

Healthcare Forecast 2023: 10 Trends for Board Members and Senior Leadership

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Uncertainty and an Unstable Healthcare Environment

As hospitals and health systems diversified and immigrated forward and backward in the continuum of healthcare, the number of companies they compete with increased—many being well-funded and having more resources available to take market share.

It is well-documented that health systems experienced strong headwinds for the past two years. The areas creating the biggest cost issues include labor (travelers, registry, or temporary staff), salaries, wages, and benefits (SWB), drugs (especially specialty drugs, now 40 percent of dispensary revenue),¹ supply chain issues, lower volumes, and recently, inflation and interest rate increases (causing debt to be more expensive).

Adding to these headwinds are the current uncertainties of the flu virus, COVID variants, and respiratory syncytial virus (RSV). These flare-ups and surges are causing strain on the hospital capacity (with many lacking enough beds) and staffing, especially nurses. Investment losses have also hurt health systems and hospitals, making donations a top priority. Evidence of these struggles were reported by HCA Healthcare, Tenet Healthcare, Universal Health Services, and Community Health Systems during October 2022 (identifying the factors listed previously as the cause



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¹ Shubham Singhal and Neha Patel, “The Future of U.S. Healthcare: What’s Next for the Industry Post-COVID-19,” McKinsey & Company, July 19, 2022.

for missing earnings targets).² This article provides our list of the top trends and implications for health system and hospital governance and management teams.

1. Cybersecurity:

- Anticipate more cyber attacks and greater ransoms requested in 2023.
- Health data breaches reached a record level in 2022, affecting nearly 50 million patient records.

In the boardroom:

- Expect to see requests for additional funds for cybersecurity budgets to protect patient data, provide greater security, and remain compliant with evolving regulations.
- Have a cybersecurity plan in place and use an outside organization to review.
- Educate and train staff to constantly be aware of threats, phishing emails, and other attacks, as well as on ways to avoid HIPAA violations to maintain confidential, secure data.

2. Labor unrest and workforce challenges:

- A repeat from last year because healthcare organizations will deal with this tumultuous issue throughout 2023.
- Expect more strikes, high wage increases, and enhanced benefits. Costs and shortages are going up again. Except we now see shortages of physicians, nurses, and other clinical personnel.
- There is no short-term increase of any significance that will positively impact the workforce supply.

In the boardroom:

- Ensure that your financial scenario models and budgets consider the impact of anticipated increases in salaries, wages, and benefits due to inflation, merit and cost-of-living increases, travelers, locums, bonuses, and anticipated union contract changes going forward.
- Consider development of your own staffing pool or a shared pool with other hospitals.

3. Inpatient volumes will decline again:

- There will be continued movement to ambulatory and home care.
- Value-based payment systems will push more care into less costly care delivery sites because economic incentives will impact physician behaviors.

2 Nick Thomas, "How HCA, Tenet, CHS, and UHS fared in Q3," Becker's Hospital CFO Report, November 1, 2022.

- Continued worries by the public over virus outbreaks and surges will scare patients away from the hospital and emergency room for fear of getting infected.
- The decline in inpatient utilization will continue, despite an aging population, increasing chronic disease, improved access due to effective care models incorporating social determinants of health (SDOH), and delayed patient care from 2021 and 2022.

In the boardroom:

- Be vigilant in tracking trend lines that show shifts in volume and revenues for inpatient, ER, outpatient, and post-acute care.
- Correlate this data with payer mix shifts (see item five below), as well as market share and service line specific performance data. This information should be used to drive strategy regarding partnerships, consumer outreach, patient experience, and contracting activities. Look for raw number changes versus a general decline in the market.

→ Key Board Takeaways

- Update your strategic plan with a focus on being essential to payers, patients, providers, and a leader in excelling at value-based care performance.
- Manage costs amid the volatility.
- Invest in your cybersecurity strategy—be very proactive in preventing breaches.
- Model strategic and financial scenarios using key variables (payer mix, volume shifts, impacts of disruptors, possible competitor strategies and alliances) to stay on the leading edge of competitive positioning tactics.
- Be patient and flexible—curve balls (unforeseen) will be coming at your organization.

4. Value-based care will continue to slow and be refined:

- CMS will continue to roll out more care models with associated payment systems that will reward improved quality and cost reduction.
- Health plans, in conjunction with physician organizations, will also develop new payment systems to incentivize care models that result in lower-cost and better quality by providing economic rewards to the physicians.
- At some point, payments will have to level off or decline to benefit the overall spend.

In the boardroom:

- Ensure that value-based reimbursement and terms of risk sharing consider inflation and other cost accelerators that may arise in the future.
- Explore partnerships with appropriate entities to ensure aligned financial and clinical incentives among all parties.
- Track management efforts to improve patient experience and engagement, outcomes, quality indicators (top decile), and lower per unit and total cost of care.

5. Payer mix will continue to deteriorate:

- As the population ages, the Medicare payer mix will increase as a percentage of patients.
- As people continue to reevaluate their work/life balance and stay home, as evidenced by the large number of job openings, people will use Medicaid programs or health insurance exchanges instead of employer health insurance. Some of this unemployed workforce may not have insurance and choose to self-insure. As expected, HMO and PPO health plans will lose members due to the employment situation.
- Physicians are scheduled to suffer a payment reduction in 2023 from CMS.
- CMS will offer a payment increase of 4.3 percent in the fall of 2023 to CMS designated “birth-friendly” hospitals that participate in national or state collaborative programs where public health leaders and medical teams work together to improve care.³

In the boardroom:

- Scrutinize financial and operations reports and updates to detect changes in payer mix for all categories (Medicare, Medicaid, HMO/PPO, commercial, self-pay, and others) and service line types.
- As revenue per unit stalls, reduce expenses accordingly.
- Correlate these shifts to your strategic and service-line specific plans, expense reduction tactics, and revenue cycle activities.

6. Virtual care and artificial intelligence:

- Virtual care, which experienced robust growth during the pandemic, has come in use and is expected to slowly increase again.

3 CMS, “New CMS Rule Increases Payments for Acute Care Hospitals and Advances Health Equity, Maternal Health” (press release), August 1, 2022.

- Mental health will continue to make greater use of telehealth (especially in the ER) as the shortage of psychologists and psychiatrists gets worse. Many of these providers do not want ER call or in-hospital practices.
- Continued growth of wearable health tools by Google, Apple, and others will continue to broaden their uses and integrate better with a patient's medical record and daily activities.
- Breakouts of various viruses will also bolster the use of telehealth.
- Artificial intelligence will continue to see increased use in care algorithms, value-based care models, clinical care treatment protocols, and diagnosis as well as the tried-and-true use in non-clinical areas like revenue cycle.

In the boardroom:

- Support exploring uses of AI in areas such as non-clinical services, oncology, imaging, and other service lines to further standardize care, lower costs, and improve quality.
- Consider partnerships with larger healthcare systems to join their efforts to share data and leverage collective resources to accelerate the development and application of AI to predictive modeling, genetic profiles, and personalized and precision medicine.

7. Mergers and acquisitions will continue to increase:

- As health systems and hospitals struggle under this difficult environment, some will be faced with finding a partner. A partner may be necessary if they lack the ability to make money, can't borrow money for capital projects, can't invest in strategic initiatives, or see the market moving in a different direction than the path their organization is on.
- Efforts to acquire major physician, urgent care, virtual care, and post-acute companies will continue at a robust pace in 2023. Amazon is buying One Medical, CVS is buying Signify Health, Walmart bought MeMD, and Walgreens Boots Alliance invested in VillageMD, bought the rest of CareCentrix, and now is acquiring Summit Health.
- Venture capital and private equity will tighten criteria to invest.
- There will be more cross-over market expansion (horizontal integration) to reduce risk.
- Consumerism will be more focused using greater market segmentation: Clever Care (Asians), Alignment Health Care, and Zocalo Health (Latinos).

In the boardroom:

- As a governing board, have a clear vision of your future desired state— size, revenue targets, geography served (including virtual), partnership types, payer relationships, service breadth, etc.
- Work with management to assess your organization’s ability to successfully fulfill its mission.
- Monitor the evolving market and competitive environment around you. What opportunities and threats do you perceive? How does this impact your short- and long-term strategy?

8. A focus on diversity, SDOH, and governance:

- Health systems and hospitals will continue to pursue diversity within all aspects of their organization. This includes hiring a person responsible for this effort and bringing in more diverse board and committee members, as well as providers and staff/management. The human resources department and board and committee nominating process will be more inclusive and reflect the broader community served by the healthcare organization.
- Collaborating with community organizations or even providing funding for community organizations that can have a greater impact on SDOH will remain a priority for hospitals and health systems.

In the boardroom:

- Take a fresh look at your community health needs assessment (CHNA) regarding SDOH needs and potential solutions and a broader array of mission-oriented partners and community resource organizations.
- Assess the competencies of current board members and identify future gaps and needs; correlate these with diversity expanding opportunities reflective of the communities you serve.

9. Supply chain issues:

- Health systems should be well situated with this topic. Many systems have deepened their relationship with their group purchasing organizations (GPOs) and suppliers. Further they most likely have developed back-up suppliers and moved from just-in-time inventory to self-distribution (more inventory).

In the boardroom:

- Maintain a balanced approach to optimize availability of supplies and reduce costs as you seek to meet current needs and remain prepared for unexpected contingencies and emergencies.

10. Price transparency:

- Price transparency continues to be an issue with the public. They can't seem to get a price that is accurate, and nothing is easy to find or use. Meaningful information remains out of public grasp.
- Expect more action by elected officials to force more meaningful and useful price information.

In the boardroom:

- Assess how “price transparent” your organization is today. Is your pricing information accurate, helpful, easily accessed, and understandable?
- Consider a demonstration at a board meeting of the process that patients go through to access your hospital's price information for a few common procedures and tests. Look at a few of your competitor's pricing information and its ease of access and clarity.

Conclusions

Boards and management face a daunting 2023. With strong headwinds, health systems and hospitals will need to make sure they have an updated strategic plan. Paul Keckley recently highlighted the need for boards to be accountable to the strategic plan stating that, “studies show the active engagement of boards in strategic planning is lacking.”⁴ Boards and management will need to revisit other plans as well, including fundraising, capital, and operations. Organizations will need to respond to well-funded disruptors in the healthcare market as they expand and seek market share growth with significant resources.

2023 will be a difficult year with financial challenges (e.g., inflation, costs, staffing) having a significant negative impact on hospitals. This will cause some hospitals to look for partners as well as cause some to reign in their capital plans and borrowing. Lastly, board members and the management team may experience higher-than-usual turnover given the difficult environment in which health systems and hospitals operate.

4 Paul Keckley, “The Three Blind Spots in Hospital Strategic Plans,” *Keckley Report*, October 31, 2022.

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