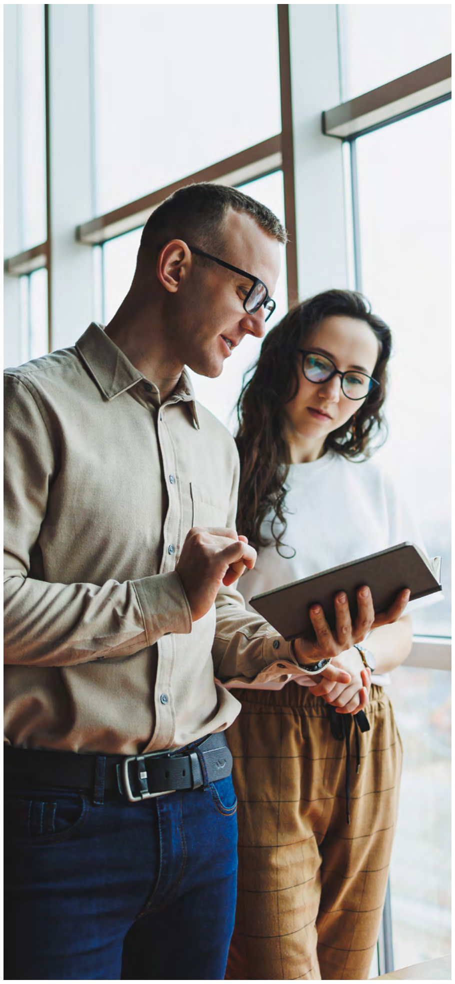
Economic climate

Inflation drives up health care spending, adds pressure for cost containment and increased technology enablement



McKinsey estimates that annual U.S. health expenditures are likely to be $370 billion higher by 2027 due to the impact of inflation.[1] Medical inflation typically lags general inflation due to the multiyear contracts between insurers and hospitals for the prices of procedures. However, PricewaterhouseCooper (PwC) projects that health care costs will rise 7% this year and inflation will drive providers to seek rate increases from insurers to offset their rising costs.[2]

Forces driving economic decisions in 2024

Price inflation, a tight labor market, regulatory changes and increased utilization of specialty pharmacy drugs are affecting the financials of the health care sector.

Workforce shortages are pushing up labor costs and limiting access to consumers. The combination of provider burnout and rising consumer demand is having an impact on utilization, outcomes and quality ratings, adding more pressure to margins. Health leaders who can afford to are leveraging technology advancements to support upskilling, new care delivery models and removing friction from the experience.

The rising prices of existing drugs and the high cost of newly approved drugs and therapies are impacting stakeholders across the health ecosystem. For example, according to a 2023 analysis by AARP, list prices of drugs with the highest aggregate Medicare spending have more than tripled since they were introduced to the market.[3] The median cost of new cancer therapies has surpassed $260,000 and new-generation weight-loss drugs for obesity and type 2 diabetes can retail for over $1,000 a month.[4,5] These high costs are leading consumers to forgo needed care, employers to reconsider their employee benefits and hospitals to shift budgets away from critical infrastructure or staffing investment.

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The combined influence of rising regulatory pressure and consumer behavior is accelerating the shift to value-based models. As health plan mergers continue in 2024, payers will look to optimize resources and align care management and reimbursement for high-risk populations. Providers should expect the shift to value-based care to expand.

Economic climate: Progress, challenges and what to watch

Change always comes with a cost. New care models, workflows, technologies or therapies need to be assessed for their ability to improve outcomes and impact financial performance in a responsible way.

Data and technology innovation can now predict utilization needs and opportunities by geography, at the segment or even member level. It can spot patterns and abnormalities. It can identify where new types of services or workflows could improve outcomes and reduce costs. This can help to guarantee that any new investments in clinical care delivery will result in cost savings. This growing connection between technology, workforce and value can make sure that an organization's limited resources are used most efficiently and effectively.

Promoting wellness, disease prevention and care coordination reduces long-term health care costs and generates revenue through value-added services and improved patient outcomes. However, a value-based approach will likely require investments in specialized staffing, technology and health equity as well as consideration of social drivers of health (SDOH). The next generation of value-based care doubles down on improved patient outcomes and optimal use of resources, enabled by technological advancement.

Leaders can continue to apply risk management and actuarial principles to manage the adverse risk of very high-dollar claims. Applying cost-prediction models can help anticipate what is likely to be needed by populations based on their current illness burden. As potent but expensive interventions continue to emerge, it is essential to evaluate their long-term cost effectiveness and their impact on patient outcomes. There is a pressing need for more comprehensive cost analysis as well as advocacy for coverage based on the positive impact new interventions can have on outcomes.

Workforce shortages are leading to severe service delays in some areas. This has shifted more care delivery to virtual, outpatient and in-home settings. It has also inspired a deeper look at automation and upskilling to alleviate access issues while also reducing costs.

Technology advancements in AI, machine learning (ML) and natural language processing (NLP) have the potential to reshape care delivery, reduce administrative inefficiencies, predict needs and align resources.

> It's important to track, and forecast, the impact emerging technologies and changes in health care practices have on specific populations and their potential for introducing new risk and new opportunities.
>
> **– Jim Dolstad**
> VP Actuarial Consulting
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These innovations empower decision-making, increase speed to market, reduce cost and improve overall margins. But they have to be integrated thoughtfully, which can also require time, resources and financial investment. Organizations that adapt technology in a responsible way are going to be more equipped to optimize investment and navigate through this volatile economic environment.

Moving forward in this economic climate

Employ risk management and actuarial principles to manage high-dollar risk.

Apply cost prediction models to anticipate needs and demands.

Evaluate long-term cost effectiveness and impact on outcomes of new interventions.

Use data to identify consumers and populations with unmet needs and inefficient utilization patterns.

Sustain the shift to technology-enabled care delivery in virtual, outpatient and in-home settings.

Promote wellness, disease prevention and care coordination.

Apply emerging technology in a responsible way to connect workforce, outcomes, patient satisfaction and value.

Why the time to act is now

In 2024, change is happening across every area of health care and the financial consequences of not being agile enough to keep pace with change are significant. Health care leaders must be proactive in assessing market changes and swift in implementing strategies to reduce costs and maintain quality. It is equally important for leaders to have the foresight to identify growth opportunities and empower their organizations to respond promptly and effectively.

Economic climate sources

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