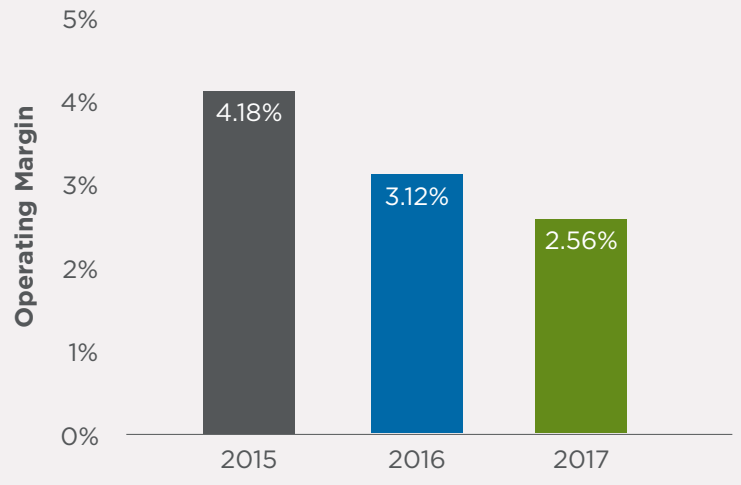


Health Systems Struggling Financially Post-ACA Coverage Expansion

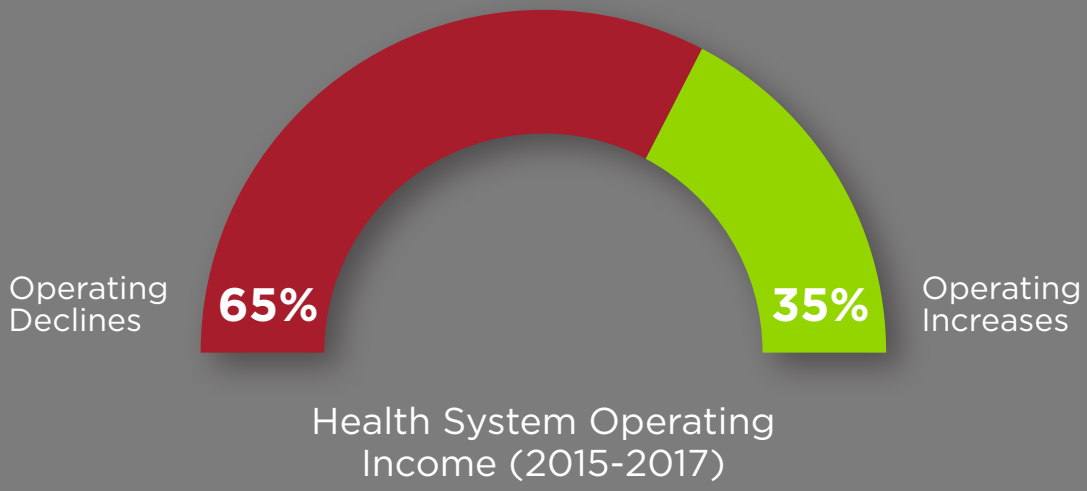
A Navigant analysis of 104 health systems comprising 47% of U.S. hospitals found broad-based deterioration of operating margins post-Affordable Care Act (ACA) insurance coverage expansion.



Health system operating margins **dropped by 38.7%** the two full years following ACA coverage expansion



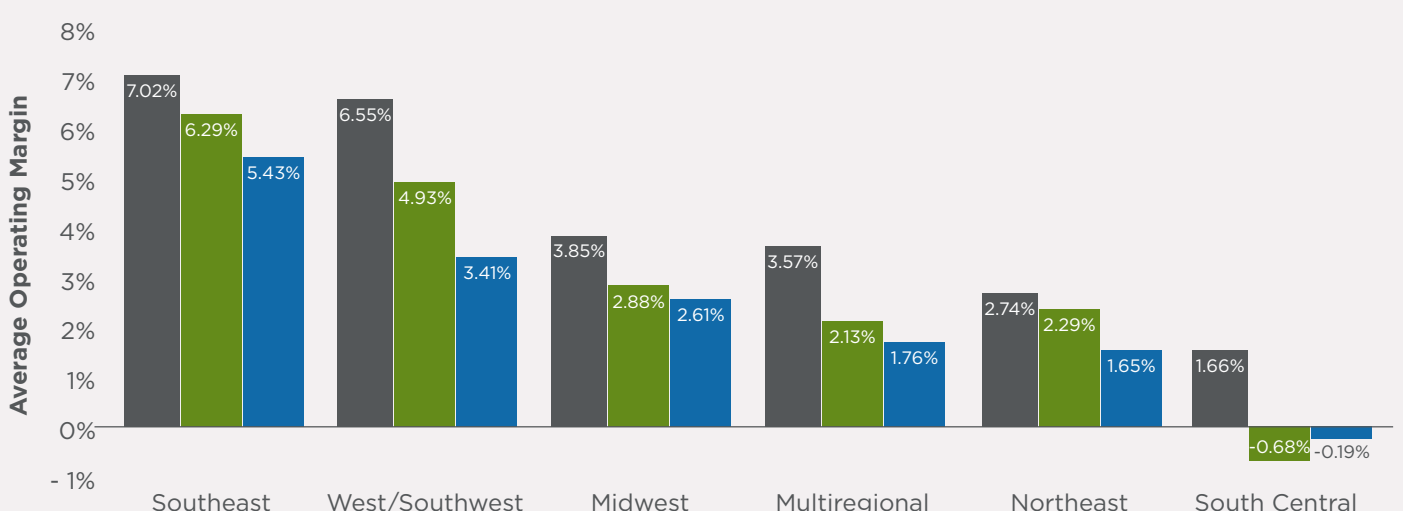
Two-Thirds of Health Systems Experienced Operating Income Declines



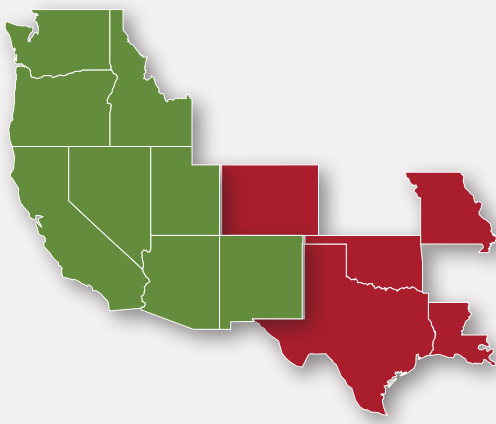
Among them, total operating earnings declines = **\$6.8B**

22 systems had three-year operating income declines of **\$100 million+** each

Significant Regional Differences in Operating Margin Pressures

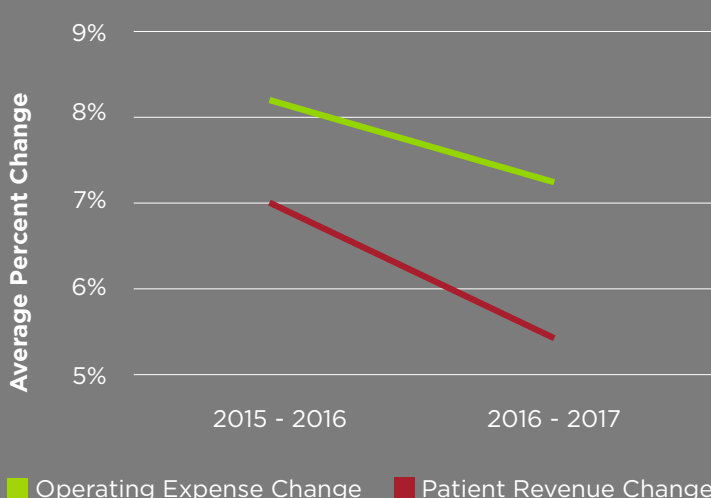


Operating Margins by Region (2015-2017) ■ 2015 ■ 2016 ■ 2017



Biggest operating income drops in U.S.'s fastest-growing regions
WEST/SOUTHWEST
SOUTH CENTRAL

Expenses Growing Faster Than Revenues



At the root of these declines were **multiyear reductions** in topline operating revenue growth, which fell from

7% → **5.5%**
2015-2016 2016-2017

Main Drivers of Topline Weakness



Weakening demand for core hospital services (surgery, inpatient admissions)



Deteriorating collection rates for private accounts in non-ACA expansion states



Steady Medicare payment rate erosion from ACA, 2012 federal budget sequester



Failure of value-based contracts to deliver sufficient patient volume to offset steep payer discounts, hospital population health investments