

Exploring Healthcare Trends in 2024: Insights for Health System Leaders and Their Boards

Healthcare providers were confronted with many transformational challenges in 2023, including the continued advancement of payers into the provider space, the explosion of AI, and the challenge of managing merger and acquisition activity. As we look into 2024, effective governance of provider organizations will allow for successful navigation in upcoming headwinds. We identified eight key trends facing healthcare providers during the coming year, along with insights that health system leaders and their boards should consider as they plan and execute initiatives.

1) Continued big technology mergers and acquisitions across the healthcare sector

The year 2023 saw mergers of health systems, for-profit organizations, and provider groups, as well as many technology-focused mergers and acquisitions. In 2024, we will see continued focus on Big Tech merger activity in the healthcare space as these companies align their technology and data with patient care service offerings. Companies such as Amazon, Apple and Microsoft will continue to advance their presence given their financial resources and financial opportunities. Also, health plans such as UnitedHealthcare and Humana are gearing up to expand their presence in 2024.

Insights for health system leaders: Leaders must understand their vulnerable areas with technology and data, then identify capital to invest either in their own infrastructure or form strategic relationships with other organizations. Such advancements in technologies will reduce costs and support the financial performance of healthcare provider organizations.

Insights for boards: Boards should challenge their leadership in understanding the organization's technology and data growth plan, and how these initiatives will enhance the organization's market position. Competition from Big Tech or other for-profit corporations may occur in select markets, and this vulnerability may impact reimbursement rates and/or patient access.

2) Payors and retail corporations continue to expand their vertically integrated clinical services footprint

Payors and retail corporations remained active in 2023, investing in primary care and other vertically aligned services. CVS acquired Oak Street Health, Amazon acquired One Medical, and United Health Group made numerous acquisitions — and these are just a few notable examples. Given the cost of capital and the financial challenges facing the remaining large primary care-based medical groups, acquisitions in 2024 may slow down but will still impact health system market share and influence consumer behaviors.

Insights for health system leaders: As non-traditional providers expanded their footprint, the relationship between health systems and consumers has changed. Although branding is still strong as a market driver, it will not be enough. Leaders must consider launching consumer-focused initiatives that provide a retail mindset where vertically integrated services are available, expanding primary service access, and investing in capabilities that provide more control over the premium dollar.

Insights for health system boards: An important competitive response to market disruptors and new market entrants is to strengthen the health system's influence and relationships with providers and employers. Although this approach is dependent on several local market and organizational factors, boards must consider non-traditional strategies such as direct-to-employer programs, provider-

sponsored plans, and/or payor partnerships to leverage the health system's brand and to influence consumers with a vertically integrated clinical service model.

3) Expansion of AI and technology solutions

In 2023, we saw an explosion of Artificial Intelligence (AI), not only in healthcare but across the entire technology ecosystem. The year 2024 will bring new capabilities and solutions driven by the use of data and AI. The challenge for health systems will be prioritizing the list of AI possibilities and identifying immediate opportunities versus long-term strategic positioning.

Insights for health system leaders: As leaders are presented with the many cadres of new AI solutions in 2024, they must understand the fiscal impact to guide their decisions. New AI technologies will provide real revenue enhancement or cost-saving opportunities but can also come at significant investment. As health systems continue to improve their financial performance in 2024, AI technology investments should support the financial improvement path by realizing a tangible return on investment.

Insights for health system boards: As health systems are presented with new AI technologies, it is key to ensure they are integrated with the organization's strategic technology roadmap. It is not just about approving capital funds to launch new AI; it is about creating an AI and technology-integrated infrastructure to strategically position the health system for success.

4) Pushback on Medicare Advantage contracts by hospitals and providers

According to CMS, in 2023, Medicare Advantage (MA) enrollment grew by 8% or approximately 2.3 million beneficiaries, bringing the total enrollment to 31.6 million. As enrollment increased, hospitals were challenged with flat reimbursement (based on Medicare rates) and growing administrative MA product challenges resulting in increased claim denials and write-offs and decreased profits. As a result, a considerable number of hospitals and health systems terminated their participation in MA. With the expected MA growth in 2024, health systems, hospitals and medical groups will continue to (a) push back on commercial MA payers regarding denied services and administrative requirements such as precertification of procedures and (b) pressure CMS and Congress to take action.

Insights for health system leaders: Although many large health systems have terminated their participation in MA in 2023, it is a challenge for community hospitals to take the same action. These health system leaders must collaborate closely with their commercial payers to negotiate pre-certification requirements, timely reimbursement, and value-based performance programs. Patient education regarding MA criteria must be considered so that MA plans are seen as favorable. Evolving the organization's payer strategy to support a community focus will allow health systems to minimize their costs of MA while continuing to deliver optimal care to patients.

Insights for health system boards: Since the Medicare population is growing in most communities, the board's approach to improving the health of their community through health system influences is an important initiative. Many health system board members have local and state legislative relationships that can be leveraged to ensure plans behave fairly and appropriately with their provider partners and

beneficiaries. Boards should consider a strategic approach to ensure their community benefit standard is upheld and maintained for their healthcare system through a legislative engagement strategy.

5) Growth of regional MA providers

Historically, the MA market has been dominated by a handful of large healthcare plans; but as Medicare beneficiary demand for these plans grows, regional plans and startups are seeing opportunities to enter the market. Regional plans have a strategic advantage over large health plans with their ability to better connect with consumers in the community. Given that regional plans do not have the shareholder pressures of the larger plans, these plans can provide opportunities to collaborate with their provider partners, especially with case/care management, patient navigation and authorization of services.

Insights for health system leadership: Since MA enrollment will continue to grow, health system leaders should consider a strategic partnership with one or a few small regional MA plans. If the health system has a clinically integrated provider network (CIN) or accountable care organization (ACO), a strategic partnership with a regional plan would provide opportunities to develop vertically integrated services and efficiencies in patient care delivery. It would also allow the health system to transition more quickly into a risk-based MA product and influence the community's MA premium.

Insights for health system boards: Health system boards should present a forward-thinking approach to strengthen the health system and community around quality, access and clinical service to the public they serve. Boards can place pressure on MA plans to ensure patients' health needs are met and their health systems are fairly recognized and compensated. Boards should play a role in the healthcare system's payer strategy, especially in overcoming the obstacles with MA plans and ensuring that community needs are addressed.

6) Medical groups' financial performance will continue to be in the spotlight

Both employed and independent medical groups continue to focus on improving their financial performance, hopefully returning to pre-pandemic results. Hospital-employed groups will continue to struggle with the rising investment (or subsidy) per physician, compensation that is not aligned with value-based care contracts, and overall physician well-being. Independent groups are also struggling with rising practice costs, increased reimbursement pressures, and growth limitations due to recruitment challenges and access problems. These financial challenges will present opportunities in 2024 for medical groups to collaborate with others through strategic partnerships, mergers and acquisitions, or external investment funding.

Insights for health system leaders: Depending on the structure of the group (independent or employed), leaders must develop or further align their physicians to create more integrated provider partnerships. Collaborating around integrated provider networks will allow health systems and physicians to position themselves for success under value-based care, integrate services vertically, and expand specialty service lines to leverage resources in support of stronger financial performance. As the industry continues to transition to value-based care, strategic partnership models provide opportunities to address financial challenges for health systems and medical groups.

Insights for health system boards: Given the financial fiduciary responsibility of the board to the health system and community, boards should be promoting strong physician alignment strategies. Physician

alignment topics should be a significant component of discussion and planning, both reflected in the strategic plan and addressed during board retreats. Boards should be open to new and innovative strategic partnership models that address strong physician alignment to promote improved financial performance.

7) Private equity's continued investments in specialty groups and service lines

Between 2012 and 2021, there was a six-fold increase in the number of private equity deals made for physician practices* and the trend continued in 2022 and 2023, with specialty groups such as orthopedics, cardiovascular, dermatology and gastroenterology. Heading into 2024, the trend is expected to continue even with the higher cost of capital. Private equity investors in medical groups create a heightened risk to hospitals and health systems that must be included in the strategic plan and operational initiatives. Healthcare organizations that proactively address potential PE expansion will be in a better position to manage risk factors.

Insights for health system leaders: Given market factors such as payer mix, rising community healthcare costs, population growth, and lack of access, organizations may be vulnerable to private equity entrants. Leaders must perform a community assessment to understand the vulnerabilities, risks and impacts to their organization from private equity entrants. The community assessment will provide proactive strategic approaches such as alignment models with private equity, strategic partnerships with independent specialty groups, and/or expansion of the employed medical group.

Insights for health system boards: With private equity investors entering the market, the financial performance of the provider organization may be compromised. As part of the community benefit standards set forth by boards, a regular assessment to identify potential risks will allow boards to evaluate the risk and adverse impact on the health needs and well-being of the community. Reviewing community assessments allows boards to evaluate and assess risks and to inform future strategic options.

8) Growth of home-based care to combat access challenges

Since the pandemic, overcoming challenges with access to care for patients is a top priority for health system leaders. In 2024, access will continue to be a focus for primary and specialty care services to meet patient demand. The in-the-home care model integrates technology and home-based providers for health systems to expand their access model while they continue to manage the cost of services. Driven by retiring baby boomers who prefer at-home care, the demand is continuing to grow, evidenced by innovative care models like "SNF at Home" and "Hospital at Home," which prompt partnerships with acute care, skilled nursing facilities, and home health providers.

Insights for health system leaders: To address the challenges of access to care and increasing patient demands, leaders must consider home-based care networks to support innovative care models. Many post-acute providers are well positioned to form post-acute integrated provider networks. As hospitals and physicians manage their aging high-acuity patients, post-acute integrated provider networks can more efficiently support patient's care needs while addressing issues of access, staff shortage and reimbursement.

Consideration for health system boards: Given the changing needs of patients and fiscal challenges, home-based care models offer opportunities for health systems to further diversify their services by

extending their longitudinal care models. This can create challenges for boards as they expand their focus beyond the traditional acute hospital setting. Boards must include home-based care delivery models as part of the strategic planning process to address the community's healthcare needs.

Prioritizing through effective governance in 2024

Health system leaders and boards will have many issues to address in 2024 as the healthcare industry continues to be influenced by new market entrants, technology and AI, private equity, financial pressures, and the evolving needs of patients. Boards and leaders must focus on common priorities to create a unified front in addressing the issues confronting health systems, hospitals and medical groups.

Over the next couple of years, board meetings will tend to focus on operations in support of the strategic vision. Leadership meetings will focus on the execution of strategic initiatives driven by the need for improved financial performance and better patient outcomes. Healthcare systems, hospitals and medical groups must focus on effective governance and high-impact priorities and remain diligent in execution to realize high performance.

*Source: MedPage Today July 11, 2023 "Private Equity Takeovers of Physician Practices Soared Over a Decade"

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Daniel J. Marino specializes in shaping strategic initiatives for healthcare organizations and senior healthcare leaders in areas that include health system strategy, academic medicine, population health management, clinical integration, physician alignment, and managed care services. With more than 25 years of professional advisory experience, Dan's commitment to healthcare quality and care excellence allows him to make meaningful change with hospitals and physicians, guide them through transitions and transformative change.

Dan has a passion for population health management value-based care and physician network development, having worked with well over 250 provider-based organizations on their value-based care strategy, managed care contracting, care model transformation and maximizing financial performance. He is a trusted advisor to many c-level leaders in health systems, medical groups and provider-sponsored health plan organizations.

Dan is dedicated to providing education and sharing his experiences through frequently speaking at healthcare industry conferences where he shares his insights on current trends, best-practice approaches, organizational strategy, payor contracting and value-based care performance. He regularly writes articles for healthcare industry publications about topics related to leadership and transformation in healthcare delivery. Dan is also host of a very successful radio show and an on-demand podcast series called "Value-Based Care Insights".