Medical cost trend:
Behind the numbers 2019

Chart pack
Medical cost trend fell for seven years before stabilizing around 6 percent

*HRI recalibrated its estimates for 2017 and 2018 down from those reported in the Medical cost trend: Behind the numbers 2018 report.
Source: PwC Health Research Institute medical cost trends 2007–2019
Health spending growth has stabilized in the last decade

Growth in national health expenditures and private health insurance spending, 1961–2016

Note: Data have been adjusted for inflation.
Source: PwC Health Research Institute analysis of CMS national health expenditure data and Bureau of Labor Statistics data
Healthcare expenditures as shares of GDP and wages have doubled since the 1980s

<table>
<thead>
<tr>
<th>Year</th>
<th>National Health Expenditures as a Share of GDP</th>
<th>Employer Health Spending as a Share of Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961–1970</td>
<td>$4%</td>
<td>$4%</td>
</tr>
<tr>
<td>1971–1980</td>
<td>$6%</td>
<td>$6%</td>
</tr>
<tr>
<td>1981–1990</td>
<td>$8%</td>
<td>$8%</td>
</tr>
<tr>
<td>1991–2000</td>
<td>$10%</td>
<td>$10%</td>
</tr>
<tr>
<td>2001–2010</td>
<td>$12%</td>
<td>$12%</td>
</tr>
<tr>
<td>2011–2019</td>
<td>$14%</td>
<td>$14%</td>
</tr>
</tbody>
</table>

Note: Employer health spending data are available starting in 1988, so they're not included in this figure before the 1980s.
Source: PwC Health Research Institute analysis of CMS national health expenditure data and Bureau of Economic Analysis data
Growth in disposable personal income, adjusted for inflation, is on the rise and projected to peak in 2018; the largest impacts will be seen in increased healthcare spending in 2020 and 2021.

Source: PwC Health Research Institute analysis of Congressional Budget Office data.
Generic drug approvals are steadily rising at the FDA

Note: Approvals calculated based on federal government fiscal year running Oct. 1- Sept. 30.
Source: PwC Health Research Institute analysis of FDA generic drug approvals
Recurring forces affecting medical cost trend in 2019

Healthcare-specific drivers:

- **Medical technology and innovation**: New health technologies can improve outcomes and patient satisfaction but tend to cost more than existing ones.

- **Drug spending**: Specialty drugs and gene therapies typically apply to a small segment of the population but at a high cost that can impact employer spending.

- **Government regulation**: In 2019, the industry may experience more uninsured and underinsured individuals due to the elimination of the individual mandate penalty, efforts to expand the use of non-ACA compliant health plans, and state Medicaid work requirements.

- **Payment models**: Health plans have seen improved quality and cost outcomes from value-based payment arrangements and will continue to push for them.

Economywide drivers:

- **Demographics**: As baby boomers age, they have more health needs and higher healthcare costs.

- **Social factors and lifestyle**: Unaddressed social factors of health such as economic stability and education can impact utilization patterns and care decisions, while poor wellness and prevention habits are drivers of poor health.

- **General inflation**: As economywide input prices go up, so do healthcare prices.

Source: PwC Health Research Institute analysis
Employers increasingly are offering add-on, high-touch points of care such as executive health exams and on-site health clinics, while low-touch points are offered broadly by employers.

*Data on health coaches offered in 2018 are unavailable because Touchstone 2018 did not ask this question.

Consumers are seeking care outside of the traditional doctor’s office

Percent of consumers indicating they are likely to choose the following care options for themselves if they cost less than the traditional options

- Send a digital photo of a rash or skin problem to a dermatologist for an opinion: 56% in 2018, 51% in 2016
- Have a live visit with a physician via smartphone: 49% in 2018, 42% in 2016
- Have stitches or staples removed at a clinic in a retail store or pharmacy: 45% in 2018, 44% in 2016

Source: PwC Health Research Institute consumer survey, summer 2016 and winter 2018
HRI projects 93 percent of most metropolitan hospital markets will be highly concentrated by 2019

Source: PwC Health Research Institute analysis of the Herfindahl-Hirschman Index for hospital markets
Recent deals between providers are massive in size and geographic coverage

$11B
Advocate Health Care / Aurora Health Care
Based in:
Downers Grove, Ill. 3 million patients  Completed
Milwaukee 1.2 million patients

Mass. Hospitals:
- Beth Israel Deaconess
- Lahey Health
- New England Baptist
- Mount Auburn
- Anna Jaques

Based in:
- Boston
- Burlington, Mass.
- Boston
- Cambridge, Mass.
- Newburyport, Mass.

8 care locations
53 care locations
6 care locations
127 care locations
3 care locations

Pending

$28.4B
Dignity Health / Catholic Health Initiatives
Based in:
San Francisco 9,200 hospital beds
Englewood, Colo. 13,000 hospital beds
Pending

$5B
Presence Health / Ascension
Based in:
Chicago 150 care sites  Completed
St. Louis 2,600 care sites

$25.2B
Greenville Health System / Palmetto Health
Based in:
Greenville, S.C. 15 hospitals  Completed
Columbia, S.C. 7 hospitals

Note: States where one of the pre-merger entities does business have been shaded to show the geographic span of these large deals. States with more than one color have entities associated with more than one merger.

Source: Largest hospital and health system deals announced in 2017 and early 2018

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Many provider executives are considering merging with or acquiring different types of care facilities within the next five years

<table>
<thead>
<tr>
<th>Facility Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled nursing facilities</td>
<td>70%</td>
</tr>
<tr>
<td>Outpatient facilities</td>
<td>60%</td>
</tr>
<tr>
<td>Retail clinics</td>
<td>50%</td>
</tr>
<tr>
<td>Home health care agencies</td>
<td>40%</td>
</tr>
<tr>
<td>Acute rehabilitation hospitals</td>
<td>30%</td>
</tr>
<tr>
<td>Community hospital/health systems</td>
<td>20%</td>
</tr>
<tr>
<td>Hospice agencies</td>
<td>10%</td>
</tr>
<tr>
<td>Not-for-profit hospital/health systems</td>
<td>0%</td>
</tr>
<tr>
<td>Academic medical centers</td>
<td>50%</td>
</tr>
<tr>
<td>For-profit hospital/health systems</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: PwC Health Research Institute provider executive survey, 2017
Physicians in the first 10 years of their careers have higher levels of interest in being employed than their counterparts who have been practicing for more than 10 years

Physicians indicating interest in employment by each of the following

- **Multi-specialty group**: 74% (10 years of experience or less), 58% (More than 10 years of experience)
- **Single specialty group**: 82% (10 years of experience or less), 75% (More than 10 years of experience)
- **Hospital or health system**: 79% (10 years of experience or less), 64% (More than 10 years of experience)

Source: PwC Health Research Institute clinician survey, 2018
On the heels of a severe flu season, lower utilization and expenditures may deflate trend by 22 basis points

*2019 predicted % of total spending is based on predicted flu-related mortality rates.

Source: PwC Health Research Institute analysis of Centers for Disease Control and Prevention data, Medical Expenditure Panel Survey data, and Healthcare Cost and Utilization Project data
Seventy-eight percent of primary care physicians saw an increase in appointments over the past six months related to the flu

Ways primary care physicians managed the increase in appointments

- Directed patients to urgent care if they could not see the patient: 51%
- Extended their clinic hours/days: 49%
- Provided care to patients over the phone: 41%
- Directed patients to the emergency room if they could not see the patient: 36%
- Prescribed flu medication over the phone: 36%
- Increased clinician staffing: 30%

Source: PwC Health Research Institute clinician survey, 2018
Employers increasingly are offering health advocacy programs

Source: PwC Health and Well-being Touchstone surveys, 2016-2018
By improving coordination with health advocacy and navigation firms, physicians expect to see the greatest impact to their organizations in the following areas

- Improved quality outcomes (e.g., increased drug adherence, disease management): 42%
- Improved patient experience: 38%
- Decreased costs from increased care efficiency: 26%
- Decreased readmissions to hospital: 26%
- Decreased admissions to hospital: 25%
- Decreased inpatient length of stay: 22%
- Decreased post-acute care length of stay: 8%

Note: Physicians were asked to select the top two areas of greatest impact.
Source: PwC Health Research Institute clinician survey, 2018
More employers have implemented high-performance networks compared with four years ago

Performance-based networks

- 2014: 34% Implemented, 3% Considering
- 2018: 34% Implemented, 11% Considering

Percent growth in implemented: +267%

Direct contracting with providers or ACOs

- 2014: 5% Implemented, 21% Considering
- 2018: 9% Implemented, 23% Considering

Percent growth in implemented: +80%

Source: PwC Touchstone Health and Well-being surveys, 2014 and 2018