Today’s discussion

- The future of retail health care Locations
- What risks and concerns might a retailer face with these relationships?
- What risks and concerns might a provider or health plan face with these relationships?
- Questions
Today’s speakers have broad experience working with health plans, providers and retailers

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Tom has over fourteen years of administrative and management experience in health care surrounding operations, reporting, compliance and strategy. He specializes 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. Prior to joining Deloitte & Touche, Tom served as the Administrator of Pharmacy Services for a Regional Health Plan over three business lines Commercial, Medicaid and Medicare. In addition, he was also responsible for the implementation and operations of the Medicare approved discount drug card and more recently Medicare operations, finance, risk adjustment, compliance, strategy, Part D application and implementation. Prior to his Health Plan experience, he worked at large, national PBM where he served as the Manager of Pricing and was responsible for plan pricing, profitability and RFP review and compliance.

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Kelly is a Partner with Deloitte & Touche LLP. She has over seventeen years of experience in the health care industry. Kelly specializes in providing regulatory compliance and risk services to healthcare providers. She has led dozens of regulatory compliance program assessments, implementation projects and responses to government investigations. She has also been involved in many enterprise-wide risk assessment and Enterprise Risk Management (ERM) program development engagements. In these roles, she works frequently with boards of directors and hospital leadership. This experience has given Kelly both a broad and deep understanding of provider operations and the impact of changing regulations. Kelly has also served several AMC and health system clients as an interim chief compliance officer and as an interim director of internal audit. She has assisted numerous clients directly and through counsel with Corporate Integrity Agreement (CIA) readiness, government investigations, Office of Inspector General (OIG) audits, and self-disclosures regarding documentation, coding and billing matters and has led a number of Independent Review Organization (IRO) engagements. Kelly is a frequent national speaker on compliance programs, internal controls and other regulatory topics.

Matt Hourin
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Matt is a Senior Manager at Deloitte & Touche LLP in the Audit and Enterprise Risk Services (AERS) Advisory practice. He specializes in assisting organizations with implementing sustainable enterprise risk management programs, with a specific focus in the retail healthcare industry. He has over fourteen years of implementing risk management programs, developing control frameworks, and delivering Internal Audit services. Matt assists clients in developing new tools and methodologies around Enterprise Risk Management (ERM) and Compliance. He led the development of Deloitte’s Risk Intelligence Map which has been used by some of the largest organizations in the world. Matt is a Global facilitator throughout Deloitte and a frequent public speaker on the topic of ERM.

Matt’s background in Internal Audit has provided opportunities for him to bridge the risk assessment process and organizations’ Enterprise Risk Management programs. As an extension to this, Matt has helped organizations embed risk management into their daily operations as well as part of the strategic planning processes.
The future of retail health locations:
Why the retail sector is expanding into health care

The retail health and wellness landscape is changing
Competitive landscape is changing with traditional retailers and emerging retailers providing higher competition to incumbents

<table>
<thead>
<tr>
<th>TRADITIONAL PHARMACIES</th>
<th>RETAILERS</th>
<th>OTHERS</th>
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<tr>
<td>• Increasing trend toward patients going for minor treatments at retail clinics because of their convenience (specially in areas such as pediatrics, optics)</td>
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<td>• Retail health clinics are expected to be a key treatment location for millions of uninsured Americans once they obtain health coverage Jan. 1, 2014 (through private health plan, or expanded Medicaid)¹</td>
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<td>• Extending to new services that include assessment, treatment, monitoring, and management for chronic conditions as well as additional preventive health services²</td>
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<td>• Retailers offer more convenient locations, broader product range, and lower prices</td>
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<td>• Price is significantly less that what a typical pharmacy can offer and may put pressure on the industry’s drug margins</td>
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<td>• At least five supermarket chains top $1 billion in pharmacy revenue²</td>
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<td>• Retailers are offering in-store clinics which offer essential preventative and routine health services for common ailments as well as screening exams. These services increase prescription and front-end sales³</td>
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<td>• Mail-order pharmacies and online retailers have started establishing a strong foothold in the industry</td>
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<td>• PBMs may need to expand their services into the provider space as well as team with health plans to remain viable in the future health insurance exchange (HIX) marketplace</td>
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Market dynamics are changing (continued)

Consumer and systemic challenges are leading to new opportunities

Major Health Care Provider Shortage

- The number of U.S. medical school graduates choosing a residency in family medicine is down 54% since 1997 — it’s expected that the provider gap will reach 30,000 in the next two years, and more than 65,000 by 2025

Staggering Costs of Health Care

- Patient Protection and Affordable Care Act (PPACA) will add 32 million newly covered patients in 2014
- Policy-makers agree that Medicare and Medicaid — not to mention the nation’s frayed health system overall — can’t continue to sustain the costs of care

Sources:
2. http://www.agingresearch.org/content/article/detail/826
Market dynamics are changing (continued)

Consumer and systemic challenges are leading to new opportunities

Retailers are considering expanding their business beyond pharmacy to areas such as clinical services, specialty drugs, medical devices, drug administration, disease management, low-grade medical services and urgent care.

Challenges in the retail healthcare value chain

- Drug Manufacturing
  - Drug serialization
  - Product safety
- Warehousing
  - Order fulfillment/Stock-outs
  - Regulatory compliance
- Merchandising
  - Sourcing
  - Inventory Management
- Patient Interaction
  - Patient Data Governance
  - Patient Identification
  - Cross-store Selling
- Dispensing
  - Patient Safety
  - Partial Fills
  - Return to Stock
- Claims Adjudication
  - Payor Contract Management
  - Claims routing
  - Payor Relations
- Collections of Receivables
  - Claims analysis
  - Payment recovery
  - Compliant Billing
Some key risks and considerations for Retailers

Retail health and wellness risk universe
Selected risks faced by retailers in the health and wellness space

| STRATEGIC RISK | • Inability to forge and/or manage alliances with healthcare providers, health plans, and pharmaceutical companies |
| • Inability to identify the right set of services to deliver to clients |
| • Inability to separate businesses with possible conflict of interests |
| • Lack of comprehensive ethical guidelines |
| • Bad public relations or brand damage resulting from a specific event |
| • Defamation, or litigation risks |
| FINANCIAL RISK | • Difficulty in pricing services, and capturing those services in existing systems |
| • Inability to coordinate with various agencies/stakeholders to collect payments |
| • Disclosure risks associated with employee social media use |
| • Internal controls over financial reporting |
| OPERATIONAL RISK | • Inability to ensure security of products (such as controlled substances) in-store and over supply chain |
| • Inability to ensure and monitor store level adherence of ethical policies and guidelines |
| • Lack of infrastructure to provide patient follow-up and customer support services |
| • Contractual and transactional risks associated with other players in the healthcare ecosystem |
| • Inability to hire/retain talent to deliver healthcare services |
| INFORMATION TECHNOLOGY RISK | • Security events / technical exploits / Identity theft and social engineering of patients’ information |
| • Data leakage / Data management / data integrity (in-house and third party) |
| • Improper handling of third party data (such as records from other health care providers, health plans companies) |
| • Insufficient technology capabilities to support store level clinics and other operations |
| • Inability to track a single patient across the store, and keep information safeguarded where necessary |
| REGULATORY AND COMPLIANCE RISK | • Disclosure of confidential data |
| • State scope of practice and other state-mandated reporting requirements |
| • Regulatory noncompliance associated with Centers for Medicare and Medicaid Services (CMS), OIG, Patient Protection and Affordable Care Act (PPACA), American Medical Association (AMA), Health Insurance Portability and Accountability Act (HIPAA) privacy regulations |
| • Tax compliance |
### Illustrative risk scenarios
Sample business scenarios demonstrate the diverse nature of risks

<table>
<thead>
<tr>
<th>SCENARIO</th>
<th>ASSOCIATED RISKS</th>
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</table>
| **CYBER ATTACK ON RETAIL SUPERMARKETS** | • Risk of cyber attacks  
• Loss of PHI specific data  
• Noncompliance with privacy regulations |
| **SALES PRESSURE ON RETAIL MANAGER**   | • Noncompliance with ethical guidelines and standards  
• Noncompliance with PPACA and AMA regulations  
• Breach of consumer trust  
• Loss of reputation in case the fraud is detected |
| **IMPROPER DELIVERY OF SERVICES**      | • Brand and reputation risks  
• Noncompliance with AMA regulations and guidelines, patient safety norms  
• Litigation risks |

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<thead>
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<th>SCENARIO</th>
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<tr>
<td>Protected Health Information (PHI) of patients being treated at the retailer's in house clinic exposed to cyber thieves</td>
<td>Due to sales pressure of certain medicines and medical devices, store manager pressures the clinicians to prescribe those products to patients</td>
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<tr>
<td>Prescription provided by retail clinics leads to an unexpected severe impact on patient due to lack of visibility into patient's medical records</td>
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Some key risks and considerations for Providers
Some key risks and considerations for Providers

Some risks related to current staffing models

Retail Clinics Function Primarily via a Non-Physician Staffing Model:

- While some retail clinic settings may have physicians on-site, many have certified nurse practitioners as the primary providers of care.
- State regulations govern nurse practitioner scope of practice and physician oversight requirements.
- Some physician organizations have fought for increased regulations impacting scope of practice and physician oversight of services.
- As retail health clinics continue to expand across the U.S., more physicians have been approached to help serve in a supervisory or collaborative role.
- State law varies widely with respect to degree of supervision/collaboration between a physician and a nurse practitioner.
- Neither supervision nor collaboration requires physicians be permanently on-site, but they must be easily contacted by telephone or available to visit the clinic for consultation or referrals.
- Some physicians may be concerned about medical malpractice concerns resulting from these relationships should something go wrong.

Some key risks and considerations for Providers

Other regulatory/compliance risks

“Traditional” Provider Risks Still Apply and Should be Considered

- All providers must be appropriately licensed, credentialed/enrolled with payers, etc.
- While many retail clinics use electronic health records, providers must still document adequately to support their services, which are often billed to third party payers
- Providers need to understand coding if they are responsible for self-selecting diagnosis and visit codes (which will only become more complex when ICD-10 becomes effective)
- Privacy and security requirements still apply
- Providers need to be mindful of compensation arrangements and referrals (especially as the types of arrangements become more complex)
Some key risks and considerations for Health Plans

Some strategic risks and considerations

Health Plans strategy for expanding their network into the retail locations includes:

• Contracting directly with a retailer-owned practice
• Contracting with rented providers that practice out of retail locations
• Contracting with pharmacy/vision/dental and other medical services the retailer offers
• For plan owned providers, are you willing to rent them to a retailer or co-brand them with the retailer?

Contracting Leverage

• Could the retailer hook you on medical and require that you include their portfolio of services at a less than favorable rate

Member demographics

• The demographics associated with a member who would utilize retail health care may differ from what the plan has typically experienced, which may impact plan revenue

Reputation risk

• The reputation of big box retailers varies widely, so the health plan should carefully consider its’ association with each retailer and the impact this could have
Some key risks and considerations for Health Plans

Some operational / infrastructure risks and considerations

Risk Adjustment
- Medicare, some Medicaid as well as future ACA business will be risk-adjusted and rely on coding and documentation from the provider locations
- Retail provider services are leaning towards a high volume model that may impact clinical documentation as well as risk adjustment and plan revenue

Quality of Care
- Personalized service versus an “assembly line” approach - is the “assembly line” approach consistent with the health plans' goals and expectations?
- Will the addition of retail locations and high volume providers impact Healthcare Effectiveness Data and Information Set (HEDIS) and other clinical scores?
- New opportunities to deliver disease management that may compete with the health plans disease management programs or use differing protocols
- New opportunities for the provider and pharmacy to coordinate under one roof

Impacts on network requirements
- Many large retailers target more rural areas - can this be leveraged to open up and meet network requirements for new service areas?

Some key risks and considerations for Health Plans

Some reporting risks and considerations

Regulatory Reporting
- Retail providers will be subject to the same reporting requirements as traditional health care providers
- Retail health clinics will need to establish patient eligibility and the medical necessity of each visit in order for reimbursement

Financial Reporting
- The addition of health care services will subject traditional retailers to new accounting rules

Coordination of Care
- Retailers will need to invest in infrastructure and systems to coordinate member care and records between their clinics and other healthcare providers and plans
- Entering the healthcare space places these retailers into a new ecosystem of providers and plans with which they will be expected to interact with and share data
Some key risks and considerations for Health Plans

Some compliance risks and considerations

Regulatory Environment
- Adherence to the regulatory framework of PPACA and associated regulations may likely be a very complex undertaking for traditional retailers
- The provision of health care services places retailers at risk of scrutiny from several regulatory agencies and will require compliance with numerous regulations, such as those from CMS, Drug Enforcement Administration (DEA), Office for Civil Rights (OCR), etc.

Staffing
- Insurance reimbursement under Medicare, Medicaid and potentially several private insurers may require credentialing of providers at each retail location.
- State laws governing the practice of medicine and licensure requirements will have a significant impact on a retail clinic in regards to service offering and staffing (e.g., use of physician extenders)

Security & Privacy
- Traditional retailers will be in possession of medical records, subjecting them to requirements for safeguarding Protected Health Information (PHI)
- Improper disclosure of patient data will become a new risk area for traditional retailers

Ethical Standards
- How will retailers ensure they are delivering healthcare services in line with the ethical standards prescribed by the AMA and other oversight agencies?

Managing risks associated with this changing delivery model
### Ten essential risk intelligence skills

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<th>Realization</th>
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<tr>
<td>1</td>
<td>Check your assumptions at the door</td>
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<tr>
<td>2</td>
<td>Maintain constant vigilance</td>
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<tr>
<td>3</td>
<td>Factor in velocity and momentum</td>
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<td>4</td>
<td>Manage the key connections</td>
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<tr>
<td>5</td>
<td>Anticipate causes of failure</td>
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<td>6</td>
<td>Verify sources and corroborate information</td>
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<td>7</td>
<td>Maintain a margin of safety</td>
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<tr>
<td>8</td>
<td>Set your enterprise time horizons</td>
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<td>9</td>
<td>Take enough of the right risks</td>
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<td>10</td>
<td>Sustain operational discipline</td>
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“To win you have to risk loss.”

Jean-Claude Killy, champion Alpine ski racer

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### Some key takeaways

- This is a new delivery mechanism for existing services
- Health Plans will have an opportunity to expand their networks and reach a new demographic
- This creates new opportunities to expand your brand name, but also presents new risks which need to be managed
- Retailers see great opportunity to drive high margin traffic and increase store sales by further engaging in healthcare delivery
- As this is a new delivery/business model, many retailers will initially be challenged through various parts of the value chain
- Leveraging foundational principles of risk management can help Retailers, Plans and Providers navigate risk and the challenges of this new delivery model
Discussion