

Perspectives on US Healthcare Inflation

Insights from L.E.K. Consulting

2024

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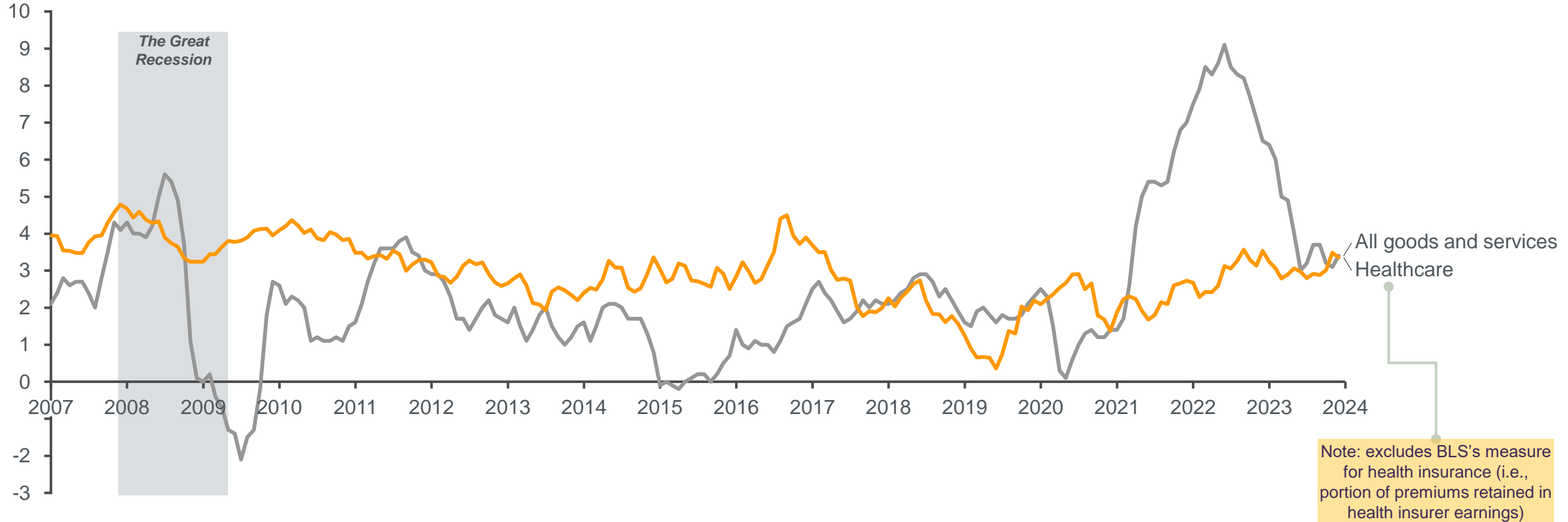
Agenda

- **Executive insights**
- Appendix
- Additional supporting analysis

Healthcare inflation has historically been higher and fluctuated less relative to all goods in the economy; it has also lagged and been muted relative to recent overall inflationary trends

U.S. inflation rates for healthcare vs. all goods*

January 2007- December 2023
12 month % change



Note: excludes BLS's measure for health insurance (i.e., portion of premiums retained in health insurer earnings)

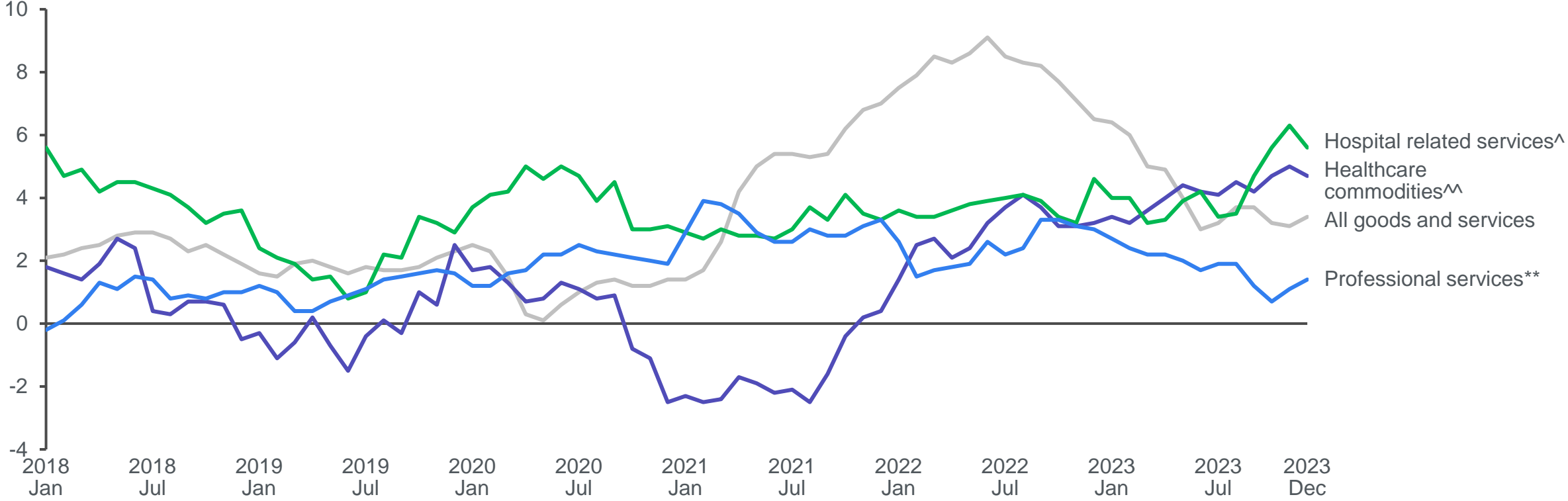
Note: * Based on the year over year change in the U.S. Consumer Price Index (CPI) which is a measure of the average change over time in prices paid by consumers for a market basket of goods and services;
** Health or medical care is a basket of goods which includes medical care services (e.g., professional services, hospital related services) and medical care commodities (e.g., drugs, equipment, supplies), and includes services provided in both inpatient and outpatient care settings; Excludes BLS's measure of health insurance inflation, which represents the amount of premiums kept in retained earnings, relative to the benefits paid out as a function of utilization and price, given data isn't indicative of prices

Source: U.S. Bureau of Labor Statistics (BLS); L.E.K. research and analysis

The leading driver of healthcare inflation is hospital related service pricing, which has recently been impacted by healthcare workforce challenges

U.S. inflation rates for healthcare vs. all goods*

January 2018- December 2023
12 month % change



Note: * Based on the year over year change in the U.S. Consumer Price Index (CPI) which is a measure of the average change over time in prices paid by consumers for a market basket of goods and services; ** Includes physicians' services, dental services, eyeglasses and eye care, and services by other medical professionals (e.g., therapists); ^ Includes inpatient and outpatient hospital services, nursing home and adult day care services, and home care; ^^ Includes prescription and nonprescription drugs, and medical equipment and supplies; Not included is BLS's measure of health insurance inflation, which represents the amount of premiums kept in retained earnings, relative to the benefits paid out as a function of utilization and price, and data is ~10 months lagged given data is not available in real time from NAIC or DMHC

Source: U.S. Bureau of Labor Statistics (BLS); L.E.K. research and analysis



Double clicks into the underlying healthcare segments provide greater insight into the drivers of historical healthcare inflation

Comparison of consumer pricing index (CPI – U)

2018 – 2023

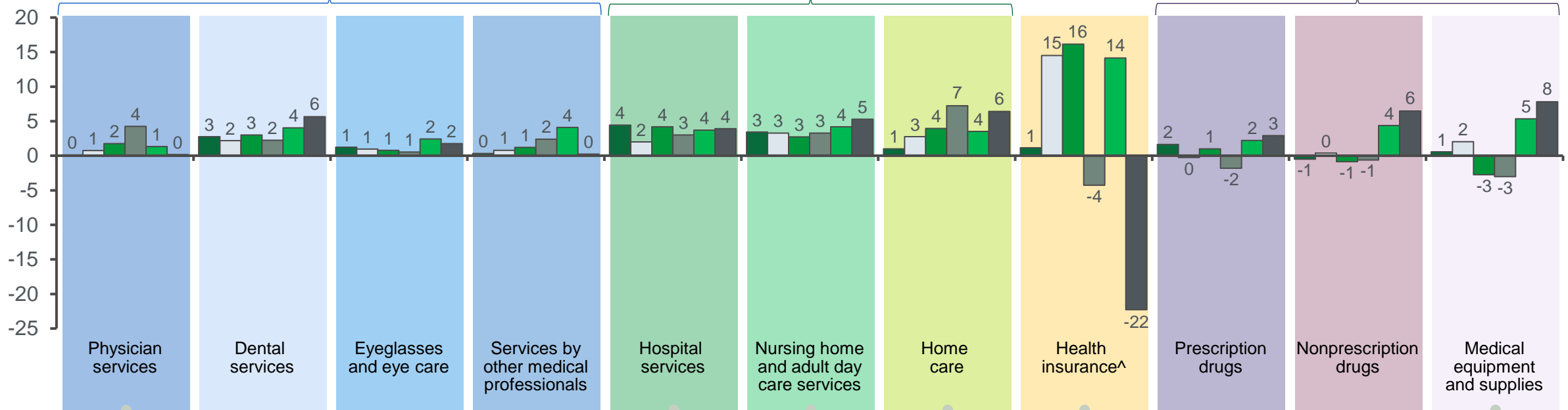
Average month-over-month % change over period*



Professional services

Hospital-related services

Healthcare commodities



Increases to Physician Fee Schedule payments in 2021 contributed to greater price growth in that year

Hospital services prices remained **more stable at higher rates of increase** relative to prices for professional services, given longer-termed contract nature

Prices for nursing home and home care services have increased largely due to growing **supply / demand imbalances**

Changes in care utilization due to COVID significantly impacted the portion of premiums retained in earnings by health insurance companies

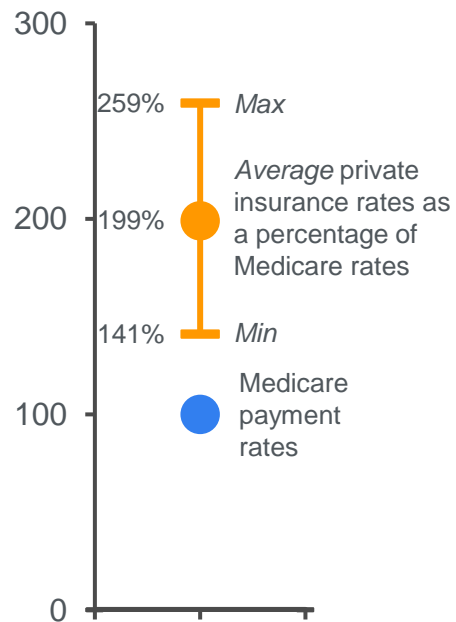
Medical equipment and supplies **followed consumer goods pricing trends**, seeing high pricing growth after COVID compression

Note: * Percent change of time period is average of individual months within the time period; ^ Health insurance represents the amount of premiums kept in retained earnings, relative to the benefits paid out as a function of utilization and price, and data is ~10 months lagged given data is not available in real time from NAIC or DMHC

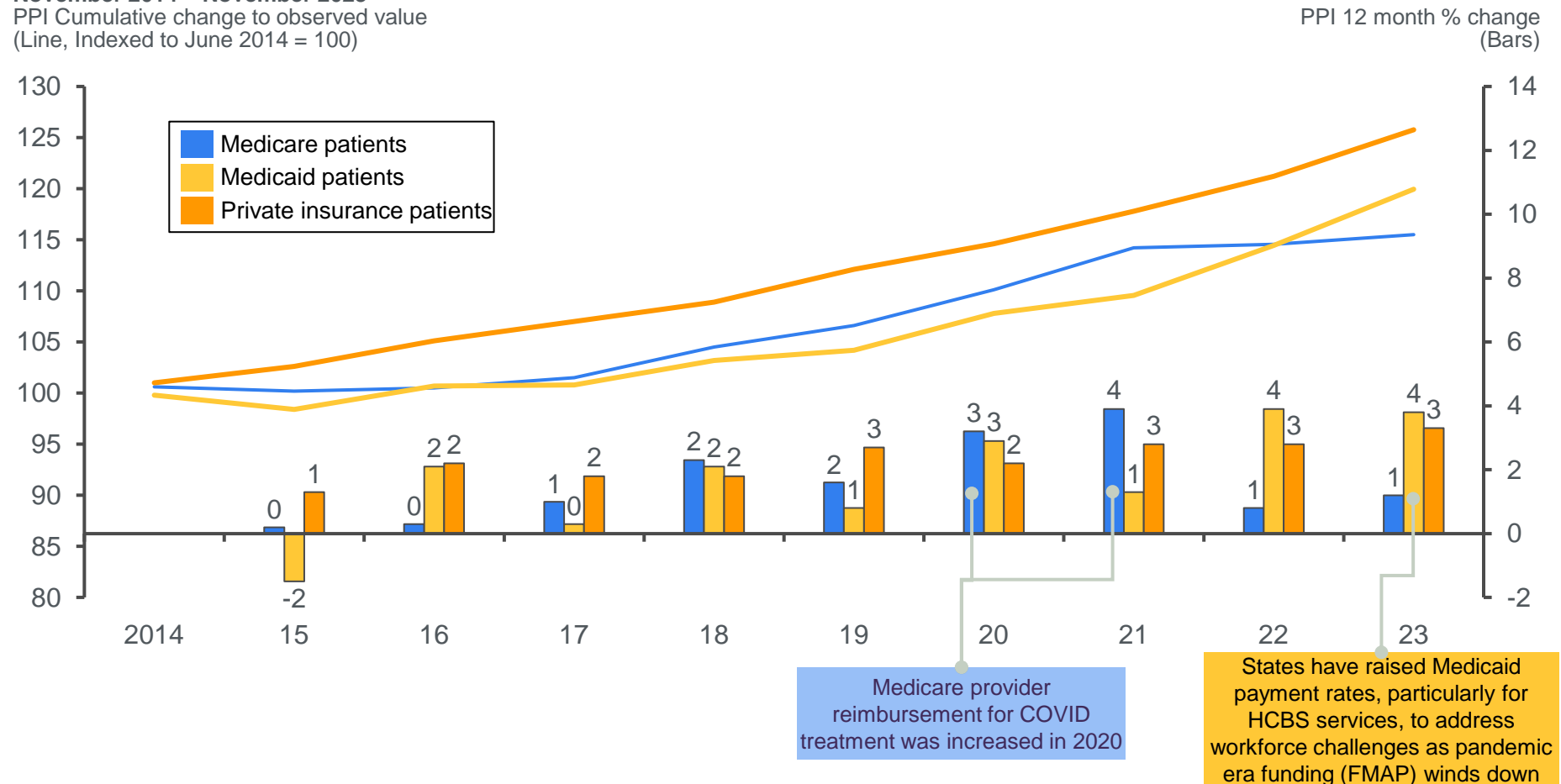
Source: U.S. Bureau of Labor Statistics; CMS; L.E.K. research and analysis

Patients with private health insurance continue to bear the brunt of healthcare inflation, seeing faster price growth on top of higher baseline price points than patients with government coverage

Private vs. Medicare rates
All hospital services (2010-2017)
% of Medicare rates^



Prices paid for the delivery of healthcare services, by payer type*
November 2014 – November 2023
PPI Cumulative change to observed value
(Line, Indexed to June 2014 = 100)



Note: * Payer indexes are the aggregation of PPI commodity indexes for underlying specific healthcare services by insurance type, and reflect the varying degree of healthcare inflation by type of coverage; ^ Reflects average, minimum, and maximum percentages of private insurance rates relative to Medicare rates across 19 studies conducted from 2010 to 2017
Source: U.S. Bureau of Labor Statistics (BLS); KFF; L.E.K. research and analysis

Several key trends are expected to impact healthcare inflation going forward, the most significant being the ongoing shortage of clinician and non-clinician labor

Inflationary trends

Drivers of medical cost inflation in the near future include:

- 1 Labor shortages** driving increases in pay and benefits and the use of contingent staffing, for both clinical and non-clinical positions
Most significant trend impacting near-term inflation
- 2 Near term supply chain pressures continuing** to impact the cost of medical supplies and equipment
- 3 Growing demand**, from consumers and employers, for **high-cost treatments, such as GLP-1s**
- 4 Provider consolidation** continuing to increase among hospitals and health systems

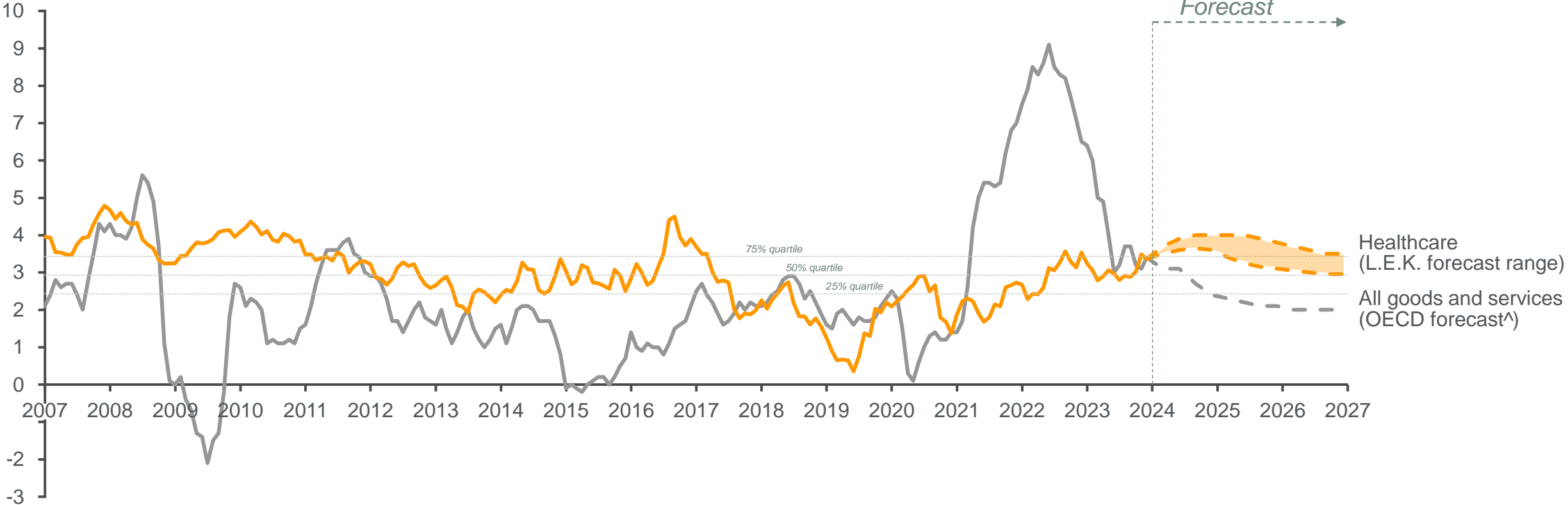
Deflationary trends

Countervailing forces that may temper medical inflation increases include:

- 1 Increasing healthcare consumerism**, with patients increasingly aware of, and shopping around for, their healthcare options (e.g., price transparency, etc.)
- 2 Growth of AI and machine learning applications** to increase automation, improve efficiency, and reduce cost
- 3 Increasing mix of the government in healthcare coverage** in the longer-term (e.g., Affordable Care Act coverage)
- 4 Continued interest from employers** looking to better manage healthcare cost for employees
- 5 Increasing sharing of financial risks** of care through greater vertical integration of payers and providers

Ongoing workforce challenges and contracting life cycles are expected to inflate near-term healthcare prices, before reverting to the long-term trend of remaining more stable at higher rates than overall inflation

U.S. inflation rates for healthcare vs. all goods*
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Source: U.S. Bureau of Labor Statistics (BLS); OECD; L.E.K. research and analysis



Considerations for provider organizations: Rate increases are a short-term solution; organizations that strategically position their offerings to effectively engage with patients will be best positioned long-term

Degree of impact

Nearer-term


Lower potential impact





Longer-term


Greater potential impact


Opportunities for provider organizations to differentiate in navigating healthcare cost inflation:

- 

Identify opportunities for cost efficiency
Invest in staff recruitment / retention; evaluate consumer price relative to peers; assess opportunities to increase patient throughput / reduce cost of care delivery
- 

Enhance patient access to differentiating service lines
Expand access and reduce wait times for patients to receive a shoppable service, to capture consumers increasingly becoming aware of and involved in their healthcare decision-making
- 

Reduce referral leakage
Analyze the patient journey across the care continuum, both within and outside of the system, to maximize the conversion of patient referrals, particularly to and from key differentiating service lines
- 

Optimize facility and physician infrastructure
Streamline facility mix (freestanding vs. HOPD) and staffing mix (e.g., physicians vs. physician extenders), to provide effective care at a lower cost
- 

Explore value maximizing initiatives / capabilities
Evaluate existing capabilities as well as new opportunities to develop initiatives focused on maximizing value and differentiating capabilities for consumers, patients, and staff

Source: L.E.K. research and analysis

Considerations for payers: Health plans that can successfully navigate healthcare inflation can establish strong partnerships and offerings for long-term differentiation

Degree of impact

Nearer-term

Lower potential impact



Longer-term

Greater potential impact

Opportunities for health plans to differentiate in navigating healthcare cost inflation:



Offer flexible rates over time

Work with provider organizations to structure reimbursement rates to cover high costs in the near-term (e.g., contract labor costs, etc.), but do not increase as quickly over the longer term



Improve cost containment offerings

Enhance the capabilities and breadth of cost containment solutions to retain commercial group clients increasingly looking to better manage costs and self-fund



Reassess provider networks

Evaluate the breadth and composition of contracted provider networks to better manage costs



Establish centers of excellence

Align benefit design, care and utilization management capabilities, and provider networks around clinical areas with high spend to better control patient outcomes, care quality, and cost



Align financial incentives and capabilities with provider organizations

Partner with provider organizations to align financial incentives under risk-sharing arrangements, and provide support to clinicians through their transition to value-based care

Source: L.E.K. research and analysis

Considerations for healthcare suppliers: Suppliers that can align expenditure and investment to core competencies will be best positioned for long-term differentiation

Degree of impact

Nearer-term


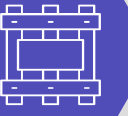



Lower potential impact



Longer-term

Greater potential impact

Opportunities for healthcare suppliers to differentiate in navigating healthcare cost inflation:

-  **Prioritize cost containment and analytics**
Leverage technology and analytics (e.g., capital equipment monitoring, shipping mode optimization, inventory management) to navigate reimbursement and pricing pressure
-  **Improve procurement and inventory management practices**
Rationalize raw material suppliers and renegotiate cost structures; better manage automated charge-backs; develop stronger shipment tracking capabilities (e.g., RFID) to monitor stock replenishment levels
-  **Enhance production and quality assurance capabilities**
Align internal core competencies and capabilities with priority equipment and supply volumes demanded by healthcare customers, following periods of material shortages during COVID
-  **Establish sophisticated partner networks**
Develop a strong network of freight and courier partners, enabling capability expansion (e.g., faster delivery, cold chain validation, unpacking in sterile environments, etc.) and contingency planning
-  **Expand to serve alternative healthcare settings**
Innovate current offerings and processes to serve the growing alternative sites of care (e.g., home health, ASCs, etc.)

Source: L.E.K. research and analysis

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