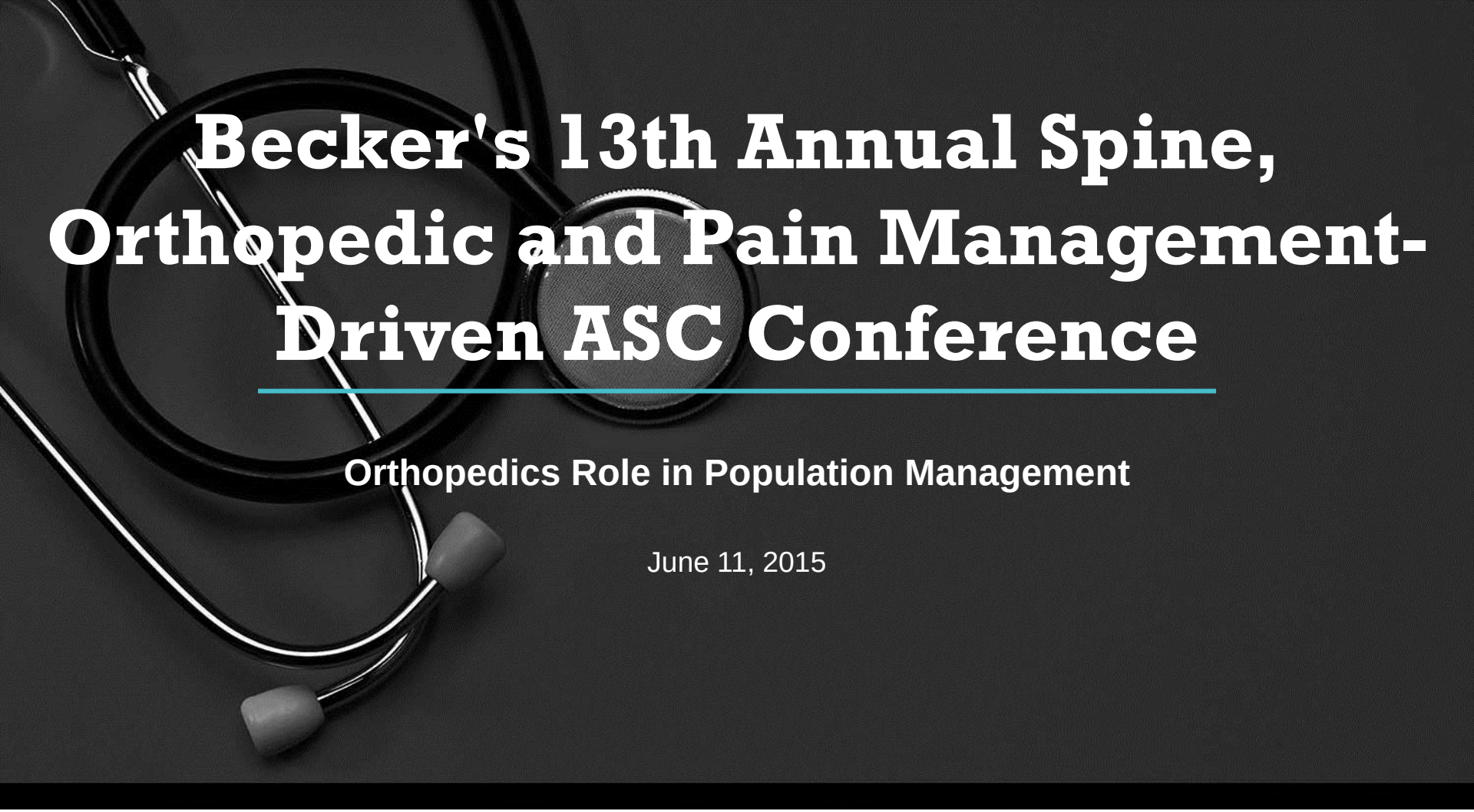

Becker's 13th Annual Spine, Orthopedic and Pain Management-Driven ASC Conference

Orthopedics Role in Population Management

June 11, 2015

ECG MANAGEMENT CONSULTANTS

LEADING HEALTHCARE FORWARD

Our Speakers

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Agenda

I. The Burning Platform
II. The Value-Based Proposition
III. Value in Action
IV. Closing Remarks

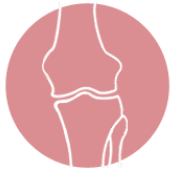
I. The Burning Platform

I. The Burning Platform

Drivers of Change

Patient Demographics

- Patients demanding quicker return to home after procedure
- Elderly and obese population driving increased joint replacement and fracture volumes
- Increasing activity rates leading to increased joint replacement and sports medicine volumes



Clinical

- Trends in technology, rehabilitation, and anesthesia allowing more outpatient capabilities
- Advancements allowing for earlier intervention with partial joint replacement and expansion to older and sicker patients

Market

- Poor economic conditions reducing ability to pay and willingness to undergo elective therapy
- Increasing scrutiny on appropriateness of care possibly restraining some volume growth
- Reimbursement shifting to align with payor demands, including bundled payment initiatives

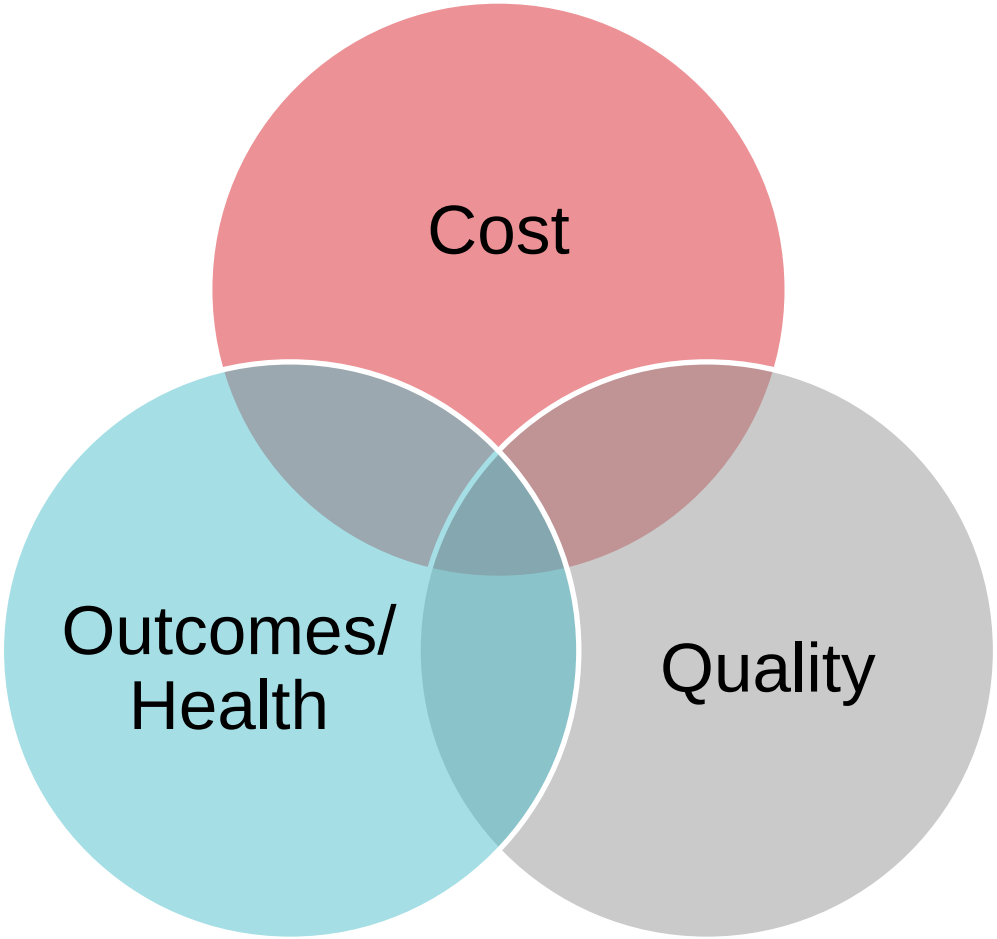
Providers

- Aging workforce, with younger physicians seeking more work/life balance
- Demand for access to subspecialty orthopedics
- Increasing utilization of advanced practice clinicians (APCs) in some markets, but other markets slow to adopt

I. The Burning Platform

End Game

Success will be measured by the service line's ability to achieve the "triple aim."



II. The Value-Based Proposition

II. The Value Proposition

Key Components of a Value-Based Service Line

THE VALUE-BASED ENTERPRISE

INTEGRATED

Dismantling silos to better coordinate care, align resources, and rally providers around a shared goal of high-quality care.

SCALED

Exercising operating leverage, expansion potential, and the ability to achieve economies of scale.

RATIONALIZED

Balancing care quality, efficiency, accessibility, and cost in (re)distributing service lines.

INFORMED

Managing and leveraging relevant data to make key clinical and organizational decisions.

RESPONSIVE

Harnessing change and using it to drive organizations forward.

II. The Value Proposition

Achieving an Integrated Service Line

INTEGRATED

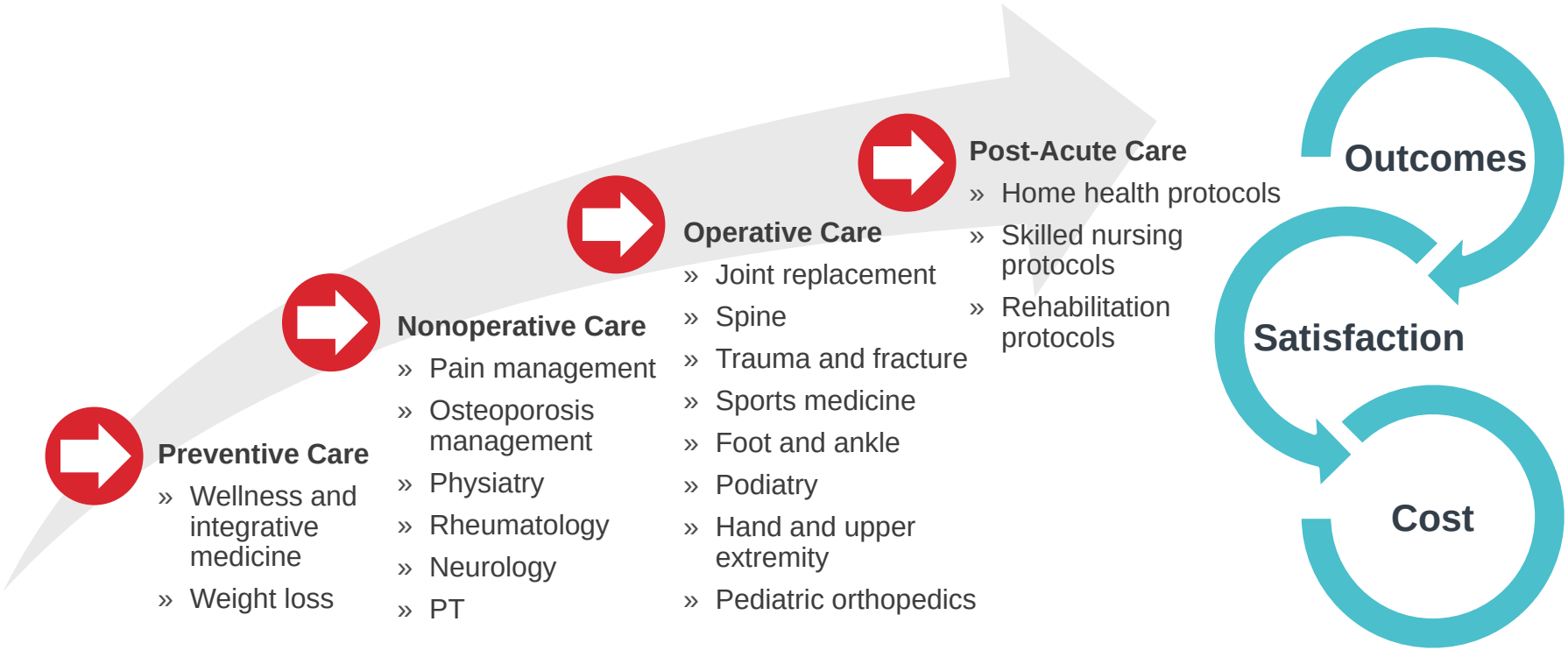
Key Components

- ***Clinical Integration*** — seamless, standardized, and coordinated care across providers and settings
- ***Financial Integration*** — shared financial data, resources, risk, and rewards

II. The Value Proposition

Achieving an Integrated Service Line *(continued)*

Organizations are shifting primary focus from the acute episode to the total cost of care across the pre- and post-acute care continuum.



Understanding the value proposition as it relates to outcomes, satisfaction, and cost will be an important differentiator in markets with extreme competition among orthopedic services.

II. The Value Proposition

Scaled Service Lines

SCALED

Key Components

- Financial scale
- Operating scale
- Covered lives and population health competencies
- Market coverage

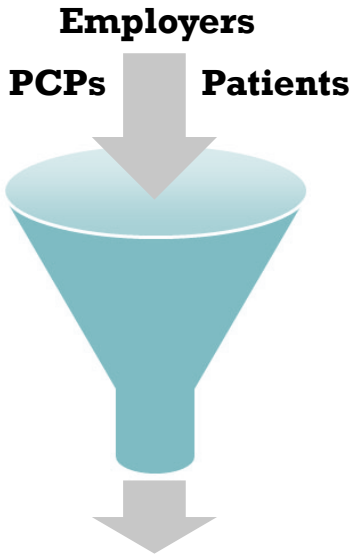
II. The Value Proposition

Scaled Service Lines *(continued)*

Integrated service lines are focused on capturing 100% of all referrals, regardless of a patient's condition or injury, with an emphasis on patient satisfaction.

Key Characteristics

- Referral protocols and education
- Triage system to put the patient in the care of the most appropriate provider
- High degree of focus on customer service to patients and referring providers
- Alignment of financial incentives with program goals and payment methodologies



- Arthritis
- Osteoporosis
- Fractures
- Chronic pain (e.g., back, foot and ankle)
- Sports injuries
- Hand injuries
- Others

Nonoperative Evaluation and Management

- APC support
- Pain management/physiatry
- Family medicine/sports fellowship training
- Rheumatology
- Physical and occupational therapy

Surgical Intervention

- Fracture care
- Joint replacement
- Hand and upper extremity surgery
- Arthroscopic surgery and sports medicine
- Spine

Post-Acute Care

- APC support
- Physical and occupational therapy
- Pain management
- Skilled nursing facilities
- Home health agencies

II. The Value Proposition

Rationalized Service Lines

RATIONALIZED

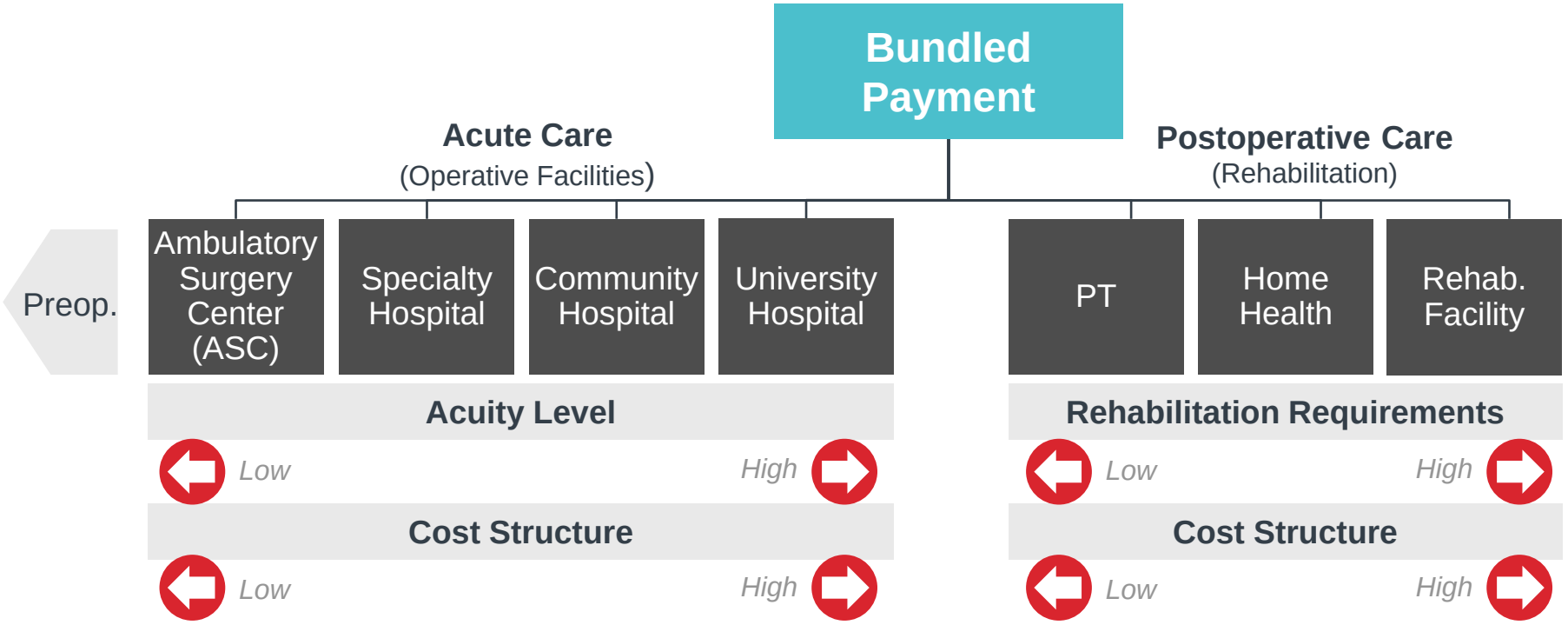
Key Components

- Contained costs
- Enhanced efficiency
- Optimized resource utilization
- High-quality care provided in the most accessible, efficient manner
- Reduced redundancies

II. The Value Proposition

Rationalized Service Lines — Demand Matching

Organizations are adopting the concept of demand matching[1] for the selection of total joint implants and applying a similar logic to determine the most appropriate setting of care to maximize the effectiveness of the bundled payment.



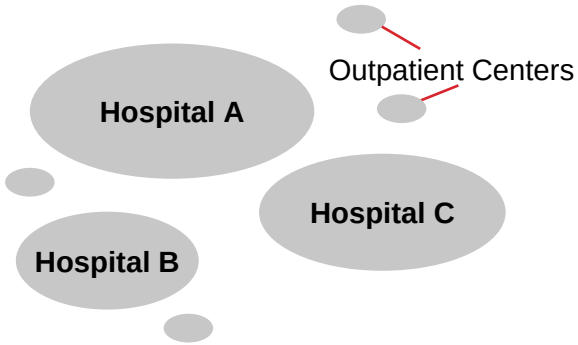
Source: Rothman Institute.

[1] Demand matching means selecting the appropriate implant (facility) based on five demand categories: age, weight, expected activity, general health, and bone stock (Lahey Clinic,1995).

II. The Value Proposition

Rationalized Service Line Models

Before



Features

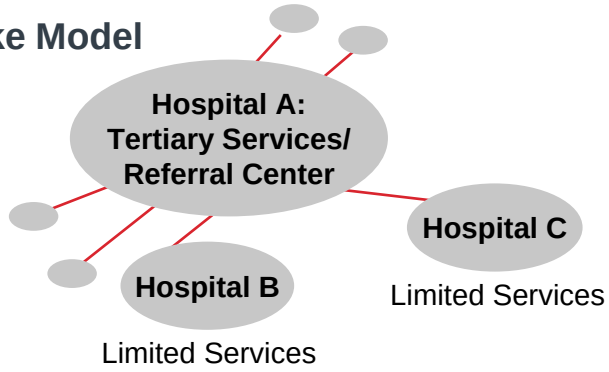
- No coordination among facilities
- Duplicative services
- Occasional turf wars

After

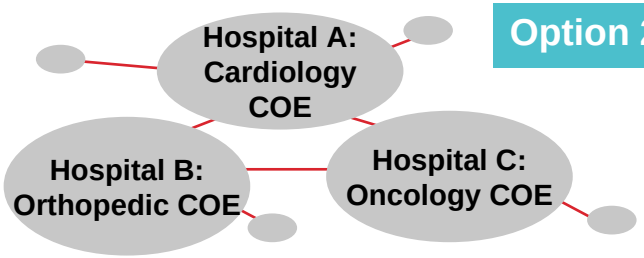
Option 1: Hub-and-Spoke Model

Features

- Limited services for selected specialty at spoke hospitals
- Coordination between the hub and its spokes



Option 2: Distributed Model



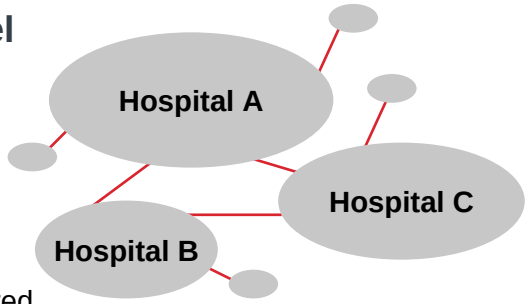
Features

- Specialty focus (Center of Excellence [COE]) varying by location
- Consistent policies and protocols within a service line

Option 3: Coordinated Model

Features

- Performance measured at the network rather than facility level
- Service lines coordinated across hospitals
- Relocation/consolidation considered based on a business case



II. The Value Proposition

Rationalized Service Lines Versus Regionalization

Build Cultural Readiness

- » Use data to create a platform for change.
- » Link culture to broader organizational strategies.
- » Incentivize physicians to help build a more dynamic culture.
- » Develop a compelling case for regionalization of service lines.

Establish Clear Ground Rules and Transparent Decision-Making Criteria

- » Establish the decision-making path and criteria to communicate an unbiased, stakeholder-inclusive, and system-centric approach to service distribution.

Organize Efforts by Service Line; Start With Greatest Opportunities

- » Build a business case for redistributing a service line; take manageable steps toward implementing regionalization strategies.

Include and Engage Stakeholders at All Levels

- » Engage stakeholders at all levels to address questions and concerns and create win-win scenarios for those who are directly impacted.

II. The Value Proposition

Informed Service Lines

INFORMED

Key Components

- Understanding of potential drastic shifts in payment environment
- A strong grasp on local market dynamics
- Well-leveraged data and information sources

II. The Value Proposition

Responsive Service Lines

RESPONSIVE

Key Components

- Nimble, proactive decision making
- Well-informed leadership
- Effective, contemporary management structure

III. Value in Action

III. Value in Action

Three Case Studies

The following slides detail the successes of three health systems and their methods for meeting the challenge of enhanced value.

A Success Story	A unique joint venture between a hospital and musculoskeletal physicians achieves the Triple Aim.
Regionalization	A health system pursues value by implementing Porter and Lee's value agenda.
Comanagement	A health system starts small to catch up to the industry's focus on reduced costs and improved quality.

III. Value in Action

A Success Story — Hoag Orthopedic Institute

Hoag Orthopedic Institute (HOI) is a joint venture that owns:

Hoag Orthopedic Hospital

A 70-bed, 9-OR orthopedic specialty hospital.

Hoag Orthopedic Institute

Orthopedic Surgery Center of Orange County

An ASC connected to Newport Orthopedic Institute; 100% owned by HOI.

ORTHOPEDIC SURGERY CENTER OF ORANGE COUNTY

Main Street Specialty Surgery Center

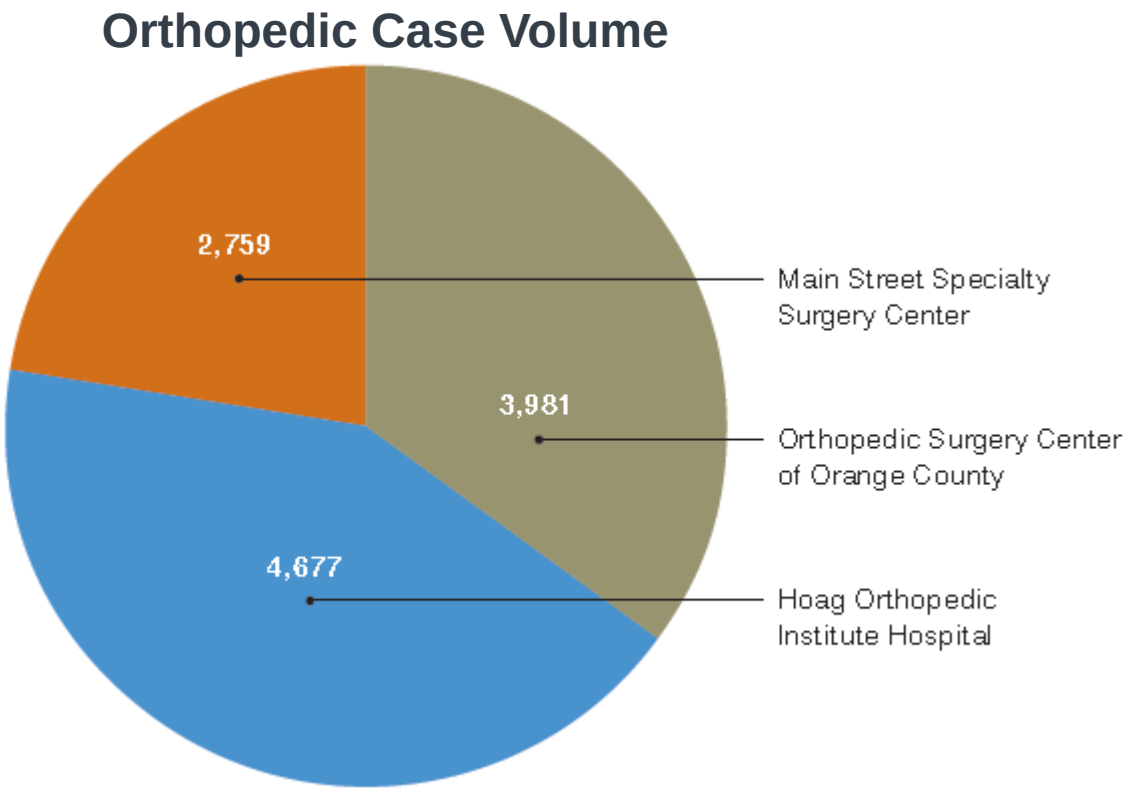
An ASC connected to the Orthopaedic Specialty Institute; 83.1% owned by HOI.

Main Street Specialty SURGERY CENTER

III. Value in Action

A Success Story – High Volume

HOI has the highest volume of joint replacement procedures in California and is responsible for 51% of the hip and knee replacements in Orange County



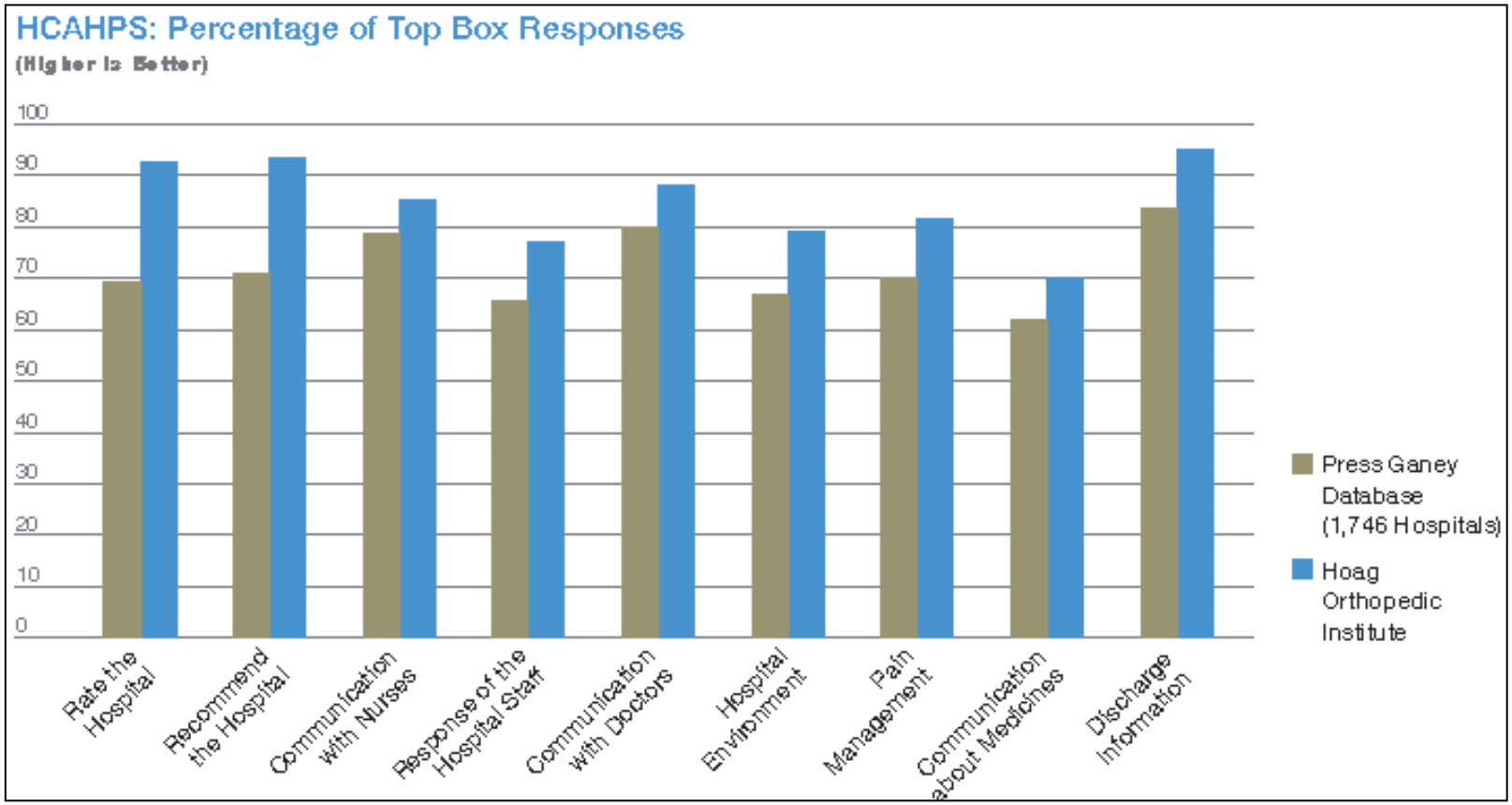
NOTE: The two surgery centers combined have a total volume of approximately 11,000 procedures (approximately 7,000 orthopedic, 3,000 pain management, and 1,000 other non-orthopedic).

Source: HOI 2014 Annual Outcomes Report, *www.hoioutcomes.com*.

III. Value in Action

A Success Story — Achieving Patient Satisfaction

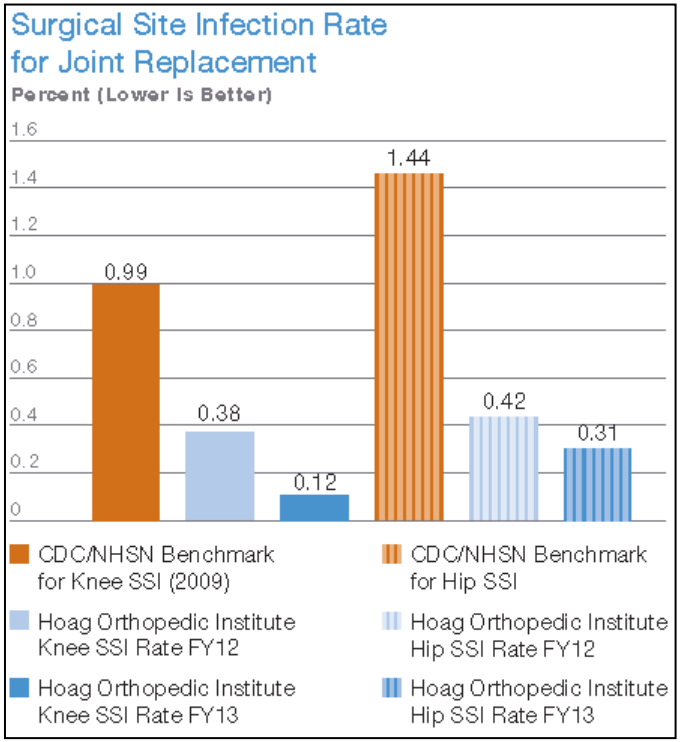
HOI ranks in the nation's top 1% with respect to patients' willingness to recommend the hospital, based on Press Ganey Associates, Inc., data.

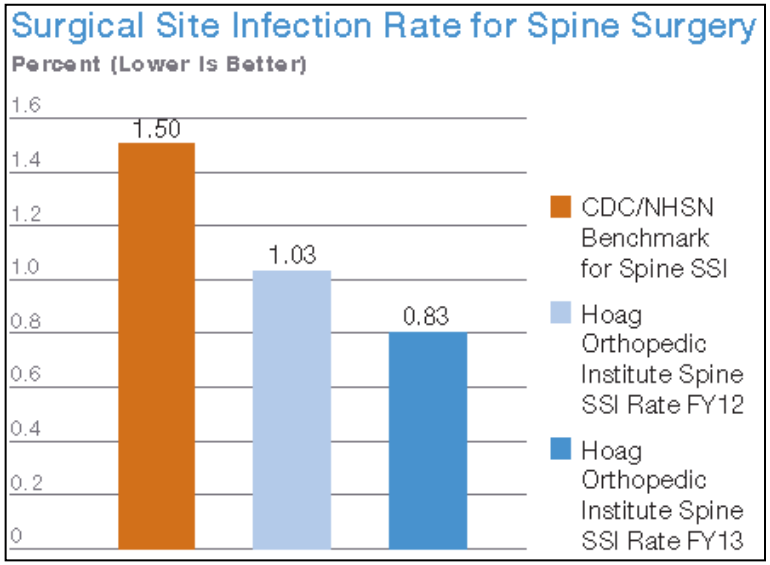


Source: Press Ganey surveys, July through September 2013.

III. Value in Action

A Success Story — Improving Quality





Sources: HOI, Infection Prevention Dashboard Summary Report FY 2013; Association for Professionals in Infection Control and Epidemiology (APIC), Guide to the Elimination of Orthopedic Surgical Site Infections, December 2009.

	Knee	Hip
National Infection Rate	0.99%	1.44%
HOI Infection Rate	0.12%	0.31%
Difference	0.87%	1.13%
HOI Inpatient (IP) Cases	× 1,576	× 1,241
Saved Cases	14	14

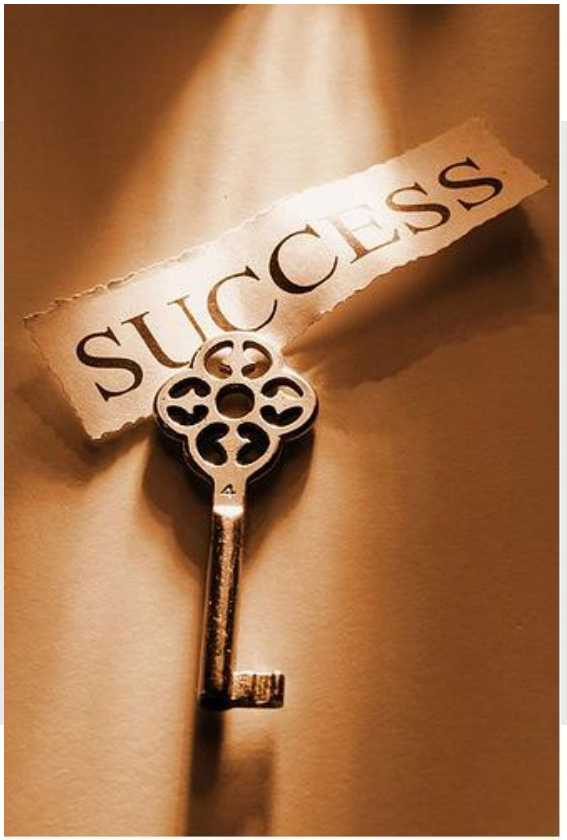
NOTE: Figures may not be exact due to rounding.

Total Saved Hip and Knee Infections:	28
Cost to Treat Hospital-Acquired Infection:	$50,000
Annual Avoided Costs:	$1.4 Million

III. Value in Action

A Success Story – Why Is It Working?

- Alignment of goals and incentives
- Direct management by those with the most knowledge
- Clarity and focus by all participants
- Resources designed for specific medical conditions
- Belief in the vision
- The power of early success
- Clear and compelling rewards

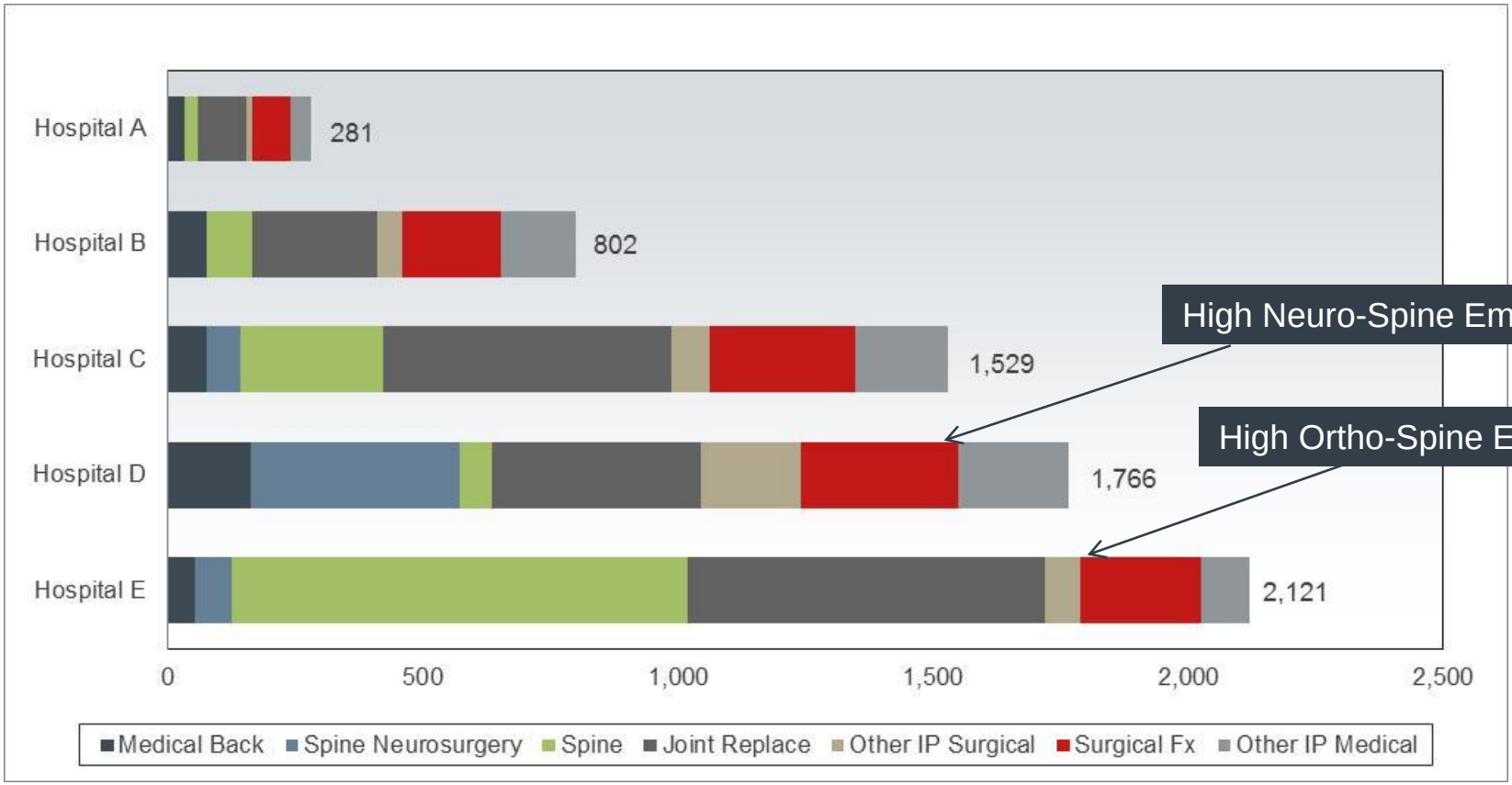


III. Value in Action

Regionalization – Integrating Across Facilities

Musculoskeletal services are provided at this system's five IP facilities and several ASCs that are majority-owned by system members

IP Volume by Hospital

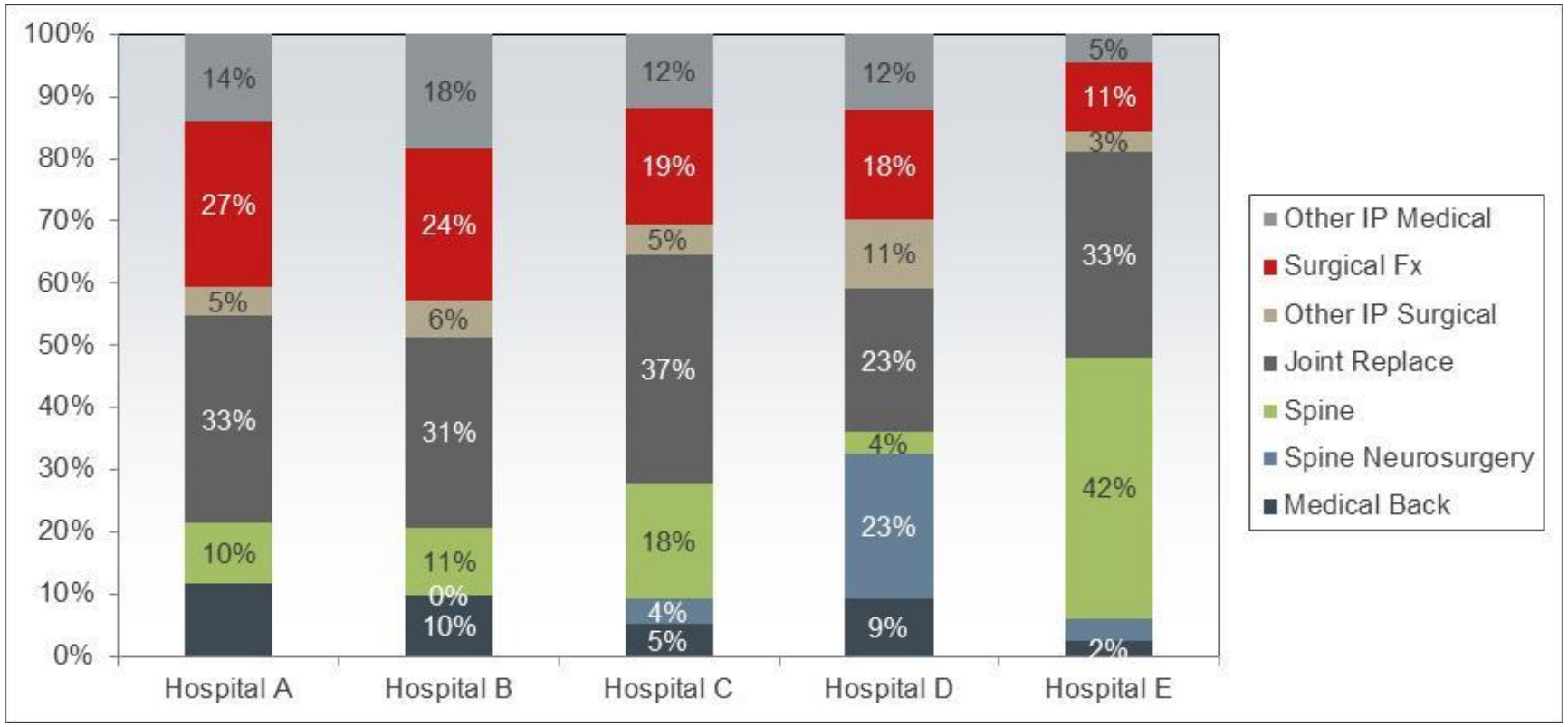


III. Value in Action

Regionalization — Distribution of Surgical Services

Specialization existed at some of the hospitals for spine cases, but each hospital provided all other musculoskeletal subspecialties.

Musculoskeletal Services Distribution by Hospital

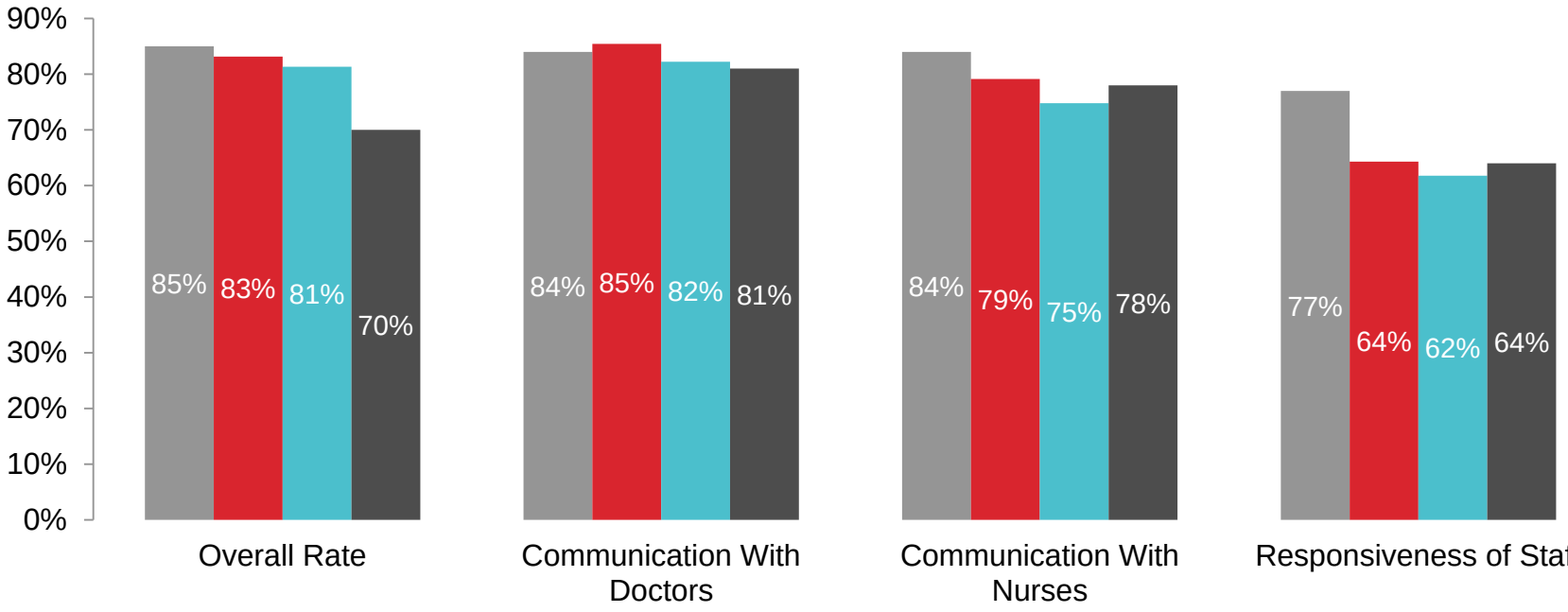


III. Value in Action

Regionalization — Patient Satisfaction

A comparison of the patient satisfaction data to national benchmarks suggested that the system performs above peer levels, while the differences in scores among the hospitals suggested opportunities to improve through collaboration.

Comparison of Patient Satisfaction Scores



III. Value in Action

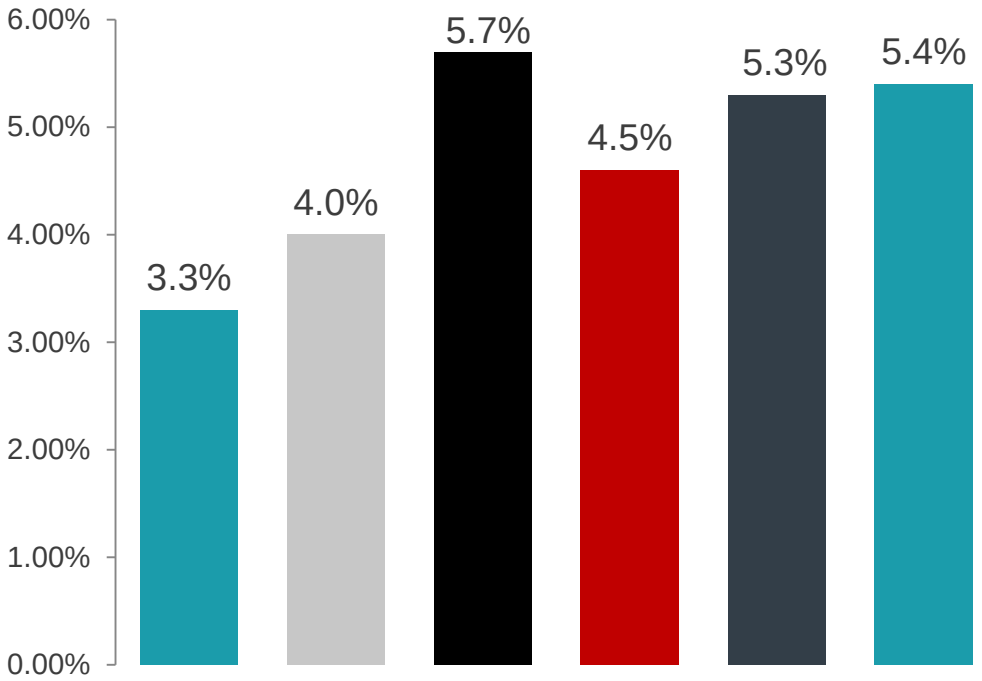
Regionalization — SSI and Readmission Rates

The readmission rates for most of the hospitals was below the national average, but the variance among the hospitals suggested opportunities to share best practices.

Surgical Site Infections

	2012	2013
Knee		
Hospital A	0.68%	0.32%
Hospital B	0.85%	0.77%
Hospital C	0.00%	N/A
Benchmark	**0.86%**	
Hip		
Hospital A	0.88%	0.34%
Hospital B	1.62%	1.58%
Hospital C	0.77%	N/A
Benchmark	**0.90%**	

Readmission Rate After Knee or Hip Surgery



III. Value in Action

Regionalization — Direct Cost Per Case

Direct costs among IP facilities varied significantly, as one hospital's costs could be 1.5 to 2 times higher than another hospital in the system.

Comparison of Total Direct Cost Per Case for Top DRGs

DRG	DRG Description	Mean	Minimum	Maximum	Variance
454	Combined anterior/posterior spinal fusion w CC	$42,309	$30,290	$46,926	$16,636
460	Spinal fusion exc cerv w/o MCC	$19,983	$15,872	$23,148	$7,276
467	Revision of Hip or Knee Replacement w CC	$17,556	$14,192	$22,808	$8,616
470	Major Joint Replacement or Reattachment of Lower Extremity w/o MCC	$12,210	$9,813	$16,619	$6,806
472	Cervical spinal fusion w CC	$14,549	$10,882	$21,402	$10,520
473	Cervical spinal fusion w/o CC/MCC	$12,994	$9,790	$17,435	$7,645
481	Hip & Femur Procedures Esc. Major Joint w CC	$11,244	$9,076	$12,494	$3,418
482	Hip & Femur Procedures Esc. Major Joint w/o CC MCC	$8,857	$7,369	$10,092	$2,723
491	Back and neck procedures except spinal fusion w/o CC/MCC	$6,879	$5,102	$8,329	$3,227
494	Lower Extrem & Humerus proc Exc. Hip, Foot, Femur w/o CCMCC	$8,724	$7,164	$10,589	$3,425
552	Medical back problems w/o MCC	$4,292	$1,834	$5,350	$3,516
563	FX, Sprain, Strain & Dis. Exc. Femur, Hip, Pelvis & Thigh w/o MCC	$3,883	$1,165	$5,840	$4,675

III. Value in Action

Regionalization — LOS

The variation in LOS by DRG suggested that there were opportunities to lower costs and improve the patient experience if best practices were shared.

Comparison of LOS

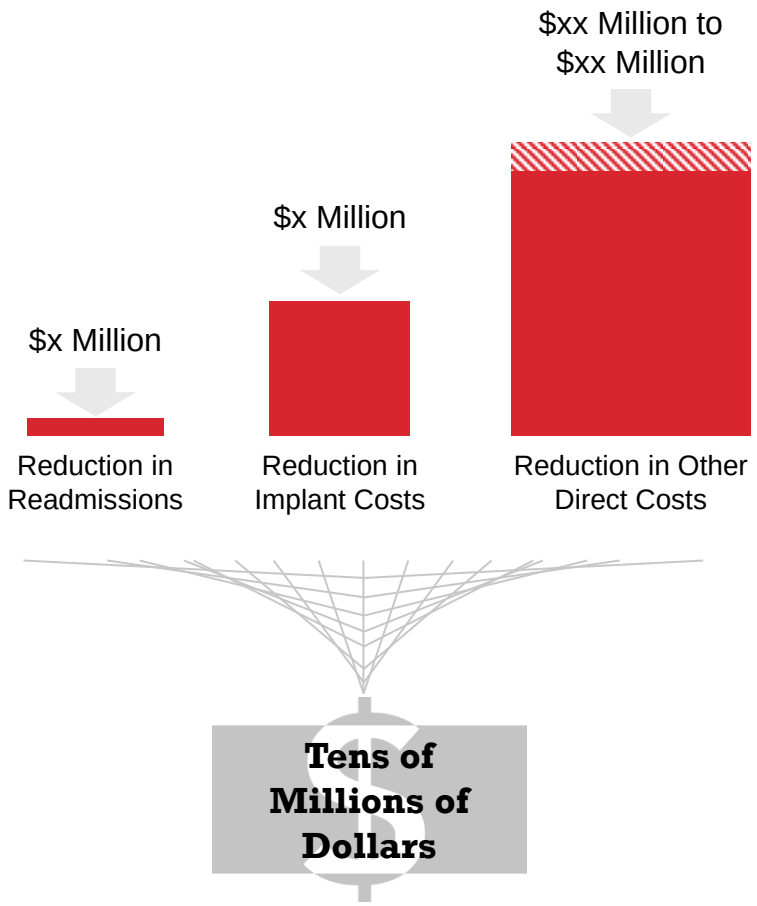
DRG	DRG Description	Mean	Minimum	Maximum	Variance
454	Combined anterior/posterior spinal fusion w CC	5.4	3.8	7.8	3.9
460	Spinal fusion exc cerv w/o MCC	3.2	2.5	4.1	1.5
467	Revision of Hip or Knee Replacement w CC	3.8	2.8	4.7	1.8
470	Major Joint Replacement or Reattachment of Lower Extremity wo MCC	2.7	2.3	3.3	1
472	Cervical spinal fusion w CC	2.1	0.9	3.5	2.5
473	Cervical spinal fusion w/o CC/MCC	1.6	1.2	1.9	0.6
481	Hip & Femur Procedures Esc. Major Joint w CC	4	3.3	5	1.6
482	Hip & Femur Procedures Esc. Major Joint w/o CC MCC	3.2	2.6	3.9	1.2
491	Back and neck procedures except spinal fusion w/o CC/MCC	1.6	1	2.2	1.1
494	Lower Extrem & Humerus proc Exc. Hip, Foot, Femur w/o CCMCC	2.3	1.8	2.6	0.7
552	Medical back problems w/o MCC	2.8	1.2	4.5	3.2
563	FX, Sprain, Strain & Dis. Exc. Femur, Hip, Pelvis & Thigh w/o MCC	2.6	0.9	4.8	3.8

III. Value in Action

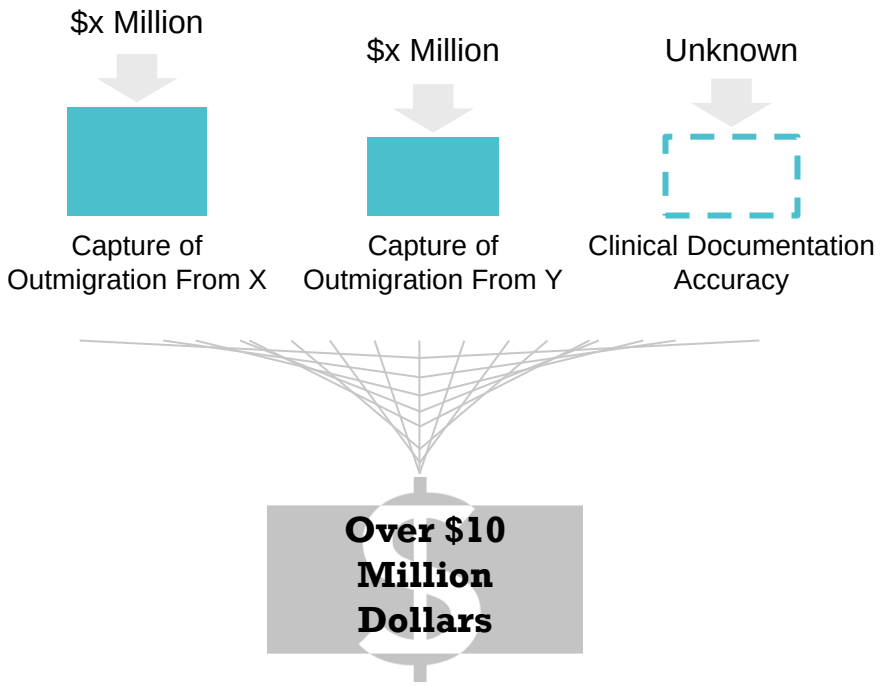
Regionalization – Financial Opportunity

The opportunity for savings and revenue enhancement was substantial.

Cost Reductions/Efficiencies



Revenue Enhancement

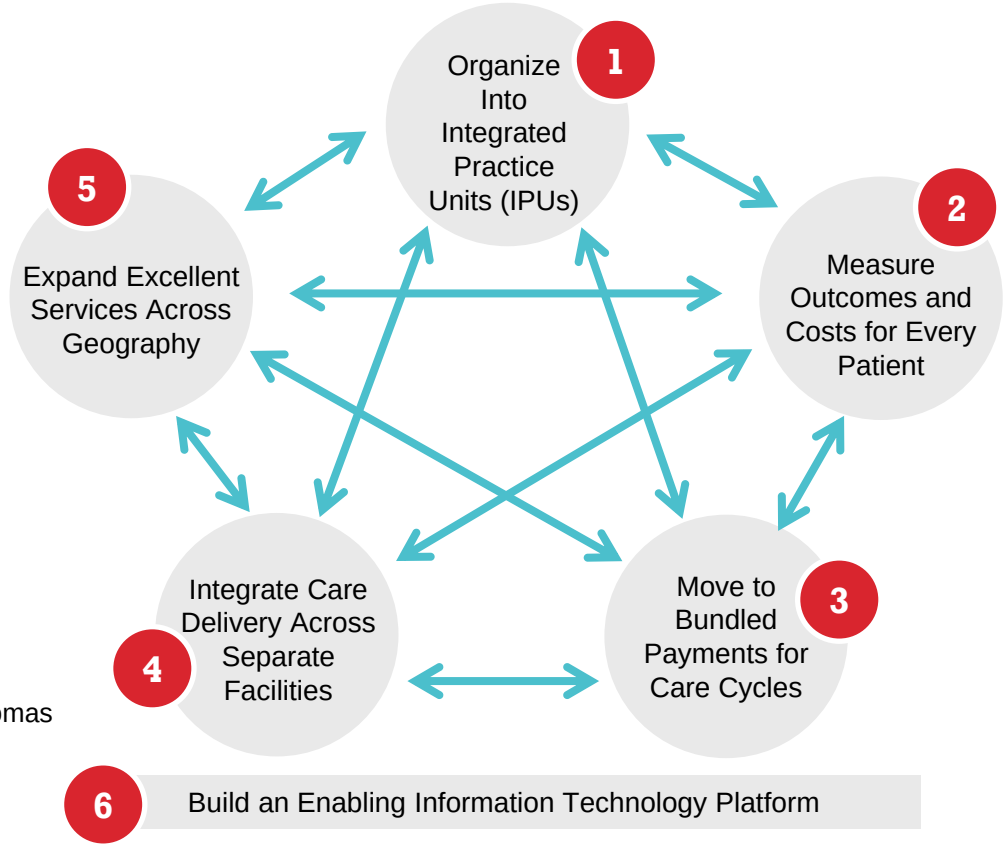


III. Value in Action

Regionalization — Continuous Progress — Porter and Lee

The strategic agenda for moving to a high-value healthcare delivery system contains six interdependent and mutually reinforcing components. Progress will be greatest if multiple components are advanced together.

The Value Agenda



Source: Michael E. Porter and Thomas H. Lee, "The Strategy That Will Fix Health Care," *Harvard Business Review*, October 2013.

III. Value in Action

Regionalization — Overcoming Barriers

The self-interests of many different types of stakeholders can derail a regionalization initiative.

Stakeholder	Concern	Potential Solution
Hospital Board Members	Harmful financial impact on their hospital if services it provides are reduced.	Provide a transition period during which time each hospital shares in the financial improvements of the regional service line based on its baseline share of the service line.
Hospital Administrators	Negative impact to compensation or reputation as a result of deteriorating hospital performance caused by reduction of profitable services at their hospital.	Realign incentive compensation to be based on regional performance and assign hospital leaders with regional service line responsibilities in addition to their facility responsibilities to expand their focus and opportunities for recognition.
Hospital Benefactors	Loss of access to services at the local facility.	Emphasize the link between regionalization and other less controversial and accepted strategies such as population health, reform readiness, and improved outcomes.
Physicians	Redirection of resources to facilities further from their office and referral base.	Engage physicians to take leadership in driving regionalization by incentivizing them to improve the quality, cost, and access of specialty services at the system level.
All	Loss of competitive position whereby clinical resources are reduced.	Maintain outreach/ambulatory sites but also communicate the need to reduce duplication and achieve efficiencies to achieve a more competitive overall position in the market.

III. Value in Action

Comanagement — Preparing for Value-Based Payments

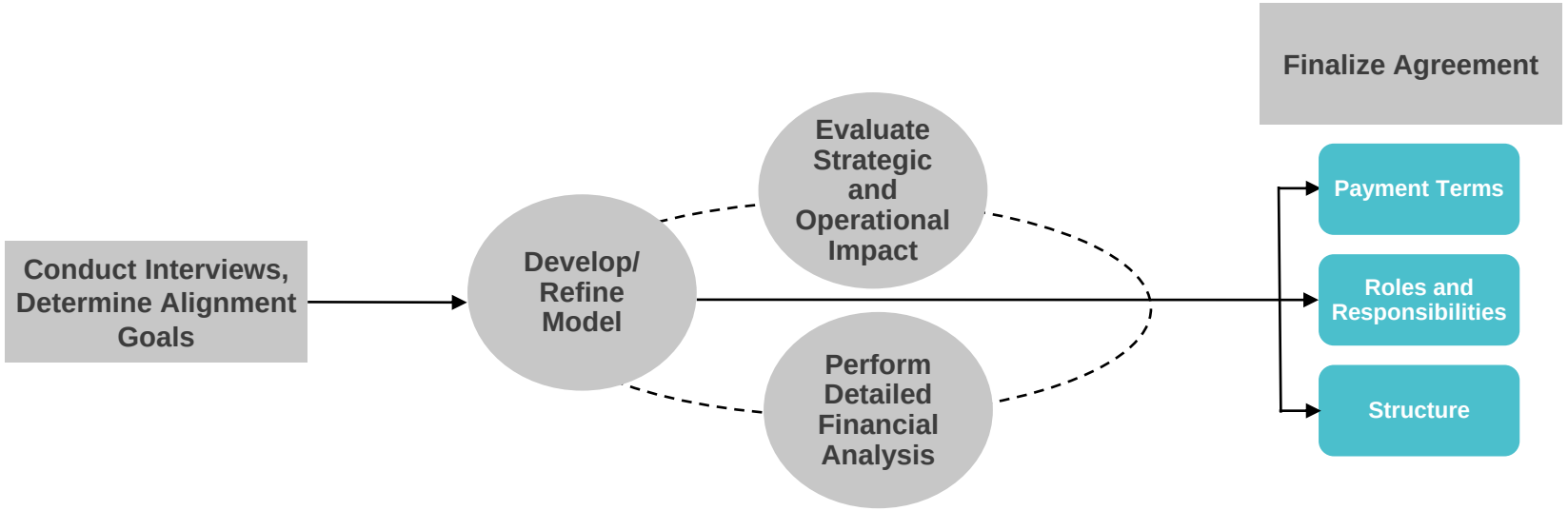
A two-hospital system brought together 20 independent orthopedic surgeons and neurosurgeons to collaborate on managing orthopedic and spine services across its hospitals.

	Have	Do Not Have
Want	***Preserve*** » The private practice model for orthopedic surgery » Current market share » Physician clinical autonomy » Best practice protocols and processes developed for the system's joint institute	***Achieve*** » A greater degree of physician involvement in governance and operations » The ability to provide incentives to aligned physicians » Reduced variation and improved quality » Decreased costs of care, including greater control over supply costs » Readiness for impending reimbursement changes and increased payor scrutiny » OR efficiencies
Do Not Want	***Eliminate*** » Distrust among individual physicians » Skepticism regarding the financial opportunity for physicians » Hospital-specific focus and allegiance	***Avoid*** » Out-migration of patients » A loss of physician clinical autonomy » Overly complex structures

III. Value in Action

Comanagement — Preparing for Value-Based Payments *(continued)*

The approach to developing the comanagement arrangement was based on the goals of stakeholders and the impact of the various options available.



The gathering of stakeholder perspectives and the determination of alignment goals will inform the various components for development.

Over a number of meetings, the scope of services, components of compensation, and performance incentives will be evaluated. The strategic, operational, and financial impact of various options will be considered in the development of the agreement.

Specific terms will be determined, and contracts will be drafted to finalize the agreement.

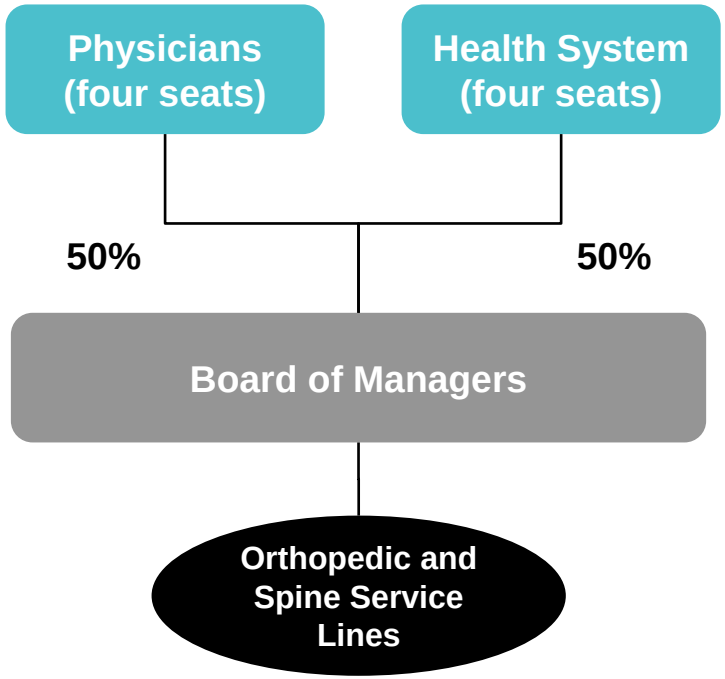
III. Value in Action

Comanagement – Preparing for Value-Based Payments *(continued)*

The vision of the management company is to enhance the delivery, quality, and value of musculoskeletal services through increased integration between the system and community surgeons while maintaining physician practice autonomy.

- The management company is responsible for the strategic, operational, and clinical management of IP orthopedic and spine services.
- The management company is owned 40% by the health system and 60% by participating physicians.

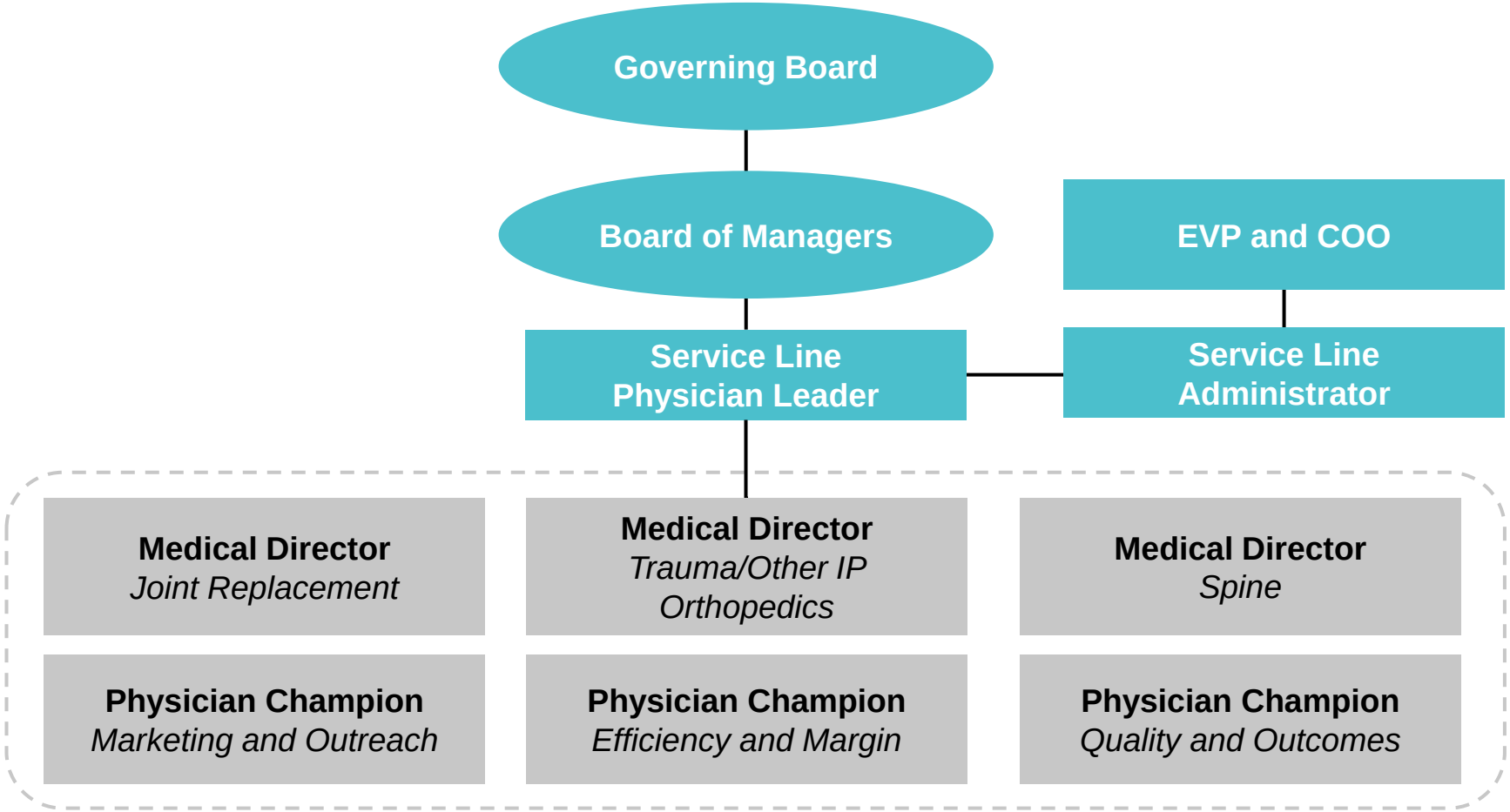
Orthopedic and Spine Comanagement Governance Structure



III. Value in Action

Comanagement — Organizational Structure

Seven physician leadership positions are driving accountability for the development and implementation of service line initiatives.



IV. Closing Remarks

IV. Closing Remarks

THE VALUE-BASED ENTERPRISE

INTEGRATED

- Break down clinical silos.
- Build traditional insurance-like capabilities.

SCALED

- Ensure access to geographic scale and sufficient population base.

RATIONALIZED

- Create sustainable relationships with physicians.
- Strategically (re)distribute services.

INFORMED

- Cultivate a well-educated and informed leadership group.
- Promote a data-driven organization.

RESPONSIVE

- Develop lean, vertical, and streamlined decision-making frameworks.