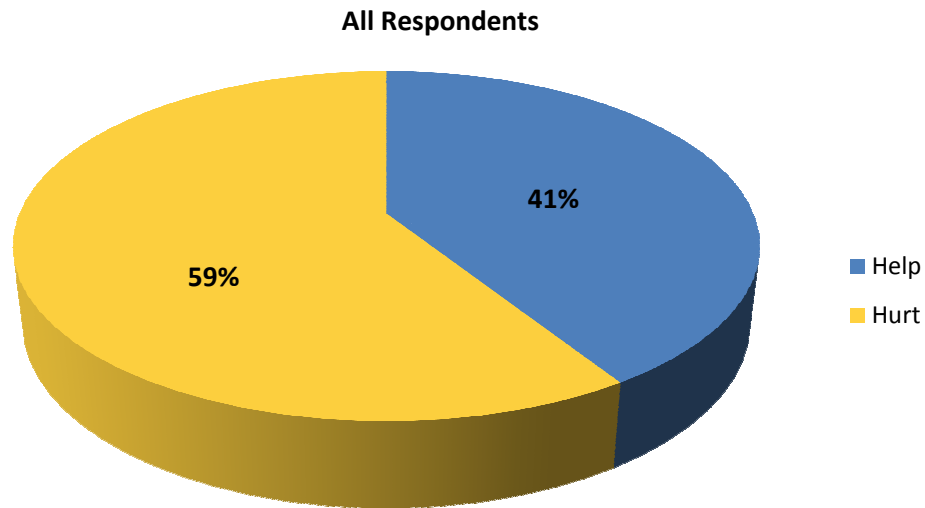
By far, the most common answer to this question was Hospital, Physician and Health Plan partnerships.



“Hospital and physician partnerships are obvious...hospitals need the physicians’ cooperation to drive more effective and efficient outcomes. The health plan partnership will need to evolve to align financial incentives equitably and appropriately. It will be a challenge to change from the current adversarial partnership of necessity to one that is collaborative.” – *Health Plan Respondent*

Do you believe Health Care Reform will help or hurt your organization?

The majority (59%) of the healthcare contracting executives polled felt that Health Care Reform was going to hurt their organization. This response was much more common on the provider side, with 62% of provider respondents versus only 50% of health plan respondents.



Methodology

In conducting this survey, Meyer Consulting contacted 360 executives over contracting in hospitals, health systems, multi-specialty provider groups, and health plans. The survey was conducted electronically from September 27th to October 17th, 2010. The survey achieved an 18.3% response rate. Those polled oversee the managed care contracting function for their organization. This includes those directly responsible for the function such as Vice Presidents of Managed Care Contracting or Network Development, as well as those who oversee the function at a higher level such as Chief Medical Officers or Senior Vice Presidents of Healthcare Services. Approximately half of the respondents work for provider organizations and the other half for payors.

Meyer Consulting

Meyer Consulting has over 60 years of combined experience serving healthcare organizations. Our company brings the resources of large executive search and consulting firms together in a boutique firm to offer high-touch, personal service. Meyer Consulting focuses on the unique characteristics of your organization and its culture to ensure our candidates, partnership and strategic solutions maximize your business objectives.

Executive Search

The team at Meyer Consulting understands the changing landscape of healthcare today and takes a personalized approach to finding leaders that embody this change. Our senior level executive search practice focuses on searches for President, CEO, COO, CFO, Chief Contracting/Network Development Executive, Chief Sales/Marketing Officer, Chief Medical Officer and other Physician Executives, and Senior Management in Medical/Hospital Administration. We can also assist you with your interim management needs.

Partnership Development and Market Intelligence

With health care reform, partnerships among health plans, hospitals and physicians will increasingly become the norm. Meyer Consulting provides executive level consulting services to facilitate the business relationships and define the resources necessary to build effective partnerships. We conduct primary research with our extensive network of contacts in the healthcare industry to assist organizations in better understanding the nuances of these arrangements. Meyer Consulting can assist you in creating strategic relationships, understanding your market and strategically positioning your business for success.

For more information on this survey or our services, please contact Mike Meyer (602/321.0753) or Katie Haddock (480/242.0442) or visit our website at www.meyerconsultinginc.com.

Meyer Consulting, Inc.
5900 N. Granite Reef Road, Suite 100
Scottsdale, AZ 85250
Phone: 480/242.0442
Website: www.meyerconsultinginc.com