

# Extreme Makeover for Healthcare in 2011?

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NEW YORK, Dec. 20, 2010 /PRNewswire/ -- Health organizations will undergo a strategy makeover in 2011 as they react to new rules and payment models, continuing cost pressures and new customer demands, according to the Top Health Industry Issues of 2011, published today by PwC's Health Research Institute. But in a recent nationwide survey of 1,000 U.S. adults, PwC found that consumers don't fully understand or buy-in to all the changes.

Each year, PwC's Health Research Institute identifies the top issues that will influence the health industry agenda in the year ahead, based on PwC's insight as a leading advisor to public and private organizations across the health industries. For 2011, the top issues are:

1. Record spending on health information technology in 2011 is likely to increase demand for skilled HIT professionals, an expanded role for chief information officers and increased merger and acquisition activity among organizations looking to share the cost and benefits of HIT integration.
2. Significant changes in benefit plan design, plan pricing and the health plan landscape can be expected as insurers adapt to new medical loss ratio. In spite of the ruling this month on the constitutionality of the individual mandate, states will have to continue moving forward on developing health insurance exchanges.
3. New risks and opportunities may emerge as payment models shift from fee-for-service to new models that focus on performance, health outcomes and shared cost savings in accountable care organizations.
4. Health organizations may feel the trickledown effect of decreased utilization by price sensitive consumers.
5. A further uptick in merger and acquisition activity is one way health organizations may share administrative burdens and IT investments, gain market share and fill strategic gaps.
6. Pharmaceutical companies see an opportunity to increase their visibility with consumers, influence health outcomes and reduce healthcare costs while increasing revenue using digital strategies and technology. The use of mobile health and wireless technologies by all health organizations is expected to continue to surge.

"Health organizations are placing their bets on the future direction of healthcare and making decisions that will position their businesses for competitive advantage," said Daniel Garrett, principal, PwC's health industries technology (HIT) Practice. "Some organizations will undergo an extreme makeover while others will stay the course or refine existing strategies. Whichever path they take, all health organizations will be under pressure to deliver greater value for less, and they will face new risks and realities as business models and market players emerge."

As part of its research for the Top Health Industry Issues of 2011, PwC surveyed consumers about their point of view on reform-related issues. Highlights of this research include:

- The American workforce considers health insurance coverage an important factor in their choice of an employer, but most don't know the value of the benefit. Nearly three-fourths of consumers would trade employer-sponsored health insurance for higher pay, and more than half (56 percent) would opt to buy insurance from a health insurance exchange if they could get better coverage.
- Less than half of consumers surveyed know what a health insurance exchange is.
- Only half of consumers said they would stay within an accountable care-type group for all of their care, a risk to health organizations assuming greater accountability for health outcomes.
- Currently, 86 percent of consumers do not access their medical records electronically, despite vast investments in EHRs and high hopes that consumers will use EHRs to participate in shared medical decision-making.
- Forty-four percent of consumers think mergers and acquisitions among providers will lead to increased costs, and 36 percent think it will lead to longer wait times.

"Health organizations are engaged in a lot of activity, but the success of their efforts ultimately depends on the engagement of consumers – who are at the center of many of the policy goals for health reform," added Garrett.

Following is a more in-depth look of PwC's top issues for health industry organizations in 2011:

### **1. Booming business in Health Information Technology (HIT)**

The HIT spending boom is driven by (1) federal requirements that hospitals and physicians meet at least stage one requirements for the meaningful use of electronic health records to qualify for federal stimulus funds in 2011; (2) an aggressive timetable for massive upgrades in back-office infrastructure to comply with new medical coding requirements that will add five times the number of diagnosis and inpatient codes and require providers and payers to use the new HIPAA 5010 electronic transaction format, which will require more than 1,300 system modifications by January 2012; (3) final FDA rules that will require online reporting of adverse events related to medical devices, resulting in possible new tracking technology throughout the supply chain.

Stage one "meaningful use" requirements mean hospitals and physicians must be able to provide patients with an electronic copy of their health record upon request. But consumers are not asking. Nearly half of consumers (49%) surveyed still call their doctor's office to request paper medical records. While the policy goal of EHRs is to allow consumers to participate in shared medical decision-making, only 13 percent of consumers have ever been asked for input into what they would like to see in their electronic medical records or how they would like to use them.

### **2. Gearing up to redefine health insurance: From MLRs to insurance exchanges**

The health reform law now requires health plans to spend a minimum of 80 to 85 cents of every premium dollar on medical care and health care quality improvements, depending on the size of the plan. If health plans spend less than the minimum threshold, they must give customers a rebate beginning in 2012. According to PwC, this would require an unprecedented level of actuarial precision for rate-setting, and insurers may opt to pay rebates rather than under price their products in the first year. Many insurers already are contemplating new pricing and rebate scenarios for group plans. At the same time, many employers are contemplating the advantages of employer-sponsored health coverage as health insurance exchanges come online. PwC anticipates a high level of state legislative activity as employers, health plans and states begin to work together in 2011 to define and develop health insurance exchanges.

### **3. ACOs: Is this the next big thing or not?**

Accountable care organizations have created buzz in the industry that this is the next big thing for population health management. But 2011 could be a make-it-or-break-it year for ACOs depending on Congressional action. In anticipation of new performance payment incentives, health organizations are positioning themselves to participate in ACOs and share risks and rewards of keeping people healthier. While ACOs hold great promise for reduced costs and improved quality, the challenge will be keeping people in the ACO and engaging them to stay healthy, which could be the difference between profit and losses. PwC's research found significant demographic and geographic differences in consumers' willingness to seek all their care within ACO-like organizations, indicating the need for consumer segmentation strategies.

### **4. Nowhere else to cost shift: Consumers could continue to reduce utilization**

Higher health insurance premiums, steeper deductibles and larger coinsurance mean consumers are spending more out of their own pockets for healthcare, and 60 percent of consumers surveyed by PwC expect to pay even more in the future. Yet cost shifting may have reached the end of the line as increased price sensitivity has caused consumers to cut back on utilization. PwC forecasts a trickledown effect, starting with physicians and pharmaceutical companies as consumers reduce office visits and drug spending, followed by reduced sales of other medical products, fewer lab tests, imaging scans and other diagnostics. The danger lies in whether short-term cost avoidance could lead to more expensive conditions long term.

### **5. M&A: Deals will bond the familiar and unfamiliar as organizations look to fill strategic gaps**

Mergers and acquisition activity among all the healthcare sectors are expected to continue to trend upward in 2011. Within the pharmaceutical and life sciences sectors, PwC expects deals to focus on strategic mid-market transactions valued between \$100 million to \$500 million; international growth could yield larger transactions. Increased consolidation is expected among payers, physicians are aligning with hospitals, hospitals are merging with other hospitals and health systems, and recent deals reflect blurring of the lines between the payers and providers sectors. Competition for acquisitions is likely to come from private equity funds investing in healthcare. Though consumers are wary of the benefits of M&A, many seem open

to new provider alliances. Seventy-eight percent of consumers said they would prefer to use a retail clinic partnered with a local hospital for primary care services versus only 22 percent who would prefer an independent company owned by a retail pharmacy.

## **6. Follow-me healthcare: Patients look to health organizations that are always on**

The mobile health market is growing exponentially as health organizations use wireless and remote technology to interact with patients anytime, anywhere. To influence patient outcomes, organizations have to engage patients and understand how to connect with them. Healthcare organizations are spending tons of resources to produce online content, yet PwC found that consumers are three and a half times more likely to go to the media and third-party information service companies for information about treatments and conditions than to any other site, especially pharmaceutical company web sites. Only 11 percent of the people PwC surveyed said they would go to a pharmaceutical company for health information. Pharmaceutical companies have typically been removed from the end user of their product, but by understanding online preferences and adopting multi-channel strategies to meet consumers on their terms, pharmaceutical companies see an opportunity to significantly increase their visibility.

A full copy of PwC's Health Research Institute's Top Health Industry Issues of 2011 is available for download at [www.pwc.com/us/tophealthissues2011](http://www.pwc.com/us/tophealthissues2011)

### **Methodology**

*This annual report discusses the top issues for health industry organizations including healthcare providers, health insurers, pharmaceuticals and life sciences companies and employers. In fall 2010 PwC's Health Research Institute commissioned an online survey of 1,000 US adults representing a cross-section of the population in terms of insurance status, age, gender, income, and geography. The survey collected data on consumers' perspectives on health reform topics and preferences related to their healthcare usage and payments.*

### **About PwC's Health Research Institute (HRI)**

PwC's Health Research Institute ([www.pwc.com/hri](http://www.pwc.com/hri)) is an unparalleled resource for health industry expertise. By providing cutting-edge intelligence, perspective and analysis on issues impacting the health industry, HRI assists executive decision-makers and stakeholders worldwide in navigating their most pressing business challenges. PwC is one of the only firms with a dedicated global healthcare research unit.

### **About PwC's Health Industries Group**

*PwC's Health Industries Group ([www.pwc.com/healthindustries](http://www.pwc.com/healthindustries)) is a leading advisor to public and private organizations across the health industry, including payers, providers, academic institutions, health sciences, biotech/medical devices, pharmaceutical companies, employers*

*and new non-traditional market participants in the dynamic healthcare space. PwC has a network of more than 4,000 professionals worldwide and 1,200 professionals in the U.S. dedicated to the health industries.*

*PwC's' Health Industries' clients include 40 of the top 100 hospitals in the U.S. and 16 of the 18 best hospitals as ranked by US News & World Report; all 20 of the world's major pharmaceutical companies; all of the top 20 commercial payers in the U.S.; municipal, state and federal government agencies and many of the world's preeminent medical foundations and associations. Follow PwC Health Industries at <http://twitter.com/PwCHealth>.*

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