SAMPLE

The State of Healthcare 2024

Updated July 2024

UNION
HEALTHCARE INSIGHT

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In the following pages you will get to explore the first 14 pages of The 2024 State of Healthcare Report. Our full report is a 75-page written report covering the most important strategy issues facing the healthcare industry today, including insights on the implications of vertical integration, the future of Medicare advantage, the potential impact of AI, and the ways in which GLP-1s are reshaping the future of chronic care. Enjoy!

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Section 1

Introduction



In the 1980s, as U.S. healthcare spending crept toward 10% of the country's GDP, **economists began raising the once-unthinkable prospect that the industry could eventually compose more than 20% of the nation's economy** (fig. 1). By the early 2000s, Medicare officially projected that this milestone would be reached within the next two decades. Of course, such projections are particularly tricky given that they rest on assumptions not only about healthcare spending, but the entirety of the U.S. economy, something that even the savviest of economists have struggled to accurately predict. In the 2010s, that prediction proved a moving target as healthcare spending slowed relative to other parts of the economy (fig. 2, pg. 4).

But **as of 2024, that milestone once again appears within reach, with CMS' latest projections suggesting the industry may approach the 20% mark within the next decade.**

Fig. 1: Is a long-awaited (and feared) milestone finally approaching?

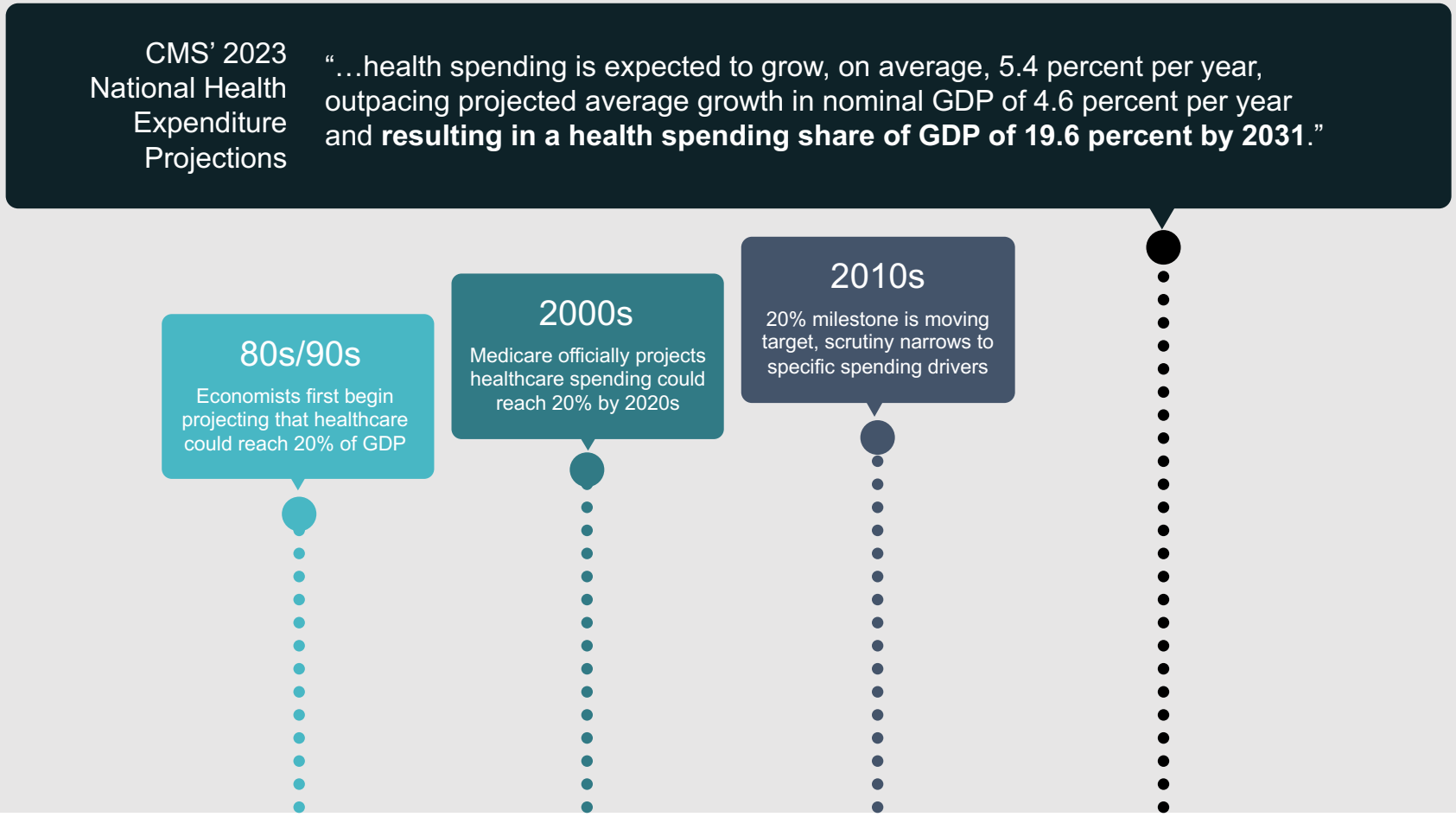
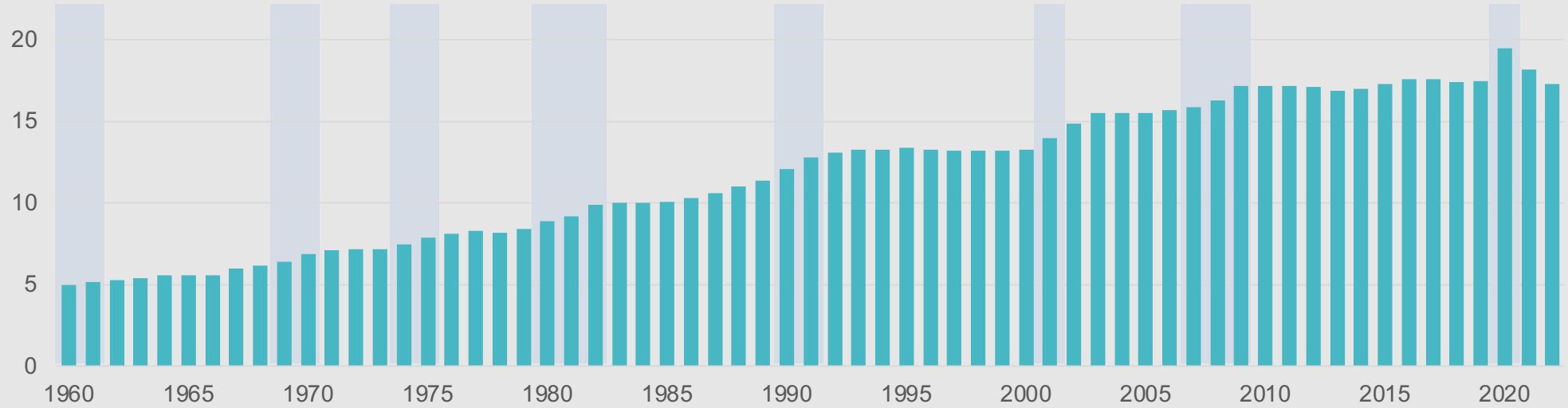


Fig. 2: U.S. health expenditures as percent of GDP, 1960-2022
Shading denotes years that included NBER[1]-dated recessions



	1960s-early 1970s	Mid 1970s-1980s	1990s	early 2000s	Late 2000s - Present
Average annual growth	3.6%	3.2%	1.0%	2.8%	Virtually flat
	Growth in coverage (↑), increased access and utilization (↑), technological advancements (↑)	Price increases (↑), drug development (↑)	Price slowdown (↓), site-of-care shifts (↓)	Less restrictive managed care (↑), blockbuster drugs (↑)	Moderating utilization (↓), site-of-care shifts (↓), Covid-19 (↑), other industries/general inflation outpacing healthcare (↓)

1. National Bureau of Economic Research.

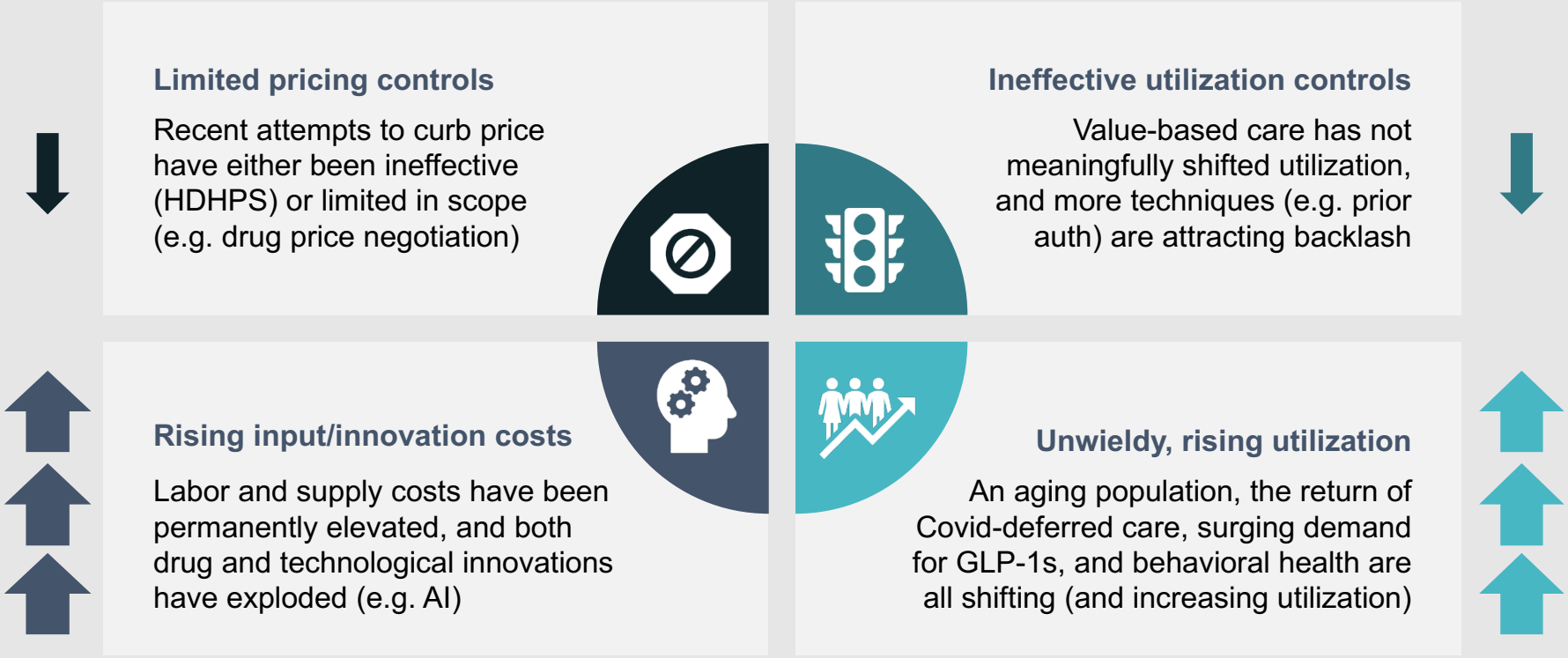
Source: CMS, National Health Expenditure data, accessed March 2024.

Even if healthcare's share of the GDP remains stable, **healthcare spending is likely to increase notably—and potentially even accelerate—in the coming years** (fig. 3).

Rising input costs, driven in large part by notable clinical and technological advancements, are likely to put upward pressure on pricing. And despite increasing public and political pressure to curb price growth, recent attempts to do so have either been ineffective (as was the case with high-deductible health plans) or too limited in scope to make a significant dent in overall spending (as is likely to be the case with the recently-launched Medicare drug-price negotiation program).

At the same time, population aging, **the return of Covid-deferred care, and surging demand for weight-loss drugs and behavioral health services are likely to drive increased utilization.**

Fig. 3: On all fronts, spending appears poised to spike (even if share of GDP remains stable)

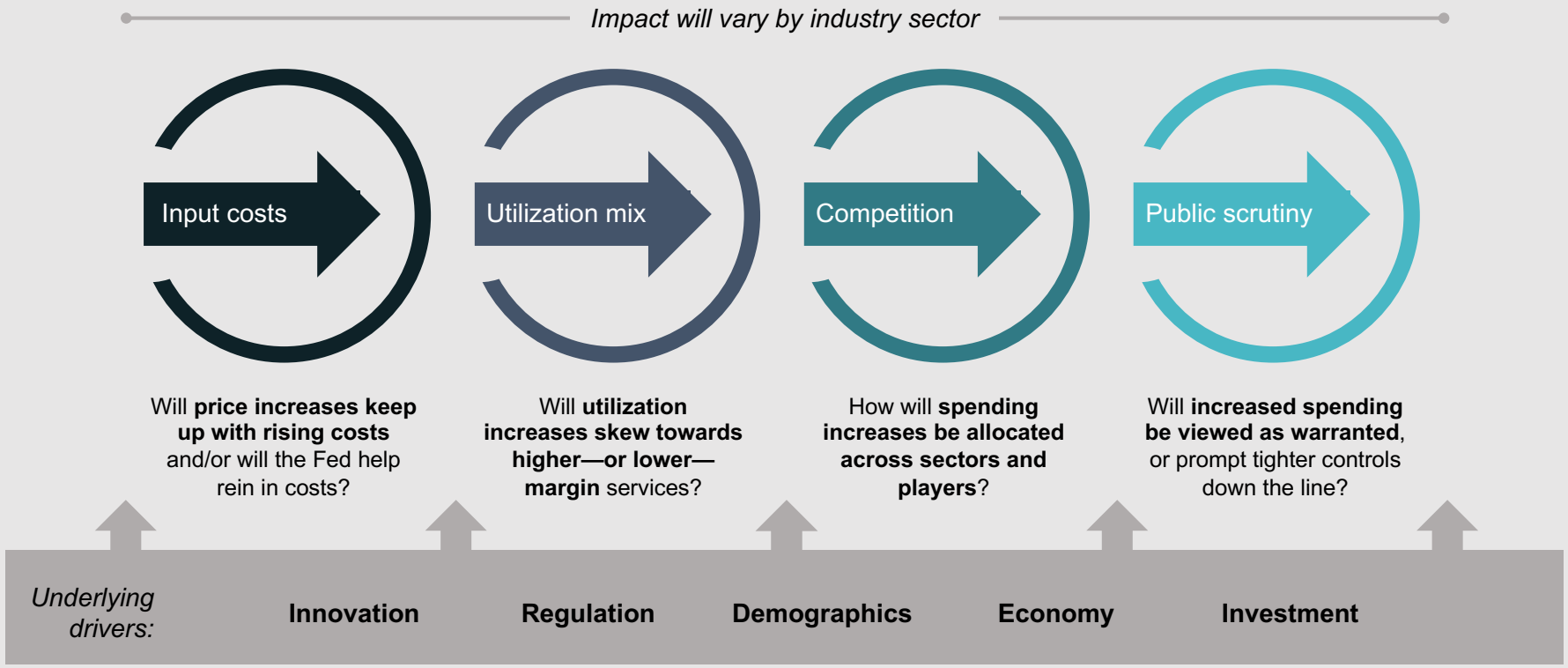


As is the case with pricing, utilization controls have to-date been limited in their efficacy, with little reason to believe this will change meaningfully in the coming years. In particular, the push to reduce avoidable utilization and improve population health through value-based care models has achieved uneven results at best. More hard-edged methods to control utilization—through claims denials and prior authorization requirements—are being met with increasing levels of backlash.

For industry leaders, projections of increased spending may appear on their face to be good news. However, we believe that **the coming wave of spending growth is at significant risk of presenting as "profitless growth" for many across the industry**.

Ultimately, the financial impact of spending growth for any given industry sector or player will come down to four critical factors (fig. 4).

Fig. 4: Factors determining how increased spending will impact profitability of industry players



This report expands on these factors in more detail through our unique State of Healthcare research methodology. We recognize how challenging it can be to separate the signal from the noise in healthcare—and to move from information to insight to action. And we've developed a system to address this challenge head on.

Each year, **we begin by first identifying meaningful (if granular) signals**: data points, dates, and developments. From that curated set of signals, **we're able to distill a smaller set of core messages or insights about the state of the industry**. And from those insights, **we converge on a feasible number of action steps for senior executives to prioritize** in any given year (fig. 1).

This report covers each of those critical layers in turn, to provide leaders with a clear sense of what they need to know to set strategy across 2024-2025.

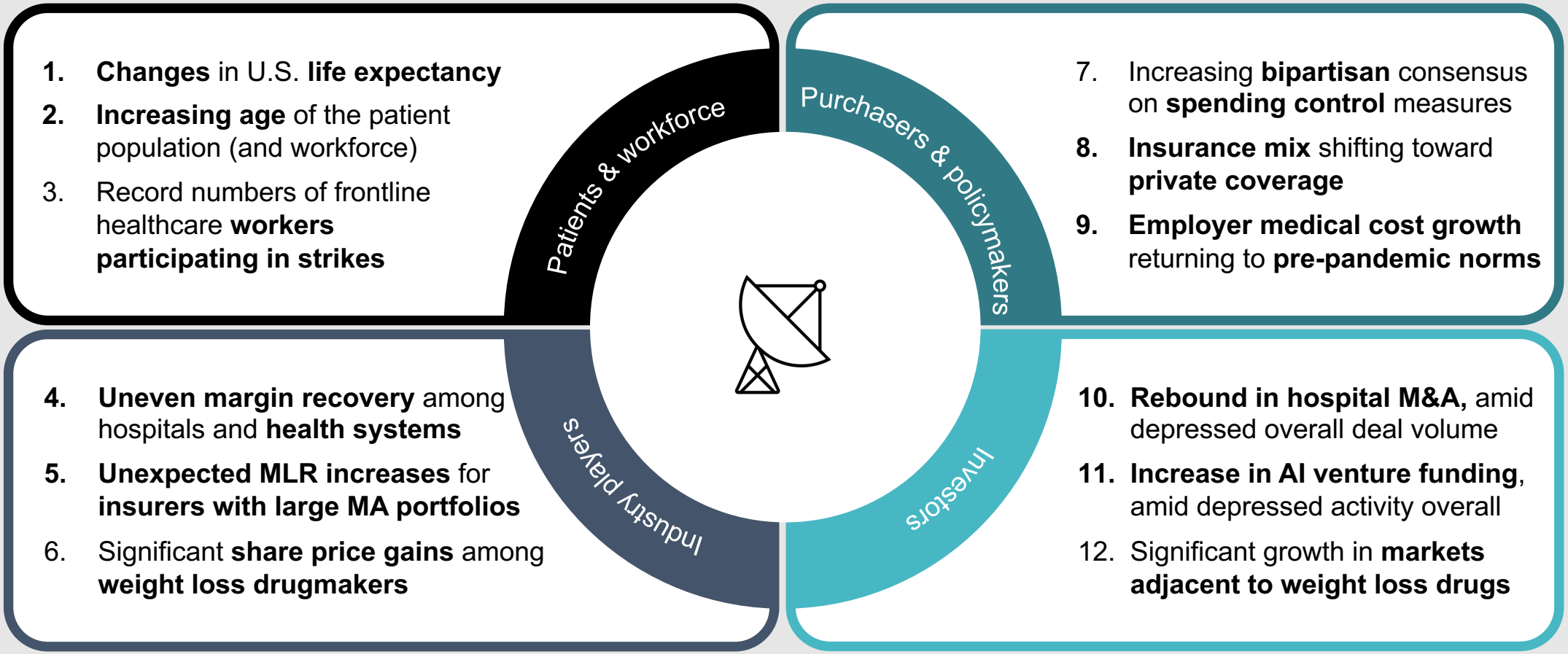
Fig. 5: Union Healthcare Insight's State of Healthcare research methodology



Section 2

12 market signals we’re watching in 2024

Fig. 6: 12 market signals we're watching in 2024



Signal #1 | Changes in U.S. life expectancy

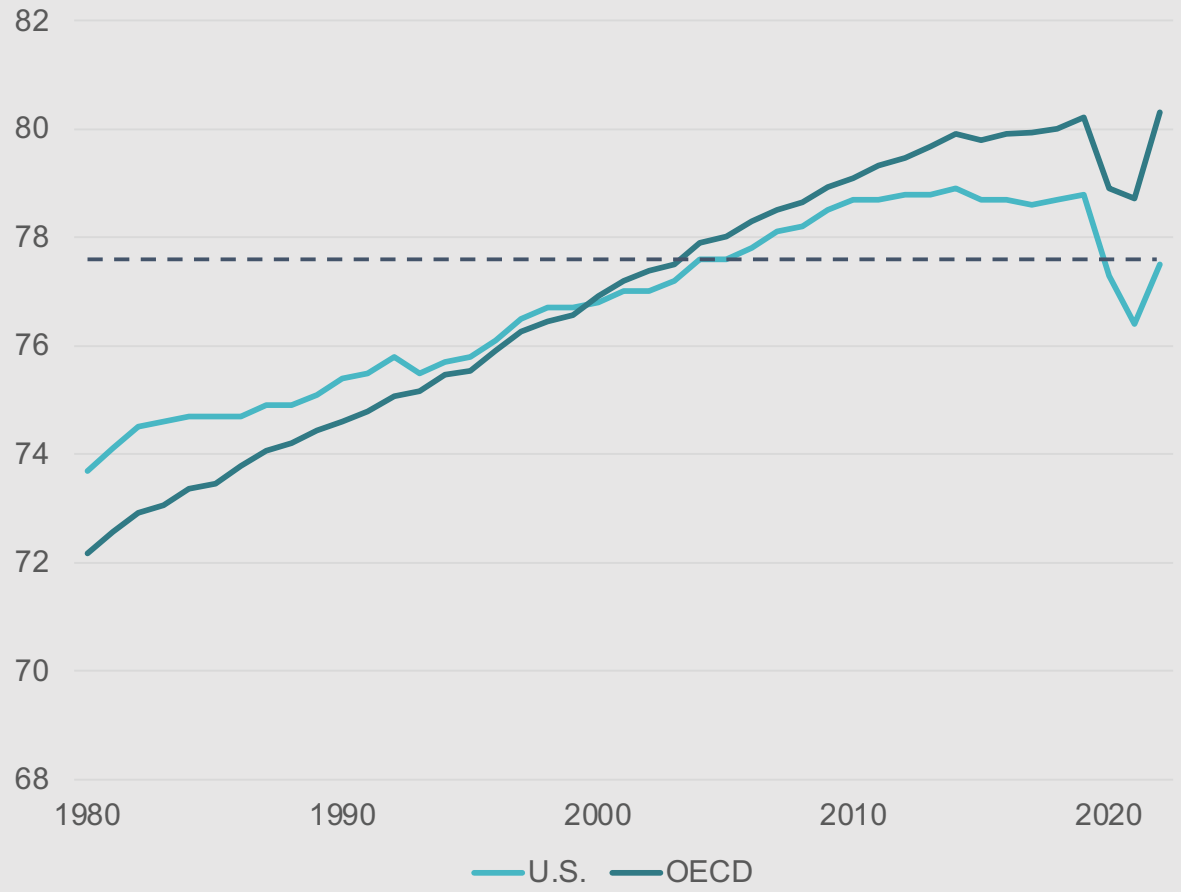
Over the past two decades, **life expectancy in the United States has fallen below that of other developed nations, and the gap has generally widened with time** (fig. 7). Even before the Covid-19 pandemic caused life expectancy to drop worldwide, higher rates of maternal mortality, gun violence, and deaths of despair were causing Americans to die earlier on average than their OECD counterparts (source, source, source).

On the positive side, deaths from Covid have fallen sharply since the early days of the pandemic, and learnings from the vaccine development process will likely have massive impacts on future disease prevention. Smoking rates also continue to fall, which has been reflected in lower lung cancer incidence and death rates (source).

Other forces are having a more mixed impact on U.S. health status. For example, behavioral health conditions such as depression and anxiety are on the rise (source), but awareness has also grown while stigma has declined, prompting more payers to expand access to care. Similarly, while many cancers and other chronic diseases are becoming more common (source), groundbreaking therapies such as CAR-T and GLP-1 agonists are changing the face of chronic disease treatment.

While many of these factors are outside the scope of influence for most healthcare organizations, they will all impact future utilization.

Fig. 7: Life expectancy at birth, U.S. vs. OECD 1980-2022



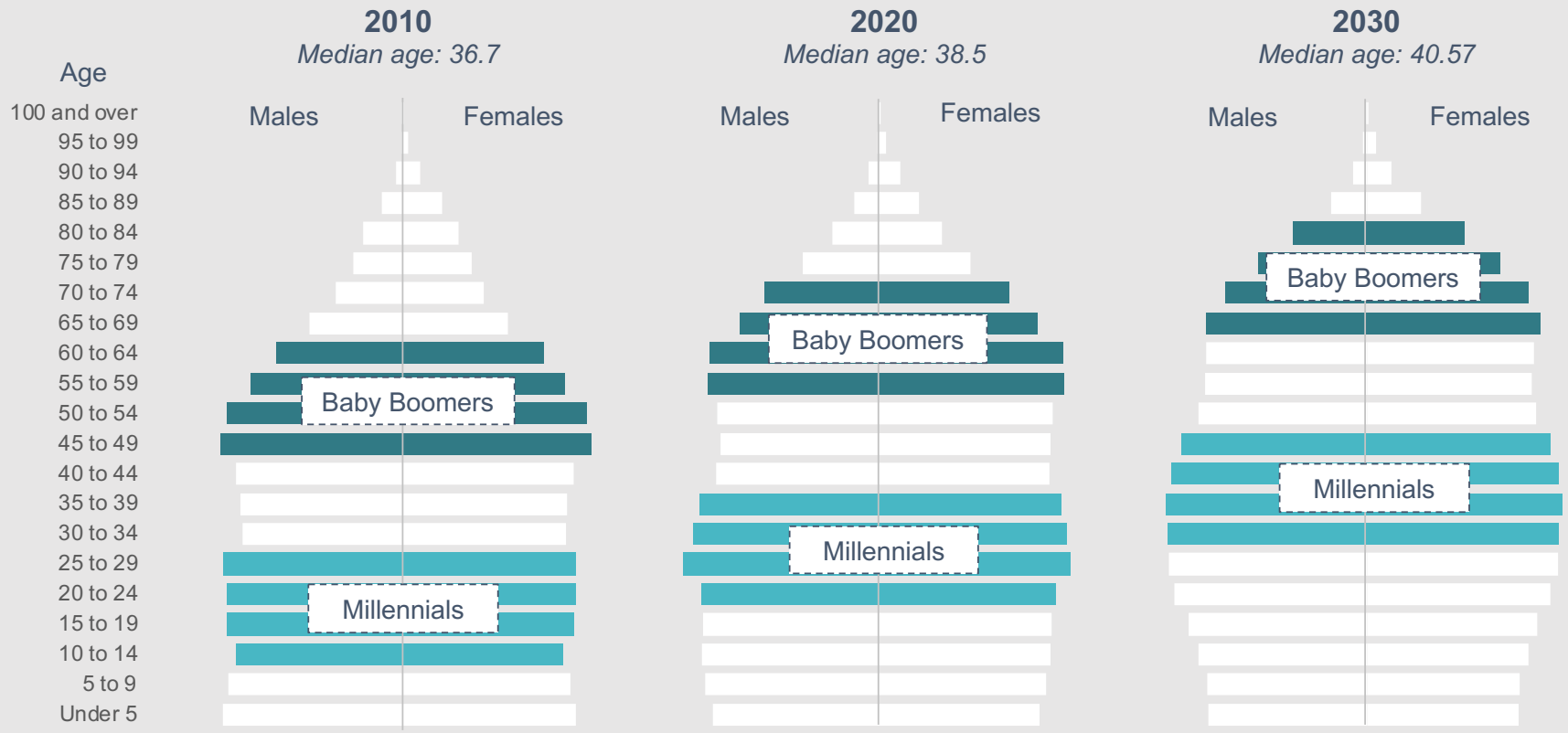
Source: CDC, OECD.

Signal #2 | Increasing age of the patient population (and workforce)

Rising chronic disease rates are due, in part, to population aging. While this has been a major topic of discussion for some time, there a few key nuances to this trend that are worth revisiting:

1. **Average age continues to vary *significantly* by geography**, meaning some regions will be impacted more severely than others.
2. While the general population has been aging, **the average age of the Medicare population has declined** as large numbers of 'young' Boomers entered the program; **that trend is now reversing, and the Medicare population is growing older.**
3. Aging not only impacts patients, but also workers; **many health professionals are retiring just as demand for care is rising.**

Fig. 8: Age and sex distribution of the U.S. population



Source: U.S. Census Bureau.

Signal #3 | Record numbers of frontline healthcare workers participating in strikes

Workforce pressures due to retirements are also being compounded by spikes in burnout and turnover (fig. 9, page 13). The latest available data (from 2022/2023) suggests that while those workforce stressors have fallen from their pandemic highs, they have not yet returned to pre-Covid levels.

For example: a closer look at burnout data, taking nurses as an example, shows that the share of nurses experiencing consistent or complete burnout has declined significantly since summer 2022. However, the share who are on the cusp of burnout—experiencing one or more symptom—has risen significantly. This suggest that **the industry is at an important inflection point, and how employers choose to respond will have a powerful impact on whether those numbers continue to improve—or revert to their pandemic highs.**

In the meantime, worker strife has not abated, manifesting in record-breaking levels of labor activity, which only accelerated in 2023 and into 2024.

Over 100,000 frontline workers participated in strikes of over 1,000 people across 2023 and early 2024, a statistic that would be significantly higher if it included smaller and threated strikes (fig. 10, page 14). The last year also saw the largest healthcare strike in the industry's history, when 75,000 Kaiser Permanente employees walked out for three days.

All of this union activity is notable for reasons other than sheer scale. **The types of workers organizing and striking is increasingly extending beyond nurses (who have a long history of labor activity.) Residents, pharmacists, and even physicians are taking collective action in some form.**

Of particular note is the example of Bicycle Health, a digital behavioral health startup whose employees filed to unionized in March 2024. This is the second instance of virtual care providers unionizing, following Resilience Labs in February 2023, and highlights the ongoing momentum and reach of the present labor movement.

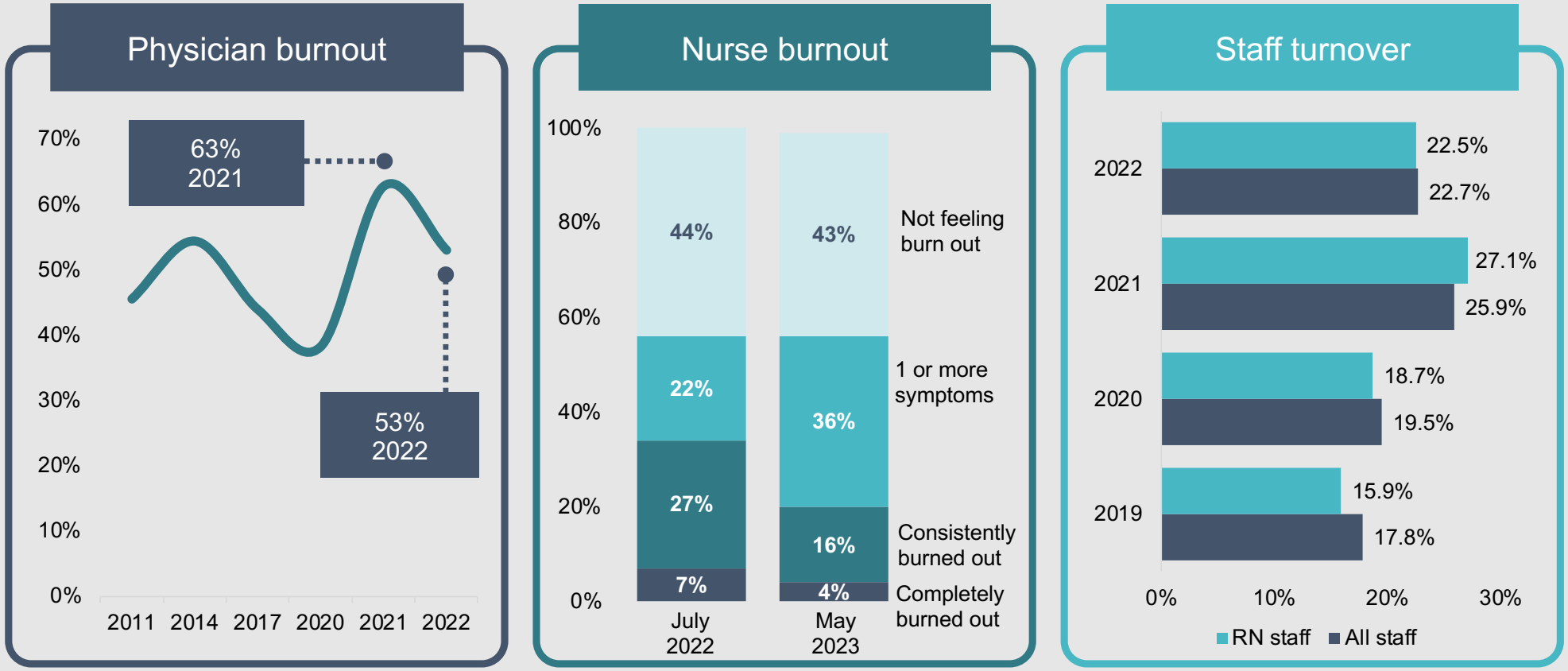
Equally striking is what workers are demanding from management. Many groups have been able to secure pay increases nearing 20% or even higher, often the highest bump ever negotiated by the groups in question. Beyond financial gains, **almost every union is making their negotiations contingent upon non-monetary guarantees, including workplace safety protections, DEI commitments, and more permanent solutions to ongoing understaffing.** In many cases, employees emphasize that these non-monetary measured are just as important as the pay raises, if not more so.

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For more on the state of the healthcare workforce, download our ready-to-use briefing slides on the topic here, and watch our on-demand video presentation here.

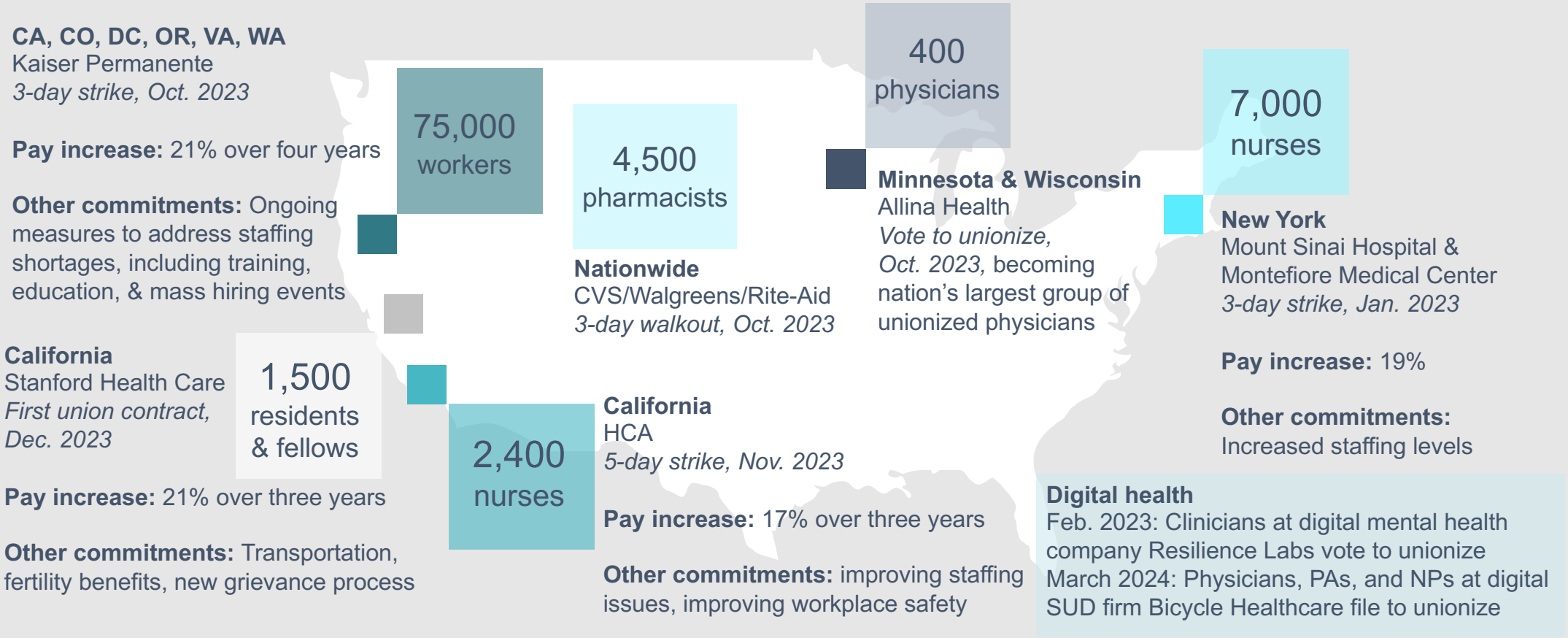


Fig. 9: Healthcare workforce 'health' bouncing back from pandemic lows



Source: Mayo Clinic Proceedings, "Changes in Burnout and Satisfaction With Work-Life Integration in Physicians During the First 2 Years of the COVID-19 Pandemic," Sept 2022; American Nurses Foundation, "Understanding and prioritizing nurses' mental health and well-being," Nov 2023; NSI Nursing Solutions, Inc., "2023 NSI National Health Care Retention & RN Staffing Report," March 2023.

Fig. 10: Notable healthcare union and strike activity, 2023-2024



Signal #4 | Uneven margin recovery among hospitals and health systems

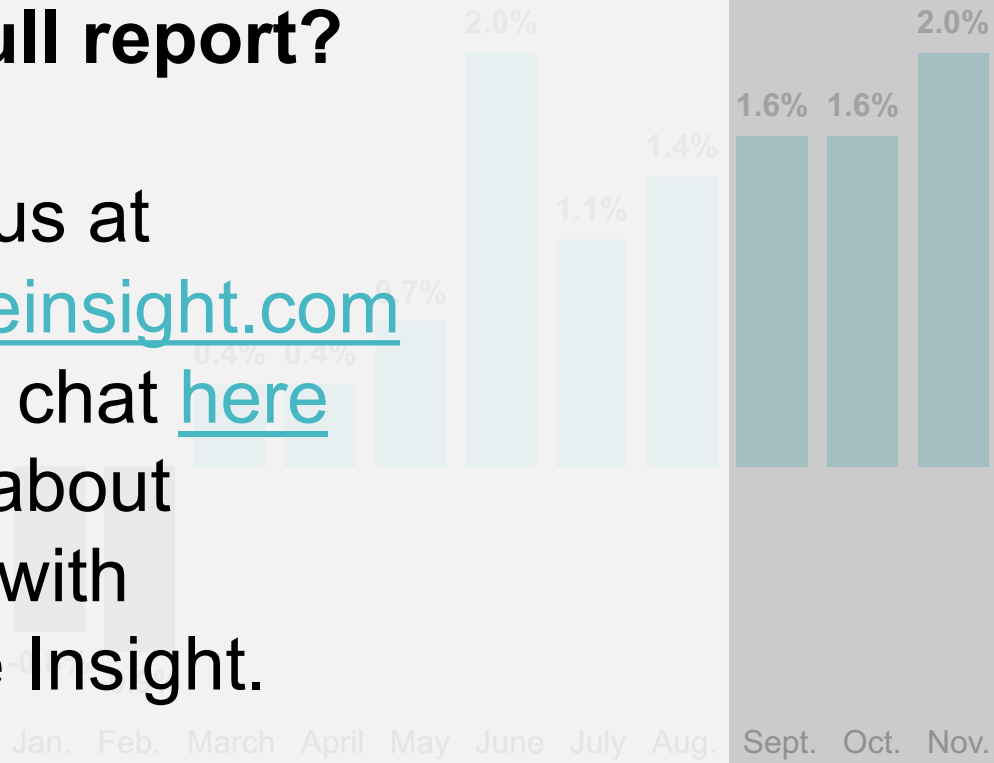
Increased workforce spending, as hospitals filled gaps with contract labor and raised salaries, has put incredible pressure on hospital margins, which were rarely robust even prior to the pandemic. The most recent data suggests that **average margins have begun to stabilize, or at least become positive** (fig. 11). But we believe **median margins belie significant performance divergence across individual organizations**. There continue to be a large share of health systems struggling financially, while others have more than recovered.

A number of factors have contributed to this divergence over the years; for example, greater capital investment leading to longer term ROI, but recent economic conditions have only exacerbated the gap. Organizations with existing debt or who had planned to leverage debt for new projects were impeded by high interest rates and financing restrictions in 2023. On the other end of the spectrum, hospitals with large investment portfolios reaped the benefits of a record-breaking year for the public markets with the S&P 500 gaining an astonishing 25% across 2023.

Still, the fact that median margins are increasing [illegible] are some positive trends in the provider sector. We believe the main contributing factor is a slow down in contingent labor spending and a rebound in utilization.

While increased utilization is a financial tailwind for providers, it's presenting challenges for at least some insurers.

Fig. 11: Median hospital operating margin of 1,300 hospitals, Jan-Nov 2023



Source: Syntellis, "U.S. Hospitals See Operating Margins Improve Even as Expenses Continue to Grow, According to New Syntellis Performance Solutions Data," Dec. 2023.

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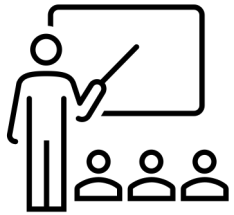
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