2011 OVERVIEW

MARKET **OVERVIEW**

Cleveland

2011 Issue

HealthLeaders InterStudy
A Decision Resources, Inc. Company

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Contents

Cleveland, Ohio

Counties Covered:

Cuyahoga, Geauga, Lake, Lorain, Medina, Portage and Summit

Key Cities Covered:

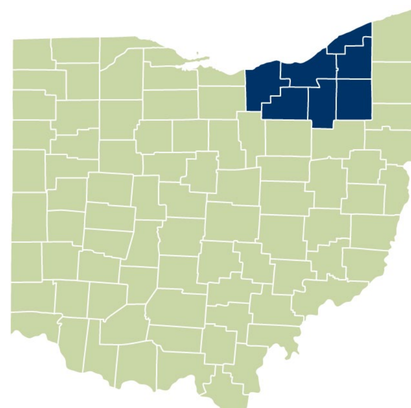
Cleveland, Akron, Elyria and Mentor

Market Stage:

This Market Is Innovative

Population:

2,791,221



Analysis For Cleveland Healthcare Market

Opportunities: Pharma

» Health systems are investing in retail clinics and outpatient centers, which will make access to prescription drugs easier. As health systems compete for patients and duplicate services in high-growth areas, patients will find access to prescribers easier.

» Ohio residents fill more prescriptions than the national average, and both Anthem Blue Cross and Blue Shield of Ohio and United-Healthcare offer free pharmacy coaches designed to ensure members follow medication and care orders.

Threats: Pharma

» The three largest health systems in the market are actively working toward greater clinical integration of physicians, which means greater use of electronic medical records and incentives to increase the generic dispensing rates.

» Ohio Medicaid is likely to see massive cuts for the 2011-2012 budget, so enrollment may take a hit, and those staying on will see a reduction in benefits, including pharmacy.

Opportunities: Managed Care

» With private employers and possibly even the public sector shedding health benefits, the individual market continues to see a boost.

» With market leader Medical Mutual tightening bonds with Cleveland Clinic and its Quality Alliance, there may be some tolerance in the cost-conscious employer market for an insurer to provide a narrower network option, although exclusion of the Clinic may be a deal-breaker.

Threats: Managed Care

» While seeing something of a rebound in 2010, the northeast Ohio economy is projected to be stagnant in 2011 because of dogged unemployment.

» The major health systems are consolidating their power by integrating physicians in the market. Already facing a tough market for health plans to negotiate with providers, insurers in Cleveland will continue to have very little bargaining power with hospitals and their aligned physicians.

Sources: HealthLeaders-InterStudy, 2011

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Updates: Key Market Events

Update

March 2011: HealthLeaders-InterStudy Publishes Annual Market Overview For Cleveland

The annual report provides data and analysis of several sectors of the healthcare market, including hospitals and health systems, physicians, health plans, Medicaid, Medicare, the uninsured, pharmacy, legislation and employers.

The rivalry between world-renowned Cleveland Clinic and University Hospitals enters a new phase as the two health systems complete major construction projects and move toward operational improvements tied to the implementation of accountable care organizations. The two Cleveland-based health systems, along with Akron-based Summa Health, have been working on clinically integrating area physicians and providing electronic medical records in order to capitalize on the projected launch of federal healthcare reform's ACO model of care in 2012. Just as the past five years has been focused on where health systems were building new facilities, the next five will be determined by how these ACOs build more efficient operations. Although consolidation may look more nebulous in the coming years, expect it to increase among providers in northeast Ohio.

In 2011, University Hospitals opens UH Ahuja Medical Center in Beachwood, the final piece in a major healthcare construction binge in the eastern suburbs. The UH hospital is expandable to 600 beds and will compete with nearby Hillcrest Hospital, the Clinic-owned hospital that recently completed a $163 million expansion. Health systems are also expanding at the other terminus of I-271 in Medina, where the three major health systems have either bought hospitals or built surgery centers.

Summa Health System in particular has used the construction investment as a vehicle to increase ties with physicians through joint ventures. The recently opened outpatient complex in Medina is majority-owned by physicians; two existing joint ventures (one hospital and one surgery center) will be opening replacement facilities in the next couple of years. The Clinic and UH have generally relied on employment and clout to lure physicians, and have recently established organizations to court and integrate independent physicians.

Health plans have little negotiating leverage in the market. As a crown jewel of American healthcare, the Clinic has proven indispensible to provider networks in the region, while UH in Cleveland and Summa in Akron have enough presence in their respective cities to prove necessary for the most part. The consolidation brought on by the ACO should entrench this position in the marketplace.

Executive Summary

Market Outlook

Cleveland healthcare is based on the bedrock of health systems, particularly the Cleveland Clinic, often held as an example of what American healthcare should be. The Clinic and historical rival University Hospitals are winding down large capital investments that include new hospitals and major outpatient facilities. These projects seem positively 20th Century when compared to the less flashy moves made by health systems in the market concerning electronic medical records and clinical integration with physicians. Whether or not accountable care organizations eventually deliver on promises of better quality care with more efficient cost, the pending reform has touched every aspect of the northeast Ohio healthcare market. These actions could precipitate a renewed competition among Greater Cleveland's major players and more consolidation. Moving beyond leveraging better contracts and more referrals, ACOs promise to give high-performing healthcare entities financial incentive for providing quality, integrated care. With northeast Ohio settling into a quasi-permanent recession, the opportunity for an enhanced revenue stream is not one that can be passed up.

Highlights:

» In the long term, we predict the recent construction binge by health systems and push toward accountable care organizations could lead to a fundamental recalculation of healthcare in northeast Ohio. With the major health systems building duplicated services in the few areas of growth in the region (Medina County and the Eastern Suburbs), consumers may one day in the future be satisfied with leaving one health system out of their network if a rival facility is less than a mile away. If the promise of ACOs can be taken with more than a grain of salt, northeast Ohio will soon be home to two major ACOs (Cleveland Clinic and University Hospitals/Summa Health) competing to provide care that is high quality, efficient and cost-effective, with a financial incentive to lower costs.

» But these are the very actions that in the short term could escalate competition and costs. The soon-to-open UH hospital in Beachwood and newly minted outpatient facilities near the crescent of I-271 are designed to increase patient volume and procedures. The ACOs will further consolidate the local provider market as hospitals accelerate efforts to clinically integrate physicians throughout the region. The health plans operating in the market already have little negotiating leverage against health systems and physicians; inflating demand for procedures and increased consolidation of providers will not provide any relief.

» Perhaps more than any other market in the nation, we expect Cleveland will be the proving ground for ACOs. In one corner stands the Cleveland Clinic, literally the national model of ACOs. In the other corner, University Hospitals and Summa Health, both part of a planned nationwide ACO with a patient base of 1.2 million. Health systems in the region have been furiously bringing physicians into their respective folds and deploying electronic medical records to encourage integration. The Clinic and Medical Mutual of Ohio have already launched a P4P program that is the precursor of the ACO model. If ACOs can actually improve patient outcomes, increase consumer involvement in costs, provide enough financial incentives for providers, and work in an urban environment, the answers will be found here on the shores of Lake Erie. If ACOs are simply reheated HMOs or integrated delivery systems from the last century, we will find out here in Cleveland.

» With a budget deficit of $8 million and the swinging of the state to firm Republican control, Ohio's Medicaid program will be seeing significants cuts and overhauls. The expansion of the state's Medicaid managed care program over the past few years is generally considered to have blunted the effect of the economy on the uninsured; beleagured Cleveland has a better insurance rate than the national average. Hosptials in Ohio are trying to bargain with the state to keep Medicaid reimbursement rates level, offering to increase the amount of a hospital fee that they have previously railed against. Hosptials in Cleveland had already seen an increase in bad debt related to a higher rate of self-pay patients; any sloughing of members from Medicaid will exacerbate that.

» Ohio is part of the triumvirate of midwestern states (along with Wisconsin and Indiana) with eager new Republican lawmaking majorities looking to weaken the negotiating ability of public sector unions. Just as in Madison and Indianapolis, protesters have stormed the statehouse in Columbus. The protests are not as large in the Buckeye State, and the GOP has enough votes in the state Senate to establish a quorum even if the Democrats take flight. The Ohio bill would not allow public workers to negotiate for health insurance and would require these employees to contribute at least 20 percent of premium costs. The bill would also lift the state law that restricts the state from hiring alternate workers during a strike.

» The immediate effect of local ACOs on pharma will be more coordinated efforts to encourage generic utilization to contain costs. Clinical integration will allow health systems and health plans to better monitor prescribers, and efforts are already underway to give financial incentives to physicians to get their generic prescribing rates up. The ACO push further cements the major health systems in the market as gatekeepers. That being said, even efforts by the Cleveland Clinic to increase transparency concerning the influence of pharma on employed physicians have stalled to some degree. The prestige of the Clinic is built on its physicians, so there is little incentive to upset the apple cart in this respect.