



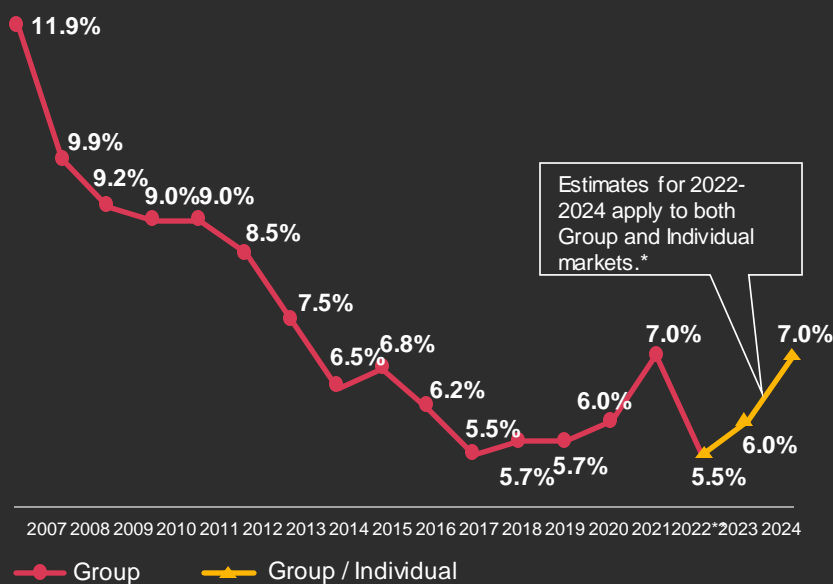
Next in health services 2024: Healthcare’s big squeeze and the way out

The way out of compression and into growth and profitability starts with industry-wide transformation, tech-enabled business model reinvention and trust.

For much of the health services sector, 2024 will be a year of sustained economic compression—“the big squeeze.” Last year, we forecast the most critical issues in healthcare, led by confronting affordability and disrupting costs. In 2023, PwC formed a healthcare Affordability Council to help clients learn leading practices to address this worsening dilemma as the **cost of care** rises.

PwC Health Research Institute medical cost trends, 2009-2024

HRI projects medical cost trend to be 7.0% in 2024, up from 6.0% in 2023



Source: PwC Health Research Institute medical cost trends, 2009-2024

*For 2022-2024, medical cost trend was estimated separately for Group and Individual market based on the surveys and interviews conducted April–May 2023. HRI found no significant difference in the estimates for the two markets.

**The 5.5% medical cost trend for 2022 was revised from 6.5% originally projected in PwC Health Research Institute’s “Medical Cost Trend: Behind the Numbers 2022” report, released in 2021. This revision reflects the average medical cost trend that was used for 2022 premium rate setting in 2021, shared with HRI during surveys and interviews.

See “About this research” for more details.



From compression to growth in 2024:

- **Whole industry transformation**
- **Business model reinvention**
- **Lasting trust**
- **Transactions to transform**

59%

of CFOS say reducing cost is a top priority, up from 38% one year ago.

Source: August 2023 Pulse Survey

These issues remain urgent in the new year. The industry is facing:

- Residual COVID-19 delayed utilization
- Ongoing inflation coupled with a tight labor market
- Higher drug pricing with sustained specialty utilization, now compounded with increase in demand for medications used to treat Type 2 Diabetes or weight loss
- Renewed efforts by the Centers for Medicare and Medicaid Services (CMS) to promote value-based care (VBC) and slow growth in the rate of provider reimbursements

Meanwhile, the twin forces of costs and affordability persist, undermining health equity. As the US spends more on healthcare than peer countries, it experiences worse outcomes, trailing behind those countries in key measures such as **maternal health**.

The sector looks like a scene from a science fiction movie, where the walls steadily close in on the heroes looking for a way to escape. On one side is CMS trying to slow the trend and pushing requirements for providers to adopt VBC while consumers and employers continue to push for value. On the other side is the inflationary environment of higher wages, high costs of labor and business, and the rising cost of pharmaceuticals.

For health services organizations already in a fragile financial state, these factors feel relentless. This reality requires a new response. Some organizations have already started to pursue new approaches to growth and innovation. For many others, 2024 will likely be the year they realize they are not doing enough to adjust their business and face real consequences for falling behind.

We believe there is a way out of compression for health systems and health plans. Industry-wide transformation, tech-enabled business model reinvention and lasting trust can create a viable path for the future paved by:

- Affordability and **Fit for Growth** strategies
- AI and managed services at the point of reinvention
- Digital delivery of technology
- Workforce transformation
- Deals to transform
- Customer advocacy and trust, reinforced by strong risk safeguards



Whole industry transformation

Most of us can envision a world of better quality and economics, where epic **change** can overcome the impact of compression and enable companies to deliver new value.

We see the largest health organizations — mega players — emerging in this decade with greater market influence and the ability to rewire parts of healthcare. They are equipped with technology infrastructure to harness the power of AI, ability to attract leading talent and positioned to re-engineer whole processes to create new value.

Additionally, **ecosystems are already forming** to address value, trust and equity, persistent problems that regulations and markets have failed to solve. Traditional sector-focused healthcare organizations lack the scale, capital and capabilities to address the biggest problems and keep pace with changing market dynamics, rapid industry transformation and heightened regulatory scrutiny. Leaders should move beyond today's transactional, competitive system to cross traditional boundaries and share responsibility, resources, data and risk to help solve specific system-level problems.

Patients are choosing alternate sites of care that challenge health systems to **transform** their high-cost, brick-and-mortar operations. Recent mergers between retail and digital organizations demonstrate the need for providers to redesign delivery models to keep up with consumer expectations. Providers who pursue lower-cost, high-quality alternatives to traditional services are likely to become preferred partners for payers and patients. The shift to virtual care is also well underway, accompanied by advances in sophisticated wearables, robotic surgery, **extended reality** and other **immersive technologies**.

Consumers expect companies to build capabilities that support **convenience, personalization and advocacy**. In the booming 65-million member Medicare market, for example, where **competition is intense** for Medicare Advantage, consumers prefer zero-premium health plans that come with high levels of service.

The sector's staffing needs will only intensify. Industry leaders grappling with **attracting and retaining talent** will turn to outsourcing, off-shoring and **managed services** partnerships to help fill the workforce need. Tailoring benefits, redefining the care team model and setting an aggressive digital- and automation-led agenda to improve productivity are important **strategies** to consider. Leaders also have **levers to pull** for employee retention.

82%

of health industry leaders say that attracting and retaining talent is the top risk to their business.

PwC Pulse Survey: Focused on reinvention:
Sectors





Business model reinvention

Next-generation technology is fueling business model reinvention. **Nine out of 10 companies** plan to increase their overall technology budget over the next 12 months. Through tech-enabled transformation, payers and providers are leveraging generative AI (GenAI) across the value chain, looking for **GenAI** to quickly steer them toward better member, patient and provider experiences, greater productivity and lower administrative costs.

AI can play a crucial role in making healthcare more affordable. It's estimated that AI applications can cut annual US healthcare costs by \$150 billion, according to the **National Library of Medicine**. A large part of these cost reductions stem from changing the healthcare model from a reactive to a proactive approach, focusing on health management rather than disease treatment. This is expected to result in fewer hospitalizations, fewer doctor visits and fewer treatments.

Trust and risk management, which are especially important for GenAI, require organizations to implement explicit usage policies, data governance and **responsible AI** practices. An **AI factory** — an operating model designed to identify, assess and deploy GenAI responsibly and quickly — can be an effective way to achieve value at scale.

From finance to back-office operations, cloud engineering drives innovation at scale and can migrate data and workloads, modernize infrastructure and applications, and accelerate idea realization through cutting-edge cloud-native software development. However, while 81% of **health services** executives have adopted the cloud, nearly half have yet to realize all the value from their investment. Companies that have become cloud-powered are characterized by C-suite involvement and commitment, strong trust and control measures in place, and a formal data, analytics and AI strategy.

More than
half (54%)

of leaders say their
company has implemented
GenAI to some extent.

Source: PwC 2023 Emerging
Technology Survey



Are you thinking big enough?

CIOs

Move beyond individual cases to using tech to reinvent business, increase your technology budgets and employee resources, and integrate tech and business strategies.

CMOs

Use technologies to transform business models and market expansion. Given how fast technologies are advancing, look outside the industry for new customer experiences and growth strategies.



Lasting trust

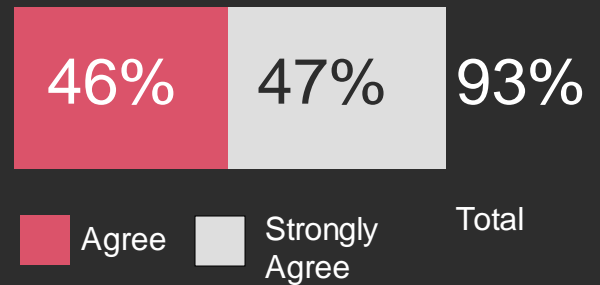
Trust factors into every healthcare decision and interaction. Loyalty grows from trust. Consumers look for providers that can empathize and understand them. Patients who have had **a bad experience** with healthcare become discouraged from seeking care. Through our **Future Cast** predictive modeling platform, we can see where patient trust can be a barrier to care.

Trust and loyalty are essential to growth. The past several years have taught us that consumers and stakeholders expect the sector to be prepared for the unexpected, including pandemics, climate disasters, wars, embargoes, labor strikes, market crashes and cyber-attacks. Leaders should factor risk and cybersecurity into their transformation plans at the beginning — especially those that entail **digitizing processes** or **cloud computing**. Leaders should also consider tax strategy as a driver of trust and inject tax strategy into business planning.

Trust is the foundation of society. How companies respond to climate, sustainability and other social and governance issues, and report on their progress, matters to consumers and other stakeholders. ESG tax incentives, credits and government financial assistance awards can fundamentally change how companies **implement sustainability strategies**.

Executives say emerging tech is helping build trust

Our investments in emerging technologies are helping us build trust with our stakeholders



Q: To what extent do you agree or disagree with the following statements? (Response to 'Agree' and 'Strongly agree')
Source: PwC 2023 Emerging Technologies Survey, October preview results Base: 1,026

91%

of business executives agree their ability to earn and maintain trust improves the bottom line.

Source: PwC 2023 Trust Survey



Transactions to transform

Despite challenges in the market, our **deals outlook for health services** remains cautiously optimistic. Interest rates, valuation gaps and regulatory concerns have impacted the sector, but record levels of capital and non-traditional deal structures are expected to drive momentum in 2024.

Corporate entities recognize the importance of business and portfolio transformation to achieve growth and profit expectations, with M&A seen as a leading way to drive these changes. Non-traditional cross-sector partnerships continue to be a strategic focus for many health systems, and strategic assessments are deriving more divestitures and realignment in the sector.

Companies may need to invest more time in considering competitive issues upfront, structuring deals to appease regulators and preparing for potential concessions if a merger is challenged.

The sector's resilience makes it an attractive sector for increased activity in 2024.



M&A is the mother of reinvention

CFOs

Markets are being reshaped by technology and disrupted by geopolitical unrest and economic shocks. Leaders turn to transformative acquisitions to reinvent their businesses for long-term success.

CEO

Recognize the importance of business reinvention and portfolio transformation to achieve growth and profit expectations, with M&A as a leading way to drive these changes.

Related content



Medical cost trend: Behind the numbers 2024

Help guide providers, payers, pharma companies and employers as they determine medical cost trends and the factors driving or dampening spending in 2024.



The future of healthcare delivery

The hospital of the future will be designed as a connected ecosystem of assets that have capabilities to deliver care within and beyond the walls.



Healthcare revolution

Health evolution is here, bringing transparency, data sharing, standardization of quality care and capacity management all powered by new technologies.



Wanted: healthcare payers and providers who offer convenience, personalization and advocacy

What values do healthcare customers want from payers and providers? Help proactively manage their cost of care through seamless experiences tailored to them.



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