



EXPERT REVIEWED

8 healthcare trends for 2024: A guide for health system leaders and their boards

Healthcare providers faced many transformational challenges in 2023, including the continued advancement of payers into the provider space and the challenge of managing merger and acquisition activity.



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As health systems progress through 2024, they will require effective governance to successfully navigate the rising headwinds. As they plan and execute initiatives, their leaders and boards should remain informed about eight key trends that will have a growing impact on the industry and the future success of their organizations.

1 CONTINUED BIG TECHNOLOGY M&A

The year 2023 saw many technology-focused mergers and acquisitions (M&A) of health systems, for-profit organizations and provider groups. 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 in 2024, as will health plans such as UnitedHealthcare and Humana.

Insight for health system leaders. Leaders must understand their vulnerabilities around technology and data and identify capital to invest either in building their infrastructure or in forming

strategic relationships with other organizations. Such advancements in technologies will reduce costs and support financial performance.

Insight for boards. Boards should challenge leadership to fully understand the organization's technology and data growth plan and how it will enhance market position, recognizing that potential vulnerability from Big Tech or other for-profit corporations in their market could impact payment rates and/or patient access.

2 VERTICAL CLINICAL INTEGRATION AMONG PAYER AND RETAIL CORPORATIONS

Payers and retail corporations remained active in 2023, investing in primary care and other vertically aligned services (e.g., CVS's acquisition of Oak Street Health, Amazon's acquisition of One Medical and UnitedHealth Group's various acquisitions). Given the cost of capital and financial challenges facing the remaining large primary care-based medical groups, acquisitions in 2024 may slow but will still impact health system market share and influence consumer behaviors.

Insight for health system leaders. As nontraditional providers expanded their footprint, the relationship between health systems and consumers changed. Branding will not be enough. Leaders should consider three other responses:

- Launching consumer-focused initiatives that provide a retail mindset where vertically integrated services are available
- Expanding primary service access
- Investing in capabilities that provide more control over the premium dollar

Insight for boards. An important competitive response to market disruptors and new market entrants is to strengthen the health system's relationships with providers and employers. While considering local market and organizational factors, health system boards should consider nontraditional strategies to leverage

the health system's brand and influence consumers with a vertically integrated clinical service model, such as a direct-to-employer program, provider-sponsored plan or payer partnership.

3 EXPANSION OF AI AND TECHNOLOGY SOLUTIONS

In 2023, we saw an explosion of AI across the entire technology ecosystem. This year will bring new capabilities and solutions in healthcare driven by the use of data and AI. The challenge for health systems will be to prioritize the possibilities and identify immediate opportunities versus long-term strategic positioning.

Insight for health system leaders. As leaders consider the many cadres of new AI solutions in 2024, they should understand the fiscal impact to guide their decisions. New AI technologies will not only provide real revenue enhancement or cost-saving opportunities but also require significant investment. As health systems improve their financial performance in 2024, it is critical that their AI technology investments support that effort by realizing a tangible ROI.

Insight for boards. Boards will need to see proposed new AI technologies integrated with their organizations' strategic technology road maps. 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 MA CONTRACTS

According to CMS, Medicare Advantage (MA) enrollment grew by 8% or about 2.3 million beneficiaries in 2023, bringing the total enrollment to 31.6 million. As enrollment increased, hospitals were challenged with flat payment (based on Medicare rates) and growing administrative MA product challenges, resulting in increased claim denials and write-offs and decreased profits. In response, many ended their participation in MA. With expected MA growth

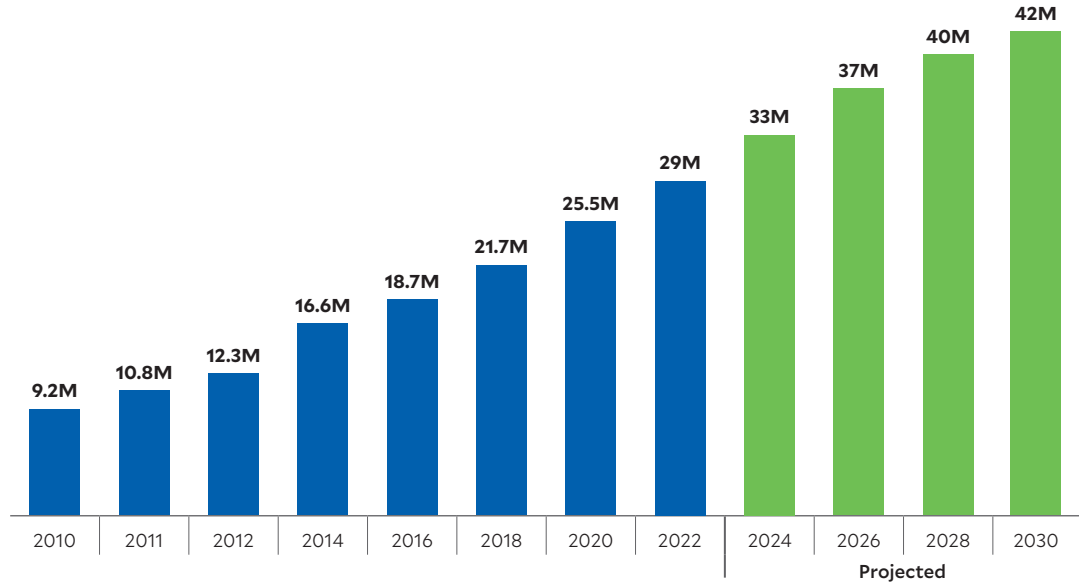
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Number of private equity deals for physician practices in 2021, representing a sixfold increase over the 75 deals in 2012

Source: Henderson, J., "Private equity takeovers of physician practices soared over a decade," *MedPage Today*, July 11, 2023

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Medicare Advantage enrollment shows steady upward trend



Source: Medicare Advantage: A Policy Primer, Commonwealth Fund, Jan. 31, 2024

in 2024, healthcare organizations will continue to push back on commercial MA payers regarding denied services and administrative requirements and will pressure CMS and Congress to act.

Insight for health system leaders. Community hospitals are challenged to end participation in MA. Instead, they should collaborate closely with their commercial payers to negotiate precertification requirements, timely payment and value-based performance programs. They should find ways to educate patients regarding MA criteria so these plans are seen as favorable. By evolving their payer strategy to support a community focus, they can minimize their cost of MA while continuing to deliver optimal patient care.

Insight for boards. Given the growth of the Medicare population in most communities, the board’s approach to improving their community’s health is important. Many 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 legislative engagement strategy to ensure their community benefit standard is maintained.

5 GROWTH OF REGIONAL MA PROVIDERS

Historically, the MA market has been dominated by a few large health plans. But as Medicare beneficiary demand for these plans grows, regional plans and startups see opportunities to enter the market. Regional plans have a strategic advantage over large plans by being able to better connect with consumers in the community. Given that they lack the shareholder pressures of the larger plans, they can provide opportunities to collaborate with provider partners, especially with case/care management, patient navigation and authorization of services.

Insight for health system leaders. Because MA enrollment will continue to grow, health system leaders should consider a strategic partnership with one or more regional MA plans. If the health system has a clinically integrated provider network or accountable care organization,

a strategic partnership with a regional plan would provide opportunities to develop vertically integrated services and efficiencies in 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.

Insight for boards. Health system boards should present a forward-thinking approach to strengthen the health system's and community's focus on quality, access and clinical service for the public they serve. Boards can exert 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 health system's payer strategy, especially in overcoming obstacles with MA plans and ensuring that community needs are addressed.

6 FINANCIAL PERFORMANCE OF MEDICAL GROUPS

Both employed and independent medical groups continue to focus on improving financial performance, hopefully to return to prepandemic results. Hospital-employed groups will continue to struggle with 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 payment pressures and growth limitations due to recruitment challenges and access problems. These financial challenges will present opportunities for medical groups to collaborate with others through strategic partnerships, M&A or external investment funding.

Insight for health system leaders. Depending on whether a group is independent or employed, leaders should align their physicians to create more integrated provider partnerships. Collaborating around integrated provider networks allows 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.

Insight for boards. Given the financial fiduciary responsibility of the board to the health system and community, boards should promote strong physician alignment strategies. Physician alignment topics should be a significant component of discussion and planning, reflected in the strategic plan and addressed during board retreats. Boards should be open to innovative strategic partnership models that can help strengthen physician alignment and financial performance.

7 PRIVATE EQUITY (PE) INVESTMENTS

Between 2012 and 2021, PE deals made for physician practices increased six-fold.^a And the trend continued in 2022 and 2023, particularly with specialty groups such as orthopedics, cardiovascular, dermatology and gastroenterology. In 2024, the trend is expected to continue even with the higher cost of capital. PE investors in medical groups create increased risk to health systems, which must be included in the strategic plan and operational initiatives. Organizations that proactively address potential PE expansion will be in a better position to manage risk factors.

Insight for health system leaders. Given market factors such as payer mix, rising community healthcare costs and population growth, health systems may be vulnerable to PE entrants. Leaders should perform a community assessment of the risks and impacts to their organization from such entrants. The assessment will provide proactive strategic approaches such as alignment models with PE, strategic partnerships with independent specialty groups and/or expansion of the employed medical group.

Insight for boards. The entry of PE investors in the market may compromise a provider organization's financial performance. As part of the

a. Henderson, J., "Private equity takeovers of physician practices soared over a decade," *MedPage Today*, July 11, 2023.

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Volume of announced and closed healthcare M&A deals in the fourth quarter of 2023, compared with just under 500 in the fourth quarter of 2022

Source: Epstein Becker & Green PC, KPMG and Ziegler, "Health care M&A insights: Q4 2023 & outlook for 2024 deal activity," *Modern Healthcare*, Feb. 1, 2024

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Health system boards and leaders should focus on common priorities to create a unified front in addressing the issues confronting health systems, hospitals and medical groups.

community benefit standards established by boards, regularly assessing potential risks will allow boards to evaluate the risk and adverse impact on the community's health needs and well-being. Reviewing community assessments allows boards to evaluate and assess risks and to inform future strategic options.

8 GROWTH OF HOME-BASED CARE

Entering into 2024, care access will continue to be a focus area for primary and specialty care services to meet patient demand. The in-home care model helps health systems to expand their access model by integrating technology and home-based providers while enabling them to continue managing the cost of services. Driven by retiring baby boomers who prefer at-home care, the demand is growing, evidenced by innovative care models such as skilled nursing facility (SNF), at-home and hospital-at-home, which prompt partnerships with acute care, SNFs and home health providers.

Insight for health system leaders. To address the challenges of improving access to care and addressing increasing patient demands, leaders should 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 care needs while addressing issues of access, staff shortage and reimbursement.

Insight for boards. Given fiscal challenges and patients' changing needs, home-based care models offer health systems opportunities to further diversify services by extending longitudinal care models. Seizing such opportunities can challenge boards as they expand their focus beyond the acute hospital setting. Boards should be open to home-based care models as part of the strategic planning process to address the community's healthcare needs.

SETTING PRIORITIES THROUGH EFFECTIVE GOVERNANCE

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

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

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