

TABLE OF CONTENTS

TABLE OF CONTENTS 1

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1. You discussed how the deal would help to reduce the losses at some of the constituent facilities – can you provide more detail about how the transaction is expected to affect the cost of care? Do you consider the reduction in cost of care a goal for the system (NewCo) or for the cost of care in the Commonwealth?

CareGroup, Inc. (“CareGroup”), the parent of Beth Israel Deaconess Medical Center, Inc. (“BIDMC”)¹, New England Baptist Hospital (“NEBH”), and Mount Auburn Hospital (“MAH”); Lahey Health System, Inc. (“Lahey”)²; and Seacoast Regional Health Systems, Inc. (“SRHS”), the parent of Anna Jaques Hospital (“AJH”) (each of the aforementioned a “Party” and together, the “Parties”) intend to affiliate to create a new comprehensive and distributed high-value health care delivery system in the Eastern Massachusetts marketplace, herein referred to as NewCo. Additionally, Beth Israel Deaconess Physician Organization, LLC d/b/a Beth Israel Deaconess Care Organization (“BIDCO”); Lahey Clinical Performance Network, LLC (“LCPN”); and Lahey Clinical Performance Accountable Care Organization, LLC (“LCPACO”)³ will become part of NewCo CIN (herein after defined) and Mount Auburn Cambridge Independent Physician Association, Inc. (“MACIPA”) will become a contracting affiliate.

This new, high-value system intends to be the market-based solution to rising health care expenditures and fragmentation that is currently stifling improvement of the Massachusetts health care system, escalating affordability challenges, and destabilizing low-cost community providers. NewCo as a whole will be better able to compete with higher-priced providers in the Commonwealth, helping to shift the amount of care that is currently provided by higher-priced providers to more appropriate lower-cost settings, thereby reducing the cost of care in the Commonwealth. As such, NewCo’s goals related to reductions in total health care expenditures (“THCE”) will provide savings to the Commonwealth, a key factor in the rationale for NewCo’s creation.

NewCo also will aim to improve operating efficiency, lowering borrowing costs and achieving other operational savings (which will be determined through future joint planning). These cost savings will enhance the financial sustainability of NewCo’s constituent provider organizations.

To address lowering THCE while simultaneously improving health outcomes and quality of life for patients in the Commonwealth, NewCo will endeavor to:

- Shift care to NewCo from higher-priced providers
- Provide and utilize more care in lower-cost, community-based settings by bolstering clinical programs, capabilities, and services of care and optimally utilizing the combined ambulatory, inpatient, behavioral health, community, tertiary, home care, and post-

¹ Includes the following subsidiary hospitals: Beth Israel Deaconess Hospital – Needham, Inc. (“BID-Needham”), Beth Israel Deaconess Hospital – Milton, Inc. (“BID-Milton”), and Beth Israel Deaconess Hospital – Plymouth, Inc. (“BID-Plymouth”)

² Includes the following subsidiary hospitals: Lahey Clinic Hospital, Inc. (“LHMC”), Winchester Hospital, and Northeast Hospital Corp. d/b/a Beverly Hospital, Addison Gilbert Hospital, and BayRidge Hospital, a behavioral health facility offering comprehensive substance abuse and mental health services.

³ LCPN and LCPACO are wholly-owned Lahey subsidiaries.

acute assets of NewCo

- Reduce hospital readmissions
- Reduce avoidable ED use
- Control premium escalation through development of a high-value network
- Increase competition to effectively compete on price

In addition, NewCo will seek to spread best practices throughout NewCo's network of providers to limit unnecessary variability and enhance standardization. More details regarding the opportunity for NewCo to contribute to cost of care reductions are provided below.

Shift Care to NewCo from Higher-Priced Providers

One of the greatest effects on THCE will come from shifting volume from higher-priced providers to the high-value NewCo network and its lower-priced, high-quality providers. NewCo asserts that more effective competition will apply pressure to higher-priced providers to evaluate their pricing strategy, which could reduce unwarranted price variation and yield additional savings for the Commonwealth.

Provide More Care in Community Settings

NewCo has identified four primary aims to achieve its goals: delivering the right care, in the right place, at the right time, for the right price.⁴ The "right place" represents "reducing outmigration to costlier sites of care when equivalent or better quality care is accessible in the local community, resulting in more patients treated closer to home at a reduced cost."⁵

Potential health care expenditure reductions can be achieved primarily by maximizing care delivery at lower-cost providers/sites and minimizing inappropriate and cost-ineffective utilization. Several NewCo entities⁶ identified shifting care from high-cost settings to lower-cost settings as their number one priority in their 2017 Cost Trends Testimonies.^{7,8,9} To accomplish this, care must be effectively managed and coordinated, physicians must be encouraged to deliver care in local high-value settings, and the community sites (i.e., hospitals and other sites) must be equipped to appropriately treat patients.

BIDMC and Lahey are proud of the work that has been accomplished to strengthen care delivery in appropriate, community-based settings, including physician practices and community hospitals that are part of BIDMC and Lahey, and look forward to continuing this work as NewCo. The Parties measure success by the degree to which they have been able to strengthen clinical capabilities at member community hospitals, reverse downward

⁴ Pages 4 and 5 of the document entitled "Responses to DoN Questions" submitted as part of NEWCO-17082413-TO application to the Department of Public Health in September 2017.

⁵ Page 5 of the document entitled "Responses to DoN Questions" submitted as part of NEWCO-17082413-TO application to the Department of Public Health in September 2017.

⁶ These include BIDCO, Lahey, and AJH. BIDMC, NEBH, and MAH were not required to submit a 2017 Cost Trend Testimony.

⁷ Lahey Pre-Filed Cost Trends Testimony, 2017.

⁸ BIDCO Pre-Filed Cost Trends Testimony, 2017.

⁹ AJH Pre-Filed Cost Trends Testimony, 2017.

volume trends, and increase the average case mix of patients treated at fully integrated community hospitals.

Lahey's hospital transfer policy, which encourages the delivery of lower acuity care in the community setting and higher acuity care at the teaching hospital (Lahey Hospital & Medical Center or "LHMC") has achieved significant success. There have been more than 1,000 transfers from LHMC (Burlington and Peabody locations) to Beverly Hospital, Addison Gilbert Hospital, and Winchester Hospital since Lahey's creation in 2012. Consequently, Lahey's community hospital volumes and case-mix index ("CMI") have increased since their affiliation with the Lahey Health system, and patients are treated closer to their home and families. These results have yielded overall savings to the Commonwealth, as a greater share of care is delivered in a community setting versus in a higher-priced teaching hospital.

Likewise, BID-Milton, BID-Needham, and BID-Plymouth increased total hospitalizations, including acute inpatient admissions and observations. CMI has increased at all facilities, indicating meaningful shifts, enhanced clinical capability, and improvement in care delivery. BIDMC's success can be attributed to significant, timely capital and programmatic investments made in increasing the services available at BID-Milton, BID-Plymouth, and BID-Needham, particularly in clinical areas, including primary care, critical care, women's health, surgical, and cancer care.

In addition to advancing the efforts described above that BIDMC and Lahey have achieved through full integration with their community hospital members, NewCo presents a significant opportunity to build on past successes by providing enhanced care at AJH and MAH, both high-value hospitals, and retaining community-appropriate and tertiary care in lower-cost local settings. Additionally, and as stated in the initial response to the Department of Public Health ("DPH") in September 2017, a NewCo corporate affiliation can allow BIDMC and Lahey to collaborate with providers like MAH to rationalize the movement of higher-acuity clinically-appropriate cases to a high-quality and lower-cost teaching hospital versus a costlier (yet still high-value relative to competitors) quaternary academic facility. Such transfers of volume are essential to the long-term viability of MAH as a high-value regional teaching hospital.

In summary, providing more care and increasing CMI at community hospitals requires capital investment and a level of knowledge transfer which are only possible under a corporate affiliation. Lahey and BIDMC have made such investments, and NewCo intends to continue to do so. Through NewCo, the Parties will continue to embrace the imperative to reduce the cost burden of health care by providing care at the most appropriate high quality lower-cost setting. The key to achieving this goal, substantiated by past success of the Parties, is to ensure best-in-class offerings are available in community settings.

Reduce Hospital Readmissions

The December 2016 CHIA readmission report cites that frequently hospitalized patients constitute 7% of the population, but account for 58% of readmissions.¹⁰ The Parties contend

¹⁰ CHIA, Hospital-wide adult all-payer readmission in Massachusetts: SFY 2011-2015, December 2016.

that care management is a primary solution to reducing readmissions, and will work together to continue risk stratification and identification of patients at high-risk for hospital readmission. With the small number of patients who account for the majority of readmissions, the efforts of individual institutions in a fragmented delivery system are insufficient to address the issue effectively. The Parties will work together to develop care protocols, joint care delivery support services such as care navigation, and interoperable EMRs to tackle rising readmission rates. Additionally, improved care quality through care protocols developed with shared expertise could reduce complications and the need for procedure revisions, both of which often lead to readmissions. Lastly, continuing to increase the patient population cared for under risk contracts, such as Medicaid patients covered through the MassHealth ACO Program beginning in March 2018, provides additional financial incentive to address readmissions.

As cited in the document entitled “Responses to DoN Questions” submitted as part of NEWCO-17082413-TO application to the Department of Public Health in September 2017, diabetes, hypertension, COPD, and other chronic conditions are prevalent to varying degrees across the NewCo hospital service areas. All these conditions increase a patient’s likelihood of complications leading to hospital readmissions. The NewCo hospitals will jointly work to limit avoidable readmissions through improved care coordination, supporting and expanding long-term support services relationships, investments in care management infrastructure, and sharing of best clinical practices across NewCo.

Reduce Avoidable ED Use

According to the HPC 2017 Cost Trends Report, the rate of ED visits in Massachusetts has improved, but remains 9% higher than the United States average.¹¹ The Parties are focusing on implementing some of the HPC’s suggested solutions, which include connecting patients with retail clinics and urgent care centers, expanding provider office hours and the availability of nurse hotlines and telehealth, and using nurse practitioners and other advanced practice clinicians more effectively.¹² Furthermore, robust primary care access is an important tool for reducing avoidable ED use.¹³ The Parties have historically supported the development of robust primary care resources post-affiliation, and plan to continue this practice with NewCo.

Control Premium Escalation through Development of a High-Value Network

At present, primary and specialty care provider selection is a significant contributor to increased premiums and costs for both consumers and employers. The formation of NewCo offers a unique opportunity to reduce total medical expense through innovative health plan design. Developing high-value insurance products would help to address the disparities in the commercial marketplace where utilizers of low-cost providers subsidize the spending associated with patients who select higher-priced providers.¹⁴ The cost efficiencies and care

¹¹ HPC, 2017 Cost Trends Hearing Presentation, October 2, 2017.

¹² HPC DataPoint 2: Avoidable ED Use, June 23, 2017.

¹³ Laff, Michael, Study shows primary care relationship reduces ER, hospital visits, American Academy of Family Physicians, August 5, 2015.

¹⁴ Commonwealth of Massachusetts Office of the Attorney General, Examination of Healthcare Cost Trends and Cost Drivers Pursuant to G.L. c. 12C, § 17, Report for Annual Public Hearing Under G.L. c. 12C, § 17, October 13, 2016.

coordination NewCo would create through its high-value network could be reflected in lower insurance premiums, copayments, deductibles, and other key measures of health care spending for the benefit of consumers.

Increase Competition to Effectively Compete on Price

NewCo is designed to be the market-based solution to enhance price competition among providers, allowing the market to work more effectively, and helping to force higher-priced providers to evaluate their pricing strategy so they can compete, thereby reducing the total cost of health care in the Commonwealth.

2. NewCo argues in the affirmative that the affiliation will allow the system to shift volume effectively to improve access, and to address continuity of care. Can NewCo address the long-term impact on the patient panel of the failure of this transaction to be consummated? Specifically what would happen to care, to access, to quality, etc.

Presently, the Massachusetts marketplace is inefficient, as has been well documented by the Office of the Attorney General (“AGO”) and the Health Policy Commission (“HPC”)¹⁵. To-date, no market-based solution has emerged to create the level of competition and balance necessary to correct this dysfunction. In the face of rising costs, flat reimbursements, and the shift toward accountable care and risk-based contracting, community hospitals are struggling and many lack viable strategic options for future sustainability in a market where high-value providers are currently ill-equipped to compete with high-priced providers.

Furthermore, the market environment for hospitals and health systems is changing quickly. In evaluating the impact of forming NewCo, all stakeholders must also consider the risks for providers and the Commonwealth of not supporting the formation of NewCo.

Without this transaction:

- a. The market will continue to lack a high-value option comprised largely of lower-cost, high-quality community hospitals, and supported by leading teaching hospitals and a world class academic medical center to serve the system’s most complex patients. As a result, no significant progress in shifting care from higher-priced providers is likely.
- b. Employers will not have the option of insurance products with a high-value network and employees will be less likely to be offered plans with lower premium cost sharing and lower out-of-pockets costs.
- c. Access to care will be harmed as premiums and patient cost sharing continue to escalate without a high-value alternative that can attract patients from higher-priced

¹⁵ HPC, Community Hospitals at a Crossroads: Findings from an Examination of the Massachusetts Health Care System, March 2016.

**Response to Additional Question Request – Submitted by DPH via email on
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providers. Facing higher cost-sharing, consumers may continue to defer necessary care.

- d. Access to care in local communities will be harmed if local community hospitals cannot join in shared efforts to strengthen their clinical capabilities, improve care management, and attract or retain more patients to receive community-appropriate care at their facilities.
- e. Quality will not be optimally enhanced unless the provider organization can join under the NewCo framework to innovate and share best practices in population health management.

As NewCo has described throughout the Determination of Need application and question responses, the creation of NewCo will offer the Massachusetts health care market a high quality, unique, highly competitive option not currently available to payers or consumers. NewCo will be built on a platform of already high-value providers which will be further incentivized through full integration to seek opportunities to even more effectively provide high-value care to patients across an expanded geographic region. NewCo is committed to working with health plans, employers, and consumers to develop attractive insurance options that will benefit consumers and introduce meaningful competition into the health care market.