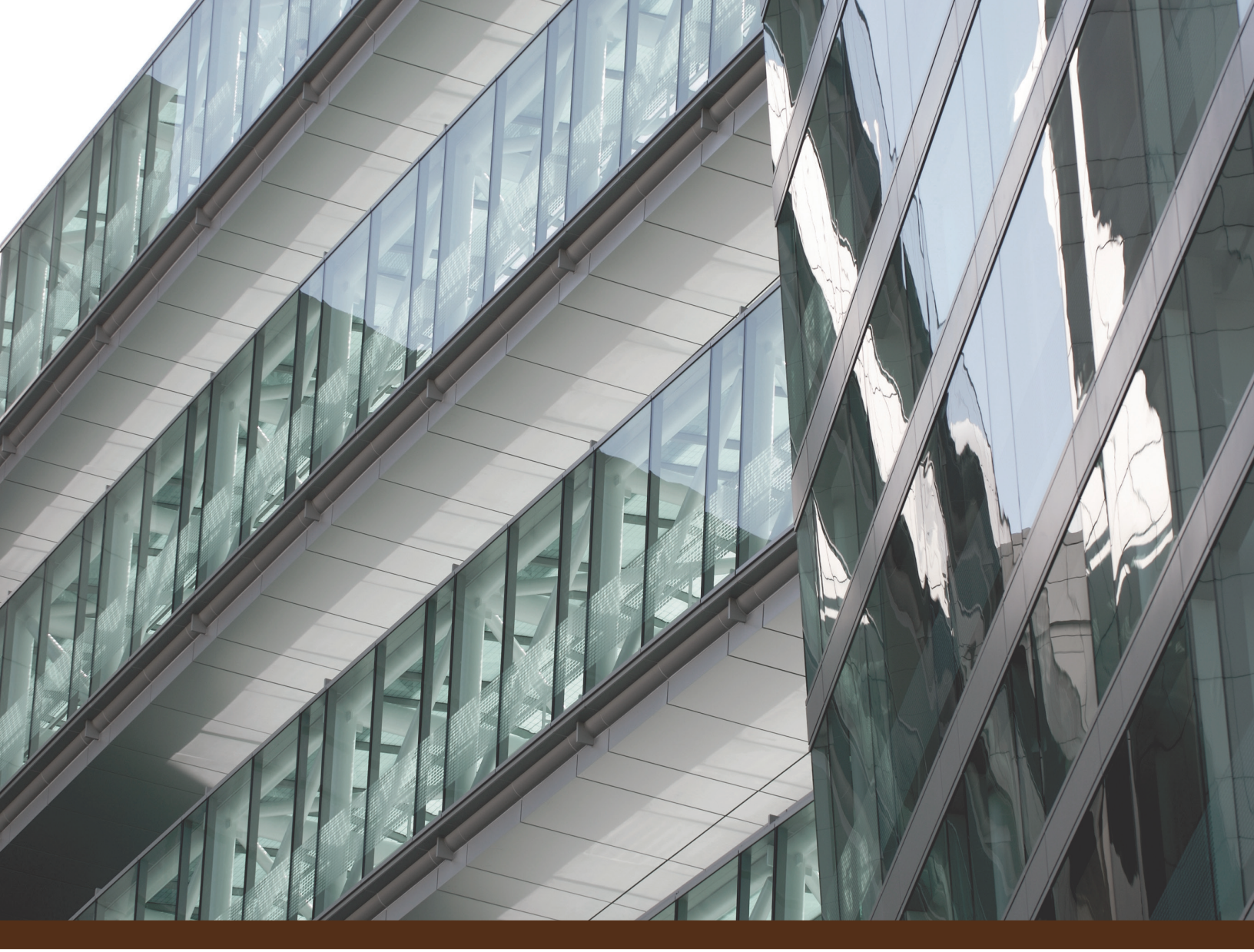


HEALTHCARE BANKING

J.P. MORGAN HEALTHCARE ADVISORY COUNCIL

Managing the Future of Healthcare

The nation's leading providers come together to discuss emerging trends, impending regulation and the growing cost of healthcare.

J.P.Morgan

On October 7 and 8, 2013, J.P. Morgan's Healthcare Banking team hosted the inaugural J.P. Morgan Healthcare Advisory Council summit in New York City. Created with the primary mission to help healthcare organizations evolve in a transforming industry, the council brought together a group of CFOs from top provider organizations from around the nation to discuss key issues in healthcare, including technology, risk management, politics and regulatory change.

Changing the Conversation

It's hard to find a U.S. industry that has experienced more changes in the past few years than healthcare, and the J.P. Morgan Healthcare Advisory Council was created to help organizations through these transitions. On October 7 and 8, 2013, the council convened for its inaugural summit in New York City to discuss key issues and potential solutions for their industry.

"More than ever there is a need for innovation and collaboration," said Patrice DeCorrevont, Head of J.P. Morgan's Government, Not-For-Profit & Healthcare Banking, in her opening remarks at the event. For the panelists and participants, the theme of collaboration permeated nearly every topic of the event. Both payers and providers joined the debate, questioning whether trends, such as the movement from pay-for-service to value-based care, were actually viable business plans that could alter the trajectory of the industry.

"The challenge is how to create a sustainable business that delivers sustainable value for the consumer," said Barry Mason, Vice President of IBM Global Healthcare Solutions and Services, during a panel on technology. The talk took an in-depth look into the challenges of tech-based solutions, including increasing the ROI of software systems with price tags starting at $80 million. Dr. Narendra Kini, CEO of Miami Children's Hospital, detailed the laborious task of transferring medical records into cloud-based technology. "We accounted for text and numeric data but not waveform or image data in job standard form. Learn from our mistakes."

But the need for new solutions was directed to more than just the provider side. "We're seeing very limited options outside of narrowing or tiering provider networks," said Dave Huber, CFO of Horizon Healthcare Services, Inc., New Jersey's oldest and largest health insurer. While the providers have their litany of challenges, payers face an increasingly complex and uncertain future. "No one knows what will happen when the previously uninsured population with preexisting conditions enters the marketplace," Huber said, during a panel titled, "The Changing World of Commercial Insurance Payers and Its Impact on Providers."

The panel projected the effects of federal and state exchanges on premiums, as well as the role of private exchanges in the marketplace. Panelists highlighted the growing need for insurers to attract the young, healthy, millennial population that had previously not purchased health insurance, but who would now be required to have minimum essential coverage. "Over 70 percent of people entering the marketplace are buying plans based on price rather than qualitative reasons," said Justin Lake of J.P. Morgan's Investment Bank. "Cutting costs for the consumer is necessary for payers to stay competitive."

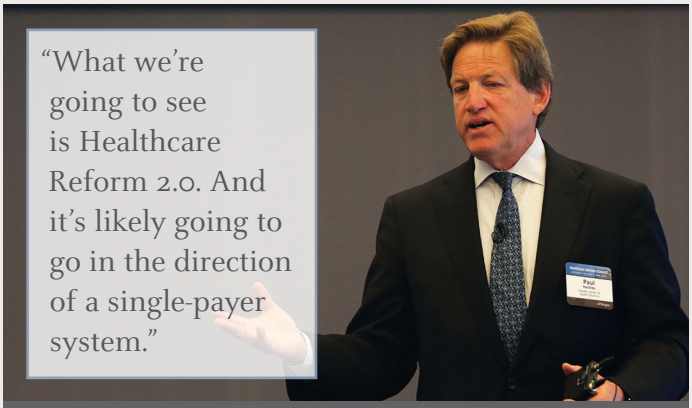
During a dialogue with CEO and Chairman of J.P. Morgan Chase & Co. Jamie Dimon, participants asked how the financial services industry set up their interbank network system for ATMs and discussed a possible parallel to the healthcare industry with regard to sharing electronic medical records. "Basically, it was a consortium that convened regularly to set industry standards for ATM cards. After two years, it disbanded with the idea that we would all compete off those standards."

> "The challenge is how to create a sustainable business that delivers sustainable value for the consumer."
>
> Barry Mason, Vice President of IBM Global Healthcare Solutions and Services

The backbone of the conference focused on rethinking priorities and strategies in the face of political, technological and inter-industry transition. "We really need to change the conversation," said Paul Keckley, Health Economist and Policy Analyst, and Former Executive Director for Deloitte's Center for Health Solutions. "Whether through payment reform, workflow productivity or new technology—we now have to consider how each decision plays a role in value-based care."

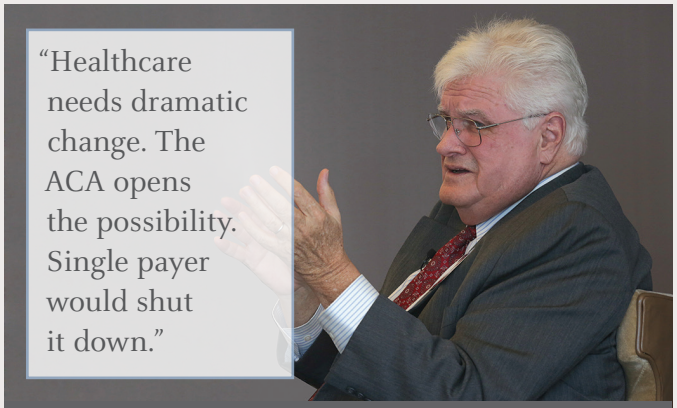
Debating the Future of Healthcare

ARE WE HEADED TOWARD A SINGLE-PAYER SYSTEM?



"What we're going to see is Healthcare Reform 2.0. And it's likely going to go in the direction of a single-payer system."

PAUL KECKLEY, PHD,
HEALTH ECONOMIST AND POLICY ANALYST



"Healthcare needs dramatic change. The ACA opens the possibility. Single payer would shut it down."

JAMES R. TALLON JR., PRESIDENT
UNITED HOSPITAL FUND

WILL PAYERS TAKE CARE INTO THEIR OWN HANDS?

"Like Aetna with its recent ACO purchase, we may see a trend of payers encroaching into the providers' space."

JUSTIN LAKE, MANAGING DIRECTOR
INVESTMENT BANK, J.P. MORGAN

"We have little interest getting into the provider side—we want to focus on what we do best."

DAVE HUBER, CFO AND TREASURER
HORIZON HEALTHCARE SERVICES, INC

IS THE FUTURE OF HEALTHCARE A PATH TO CONSOLIDATION?

"The message is loud and clear: go big or get out."

PAUL KECKLEY, PHD,
HEALTH ECONOMIST AND POLICY ANALYST

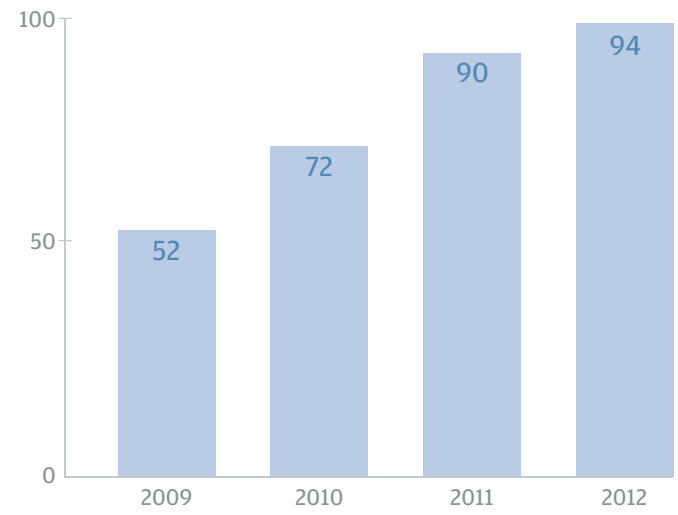
"In the future, we'll see 10 national systems and 50-60 super-regional systems. Smaller systems will survive, but they are dependent on market essentiality and market position."

KIMBERLY ALLEN, MANAGING DIRECTOR
NOT-FOR-PROFIT STRATEGIC ADVISORY, J.P. MORGAN

Key Drivers of Change in Healthcare

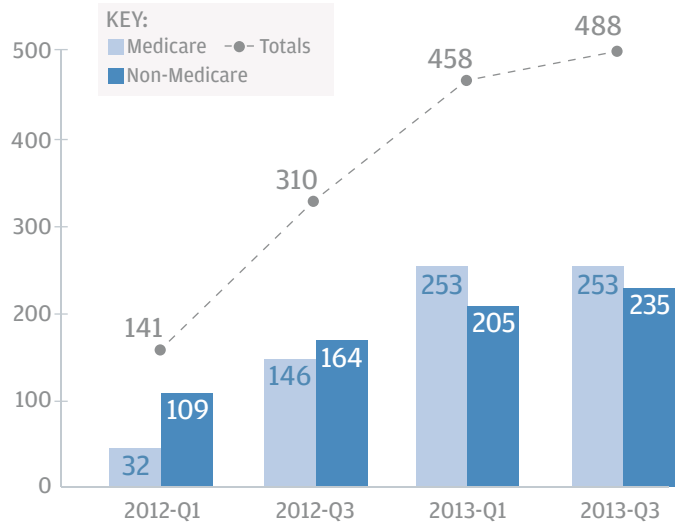
CONSOLIDATION

Number of Hospital Mergers & Acquisitions Deals



Source: PricewaterhouseCoopers

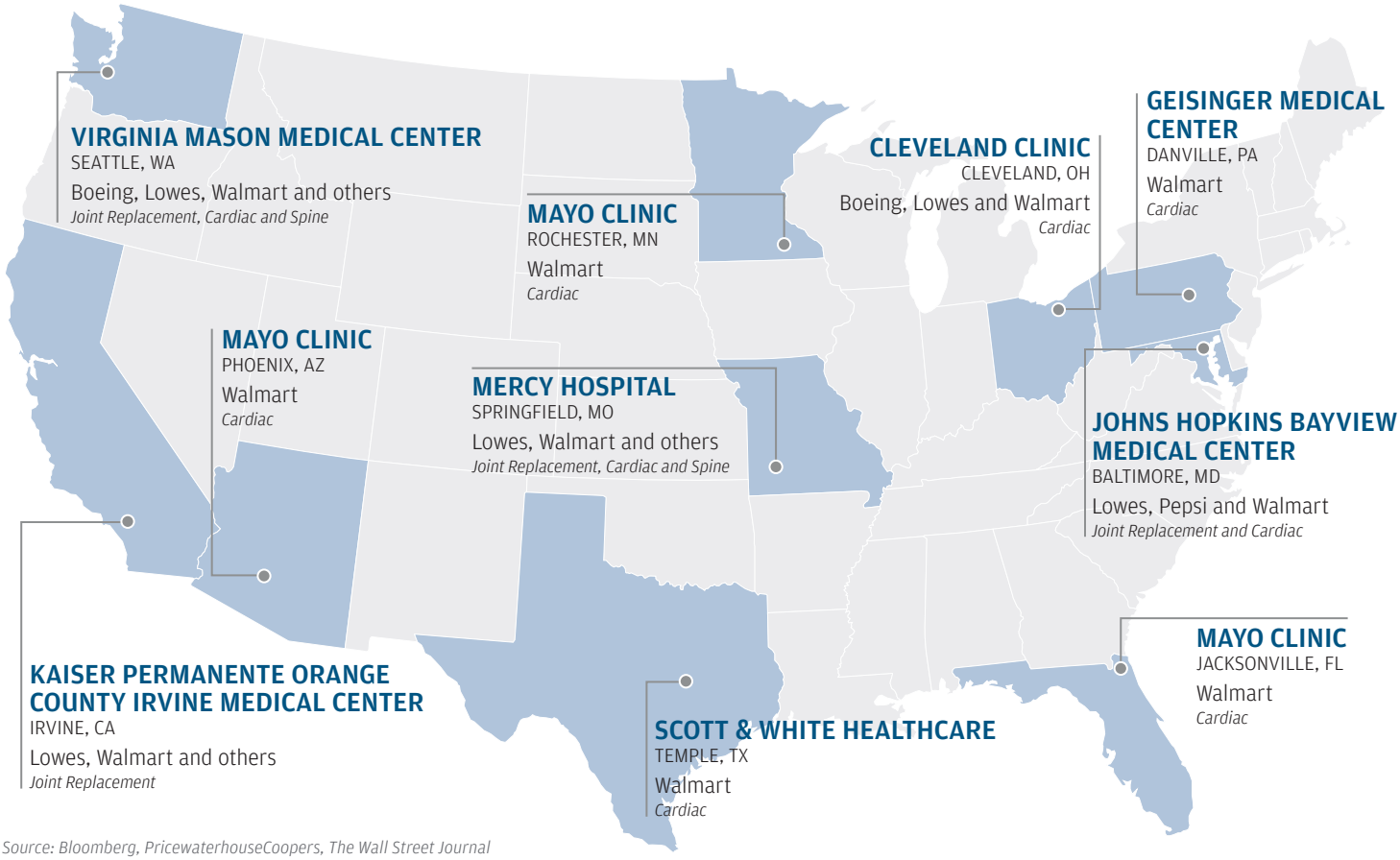
GROWTH OF ACCOUNTABLE CARE ORGANIZATIONS (ACOs)



Source: 2013 Growth and Dispersion of ACOs, Leavitt Partners

CENTERS OF EXCELLENCE

Over the last year, some of the nation's largest employers contracted with major hospitals for specific surgery services, reducing health costs through bundled payment agreements.



Source: Bloomberg, PricewaterhouseCoopers, The Wall Street Journal

Ten Ways Providers and Payers Can Work Together to Cut the Cost of Healthcare

The Affordable Care Act and High Deductible Health Plans (HDHPs) are changing the inner workings of the healthcare industry. Payers and providers will need to seek alternatives to cut costs while also maintaining a positive patient experience.

With the rise of HDHPs, increasing costs, and more cost accountability shifting to the patient, consumers are beginning to put cost at the forefront of the decision-making surrounding healthcare. In order to stay competitive, payers and providers will need to work hand-in-hand to cut costs for consumers.

Here are the top 10 ways providers and payers can unite to cut the cost of healthcare.

1 Identify waste in spending.

Whether it's clinical, behavioral or operational, wasteful spending accounts for $1.2 trillion out of $2.2 trillion spent in the U.S., according to a survey by PricewaterhouseCoopers. Some of the largest contributing factors were redundant testing, inefficient administration and costs related to preventable conditions such as obesity.

2 Define clear goals.

Balancing priorities and goals may be the single most important step of the process. Both sides should agree on what information is shared about cost, while also looking for better efficiencies in administrative processes. When payers and providers decide on and invest in an intersecting purpose, efficient patient care and cost-benefits will follow.

3 Elevate technology to serve all sides of the equation.

The trend seems to be to go tech or go home, but healthcare software and the act of taking medical records to the cloud is a major overhaul. However, there are cost-benefits and efficiencies for electronic medical records, e-prescribing tools and automated administrative functions. Payers will ultimately benefit by having less collateral to handle with the ease of automation.

4 Leverage patient data to benefit payers and providers.

There is an immense amount of data that providers and payers know about a specific patient—whether financial, behavioral, clinical or operational. It's up to each side to not only aggregate this data but to leverage it for the best patient experience. Payers are able to access data from a wide variety of sources, but have the lowest use of secondary data of all health industry stakeholders, according to a survey by PricewaterhouseCoopers. Predict the best plan and investigate further for more insight into behavior.

5 Decide if diagnostic software complements physicians' patient diagnosis.

While physicians rely on intuition, previous findings and clinical data for patient diagnosis—some practitioners are leveraging technology-driven diagnostic programs to identify disease and support their initial findings. Diagnostic mistakes account for about 15 percent of errors that result in harm to patients, according to the Institute of Medicine. Determine if diagnostic software would complement the clinical process. Dr. Gurpreet Dhaliwal, Professor at University of California, San Francisco, states, "Getting better at diagnosis is as important to patient quality and safety as reducing medication errors, or eliminating wrong site surgery."

6 Get inside behavior.

The American Medical Association states that at least 25 cents of every healthcare dollar spent on the treatment of diseases or disabilities are a result of potentially changeable behaviors. Whether the cause is smoking, alcohol abuse, poor diet and exercise, failure to use seat belts, or overexposure to the sun—preventable healthcare costs are the first concern of many U.S. healthcare critics. While wellness programs give incentives and are proven effective, payers and providers can work together to advocate for a change in damaging behaviors.

7 Integrate wellness programs in hospitals.

A study by the Center for Disease Control and Prevention concluded that hospitals should be leading the way by making fundamental changes to create health-promoting environments. A culture of health and wellness in hospitals includes a shift in healthier food and beverage standards for employees and patients, models to promote physical activity, an increase in awareness around breastfeeding, and tobacco cessation and control programs. Support by public health systems will promote community health and fewer patient claims.

8 Explore e-visits and cost benefits.

Some providers are determining if some doctor's visits are best done virtually to make for a better patient experience and enhance cost benefits. A study by JAMA Internal Medicine analyzed the benefit of e-visits and concluded that this process could lower healthcare spending and added convenience for the patient, as well as cost savings for payers.

9 Reassess the way patients are being charged for service.

Many of us have heard of the bundling approach, but is it realistic? Instead of having a patient pay for service only when they need it or instilling the idea to "do more" in the doctor's office, determine if your institution can flourish with this shift in service. Volume-based care may be beneficial for your bottom line, but patients may seek alternatives once they catch on to the concept.

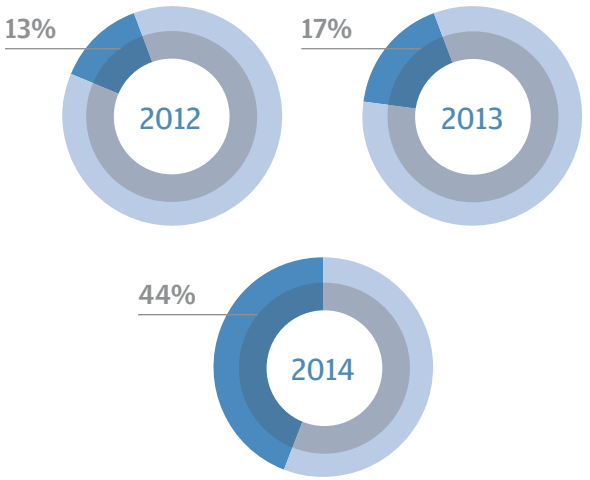
10 Reassess incentives.

Readjusting incentives programs can reform care delivery and improve overall health costs. A study by The Commonwealth Fund shows that states are implementing care models for Medicaid beneficiaries or pursuing multipayer approaches to move toward a unified healthcare budget. New incentive strategies could redesign the way care is delivered and promote an expansion of cost savings.

Both payers and providers should align themselves to work toward the health and well being of each patient/subscriber for whom they provide service. During this shift, it's important to maintain efficiencies, while keeping a patient-centered focus. The market is rapidly changing, and those who fail to keep up will surely be left behind.

THE NORMALIZATION OF HIGH-DEDUCTIBLE HEALTH PLANS (HDHPs)

Percentages of employers considering only HDHPs



Source: PricewaterhouseCoopers

WANT MORE?

J.P. Morgan's commitment to the healthcare industry goes beyond banking and finance. Our dedicated experts have compiled top industry insights in one place.

Get more J.P. Morgan healthcare insights online at **jpmorgan.com/cb/healthcare-insights**

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