Understanding Today's Realities and Preparing for the Future

Surviving in Private Practice

John Cherf MD, MPH, MBA
Chief of Orthopedics, Advocate Illinois Masonic Medical Center
Vice Chairmen and Medical Director, OrthoCentrix Solutions
President, OrthoIndex

The California Orthopedic Association
April 24, 2015

Disclosure

I have no relevant financial relationships to be discussed, directly or indirectly, referred to or illustrated with or without recognition within the presentation.

Agenda

Reality Check

Market Demand

Impact of Reform

Why I Like Private Practice

Planning for the Future

*Ortho*Index™

A Long, Slow Recovery

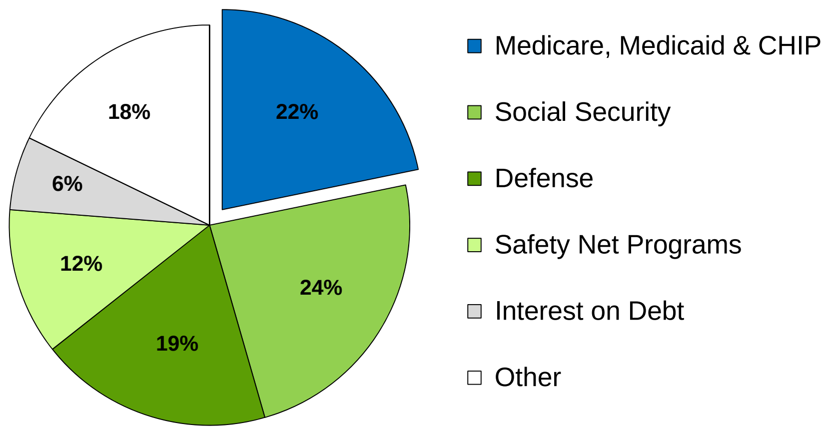
Federal Budget Outlook (Billion)

	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	2,524	2,105	2,163	2,304	2,450	2,775	3,021	3,665
Outlays	2,983	3,518	3,457	3,604	3,537	3,455	3,504	3,987
Deficit	-459	-1,413	-1,294	-1,300	-1,087	-680	-483	-322
Shortfall	15%	40%	37%	36%	31%	20%	14%	

- 2014 Shortfall of 14%
- Total Federal debt is $18.1 Trillion
- Liability of $56,518 per person
- Liability of $154,056 per taxpayer

Sources: Congressional Budget Office, 2015.

U.S. Federal Spending



CHIP = Children's Health Insurance Program.
Source: Center on Budget and Policy Priorities, 2014.

Median Physician Compensation

Specialty	Compensation
Orthopedic Surgery	**$514,659**
Cardiology: Invasive	$500,993
Radiology: Diagnostic	$471,253
Gastroenterology	$463,955
Dermatology	$430,874
Hematology/Oncology	$382,934
Urology	$372,455
Surgery: General	$343,958
Ophthalmology	$330,784
Obstetrics/Gynecology	$281,190
Emergency Medicine	$277,297
Neurology	$249,867
Internal Medicine	$205,379
Pediatric/Adolescent Medicine	$192,148
Family Practice	$189,402

Source: Medical Group Management Association, 2011.

The Truth About The "One Percent"

"Income inequality" has emerged as a national political issue

The Top 1%

- $389,000 in taxable income (adjusted gross income)
- Accounted for 19% of total national household income
- Paid 35% of all individual income taxes

The One Percent	
30%	Non-financial business executives
14%	Doctors
13%	Finance business executives
8%	Lawyers
35%	All others

Congressional Budget Office, 2012; OrthoIndex Analysis, 2015..

Agenda

Reality Check
Market Demand
Impact of Reform
Why I Like Private Practice
Planning for the Future

Where Is The Growth?

Inpatient Service Line Growth Rates
US Market, 2014 - 2024

Outpatient Service Line Growth Rates
US Market, 2014 - 2024

Source: Sg2 Analysis, 2014.

Orthopedics Growth Exceeds Other Service Lines

Inpatient Service Line Growth Rates
US Market, 2014 - 2024

Outpatient Service Line Growth Rates
US Market, 2014 - 2024

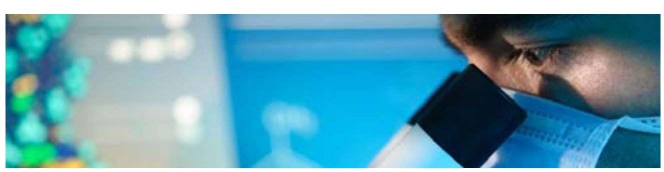
Source: Sg2 Analysis, 2014.

Outpatient Orthopedic Forecast

5 - Year Forecast, 2014 - 2019

E&M = evaluation and management.
Source: Sg2 Analysis, 2014.

More Patients With Insurance and Accelerated Medical Innovation



Agenda

Reality Check
Market Demand
Impact of Reform
Why I Like Private Practice
Planning for the Future

*Ortho*Index™

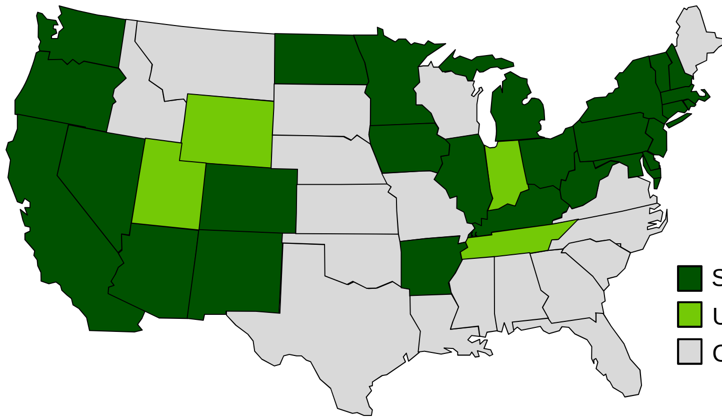
The Affordable Care Act (ACA): Key Components

- PL 111-148, The Patient Protection and Affordable Care Act (PPACA), signed into law on March 23, 2010
- Health Care and Education Reconciliation Act (HCERA) of 2010, signed into law on March 30, 2010
- ✓ Focus is largely on expansion of coverage and insurance regulation
- ✓ Includes pilots and demonstrations designed to control cost and reform care delivery (new payment models)
- Lays the foundation for more regulation and oversight

*Ortho*Index™

State Medicaid Expansion Status

State option for ACA Medicaid proposal



Resembles Political Boundaries

Source: OrthoIndex Analysis, 2014.

Increase Medicaid Coverage (… and Financial Strain) In Many States

Federal Funding For Medicaid

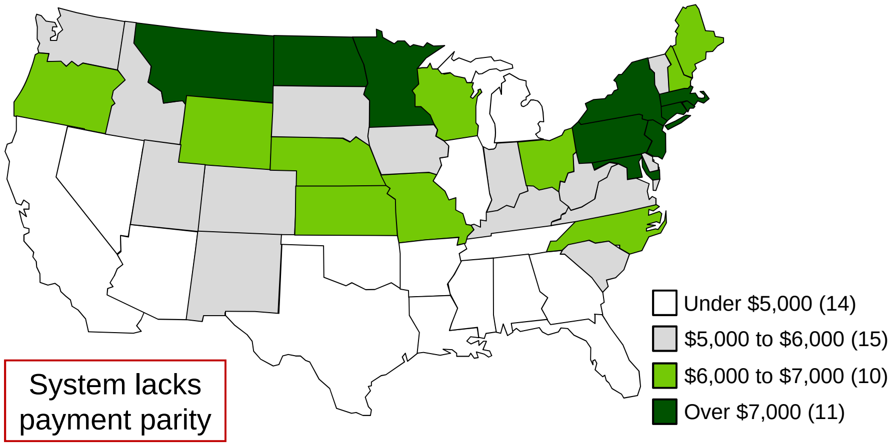
2014	2015	2016	2017	2018	2019	2020 and beyond
100%	100%	100%	95%	94%	93%	90%

State Funding For Medicaid (future obligation)

2014	2015	2016	2017	2018	2019	2020 and beyond
0%	0%	0%	5%	6%	7%	10%

Medicaid Spending Per Enrollee

Medicaid Spending Per Enrollee



System lacks payment parity

Source: Kaiser Commission on Medicaid and the Uninsured and Urban Institute estimates, 2012.

The Individual Mandate

Source: OrthoIndex Analysis, 2014.

Health Care Reform – Short of Initial Coverage Estimates

Estimates of Insurance Coverage Under Health Reform Law

CHIP = Children's Health Insurance Program.
Source: Congressional Budget Office, 2012. OrthoIndex Analysis, 2014.

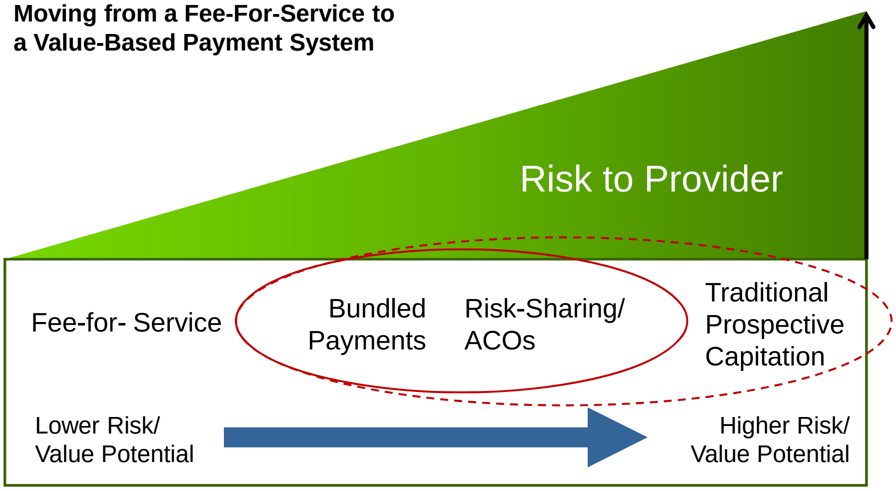
Provider Payment is Evolving

"P4P"

1983 to 2000	2000 to 2008	2008 to 2020
Reimbursement	Payment	Purchasing Based on Outcomes

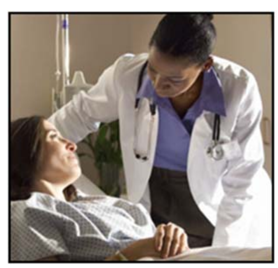
New Payment Models Are About Managing Risk To A Budget

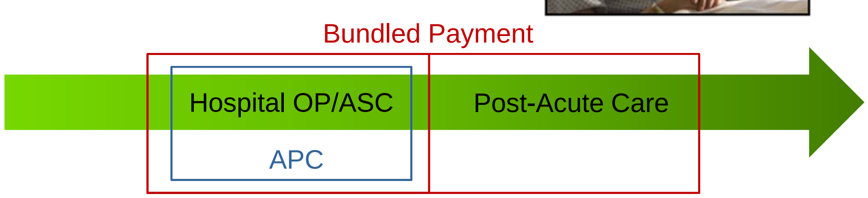
Moving from a Fee-For-Service to a Value-Based Payment System



Bundled Payments: A Good Opportunity For Specialists

- Designed for specialists
- Creates a good platform to benefit from cost and care improvement
- Potential new revenue opportunity
- Less risky and supersedes ACOs

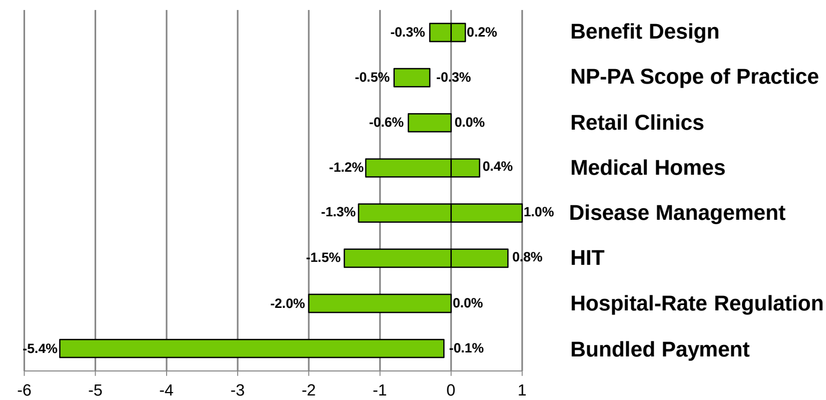




ACO = accountable care organization; OP = out patient; ASC = ambulatory surgery center; APC = ambulatory procedure classification:
Sources: OrthoIndex, 2014.

The Impact of Changing Care Delivery and Costs

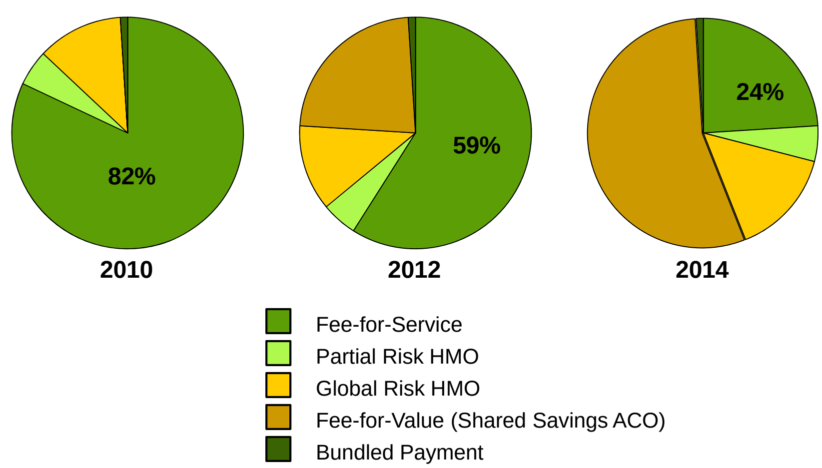
Change in National Health Spending (%)



NP = nurse practitioner; PA = physician assistant; HIT = health information technology.
Source: New England Journal of Medicine.

Markets Can Transform . . . Quickly!

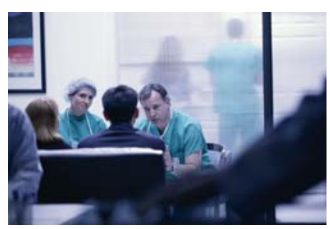
Revenue Under Value-Based Agreements



Lessons Learned From Population Health Management

PPO = preferred provider organization; ED = emergency department; OP = outpatient; IP = inpatient; E&M = evaluation and management; pmpm = per member per month. Source: Advocate Health Care - Blue Cross Blue Shield PPO, January to June 2011 vs. 2012.

Shifting Financial and Clinical Risk To Providers



Public Opinion of the ACA

Pro	Con
27% "Helped them"	**54%** "Hurt them"
40% "Mostly a good thing for the country"	**52%** "Mostly a bad thing for the country"

Source: Wall Street Journal. ObamaCare Returns as an Election Albatross. October 22, 2014.

Agenda

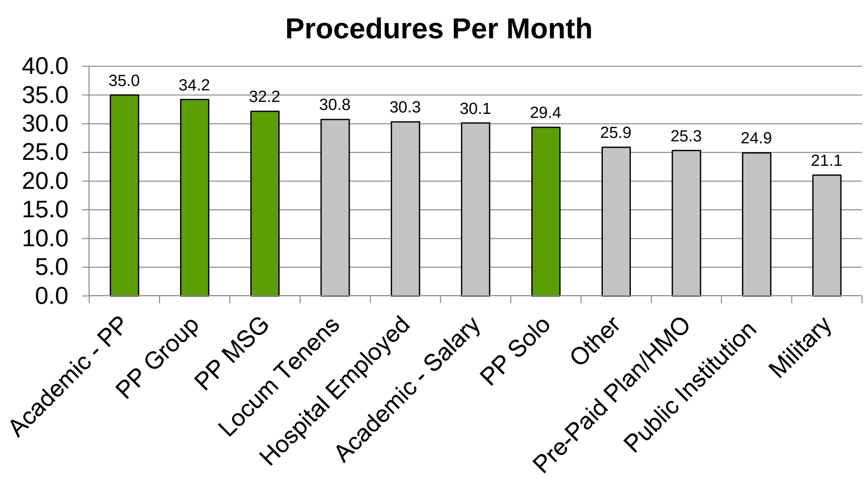
Reality Check
Market Demand
Impact of Reform
Why I Like Private Practice
Planning for the Future

Practice Setting Are Changing Again

The Past 10 Years (~ 90% of respondents in these practice settings)

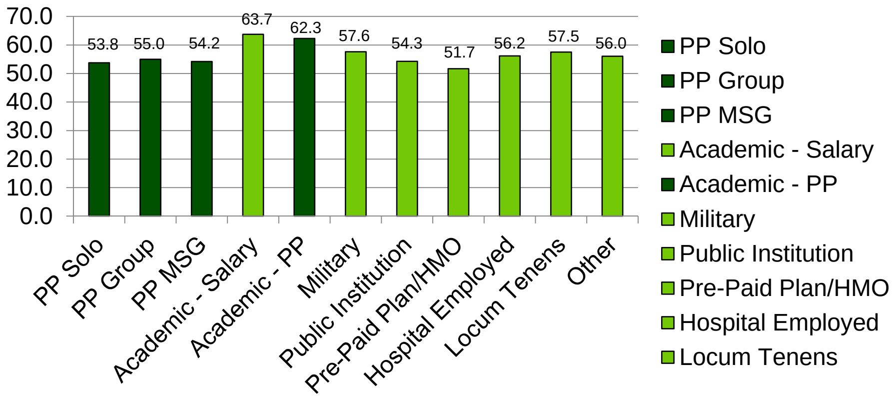
PP = private practice; MSG = multispecialty group.
Source: AAOS Orthopaedic Practice in the U.S., January 2015.

Procedures Performed By Practice Setting



PP = private practice; MSG = multispecialty group; HMO = health maintenance organization.
Source: AAOS Orthopaedic Practice in the U.S., January 2015.

Work Hours Across Practice Settings



PP = private practice; MSG = multispecialty group; HMO = health maintenance organization.
Source: AAOS Orthopaedic Practice in the U.S., January 2015.

Payer Mix Varies Between Practice Setting

Practice Settings Cater To Different Payer Mixes

PP = private practice; MSG = multispecialty group.
Source: AAOS Orthopaedic Practice in the U.S., January 2015.

Addressing Health Care Costs: What Can We Manage

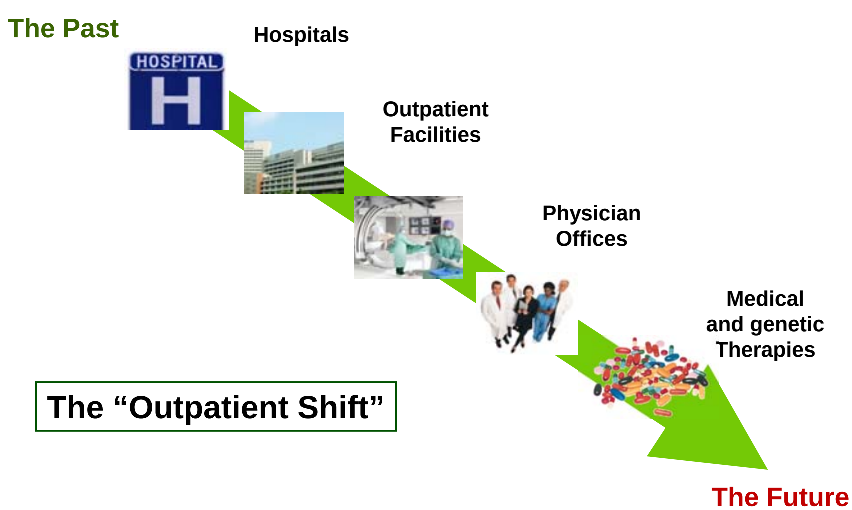
Cost of Care

Site of Care

Utilization of Care

33 *Ortho*Index™

Site of Care Cost Favors Private Providers

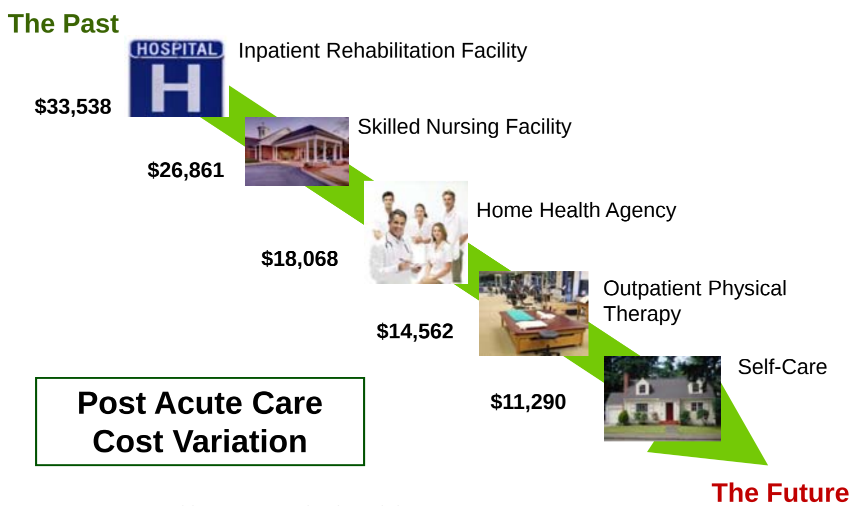


34 *Ortho*Index™

Hospitals are Vulnerable to the Changing Marketplace

APC = ambulatory payment classification; OPPS = outpatient prospective payment system; ASC = ambulatory surgery center.
Source: OrthoIndex Analysis, 2012.

Rehabilitation For Total Knee Replacement



Source: MS-DRG 470 CMS Claims Data, 2012; OrthoIndex Analysis, 2014.

The ACO Marketplace is Growing . . . And Changing!

Source: Leavitt Partners, 2011. Health Leaders, Muhlestein, 2013.

Agenda

The Economy

Market Demand

Impact of Reform

New Payment Models

Planning for the Future

Where Are We Today

OP = outpatient; IP = inpatient; OOP = out of pocket.

Ultimately, Value May Lead To Survival

$$\text{VALUE} = \frac{\text{QUALITY}}{\text{COST}}$$

We Need To Manage "Wholesale" and "Retail" Markets

B2B = business to business; B2C = business to consumer.

Higher Costs For The "Non-Subsidized" Patient

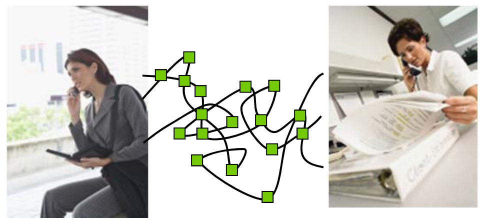
Insurance . . . Not Covered

- Higher Premiums
- Higher Co-Pays
- Higher Deductibles
- Other Out-Of-Pocket Expenses

Private practice has the early advantage of capturing this market

"The Patient Will See You Now"

Patients most frequently request pricing for obstetric services, imaging and outpatient surgery.



- Insurance card
- Procedure type
- Treatment location

→ Verbal or written estimate within 2 business days

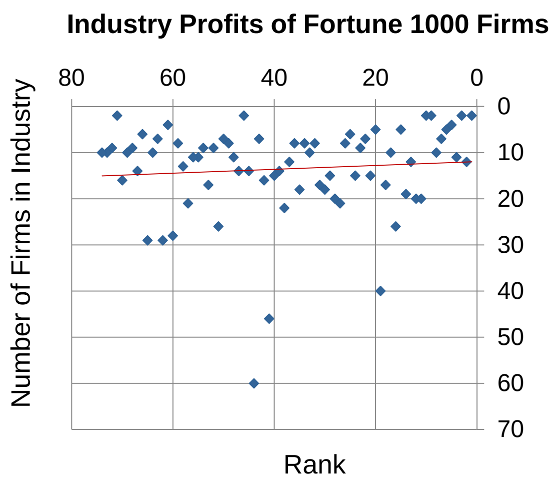
Consumer Driven Health Care

"Consolidation Mandate"

The Industrialization of Healthcare

Source: OrthoIndex Analysis, 2013.

Economies of Scale Cannot Be Ignored



Publicly Traded Firms in 74 Industries

Source: Congressional Research Service, The Market Structure of the Health Insurance Industry, 2009.

Collaboration Can Be Achieved Through a Spectrum of Options

ANCILLARY SERVICE INCOME . . .
IS THIS SUSTAINABLE?

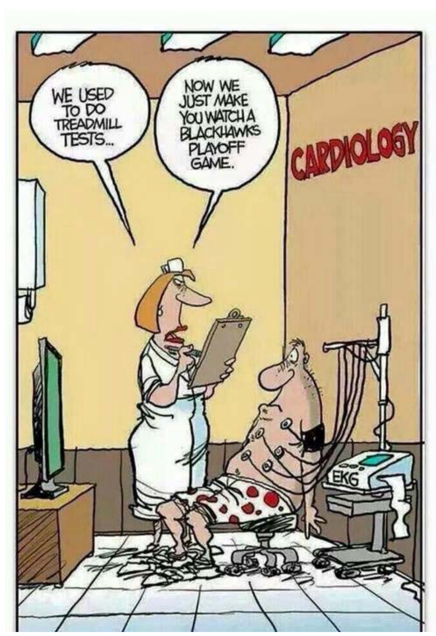
PT = physical therapy; OT = occupational therapy; MRI = magnetic resonance imaging; ASC = ambulatory surgery center.
Source: OrthoIndex Analysis, 2015.

OUR HEALTHCARE SYSTEM IS UNDERGOING TRANSFORMATIONAL CHANGE

TRADITIONAL PROVIDERS

PATIENT AND HEALTHCARE ASSET MANAGERS

IBM . . . "Ever Onward"



THANK YOU

John Cherf MD, MPH, MBA
312.339.4925
jcherf@orthoindex.net
321 North Clark Street, Suite 1301
Chicago, Illinois 60654