UNDERSTANDING THE BIG PICTURE IN HEALTHCARE

The following articles capture highlights from the HCap conference, which took place Dec. 7 to 9, 2011, at the J.W. Marriott, in Washington, D.C.

HCap ReCap — 2011 Conference Highlights

Policy Issues Dominate HCap, as Providers, Investors Discuss Strategic Imperatives

Washington, D.C. · The three Rs of Healthcare· regulation, reimbursement and reform· took center stage at the annual **HCap Conference** at the J.W. Marriott Dec. 7 to 9 in the nation's capitol, as providers and investors met to discuss the state of the industry along with the investment opportunities that exist within it.

Amid high-level strategic discussions about everything from the impact that the Affordable Care Act is having on Medicare to the way physician groups are developing differentiated models of Accountable Care Organizations, the conference also sought to address a critical question on the minds of many providers: Do private investors see healthcare as a good sector to place capital, and if so where?

The myriad of issues debated over the course of the conference's 18 seminar sessions, one-on-one meetings, numerous networking receptions and a lively Town Hall debate led to the conclusion that yes, healthcare is indeed a good place to invest, with one prevailing caveat: In an industry riddled with regulation and legislative uncertainty, investors and providers would be wise to do their homework.

%Healthcare today is in transition, and private capital tends to do well, from a return standpoint, when businesses are in transition and dealing with things like convergence and regulation uncertainty,+said Kevin O'Brien, Managing Director, **CCMP Capital Advisors**, during a session devoted to private equity investment. For this and other reasons, fellow investors echoed similar refrains, including Russ Herakovich, Managing Director of **GE Capital, Healthcare Financial Services**, who said that now may be a good time for providers to diversify.

%Diversification is clearly the trend right now. It reduces one's risk, and makes companies less concentrated (in one area),+Herakovich told attendees during the final general session. %If you have a home health and hospice company and there is a big cut to home health reimbursement rates, well you still have your hospice business that may not come under pressure at the same time.+

Understanding and identifying precisely where the various pressures lie in healthcare· and how to alleviate them· was the focus of many of the educational sessions throughout the three-day conference. Attendees heard from a panoply of thought leaders, each with their own vested stake in the future of healthcare, including large providers, private equity firms, physician groups, policy makers, Fortune 500 employers, managed care companies, and more.

Although opinions differed greatly at times about the ways in which reform should be implemented, one mantra that emerged above all at **HCap 2011** is that healthcare is slowly but surely migrating away from the current fee-for-service model. What it ultimately will be replaced by, and when, is a tougher question to put one's finger on, panelists said. Some suggested a slight adaptation to the Obama plan, while others predicted· and advocated for· a new plan, such as the one being promoted by U.S. Representative Paul Ryan (R-WI).

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%We all know the (current) system is broken, and it's too late at this time to go back,+Ron Lissak, CEO of **Integral PET Associates**, said at the Provider Town Hall. %The expectation is that it's got to be fixed one way or another. It might change depending upon who's in (Washington). But you're not going to turn the clock back. . . . There are too many things that are already going to be enacted.+

HCap'11, therefore, proved once again to be fertile ground for the ongoing debate on how to fix healthcare, which Dan Mendelson, President of **Avalere Health** and a moderator at this year's conference, characterized as an industry going through %a time of massive and very fundamental change.+As Mendelson and others repeated often, healthcare has its share of significant challenges, but it also is an industry with significant opportunities.

%Ultimately, there is going to be a shift in risk. The aggregators are going to ask the providers to participate in the risk . . . and margins are going to come down. Then we have to think about where's the new frontier,+said Mark Heaney, President and CEO of **Addus Healthcare**.

In the immediate term, what happens inside the Washington Beltway over the next 12 months will go a long way in determining what that ±new frontierqis, according to many of the panelists at HCap. Perhaps Dean Rosen, a Partner with **Mehlman Vogel Castagnetti**, positioned it best when he said that healthcare is going to continue to face %downward pressure+in 2012.

%The next big issues will be to see what the Supreme Court decides in terms of the Affordable Care Act and what happens in the elections,+Rosen said. %I think we're going to be dealing with deficit reduction 2.0 or 3.0, and the mix of the political actors will be critical.+

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HCap ReCap — 2011 Conference Highlights

When Private Equity Talks, People Listen

Washington, D.C. · There aren't many crystal balls in today's healthcare economy, so when providers get a chance to hear what private investors think about healthcare and where they are placing their dollars, it can serve as a barometer of the health of the industry. That was the backdrop to %Private Equity's Bracing New Environment,+a concurrent session at this year's **HCap Conference** in early December in Washington D.C., where a panel of investment consultants and private equity firms shared their insights into healthcare trends and strategies for investment.

Before a packed room of providers, lenders and financial service companies, panelists painted a picture of healthcare investment driven by specialization, due diligence, and above all a keen understanding of future trends and legislation.

According to Tony Davis, Managing Partner at Chicago-based **Linden LLC**, the most important investment consideration is to understand what's on the minds of a firm's potential investment partners. %The big thing is that industry specialization is viewed by limited partners as a sustainable competitive advantage for private equity firms, and should lead to higher returns,+said Davis, whose current portfolio includes medical device manufacturers, pathology labs and mental health clinics, among several others.

Which specific areas of specialization they advise their partners to invest in is another question altogether. Davis identified labs, dental practices and life sciences in general as having good growth potential, yet he and other panelists were quick to caution against investing in sectors with too much exposure to government reimbursement.

%In the areas that touch Medicaid, depending on the state, and also Medicare, you have to be extremely careful on whether or not you want to expose your investors to that kind of risk,+Davis said.

Andrew Paul, Managing General Partner for **Enhanced Equity Fund** echoed Davis' cautionary words. %There's still a way to build good businesses in these types of reimbursement environments, but you have to work extra hard,+said Paul, who acknowledged that Medicare was overpaying for services like nursing over the last few years. %Some companies were hitting 20 to 25 percent margins on that business, and Medicare doesn't like to pay margins of that level, so it's coming down. But it still can be a very good business. It just has to be managed properly.+

When it comes to home care and hospice in general, Davis said his general pitch to investors is that the sector is here to stay. %It's not going away, . . . and the winners are going to the companies with great management, both internally and on the PE side, including a great compliance officer, terrific IT, and make sure you've got great attorneys.+

The theme of strong management and a close attention to compliance was high on all panelists' radar.

%Regardless of what you think of this Administration, we are looking at some of the most aggressive fraud and abuse enforcement we've ever seen,+said Barry Alexander, a partner in the law firm of **Nelson Mullins** in Raleigh, N.C. %In this environment, [non-compliance] creates significant problems.+So Alexander's message to providers looking for investment partners is to make sure their books are clean and their due diligence is done.

Another piece of advice from the panel is to pay attention to industry trends and understand how macro changes affect one's investment opportunities.

%What you try to do in healthcare investing is to be smart with where the government seems to be headed,+Paul said. %And if you're careful, you can read the tea leaves and understand the areas that are under pressure and the areas that aren't.

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‘Debate 2.0’ Panel Foresees Decisive Year Ahead for Healthcare

Washington, D.C. · A consensus of opinion is one of the hardest things to come by in Washington. And yet a leading panel of healthcare pundits at %The Healthcare Debate 2.0+at this year's **HCap Conference** in early December all agreed on one fundamental point: The fate of healthcare reform will largely be decided by the way the nation resolves the fiscal and political turmoil over the next 12 months.

In the coming year, two key events will play an especially important role along the path to resolution, according to the panel. They include the election of 2012, and the ongoing effort to reduce the federal debt.

%We face an unprecedented level of debt in this country right now,+said Dan Mendelson, Founder and President of **Avalere Health**, and moderator of ±The Healthcare Debate 2.0.q%The entitlement programs are growing very rapidly, both Medicare and Medicaid, and there is a lack of consensus on what to do about it. . . . And you can't deal with the debt issue if you don't deal with healthcare.+

The options on the table, according to the panel, come down to two choices. There's the Obama plan, which was framed by The Affordable Care Act of 2010 and continues along the tradition of a fee-for-service model. And there's the Ryan plan· named after U.S. Representative Paul Ryan (R-WI)· which promotes a %defined contribution+model designed to encourage private-pay competition.

%The next big issues will be to see what the Supreme Court decides in terms of the Affordable Care Act and what happens in the elections,+said Dean Rosen, a Partner with **Mehlman Vogel Castagnetti**. %I think Republicans are dead serious about repealing the law and maybe replacing it with something else.+

Whichever reform plan prevails, even if it's a compromise, the panelists echoed a common belief throughout the industry that both Medicare and Medicaid are on course for an overhaul. Shawn Bishop, Senior VP of Research for the **Marwood Group**, related how that thinking may affect the skilled nursing sector.

%When MedPac looks at providers and analyzes their margins and their payment-to-cost ratios, they see that skilled nursing facilities have 22% margins,+Bishop said. %MedPac is telling Congress those margins are high, and so Congress is concerned that their payments might be too high.+

In turn, when Mendelson asked the panel if they agreed that the probability of entitlement cuts to nursing home and home health payments in the next year could be as high as 70% to 80%, they all agreed. %My guess is that it will come mostly from the states, which are grappling with how to pay for their existing Medicaid programs,+said Micheal Cannon, Director of Health Policy Studies at the **Cato Institute**. %And one of the only levers they can pull on Medicaid is to change the way they pay healthcare providers.+

Another change that nursing homes can expect in the near future, panelists said, is the trickle down of the readmissions restrictions currently being imposed on the hospital sector. %There's a discussion to extend that policy to skilled nursing facilities, so that there would be a payment reduction if skilled nursing rates of readmission were too high,+Bishop said.

For the long-term outlook, ±Debate 2.0qpanelists agreed that the uncertainty that healthcare providers face could go on for quite a while, and warned against ignoring the effects of the end of the Bush tax cuts in 2013.

%This industry, and almost every healthcare sector, is going to continue to face significant downward pressure. Because after the election, we're going to have to deal with tax reform, with the (end of the) Bush tax cuts, which expire in 2013,+said Rosen. %I think we're going to be dealing with deficit reduction 2.0 or 3.0, and the mix of the political actors will be critical.+

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At Town Hall, Providers Discuss Patient Relations Post Reform

Washington, D.C. — A disparate panel of providers offered an array of opinions about who will “own” the patient in the post-reform world, including the government, the physician and the patients themselves. And although there was little agreement as to how the post-reform healthcare landscape will look in 2020, all of the panelists at “Provider Town Hall: Who Will ‘Own’ The Patient in 2020?” at the **HCap Conference** in Washington, D.C. in December, agreed that we are in the throes of a “transference of risk” that is moving healthcare away from the fee-for-service model.

“It's all about fee for outcome,” said Mark Heaney, President and CEO of **Addus Healthcare**. “Overwhelmingly, the payer is government, and government is going to take the financial risk, so they are going to have tremendous influence over the patient, and they are going to ask many providers to be great providers — create great outcomes — but also share in the risk.”

The increasing role of government in healthcare was undisputed by the panel, however few providers expressed enthusiasm about this development. For example, Paul Mastrapa, President, **Walgreens Infusion Services**, echoed many comments made by panelists throughout the Town Hall meeting when he said “the best coordinated care models will be the ones where the government has the least intervention.”

Despite the government's role in healthcare, the results of a live on-site survey of Town Hall attendees (using text messaging) showed that more people believe that when it comes to “owning” the patient, physicians will wield a greater influence than the government in 2020. Among those who feel this way is panelist Michael Kasper of **DuPage Medical Group**. As CEO of one of the leading independent physician groups, Kasper believes that as long as prescription-writing power lies in the hands of physicians, they will continue to control the core relationship with the patient.

Whoever is in control, however, it will serve that party well to master the flow of data. In fact, data manipulation and the ability to coordinate care through information technology is one point that all panelists universally agreed will be a critical component to patient-centered care in a post-reform world. It's one reason Town Hall moderator Dexter Braff, President of **The Braff Group**, called data “the ultimate issue of control.” Through data, Braff said, “the provider can direct care, coordinate care and take risks, because it gives them a better understanding of where a patient is likely to go within the system.”

It's not only the physician that benefits from data, however. When it comes to the role that patients themselves will play in influencing their care in the years to come, many providers believe that data and technology in general will position the patient to play a much more active role in their own care, and therefore take ownership in the process.

“If a patient is looking for a nursing home online, and a live chat line pops up and it's somebody they feel they can talk to about care options and where they should go, bang, that's going to grab and hold that patient,” said Stephen Winner, Co-Founder and Chief of Culture at **Silverado Senior Living**.

Similarly, technology is empowering patients to become more active in their own diagnoses, according to Kent Bottles M.D., a panelist and leading healthcare consultant and speaker. “Patients used to come to see me and say, I've got dizziness, What do I got, doc? Now they come and say, I Googled my symptoms and I've talked with patients all over the world, and I've got multiple sclerosis, oh, and I want that new drug from Switzerland and I want it in 5,000 milligrams.”

After more than 90 minutes of discussion, including comments and questions from an engaged audience, the provider panelists ultimately agreed to disagree. Who will own the patient in 2020 is still up for debate, with some seeing government taking a bigger role, others seeing managed care playing a bigger role, and still others believing the physician will have more influence than ever. But if the current, and pending, reform stands a fighting chance of getting everyone on the same page, it will take a lot of compromise. As **DuPage Medical Group**'s Kasper pointed out: “If any of this is going to work, everyone on this panel needs to learn to work together, because if we don’t there’s going to be winners and losers, and the problem is that the losers are going to be the patients.”

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Case Studies: Advocate, Hopkins Implement Accountability Measures

Washington, D.C. · How reform is altering the provider side of healthcare and what some of the largest providers are doing to adapt to the world of accountable care was the question at hand for two leading hospital systems at %Emerging Strategies of Leading Providers,+ a general session at this year's **HCap Conference** in December in Washington D.C.

In the case of Chicago-based **Advocate Health Care**, the arrival of accountable care was a major wake-up call that spurred a large-scale internal initiative to cut costs and rethink its relationship with its largest payer partner, BlueCross BlueShield.

%We decided that if we were going to be successful in the new paradigm and take unnecessary costs out of the system, we have to get serious about lifelong relationships and coordinated care,+ according to Advocate's EVP/CMO Lee Sacks, who recounted a meeting between the hospital and BlueCross exactly one month after the signing of the Accountable Care Act in spring 2010.

%We sat down in their offices and looked out at what was coming· the fact that 25% of our market was going to be covered by Medicaid· and we said we have two choices. We can lower our unit costs right now . . . or we can figure out how to partner and reduce waste. We picked door number two.+

Although the concept of a payer/provider partnership is not new, Sacks said the level of trust between the two organizations that came out of the partnership was. It all started with a comprehensive review of performance. By pooling and sharing both organizationqs research and data, Advocate and BlueCross were able to make qualitative decisions about how and where to take costs out the system that would serve their mutual benefit.

According to Sacks, the analysis revealed that roughly 11% of patients accounted for more than half of overall costs, and the root of many inefficiencies were traced to readmissions, inappropriate ED visits, avoidable conditions and lack of care coordination.

The result was an internal improvement plan Advocate initiated that Sacks said %virtually mirrors+ what's now in the final rules for accountable care organizations.

%We're now being measured on the attributable or assigned patients and we're going to share savings (with BlueCross) based on the trend and the cost of care· our performance compared to the marketplace,+ he said. %Our goal is to get our trend in the cost of care to CPI (the Consumer Price Index) for 2014.+

A similar culture of accountability has taken root at **Johns Hopkins Medicine** in Baltimore, the nation's largest recipient of NIH grants (many of which have been tied to Hopkins' support of the Accountable Care Act). For its part, Johns Hopkins has put in place many programs centered around accountability, according to Deborah Trautman Ph.D., RN, and Executive Director for the Center for Health Policy and Healthcare Trnasformation. They include programs designed to address the uninsured and underinsured; professional accountability; patient safety; professional accountability; and readmissions.

%We've come to recognize that the future for all of us interested in improving health and healthcare in our nation is going to be quite challenging for many years to come,+ Trautman said. %It's our trusted voices as healthcare professionals, partnering with others, that is what will help us get through this.+

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For Investors, Transition Translates to Opportunity

Washington, D.C. · The investment prospects in healthcare are good, despite the turbulence and uncertainty that reigns in the current economic environment. That was the consensus among private equity panelists at %Systemic HeadwindsqPrivate Equity Investment Thesis: Is It Valid?+at this year's **HCap Conference**.

%There are many people out there who look at the for-profit healthcare system and say they don't believe that we can do well by doing right. We strongly disagree with that,+said Kevin O'Brien, Managing Director, **CCMP Capital Advisors, LLC**. %Healthcare today is in transition, and private capital tends to do well, from a return standpoint, when businesses are in transition and dealing with things like convergence and regulation uncertainty.+

These sentiments come with a word of caution, however. Panelists see opportunity in today's market, but there are obstacles as well. Ryan Glaws, a Principal at **Excellere Partners**, said his firm's approach begins with (investing in) healthcare companies that understand the complexity of the market and have already established strong working relationships with all of the parties it touches, including the patient, payer, manufacturer and distributor, among others.

%I think it's fair to say that the healthcare landscape can be riddled with land mines,+Glaws said. %If you can find a company that has a multi-faceted value proposition, that gives you, as an investor, a high degree of comfort in terms of putting money to work.+

One point panelists visited at length was the value of building local, like-minded companies. As Jeremy Silverman, Managing Director of Healthcare at the **Frontenac Company** pointed out, this is especially important since the very nature of healthcare is, and will continue to be, built around a given community.

%The service radius within the world of healthcare providers is relatively small. It's a city. It's a Metropolitan Statistical Area. . . . And we tend to look at businesses that we are considering investing in based on how well they are doing within their given markets,+Silverman said. %Having a bunch of pins on a map across a broad area, but not being a major factor in any market, isn't helpful. It doesn't give you bargaining power with payors. It doesn't give you access to referral sources. It doesn't give you branding. It doesn't give you anything. So that local footprint· with a reputation for quality and outcomes· is incredibly important.+

Despite the so-called ±headwindsqthat might otherwise detract from healthcare investment, there was a healthy discussion during the session about specific segments and service lines that make for attractive investments. OqBrien said home healthqs low cost setting, for example, makes it %very exciting+and will give it %gravitation pull+over time. Similarly, Glaws acknowledged that hospitals would continue to operate under pressure given the industry's state of reform, but he, like O'Brien, affirmed that reform will also bring about opportunity.

%Hospitals will continue to look for ways to outsource non-core services,+Glaws said. %Whether that's things like hospitalists, anesthesia, ER, or any item that is non-core to their key profit centers· which are really the ORs, we think that there are opportunities there to put a model in place.+

When it comes to the outlook for the healthcare sector in general, O'Brien, Glaws and Silverman all agreed that investment opportunities are not going away anytime soon. To the contrary, they agreed with session moderator Jason Ficken, Managing Partner at **Quadriga Partners**, that there are indeed some %inherent tailwinds+within the sector that are generating opportunities where they may not have existed before. It's part of what Silverman calls %the great dichotomy+in healthcare.

%There are businesses that are part of the problem and businesses that are part of the solution,+Silverman said. %Our investment strategy is very much focused around identifying those businesses that are part of the long-term solution, and therefore eschewing those businesses that are part of the cost problem, the waste problem and other problems.+

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Physician Groups: We Know What's Wrong With Healthcare and We Can Fix It

Washington, D.C. · Fill a room with physicians and they'll tell you what's wrong with healthcare. Fill a room with executives from leading physician groups and they'll tell you how to fix it.

Those two messages were both part of the animated dialog at %The New Medical Group Paradigm: The Patient Centered Medical Home,+a concurrent session at the **HCap Conference** in December in Washington, D.C.

%The practice model that we have been shoe-holed into has not worked for patients, and it certainly has not worked for physicians,+said Lori Heim, MD, CMO, **Scotland Memorial Hospital**. %Primary care physicians want to work within a different primary care model.+

Until the Affordable Care Act came along, few people had a clear vision of what that model was, Dr. Heim said. %The greatest aspect of the reform debate is that it has thrust the topic into the forefront of attention. Now everyone knows or has heard what's wrong with the system.+

Scott Conard, MD, CMO, **ACAP Health**, said he has known for a long time what's wrong with the system. Insurance companies, whose agenda is %driven by how much is spent in healthcare,+have been given too much influence over healthcare policy. It's what Conard believes has led to a system where 30% to 50% of healthcare expenditures are %non value-added waste.+

The alternative that Conard's company promotes is a model where physician groups partner directly with large corporations and local governments (brokered by companies like ACAP) to deliver a patient-centric, affordable program that essentially cuts large managed care organizations out of the picture.

%The key is for physicians to get out of their heads and into the game, and start to deliver a product that corporations would actually want to purchase, and would be able to purchase, in a way that would make a difference to their healthcare spend,+Conrad said.

One such program on the West side of Chicago is run by Michael Kasper, CEO of **DuPage Medical Group**. DuPage, which consists of 350 doctors (half primary, half specialty) has become the poster child for physician group success. With annual revenues in the range of $400 million, and a base of more than 3,000 total employees, DuPage does everything %except run hospitals,+Kasper said.

A key component to the DuPage success story so far has been data.

True to the accountable care model, research and information gathering have been the lynchpin to helping the group create a place for itself in the market. To this end, DuPage has created an internal strategic business unit called the Value-Driven Healthcare Group, which works with Epic, the company that manages its medical records, to extract information out of its system and %arm physicians with information at the point of service to really treat the patient differently.+

DuPage also analyzes normative data about other providers in the market, and recently teamed with Boston-based Humedica, a company that benchmarks provider performance against a national database, as well as Phytel, a Dallas-based company that facilitates patient outreach online and over the phone. %That's just the tip of the iceberg of what the data needs of this type of program are going to be,+Kasper said.

But data alone is not the answer. The creation of a differentiated, patient-centric, %value-based+system, driven by physicians is not for everyone, and canq work everywhere, Kasper admits.

%This is a fundamental shift in healthcare, and it's going to be hard work. There's no silver bullet to fix this,+he conceded. %We have to start thinking about how we spend resources in the system and make sure they're focused on the populations where we can have the biggest impact.+

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As Corporations 'Insource' Healthcare, Industry Takes Note

Washington, D.C. · Private health plans at many of the nation's largest corporations are proving to be lean, mean and accountable· using the same principles of coordinated-care found in the Affordable Care Act, according to %Fortune 500 Employers' Influence on Health Policy,+a general session at this year's **HCap Conference** in Washington in December.

That's big news in a nation struggling to find a universal healthcare formula, which is why the audience of providers, managed care executives and healthcare lenders were hanging onto panelists' every word, especially those of Tim Dickman, President of **QuadMed**.

As the %insourced+health plan at Quad Graphics, the nation's second largest printer, QuadMed was started in 1990 with a simple mission: to be an %affordable, high-quality healthcare provider+for the internal audience of Quad Graphics employees. It was a radical enough idea at the time that only got more innovative as time went on.

Twenty one years later, the QuadMed mission has stayed true to form, with one exception. Today, QuadMed exports its brand of corporate healthcare to companies all over the Midwest, and has put the company on the map as a viable alternative to conventional healthcare options. This has translated to the installation of in-house clinics at companies like Milwaukee-based Briggs & Stratton. Operated by QuadMed, the clinics offer a full range of primary care, dental, vision, occupational medicine and select specialty care such as cardiology, dermatology, obstetrics/gynecology, and orthopedic surgery.

%Because large companies are often bearing the risks of increased healthcare costs, they don't just take off-the-shelf products from insurers,+said panelist Steve Wojcik, VP, Public Policy, **National Business Group on Health**. %They change the provider-network structure. They change the benefits. And they say (to insurers), work with these other vendors.+

It's these economies of scale that are the driving force behind QuadMed's success. But what sets QuadMed apart from other corporate-provider programs is that QuadMed learned early on, well before there was an Affordable Care Act, that wellness and preventative medicine make for healthier employees, which in turn drives cost out of the system.

%Large companies really get the fact that you have to have a wholistic, integrated program. The days of sort of bolting on programs, like a chronic condition program, are much less effective,+said Dickman. %I think that's one of [QuadMed's] secret sauces. We've tried, through technology, to be an integrator and connect the dots.+

For large corporate plans like QuadMed's, wellness is not just an add-on that dresses up a traditional insurance plan but never gets used. Rather, wellness is at the core of the program, and preventative medicine is a part of everyday life for employees under the QuadMed plan.

%One of the things that makes a (corporate) wellness program successful is the one-on-one, in-person touch to the participant,+said Wojcik. %Financial incentives go to a certain level, but after that, how much you're paying them is what's going to get them to quit or lose weight or whatever. It's trying to figure out what motivates the person. That's the key to success.+

In addition to requisite health assessments, QuadMed's approach is to encourage associates to auto-enroll in its wellness program. In turn, the associate begins to see immediate material returns in the form of a benefit card that earns the user points for reaching benchmarks and rewards them with of premium reductions over time. Dickman warned, however, that the requirements for such benefits under the QuadMed plan are stringent. For example, patients who are deemed overweight use Body Mass Index as a target for wellness and have to lose 10% of their total body weight in order to receive the maximum amount of reward points.

%I think where this goes is putting people in charge and giving them better tools tied to reference-based pricing,+ Dickman said. %If I, as a patient, could go online and learn where I could get that kind of care in my area, it really leads to the disintermediation of the insurance companies. That's the strategy we're embarking on, and other big companies are trying to drive to that sort of model.+

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Managed Care ‘Closes Loop’ by Aligning with Providers

Washington, D.C. · Healthcare reform is changing the managed care model and creating new alliances between providers and insurers, according to a panel of managed care executives at the concurrent session %Will Managed Care Someday Own You,+at this year's **HCap Conference** in December in Washington D.C.

At the crux of the discussion among panelists was the failure of the current healthcare model, and the ushering in of the accountable care concept.

%The fee-for-service model has to die. It doesn't align incentives. It's a bill-early-and-often model,+said Karey Witty, EVP and CFO of **HealthSpring**. %The incentive is to see patients and churn them quickly.+

Alternatively, HealthSpring, which represents a new generation of managed care organizations, has begun to emphasize a patient-centric, preventative care model in which the primary care physician is the focus of attention, and the managed care organization tries to exclusively align itself with its providers. It's what the panelists called a %closed loop+system.

%A lot of models beat up the providers for better costs. But my gut is to align the incentives so the care of the patient is in everyone's best interest,+Witty said. %We don't own our physicians, per se. We align ourselves with physicians, and in some cases we have physicians who only get paid by one payer. So we look for providers to accept a model where they go to one payer, for which we give incentives and better rates.+

Within this closed loop model, ±aligning incentivesqstarts with aligning companies. For physicians and hospitals, this may entail hitching one's wagon to a single network or payor.

%Health insurers are looking to vertically integrate on the physician side. Similarly, you are seeing hospitals spending a lot of money to acquire physician practices, and I think that those hospitals can create a defensible delivery system . . . backed by a limited insurance license,+said Wayne Lowell, President of **Jonchra Associates**. %I think you will see, within local communities, delivery systems that become effectively insurance companies.+

Contrary to one widely held belief that the traditional managed care concept may be waning, Witty and Lowell both foresee a world in which the advent of accountable care increases the need for managed care, particularly when it comes to information management, readmissions and risk.

%If you don't have the data that allows you to control the accountability, you can't effectively run the ACO,+said Lowell. %Going forward, there also will be much more diligence in managing the post-dispatch so that patients understand how to self care and prevent readmissions. This is where the managed care organizations can partner with the providers in this new paradigm to help manage the process.+

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