

PERSPECTIVES

Insights on Healthy Living & Aging

Annual Conference Highlights: The Self-Care Solution

How Healthy Living and Consumer Empowerment Can Help Solve Our Healthcare Crisis

North Castle Partners, the nation's leading private equity firm focused exclusively on consumer businesses that address healthy living and aging trends, held its third annual educational conference on June 14 at the Asia Society in New York City.

This year's symposium "The Self-Care Solution" featured presentations from a diverse group of healthcare experts who discussed many of the problems with the current healthcare system, reviewed recent developments and offered recommendations for improvement by giving consumers more power, information and responsibility in the management of their own and their families personal health.

Chip Baird, the Founder and Managing Director of North Castle, welcomed an audience of close to 200. Chip opened the conference by setting the stage with an overview of the healthcare dilemma. He noted that U.S. healthcare costs have been increasing precipitously despite the healthcare system's severe shortcomings in quality and accessibility. Chip prophesized that "the baby boomers, who will start to turn 60 next year, will exacerbate these issues and accelerate the demands on the healthcare system as they deal with the inexorable physical deterioration associated with aging."



Speakers (l-r): Regina Herlinger, Ph.D.; Secretary Tommy Thompson; David Sobel, M.D.; Holly Atkinson, MD; and NCP Managing Director Chip Baird.

Chip then briefly identified three solutions: healthcare plan restructuring, better consumer information, and incentives for healthier behaviors, as means to alleviate the impending healthcare crisis. The four speakers that followed each addressed various aspects of these "solutions."

Professor Regina Herzlinger contrasted the progress made in other industries to the lack of progress in the administration of healthcare and suggested that increasing market competition, better information and greater consumer involvement offered promise.

Dr. Holly Atkinson highlighted the important role the internet is playing in developing a consumer mindset, building knowledge and influencing decision-making.

Dr. David Sobel talked about successful developments in leveraging patients themselves as a resource in the healthcare system and the impact of mental health and attitude on physical health.

Finally, Secretary Tommy Thompson discussed the role government policy can play in promoting and incentivizing more healthful behavior, leveraging technology for better care, providing more choice and encouraging more personal responsibility for individual healthcare decisions.

While the speakers did not always agree on the specifics, there was a general consensus that a more powerful and knowledgeable patient or "consumer" of healthcare is emerging. This development holds great promise for both the efficacy and efficiency of the U.S. healthcare system and is creating many new business opportunities for companies that can successfully address the evolving consumer demand for new healthy living options and better healthcare information and services.

On the following pages are highlights from the speakers' presentations and panel that followed.



The Monster in the Closet

Chip Baird, NCP Managing Director

Charles F. Baird, Jr. has more than 25 years of experience as a business consultant and private equity investor. After beginning his career at Bain & Company, where he served as Executive Vice President, he went on to serve as a Managing Director at AEA Investors. In 1997, Mr. Baird combined his interest in the investment marketplace with a recognition of the power of demographic and consumer forces, to found North Castle Partners. Under Mr. Baird's leadership, North Castle has become the leading private equity firm focused on consumer businesses that are benefiting from Healthy Living & Aging trends. Current investments include healthy food and beverage and nutritional supplement companies, natural personal care and cosmeceutical products, day spas, fitness clubs and fitness equipment, luxury travel, and substance abuse treatment.

Chip Baird reviewed the escalating costs of the U.S. Healthcare system as well as its shortcomings in terms of quality and access. He pointed out that the aging baby boomers are likely to exacerbate these problems. Finally, Chip briefly highlighted several approaches which could help reform the current system.

- ▶ Using healthcare in this country is like shopping with someone else's credit card.
- ▶ Healthcare is the "monster in the closet" potentially representing \$42 trillion in unfunded liabilities. In 2004, spending for Medicare and Medicaid accounted for 19% of federal spending. Federal costs for healthcare are growing more rapidly than education or defense.
- ▶ The healthcare system is riddled with waste and poor quality control. It is estimated that poor quality control kills 100,000 people per year and runs up an estimated \$500 billion in avoidable medical costs. The cost of unnecessary physician and emergency room visits is approximately \$31 billion per year.

- ▶ It is estimated that 7% of Medicare payments, or \$20 billion, were for improper claims.
- ▶ Given malpractice torts, nearly all doctors engage in defensive practices including extra tests and referring patients to specialists. The estimated cost is \$80-100 billion per year.
- ▶ It has been reported that two-thirds of MDs do not want quality and performance data made available to the public.
- ▶ 80% of visits to primary care physicians are due to stress related complaints resulting in 550 million lost workdays annually. \$300 billion is spent annually in the U.S. on stress related compensation claims.
- ▶ 74% of Americans exercise less than the recommended 5x per week. 24% get no exercise.
- ▶ The obesity epidemic brings significant health implications including greater risks of heart failure, heart attack, type 2 diabetes, stroke, sleep apnea, cancer and degenerative bone disease. Average yearly medical expenses for an obese person (\$2700) are almost 50% higher than those for a non-obese person (\$1900).

- ▶ The solution to the healthcare crisis can be viewed as a three legged stool: restructuring healthcare plans to provide more consumer choice and involvement; providing better healthcare information to consumers through the internet and educational programs; and promoting incentives for healthier living and behaviors.
- ▶ Early evidence suggests that consumer directed health plans result in lower medical costs, increases in physician visits and decreases in hospital stays.
- ▶ Emerging websites are creating smart shoppers who can compare hospitals based on cost, volume, complication rates and the latest technology. Two-thirds of consumers would switch hospitals over their doctor's objections "to go to an excellent facility rather than a below average one."
- ▶ In several examples, better informed consumers have made decisions leading to a 20-30% reduction in invasive surgical options and 40% lower costs.



(l-r) John Richards (Red Door Spas, CEO), Harvey Spevak (Equinox, CEO), and Rich Gersten (NCP, Mng. Dir.)



Panel Discussion (l-r): Holly Atkinson, David Sobel, Tommy Thompson, and Regina Herzlinger



(l-r) Chip Baird (NCP, Mng. Dir.) and Peter Schabecoff (NCP, Mng. Dir.)



(l-r) Doug Lehrman (NCP, Mng. Dir.) and Barry Karlin (CRC Health Group, CEO)



The audience at the Asia Center enjoys Holly Atkinson's presentation



(l-r) Regina Herzlinger (Speaker), Ellen Marram (NCP, Mng. Dir.)



Luncheon at the Asia Society following Conference

Consumer-Driven Healthcare

Regina Herzlinger, Ph.D.

*Regina Herzlinger, named one of the top ten healthcare thinkers by Managed Healthcare magazine, is one of the world's most respected and creative experts on healthcare and management control. She is widely recognized for her innovative research and her early predictions of managed care's unraveling and the rise of consumer-driven healthcare and healthcare-focused factories. A Professor at Harvard Business School, Dr. Herzlinger has authored 5 books including **Consumer-Driven Health Care** and **Market-Driven Health Care** and has served on 12 corporate boards. She has had extensive experience in state and federal government and consulting. Her award-winning research and writing have appeared in many business publications.*

Regina Herzlinger presented some proposals for restructuring the healthcare system to improve service while lowering cost. Drawing from the experience of other industries, she built the case that a more market and consumer driven system would result in higher quality and more cost effective care.

► In consumer driven industries, consumer power has resulted in lower prices, improved quality, more information and broader ownership. In healthcare, we have inflation, unknown quality, limited choice and limited access (46 million uninsured). But consumers want choice, financial control and better information and they are starting to impact the system.

► In many industries focused factories have resulted in increased productivity. Similarly, healthcare should move from multipurpose providers to "focused factories" that specialize in high volume procedures or provide the integrated healthcare required to care for chronic conditions like heart disease or diabetes. Where these facilities have been established, the result has been a higher quality of care with lower costs.

► Consumer choice creates competition and drives up productivity. When consumers more directly choose their healthcare plans and services, insurers will compete to satisfy their needs at an acceptable cost, and offer a variety of benefits and coverage as well as educational programs.

► People are seeking better information to make their choices. Over a third of consumers say they lack the information to make

the best choices and 80% think quality measures are important. The healthcare equivalent of J.D. Powers or Zagat surveys are just beginning to appear. Consumer-friendly information and physician and hospital ratings on the internet and elsewhere help people make more informed healthcare choices.



► One concern about consumer directed healthcare plans with high deductibles is that people will not seek necessary care. Findings indicate this is not the case. People are not stupid. They take care of themselves. The difference with a consumer driven system is that they know what the cost is, and they start thinking about the cost of using A versus B. If they have very good information, they're very smart about what they do.

► Most managed care doesn't really manage care and it's been unable to manage costs. So, what choice do we have? We're either going to go to a single payer and let the federal government take the whole thing over or we're going to go the consumer driven way. I think we are going to go the consumer driven way.

The Healthcare Problem

- ▶ Healthcare expenditures totaled \$1.8 trillion in 2004 and have grown 8.4% annually while GDP has grown 4.5%. Today, healthcare expenditures equal 15.5% of GDP.
- ▶ The average annual premium for employer sponsored family health coverage has increased 76% since 2001.
- ▶ National health expenditures are expected to increase at 7% per year and will consume 18% of GDP in 2012.
- ▶ We spend more on healthcare than other developed countries but still lag many in life expectancy rates.
- ▶ Healthcare severely underspends on information technology. Only 19% of hospitals use computerized data entry and only 13% have electronic patient health records.
- ▶ Each year 3% of hospital patients are seriously harmed. Two million develop and 90,000 people die from hospital acquired infections. 6.5% of hospital patients suffer from drug toxicology resulting in 7,000 deaths. Only 55% of doctors follow “best demonstrated” practices.
- ▶ 16% of the U.S. population does not have insurance. 30% of the uninsured are children, 33% are hispanic and 32% are 18-24 year olds.



The Internet: Power at Last

Holly Atkinson, MD

*Holly Atkinson is a physician, award-winning medical journalist and one of the leaders in medical education for the American public. Dr. Atkinson is editor of **HealthNews**, the consumer newsletter of the Massachusetts Medical Society, publisher of the **New England Journal of Medicine**, chairwoman for iVillage Health Initiatives and the resident physician on iVillageHealth.com, one of the leading consumer health sites on the internet. For over 20 years, she has provided medical information and education to consumers. She has extensive experience as a medical correspondent, including assignments with NBC and CBS News, Lifetime Medical Television and the PBS health show **BodyWatch**.*

Holly Atkinson explained how the internet is revolutionizing access to healthcare information resulting in more knowledgeable and powerful consumers who seek opportunities for comparative shopping for the purchase of healthcare services and products. She also discussed the importance of providing adequate health education for everyone.

- ▶ Consumers are spending more of their own money either because they are forced to or choose to. They are willing to experiment and pay for it if they perceive a value.
- ▶ One of consumers' greatest demands is for information — not just about diseases, but for the full range of information that one needs to make wise healthcare decisions.
- ▶ Consumers are fast becoming the most important decision makers in healthcare. They get most of their information from the internet. Those who cater to them-providing them with critical information and forging a relationship with them-will win in the marketplace.
- ▶ Consumers want quality care. Providers must offer both the perception and reality of delivering great healthcare at affordable prices. They must also track their outcomes and publish their statistics.
- ▶ People are managing their own healthcare needs and becoming “medical entrepreneurs.” They are deciding based on benefits received, cost of care and convenience, rather than on access to a preferred physician. They are making decisions on which hospital to go to based on information about those hospitals rather than relying on physicians' recommendations.
- ▶ Consumers expect both good customer service by providers (courtesy and respect) and highly functional e-applications (reliable, fast and easy that enhance safety and security) that give access to their local providers.
- ▶ Consumers expect consistent, high quality outcomes from their providers. They believe technology can help solve a lot of these problems. In one survey, 3/4 of the patients said they would change to a physician/practice that had a website and emailing capabilities.

- ▶ Consumers are connected and want e-medicine services. Consumers are people and want high touch too. The challenge is how to combine passionate, caring providers with cutting edge e-medicine to offer safe, high quality care in a warm, respectful environment.
- ▶ Who in our society is responsible for health education? Is it the health plans? The hospitals? The schools? The churches? I think its going to take some creativity.
- ▶ What if the ministers in their pulpits said to their congregations, “You know what? We’ve got a truck outside this morning. Why doesn’t every one of you as you pass out the door get your blood pressure checked?” Or “there’s a mammogram screening truck that’s coming by church on Sunday afternoon.” We have different target audiences. We have different education levels. We know the disenfranchised do not have access to the internet the way we do. So I think we have to be creative here and I think that means partnerships, working with industry and business.

Patients as Providers

David S. Sobel, MD

David S. Sobel is Medical Director of Patient Education and Health Promotion for Kaiser Permanente Northern California which serves over 3 million members. He is the editor of the Mind/Body Health Newsletter, the author of seven books and a practicing primary care physician at the Kaiser Permanente Medical offices in San Jose. Dr. Sobel's research and teaching interests are focused on medical self-care, patient education, preventive medicine, behavioral medicine and psychosocial factors in health. He has made more than 200 television appearances and has earned awards for his health education work from the American Heart Association and the American Film Festival.

David Sobel shared his experiences as a researcher and practicing physician to explain the effectiveness of educating patients and involving them in their own preventive and therapeutic protocols.

▶ The greatest underutilized resource within the healthcare system is the patient himself. Patients are the true primary care providers with self-care providing 80% of the needs in the healthcare system.



▶ Kaiser has been very successful using self-care educational materials, both printed and interactive, patient-led support groups for people with chronic diseases, and personalized nutrition programs.

▶ Depressive symptoms have a greater impact on quality of life and functional status than most major chronic diseases. One of the greatest disconnects between patients needs and healthcare resources are medical responses to psychosocial needs and deficits. 80% of primary care patients have high levels of psychosocial distress.

▶ Mind/Body medicine programs appear to reduce psychological symptoms, improve functional status, reduce unproductive medical visits and reduce coronary events.

▶ “Healthy Pleasures” can play an important role in improving health:

- Heart attack patients who watched humorous videos for 30 minutes per day had fewer irregular rhythms, lower blood pressure, lower stress hormones, less medication, and one-fifth rate recurrent heart attacks.

- Post surgical patients in a room with a view of nature (vs. a brick wall) had less distress, required less pain medication and were discharged 1 day sooner.

- In the year following a heart attack, pet owners have one-fifth the rate of recurrent heart attacks.

- 1-2 drinks per day on average is associated with reducing risk of coronary heart disease by a third.

- Candy eaters live nearly a year longer than non-candy eaters.

- Taking vacations was associated with a 30% reduction in cardiovascular risk.

- The risk of death in men who had sex twice or more a week is half that of men who had sex less than once a month.

▶ Self-care education, mind/body and behavioral medical interventions, and healthy pleasures for intrinsically motivated healthy living are three “win-win” solutions for patients, providers and healthcare systems.

The Growth of Self-Care

▶ In 2004, 26% of companies were offering or planning to offer consumer directed healthcare plans, up from 14% in 2003.

▶ 93 million internet users are seeking healthcare services on 20,000 health related internet sites.

▶ It is estimated (CDC) that 50% of health status is determined by health behavior.

- \$27 billion is spent, out-of-pocket, on alternative care including acupuncture, homeopathy, chiropractic care, and naturopathy.

- Eighty-three percent of all U.S. households purchase some form of vitamins, minerals, herbals, or supplements.

- Functional foods are growing at 8.8% annually versus 1% for all foods.

- 39.4 million people belonged to health clubs in 2003 versus 20 million in 1990.

- There were 12,000 spas in 2004, up from 2,300 in 1994.

- 50% of the population is on a diet at any given time and more than \$35 billion is spent on weight loss products and services annually.

▶ Insurance companies are increasingly offering preventive health programs.

▶ 81% of companies with greater than 50 employees have corporate wellness programs. There is increasing evidence that these programs result in reduction of absenteeism and sick leave and decreases in doctor and emergency room visits.

Skin in the Game

Tommy G. Thompson

Tommy G. Thompson, formerly the Health Human Services Secretary from 2001 to 2005 and Governor of Wisconsin from 1987-2001, is currently the Chairman of the Deloitte Center for Healthcare Management and Transformation and a partner at the law firm of Akin Gump Strauss Hauer & Feld. Secretary Thompson is building on his efforts as HHS Secretary and Governor to develop innovative solutions to the healthcare challenges facing American families, businesses, communities, states and the nation as a whole. These efforts focus on improving the use of information technology in promoting healthier lifestyles, strengthening and modernizing Medicare and Medicaid, and expanding the use of medical diplomacy.



Tommy Thompson discussed his experiences and recommendations for policy changes that would encourage patient responsibility and promote patient choice while helping to control costs and ensure the highest quality of healthcare is available.

► While everyone may look at the challenges we face differently — and they may have different solutions — everyone is in agreement about one thing: Healthcare as we know it in America simply is not sustainable.

- First, and most importantly, Americans need to eat healthier, exercise more and stop smoking.
- Second, America needs to make better use of technology to save money and — most importantly — save lives.
- Third, we need to take an innovative, broad-based approach to provide more healthcare coverage to the uninsured.
- Fourth, we need to strengthen Medicaid by bringing flexibility and accountability into the program so that it will better serve American families.

► I just can't understand why we wait for people to get sick and then spend thousands and thousands of dollars trying to make them well again. Why not focus on keeping them from getting sick in the first place?

► Insurance companies should work with employers to structure their insurance and benefit programs to encourage employees to adopt healthier eating and exercising habits. In auto insurance, for example, safe drivers who haven't had an accident or tickets are given better rates than those who bang up

their car every few months. Shouldn't we similarly reward people who don't submit their bodies to undue wear and tear?

► A good health information system could save the United States economy \$131 billion a year. That's nearly ten percent of our total healthcare spending. More importantly, we'll save lives. You can use your bankcard in virtually any ATM in the world to get your money and find out what the balance is in your checking account. But if you show up at an emergency room even 50 miles from home, you'll have to scramble to track down your medical history.

► Long term care today is eventually paid by either the state or federal government. The biggest cost to long term care is institutionalized care. I really believe that if you want to take care of your father or mother in your own home, you should get a tax credit. It would benefit the government and it would improve the quality of life for your mother or father.

► The growing popularity of health savings accounts is good news for American health-

care. A recent report showed that the use of HSAs doubled last year. HSAs, also known as flexible spending accounts, allow individuals to set aside their pre-tax money to help cover healthcare costs. This gives them ownership over their healthcare choices — not a nameless, faceless, third party.

► We've got to get individuals to know about health insurance and to be able to be good purchasers. That's why HSAs and portability is so important. It used to be that if you didn't spend the money at the end of the year, you lost it. Now, that's stupid. Why don't you allow people to roll over the money and keep it? Then you'll invest and make smart decisions.

► You have to get consumers to feel that they've got a stake in their decisions and the best way to do that is by having some skin in the game. The worst thing in the world is to have first dollar coverage of insurance. If people have skin in the game and know that they have to pay something, through co-pays, they're going to be much smarter.

NORTH CASTLE PARTNERS *Investors in Healthy Living & Aging*

Our mission is to partner with accomplished, entrepreneurial management teams who share our vision: building "great companies" that contribute to healthy living and quality of life. We strive to accomplish our mission with integrity in our process and balance in our lives. If we achieve our mission, we will create extraordinary value for these companies, their employees, investors, communities, and the North Castle team.

Perspectives is published by North Castle Partners, the leading private equity firm focused exclusively on the Healthy Living & Aging marketplace.

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