The Changing Health Care Landscape

April 17, 2016

Agenda

Today’s topics were designed to incite meaningful conversation about the changing health care environment ...

Session 1 – The changing health care landscape

Session 2 – Trends, wellness integration, value-based care, retail and provider collaboration, specialty pharmacy and the risks associated with these topics
Introductions

Today's speakers
Our speakers today have broad experiences in working with health plans, payors, providers, physicians, specialty pharmacies and retailers alike ...

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Experience
Tom is a Deloitte Advisory Director in the Deloitte & Touche LLP Business Risk Practice. He has 16+ years of administrative and management experience in health care surrounding operations, reporting, compliance and strategy. He has deep experience in regulatory compliance issues for Medicare and Medicaid health plans, prescription drug plans and pharmacy benefit managers (PBMs), focusing on internal control process, key regulatory risk areas, due diligence, and operational design.

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Experience
Chris Kloc is the Senior Director, Specialty Pharmacy for Giant Eagle, Inc. Chris leads and provides strategic direction to the Specialty Pharmacy business unit. His areas of responsibility include sales, information services, quality, business development, and specialty patient services. He is a 25 year veteran of the biotech & pharmaceutical industry and has served much of his career focused on population health and wellness. Prior to joining Giant Eagle Chris spent 20 years with Abbott Labs and Abbvie within the Diagnostic and Immunology Divisions in the areas of sales, training & development and compliance.
Today's objectives

Today our goal is to provide insight into the changing landscape of health care, which includes discussions about the current trends and the risks associated with these trends as health care continues to move forward with a patient-centric focus across the value chain ...

Provide Perspective: Provide perspective on trends and discuss changes happening within the health care industry

Inform: Discuss current risks and risk areas within the changing health care industry

Engage & Network: Engage in discussion with other professionals who have vast experiences and share ideas and opinions about industry happenings

Session 1:

The changing healthcare landscape
Four overarching trends are transforming the US health care market

1. **Technology**: From genetic breakthroughs and nanotechnology to digital health and the cognitive cloud, technology is changing health care.

2. **Demand for value**: Traditional payers such as health plans and employers, as well as engaged consumers, are demanding more – quality, evidence, and transparency – for fewer dollars. Historical payment models are being upended.

3. **Growing health economy**: By 2030, one in five Americans will be 65 or older, likely increasing the percentage of people needing chronic care. The demand for health care is expected to drive greater employment and investment.

4. **Government as influencer**: The federal government has reshaped the health care landscape. In 2009, the American Recovery and Reinvestment Act (ARRA) included the Health Information Technology for Economic and Clinical Health (HITECH) Act. Health insurance exchanges, Medicaid expansion, and new payment and delivery models grew out of the 2010 Patient Protection and Affordable Care Act (ACA).

As trends collide, they create challenges for industry stakeholders as well as opportunities for innovation

1. **Everywhere Care**: Shifting the spectrum of care from hospitals to lower-cost sites

2. **Wellness & Preventive Care**: Shifting disease management from reactive to preventive

3. **Personalized Care**: Shifting offerings from mass generalization to mass customization and precision

4. **Aging, Chronic, & End-of-Life Care**: Shifting the focus from institution-based aging to community-supported aging, and leveraging big data and personalization to manage chronic conditions.
Retail health & wellness convergence and overview

A convergence between retail and healthcare is driving traditional healthcare providers to adopt retail approaches to marketing and customer service, while retailers are increasing their role in healthcare. Changing dynamics in the marketplace including consumerism, healthcare reform, technological advances and demographic changes are having a significant impact on the Retail Health and Wellness marketplace. These dynamics are causing the collaboration between the two industry leading to convergence ...

Healthcare & Retail Convergence

- Customized Services
- Managing Store Layout, Driving Foot Traffic
- Increasing Price Transparency
- Increasing Adoption of Technology
- Incentivizing Collaboration
- Traditional Health Systems
- Retail Clinics
- Urgent Clinics
- PMs
- Government & Commercial Payers
- Retail Pharmacy
- PBMs
- Retailers
- Health & Wellness
- Convenience
- Quality of Service
- Brand Name
- Mean of Operation
- Tailored Service
- Price
- Consumer Demand for Care
- Consumerism
- Healthcare Reform
- Technological Advances
- Demographic Changes

Retailers with health and wellness services are realizing benefits such as increased foot traffic, increased sales growth, improved cross-selling, brand recognition, and improved customer experience.

Change is happening across the healthcare ecosystem

Defined sectors are being challenged and extended given the convergence which is occurring between the retail and healthcare industries ...

- Health Plans
- PBM
- Retail Pharmacies/Clinics
- Care Delivery/MD Practices
- Hospitals
- Consumerism
- Healthcare Reform
- Technological Advances
- Demographic Changes
- Change is happening across the healthcare ecosystem
- Defined sectors are being challenged and extended given the convergence which is occurring between the retail and healthcare industries ...

- Health Plans
- PBM
- Retail Pharmacies/Clinics
- Care Delivery/MD Practices
- Hospitals
Retail health & wellness industry happenings
The healthcare industry is shifting and adapting to a changing regulatory environment with a growing number of insured patients who have increased expectations in areas such as quality of care, transparency in cost and a plethora of options from which to choose.

Retail Healthcare Evolution

Overview
Retailers and grocery chains alike are expanding their operations in order to capture value that the changing healthcare industry is creating. Adapting to the needs/wants of their customers, we are seeing more pharmacy operations and an increased focus within the Health & Wellness space. The evolution that these companies are undergoing is assisting them in gaining a competitive advantage with their customers and providing end-to-end services within the health space – this attraction has seen additional benefits and has helped improve gross margin. Overall, this general move toward population health management helps to improve quality of care while controlling long-term costs.

How Evolution is Occurring

Mergers & Acquisitions
The industry has seen M&A activity between Health Plans, PBMs, and Retailers who are trying to expand and provide greater care options for their customers.

Partnership Agreements
Partnerships have been formed in which retailers and health care providers are combining in order to provide higher quality of care in a retail setting for convenience purposes.

Strategic Expansion
Healthcare providers, retailers, grocery chains, plans, and PBMs alike are taking steps in order to expand their services to meet customer expectations, capture value, and improve margins.

Benefits of coordination
The healthcare landscape has shifted, moving toward consumer-centric care and overall population health management. Adapting to the needs and wants of the consumer (i.e., convenience, timeliness, quality) has created opportunities for improved coordination of care which has led to increased quality and decreased healthcare delivery costs…

Coordination of care across the entire health care provider value chain (including other players not displayed above) should both encourage use and assist in driving down the overall cost of care; however this only happens when the incentives are aligned to encourage this behavior.
Benefits of coordination (cont.)

Coordination of care can delay a patient's movement across the care continuum, which ultimately helps improve the lives of patients and helps to drive down the overall cost of care ...

Movement across the care continuum results in increased care touchpoints and increased cost. Keeping patients in the early stages of the continuum can help drive down the overall cost of care. In order to keep patients in these early stages, it is important to encourage use of patient wellness platforms as well as inform patients about the importance of understanding their personal health and taking an active role in their overall well-being.

Session 2:

Trends, wellness integration and value based care, retail and provider collaboration and specialty pharmacy and the risks associated with these topics
Health care trends influenced by the consumer ...

<table>
<thead>
<tr>
<th>Year</th>
<th>Total number of retail clinics</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1418</td>
</tr>
<tr>
<td>2015</td>
<td>2868</td>
</tr>
</tbody>
</table>


Customer Demands

<table>
<thead>
<tr>
<th>Year</th>
<th>Generic Drug Spend (% of total market share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>77.9</td>
</tr>
<tr>
<td>2012</td>
<td>79.0</td>
</tr>
<tr>
<td>2011</td>
<td>81.9</td>
</tr>
<tr>
<td>2010</td>
<td>81.2</td>
</tr>
<tr>
<td>2009</td>
<td>85.2</td>
</tr>
<tr>
<td>2008</td>
<td>85.8</td>
</tr>
</tbody>
</table>


Number of customers who are expected to use telemedicine services in 2018

7 M.

Employers who will offer telemedicine options in 2016

68%

Annual spending on specialty drugs

<table>
<thead>
<tr>
<th>Year</th>
<th>Spending (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$92 B</td>
</tr>
<tr>
<td>2018</td>
<td>$235 B</td>
</tr>
</tbody>
</table>


What is wellness and how can it be defined?

Wellness is an active process of becoming aware of and making choices toward a healthy and fulfilling life ...

"... a state of complete physical, mental, and social well-being, and not merely the absence of disease or infirmity."
- The World Health Organization.

"... a conscious, self-directed and evolving process of achieving full potential."
- The National Wellness Institute

Wellness is ...

> ... more than being free from illness, it is a dynamic process of change and growth

> ... applied across six dimensions that each have an effect upon a person's greater well-being

> ... an aspect of nearly every human endeavor, which can provide a pathway to optimal living


Wellness integration and the overall benefit ... 
A focus on wellness has helped keep customers, patients and employees focused on their personal health, which helps drive up the quality of life while driving down cost, resulting in healthier individuals, a better workplace, and an overall return on investment in human lives ...

... how does “wellness” and patient-centric care drive us into the future of health care?

MACRA
Health care is changing; this has been established. Thus far, we have discussed changes to patient care and the patient-centric model, collaboration striving for seamless patient care, and other changes being made aimed at delaying a patient’s movement across the healthcare continuum. Given these changes all aimed at patient care, understanding how this will impact bottom lines is the future ...

What is the Medicare Access & CHIP Reauthorization Act of 2015 (MACRA)?

• Repealed the Sustainable Growth Rate (SGR) formula
  − Changes payments to physicians under Medicare
  − Provides a path to a new payment system over 10 years

• Aligns quality and outcome measures
• Steers health care industry toward payment for value and overall coordinated care and away from fee-for-service

• Developed two financial incentive programs:
  − Merit-based incentive payment systems (MIPS)
  − Alternative payment models (APMs)
MIPS vs. APMs

MACRA will assist in quickly moving toward the goal of paying for value and better care phasing out the fee-for-service business. Additionally, this will allow health care providers greater ability to effectively take part in developed quality programs in one of two different streamlined manners 1) Merit-Based Incentive Payment System (MIPS) or 2) Alternative Payment Methods (APMs)

- **Merit-Based Incentive Payment System (MIPS)**
  - MIPS is a new program that combines parts of the Physician Quality Reporting System (PQRS), the Value Modifier (VM or Value-based Payment Modifier) and the Medicare Electronic Health Record (EHR) incentive program into one single program based on:
    - Quality
    - Resource Use
    - Clinical practice improvement
    - Meaningful use of certified EHR technology

- **Alternative Payment Models (APMs)**
  - APMs provides new ways in which to pay health care providers for the care that they provide to Medicare beneficiaries. The following are several examples of APMs:
    - From 2019 – 2024, pay some participating health care providers a lump-sum incentive payment
    - Provide increased transparency of physician-focused payment models
    - Starting in 2026, offer some participating health care providers higher annual payments
  
  Additionally, Accountable Care Organizations (ACOs), Patient Centered Medical Homes, and bundled payment models are examples of APMs

... both MIPS and APMs will go into effect over a timeline from 2015 through 2021 and beyond.

The collaboration between health care providers and retailers

Patient and customer demands are driving traditional health care providers to continue to explore entry into the retail health care market via different facets of collaboration and coordination with retail players. This coordination between providers and retailers bring great value to healthcare consumers and assist in driving down costs and improving coordination of care
Benefits that exist for retail and provider partnerships

Partnerships between retailers and health care providers are becoming more and more prevalent in the current health care market. How can these partnerships be a “win-win” situation for each side...

<table>
<thead>
<tr>
<th>Health care providers</th>
<th>Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduction in how often chronically ill patients arrive at facilities (i.e., hospitals)</td>
<td>• Fill the void given a lack of primary care physicians available to treat chronic and routine care</td>
</tr>
<tr>
<td>• Reduction in admissions and readmissions leading to improved budgets</td>
<td>• Provide care in a convenient consumer-facing manner</td>
</tr>
<tr>
<td>• Better coordination of care considering increased touch points and increased documentation that exists for each patient</td>
<td>• Drive up pharmacy sales via conversion of patients to pharmacy customers</td>
</tr>
<tr>
<td>• Improved overall medication adherence given the ease with which the patient can receive instruction (access to care)</td>
<td>• Provide value through increased patient touchpoints that can improve overall patient care and lean toward population health management</td>
</tr>
<tr>
<td>• Shared data across nurses, pharmacists, physicians and other medical professional can lead to better overall care for the patient</td>
<td>• Have an increased ability to keep patients in the early stages of the care continuum, which can drive down cost and improve lives</td>
</tr>
</tbody>
</table>

Some challenges that exist for retail and provider partnerships

The fact remains that there are benefits that exist for both retailers and health care providers through collaboration, however there are also challenges that these players must overcome in order to realize the true value of the benefit of collaboration. Analyzing risk using an overall risk management strategy is crucial in order to achieve effectiveness. The following risks needs to be considered:

- Patient safety
- Enrollment
- Credentialing
- EMR
- Health Insurance Portability and Accountability Act of 1996 (HIPAA)
- Inducement
- Payment/Reimbursement
- Billing and coding
- Clinical Laboratory Improvement Amendment (CLIA)
- Kickbacks
- Incentives/Waive co-pays

Including legal counsel in the overall risk management strategy is a leading practice in order to design, implement and execute the appropriate procedures prior to engaging in collaboration...

... but what other factors are driving changes in the health care world?
The role specialty pharmacy plays in the new health care world

Specialty pharmacy has continued to be an extremely powerful market within the changing health care landscape. The prevalence of chronic disease continues to grow, matching the trajectory that overall annual specialty drug spending is experiencing.

![Diagram showing upward arrows for # of individuals with chronic conditions and Annual specialty drug spend ($)]

This simple equation has made specialty drugs and the specialty pharmacy market a hot-bed for activity ...

Specialty pharmacies continue to gain attention from large players

Given the current state of population health with chronic disease on the rise, specialty pharmacies are major targets for large health care players. In fact, M&A activity in the specialty pharmacy space has been rampant over the last several years. With more and more players getting into the specialty pharmacy space, this has driven up the population of specialty pharmacies ...

![Diagram showing upward arrows for # of individuals with chronic conditions, Annual specialty drug spend ($), and # of specialty pharmacies]

Source: https://aishealth.com/archive/nspn0615-05
How to create differentiation between specialty pharmacies...

Increased demand for specialty drugs and specialty pharmacies within the market has increased the number of specialty pharmacies that exist. New specialty pharmacies continue to enter the market which provides patients options, however with options also comes varying levels of quality. Not all specialty pharmacies are the same. Differentiation can be achieved in the specialty pharmacy world through accreditation.

1. **What is accreditation?**
   - Accreditation is a process of review that healthcare organizations participate in to demonstrate the ability to meet predetermined criteria and standards of accreditation established by a professional accrediting agency. These agencies are dedicated to ongoing and continuous compliance with the highest standards of quality.

2. **Why become accredited?**
   - Becoming accredited illustrates an organization’s commitment to excellence and compliance in order to instill trust in the relationships they have with their patients. By becoming accredited, organizations demonstrate that they are holding themselves to the highest standard, striving for excellence in everything that they do so that they can provide value to their patients on an ongoing, consistent basis.

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**URAC Accreditation**

Within the industry, payors and pharmaceutical companies reference the URAC accreditation as the standard within the industry. The URAC accreditation is viewed as the authority for pharmacy quality. The accreditation verifies that the pharmacy manages and dispenses expensive specialty drugs in an efficient manner.

**URAC**

URAC defines specialty pharmacy as a full service pharmacy that specializes in filling prescriptions for patients who need high-cost biotech and injectable medications. They help patients with complex, chronic conditions (i.e., rheumatoid arthritis, types of cancer, hemophilia). These drugs can be injected, infused or taken orally, and typically require special handling and specialty expertise. The specialty pharmacy standards include:

- Pharmacy Core
- Customer Service, Communications & Disclosure
- Specialty Drug Management
- Pharmacy Operations
- Patient Management
- Measures Reporting

Other specialty pharmacy accreditations exist, such as ACHA, Joint Commission, Center for Pharmacy Practice Accreditation and others.

Source: [https://www.urac.org/accreditation-and-measurement/accreditation-programs/all-programs/specialty-pharmacy/](https://www.urac.org/accreditation-and-measurement/accreditation-programs/all-programs/specialty-pharmacy/)
Specialty pharmacy challenges
Specialty drugs and specialty pharmacies, while a hot commodity within the health care world, have large risks that require consideration:

- Specialty drugs have high costs (for both patients and payers)
- Specialty drugs require special handling and distribution
- Specialty drugs often require administration by a pharmacist or other health care provider
- Specialty pharmacies struggle to ensure medication adherence without consistent interaction and ongoing touchpoints
- High costs present challenges for specialty pharmacies to receive payment and reimbursement
- As a specialty pharmacy, it can be difficult to differentiate oneself between the vast number of pharmacies that continue to enter the specialty world

Creating value and providing greater health outcomes for patients with chronic conditions requires commitment and coordination throughout the lifecycle of the health care continuum, which ultimately presents additional risks that should be considered ...

Do benefits outweigh the risks?
Collaboration is happening within the health care world. Providers, pharmacies (both retail and specialty), plans, payors and PBMs alike are partnering in order to balance the appropriate amount of access and care that they can provide to their patients. These partnerships bring on both rewards and risks, which need to be weighed in order to understand the appropriate next steps ...

Seamless patient care  
Teaming across health care professionals  
Increased exposure to risk within the patient lifecycle

Population health management  
Stronger networks  
Increased compliance risk

Shared information  
Greater adherence  
More patient touchpoints

Healthier outcomes  
Training  
Up front costs

High-cost integration  
Reputation
Key takeaways
Today's discussion focused on the changing healthcare environment and the trends, opportunities, and risks that may have an impact on the health care industry moving forward. Key takeaways are:

 Healthcare continues to change at a rapid pace, on a consistent basis
 Consumer-centrism has challenged traditional norms and has forced healthcare to evolve
 Due to rapid changes and consumer-centric ideology, areas of opportunity exist to improve the lives of patients and lower the overall cost of care
 Opportunities present challenges and risks that can have consequences (i.e., fines, business continuity, damaged reputation, death) that could cause detrimental problems
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