



# The Current & Future State of the Healthcare Industry

---

Sally Kim, Director of health plan research  
Jan 23, 2024



200

EXPERTS ON OUR TEAM

40+ years

OF RESEARCH EXPERIENCE

4,500+

MEMBERS IN OUR NETWORK

# Helping health care leaders work smarter and faster

## WHO WE SERVE

Employers ◦ Brokers & Consultants ◦ Health plans ◦ Hospitals ◦ Health systems ◦ Medical groups ◦ Post-acute care providers ◦ Life sciences firms ◦ Digital health companies ◦ Health care professional services firms

Our experts harness a time-tested research process and the collective wisdom of our vast member network to develop **provocative insights**, **actionable strategies**, and **practical tools** that are at the core of our offerings:

## Research

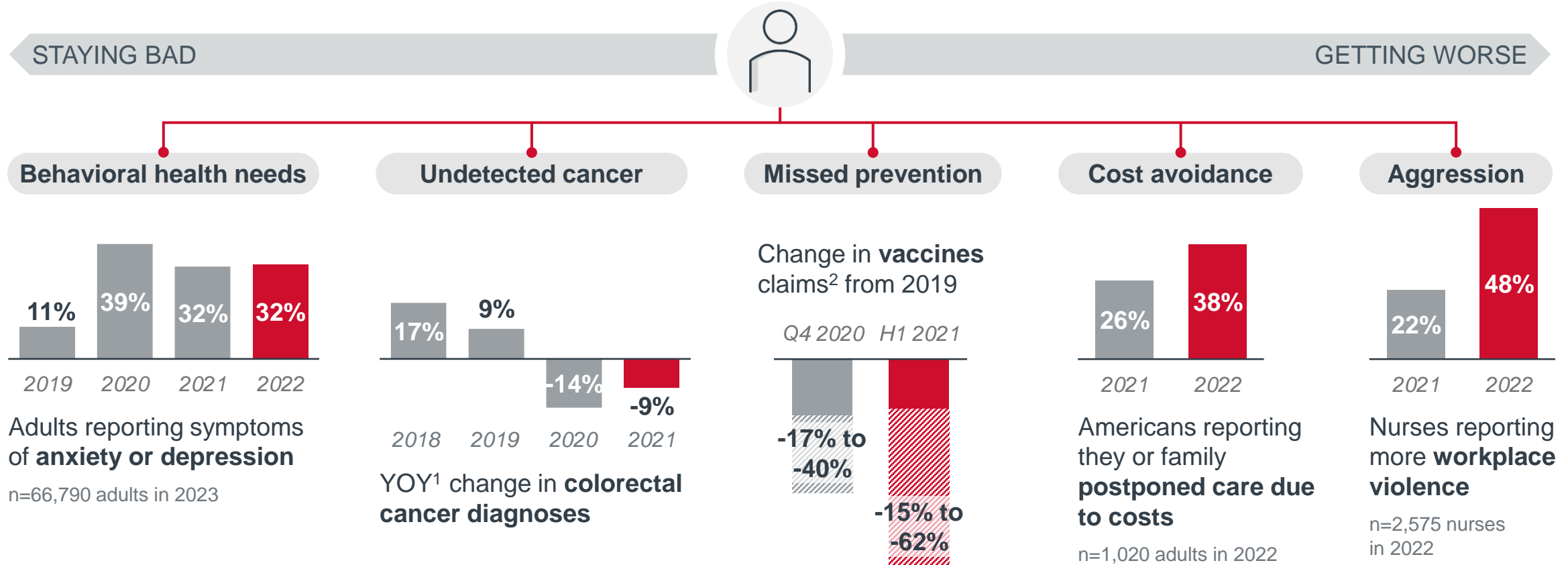
The knowledge you need to stay current, plus the strategic guidance, data, and tools you need to take action.

## People development

Virtual and in-person leadership development, custom learning solutions, and online manager support.

# The patients are not alright

## Characteristics of the patient emerging from the pandemic era



1. Year-over-year.

2. As a percent of claims in corresponding month of 2019 for recommended vaccines.

Source: "Declines in Routine Adult and Teen Vaccinations Continued in 2021," Avalere Health, January 2022; "Updated Analysis Finds Sustained Drop in Routine Vaccines Through 2020," Avalere Health, June 2021; "Record High in U.S. Put Off Medical Care Due to Cost in 2022," Gallup, January 2023; "Adults Reporting Symptoms of Anxiety or Depressive Disorder During COVID-19 Pandemic," KFF, 2023; "National nurse survey reveals significant increases in unsafe staffing, workplace violence, and moral distress," National Nurses United, April 2022; "Declining Cancer Screenings Suggest Increased Burden of Disease," Trilliant Health, April 2022.

# A poor report card for our overall performance

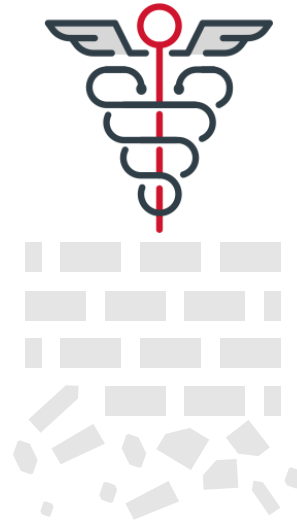
## Declining quality outlook

**19%**  
2021 to 2022  
Increase in **adverse events** resulting in permanent/severe harm or death

**38%**  
2020 to 2021  
Increase in **maternal mortality** deaths per 100,000 live births

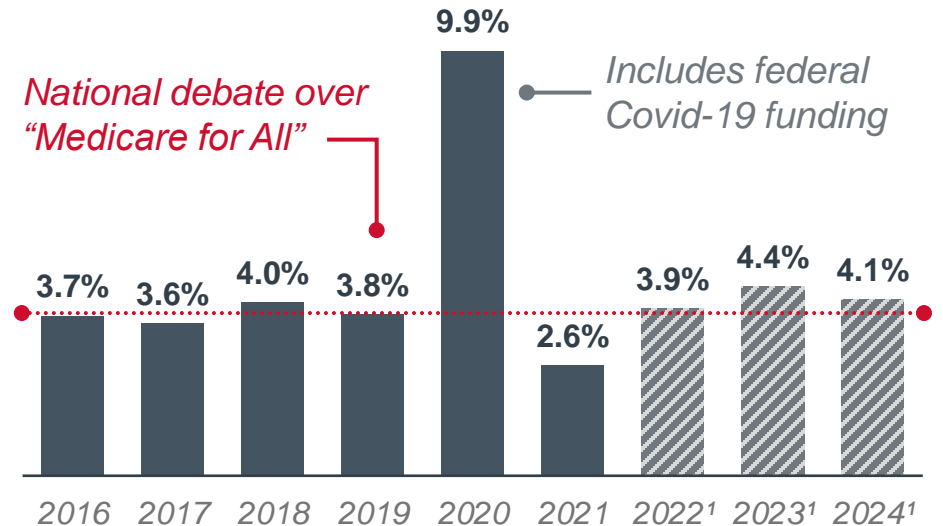
**11PT**  
2021 to 2022  
Increase in percent of nurses who are not satisfied with the **quality of care** they can provide in their current job  
n=18,226 RNs in January 2023

**73%**  
Adults believe the healthcare system is **not meeting their needs**  
n=2,519 adults in March 2023



## Looming spending pressures

### Annual growth in health expenditures per capita



1. Projected.

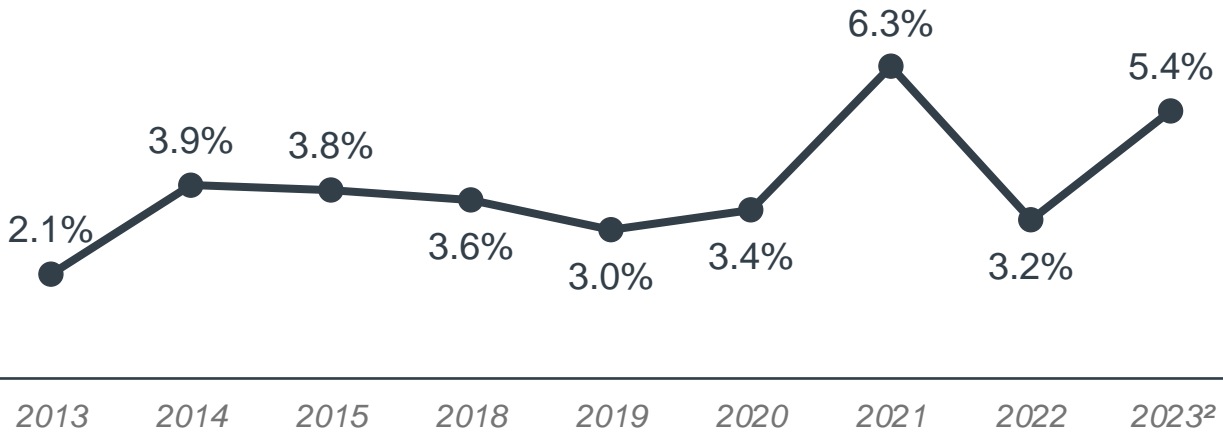
Source: AAPA survey "The Patient Experience: Perspectives on Today's Healthcare," AAPA, April 2023; "The Pandemic's Consequences: Survey of Registered Nurses," AMN, January 2023; "Maternal Mortality Rates in the United States, 2021," CDC, 2023; "National Health Expenditure Projections," Health Affairs, June 2023; "Americans Sour on U.S. Healthcare Quality," Gallup, January 2023; "Sentinel Event Data 2022 Annual Review," The Joint Commission, 2023.

# Roadmap for today's discussion

- 01 ● **Trends in employer demands**
- 02 ● Vertical integration
- 03 ● Digital member engagement
- 04 ● Innovative drug pipeline

# ESI<sup>1</sup> costs are no longer a predictable, steady rise...

Annual change in total health benefit cost per employee, from Mercer



Of US employers say managing healthcare benefits costs will be their top priority over the next two years<sup>3</sup>

**9%-10%** Expected increase in health costs at the next contract renewal (for 2024-2026 benefits)

1. Employer-sponsored insurance.  
 2. Expected.  
 3. n = 636 U.S. employers.

Sources: [Employers to tackle employee healthcare affordability amid rising costs](#), Willis Towers Watson, April 2022; Press Release 2022 Best Practices in Healthcare Survey, Willis Towers Watson, September 2023; ["National Survey of Employer-Sponsored Health Plans,"](#) Mercer, 2022; Gupta A, et al, ["The gathering storm: The threat to employee healthcare benefits,"](#) McKinsey & Co, October 2022.

# ...and cost containment is only becoming more difficult

## Four factors changing the cost landscape of employer-sponsored insurance



### Inflation

Provider rate increases, from rising supply and labor costs, are passed on to employers



### Hospital consolidation

Employers are concerned about fewer options and higher spend from hospital consolidation



### High-cost claimants

Million-dollar claims are increasing, especially among younger plan members



### Innovative drugs

Employers are facing new treatments such as GLP-1s and cell and gene therapies

# Avoiding disruption is just as important as cost savings

## Employers' calculation when changing benefits

Cost containment potential for both the employer and their employees by adopting a new benefit or strategy

COST SAVINGS

---

DISRUPTION

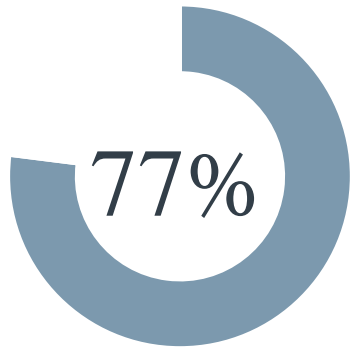
Avoiding disruption incorporates both **employee palatability** and **employer administrative ease**



# Employers are driven by what their employees want



68% of employees say health coverage plays an important role in **employee recruitment**



77% of employees say health coverage plays an important role in **employee retention**



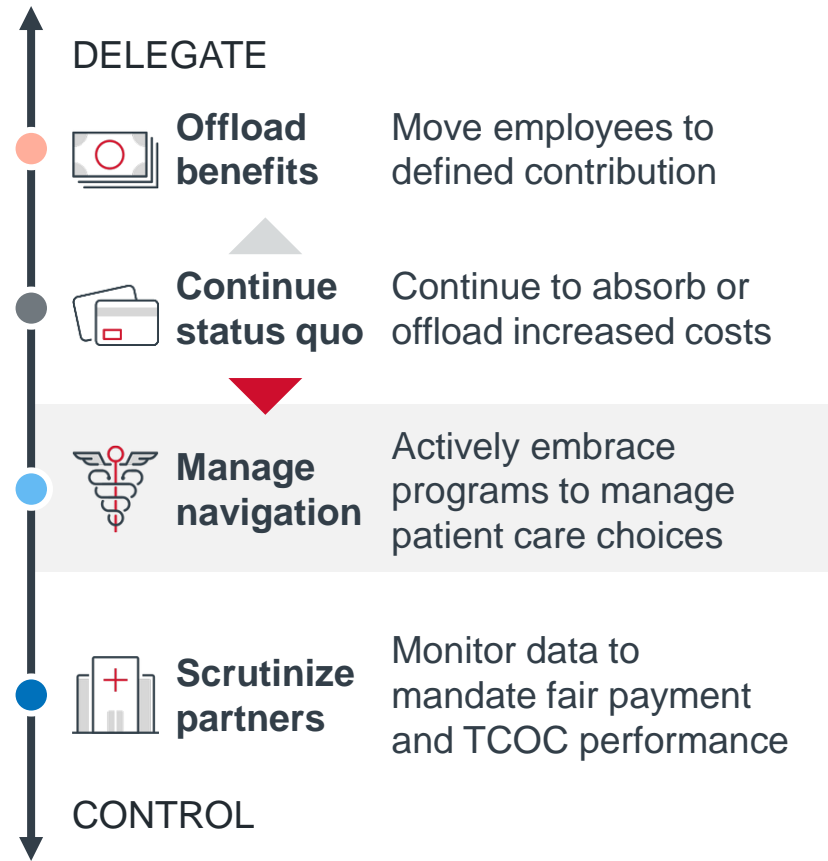
“We have an incredibly competitive talent acquisition market, so we, unfortunately, are not able to be as aggressive on cost as we want.”

*CHRO of a large energy company*

Source: [Coverage@Work Survey](#), AHIP, April, 2023. “[The Great... Reshuffle, Re-invention, Reassessment? 3 reasons workers are quitting and heading to different sectors](#),” World Economic Forum, August, 2022; “[2023 Capital Markets Forecast](#),” Wilmington Trust, December, 2022; “[The Great Resignation continues](#),” European Sting, January, 2023.

# Managed navigation strategies offer a compromise

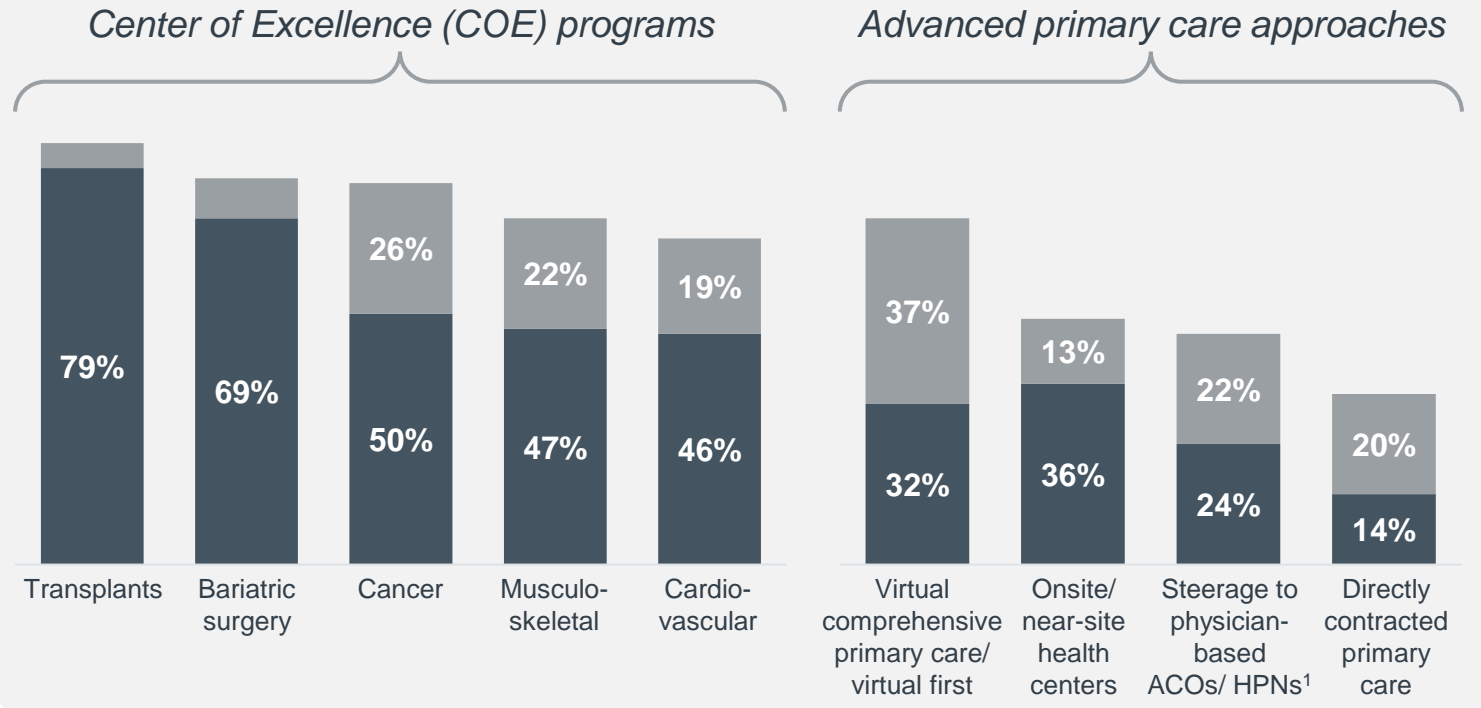
## Possible employer approaches to benefits strategy



### Large employer benefit strategy offerings

n=135 large employers, covering over 18M lives

■ Offered in 2023  
■ Planning to offer in 2024/2025



1. High-performance networks.

Source: "2023 Large Employers' Health Care Strategy and Plan Design Survey," Business Group on Health, August 2022.



Purchasers are demanding more as they pay more  
year-over-year for a product they don't use.

# Roadmap for today's discussion

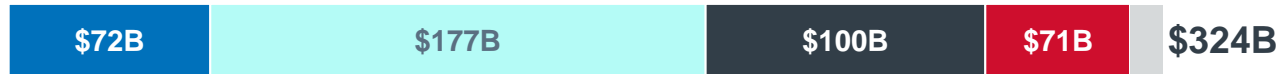
- 01 ● Trends in employer demands
- 02 ● **Vertical integration**
- 03 ● Digital member engagement
- 04 ● Innovative drug pipeline

# Health insurance just one piece of the pie for nationals

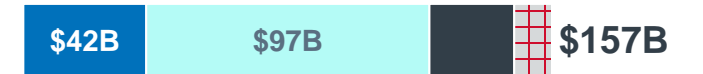
## Largest national insurers diversifying their revenue streams beyond traditional insurance

Total revenue in 2022, by segment, in Billions (\$)¹

### UnitedHealthcare + Optum²



### Elevance (fka Anthem)



### CVS + Aetna³



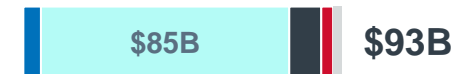
### Centene



### Cigna + Evernorth



### Humana + CenterWell

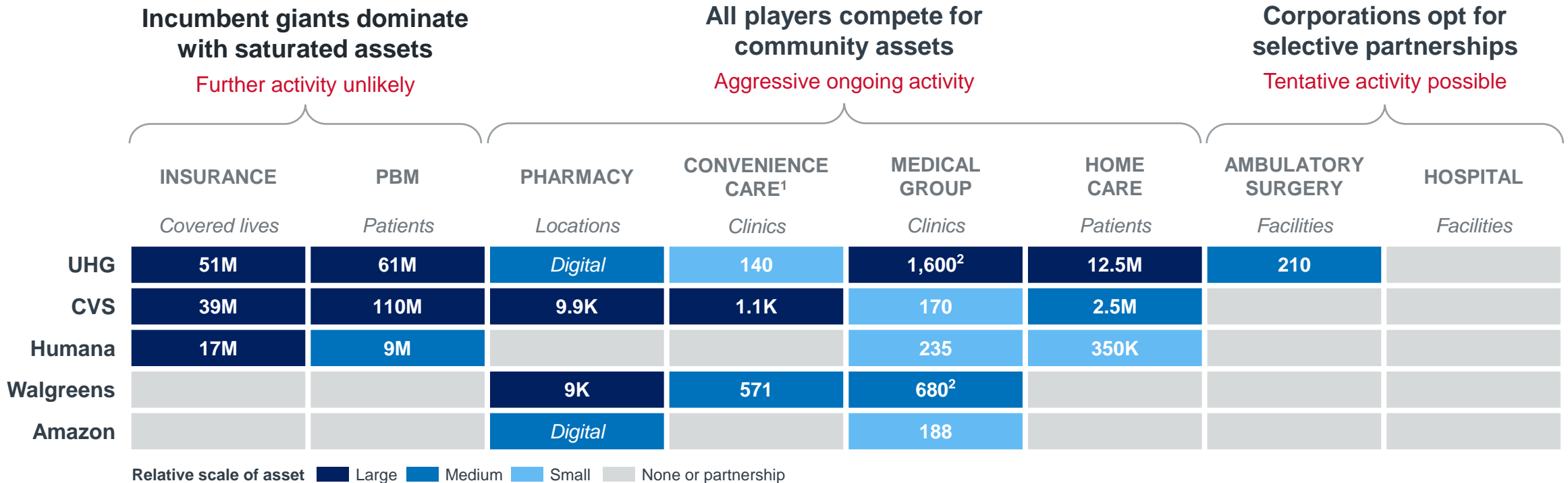


1. Revenues by segment may not add up to total revenue due to eliminations and rounding  
 2. Advisory Board is a subsidiary of Optum, owned by UnitedHealth Group. All Advisory Board research, expert perspectives, and recommendations remain independent.  
 3. CVS's 10-K filing does not further break its Aetna insurance business into specific insurance segment revenues.

Source: 2022 year-end earnings reports and 10-K filings from, \$CI, \$CNC, \$CVS, \$ELV, \$HUM, and \$UNH.

# National players build cross-continuum reach

Giants pursue selective consolidation across care delivery and financing (as of July 2023)



1. Convenience care includes retail care and urgent care centers.

2. Includes primary and specialty care practices.

Sources: See additional sources slide.

# Giants draw from mix of assets to serve unique ambitions

## Sample strategic ambitions of corporate players poised to have ripple effects on the industry



**Cross-sell adjacent services**  
Walgreens, Amazon, CVS



**Contain senior care value**  
Humana, CVS, UHG



**Control network operations**  
UHG, KP (Kaiser Permanente)

Corporate ambition

Cross-sell across a diverse healthcare portfolio to capture low-acuity care and pharmacy spend

Coordinate risk-based care across settings in a market to manage longitudinal senior health and capture data

Equip value-based physician groups and select hospital operators to steer patients to preferred cost-effective providers

Hurdles to overcome

*Patient conversion, reimbursement economics, partner coordination*

*Patient attribution, clinician enablement, scaling, government scrutiny, quality*

*Patient engagement, multi-payer partnerships, referral discipline, cost management, antitrust*

Sample market characteristics

- **Geographic appeal** (e.g. population density, population growth rates)
- **Ease of doing business** (e.g. scope of practice regulations, corporate tax rates)
- **Cross-sell opportunities** (e.g., # retail locations, # loyalty members)

- **Favorable payer mix** (e.g., Medicare Advantage penetration)
- **Patients without regular PCP** (e.g., % patients with regular PCP)
- **Ease of doing business** (e.g., scope of practice regulations, corporate tax rates)

- **Unconsolidated physician market** (e.g., prevalence of sophisticated risk-based physician practices)
- **Primary care supply** (e.g., per capita clinician supply)

# Regional health plans respond to new urgency for scale

Range of health plan consolidation activity amid growth of large nationals and difficult economic climate



## Specialized health plan mergers

Similarly sized health plans with unique expertise and relationships merge to amass scale, develop new-in-kind offerings, and maintain autonomy



## Independent health plan partnerships

Regional plans collaborate to scale individual expertise, innovation, and maximize investments while protecting market share

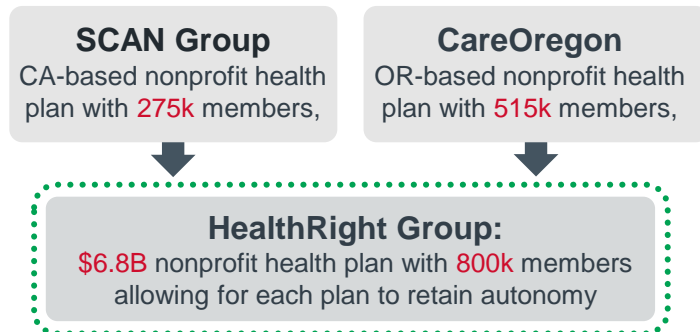


## Traditional acquisition

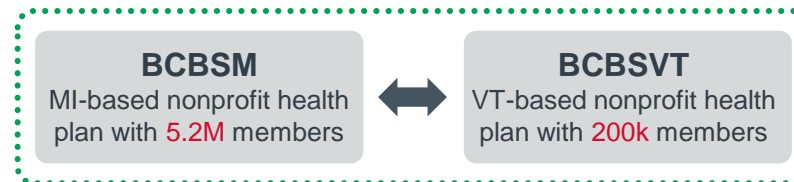
Smaller plans remain competitive by aligning with a larger operator to strengthen market share

EXAMPLES (As of Sept 2023)

### SCAN and CareOregon to form HealthRight Group



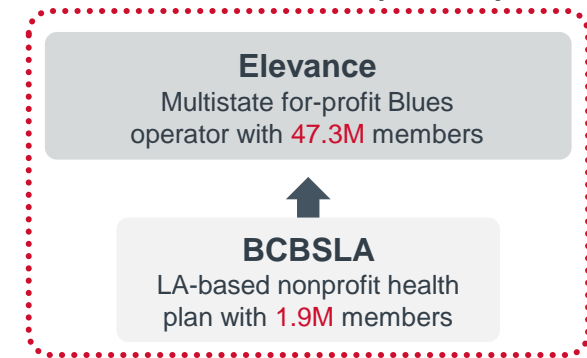
### BCBSVT to affiliate with BCBSM group of companies



*BCBS Association antitrust settlement's removal of National Best Efforts clause changes Blues competitive landscape*

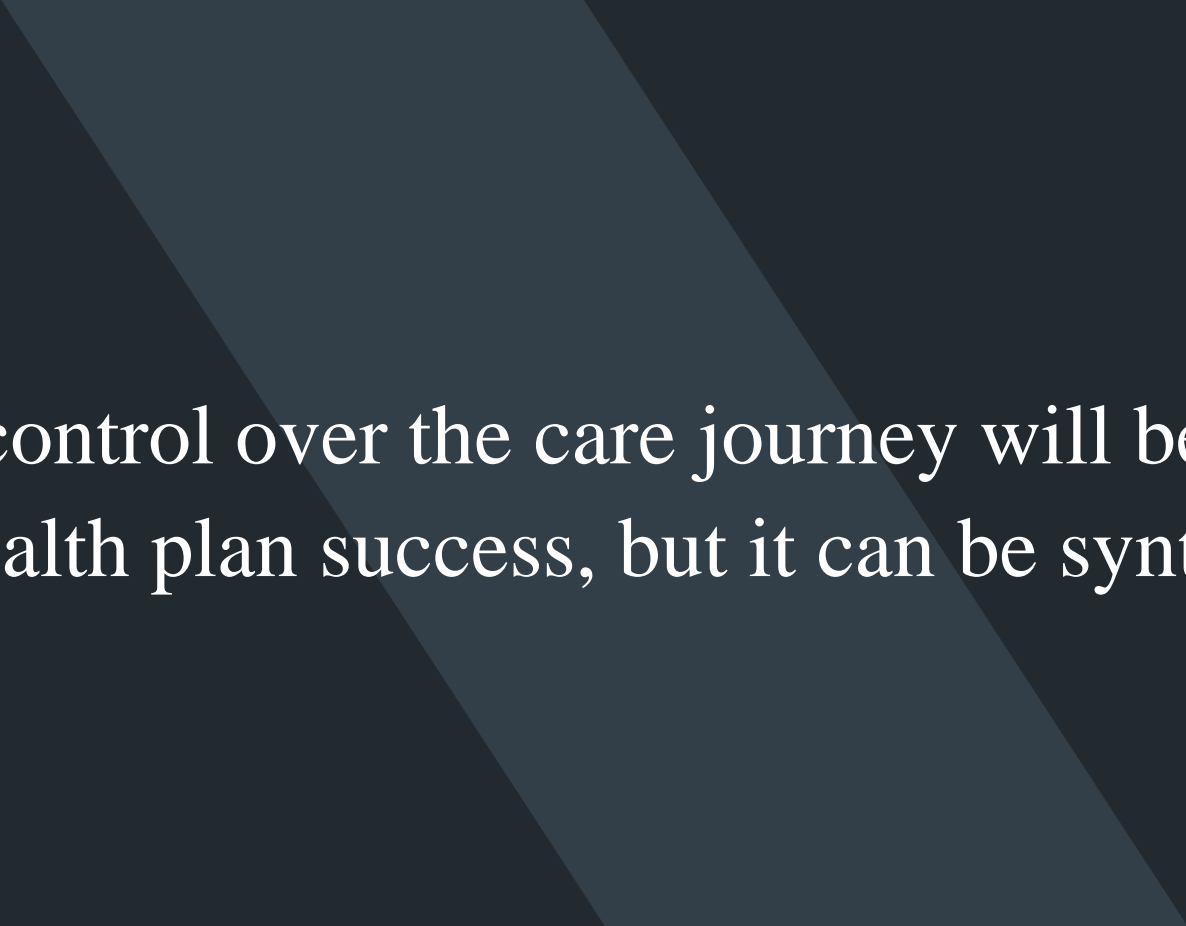


### Elevance to acquire BCBSLA (halted)



Sources: "Blue Cross and Blue Shield of Vermont and Blue Cross Blue Shield of Michigan Pursue Affiliation," BCBS VT, May 2023; and "Blue Cross and Blue Shield of Vermont to affiliate with Michigan counterpart," VTDigger, May 2023; "SCAN Group, CareOregon plan merger into HealthRight Group," Modern Healthcare, December 2022; "Elevance Health To Buy Louisiana Blue Cross Plan," Forbes, January 2023.





Scale and control over the care journey will be necessary for health plan success, but it can be synthetic.

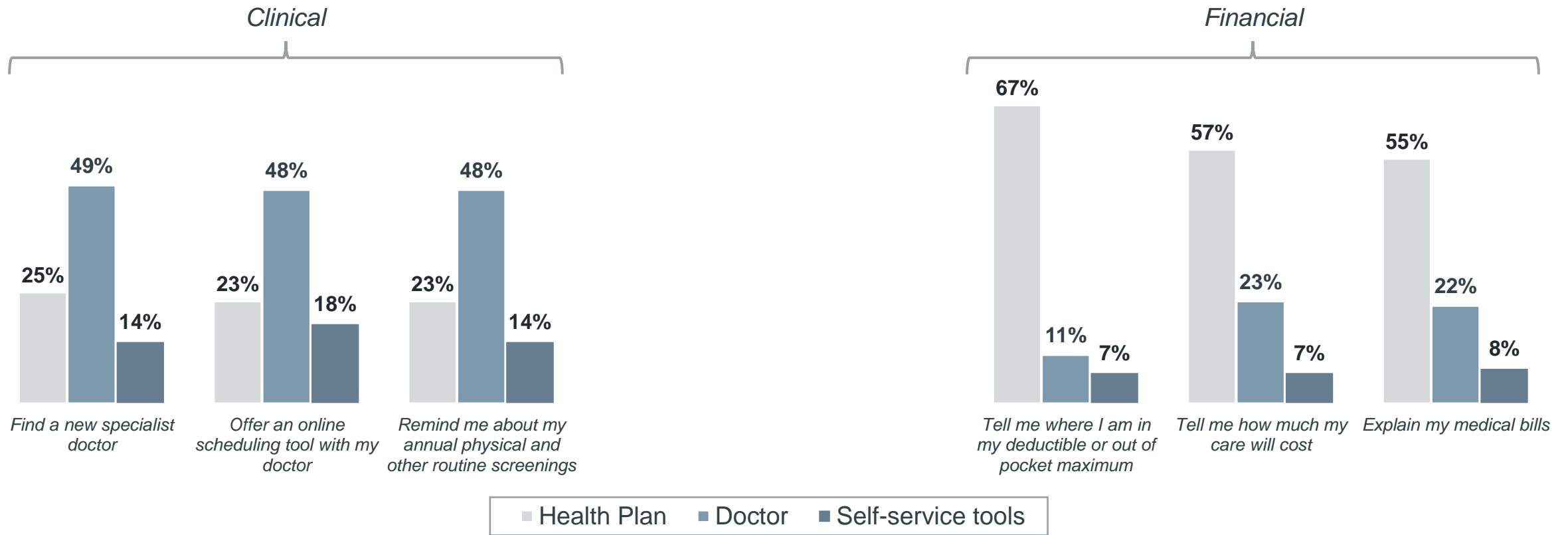
# Roadmap for today's discussion

- 01 ● Trends in employer demands
- 02 ● Vertical integration
- 03 ● **Digital member engagement**
- 04 ● Innovative drug pipeline

# Members see doctors' role as clinical, plans' as financial

Percent of members who prefer the following from their health plan vs doctor vs self-service tools

n = 3030

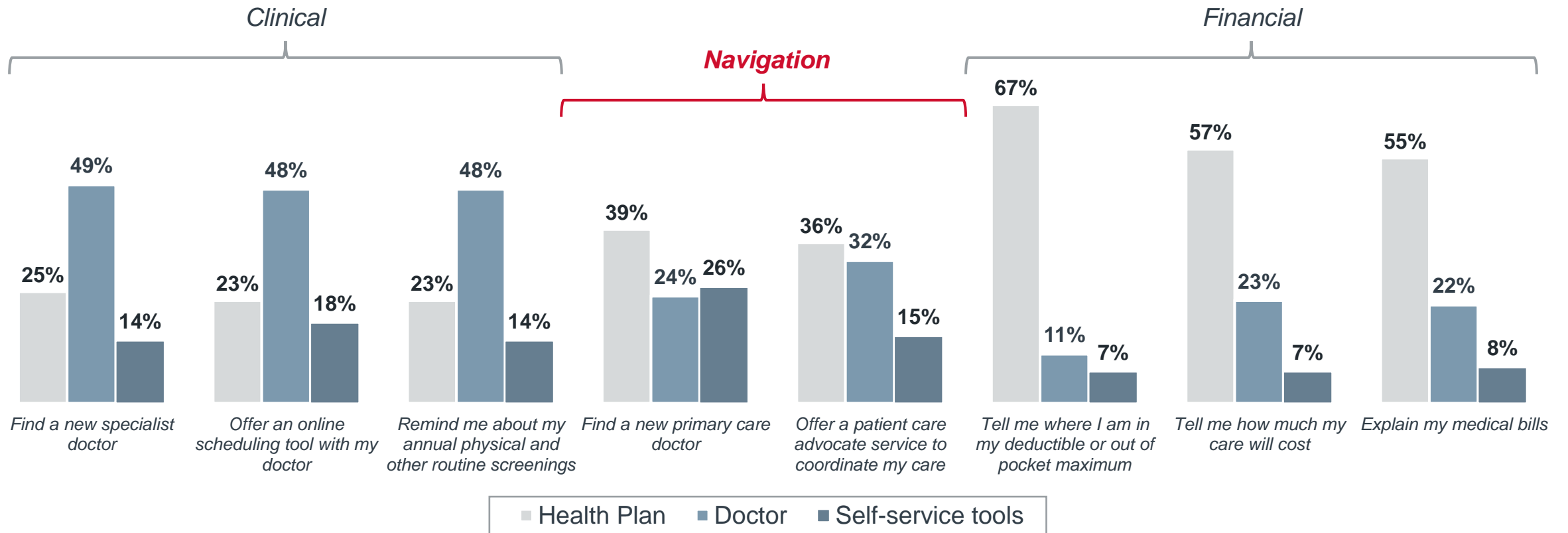


Source: 2022 Member Engagement Survey, Advisory Board.

# But there's still hope to have an identity beyond "payer"

Percent of members who prefer the following from their health plan vs doctor vs self-service tools

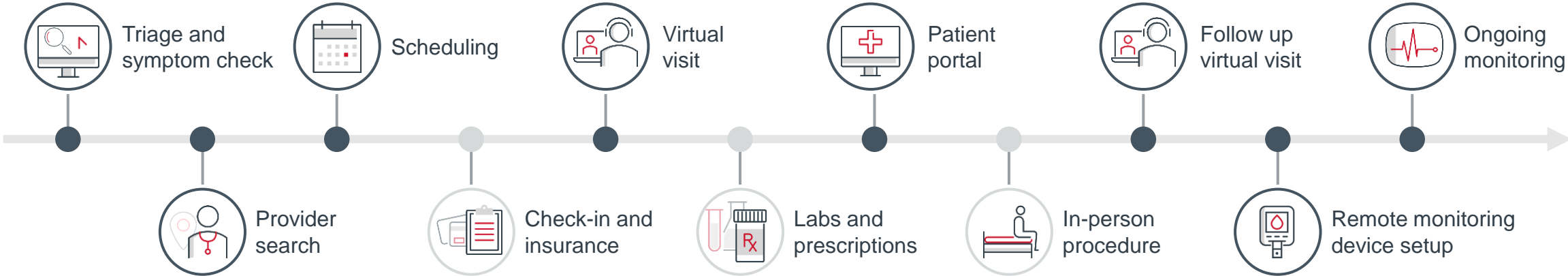
n = 3030



Source: 2022 Member Engagement Survey, Advisory Board.






# Digital inflection points abound through care journey

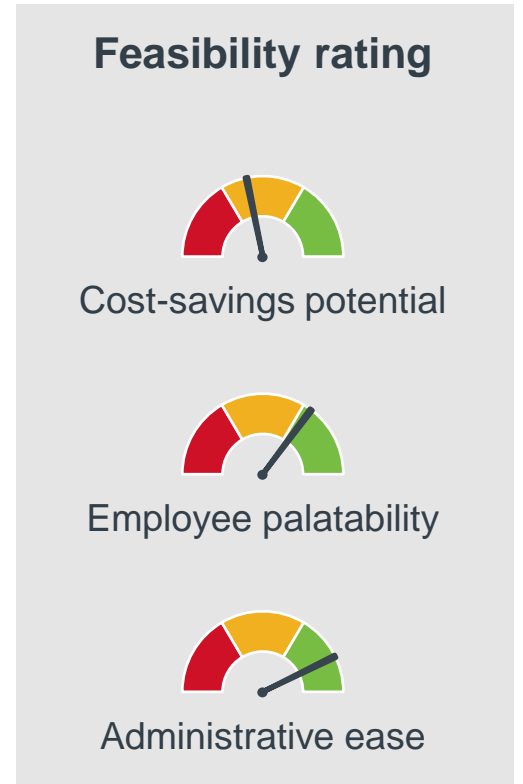
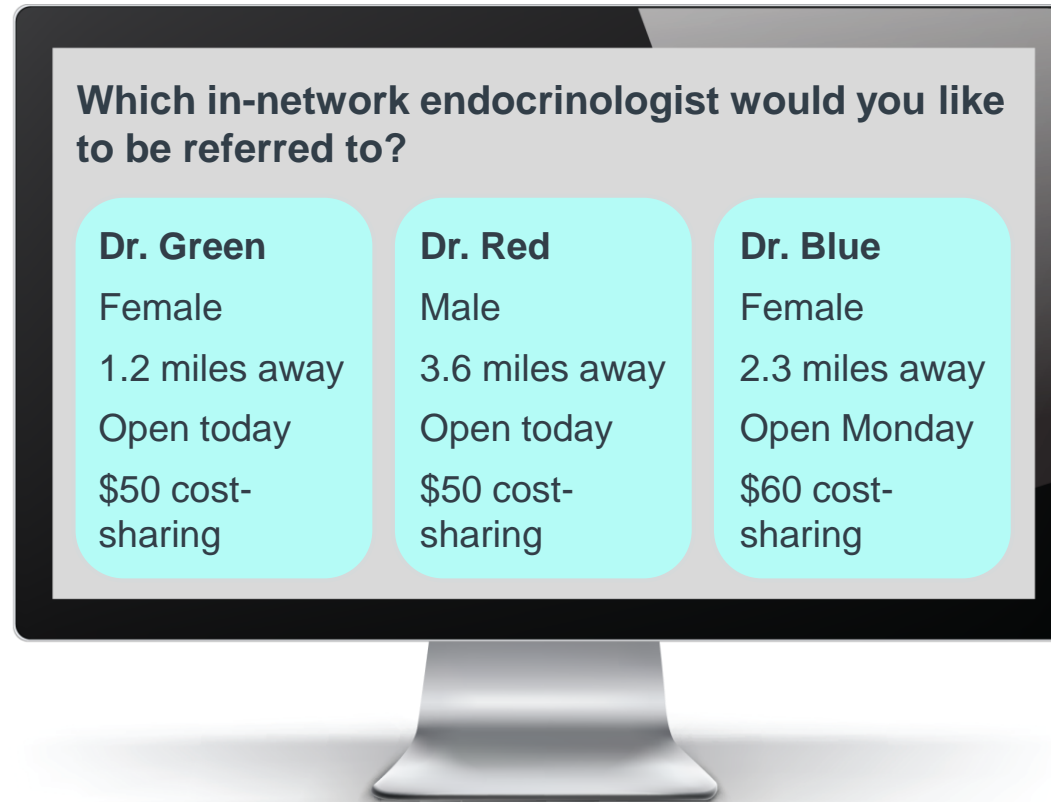
## The modern patient's health care journey



# Virtual-first an entry point for downstream navigation

One key outcome of virtual-first is routing patients to cost-effective care

-  Convenient experience for members
-  Improved clinical outcomes
-  Lower unit costs for services
-  Prevent avoidable utilization
-  Route patients to cost-effective care



# What is AI, *really*?



## MYTH: AI is magic

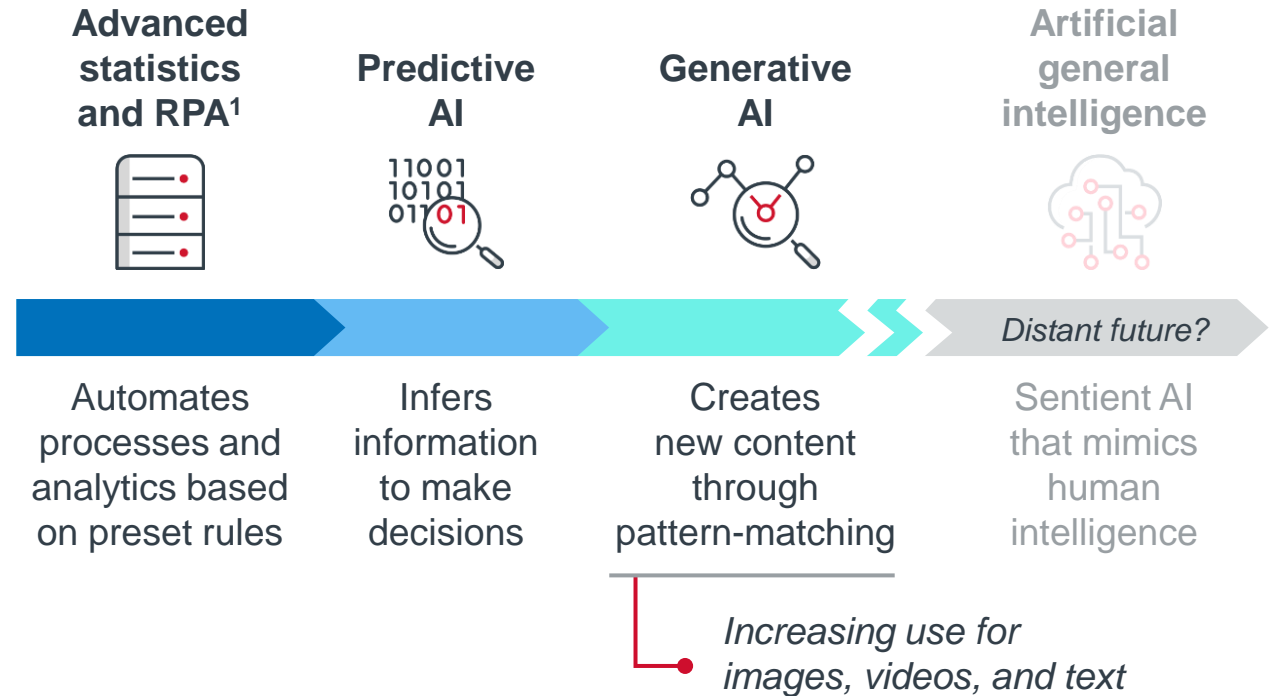
AI is *sentient* and can *autonomously* perform a *wide variety* of tasks with *limited* guidance



## REALITY: AI is a range of specialized tools

- Performs **specific tasks** that normally require human intelligence by using algorithms, pattern matching, and other techniques
- Must be **trained**, and can only learn from data it has access to
- **Continuously improves** accuracy of predictions and pattern matching with more interactions
- Each AI model has **limited utility** outside of the task for which it was designed, though generative AI will enable easier translation

## Advances in technology pushing the limits of AI



1. Robotic process automation.

Source: "AI in health care," Advisory Board, March 2022; "Generative artificial intelligence," Advisory Board, March 2023.

# Sci-fi ambitions handcuffed to fax machine reality

## Doximity generative AI platform

Provides physicians an **easy way to accelerate** and complete administrative and clinical tasks...

The screenshot displays the DocsGPT BETA interface. On the left, there are six AI capabilities listed in a grid:

- Write a statement of support for social security disability for my patient with bipolar disorder. [Try Prompt →](#)
- Trained in medical terminology and shorthand; knows how to format clinical documentation and common medical correspondence.
- May occasionally generate incorrect information. Confirm any factual references before using clinically.
- Write home care instructions for an 8 y/o with asthma in the style of Dr. Seuss. [Try Prompt →](#)
- Fluency in dozens of languages; can translate documents and produce multilingual patient education.
- Is not HIPAA-compliant; do not include PHI in prompts.

On the right, the 'Free Fax to Insurers' section lists four insurance providers with radio buttons for selection:

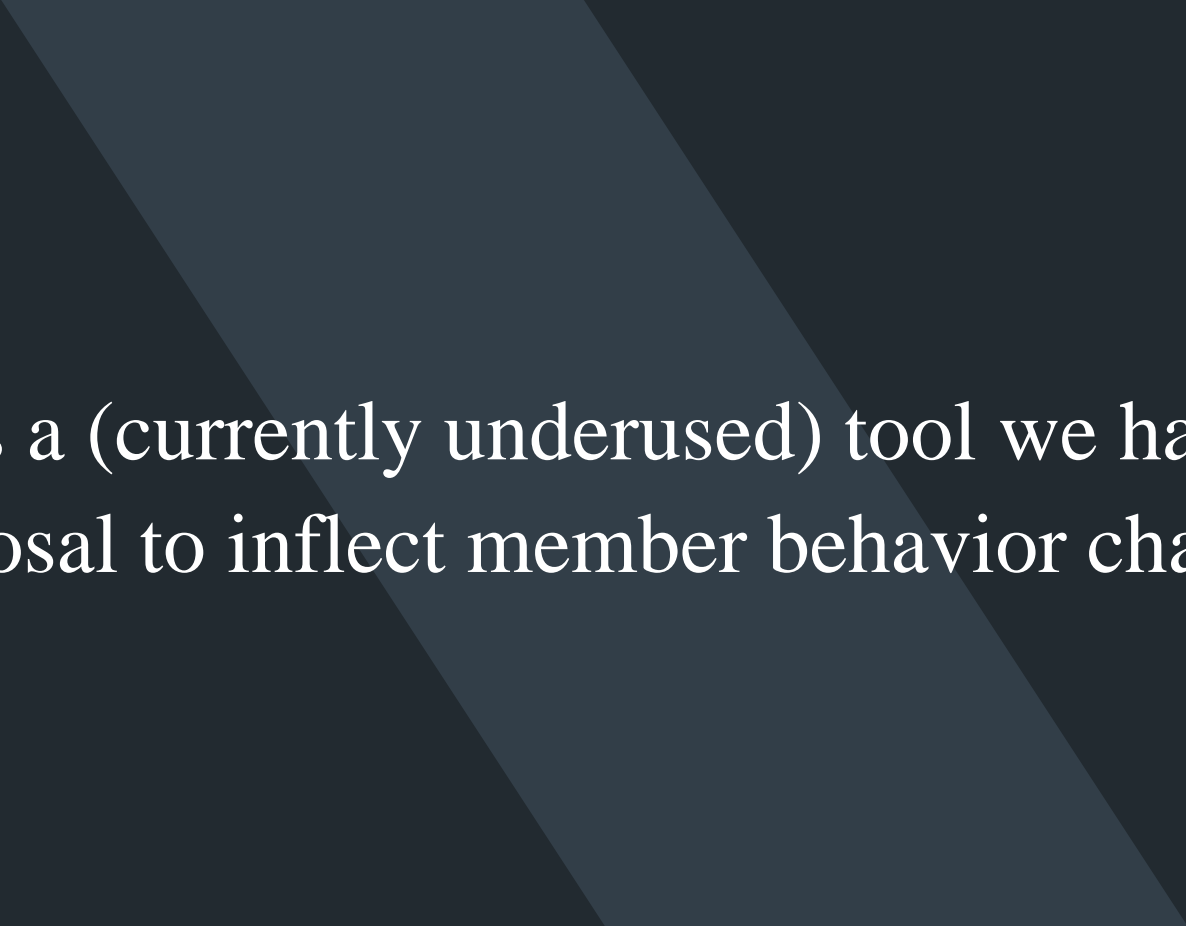
- ae** Aetna 833-596-0339
- Anthem** 800-754-4708
- Cigna** 615-401-4642
- H<sup>n</sup>** Health Net 800-281-2999

Below the list is a 'Send Fax' button with a fax icon. At the bottom of this section, it states: 'Doximity members can fax letters directly to insurers using our digital fax service. To enter Doximity's HIPAA compliant'.

...but also offers **free fax service**, because most communication between providers and payers still relies on fax machines

Source: "Docs GPT," Doximity, 2023.





Digital is a (currently underused) tool we have at our disposal to inflect member behavior change.

# Roadmap for today's discussion

- 01 ● Trends in employer demands
- 02 ● Vertical integration
- 03 ● Digital member engagement
- 04 ● **Innovative drug pipeline**

# Drugs poised to eclipse the strategic focus on procedures

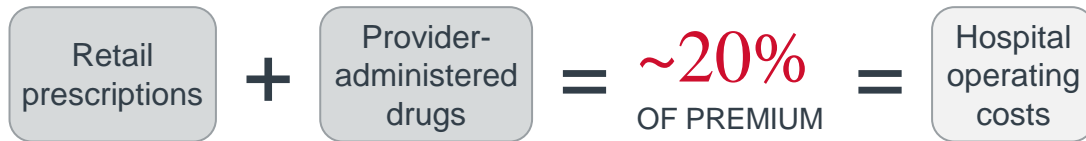


**Innovation activity targets rare, untreated conditions**

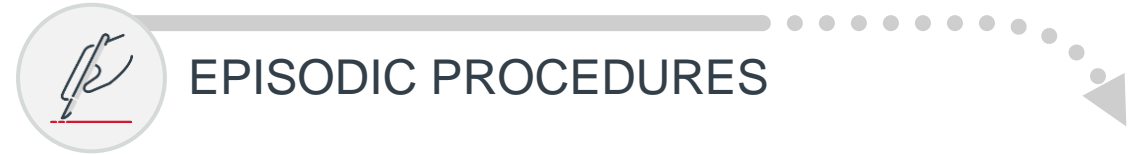
**54-74**  
 New cell and gene therapies  
 expected in the market **by 2030**  
*As of December 2022*

**Drug spend catching up to hospital operating costs**

One provider-sponsored plan's experience with drug costs in 2022:



1. Hospital outpatient department.



**Innovation activity enables lower-acuity care**

Projected overall procedure utilization change  
 2022 to 2027  
**-1.5%**      **+10.0%**  
 Inpatient      Outpatient

**Transparency data and outpatient shift pressure rates**

**95%**      Commercially-insured  
 2023      lives represented by  
 payer transparency  
 data, for all sites

**69%**      Average price for a  
 2019      procedure in an ASC  
 relative to the same  
 in a HOPD<sup>1</sup>

Source: "Shifting Common Outpatient Procedures to ASCs "Can Save Consumers More than \$680 per Procedure," UHG, September 2021; "Impact Report - Q1," Turquoise Health, March 2023; "Toolkit Overview: Pipeline," Tufts, December 2020; Advisory Board Market Scenario Planner

# Weight management drugs driving industry frenzy



## Promising clinical effects

**15-20%**

Average **total body weight loss** on semaglutide<sup>1</sup>

**20**

**Cardiovascular outcome measures** included in SELECT trial



## Rising patient demand

**111%**

Increase in Ozempic **prescriptions** from February 2022 to February 2023

**44%**

Of surveyed people with obesity would **change jobs to gain coverage** for obesity treatment in April 2023



## Financial implications

**\$13,618**

Average **annual per capita net price** of Wegovy (semaglutide) in 2022

**142M**

**Eligible US patient population** in 2022 for semaglutide for weight loss according to FDA criteria<sup>2</sup>

## Variable coverage in 2023



**Direct-to-consumer companies Ro and WeightWatchers** enter weight loss medication space



**51%** of surveyed **health plans** do not cover weight loss medications<sup>3</sup>



**Medicaid** covers select weight loss drugs in **16** states



**Medicare Advantage** can cover weight management drugs as an additional benefit,<sup>4</sup> but not common



**Medicare Modernization Act** of 2003 prohibits Part D coverage of weight management drugs

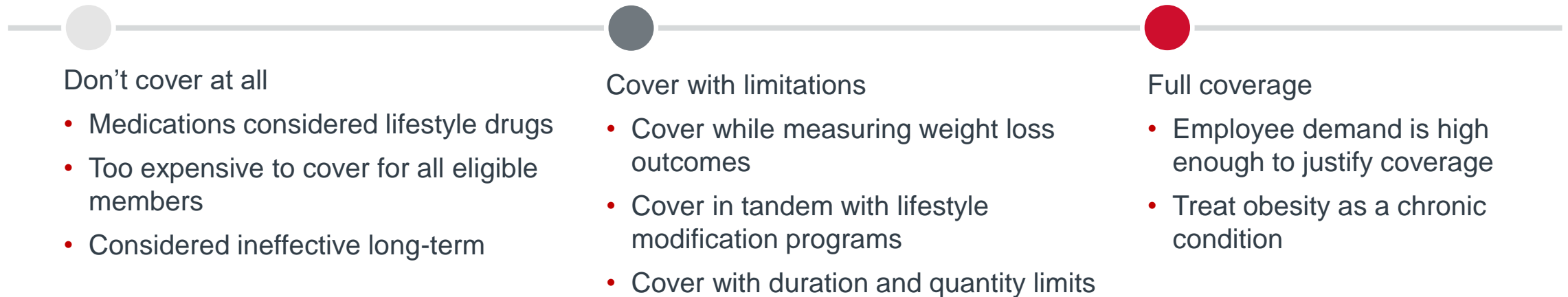
1. Medication indicated for treatment of type 2 diabetes and obesity.  
2. BMI >30 or BMI >27 with a pre-existing condition such as diabetes.

3. 31% are considering adding coverage in the next 1-2 years.  
4. Through flexible benefits and formularies that meet CMS requirements.

See additional sources slide for sources.

# Employers must make a choice about weight loss drugs

## Employer and health plan range of coverage



1. According to Pharmaceutical Strategies Group survey of plans and employers, n=149.

Source: Trends in Drug Benefit Design Report, Pharmaceutical Strategies Group, 2023; [Survey: Living with obesity in the time of GLP-1s](#), Ro, 2023.

# CGTs bring clinical breakthroughs, but don't come cheap



## IN THE NEWS

### Cell and gene therapies (CGTs) celebrated for clinical capabilities...

“Last-resort cancer therapy holds back disease for more than a decade”

NATURE, FEB '22

“Zolgensma demonstrates ‘remarkable’ long-term results for children with SMA<sup>1</sup>”

HEALIO, MAY '21

“The FDA approved a gene therapy that can reverse a form of childhood blindness”

QUARTZ, DEC '17

### ...but high costs bring debate over prices and financing

“A Dilemma for Governments: How to Pay for Million-Dollar Therapies”

THE NEW YORK TIMES, JAN '23

“FDA approves \$3.5 million treatment for hemophilia, now the most expensive drug in the world”

CNN, NOV '22

“At \$850,000, price for new childhood blindness gene therapy four times too high, analysis says”

PBS, JAN '18

**1.09M**

Estimated patients treated by gene therapy between 2020-2035

**\$25.3B**

Estimated annual spend on gene therapies in 2026<sup>2</sup>

**0.5%**

Predicted gene therapy spend as a percent of estimated national health expenditure in 2026<sup>2</sup>

1. Spinal muscular atrophy.

2. 2026 is projected to be the peak in spend on gene therapies between 2020 and 2035.

See additional sources slide for sources.

# Plans explore alternative models to manage drug costs

	<b>Stop-loss insurance</b>	<b>Care management add-ons</b>	<b>Outcomes-based agreements</b>	<b>Specialty pharmacy carve-outs</b>
<b>GOAL</b>	Protect against catastrophic or unpredictable financial losses by sharing risk with a larger pool	Reduce total cost of care by improving care coordination and optimizing medication regimens	Protect against uncertain drug performance by structuring rebates or payments based on milestone achievements	Exclude (carve out) some or all specialty drugs from PBM <sup>2</sup> coverage and lower drug spend through a variety of mechanisms
<b>CHALLENGE</b>	Unsustainable and full of holes	Unclear return on investment	Difficult to execute	Contributes to fragmentation
<b>EMERGING MODELS</b>		Proposed CMMI <b>Accelerating Clinical Evidence Model</b> would adjust CMS payments for drugs approved under the Accelerated Approval Program to incentivize manufacturers to complete confirmatory trials	CMMI developing <b>CGT<sup>1</sup> Access Model</b> for state Medicaid agencies to assign CMS to negotiate multi-state, outcomes-based agreements with manufacturers	Large PBMs offering new <b>CGT carve-out models</b> that attempt to combine risk-pooling, care management, and outcomes-based agreements for specific CGTs

1. Cell and gene therapy.  
2. Pharmacy benefit manager.

Source: "CMMI Drug Pricing Model Concepts," Avalere, February 2023.



Drug spending is poised to overtake medical spending  
so our reaction time to new drugs must get faster.



# Key takeaways



## Trends in employer demands

- Cost increases in ESI are not only high, but also no longer predictable
- Four factors are changing the ESI cost landscape
- Avoiding disruption incorporates both employee palatability and employer administrative ease
- The sweet spot for employers will be in managing navigation



## Digital member engagement

- Members expect plans to play a role in navigation
- Virtual-first products could drive down spend via navigation
- AI is a tool to address our existing problems, not a catch-all solution



## Vertical integration

- Plans are becoming health solutions companies to respond to member and purchaser demand
- Incumbents are competing for outpatient care, but not hospital care
- Giants are all acquiring but with different strategic goals
- Regionals are responding with synthetic scale



## Innovative drug pipeline

- Drug spend is poised to eclipse procedural spend
- Employers are actively thinking about weight-loss drug coverage right now, and want help
- Ultra-high cost drugs are on employers' minds but with no clear solution

Want more from Advisory Board?  
Contact [ask@advisory.com](mailto:ask@advisory.com) for more on...

- Value-based care
- Digital health trends
- Behavioral health
- Pharmacy trends
- Employer cost containment
- Mergers & acquisitions



## LEGAL CAVEAT

---

Advisory Board has made efforts to verify the accuracy of the information it provides to members. This report relies on data obtained from many sources, however, and Advisory Board cannot guarantee the accuracy of the information provided or any analysis based thereon. In addition, Advisory Board is not in the business of giving legal, medical, accounting, or other professional advice, and its reports should not be construed as professional advice. In particular, members should not rely on any legal commentary in this report as a basis for action, or assume that any tactics described herein would be permitted by applicable law or appropriate for a given member's situation. Members are advised to consult with appropriate professionals concerning legal, medical, tax, or accounting issues, before implementing any of these tactics. Neither Advisory Board nor its officers, directors, trustees, employees, and agents shall be liable for any claims, liabilities, or expenses relating to (a) any errors or omissions in this report, whether caused by Advisory Board or any of its employees or agents, or sources or other third parties, (b) any recommendation or graded ranking by Advisory Board, or (c) failure of member and its employees and agents to abide by the terms set forth herein.

Advisory Board and the "A" logo are registered trademarks of The Advisory Board Company in the United States and other countries. Members are not permitted to use these trademarks, or any other trademark, product name, service name, trade name, and logo of Advisory Board without prior written consent of Advisory Board. All other trademarks, product names, service names, trade names, and logos used within these pages are the property of their respective holders. Use of other company trademarks, product names, service names, trade names, and logos or images of the same does not necessarily constitute (a) an endorsement by such company of Advisory Board and its products and services, or (b) an endorsement of the company or its products or services by Advisory Board. Advisory Board is not affiliated with any such company.

### **IMPORTANT: Please read the following.**

Advisory Board has prepared this report for the exclusive use of its members. Each member acknowledges and agrees that this report and the information contained herein (collectively, the "Report") are confidential and proprietary to Advisory Board. By accepting delivery of this Report, each member agrees to abide by the terms as stated herein, including the following:

1. Advisory Board owns all right, title, and interest in and to this Report. Except as stated herein, no right, license, permission, or interest of any kind in this Report is intended to be given, transferred to, or acquired by a member. Each member is authorized to use this Report only to the extent expressly authorized herein.
2. Each member shall not sell, license, republish, or post online or otherwise this Report, in part or in whole. Each member shall not disseminate or permit the use of, and shall take reasonable precautions to prevent such dissemination or use of, this Report by (a) any of its employees and agents (except as stated below), or (b) any third party.
3. Each member may make this Report available solely to those of its employees and agents who (a) are registered for the workshop or membership program of which this Report is a part, (b) require access to this Report in order to learn from the information described herein, and (c) agree not to disclose this Report to other employees or agents or any third party. Each member shall use, and shall ensure that its employees and agents use, this Report for its internal use only. Each member may make a limited number of copies, solely as adequate for use by its employees and agents in accordance with the terms herein.
4. Each member shall not remove from this Report any confidential markings, copyright notices, and/or other similar indicia herein.
5. Each member is responsible for any breach of its obligations as stated herein by any of its employees or agents.
6. If a member is unwilling to abide by any of the foregoing obligations, then such member shall promptly return this Report and all copies thereof to Advisory Board.



Advisory  
Board