EXECUTIVE INSIGHTS

Looking Ahead in US Healthcare Services: Key Trends Impacting the Industry

Already exceeding more than $4 trillion annually,[1] U.S. healthcare spending continues to grow faster than the rate of inflation. Healthcare providers and other stakeholders have been challenged as never before to find ways to meet care needs for a nation experiencing an ongoing pandemic, as well as manage unprecedented workforce shortages. This report discusses five selected trends impacting the industry:

1. Unprecedented staff shortages
2. Rise in unconventional partnerships and acquisitions
3. Increased adoption of value-based care beyond primary care
4. Continued growth in home- and virtual-based models
5. Adoption of real-time clinical data solutions

L.E.K. Consulting looks ahead at these shifts across the healthcare landscape, based on its expertise and analysis.

1. Unprecedented staff shortages

Nearly 1 in 5 healthcare workers in the U.S. quit their jobs between February 2020 and August 2021, largely due to compensation issues and burnout.[2] Those who have remained are reporting worsening mental health conditions — as of late 2021, 60%-75% of clinicians reported exhaustion, depression, sleep disorders or post-traumatic stress disorder.[3]

This has impacted hospitals, outpatient facilities and patients alike. Hospitals are burdened by the need to recruit and hire qualified clinical labor, which now costs 8% more per patient day, or $17 million in additional labor expenses annually, for an average 500-bed facility, compared to before COVID-19.[4] Only 1% of the nation's nursing homes and assisted living facilities have a full staff, and many other facilities are concerned about the possibility of shutting down, according to a survey conducted by the American Health Care Association and National Center for Assisted Living.[5] On top of reductions in care efficiency, there may also be additional consequences for the quality of care and safety of patients. In September 2021, a Centers for Disease Control and Prevention report found that infections associated with healthcare settings increased relative to 2019, after years of decline.[6] Whether this is due entirely to the staffing shortage is not known, but there is no doubt it has been impacted by it.

Unfortunately, according to the Association of American Medical Colleges (AAMC), the supply shortage of physicians is expected to get worse through 2034 (see Table 1). Primary care is expected to be impacted the most, with an estimated shortage of up to 48,000 primary care physicians.

Table 1
Table of estimated US staff shortages by provider type, by 2034 (June 2021)[7]

Type of provider	Estimated shortage by 2034
Primary care (e.g., family medicine, general pediatrics, geriatric medicine)	17,800-48,000
Surgical subspecialties (e.g., general surgery, obstetrics and gynecology, orthopedic surgery)	15,800-30,200
Medical specialties (e.g., cardiology, oncology, infectious diseases, pulmonology)	3,800-13,400
Other specialties (e.g., anesthesiology, neurology, emergency medicine, addiction medicine)	10,300-35,600

Source: Association of American Medical Colleges: https://www.aamc.org/media/54681/download?attachment

The U.S. is also expected to continue experiencing a shortage of registered nurses, driven by lower nursing school enrollment compared to demand, a retiring nursing workforce, and increasing stress levels of nurses, causing many to leave their jobs. Even before the pandemic, this shortage was expected to persist, despite the profession's overall expected growth by the Bureau of Labor Statistics (BLS).[8] Looking ahead, the BLS expects a half million nurses to retire by the end of 2022, leaving more than 1 million nurses missing from the healthcare system.[9]

The end of the pandemic will undeniably help to mitigate some of the drivers for a declining healthcare workforce, but it will be challenging to recover what has already been lost. The silver lining lies in the opportunity this creates for the development of initiatives to improve the state of the workforce. Some may involve improving workplace culture to increase retention, using clinical technology and telehealth models to drive efficiency, and recruiting a new pipeline of healthcare workers.

2. Rise in unconventional partnerships and acquisitions

There has been a wave of unconventional dealmaking in the healthcare industry in the past few years, including:

- Healthcare companies expanding into other healthcare services
- Non-healthcare-focused companies like retailers, tech companies and grocery chains entering healthcare through partnerships and deals

Traditional healthcare players have sought to expand their offerings and vertically integrate to drive growth. Payers, for example, have looked to faster-growing parts of the healthcare ecosystem to diversify their profit pools. The trend toward value-based care (VBC) has also helped align incentives across payers and providers and allowed for more vertical integration. Some recent examples of acquisitions, partnerships and investments by healthcare companies are included in the table below (see Table 2).

Nontraditional companies have started to enter the space. Many of these companies are retailers looking to leverage established customer relationships to drive share and/or diversify their business into the faster-growing healthcare sector. Recent examples of this are included below (see Table 3).

Such acquisitions and partnerships are only expected to continue. Healthcare companies should consider vertical integration and/or service line diversification as a key potential growth driver.

3. Increased adoption of value-based care beyond primary care

VBC models have been increasing across the healthcare spectrum, driven by a variety of factors, including:

- Regulatory catalysts, including the 2012 Medicare Shared Savings Program and, more recently, Global and Professional Direct Contracting, which encourages a shift toward VBC in primary care
- Payers are finally getting serious about driving down costs to stop the increasing subsidies their employer line of business contributes to providers

- Providers seeking more consistent revenue streams are investing in capabilities to take on capitated payments, particularly after the pandemic left those using fee-for-service models in more financial distress as elective procedures declined[10]

Table 2

Examples of traditional healthcare player activity

Company and description	Partner or acquired company	Company description	Date announced	Deal structure/scope
Optum Healthcare provider, data analytics, IT and consulting service provider, and pharmacy care service provider	**Landmark Health**	Home healthcare company	February 2021	**Acquisition**
	SSM Health	Nonprofit health system	October 2021	10-year **partnership** to develop digital solutions including inpatient care management and revenue cycle management
	Change Healthcare	Healthcare technology company	January 2021	**Acquisition**
Cigna Health services and insurance company	**MDLive**	Telehealth company	February 2021	**Acquisition**
	Bright Health	Insurtech company	December 2021	**Investment** from Cigna's venture capital arm and New Enterprise Associates
Humana Health insurance company	**League**	Digital health company	June 2021	**Partnership** to create new digital platform for Humana Employer Group and specialty insurance members
CVS Health / aetna Health insurance division of CVS	**Teladoc Health**	Telehealth company	August 2021	**Partnership** to launch Aetna Virtual Primary Care services for members
Walgreens Boots Alliance Holding company owning retail pharmacy chains, a healthcare platform, and health and beauty brands	**CareCentrix**	Home healthcare platform company	October 2021	**Investment** of $330M for 55% ownership
	Shields Health Solutions	Specialty pharmacy integrator and accelerator	September 2021	**Investment** of $970M for 71% ownership
	VillageMD	Primary care platform and value-based primary care services provider	October 2021	**Investment** of $5.2B (increasing ownership to 63%)

Source: L.E.K. research and analysis of company websites and press releases

The activity to date in VBC has been most visible in primary care for Medicare Advantage. The number of clinics owned by major value-based providers in primary care has grown rapidly and expanded to new geographies. Increasingly, however, there has also been accelerated traction of VBC in additional specialties, through provider practices developing care models themselves and through third-party vendors. Specifically, there has been emergence and proliferation within VBC platforms across kidney care, oncology, musculoskeletal care and post-acute care settings.

Table 3
Examples of nontraditional company activity in healthcare

Company and description	Partner or acquired company	Company description	Date announced	Deal structure/scope
Walmart Retail corporation	**Oak Street Health**	Primary care provider to Medicare patients	September 2020	**Partnership** to add primary care clinics to three Walmart stores in Dallas–Fort Worth area
	MeMD	Telehealth company	May 2021	**Acquisition**
	Transcarent	Consumer-directed health and care platform	October 2021	**Partnership** for Transcarent to offer Walmart prices for pharmaceuticals and access to other Walmart services to self-insured employers and employees
Best Buy Consumer electronics retailer	**Critical Signal Technologies**	Remote patient monitoring company	May 2019	**Acquisition**
	Current Health	Remote patient monitoring company	October 2021	**Acquisition**
Kroger Retail corporation	**Anthem Blue Cross Blue Shield**	Health insurance provider	October 2021	**Partnership** to offer Medicare Advantage plans that include budgeting for the purchase of healthy groceries and over-the-counter health supplies at Kroger
Oracle Cloud technology company	**Cerner**	Healthcare digital information systems company	December 2021	**Acquisition**

Source: L.E.K. research and analysis of company websites and press releases

Kidney care

- The Centers for Medicare & Medicaid Services' (CMS) newest value-based kidney care model, called Kidney Care Choices,[11] was set in motion earlier this year, designed to help reduce cost and improve quality for patients with end-stage renal disease and late-stage chronic kidney disease

- Both DaVita[12] and Fresenius,[13] two of the largest dialysis centers, have been working to transform their vision to focus on VBC; additionally, companies such as Strive Health, Somatus and Evergreen have emerged in the kidney care market with a strong emphasis on VBC

Oncology

- In 2021, CMS began rolling out a next-generation cancer care model that further emphasizes quality and outcomes, called Oncology Care First,[14] to help phase out the Oncology Care Model (initiated in 2016); while the pace of a broader rollout and expectations of provider pushback are still in question, it demonstrates an attempt to usher VBC into oncology

- Companies like The US Oncology Network are third-party enablers that have helped cancer centers and practices shift operations and clinical activities to VBC models by negotiating payer and group purchasing organization contracts, and by providing tools and best practices; since the beginning of CMS' Oncology Care Model, The US Oncology Network has saved Medicare $197 million[15]

Musculoskeletal care

- The cost of treating musculoskeletal conditions in the U.S. is estimated to have doubled from $10 billion to $20 billion in the past decade,[16] driving recent partnerships like the one between value-based primary care provider Everside Health and ATI Physical Therapy,[17] the largest single-branded outpatient therapy provider in the U.S. (announced November 2021)

- Moreover, companies like Healthcare Outcomes Performance Company (HOPCo) continue to emerge; HOPCo is a physician practice management company specializing in orthopedic clinics that is focused on VBC, providing IT and analytics tools and decision support platforms that enable effective clinic management and care coordination in order to reduce cost of care while improving patient outcomes

Post-acute care settings

- Various providers already focus on driving better post-acute care outcomes, including naviHealth (owned by Optum) and CareCentrix, which tolerates risk through subcapitation or gain share and manages post-acute care needs after an acute episode

- In 2019, naviHealth expanded its post-acute care management business from locations in 13 states to 37 states[18]

- myNexus, a company focused on optimizing home health, was acquired by Anthem in 2021, with plans to expand home-based care[19]

As showcased by these recent examples, the shift toward VBC in practices outside of primary care is only expected to increase in the future. There has also been growing use of VBC in other specialties like OB/GYN, dermatology, wound care, behavioral health and more.

4. Continued growth in home- and virtual-based models

The COVID-19 pandemic demonstrated the value of nontraditional care models such as telehealth and home care, including synchronous telehealth (i.e., real-time), asynchronous telehealth (e.g., texting), remote monitoring, hospital at home, in-home pharmacy and in-home supports (e.g., meals).

There are many compelling benefits to shifting care to the home. In most cases, it represents a lower-cost setting, greater patient convenience, avoidance of exposure to hospital-acquired infections and increased opportunity to assess a patient's living situation. While the shift to home- and virtual-based models was already happening prior to the pandemic, COVID-19 accelerated this movement both by forcing providers to develop new care protocols and models that would reduce infection spread, and by making patients more exposed to, and comfortable with, these new modes of care. To support this shift, CMS introduced over 60 new telehealth services in its fee schedule.[20]

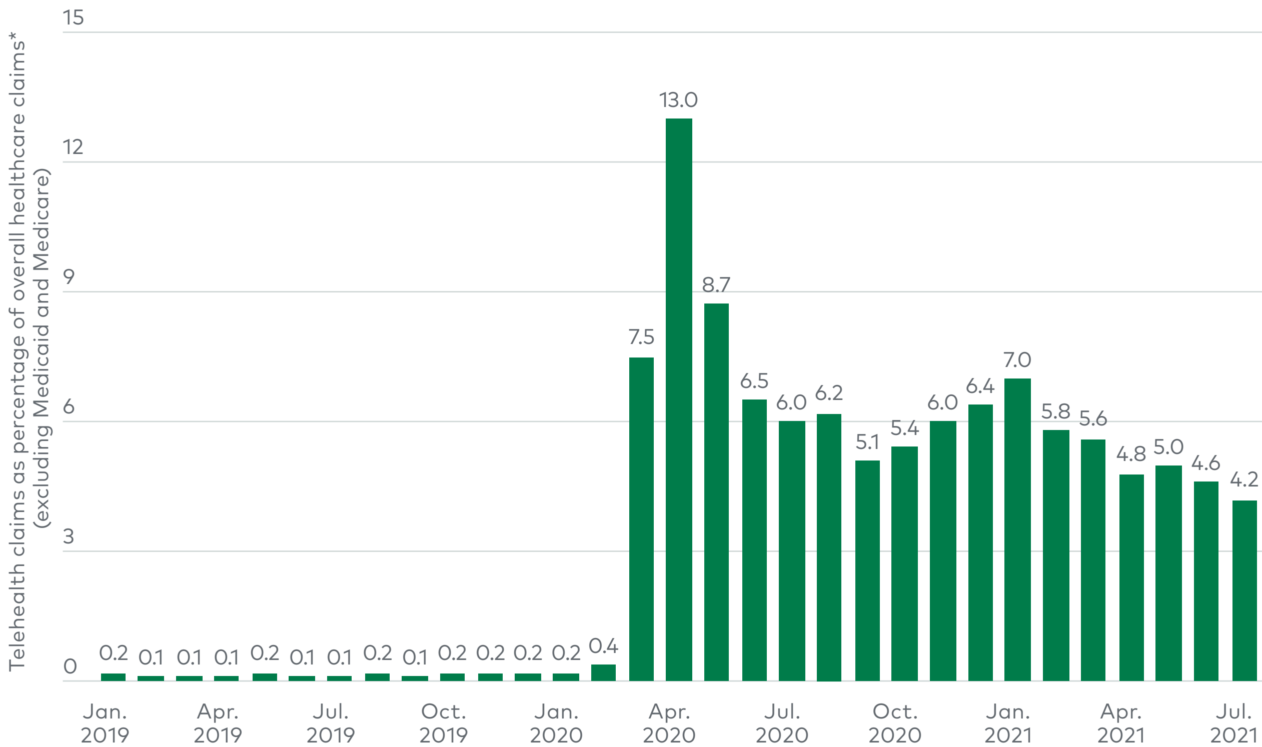
The telemedicine movement is here to stay. Although telehealth claims are significantly down from peak 2Q20 levels, they remain more than 20 times higher than pre-pandemic levels, as of July 2021 (see Figure 1).

There are opportunities for additional providers to enter the telehealth space. CVS and Aetna's partnership with Teladoc and Cigna's acquisition of MDLive are good examples of this. Telehealth's growing popularity will no doubt spur more activity in the future.

5. Adoption of real-time clinical data solutions

As aggregators of healthcare data, payers are increasingly understanding and acting on their ability to leverage real-time clinical data to inform clinical decision-making and care management. Payer analysis of data has historically generated lagged insights, and has predominantly, or exclusively, relied on claims data. While payers have tried to introduce real-time checks such as home visits, nothing comes close to the accuracy and precision of going straight to the source — clinical data residing in electronic health record (EHR) systems. As such, there has been increased demand for companies that offer EHR data extraction/abstraction services to help set future expectations. Companies such as DataLink and Health Catalyst help extract/abstract data from EHRs, and others such as Cotiviti and

Figure 1
While telehealth claims are down from 2Q20 levels, they remain more than 20x above pre-COVID-19 levels



*Data represents privately insured population of approximately 150 million lives aggregated across approximately 60 plans
Source: FAIRHealth

Q-Centrix (reporting/compliance focused) and MedeAnalytics and Truven Health Analytics (business operations focused) help provide real-time analytics services.

Providers also see great value in gaining access to real-time clinical data. On top of providing quality reporting data and servicing medical record requests, EHR data extractions/abstractions also help with real-time care management and coordination. Companies such as CarePort Health, Lightbeam Health Solutions and Aledade enable providers to better define and measure population health initiatives aimed at improving outcomes and lowering costs, and also to aggregate data to enable seamless transitions of care. Further, there are growing applications to leverage EHR data in continuous clinical surveillance, which may help screen out false alarms in patient monitoring devices or reveal subtle trends about a patient's health early on.

There is room to innovate, however. Within current offerings, payers and providers are seeking the ability to create more detailed and customized reporting, increase interoperability across EHR platforms, further data standardization in order to increase efficiency, and increase overall automation. Additionally, payers demand the ability to build a longitudinal member dataset that provides a comprehensive member medical history over time and can therefore enable more effective care management interventions, as well as low-latency clinical data (ideally, real-time data) to enable more timely care and streamline back-office processes. However, providers have not been eager to share access to clinical data due to concerns about competitive rate sensitivities and federal laws restricting release of medical information.

There is power in harnessing real-time clinical data. Doing so informs payers of ways to drive down costs and improve patient outcomes, and aids in providers' clinical decision-making and population health management. Payers and providers are truly in a unique position, given their ability to leverage EHR data and stakeholder relationships and fortify their role in care coordination, to create a more powerful, data-driven picture of each patient's condition and thus improve their overall care journey.

Conclusion

Healthcare in the U.S. is always changing. Some of the changes represent a steady march over the years, such as the ongoing dominance of managed care in Medicare and Medicaid, the move toward lower-cost sites of care, payers diversifying into the provider space and the expansion of behavioral health models. All of these trends will continue. But this year we will see, in particular, that health systems will continue to confront staffing shortages, unconventional partnerships will become the norm, VBC will see rapid growth beyond primary care, in-home and virtual visits will become a permanent fixture of the landscape, and real-time clinical data solutions will be adopted at an increased pace. L.E.K. closely monitors these trends and helps companies navigate the evolving healthcare landscape to build winning strategies.

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