

EXECUTIVE SUMMARY

In a typical day, Californians spend over \$850 million on healthcare. In a typical year, 53% of the state's healthcare expenditures are spent by just 5% of the population. More alarming is the fact that by 2022, total employer-based insurance premiums for a family are projected to consume almost a third of median household income. Similarly, the share of the Gross State Product consumed by healthcare continues to grow; it is projected to rise from 15.4% in 2012 to nearly 17.1% in 2022, reducing our ability to invest in other crucial areas. We also face a continuing obesity epidemic that results in growing rates of chronic diseases skewed to the lower end of the socioeconomic ladder. Additionally, the state's healthcare system will be stressed even further due to several million additional Californians gaining insurance coverage via the Affordable Care Act. These are just some of the reasons it is critical that we address the financial sustainability

of the state's healthcare system without delay. It is time for fundamental change. It is time for action.

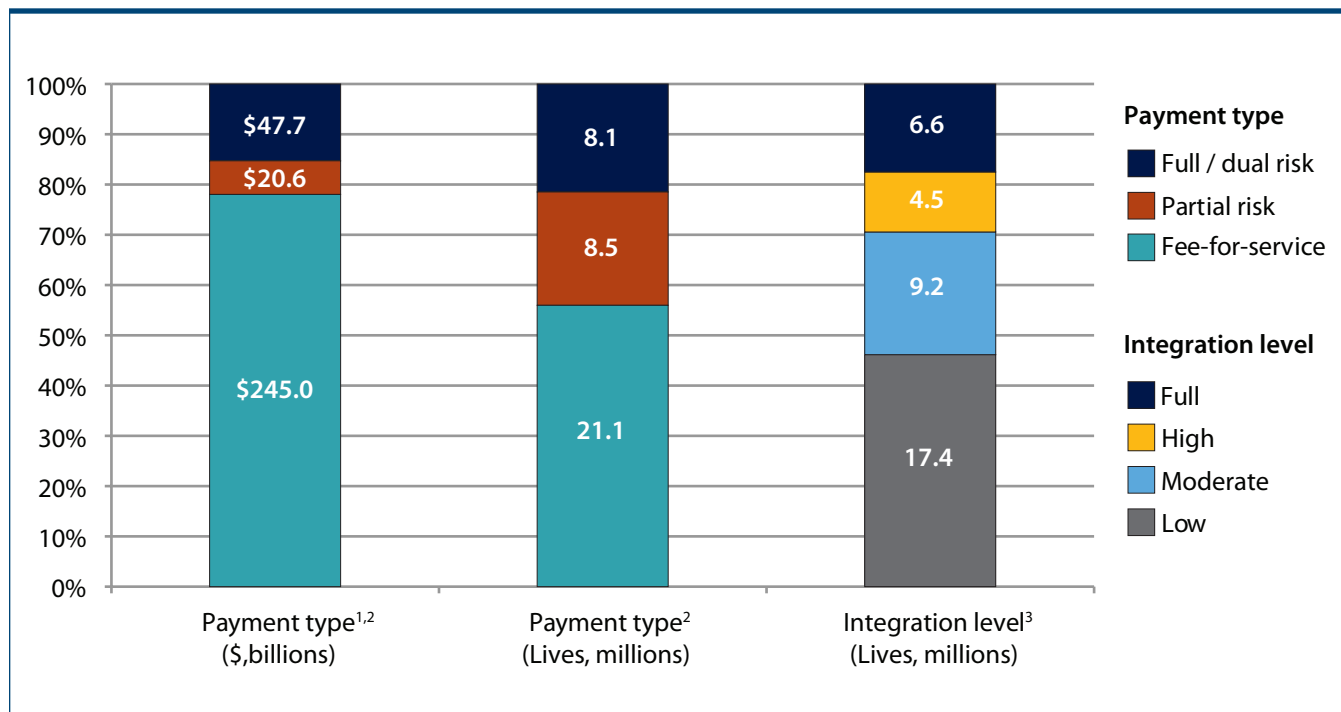
Recognizing this, California private and public sector leaders came together in an unprecedented collaborative effort, with academic expertise and analytic support provided by the University of California, Berkeley's School of Public Health, to address these challenges. Determined to avoid solutions divorced from societal, regulatory and political realities, the Forum has devised a transformational, bottoms-up approach to creating a more affordable, cost-effective healthcare system that would, at the same time, improve Californians' health and well-being.

These are ambitious goals. To attain them, the Forum supports a flexible approach to payment reform, including shared-savings as well as bundled and episode-based payments that can facilitate the transition towards broader implementation of risk-adjusted global budgets.

BERKELEY FORUM VISION

In response to our healthcare challenges, the Forum Vision calls for a rapid shift towards integrated systems that coordinate care for patients across conditions, providers, settings and time, along with risk-adjusted global budgets that encompass the vast majority of an individual's healthcare expenditures. Specifically, the Forum endorses two major goals for California to achieve by 2022: 1) Reducing the share of healthcare expenditures paid for via fee-for-service from the current 78% to 50%; and 2) Doubling, from 29% to 60%, the share of the state's population receiving care via fully- or highly-integrated care systems. The Berkeley Forum also calls for greater emphasis on population health, including lifestyle and environmental factors that promote good health.

FIGURE 1E: BREAKDOWN OF PAYMENT MECHANISMS AND DELIVERY SYSTEM INTEGRATION IN CALIFORNIA, BY LIVES AND DOLLARS, 2012



Notes: 1) Expenditure estimates are reported in 2012 dollars. 2) Full / dual risk refers to a payment arrangement in which providers accept risk for both professional services and hospital services. Partial risk refers to a payment arrangement in which providers accept professional services risk only. 3) There are various factors that are relevant in assessing care integration; for the purposes of this analysis, we estimate lives by integration level based on medical group size in California given that size has been shown to be associated with use of more integrated care processes. Only Kaiser Permanente physicians are considered to be fully-integrated. Medical groups of greater than 100 physicians are considered highly-integrated, while Independent Practice Associations (IPAs) are considered moderately-integrated. Lives receiving care from medical groups with 100 or fewer physicians are allocated into either moderate or low integration based on both medical group size and a physician's likelihood of being in an IPA.

SOURCE: Berkeley Forum analysis. See Appendix II: "California's Delivery System Integration and Payment System (Methodology)" for more detail on methodology, assumptions and sources.

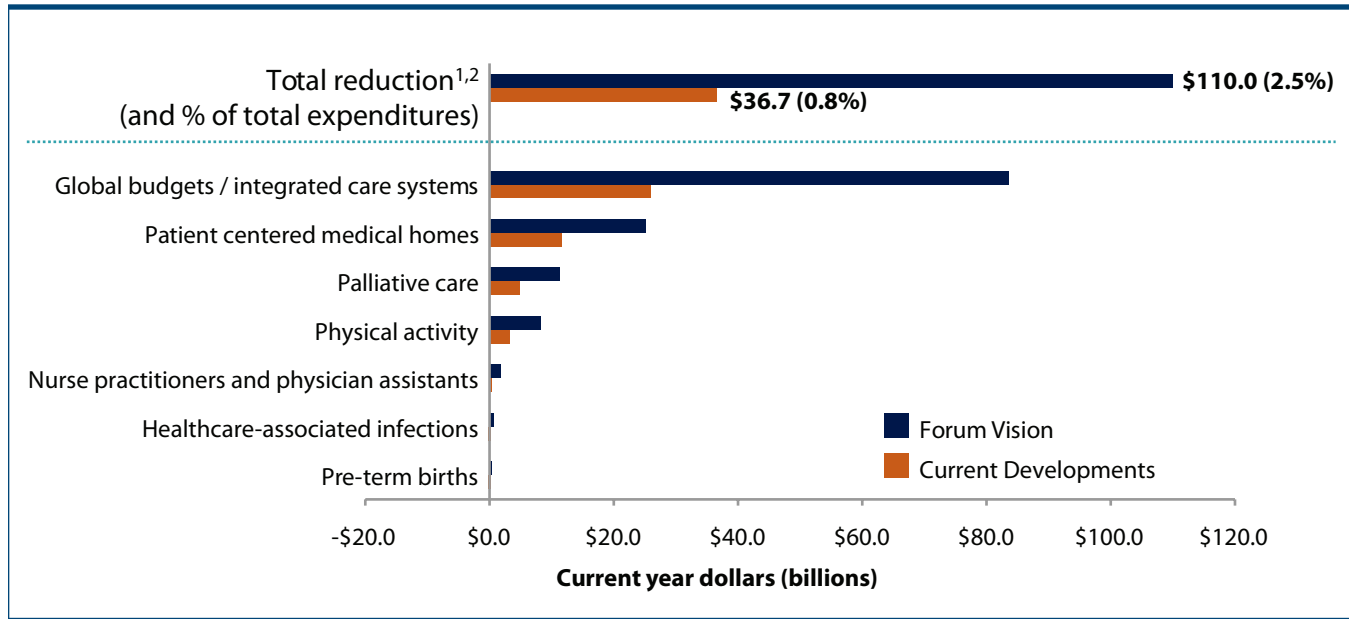
The Forum Vision was developed considering the characteristics of California's unique healthcare system, namely:

- Californians already have relatively low utilization of healthcare services – including rates of **hospital admissions and inpatient days at 79% and 74%, respectively**, of the rest of the U.S.
- California has the **9th lowest per capita personal healthcare spending** among states in the country.
- Health maintenance organizations (HMOs) with providers under full or partial risk insure 44% of California's population, about double the U.S. share. However, fee-for-service reimbursement still accounts for about \$245 billion (or 78%) of healthcare

expenditures, and only about 11 million Californians (or 29%) receive care in fully or highly-integrated systems (see Figure 1E).

To assess the potential of the Forum Vision to create a more affordable healthcare system, we estimated the potential expenditure reductions associated with seven different initiatives, most of which target populations with the highest healthcare expenditures. We did so under two scenarios: 1) "Current Developments," which considers unfolding market forces, policies and regulations and is distinct from the status quo, which is based on historical trends; and 2) the "Forum Vision," which calls for aggressive changes, such as increased reliance on integrated care systems, risk-adjusted global budgeting, and population health practices (see Figure 2E).

FIGURE 2E: HEALTHCARE EXPENDITURE REDUCTIONS IN CALIFORNIA FROM INITIATIVES UNDER CURRENT DEVELOPMENTS AND FORUM VISION SCENARIOS, TOTAL REDUCTIONS, 2013–2022



Notes: 1) Total projected healthcare expenditures in California from 2013–2022 are \$4,387 billion (in current-year dollars). 2) The “total reduction” is adjusted for savings overlap among the individual initiatives.

SOURCE: Berkeley Forum analysis. Refer to Appendices IV–XI for expenditure reduction estimates for each initiative as well as to Appendix III: “California Cost Curve, Healthcare Expenditures, and Premium Projections (Methodology)” for projections of California’s healthcare expenditures under the status quo from 2013–2022.

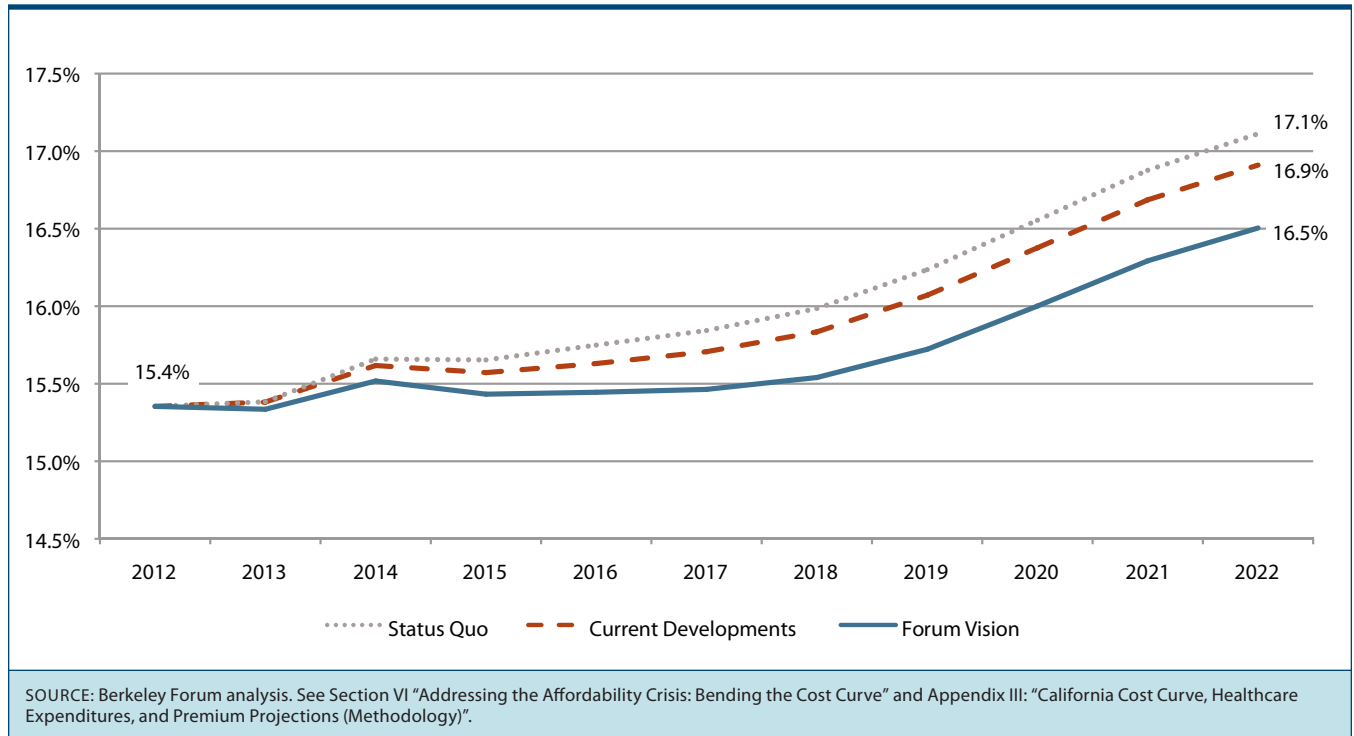
Under the Current Developments scenario, these initiatives are expected to reduce healthcare expenditures by \$37 billion between 2013 and 2022. This reduction represents 0.8% of the \$4.4 trillion in total healthcare expenditures projected under the status quo (see Figure 2E).

Under the Forum Vision, we estimate:

- **A \$110 billion** reduction in healthcare expenditures from 2013 to 2022, representing **2.5% of the total \$4.4 trillion in projected healthcare expenditures** under the status quo during these 10 years (see Figure 2E).
- An average reduction of **\$802 per California household per year** over this period, and **\$1,422 per household in 2022**.
- A reduction of the projected 2022 “Cost Curve,” or healthcare expenditures as a share of GSP, from **17.1% to 16.5%** (see Figure 3E).

The above initiatives represent great opportunities for improving the health and healthcare of Californians. Additional initiatives, not explored here would also complement the Forum Vision, and could lower expenditures beyond the 2.5% projected under the Forum Vision. The Berkeley Forum participants endorse the above seven initiatives and support their implementation to help achieve the Forum Vision. Furthermore, Forum participants believe that two of these initiatives warrant additional attention and have a significant potential for reducing expenditures while improving health and healthcare quality. First, the Forum calls for a statewide effort to increase the rates of physical activity among all Californians. Secondly, the Forum supports increased palliative care access for seriously ill patients, as a means of providing fully-informed, person- and family-centered care, and an enhanced quality of life for this population.

FIGURE 3E: COST CURVE: PROJECTED HEALTHCARE EXPENDITURES AS A SHARE OF GROSS STATE PRODUCT, 2012–2022



The Forum recognizes several significant challenges to implementing the Forum Vision. One is the need for a new regulatory framework that allows for the development of more integrated care systems, both incentivizes and promotes efficiency and quality, and ensures market-based competition. Other challenges to the Forum Vision include growing rates of employer self-insurance and government policies and market forces that are contributing to a decline in HMO enrollment among those with employer-sponsored insurance.

Forum participants remain committed to working together and with others in establishing new policies, regulations, approaches and shared practices that would help facilitate implementation of competing integrated care systems and adoption of risk-adjusted global budgets. Forum members additionally support Medicare and Medicaid patients receiving care from coordinated

settings, and their providers engaging in deeper and broader risk-based contracting. Forum members also recognize that for their Vision to be achieved, various policy and regulatory changes will be necessary at the state and federal level, including changes to Medicare’s reimbursement and benefit structure and to the existing state-federal Medicaid financing approach. Finally, the Forum reinforces the need for continued efforts by stakeholders in the healthcare delivery, public health, education, housing, labor, transportation, and social services sectors, along with the employer community, and supports the goal of Governor Brown’s “Let’s Get Healthy California” report to make California the healthiest state in the nation by 2022.