



FOUNDED BY BRIGHAM AND WOMEN'S HOSPITAL
AND MASSACHUSETTS GENERAL HOSPITAL

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Partners HealthCare Reports Third Quarter 2016 Financial Results
Solid Hospital Performance Offset by One-Time Costs and Higher MassHealth Claims

BOSTON, MA – Partners HealthCare today reported an operating loss of \$33 million in the third quarter of fiscal year 2016, which ended on June 30, 2016. Health care provider and other activity generated \$7 million in operating income during the 2016 quarter, after absorbing the financial impact associated with preparations for a nursing strike at Brigham and Women's Hospital (\$24 million), which was averted with agreement on a 3-year contract extension, a lease consolidation effort that required early exits from a handful of leases (\$25 million) and the implementation of Partners eCare, an integrated, electronic health and administrative information system (\$27 million).

Exclusive of the non-routine items noted above, Provider activity generated operating income of \$83 million (3.1% operating margin) (see Provider Activity).

Insurance activity (Neighborhood Health Plan or NHP), generated an operating loss of \$40 million in the 2016 third quarter. These results reflect deteriorating medical trend for MassHealth and commercial activity. The operating results also reflect adjustments to revenue based on revised estimates related to the MassHealth Risk corridor as well as the Accountable Care Act regulations governing commercial activity in the merged market. The results also include the benefit of premium deficiency reserve amortization. Collectively, these items reduced NHP's third quarter operating income by \$13 million (see Insurance Activity).

During the comparable quarter of fiscal year 2015, Partners reported income from operations of \$30 million. Provider activity resulted in operating income of \$24 million, including \$33 million in costs associated with the implementation of Partners eCare. Excluding those costs, provider activity generated operating income of \$57 million (2.3% operating margin). Insurance activity resulted in operating income of \$6 million, which included the benefit of premium deficiency reserve amortization of \$21 million.

"Hospital and physician operations performed well this quarter and, in fact, on a run-rate basis outperformed last year," said **Peter K. Markell, Chief Financial Officer and Treasurer for Partners**

HealthCare. “However, several one-time costs, higher pension costs due to lower discount rates and low investment return, as well as underpayments from Medicaid and the Health Safety Net continue to pressure our operating margins.”

Partners total operating revenue increased \$217 million (7%) to \$3.2 billion in the quarter, reflecting continued growth in both provider and insurance activities. Total operating expenses increased \$280 million (10%) to \$3.2 billion, due to higher wages (\$40 million or 4%), benefits (\$39 million or 13%), and medical insurance claims (\$138 million or 29%) as well as the items noted above.

Partners reported an overall loss of \$44 million, including a non-operating loss of \$11 million, in the 2016 quarter. Non-operating activity includes gains and losses on investments and interest rate swaps, which can vary significantly year to year due to volatility in the financial markets, and philanthropy. In the 2015 quarter, Partners reported an overall gain of \$85 million, including a non-operating gain of \$55 million.

Health Care Provider & Other Activity (Provider Activity)

Revenue for provider activity increased \$151 million (6%) to \$2.7 billion in the third quarter of 2016. Net patient service revenue increased \$100 million (5%) to \$2.0 billion, reflecting higher inpatient acuity at Partners’ Academic Medical Centers and growth in outpatient activity. Research revenue increased \$21 million (5%) to \$449 million, driven by growth in government-sponsored and corporate-sponsored research activity. Other operating revenue, excluding patient care and research revenue, increased \$30 million (21%) to \$176 million, reflecting gains on the commercialization of intellectual property (\$19 million).

Operating expenses attributable to provider activity increased \$168 million (7%) to \$2.6 billion in the 2016 quarter. Higher pension (\$15 million or 19%) and health benefits (\$18 million or 15%) expenses, as well as costs associated with strike preparations at BWH and the implementation of Partners eCare, contributed to an increase in employee compensation and benefits of \$76 million (5%) to \$1.5 billion. Supplies and other expenses increased \$57 million (10%) to \$620 million, as Partners experienced higher costs for pharmaceuticals (\$19 million or 18%) and clinical supplies (\$9 million or 6%). Depreciation increased \$21 million (17%) to \$148 million, incorporating the components of Partners eCare that became operational.

Insurance Activity

Premium revenue grew \$98 million (19%) to \$621 million in the 2016 third quarter, driven by a 16% increase in membership. As of June 30, 2016, NHP had approximately 450,000 members, of which 67% were in Medicaid managed care plans.

Since the adoption of national health reform in 2014, NHP has experienced a significant increase in MassHealth adult members that have generated higher medical claims than state actuaries had projected and on which rates were set, resulting in operating losses. Based on rates set by the state for its 2015 and 2016 contract years and in accordance with accounting requirements, Partners established premium deficiency reserves for anticipated losses related to NHP's state contracts. Those reserves are amortized over the course of the relevant fiscal year, resulting in a reduction to NHP's medical claims expense.

NHP's operating results also reflect adjustments to revenue based on updates to estimates pursuant to the MassHealth risk corridor as well as the Accountable Care Act regulations governing commercial activity (risk corridor, risk adjustment, reinsurance, and cost sharing reduction) in the merged market. During the June 2016 quarter, NHP recorded unfavorable adjustments totaling \$20 million, of which approximately \$18 million pertain to prior year activity.

Medical claims expense (including claims paid to Partners' clinicians and providers) increased \$138 million (29%) to \$621 million in the 2016 quarter. Excluding the impact of premium deficiency reserve amortization, medical claims expense was \$628 million in 2016 and \$504 million in 2015, an increase of \$123 million or 24%. NHP's medical loss ratio (the percentage of insurance premiums that are used to pay medical claims) was 101% in the 2016 quarter and 97% in the comparable 2015 quarter (excluding the impact of the premium deficiency reserves).

General and administrative costs increased \$6 million (17%) to \$40 million in the 2016 quarter, consistent with membership growth. The administrative expense ratio (the percentage of insurance premiums that are used to pay general and administrative expenses) remained low at approximately 6.4%.

"Neighborhood Health Plan continues to experience growth, and that growth tends to come with higher initial costs" said **Markell**. "Though NHP's performance has shown signs of stabilizing, the most recent utilization trends confirm that we must continue to work with state officials to ensure that MassHealth provides reimbursement that adequately reflects the medical needs of the population that NHP covers. And, we must continue to intensify our medical management efforts."

Excluding the impact of premium deficiency reserve amortization, insurance activity generated an operating loss of \$46 million (-7.5% operating margin) in the 2016 third quarter and an operating loss of \$15 million (-3.0% operating margin) in the 2015 third quarter.

Year-to-Date Consolidated Results

Partners reported income from operations of \$1 million for the nine months ended June 30, 2016 and \$86 million in the comparable 2015 period. Each period includes various non-routine items, summarized below:

- Costs associated with the installation of Partners eCare: \$54 million in 2016 and \$41 million in 2015;
- Preparations for the averted nursing strike at BWH: \$24 million in 2016;
- Impact of lease consolidation: \$28 million in 2016;
- Historically harsh winter: \$34 million in 2015;
- Amortization of NHP's premium deficiency reserves: \$28 million in 2016 and \$69 million in 2015.

Excluding the impact of each of these items, Partners income from operations was \$79 million (0.9% operating margin) for the nine months ended June 30, 2016 and \$92 million (1.1% operating margin) in the comparable 2015 period. Provider activity generated operating income of \$136 million (1.7% operating margin) and insurance activity resulted in an operating loss of \$57 million (-3.1% operating margin) in the first nine months of fiscal 2016. In the comparable 2015 period, provider activity generated \$147 million in operating income (2.0% operating margin) and insurance activity resulted in an operating loss of \$55 million (-3.7% operating margin). In addition, higher pension and health benefits expenses (collectively, \$69 million) and costs for pharmaceutical, implants and blood products (collectively, \$68 million) impacted operating income in the 2016 period.

For the nine months ended June 30, 2016, Partners HealthCare absorbed \$990 million in Medicare, Medicaid, and Health Safety Net shortfalls due to government reimbursements that failed to pay the full cost of providing care to Medicare, low-income, and uninsured patients, an increase of \$83 million (9%) over the shortfall absorbed in the comparable prior year period.

For the nine months ended June 30, 2016, Partners reported an overall loss of \$154 million, including a non-operating loss of \$155 million. In the comparable 2015 nine-month period Partners reported an overall gain of \$107 million, including a non-operating gain of \$21 million.

Commitment to Community

Serving and investing in the community is a major focus for Partners. In order to improve the health and well-being of our communities, Partners makes targeted, effective investments in three priority areas: access to health care, educational and economic opportunity, and prevention. Last year, Partners absorbed a shortfall of \$1.2 billion due to government reimbursements that failed to pay the full cost of providing care. Partners served more than 159,000 low-income patients and reported to the Attorney General investments of \$210 million through a wide-range of community commitments. Examples include:

As part of our commitment to building tomorrow's health care workforce, Partners has developed programming with Camp Harbor View (CHV), a summer day camp on Boston's Long Island for 900

young adolescents from Boston's at-risk neighborhoods. Our programming engages campers' curiosity about health care and science, introduces them to the educational connections between school and health careers and promotes healthy choices and behaviors. Each summer, over 40 health care professionals from Partners and its affiliated hospitals (including Brigham and Women's Hospital, Massachusetts General Hospital, Newton Wellesley Hospital, and Spaulding Rehabilitation Hospital) participate in two Partners Health Career Explorations days at CHV where campers partake in activities designed to educate about health and medical professions they might not be familiar with such as physical therapy, research, speech pathology, and social work, while also having fun.

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Forward-Looking Statements

This press release contains certain "forward-looking statements" concerning financial and operating plans and results which involve known and unknown risks and uncertainties. In particular, statements preceded or followed by, or that include the words, "believes," "expects," "estimates," "anticipates," "plans," "intends," "scheduled," or similar expressions are forward-looking statements. Various factors could cause Partners' actual results to differ materially including, but not limited to, federal and state regulation of healthcare providers, changes in reimbursement policies of state and federal government and managed care organizations, competition in the healthcare industry in our market, general economic and capital market conditions, and changes in our labor and supply costs and in our ability to retain personnel. For more information on these and other risk factors, please refer to our most recent bond official statement or annual disclosure statement filed on the Electronic Municipal Market Access (EMMA) website maintained by the Municipal Securities Rulemaking Board. We undertake no responsibility to update any such forward-looking statements except as expressly required by law.

Partners HealthCare is an integrated health system founded by Brigham and Women's Hospital and Massachusetts General Hospital. In addition to its two academic medical centers, the Partners system includes community and specialty hospitals, a managed care organization, community health centers, a physician network, home health and long-term care services, and other health-related entities. Partners is one of the nation's leading biomedical research organizations and a principal teaching affiliate of Harvard Medical School. Partners HealthCare is a non-profit organization.