HBCH is the leading resource for employers dedicated to improving the health and wellness of their employees. HBCH brings together all stakeholders to lower costs and improve quality, which contributes to the economic viability of the Houston business community.
Cumulative Increases in Health Insurance Premiums, Workers’ Contributions to Premiums, Inflation, and Workers’ Earnings, 1999-2013

# 2015 Events

<table>
<thead>
<tr>
<th>DATE</th>
<th>EVENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 19</td>
<td>HBCH Networking Social</td>
</tr>
<tr>
<td>March 10</td>
<td>Actionable Data Employers Should Demand in Health Plan Reports</td>
</tr>
<tr>
<td>April 23</td>
<td>HBJ Healthiest Employers / HBCH Paragon Awards</td>
</tr>
<tr>
<td>May</td>
<td>Employer Best Practices to Demonstrate Wellness ROI</td>
</tr>
<tr>
<td>June</td>
<td>Employer Transparency Tools (co-presented with CEBS)</td>
</tr>
<tr>
<td>July</td>
<td>HBCH Networking Social</td>
</tr>
<tr>
<td>September</td>
<td>Houston’s Healthcare Delivery System—an Employer’s Perspective</td>
</tr>
<tr>
<td>October</td>
<td>Employer Survey on Purchasing Value in Healthcare</td>
</tr>
<tr>
<td>December</td>
<td>HBCH Networking Social</td>
</tr>
<tr>
<td>Time</td>
<td>Session Title</td>
</tr>
<tr>
<td>---------</td>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>8:00 - 8:15</td>
<td>History of ACO's</td>
</tr>
<tr>
<td>8:20 - 8:40</td>
<td>A Hospital System ACO - KBR/Memorial Hermann</td>
</tr>
<tr>
<td>8:45 - 9:15</td>
<td>A Physician System ACO - City of Houston/Kelsey Seybold</td>
</tr>
</tbody>
</table>
ACCOUNTABLE CARE ORGANIZATIONS

WHAT ARE THEY; WHY ARE THEY NEEDED; HOW DO THEY WORK; DO THEY WORK

– January
21, 2015
The Changing Health Care Landscape

Implications for Employers

**Workforce**
- Understand impact of generational shift of employees
- Leverage technology to create new ways to engage
- Build a work environment that supports a culture of health and well-being

**Benefits**
- Enhance employee value with more flexibility and choice in benefit arrangements
- Provide simplification and personalization with high tech and high touch support
- Consider emerging models to deliver care at an affordable price

**Business**
- Focus on positioning health care within the total rewards strategy and EVP
- Understand the impact of health on sustainable engagement
- Ensure culture and work environment are well aligned
Health Care Cost Trends Remain Double the Rate of Inflation

Notes: Median trends for medical and drug claims for active employees. CPI-U extracted from the Department of Labor, Bureau of Labor Statistics.
*Expected.
What is an ACO?

- Physicians (PCPs and Specialists) and hospital(s) working together to coordinate care and held accountable for the cost and quality of care delivered to a defined set of individuals

- Care is managed across the continuum of inpatient and ambulatory settings

What is the purpose of an ACO?

- Provide integrated care to improve outcomes and reduce cost

- Provide a counter-balance to the fee-for-service system that incents volume rather than value of services

- Accountability and financial risk is focused directly on providers and the delivery systems instead of health plans

What is the goal of an ACO (the triple aim)?

- Reduce the per capita cost of healthcare

- Improve the health of populations

- Improve the patient experience of care including quality and satisfaction
Different ACO Configurations May Take Shape

**ACO Model 1**
- Independent Practice Association (IPA) or Primary Care Physician Groups
- Specialty Groups
- Hospital

**ACO Model 2**
- Multispecialty Group
- Hospital

**ACO Model 3**
- Hospital Medical Staff Organization (MSO) or Physician-Hospital Organization (PHO)
- Hospital

**ACO Model 4**
- Organized Delivery System
  - Hospital
  - Employed and Affiliated Physicians
  - Possibly Other Providers Like Post-Acute Care

*Most care provided by single ACO, but some care will be delivered by other ACOs or regional referral centers like tertiary or quaternary hospitals and their associated specialist, unless a strict beneficiary lock-in is utilized.

Value-Based Payment Models are Developing Rapidly

Models include: ACOs, PCMHs, Narrow Networks and High Performing Networks

National Vendors include: Aetna, Cigna, Anthem/BCBS and UHC

Legend

- 4 Vendor Presence
- 3 Vendor Presence
- 2 Vendor Presence
- 1 Vendor Presence

U.S. state containing an emerging market
Not a leading market

Top 50 U.S. Markets with National Vendor Presence
KBR's Experience with the Memorial Hermann ACO

Valerie Hulse, Vice President Global Compensation and Benefits
KBR — A Leading Global E&C Provider

GLOBAL ENGINEERING, CONSTRUCTION, AND SERVICES COMPANY

27,000+ Employees in 70 Countries

Business competes on a project-by-project basis

Cost control is key driver in benefit program design

The makeup of our Houston population:

Approximately 5,000 Employees

4,000 highly technical engineers and project managers

1,000 skilled laborers working on job sites for our clients

100 Year Operating History

oil and gas • infrastructure • power industries
Communicating with Senior Leadership (and our Employees)

- Disease Management
- Wellness
- Health Coach
- Managed Care

EMPLOYEE ENGAGEMENT/PARTICIPATION:
- Disease Management
- Wellness
- Health Coach

No program
Why We Chose to Implement an ACO

- Cost Control
- Goal Alignment
- Shared Risk Arrangements
Why We Chose Memorial Hermann + Aetna

• A broad network of physicians and hospitals with national support from Aetna
  — Over 1,700 physicians of all specialties

• A familiar network for our employees
  — The year prior to implementation, Memorial Hermann accounted for 30% of providers utilized in the Houston area

• Mobile tools and technology
  — Access to iTriage and Aetna Mobile

• Quality providers and hospital system
Memorial Hermann Health System – Strategy & Implementation of ACO
D. Keith Fernandez MD
President and Physician in Chief MHMD, CMO Memorial Hermann ACO
Memorial Hermann Health System

**MHMD**
- 3500 practicing physicians
  - 2000 Clinically Integrated
  - 1850 CI physicians in MHACO
  - 300 Advanced Primary Care Practices (PCMH)
  - 250 additional PCPs
  - High Performance Specialty Physicians (250)
  - 200 employed (MHMG)
- **University of Texas Physicians**
  - 800 physicians
  - CI and ACO affiliates

**Memorial Hermann**
- Second Largest Non-Profit in Texas
  - 6,000 staff physicians
  - 9 Acute Hospitals, 3 Heart & Vascular Institutes
  - Children’s & Rehabilitation Hospitals
  - 100 Outpatient Sites: Ambulatory Surgery, Imaging
  - Sports Medicine, Neuroscience, Transplant COE’s
  - The nation’s busiest Trauma program
Clinical Integration is...

*Integration* of Physicians with each other (and often with a hospital or hospital system) on a *clinical* basis to

- Determine the right and best ways to practice medicine
- Commit to practice that way
- Commit to mutual *accountability*
- Develop active performance improvement programs to enhance healthcare quality and efficiency
The MHMD Compact: Trust

MHMD agrees to:

- Maintain primary *loyalty* to physicians
- Negotiate well to *align incentives*
- Include physicians in work and decision making
- Provide *clear and timely information*
  - Membership Criteria, Quality Measure Scoring
  - Accountability / Improvement Process
  - Contract, Financial Performance
- Provide physicians with information, services, and education to ensure high quality and ease practice burdens
- Seek feedback from its physicians
- Maintain confidentiality
- Communicate, communicate, communicate
- Make meetings worthwhile and engaging
- Create leadership training programs
The MHMD Compact

**Physicians** agree to:

- Practice evidence-based medicine
- Uphold regulatory, quality, and safety goals
- Report quality data
- Meet CI criteria
- Come to meetings and performance feedback sessions
- Pay attention to information from MHMD
- Accept decisions by physicians in MHMD committee settings
- Be flexible, share ideas
- Collaborate with colleagues and hospitals
- Behave as professionals
Physician Governance
# The Advanced Primary Care Practice: Quality Engine

## Advanced Primary Care Practice

<table>
<thead>
<tr>
<th>Category</th>
<th>Access</th>
<th>Quality</th>
<th>Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims Files/Data</td>
<td>HCC Training</td>
<td>Schedule NOW</td>
<td>Practice Assessment</td>
</tr>
<tr>
<td>Case Management</td>
<td>Document Training</td>
<td>Patient Portal</td>
<td>Electronic Medical Record</td>
</tr>
<tr>
<td>Single Signature Contracting</td>
<td>Quality Metrics</td>
<td>e Notify</td>
<td>Point Of Care Tool</td>
</tr>
<tr>
<td>Marketing</td>
<td>Patient Education</td>
<td>NCQA Level 3</td>
<td>Health Information Exchange</td>
</tr>
</tbody>
</table>

## Accountable Care

## Clinical Integration
Consumer Driven Health

Care Management for those who are sick

Access
- Visits
- Specialists
- Resources
- Portal

An informed Physician

Better Care

Great Experience
### MHMD High Performance Network

**Memorial Hermann Physician Partners**

<table>
<thead>
<tr>
<th>GNE Project</th>
<th>Concierge</th>
<th>DocBook Doc to Doc Text</th>
<th>Embedded CM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Symptom Control</td>
<td>MU University</td>
<td>MHMD University</td>
<td>Reputation Control Online</td>
</tr>
<tr>
<td>CME</td>
<td>Patients</td>
<td>Group Purchasing</td>
<td>Liability Insurance</td>
</tr>
<tr>
<td>Innovation</td>
<td>Practice “Transform”</td>
<td>Report Cards</td>
<td>NEXT?</td>
</tr>
</tbody>
</table>

**Accountable Care**

**Clinical Integration**

**Access**

**Quality**

**Technology**
<table>
<thead>
<tr>
<th>Service Line Performance</th>
<th>Concierge</th>
<th>Access</th>
<th>Care Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Symptom Control</td>
<td>Price Transparency</td>
<td>Bundled Payments</td>
<td>High Reliability</td>
</tr>
<tr>
<td>Innovation</td>
<td>Great Experience</td>
<td>MH-- A National Provider</td>
<td></td>
</tr>
<tr>
<td>Accountable Care</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clinical Integration</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Population Management**

**Right Care at the Right Time**

- **Healthy**
  - Wellness and Prevention
  - Patient Centered Medical Home
  - Automated CM

- **Chronic Disease Mgmt**
  - Telephonic Care Management

- **Palliative Care**
  - Amb ICU
  - Hospice
  - Telemedicine
  - Home visits
  - High Intensity Clinic
  - Intensive Care
  - Management

**MHMD Integrated Care Management**

Risk Analytics: Claims, Hospitalization, Post Acute and Physicians and Nurses
Memorial Hermann Regional Homes

North Region
- Hospitals - 1 (TWL)
- ASC - 4
- FSER - 1

91 PCPs
- 47 APCP (36 MHMD, 11 MHMG/Phytex, 0 UT)
- 0 APP
- 44 CI PCPs (inc UT)

229 Specialists
- 9 MHMG/Phytex
- 220 CI Specialists (inc UT)

Northeast Region
- Hospitals - 1 (NE)
- ASC - 2
- CCC - 1

33 PCPs
- 20 APCP (15 MHMD, 4 MHMG/Phytex, 1 UT)
- 0 APP
- 13 CI PCPs (inc UT)

73 Specialists
- 4 MHMG/Phytex
- 69 CI Specialists (inc UT)

Southwest Region
- Hospitals - 2 (SL & SW)
- ASC - 4
- MHDL PSC - 6

174 PCPs
- 73 APCP (34 MHMD, 33 MHMG/Phytex, 6 UT)
- 4 APP (0 MHMD, 4 MHMG/Phytex)
- 97 CI PCPs (inc UT)

277 Specialists
- 38 MHMG/Phytex
- 239 CI Specialists (inc UT)

Southeast Region
- Hospitals - 1 (SE)
- ASC – 2
- MHDL PSC – 3

97 PCPs
- 38 APCP (15 MHMD, 16 MHMG/Phytex, 7 UT)
- 0 APP
- 59 CI PCPs (inc UT)

141 Specialists
- 7 MHMG/Phytex
- 134 CI Specialists (inc UT)

Counts as of 12/18/2013
Physician counts do not include physician extenders or hospital based physicians.
*Includes UT Pediatricians, some specialty Pediatricians, and some IM and FP’s with a secondary subspecialty.

1 Additional SMR in Nederland
3 Additional MDs in Bay City: 1 MHMG PCP, 1 MHMG Specialist, 1 CI Specialist.
Consumer Driven Care
There are many kinds of consumers who want different types of care

- Doctors (elderly, chronic disease)
- Nurse Practitioners, PAs (young, well)
- Other advanced specialty level providers
- Not so advanced providers (task oriented)
- Helpers (challenged demographics)
- Communities (services)
- EMTs/Medics (challenged demographics)
- Churches (known peers)
- An App (young and tech oriented)
Consumer Driven Care

There are many kinds of consumers who want or need different “stuff”

Telemedicine

Digital diagnostics

- Watches
- Bands

Ultra-fast scans

Wearables

Digital therapy

Concierge

Networks and communication

Self-insured people
Efficiency and Continuous improvement—Execution on Quality Outcomes and Safety and Cost: Execution on Mission

Inpatient Days/1000

- Memorial Hermann: 208
- Houston market: 164

Average length of stay

- Memorial Hermann: 3.9
- Houston market: 3.2

Readmission rates

- Memorial Hermann: 18%
- Houston market: 13%

ER visits / 1000

- Memorial Hermann: 164
- Houston market: 128

Diabetes Measures

<table>
<thead>
<tr>
<th>Diabetes Measures</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diabetics with Hba1c control (&lt;8 percent)</td>
<td>60.20%</td>
<td>72.38%</td>
</tr>
<tr>
<td>Blood Pressure (BP) &lt; 140/90</td>
<td>61.40%</td>
<td>70.76%</td>
</tr>
<tr>
<td>Tobacco Non-Use</td>
<td>68.30%</td>
<td>77.62%</td>
</tr>
<tr>
<td>Aspirin Use</td>
<td>49.40%</td>
<td>86.90%</td>
</tr>
<tr>
<td>Diabetics with Hba1c in poor control (&gt;9 percent)</td>
<td>32.60%</td>
<td>7.22%</td>
</tr>
</tbody>
</table>

10% Lower Cost

Best in Quality

$58,000,000 year one savings
Efficiency and Continuous improvement—Execution on Quality Outcomes and Safety and Cost: Execution on Mission

Inpatient Days/1000

- 208 (Memorial Hermann)
- 236 (Houston market)

13% better

Average length of stay

- 3.5 (Memorial Hermann)
- 3.9 (Houston market)

11% better

Readmission rates

- 5.1% (Memorial Hermann)
- 6.0% (Houston market)

18% better

ER visits / 1000

- 164 (Memorial Hermann)
- 180 (Houston market)

8% better

Diabetes Measures

<table>
<thead>
<tr>
<th>Measure</th>
<th>2013</th>
<th>2014</th>
</tr>
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<tbody>
<tr>
<td>Diabetics with Hemoglobin A1c Control (&lt;8 percent)</td>
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<td>Diabetics with HbA1c in poor control (&gt;9 percent)</td>
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</tbody>
</table>

Consumers EXPECT this!!
Early Success

Edge
Clinically Integrated, Proven Results

<table>
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<tbody>
<tr>
<td>$7,162</td>
<td>$7,076</td>
<td>$7,725</td>
<td>$7,408</td>
<td>$7,672</td>
<td>$8,071</td>
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<tr>
<td>$7,162</td>
<td>$7,747</td>
<td>$8,444</td>
<td>$9,190</td>
<td>$9,910</td>
<td>$10,770</td>
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<tr>
<td>$6,000</td>
<td>$7,000</td>
<td>$8,000</td>
<td>$9,000</td>
<td>$10,000</td>
<td>$11,000</td>
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<td>$7,162</td>
<td>$7,664</td>
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<td>$7,747</td>
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<td>$9,000</td>
<td>$10,000</td>
<td>$11,000</td>
<td>$12,000</td>
<td>$13,000</td>
</tr>
</tbody>
</table>
Early Success

Edge
Clinically Integrated, Proven Results

[Graph showing PEPY Claims Cost and National Trended PEPY Total Claims Cost from FY 2010 to Projected FY 2015, with actual/projected values.]
MH and MHMD

Current Model
Fee-for-Service
Disparate Payments
Illness & Cure
Volume Incentive
Fragmentation

New Model
Integration
Fixed Payment
Bundled Payment
Population Health
Value Incentive
Integration

Integration
Population Health
Fragmentation
KBR used a multi-pronged media strategy to communicate the new ACO to Houston employees.
Expectations and Results

<table>
<thead>
<tr>
<th>Expectations</th>
<th>Cost Savings</th>
<th>Member Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring claim</td>
<td>Reduction in unit cost trend</td>
<td>Better care experience and lower out-of-pocket costs</td>
</tr>
<tr>
<td>utilization for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>improvement</td>
<td></td>
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</tbody>
</table>

| Results               |                                           |                                                               |
| Early indicators are  | Greater average discounts than national   | Positive feedback and $400+ savings last year in out-of-pocket |
| promising for key ACO| network                                   | cost.                                                         |
| metrics               |                                           |                                                               |

Enrollment (Houston)

- ACO: 15%
- UHC: 85%

Age Distribution

<table>
<thead>
<tr>
<th>Age Group</th>
<th>ACO (average age: 42)</th>
<th>HOUSTON (average age: 48)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 35</td>
<td>32%</td>
<td>21%</td>
</tr>
<tr>
<td>35–49</td>
<td>39%</td>
<td>30%</td>
</tr>
<tr>
<td>50–64</td>
<td>27%</td>
<td>39%</td>
</tr>
<tr>
<td>65+</td>
<td>3%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Key Takeaways

- Patient Outreach
- Web Tools
- Out-of-network Referrals
- Communication
- Partnership
**Employee Feedback**

**MEMORIAL HERMANN ACO**

“The doctors I see are excellent and the cost is so much lower than the other plans — I don’t know why anyone in Houston wouldn’t choose the ACO.”

**MEMORIAL HERMANN DOCTORS**

“I was surprised to hear from my doctor’s office after having a sinus infection — they just wanted to make sure I was doing better.”

**AETNA CONCIERGE**

“The person I talked to through concierge was very friendly and helped me get the information I needed to choose a doctor. I was very happy with the experience.”
ACO Partnership
Strategies for Achieving a
Healthy Bottom Line

Omar C. Reid
Human Resources Director
City of Houston
The Journey – Where We Started

- Rising Healthcare Costs - Unhealthy Workforce
- Moving Toward Healthier Workforce with Health Assessments and Wellness Engagements
- Controlled Healthcare Costs - Fully Engaged Healthy and Productive Workforce
# Risk Analysis: Who Is Driving The Cost?

## Cigna Claims

25% of members are driving 74% of the cost

<table>
<thead>
<tr>
<th></th>
<th>Well Members</th>
<th>Moderate Risk/Chronic</th>
<th>Complex/Acute</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>75%</td>
<td>20%</td>
<td>5%</td>
<td>25%</td>
</tr>
<tr>
<td>Cost</td>
<td>26%</td>
<td>20%</td>
<td>54%</td>
<td>74%</td>
</tr>
</tbody>
</table>
The Strategy

• Change culture:
  - Reactive to proactive
  - Employees become educated consumers and assume accountability/ownership
  - City assumes the financial risk and aggressively manages the program

• Strong foundation with HRA and biometrics
• Align with IPAs working through a capitated model
• Engage at-risk individuals and provide tools for those not yet at risk
• Encourage employees to use highest quality, best value community reflective physicians (Kelsey #1)

Bottom line: Improved Health = Higher Cost Avoidance and Higher Productivity
STRATEGIES THAT IMPACTED THE BOTTOM LINE

ENGAGEMENT, ALIGNMENT, AGILITY

“Effort Is Nice Results Count”
Results of Increased Accountability Engagement

• Health Assessments lead to increased awareness and targeted programs
  – Increased chronic illness management

• Increased awareness leads to increased utilization of preventive care services
  – Increased from 29% to 52%

• Increased preventive care leads to more proactive care, improved quality of life, more productive workforce and ultimately, reduces the rate that costs increase
  – 30% increase in maintenance prescriptions
Results of Increased Affordability Alignment

• No health premium increases in last two years
  – Decreased premiums by 8.6% in 2012

• Decreased co-payments and co-insurance
  – Decreased specialist payments for COH employees

• Increased preventive care leads to more proactive care, improved quality of life, more productive workforce and ultimately, reduces the rate that costs increase
  – Increased Generic Dispense Rate over 85%
Results of Increased Accessibility

Agility

• Kelsey Clinics are located where our employees live and work
  – By having convenient neighborhood clinics increases probability of scheduling and keeping appointments

• City initial concerned about increased appointment wait times never materialized
  – Employees are seen with 24 to 48 hours

• Employees report increased satisfaction because all services under one roof
  – Kelsey received the highest level of satisfaction in our last customer service survey
Actual Financial Trend

HISTORICAL HEALTH PLAN

Health Plan Expenditures (in millions)

SELF-FUNDED

FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 Proj
$101 $128 $143 $169 $198 $212 $228 $249 $274 $290 $289 $290 $290 $292 $306

HISTORICAL
SELF-FUNDED
City of Houston Quarterly Cost Trends (updated)

Note: Trend rate is calculated from the claim costs per employee per month using a least squares regression analysis. Claims represent total City of Houston expenditures including pooled claims but excluding claims for Grand retirees and for Vision. No adjustment is made for plan design changes over the period. Experience from May through August 2011 is excluded due to influence of BCBS run-out.