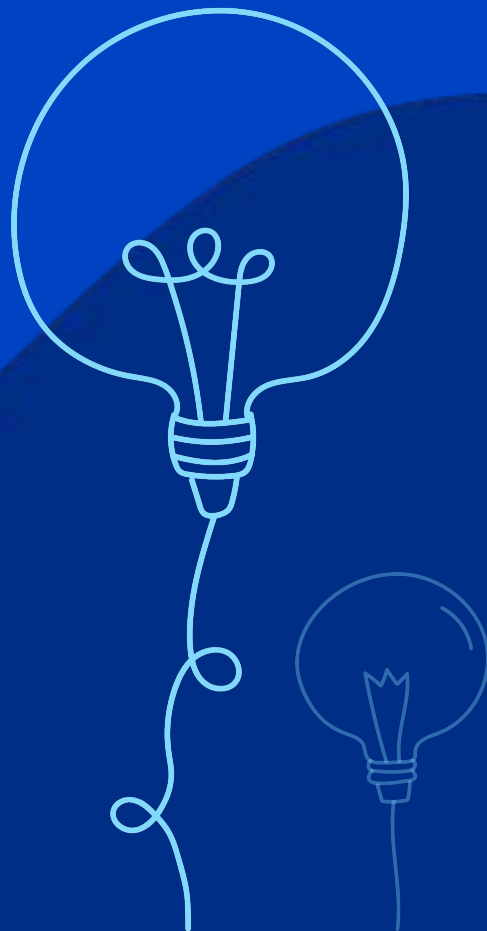




Trends Transforming Health Care

Fall 2024



These 9 trends are transforming healthcare

- 1 Increasing healthcare costs** driven by aging population, chronic conditions, prescription drugs, and services costs
- 2 Labor shortages** throughout the healthcare continuum, with challenges across new supply and retention
- 3 Changes in financing** from fee-for-service to value-based care models to lower costs and improve quality
- 4 Care location shifting** from facilities to at-home given rise in virtual care, skyrocketing costs, and tech advancements
- 5 Consolidation of health systems** due to M&A resulting in EHR consolidation, higher prices, and reduced access to care
- 6 Consumer expectations are shifting** as patients demand trust, convenience, and personalization at affordable prices
- 7 Accelerating pace of clinical innovation** is promising but makes it challenging for clinicians to stay up to speed
- 8 Explosion in data** caused by adoption of digital clinical medical records, mandated data exchanges, and use of smartphones and wearables
- 9 Adoption of AI in healthcare** is accelerating primarily in administrative use cases first

1. Healthcare costs are continuing to rise driven by demographic changes and drug and service costs

A Growing, Aging Population

Americans aged 65+ expected to [reach 20% by 2030](#)

Elderly populations make [twice as many hospital visits](#)

[95% of older adults](#) have one chronic condition, and 80% have two or more

Increase in Chronic Conditions

[6 of 10 U.S. adults](#) have a chronic condition

[90% of annual HE](#) are for people with chronic and mental health conditions

Non-adherence to medication [causing \\$100B](#) in unnecessary expenses

Rising Retail Prescription Costs

[Average American spent \\$1,125](#) in 2019 on prescription drugs, over twice as much as other developed countries.

Prescription drug spending expected to grow [6.1% per year](#) through 2027

Higher (and Hidden) Service Costs

Despite half the rate of doctors visits, [Americans pay 2.5X more](#) than comparable countries on inpatient and outpatient care

Driven by high physician salaries and admin costs and lack of price transparency

2. Physician and RN labor shortages due to challenges with supply, retention, and an aging workforce

79,080
physicians

shortage predicted by 2030 by
[Bureau of Health Workforce](#)

63,720
registered nurses

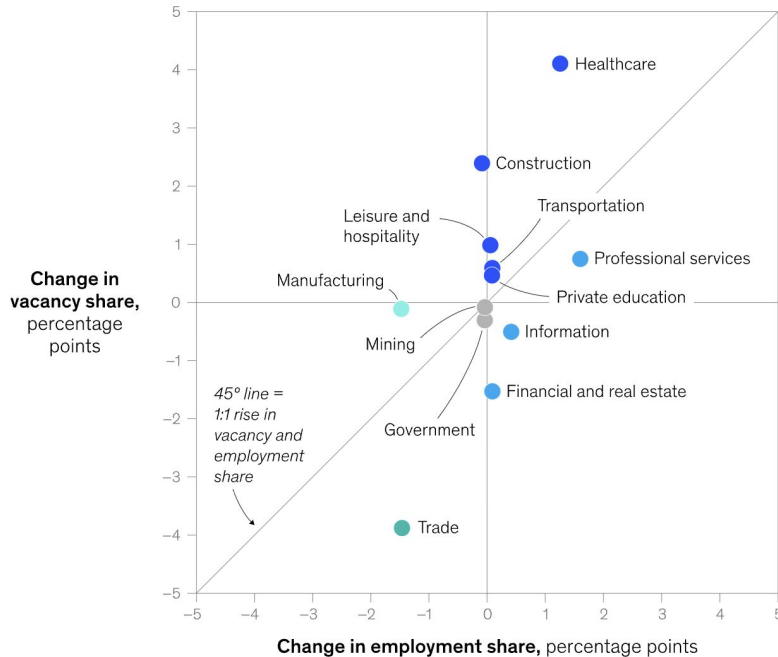
shortage predicted by 2030 by
[American Association of
Colleges of Nursing](#)

- 1 Decreasing supply**
Including applicants trained outside the country there are [0.85 residency positions per medical student applicant](#). Nursing schools, turned away [65,766 qualified applications in 2023](#) due to insufficient faculty, facilities and other resources.
- 2 Burnout and retention challenges**
[40% of physicians](#) felt burned out at least once a week before COVID-19 and [56% of nurses experience burnout](#).
- 3 Aging workforce and retiring population**
Over [40% of physicians](#) in the US will be 65+ in the next decade and more than [50% of current RNs](#) are 50+.

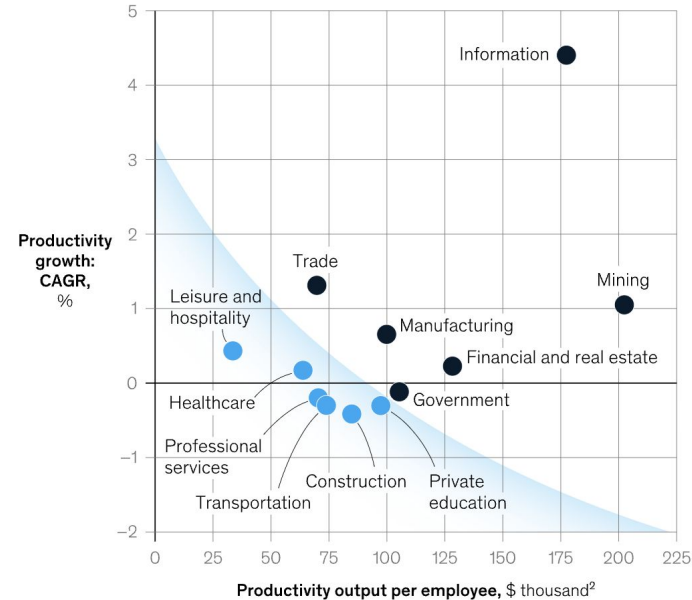
2. Healthcare faces most painful labor shortages and there is large opportunity for increased productivity

Vacancy and unemployment share, 2010–23

Sector group: ● Labor hungry ● Labor attracting ● Labor disrupting ● Labor efficient ● Other



Sector productivity, 7-country average, 2010–23¹



Sectors with higher productivity growth and output had a **decreasing share of job vacancies.**

Sectors with lower productivity growth and output had an **increasing share of job vacancies.**

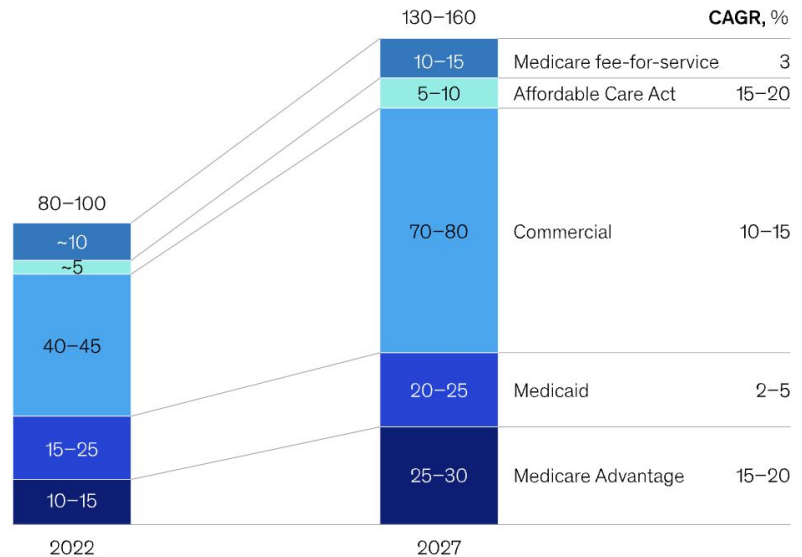
3. US healthcare financing shifting to value-based care to reduce costs while improving quality and outcomes

Financing is shifting **from fee-for-service (FFS)**, where physicians and hospitals are paid for services provided, **to value-based care (VBC)**, where pay is tied to outcomes.

- An [estimated 90M lives](#) will be in VBC models by 2027, up from 43M in 2022
- Shift to VBC is partly driven by Medicare, with [70% of Medicare Advantage enrollees opting for VBC in 2022](#). The Centers for Medical and Medicare Services is also **targeting 100% Medicare beneficiaries to use VBC by 2030**.

Value-based care models are expected to grow across all lines of business.

Lives in all value-based care models,¹ million lives

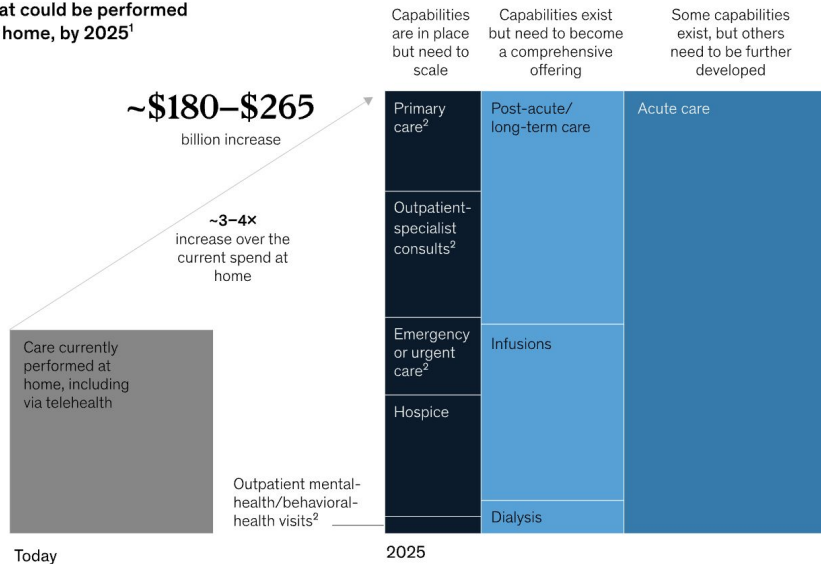


¹Includes pay-for-performance or quality to full capitation.

4. Care is increasingly shifting from facilities to at-home

Up to \$265 billion worth of care services currently being delivered in clinics, facilities, and physicians' offices could shift to the home by 2025.

Medicare spend for care that could be performed at home, by 2025¹



- **Adoption of virtual care**, increase in patients with long-term and expensive needs, and emerging technologies (i.e. remote patient monitoring devices) [drive the move to at-home care](#).
- **At-home care can reduce care costs:** CMS ran a decade long experiment to offer comprehensive primary care in the home and showed it [saved Medicare \\$8,222/beneficiary in 2021](#).
- **Trend also driven by CMS providing a waiver during COVID** that allowed health systems to receive payment parity for services rendered in the home.

5. Significant health system consolidation resulting in EHR dominance and higher healthcare prices

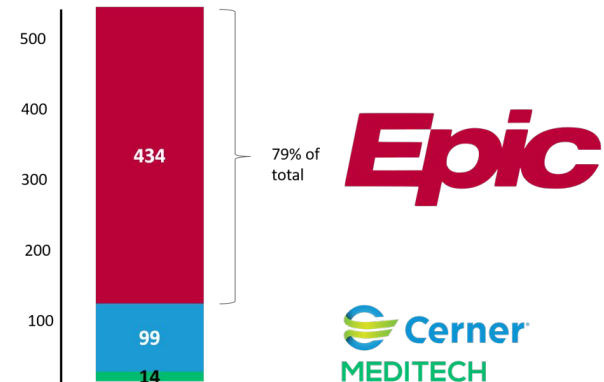
Provider markets have been consolidating for past 30 years with 1,573 hospital mergers from 1988 to 2017 and [428 hospital and health system mergers from 2018 to 2023](#).

As a result, the share of physicians working for a hospital or in a practice owned at least partially by a health system increased from **29% in 2012 to 41% in 2022**.

Increased consolidation is driving:

- **EHR market convergence**, [dominated by Epic](#) (35.9%), Oracle Cerner (24.9%), and Meditech (16.3%)
- **Price increases** of [6% to 17%](#) from cross-market mergers
- **Reduced access** to healthcare, particularly for [low-income, elderly, and disabled populations](#)

Reported Hospital Customer Gains, 2017 To 2023



6. Healthcare preferences are evolving as consumers expect convenient, affordable, and effective service

Desire for Convenience and Digitization

Patients increasingly interested in at-home, virtual, and asynchronous care [options for convenience](#)

[90% of people](#) say convenience is the most important factor when selecting their PCP

Decreasing Trust in Healthcare Providers

Public trust in physicians and hospitals declined from [71.5% in April 2020 to 40.1%](#) in January 2024

[Loss of trust due](#) to lack of communication, cost uncertainty, and inequitable access to care⁴

Expectation of Personalization

[Over 50% of consumers](#) expressed interest in personal data being used for personalized health insights

[71% of consumers](#) expect personalized interactions

Need for Lower Costs and Price Transparency

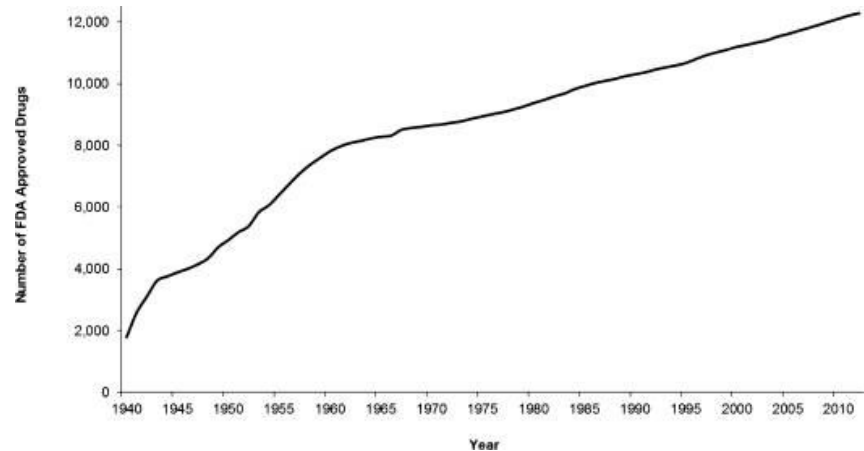
[80% of consumers](#) want to know cost of healthcare visit at time of service

[61% of uninsured adults](#) went without needed care because of cost

7. The accelerated pace of clinical findings continues to increase complexity of medical practice

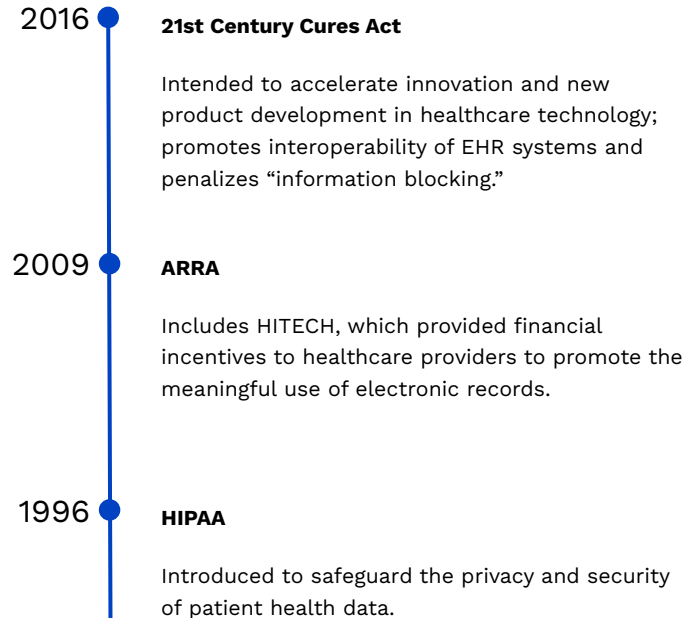
- It is estimated that worldwide medical knowledge now doubles every [73 days](#).
- A new medical article is published [every 26 seconds](#). (A physician would need to read thousands every day to keep up with them all!)
Specialties with the most published studies: [oncology, cardiology, neurology](#).
- [70% of physicians](#) feel overwhelmed by the amount of information available.
- If a primary care provider practiced with the latest guidelines they would have to [practice medicine for nearly 27 hours a day](#).

Number of FDA Approved Drugs Over Time



8. Healthcare data has exploded and now accounts for 30% of the world's data volume

- **21st Century Cures Act mandated use of Electronic Health Records (EHRs)** to empower patients to play active role in their healthcare and promote provider data interoperability. [TEFCA](#) launched a common framework to enable interoperability between key systems.
- **Healthcare data growing at [36% CAGR](#)**, driven by rise in institution-recorded medical data and externally recorded data (via smartphones and wearables). Yet **97% of healthcare data goes unused**.



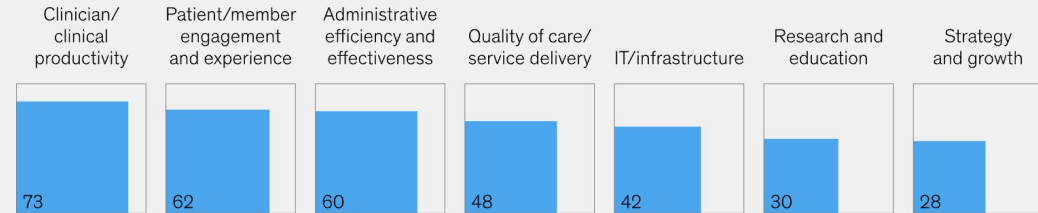
9. Healthcare has seen rapid adoption of AI, especially in clinical productivity

[2024 survey showed 70%+ of healthcare organizations](#)

(payers, providers, and healthcare services and technology groups) were pursuing or had already implemented genAI.

Generative AI is thought to hold the highest potential value in improving clinical productivity as well as patient engagement and experience.

Areas believed to benefit the most from generative AI (gen AI), % of respondents (n = 100)



Source: McKinsey US survey on gen AI in healthcare, Mar 11–13, 2024

Key points:

- Healthcare is well-primed to get a lot of ROI from AI given the vast amount of structured and unstructured data it produces
- Prominent applications of AI in healthcare [include](#): diagnosing via medical imaging data, transcribing medical documents, drug discovery and development, and administrative tasks