

# Top seven health industry trends in '07\*

PricewaterhouseCoopers' Health Research Institute

## Overview

We all know that our health system is ailing. Health industry leaders widely acknowledge that rising costs and unequal access threaten system sustainability, and they point to fixes such as increased transparency of quality and pricing information and health information technology.<sup>1</sup>

Consumers have slightly different thoughts about what's driving the system to the brink of sustainability: greed. To forecast the top issues in the year ahead, PricewaterhouseCoopers Health Research Institute commissioned a survey of 1,000 consumers in October 2006. When asked what was causing rising healthcare costs, 90% of consumers said greed. It ranked first, ahead of other factors commonly identified by industry leaders such as administrative paperwork, medical malpractice, and the uninsured. (See Exhibit 1).

Perhaps consumers are angry and frustrated. Perhaps they do not appreciate the complexity of healthcare as a business. Certainly this trend indicates that the health industries are not immune to consumer skepticism of a system in transition. After all, one of the most powerful trends in healthcare is putting more consumer "skin in the game."

Regardless, this finding underlines why in 2007, consumers' attitudes must be addressed. Health executives must bring fresh insight and innovation to address consumers' views and re-establish trust in the

industry. They will need to manage both the internal workings of their organizations and their position in the external marketplace. And they will need to apply their technical business knowledge and skills, as well as communicate their value in simple laymen's terms.

Based on its own research, PwC's Health Research Institute has identified areas of concern for health executives and policymakers in the coming year as they move their organizations forward and tackle problems facing the industry as a whole.

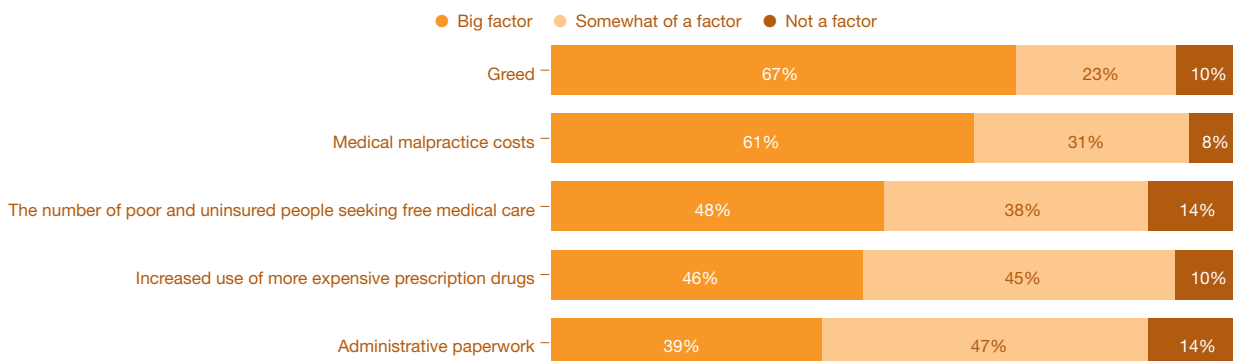
The following is PricewaterhouseCoopers Health Research Institute's picks for the top seven health industry issues in 2007 and the underlying consumer viewpoints:

## 1. States take the initiative

In the presence of federal gridlock, states are taking the lead on such divisive issues as covering the uninsured, funding stem cell research, and regulating pharmaceutical marketing. Massachusetts, Vermont, and Minnesota all have crafted regional solutions for universal coverage. The number of uninsured in these three states is a fraction of those in Texas alone, but such pilots could provide important lessons. The real test could come in Louisiana, which is debating how to reconfigure its health system and cover the uninsured in the wake of the hurricanes. To nourish a robust biotech industry, California is making a \$3-billion investment in stem cell research, prompting

### Exhibit 1

What's the cause of the rising cost of healthcare in the United States?



Source: 2006 PwC Health Research Institute Consumer Healthcare Survey

similar proposals by legislators in a dozen other states.<sup>2</sup> States also see a growing role for themselves in regulating how pharmaceutical companies market to physicians. Such gift laws have been passed in six states and proposed in 15 others.<sup>3</sup>

Despite these bold efforts, only 10% of consumers surveyed by PwC believe states can solve issues like coverage for the uninsured; and only a quarter think states should be funding stem cell research. (See Exhibits 2 and 3). Consumers are far more apt to favor federal action on these issues even though the states are taking the lead.

**The bottom line:  
Without any uniform federal legislation, independent local action on healthcare issues can result in a patchwork quilt of regulations across the country.**

## 2. Transparency could be revealing

To help consumers make more informed healthcare decisions, health organizations will need to disclose more information about the cost and quality of the services they provide. The federal government has initiated the

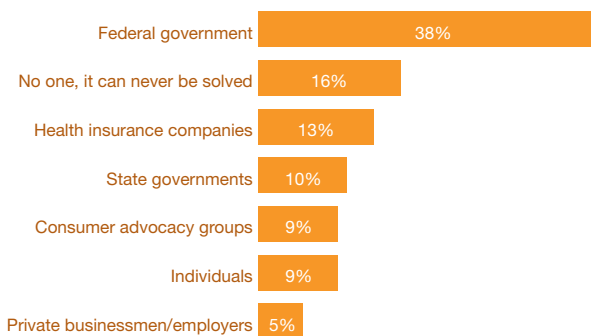
charge toward transparency with an executive order requiring Medicare, Medicaid, the Defense Department, Veterans Affairs, and the Office of Personnel Management (which combined account for nearly 40% of the nation's healthcare purchases) to adopt programs that address interoperability standards, quality measurements, price transparency for public use, and incentives promoting quality and efficiency in healthcare.

Already, 32 states require providers and payers to disclose charge information for certain procedures and make this information readily available to the public; six others have voluntary programs. If passed, the federal Health Care Price Transparency Act of 2006 would require enhanced visibility on pricing via hospital web sites, government reports or upon request. While the federal government has acquainted for-profit companies with transparency through Sarbanes-Oxley, it is now pressuring not-for-profit hospitals to provide new and detailed information around their pricing, charity care, and provision of community benefit.

Transparency works closely with pay-for-performance efforts that are flowering. Hospitals got on the bandwagon when Medicare required that they report certain quality metrics to receive the full inflation update in 2006. Medicare will expand hospital reporting requirements from 10 to 21 core measures, and extend reporting requirements to physicians as well.<sup>4</sup> Consumers are starting to get engaged in quality information. A majority of consumers surveyed by PwC said they have looked

### Exhibit 2

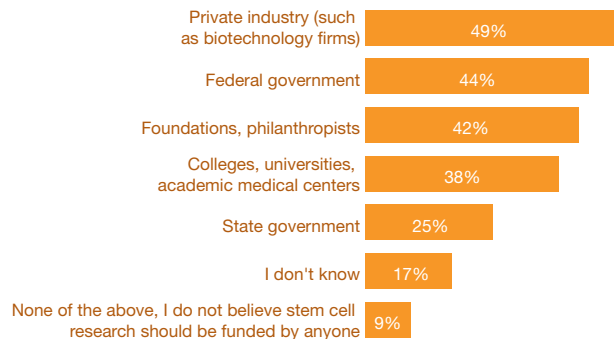
Who is most likely to solve the problem of the growing number of people in the U.S. who lack health insurance?



Source: 2006 PwC Health Research Institute Consumer Healthcare Survey

### Exhibit 3

Who should fund stem cell research in the U.S.?



Source: 2006 PwC Health Research Institute Consumer Healthcare Survey

for information regarding quality. However, most were unaware that the federal government is publishing quality ratings about hospitals (see Exhibit 4).

**The bottom line:**  
**Where the regulators and payers go, consumers will follow; transparency is no longer an option, but a mandatory requirement for doing business.**

### 3. Time to walk the talk on technology

The formation of a digital information backbone is continuing slowly with new governmental standards, a focus on patient identifiers and a shift towards digital hospitals. Back in 2004, President Bush challenged the industry to adopt electronic health records (EHRs) by 2014. EHRs enable patient information to be captured, processed, accessed and shared with greater speed and efficiency, thereby increasing accuracy and patient safety while reducing duplication.

Clearly, the administration’s strategy is to accelerate adoption through interoperability and standard setting. (Some research indicates that healthcare providers will be spending close to \$25 billion on clinical IT alone and \$40 billion on IT in general within the next two years). So far,

fewer than one in 10 physicians is using a fully operational electronic health record, only 24.9% of physicians are using EHRs with basic functionality, and as few as 5% of hospitals have fully functioning computerized physician order entry (CPOE) systems.<sup>5</sup> Federal funds will only go so far, so state funds from both the public and private sectors will be required to make this vision a reality. Currently, 38 states are participating in statewide or community discussions and as many as 21 are leading the coordination of efforts.<sup>6</sup>

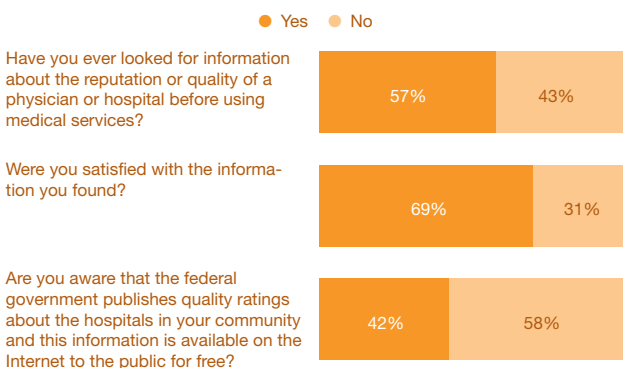
Unfortunately, consumers don’t seem to be pushing the industry or the government. Our survey found that only one-third of consumers thought electronic health records would increase the quality of care they receive, signalling the need for massive public education efforts. (See Exhibit 5).

**The bottom line:**  
**With less than eight years to go to meet the President’s goal, “time is money” couldn’t be a more appropriate a tagline for this watershed healthcare initiative.**

### 4. Consumers take the wheel

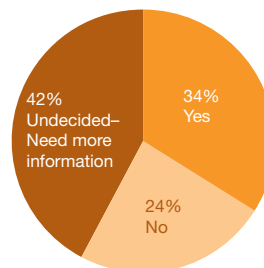
Employers are embracing consumer-driven plans as a way to temper healthcare costs. Significantly higher healthcare costs and less healthy employees are gnawing away at

**Exhibit 4**  
 How do you feel about quality information?



Source: 2006 PwC Health Research Institute Consumer Healthcare Survey

**Exhibit 5**  
 Do you believe that having an electronic health record would improve the quality of healthcare that you receive?



Source: 2006 PwC Health Research Institute Consumer Healthcare Survey

both ends of the productivity equation, putting American corporations at a global disadvantage. Consumerism focuses on providing information to employees and corporations in order to empower the patient (consumer) to make better healthcare decisions and also help control rising costs. Consumer-driven benefits often package a high-deductible health plan with a health savings account (HSA) and/or health reimbursement arrangement (HRA). In many plans, preventive care is paid for with a small or no deductible or copayment. Although consumers' annual out-of-pocket expenses are typically higher, they are able to build savings for future medical expenses with tax advantages. With only about 35% of employers sponsoring retiree health insurance<sup>7</sup> and many of those struggling to fund this liability, many employees see consumer-driven health plans as a way to save for retirement.

While only 3 million Americans are currently in consumer-directed plans (compared to 240 million in other private plans), many industry observers expect enrollment in these new benefit designs to increase. But what's being done in the name of consumers may be without their blessing; PwC's survey indicates that of a variety of steps that could be taken to control healthcare costs, people are least supportive of paying more out of pocket (see Exhibit 6). And early results on these plans have been mixed - with some reporting high satisfaction and lower costs, and others raising concerns of discontent and delays in care.<sup>8</sup> Will these plans really help control spending, or simply shift costs from employers to employees? Will consumers make better healthcare choices and lead healthier lifestyles to reduce healthcare costs as indicated in the survey response below, or

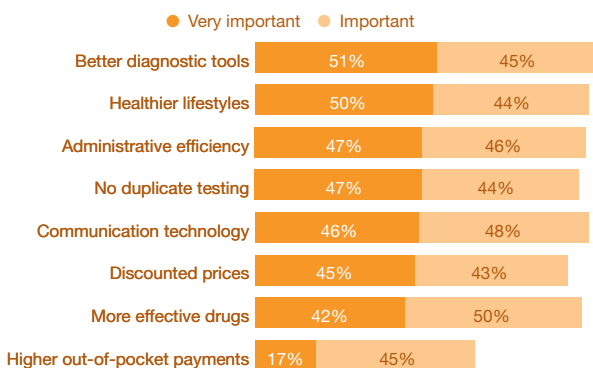
forego needed care and contribute to increased costs in the long-run? Does early evidence of success reflect the ability to effectively incent people in all age groups, or simply the "cherry picking" of relatively young, healthy individuals?

**The bottom line:**  
**As more individuals enroll in these plans in 2007, word-of-mouth about them could determine their future success or failure.**

## 5. Price check

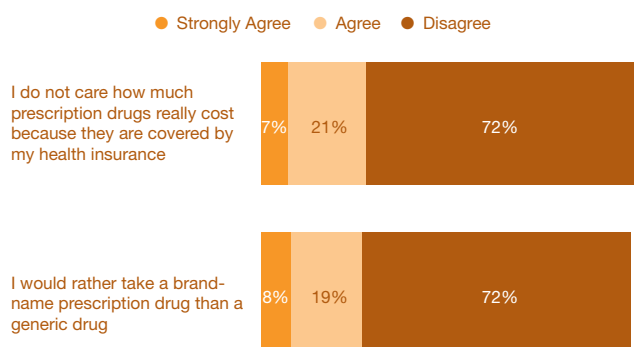
One of the biggest challenges for today's large pharmaceutical companies is posed by generic drugs. With 42 blockbuster drugs losing their patents in 2007 (representing \$82 billion in sales)<sup>9</sup>, the pharmaceutical industry is facing a potential loss of market share to generics and a continued decline in profits. Results from PwC's consumer survey indicate that the public is quite aware of and sensitive to drug prices, perhaps due to relatively high cost sharing and price transparency of pharmaceuticals, relative to other health services. As depicted in Exhibit 7, few respondents are loyal to brand name drugs over generics or are shielded from drug costs by their insurance coverage. Generics currently account for more than 50% of all prescriptions written,<sup>10</sup> and this figure could increase as Medicare beneficiaries become more sensitive to the price of drugs through their Part D drug plans.

**Exhibit 6**  
 How can we reduce the cost of healthcare in the United States?



Source: 2006 PwC Health Research Institute Consumer Healthcare Survey

**Exhibit 7**  
 How do you feel about pharmaceutical drug prices?



Source: 2006 PwC Health Research Institute Consumer Healthcare Survey

While pharmaceutical companies have traditionally possessed a relatively high level of pricing flexibility, the rising specter of patent expiration on a number of blockbuster products is requiring that companies adopt innovative pricing strategies. These include new rebate strategies to make brand drugs more competitively priced, marketing their own generic products<sup>11</sup> and selling “authorized generics” — brand name drugs priced as generics. At the same time, the pharmaceutical industry could face increased scrutiny and price regulation in 2007 (e.g., state legislation, Medicare Part D), and if the public believes that pharmaceutical companies, in their efforts to block generics, are consuming resources that could otherwise have been spent developing innovative drugs, pharmaceutical company reputations will continue to suffer.

**The bottom line:**  
**Drug pricing will continue to face increased public and government scrutiny in 2007.**

## 6. Obesity is the new smoking

When smoking was raised as a costly public health issue, the government started with education, then moved to regulation and mandates. The efforts worked. The percentage of U.S. smokers declined from 30% to 22% over the past 20 years. Will government or private sector payers attempt to similarly force those Americans who are obese to lose weight? Obesity is projected to lead to 400,000 deaths annually, and individuals who are classified

as obese have 30% to 50% more chronic medical problems than those who smoke or drink heavily.<sup>12</sup>

Employers and health plans are offering a whole menu of weight loss programs and incentives. Providers are offering weight loss surgery and counseling.

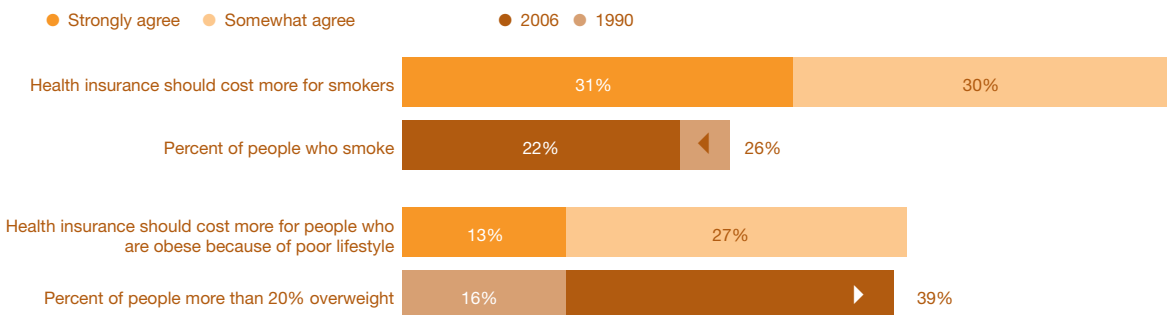
However, public attitudes still have a way to go. As shown in Exhibit 8, consumers are less supportive of financial incentives that target obesity than they are of measures that discourage smoking, although less than one-fourth of Americans smoke while two-thirds are overweight. Public health campaigns in 2007 will push the envelope on obesity. Several states want to decrease costs through new laws that support healthy behaviors and promote physical activity via alternative commuting and tax incentives.<sup>13</sup>

**The bottom line:**  
**The war on obesity will be “big”, with anti-obesity efforts coming from all directions; health organizations can lead, join, or get left in the dust.**

## 7. Small is big

Despite its nearly trillion-dollar girth, the healthcare service business will continue to behave like a cottage industry in 2007. The march to a more consumer-friendly model is prompting clinicians and large retailers to team up in selected U.S. regions to create retail medicine. In early 2006 about 90 clinics were operational, with hundreds of store openings planned before 2007. As the trend

**Exhibit 8**  
 How do you feel about obesity and smoking as a driver of health costs?



Sources: 2006 PwC Health Research Institute Consumer Healthcare Survey  
 Harris Interactive, Healthcare News, Volume 6, Number 2, March 28, 2006

continues, “minuteclinics” will be commonplace as their business models have shifted to accept insurance.<sup>14</sup> Consumers like the convenience, but that’s not all they want. As shown in Exhibit 9, patients also value quality of care and price in deciding where to receive care.

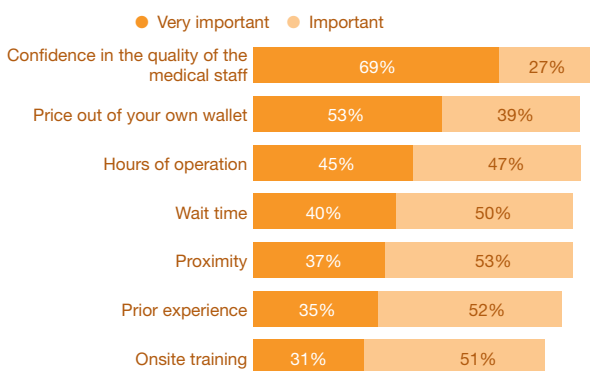
Surgery centers and small specialty hospitals will continue to abound. With 130 specialty hospitals in operation, more are under construction, predominantly in the South and the West. While the specialty hospital ban is off, new reimbursement rules could level the playing field as outpatient specialty services and specialty hospitals are required to disclose physician ownership and compensation arrangements to CMS and to accept emergency patients (facilities permitting) regardless of their ability to pay.

On the biotech front, small is in vogue with venture capitalists focused on growth. In 2006, the biotechnology sector attracted the highest amount of funding since 2002, receiving 14% more dollars in the first two quarters of 2006 than in 2005, and a 13% increase in the number of deals from venture capital associations.<sup>15</sup> Biotech attracts funding because the market sees the innovation in life sciences as a solid foundation for return on investment.

**The bottom line:  
Private equity investors will fund the next generation of innovation in services and treatments, challenging larger competitors that lack market agility.**

**Exhibit 9**

What do you consider in deciding where to go for non-urgent medical care, such as for a sore throat, ear ache or flu?



Sources: 2006 PwC Health Research Institute Consumer Healthcare Survey

## Conclusion

Whether we stand on the inside of the health industry looking out, or outside looking in, we all agree — the current state isn’t sustainable and major change is required. Now more than ever before, health leaders will need to enhance their operations and their reputations. Failure to close the gap between how consumers view the industry and how the industry views itself could be devastating to both. There are a myriad of issues facing health organizations and opportunities for executives to address them, but solutions must move beyond business issues. Rather, healthcare is a people business. To be sustainable, health organizations must communicate and connect with their customers through innovative approaches and fresh perspectives — beginning in 2007.

## About PricewaterhouseCoopers

Committed to the transformation of healthcare through innovation, collaboration and thought leadership, PricewaterhouseCoopers Health Industries Group offers industry and technical expertise across all health-related industries, including providers and payers, health sciences, biotech/medical devices, pharmaceutical and employer practices.

The firms of the PricewaterhouseCoopers global network provide industry-focused assurance, tax and advisory services to build public trust and enhance value for clients and their stakeholders. PricewaterhouseCoopers has aligned its professional service offerings around the future direction of the health system. By applying broad understanding of how individual, specialized sectors work together to drive the performance of the overall health system, the Health Industries Group is positioned to help clients, industry and governments address changing market forces of globalization, consumerism, consolidation and expansion, regulation, technology, workforce and margin compression.

### Health Research Institute

PricewaterhouseCoopers’ Health Research Institute provides new intelligence, perspective, and analysis on trends affecting all health-related industries, including healthcare providers, pharmaceuticals, health and life sciences, and payers. The Institute helps executive decision-makers and stakeholders navigate change through a process of fact-based research and collaborative exchange that draws on a network of more than 3,000 professionals with day-to-day experience in the health industries. The Institute is part of PricewaterhouseCoopers larger initiative for the health-related industries that brings together expertise and allows collaboration across all sectors in the health continuum.

Upon request, PricewaterhouseCoopers will present any of the report findings and additional survey details to industry boards, executive teams, at board retreats and during leadership forums as well as industry associations and conferences. For more information and copies of the complete reports, please contact PricewaterhouseCoopers at 800-211-5131 or visit: [pwc.com/healthcare](http://pwc.com/healthcare), [pwc.com/pharma](http://pwc.com/pharma), [pwc.com/lifesciences](http://pwc.com/lifesciences) or [pwc.com/hri](http://pwc.com/hri).

## Endnotes

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