



# THE HEALTHCARE INDUSTRY UNDER PRESSURE



## 2023 FORECAST

From **BILL KERR, MD**, CEO, Avalon Healthcare Solutions

**With 2023 upon us**, the healthcare industry's volatility is creating a mandate for change that requires improving the cost of care and patient outcomes.

**Pressure is intensifying** to decrease the underlying cost of care and truly move the U.S. toward value-based care. The catalysts for this change include rising labor and supply costs and the fluctuating volume of care, with healthcare providers continuing to adjust to the loss of revenue from routine services during the pandemic. How and where care is delivered also are in flux, as investments and innovation to move care outside the hospital setting continue to grow.

**It's going to be a bumpy ride** in 2023 for the healthcare industry, but as always, challenges bring new opportunities. I am optimistic that we will push through, moving us closer to the Triple Aim of improving the patient experience, improving the health of populations, and reducing costs.

## 2023 PRESSURE POINTS



### The Economy Brings Slower Rate of Organizational Growth

Whether inflation slows in 2023 remains to be seen, but its impact on the overall economy will continue to be felt into next year with compressed earnings, a slower rate of hiring, and continued supply chain issues. Health insurers are in a better place than hospital systems when it comes to economic impact, because they have less exposure to supply chain issues, higher interest rates, and labor shortages.

**Hiring Trends:** Hiring presents a mixed bag across the U.S., with some health systems announcing staff cuts, location closures, and reduced services in the second half of 2022. Overall, it's a tight labor market for the healthcare industry, especially for nurses,

physicians and other clinical positions, and IT employees. The cost of “filling in” with agency staff and traveling clinicians will continue to drive up salary budgets.

### Insurance Premiums for Employers and Consumers:

The impact of inflation on healthcare in late 2022 will result in higher insurance premiums, but those rates are expected to be lower than inflation. With a rise in the cost of services and contract updates anticipated in the coming year, premium costs will “catch up” in 2024 and be at a higher percentage than in 2023.



### The COVID-19 Public Health Emergency (PHE) Ends

Some politicians and healthcare experts say we’re past the pandemic, while others caution we are not. Nonetheless, the COVID-19 PHE will most likely end in early 2023, and the implications for healthcare are concerning.

**Medicaid:** About 15 million people could come off Medicaid enrollment if the application of eligibility is reinstated after the PHE. Some could flow to the exchanges, but some will not be able to afford to do so, increasing the number of uninsured.

**Payer Rate and Care Volume:** If the member rolls for Medicaid and commercial payers shrink, pressure heats up on payer service rates and care volume. But diversified insurers with substantive business across Medicaid, commercial, and exchanges will be able to minimize net coverage loss.



### Healthcare Unaffordability Is Ongoing

Americans are delaying care because they are unsure of the cost or cannot afford it. A survey of 9,600 U.S. workers showed that 4 in 10 deferred healthcare in the past year, with 28% delaying or canceling a medical procedure and 17% not filling a prescription. While utilization for all healthcare services except pharmacy declined from 2016 to 2020, unit prices paradoxically increased for all services.

**Consumerism on the Rise:** Consumers will continue to become more involved in managing their care, and that includes switching health insurance plans to secure the best benefits and reduce out-of-pocket costs.

Health insurers are in a **better place** than hospital systems when it comes to economic impact, because they have less exposure to supply chain issues, higher interest rates, and labor shortages.

**Value-Based Solutions:** Creating value-based solutions that save money and improve the quality of care are necessary to combat this national crisis. Innovators in the healthcare industry will continue to work toward advancing population health tools and data, which includes giving physicians and patients digital tools and information (including price and site-of-service transparency) to empower better decision-making.



### Legislative & Regulatory Requirements Impact Industry

Federal mandates implemented in 2022, such as the No Surprises Act and the Transparency in Coverage Rule, are still in need of refinement, but they are moving price and data transparency in the right direction. The next announced step for the Transparency in Coverage Rule is for payers to provide consumer-facing price comparison tools as of January 1, 2023. The long-term impact of these types of mandates on health plans is that unit cost variation will be harder to maintain. Plus, providers may separate into tiers if people equate higher unit cost with quality.

**Future Mandates:** Federal legislation is moving through Congress to mandate automated electronic prior authorizations, and 2023 could be the year progress is made to ease the process for physicians, patients, and payers. The results of the Senate and Department of Justice’s investigation into payers’ denying care for Medicare Advantage customers also will be a hot topic next year and could lead to additional mandates.

**Privacy and Data Security:** The Federal Trade Commission has warned this year that it will be “cracking down” on commercial surveillance and lax data security. It is already conducting an inquiry into pharmacy benefit management practices, and this type of investigation could expand to other healthcare segments in the future.