



Physician Practice Workgroup Considerations

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Nuvance Health at a Glance



2,600
doctors on the medical staff to serve the healthcare needs of our community, every day



7
hospitals across two states that offer a higher level of care



1.5M
individuals served through our system who make us their destination of choice for better care in the region



Nuvance Health Mission:

- To improve the lives of every person in our community
- As part of our not-for-profit health system mission, provide several negative margin programs that are mission-essential:
 - Emergency & Trauma Care
 - Medicine & ICU Care
 - Behavioral Health
 - Research & Teaching
 - Specialty Access Clinics for the Un/Under-insured

Unprecedented Health System Challenges:

Credit rating agency labels nonprofit hospital sector as “deteriorating.”

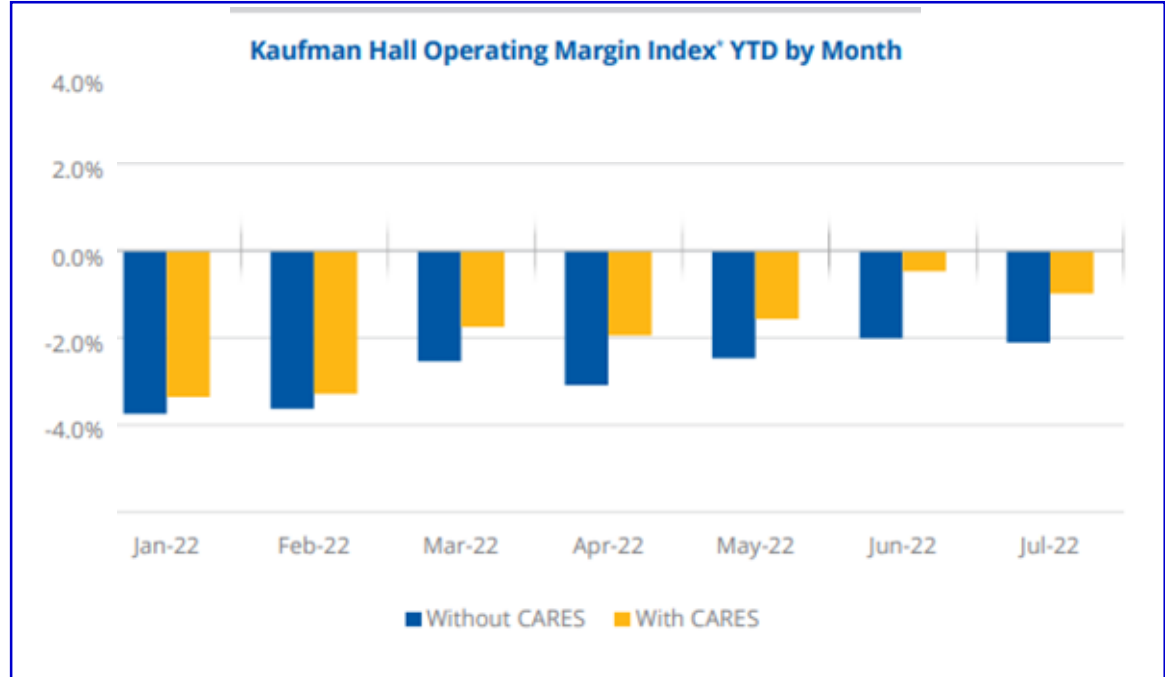
August 18, 2022
Todd Shryock



Labor troubles and investment losses have created difficult challenges for nonprofit hospitals and health systems

The credit rating company [Fitch Ratings](#) revised its sector [outlook](#) for nonprofit hospitals and health systems to “deteriorating” in its latest report.

Fitch notes that labor troubles have created issues for nonprofit hospitals, and broader macro inflationary pressures are making the sector even more [vulnerable](#) to future stress. For example, nurses were already in high demand pre-COVID, but the pandemic has only exacerbated a glaring shortage of nursing staff. Staffing agencies that provide nurses to hospitals have continuously raised rates as demand continues to rise.



Source: Kaufman Hall National Hospital Flash Report (August 2022)

NATIONAL HOSPITAL FLASH REPORT AUGUST 2022

Takeaways at a Glance

- Hospitals are experiencing some of the worst margins of the pandemic.**
Seven months into 2022, organizations accrued enormous losses, but they lack the federal funds to offset the damage.
- Margins plummeted.**
Although hospitals saw gradual improvement in recent months, July reversed any gains hospitals saw this year. As outpatient activity and revenue sank, labor expenses, which have remained well above pre-pandemic levels throughout 2022, rose.
- Labor expenses increased.**
Although hospitals hired more aggressively, labor was still in high demand, and prices rose accordingly. Sicker patients stayed in the hospital longer, also driving up costs.
- Outpatient activity dropped.**
The pent-up demand for outpatient procedures following the Omicron surge lessened, and the BA.5 subvariant’s spread may have caused sick patients to stay home. An increasing number of patients continued to choose ambulatory centers over hospital settings for surgical procedures, a sign of a larger shift to ambulatory care and new ways of accessing care outside of the hospital.
- Organizations must continue to think strategically.**
Despite the poor performance, leaders should not lose sight of long-term capital and strategic planning, despite the urgency of day-to-day pressures.



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4 Sources: Kaufman Hall National Hospital Flash Report, August 2022; <https://www.medicaleconomics.com/view/credit-rating-agency-labels-nonprofit-hospital-sector-as-deteriorating->

Vastly Different from Experience of Major Insurers:

Payers see rise in Q1 profits

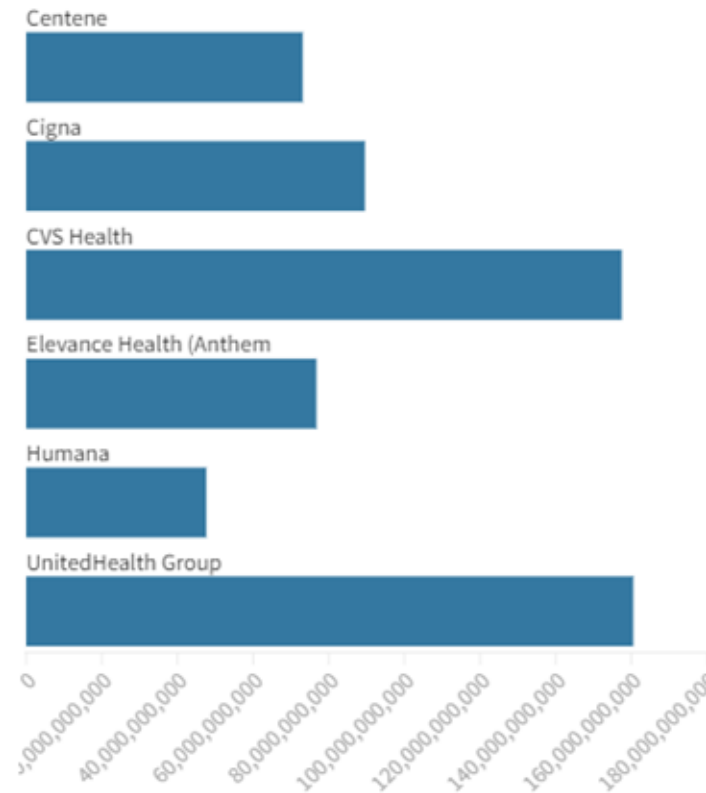
Insurers' net income in the first quarter compared with the prior-year period

Insurer	Q1 2021	Q1 2022	Percentage Change
UnitedHealth Group	\$4.86B	\$5.03B	3%
Anthem	\$1.67B	\$1.81B	8%
CVS (Aetna)	\$2.22B	\$2.31B	4%
Humana	\$828M	\$930M	12%
Cigna	\$1.16B	\$1.18B	2%
Centene	\$699M	\$849M	21%
Molina	\$228M	\$258M	13%

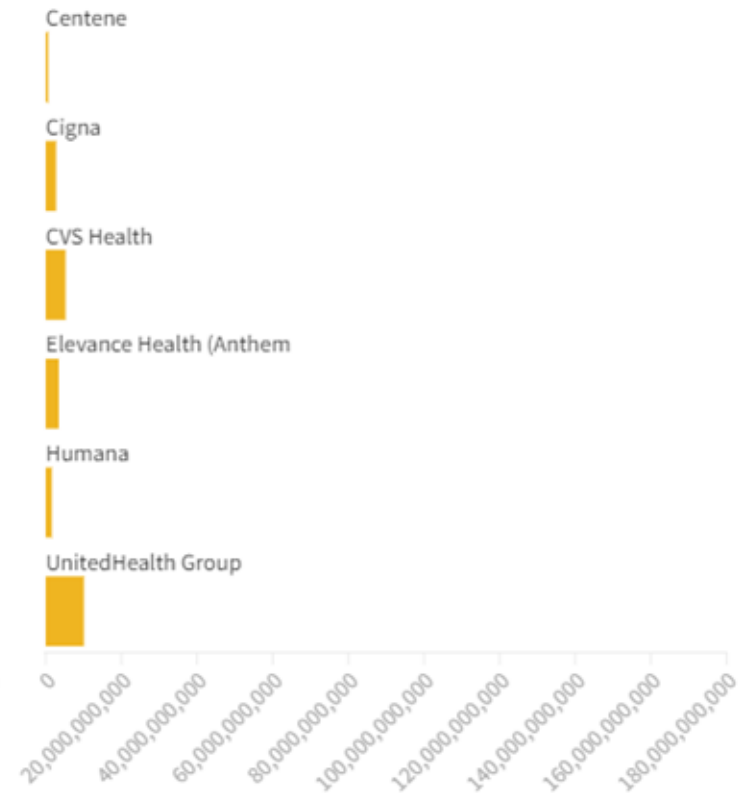
UnitedHealth leads the way in H1

Through the first six months of 2022, UHG leads the industry on both profit and revenue.

Revenue



Profit



Source: Company earnings reports

Formidable Private Equity Activity

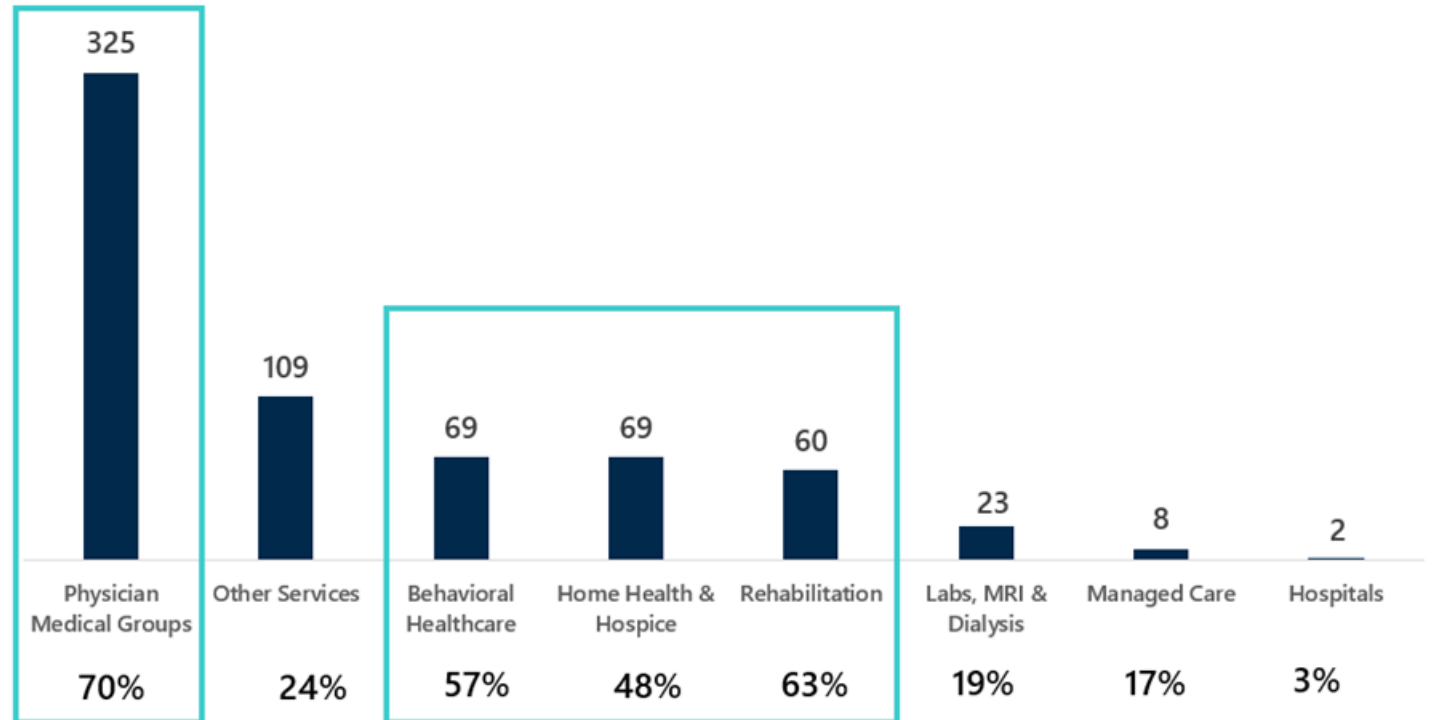
3. Investor Backed Capital: Private Equity

In 2021, private equity played a role in nearly three quarters of all physician group deals and in half of all behavioral health and post-acute transactions.

EXAMPLES:

- **Procedural / Ancillary Physician Specialties**
E.g., Dermatology, GI, Ortho
- **Value Based Primary & Specialty Care Physician Groups**
E.g., Primary Care, Oncology, Nephrology
- **Retail Health**
E.g., PT, Urgent Care, Dental
- **Women's Health**
E.g., OB, Fertility
- **Behavioral Health**
E.g., OP Psych, SUD, ABA
- **Post Acute & Home-Based Care**
E.g., HH/Hospice, IP Rehab, H@H

Healthcare Provider Private Equity Deals by Sector, 2021



Source: Irving Levin, Healthcare Services Acquisition Report, 2022.
Note: Based on 2021 data

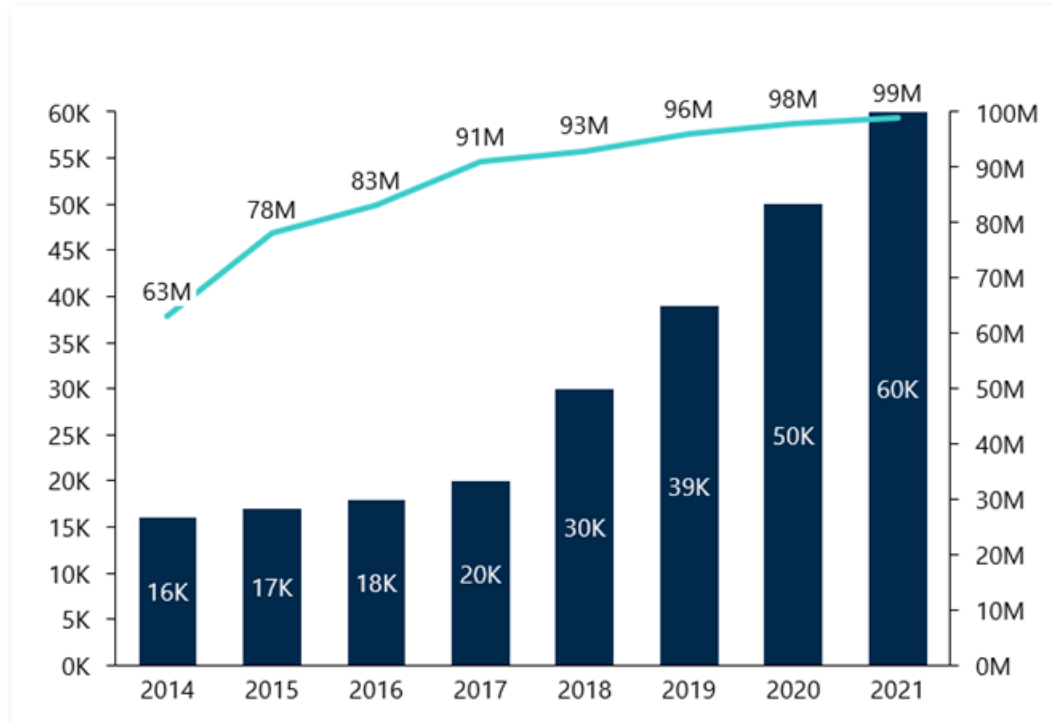
Formidable Pay-vider & Competitive Disruptor Activity

3. Investor Backed Capital: Payers

Optum (owned by UnitedHealth Group) in particular is reshaping care delivery through greater vertical integration across the continuum of care.

Optum is now the largest physician group in the market and served 99M* people in 2021.

TOTAL PHYSICIANS | TOTAL PATIENTS SERVED



*Total customers served by OptumHealth across all divisions. 22M of those lives are served by Optum physicians, with 2.2M in VBP arrangements.

Beyond physicians, Optum is moving in multiple directions along the value chain.

Acquisition Or Division	Service Or Setting
Surgical Care Affiliates	ASCs
MedExpress	Urgent care
LHC Group	Home health
Rally Health	Digital preventative health, care navigation, and chronic disease management
Optum <u>EveryCare</u> Now	D2E virtual-first primary care, urgent care, tele-scripts
<u>OptumRX</u>	Pharmacy and PBM

All data as of March 2022 public reporting

Example of Why It Matters

JAMA Health Forum

Original Investigation

Association of Private Equity Acquisition of Physician Practices With Changes in Health Care Spending and Utilization

Yashaswini Singh, MPA; Zirui Song, MD, PhD; Daniel Polsky, PhD, MPP; Joseph D. Bruch, PhD; Jane M. Zhu, MD, MPP, MSHP

Findings:

- Among a large commercially insured population, private equity acquisitions of physician practices (dermatology, gastroenterology, and ophthalmology) were associated with increased health care spending and several measures of utilization
- Compared with 2,874 control practices, the 578 PE-acquired physician practices exhibited an average increase of \$71 charged per claim and \$23 in the allowed amount per claim
- Private equity ownership of physician practices adds a distinctly private and market-driven influence to the broader trends in corporate consolidation of physicians by health systems and insurers. This study contributes evidence for potential overutilization and higher spending on care that will be important for policy makers to monitor.

Formidable Competitive Health System Activity Example

Mass General Brigham halts controversial \$223.7M ASC expansion plans

Patsy Newitt - Monday, April 4th, 2022



Boston-based Mass General Brigham has halted its controversial \$223.7 million plans to build three suburban ASCs, *Mass Live* reported April 2.

The decision comes after the Massachusetts Department of Public Health said it would not recommend the plans for approval, according to *Mass Live*. A 75-page [analysis](#) from the Massachusetts Health Policy Commission, an independent state agency, found that the expansions would increase commercial healthcare spending by at least \$46 million to \$90.1 million.

The agency said the three proposals would result in a hike in commercial healthcare spending and cause patients to go to the higher-cost Mass General system and away from other lower-cost providers.

Mass General Brigham had planned three ASCs in Massachusetts, in Westborough, Westwood and Woburn, that would offer surgery, physician services and diagnostic imaging.

Workgroup Considerations

Parallels exist from the MA example to aggressive competitors in Connecticut, which warrant some studying:

- Physician acquisitions/affiliations and ambulatory expansions that impair, or hurt local community providers should be questioned, particularly if by a higher-cost entity that will increase commercial healthcare spending
- Physician acquisitions/affiliations and ambulatory expansions that result in a high degree of consolidation and concentrated market power that will result in increased healthcare costs and threaten local providers' referral channels should be further examined
 - Fiona Scott Morton: If a hospital acquired a sufficient # of MD practices, the acquiring hospital could narrow MD referrals in their region and hence gain bargaining leverage with insurers over their own prices
 - Pay attention to “stealth consolidation” (i.e., smaller acquisitions regardless of frequency are not on state or federal radar), but again need to be monitored given bigger picture implications
 - Laws regarding vertical integration and acquisitions will be insufficient to address other harmful practices
- Aggressive competitors who argue “value” in expanding to markets that are not their traditional service area should be examined to determine if value is code for taking local providers' commercial patients, but not proportionate levels of Medicaid and uninsured patients, particularly in markets where there is no demonstrated need
- Aggressive competitors who violate the principle of caring for the un/underinsured as they enter markets, who acquire practices that ultimately reduce access for all and increase costs, damage the mission-based local providers' abilities to be sustainable long-term for all who rely on them for care

Appendix



OHS Physician Practice Workgroup Purpose:

The overarching vision of the Physician Practice Workgroup (“PPW”) is to determine the best approach to oversee the acquisition and ownership of physician group practices so CT residents have access to physicians in a manner that assures access, avoids increased costs to them, fosters choice and assures quality of care.

This work group’s intended purpose is to do the following:

1. Evaluate methods to improve oversight and regulation of mergers and acquisitions of physician practices to improve health care quality and choice in Connecticut;
2. Study methods to ensure the viability of physician practices;
3. Develop legislative recommendations to improve reporting and oversight of physician practice mergers and acquisitions, including possible amendments to CT general statutes.

Duties of Workgroup Members:

Article 6: Duties of the Workgroup members

Section 1: The group is constructed of experienced individuals with knowledge of how physician group practices operate, the process of acquisition of group practices, including related entities, such as imaging centers and others, and/or the healthcare market effects of acquisition of group practices and related entities. It's expected that members, based on their expertise, will:

1. Provide relevant experiences related to physician practices and the care they deliver to patients;
2. Provide input to the group on the impact of mergers and acquisitions of practices and related entities and the impact of those acquisitions on costs and quality;
3. Provide meaningful participation during discussions, in order to advise OHS on recommendations on potential changes in statutes;
4. Attend monthly meetings based on a schedule to be determined by the workgroup members. Meetings may include presentations from experts on issues related to mergers and acquisitions. For the first several months, meetings may be bimonthly followed by monthly meetings thereafter;
5. Be willing to participate in subcommittees if required to draft proposals to bring to the workgroup's chairpersons.