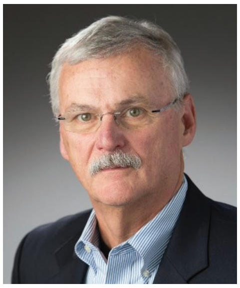

Challenges Facing the US Healthcare System in 2023 and Beyond: A Payer Perspective

By Gary M. Owens, MD

The US healthcare system will face several major challenges in 2023 and beyond. Many of these challenges can significantly affect payers. Among the most important issues facing payers are:

- Rising healthcare costs driven by a postpandemic demand for services related to COVID-19 and other illnesses;
- Increasing pressure by providers and hospital systems to raise prices (and hence payer reimbursement) due to a combination of increased labor costs and inflationary pressures;
- The continued growth of specialty drugs, especially for immunologic diseases, oncology, and rare diseases;
- The substantial cost impact of the Inflation Reduction Act (IRA) for payers managing Medicare members;
- The medical and cost consequences occurring with the spread of medical misinformation and the politicization of scientific findings.

Postpandemic Issues Driving Medical Cost Increase

Although COVID-19 is still an important and costly medical issue, payers are now seeing increased demand for many other services. During the height of the pandemic, many patients delayed elective care, neglected chronic conditions, and avoided interacting with the healthcare system to minimize exposure to COVID-19, and they are now increasingly seeking care for many of these issues.[1] As an example, in early 2023, UnitedHealth reported that it expected its medical loss ratio (MLR) to reach or exceed its full-year target of 82.1% to 83.1%. UnitedHealth reported that the "MLR increase is because medical activity is normalizing after COVID-19 kept seniors away from nonessential care."[2]

In addition, more than 180 million Americans became infected with the virus, and more than 1 million died.[3] In a recent study, commercially insured children and adults diagnosed with COVID-19 (cases) in April to August 2020 were matched with those without a COVID-19 diagnosis (controls) in a 1:4 ratio.[4] The researchers showed total direct medical costs for COVID-19 patients were 1.7 times higher for children and 1.46 times higher for adults over the 6 months following infection.[4]

Another important additional factor is long COVID. Estimates prepared by Dr David Cutler at Harvard University show that between 22% and 38% of patients with COVID-19 may have ≥1 symptom of long COVID.[5] According to this analysis, this may translate to $528 billion in additional medical costs over 5 years.[5] It is easy to see that payers will be challenged with managing this near perfect storm of rising medical costs in the wake of the pandemic.

Increasing Pressure by Hospitals and Providers to Raise Prices

Price Waterhouse Cooper's Healthcare Research Institute is projecting a 7% growth of medical costs in 2024, affecting both individual and group markets. This growth is higher than what was projected for 2022 and 2023, which was 5.5% and 6.0%, respectively.[6] According to the Kaiser Family Foundation, the average cost of commercial health insurance in 2022 (the last full year of data) for a family of 4 was $22,463.[7] Thus, by 2024 the cost of family healthcare will approach $27,000.

One of the biggest drivers of this increase is the pressure by physicians and hospitals for rate increases in their contract negotiations with payers.[6] Providers of healthcare at all levels are feeling the pressure from high inflation, rising wages, and other costs, which are only compounded by clinical workforce shortages in the postpandemic era.[6] These pressures will cause providers at all levels to attempt to negotiate increased rates with insurance carriers.[6] Even the largest systems have not been immune to financial pressures. For example, Mass General Brigham recently reported a $432 million operating loss in 2022 due to the impact of COVID-19, rising labor costs, and generally sicker patients.[8] In addition, physicians are currently facing a fee cut by Medicare due to the decrease of the conversion factor by 3.34% that will happen on January 1, 2024.[9] The result will be that they will turn to commercial insurers for increased reimbursement.[6] What this means for payers is increasing pressure (particularly from self-funded customers) to manage these cost increases and to find cost savings elsewhere.

The Continued Growth of Specialty Pharmaceuticals

In 2021, the total prescription drug expenditure for the United States was approximately $577 billion, up 7.7% over 2020, and by the end of 2022 that number was $634 billion. In 2023 that number may eclipse $700 billion.[10]

At the time of this writing, the FDA has approved 32 new drugs. Of these, 21 are specialty pharmaceuticals, which include new treatments for such diverse conditions as Friedreich ataxia, Alzheimer disease, Merkel cell carcinoma, geographic atrophy, and alopecia areata.

In 2021, spending on specialty drugs was $301 billion and represented approximately 50% of total US drug spend.[11] According to the Artemetrx 2021 State of Specialty Report, specialty spending was $1295 per member per year.[12] In the period between 2008 and 2021, launch prices for new drugs increased by 20% per year. In 2020 to 2021, 47% of new drugs were initially priced above $150,000 per year, representing the impact of expensive specialty pharmaceuticals on pharmacy spending.[13]

Payers will be challenged to find more effective ways of managing costly drugs going forward. Some relief will happen in 2023 with the introduction of biosimilars to adalimumab, but it is yet to be determined how much impact this will have on specialty drug cost trends. Innovative programs, such as newer benefit designs to make generic and biosimilar specialty drugs more affordable for patients; data tracking; and analyses of specialty drug prescribers, patients, and patient support programs, will be needed to help payers manage this growing trend.

The Unknown Impact of the IRA

The IRA will undoubtedly have a widespread effect on health plans, but much of that impact is still being determined. The bill changes how drug prices are negotiated, when members will receive $0 cost-sharing, and what benefits they will receive. Some aspects of the legislation may serve to lower drug costs to payers whereas others will likely increase payer costs. A good example of the latter is the elimination of the 5% catastrophic coinsurance in 2024 and the reduction of the catastrophic coverage threshold from $7050 to $2000 in 2025.[14] This means that Medicare Part D and Medicare Advantage plans will be required to absorb this difference in cost for members with chronic conditions.[15] To compound this, the law also puts a 6% cap on Part D premium growth from 2024 to 2029, limiting payers' ability to increase rates.[14] Another provision of the act allows the Centers for Medicare & Medicaid Services to negotiate pricing on certain Part D drugs beginning in 2026, and Parts B and D drugs beginning in 2028.[14] Whereas this has the potential for lowering drug costs on selected Medicare drugs, it is unclear whether this will result in cost shifting and increased cost on the commercial side. Payers will need to carefully analyze the effects of the IRA and develop strategies to effectively manage both their Medicare and commercial specialty benefits in this changing environment.

Medical Disinformation and the Politicization of Science

The rise of social media and access to online information in the 21st century has the potential to be a tool to better educate consumers about their health and healthcare issues. At the same time, the internet has the potential to facilitate the spread of misinformation and potentially cause harm. The COVID-19 pandemic showed that false or misleading health-related information can dangerously undermine the response to a public health crisis. To highlight the costs associated with disinformation, a 2021 Johns Hopkins study reported that between 2 million and 12 million people were unvaccinated due to medical misinformation.[16] According to the study, the reduction in vaccinations resulted in $50 million to $300 million excess cost per day during the height of the pandemic.[16] An example of the impact of political influence on medical science can be found in a 2023 retrospective study by Wallace and colleagues that showed a 43% increase in the death rate (and presumably cost) from COVID-19, following availability of the COVID vaccine, among patients registered with one major political party when compared to patients from the other major party.[17] Payers will need to work with providers and their members to either provide or help direct them to credible sources of medical information.

Conclusion

With national healthcare expenditures projected to rise from $4.7 trillion in 2023 to $4.9 trillion in 2024, US payers will continue to face challenges about how to effectively bend the cost curve and balance cost, quality, and access for their members.[18] The issues in this article are some of the more important challenges that payers will face in an increasingly complex environment, but they are not the only ones. As the cost of care relentlessly increases, payers will need to look for innovative solutions to effectively manage growing costs.

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