Why We All Should Care About Healthcare

Steve Burd
CEO, Burd Health

December 16, 2015
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• If we lower healthcare spending … it frees up money for funding pensions and wage increases

• If these cost increases are not controlled, they will bankrupt the nation

• Quality of care can dramatically affect both our quality of life and our longevity

• Selecting the right healthcare provider can sometimes be the most important decision you will ever make
Healthcare Cost Problem

- Healthcare costs have increased at three times the rate of the CPI for more than a decade

- In the last 25 years healthcare costs have increased from 9.2% of GDP to 18% of GDP

- At this pace, healthcare costs could be 50% of GDP in 2050

- U.S. per capita healthcare costs are twice that of underdeveloped nations
There Are a Multitude of Reasons for These Rising Costs

• Healthcare, as a sector of the U.S. economy, does not function like a normal competitive market

• Healthy behaviors are seldom rewarded and unhealthy behaviors are not adequately discouraged

• The U.S. pays for a disproportionate share of pharmaceutical R & D

• New best standards of care take 20 to 30 years to permeate the entire provider delivery system
Entrepreneurs look for market voids to fill and opportunities to take market share from incumbents

New products and services are either:
- Cheaper
- Faster
- Better

This cycle of constant innovation never stops
In a Competitive Marketplace Costs Almost Always Decline Over Time and Quality Improves

**Cell Phone Unit Cost**

- Year '82: $3,995
- Year '90: $1,000
- Year '94: $400
- Year '00: $200
- Years: '04, '06, '08, '12

**42” Flat Screen TV**

- Year '95: $15,000
- Year '99: $2,800
- Year '03: $1,500
- Years: '07, '11, '15

Costs decline over time, indicating a competitive marketplace. Quality also improves as time goes on.
Healthcare Costs Increase While Market Goods Prices Decline

Cost Index

- **Cell Phone**
- **42” Flat Screen**
- **Healthcare**

<table>
<thead>
<tr>
<th>Years</th>
<th>Cost Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>1</td>
<td>143</td>
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<tr>
<td>2</td>
<td>225</td>
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<td>3</td>
<td>333</td>
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<td>4</td>
<td>455</td>
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</table>

The graph shows the cost index for healthcare and market goods over a period of 20 years, with healthcare costs increasing significantly compared to the declining market goods prices.
Prices Paid Can Vary Dramatically by Provider

**Lipid Panel**
- National Lab: $14
- Regional Lab: $30
- Regional Chain: $77

**Statin (30 Day Supply)**
- Atorvastatin: $11
- Pravachol: $16
- Crestor: $229

**Atorvastatin (30 Day Supply)**
- Supermarket: $11
- Chain A: $42
- Chain B: $77
In No Other Sector of the U.S. Economy are Prices More Obscured Than They are in Healthcare

<table>
<thead>
<tr>
<th>Service / Product</th>
<th>Cash Price</th>
<th>Insured Discount</th>
<th>Actual Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Room Charge – 5 day</td>
<td>$60,000</td>
<td>40%</td>
<td>$36,000</td>
</tr>
<tr>
<td>Hospital Room Charge – 1 day</td>
<td>12,000</td>
<td>88%</td>
<td>1,500</td>
</tr>
<tr>
<td>Generic Drug Charge</td>
<td>156</td>
<td>74%</td>
<td>40</td>
</tr>
<tr>
<td>Branded Drug Charge</td>
<td>280</td>
<td>17%</td>
<td>232</td>
</tr>
</tbody>
</table>
Imagine if the Supermarket Sector Functioned Like the Healthcare Sector

• You would check out with a plastic card and pay little or nothing for your groceries

• At the end of the month you would receive a statement indicating
  - The “billing charge” was $3,500
  - Your “insurance company” / employer had a special rate of $800
  - Your responsibility was 20% of $800 or $160

• Later in the year, you might receive another statement indicating you have reached your out-of-pocket maximum and all groceries are now free

• How would that change your behavior?

• How would that change the behavior of the retailer?
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Unhealthy and Non-Compliant Behavior is Expensive and Common

**Unhealthy Behaviors are Expensive**

2015 Incremental Cost

- Smoking: $2,633
- Obesity: $2,106
- Lack of Exercise: $956
- Uncontrolled Hypertension: $904
- Uncontrolled Cholesterol: $715

**Non-Compliant Behaviors are Common**

% Non-Compliant with Recommended Care

- Coronary Artery Disease: 32%
- Hypertension: 35%
- Colorectal Cancer: 46%
- Asthma: 46%
- High Cholesterol: 51%
- Diabetes: 55%
- Overweight/Obesity: 70%

Burd Health

CONFIDENTIAL
The U.S. Has the Highest Obesity Rate in the World

Obesity Prevalence (%) for Adult Population by Country

Source: OECD Obesity Update 2014
Obesity Results Over Time
1963 - 2015

Obese Adults

1963: 11%
2015: 38%

Overweight High Schoolers

1963: 5%
2015: 30%
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Drug Prices by Country
(Percentage of U.S. Price)

### Osteoporosis - Prolia
- England: 32%
- Norway: 29%
- Canada: 32%

### Breast Cancer - Herceptin
- England: 49%
- Norway: 54%
- Canada: 57%

### Cancer - Avastin
- England: 55%
- Norway: 59%
- Canada: 50%

### Rheumatoid Arthritis - Rituxan
- England: 37%
- Norway: 42%
- Canada: 49%
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The Good News … This is a Very Solvable Problem

• I believe we can lower the nation’s healthcare spend by 50%  

• Any organization that is determined, can accomplish this in 5 to 7 years  

• We can also reduce costs while simultaneously improving the care for our people
We aligned the interests of employees and the company.

- Increased personal accountability

- Introduced cost transparency and reference pricing

- Built a culture of health and fitness
The Changes We Made to the Safeway Benefit Plan Were Driven by Three Major Discoveries Made in 2005

- 70% of healthcare costs are driven by behavior

- Four chronic conditions explain 74% of all healthcare costs

- As a self-insured employer we designed a benefit plan to mimic the behavior of a free market
Four Chronic Conditions Comprise 74% of Costs

Cost Distribution by Disease State

- Cardiovascular Disease: 33%
- Cancer: 20%
- Diabetes: 11%
- Overweight & Obesity: 10%
- Other Chronic: 9%
- All Other: 17%
- Total Healthcare Cost: 100%

80% Heart Disease / Stroke
60% / 40% Type 2
80%
Nearly all can improve

Source: OECD, HHS
Changing Behavior is Not as Difficult as You Might Think, Provided There Are Consequences From Not Changing

Auto Insurance Model

• Moving violations increase the risk of a car accident … as a consequence, the more moving violations the higher your insurance premium

• DUIs will result in an even higher premium

• A pattern of accidents and fender benders will also increase premiums

• When driving improves, auto insurance premiums decline
Safeway Results From Biometric Screening

% of Plan Participants That Met Standard

- **Blood Pressure**: 70% of Failures now pass
  - 2005: 58%
  - 2010: 89%

- **Glucose (HbA1c)**: 44% of Failures now pass
  - 2005: 75%
  - 2010: 86%

- **BMI**: 25% of Failures now pass
  - 2005: 72%
  - 2010: 79%

- **Cholesterol**: No change
  - 2005: 73%
  - 2010: 73%
“Outcome-Based” Biometric Reward Programs Produce Significantly Better Results Than “Participation-Based” Programs

Current Pass Rates Against Standards

<table>
<thead>
<tr>
<th>Health Indicator</th>
<th>Outcome-Based</th>
<th>Participation-Based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blood Pressure</td>
<td>89%</td>
<td>47%</td>
</tr>
<tr>
<td>Glucose (HbA1c)</td>
<td>86%</td>
<td>52%</td>
</tr>
<tr>
<td>BMI</td>
<td>79%</td>
<td>68%</td>
</tr>
<tr>
<td>Cholesterol</td>
<td>73%</td>
<td>73%</td>
</tr>
</tbody>
</table>
Summary of Safeway Results
2005 - 2013

• Costs were lowered 15% while industry costs increased 70%

• A healthier work force lowered costs an additional 9% in 2014

• The biological age of the workforce fell 4 years

• Both the company and healthcare plan members saved money
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Skill Differences Exist Among Professionals / Trades

- Painters
- Plumbers
- General Contractors
- Lawyers
- Physicians
- Surgeons
Not All Healthcare Providers are Equally Skilled

• Hospitals operate at different levels of sophistication and often make mistakes

• The practice of medicine has strong elements of both art and science … not to mention beside manners

• Not all surgeons are equally skilled
# Prostate Cancer Surgeons – Year 2000

<table>
<thead>
<tr>
<th></th>
<th>Average Surgeon</th>
<th>My Surgeon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Surgeries</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Complications*</td>
<td>500</td>
<td>2</td>
</tr>
</tbody>
</table>

*Complication defined as incontinence and impotence
Personal Advice

Medical

• Pick your physicians and surgeons with more care than a 65” flat screen TV
• When family members are hospitalized … never leave them alone
• Be diligent about advocating on their behalf

Exercise

• Exercise 6 days per week
• Incorporate cardiovascular and strength training
Exercise is Essential for Your Well Being

• Aerobic exercise is important for cardiovascular health… the nation’s #1 cause of death

• Strength training is equally important
  – Improves balance
  – Enhances bone density
  – Improves mobility
  – Reduces arthritis pain
  – Reduces or eliminates depression
  – Improves sleep
  – Reduces the risk of cardiovascular disease
  – Increases metabolism as much as 15%
Exercise Statistics - 2014

Percentage of U.S. Population Meeting Exercise Guidelines

- 52% Aerobic
- 29% Strength
- 21% Aerobic & Strength
- 21.9% Overweight
- 13.5% Obese
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