

# *The North Carolina Healthcare Landscape*



An independent licensee of the Blue Cross and Blue Shield Association.



# Environmental Overview



## Unprecedented pressure and uncertainty from health care reform and other factors



### Economic Pressures:

- Health cost burden at a tipping point
- Economic slowdown and erosion in employer health coverage
- Repositioning of the health business model
- Explosion in medical technology and pharmacology advances

### Competitive Trends:

- Intensifying competition
- Consolidation of providers
- Shrinking of the commercial insurance pool
- Emergence of new products, competitors and delivery models



## Health Care Industry

### Consumer Pressure:

- Consumers are more knowledgeable, demanding, empowered and diverse
- Consumerism fueling demand for new products and transparency
- Growing out-of-pocket health expense is driving the “retailization” of health care



### Political/Regulatory Pressures:

- State and federal mandates
- Regulatory and legislative actions
- Healthcare Reform

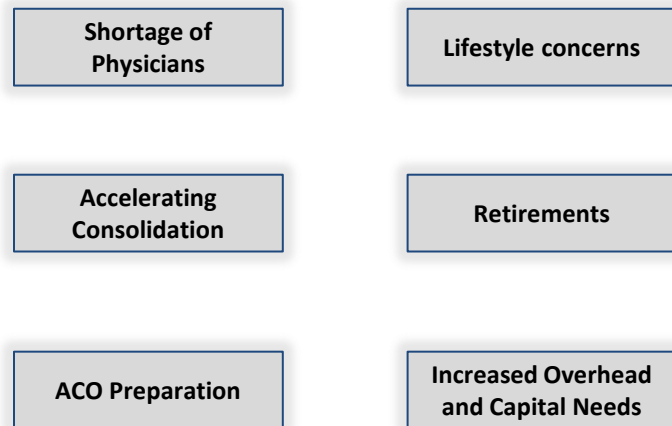




# Significant Changes Taking Place in NC



## Provider Market



- Limitations to primary care access inadequate in the future
- As medical practices are consolidated with hospital systems, providers will gain leverage with health plans
- Medical Expense will continue to increase
- Move from fee-for-service to value-based system



# Examples of Cost Drivers



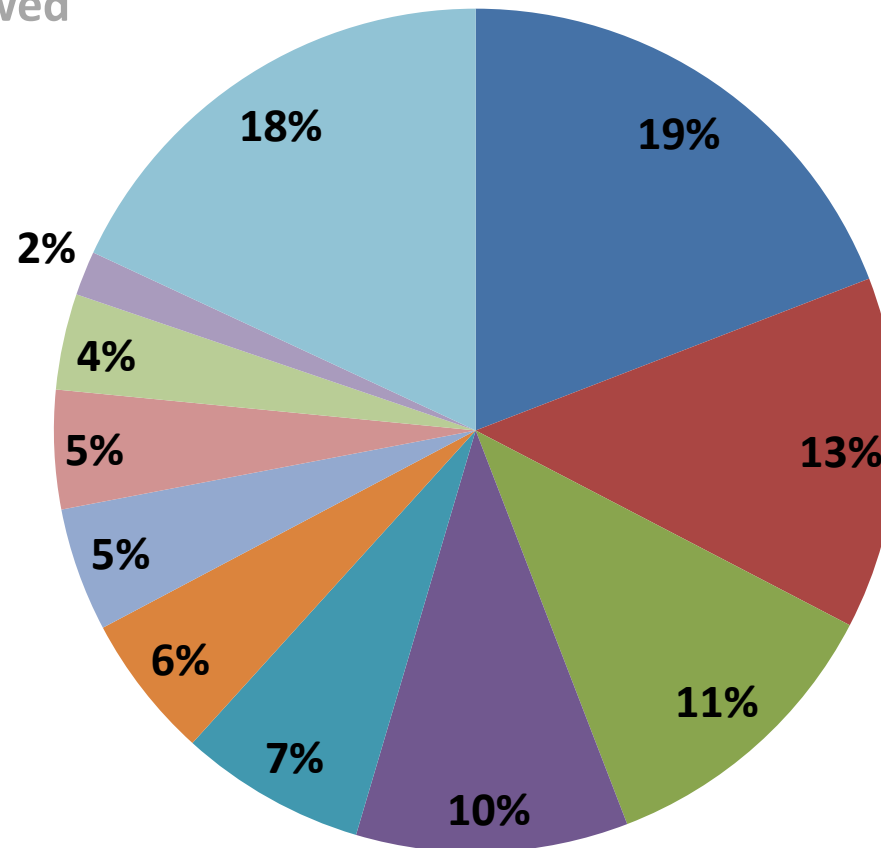
- + Cost per Unit (similar to M-CPI)
- + Utilization
- + Federal mandates
- + Intensity: In general, new procedures or drugs are developed at a very high cost and often for a fairly limited population. The competition that drives down costs in other fields does not work effectively in the medical field. The highest cost and fastest growing segments of medical technology market are:
  - Diagnostic imaging
  - Cardiovascular procedures
  - Diagnostic in-vitro
  - Specialty drugs
  - Genetically targeted drugs



# Provider Consolidation in North Carolina



Hospital Allowed

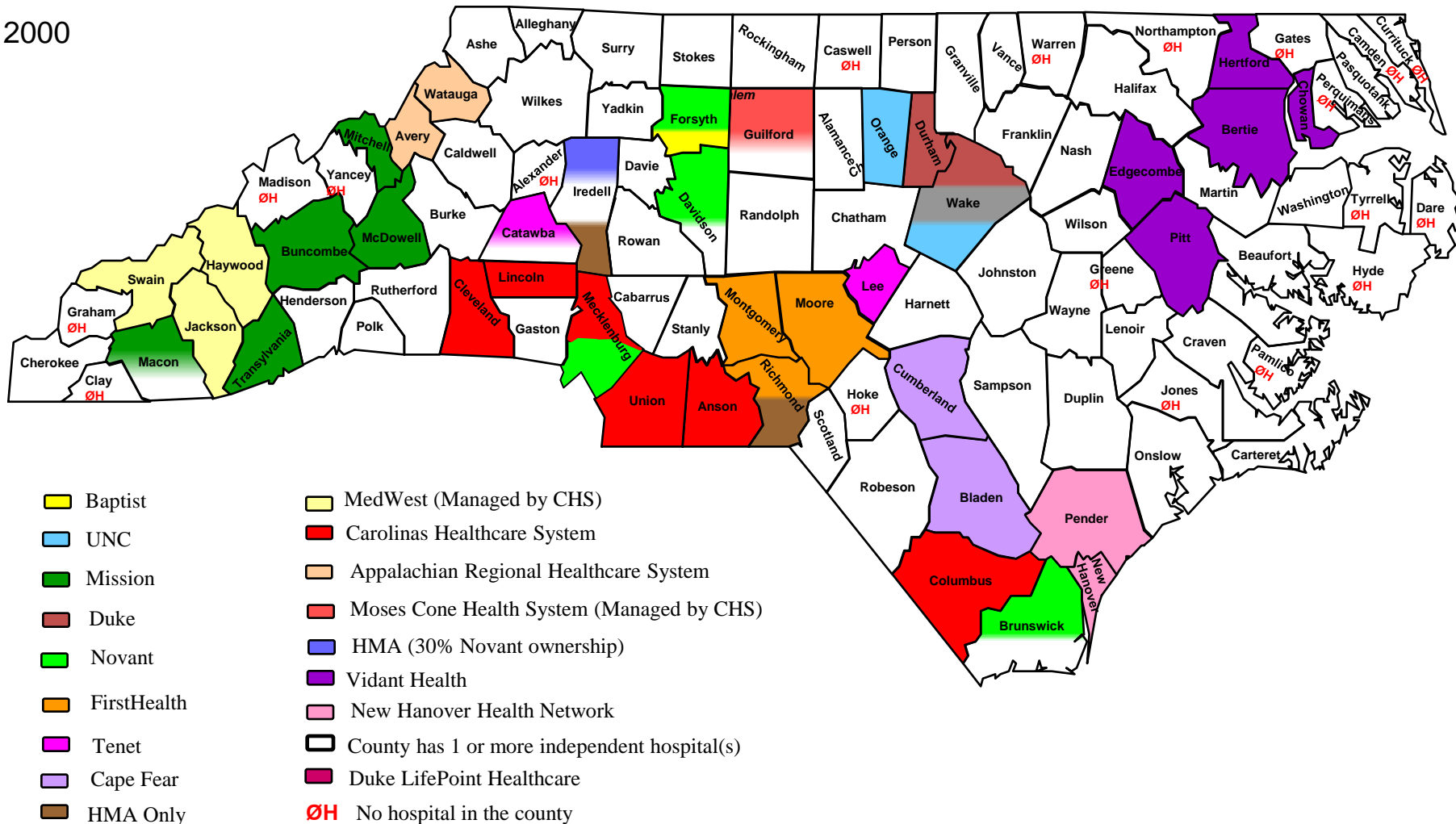


- 82% of hospital medical spend is **within** the top ten health care systems



## Provider Consolidation

2000





2005





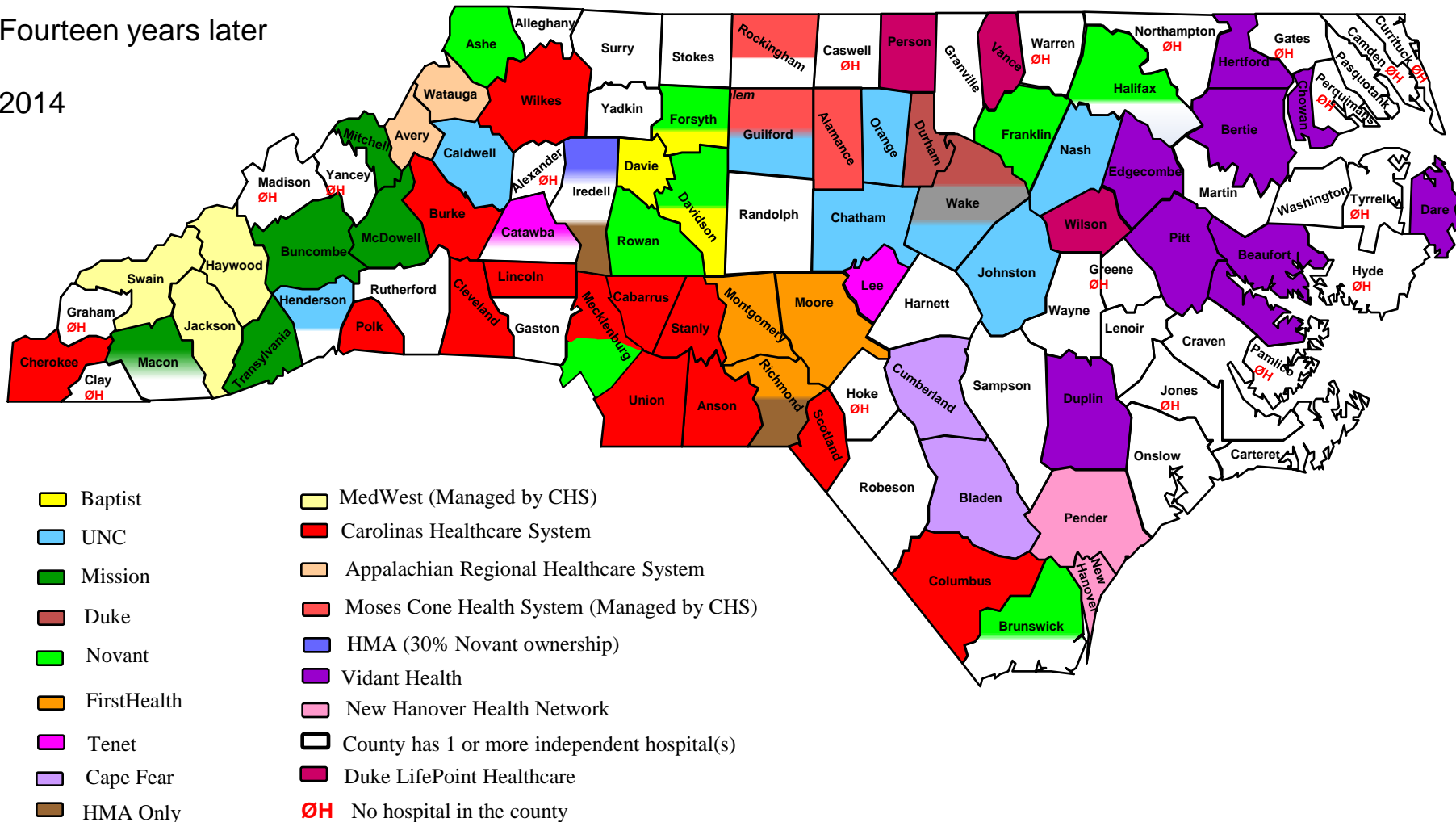
# NC LANDSCAPE



Provider Consolidation

Fourteen years later

2014





## Provider Consolidation

### LESS COMPETITION AND HIGHER COSTS

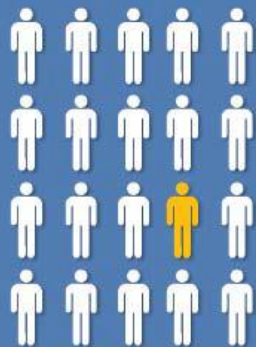
Research demonstrates that when hospitals consolidate, either merging with other hospitals or buying up physician practices, health care costs go up. Provider consolidation gives hospitals greater

negotiating strength and limits competition, resulting in higher prices for services, higher costs for patients, and no improvement in the quality of care delivered.



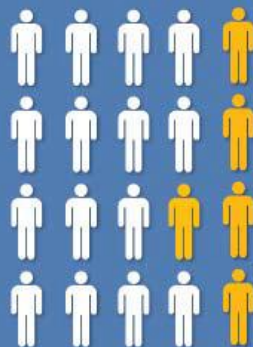
## Physicians Are Becoming Hospital Employees<sup>1</sup>

In 2000 1 in 20 specialists was a hospital employee...



2000

...Today 1 in 4 specialists is a hospital employee.



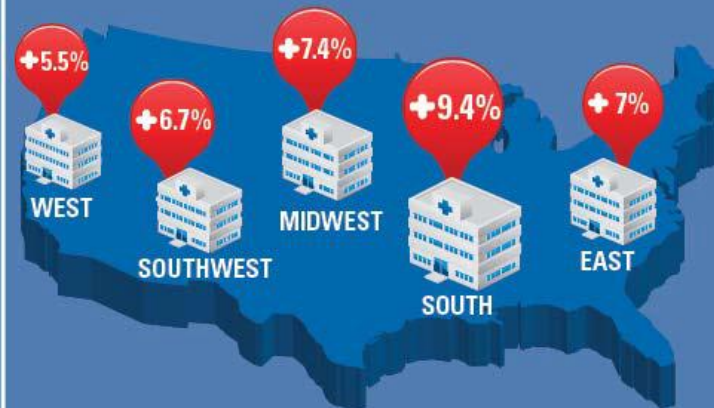
2012

**“Last year, a 15-minute visit to a doctor in private practice cost \$69...That same visit to a hospital-employed physician cost \$124.”**

-Orlando Sentinel

## Increasing Market Concentration Leads to Higher Prices for Consumers<sup>2</sup>

Percentage increase in market concentration from 1999-2003.



**“Research suggests that hospital consolidation in the 1990s raised prices by at least five percent and likely significantly more. Prices increase 40 percent or more when merging hospitals are closely located.”**

-Robert Wood Johnson Foundation

1. Jameson, Maril. "As Hospitals Take over Doctors' Practices, Fees Rise." Orlando Sentinel. N.p., 15 Sept. 2012. Web. <[http://articles.orlandosentinel.com/2012-09-15/health/os-hospitals-buy-physicians-20120915\\_1\\_hospital-executives-hospital-employee-physician-practices?pagewanted=all](http://articles.orlandosentinel.com/2012-09-15/health/os-hospitals-buy-physicians-20120915_1_hospital-executives-hospital-employee-physician-practices?pagewanted=all)>.  
2. Vogt, William B., Ph.D., and Robert Town, Ph.D. How Has Hospital Consolidation Affected the Price and Quality of Hospital Care? Rep. N.p., Feb. 2006. Web. <<http://www.rwjf.org/content/twift/en/research-publications/finf-rwjf-research/2006/02/how-has-hospital-consolidation-affected-the-price-and-quality-of.html>>.



# Impact of Provider Consolidation in NC



Stated Benefits of Consolidation	Actual Impact in NC
Larger, more integrated health system	Typically enhances bargaining power resulting in increased reimbursement, added facility fees, increased out-of-pocket for members, higher rates for drugs
Improved health care delivery	Consolidation without integration rarely leads to enhanced performance
Realize operating efficiencies needed to operate in a market increasingly shaped by a more risk-based health insurance market: realign services, reduce excess capacity, adopt economies of scale	Often a lag time between integration and financial benefit for the consumer
	Referral patterns staying within the system
	Pressure on independent providers to join a system which ultimately leads to a decrease in patient choice

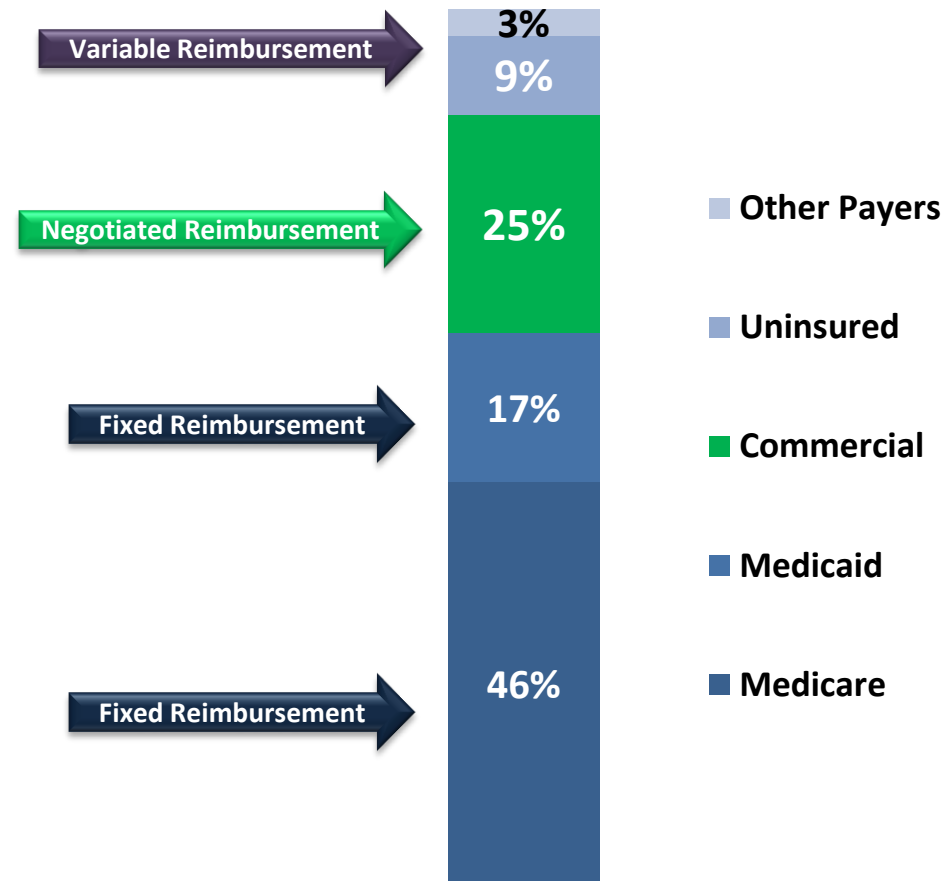


# Impact on Commercial Business



Provider consolidation primarily impacts commercial payers, including BCBSNC, due to reimbursement rate negotiation. Other payers are not affected as much due to their fixed rates.

Although there are multiple factors that are increasing the cost of healthcare, commercial members are especially impacted by provider consolidation when higher reimbursement rates are a direct result of the consolidation.



## Average Hospital Payer Charges

Source: NCHA CON Presentation to NC Legislature

<http://www.ncleg.net/documentsites/committees/BCCI-6610/February%2018,%202014/Hospital%20Association%20CONCommitteePresentation.pdf>