



Healthcare Forecast 2021: 10 Trends Board Members and Senior Leaders Must Know

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2021 will be the year to redefine and redesign healthcare delivery—as a nation, as communities, and as providers and delivery systems.

The hospitals, health systems and medical groups that will be sustainable and thrive will build upon financial, operational, and strategic lessons learned from the pandemic experience. The trends we predicted for 2020 largely hold true for 2021, although COVID-19 put some of our predictions on “hiatus” for several months. As a result, several of this year’s trends have been pulled forward with updates from the 2020 list. The implications for board response “in the boardroom” are more focused, intensified and demanding of action. This year, board members and senior management will need to respond by considering operating cost reductions, new innovations and strategies to respond to environmental changes, the continuing impact of COVID-19, and the change in the White House administration.

Questions remain about the effects of COVID-19 through 2021. These include divisive views regarding COVID-19 vaccination, uncertainty about safety, changed patterns of access and availability of care, economic and racial disparities, and potential impacts on Medicaid payments due to state budget deficits. Given these uncertainties, following is our list of the top trends and implications for governance in 2021.

1. Private Sector as a Catalyst for Change

At this crossroads where COVID-19 is still raging as vaccines are being distributed, the private sector is poised and ready to implement many of the sweeping changes required to redesign healthcare finance and delivery. Employers, disrupters, and consumers alike are aligned on the need to fundamentally change the way for which healthcare is provided and paid. This includes the continued shift away from inpatient admissions and toward retail, digital, telehealth, wearables, outpatient, and home care settings, particularly as more providers move toward population health and risk-based contracting. Moreover, with an unknown direction of the economy (pandemic recovery), more baby boomers will continue to age into Medicare and retirement, causing a knowledge drain and human resource shortage. This will further cause innovation in healthcare to reduce the need for human labor and automate more tasks to machines.

In the boardroom:

- Track Biden policy changes (ACA, Medicare eligibility at age 60, others).
- Provide support for appropriate expansion of telehealth and digital care.
- Monitor the percent of the population getting the COVID-19 vaccination.

2. Diversity at All Levels

Diversity initiatives are being given more attention and resources in response to the increasing social awareness and pressures of society. This transition will accelerate as baby boomers retire. Many organizations have designated an individual to lead this effort. The effort extends beyond employees and management to the care givers. These efforts are starting with additions to board and committee membership, senior leadership ranks, employee hiring, and caregiver recruitment. Consumers expect their needs to be met with cultural sensitivity to the specific health concerns of the demographic populations in the service area, while still expecting quick, convenient, and efficient access through Web site searches or apps and treatment from employees that reflect their demographic profile.

In the boardroom:

- Does your organization have a diversity plan? Has this plan been shared with the employees, management, and the board? Is a person designated to lead this effort?
- Conduct planned discussions regarding board and overall organizational diversity; identify gaps relative to the demographic and socioeconomic makeup of the community.
- Take steps to ensure that board members and others understand why diversity matters and how it impacts decisions and the overall culture regarding diverse community needs.
- Ensure that the organization's Community Health Needs Assessment addresses social and economic disparities.

3. Consumer Experience and Brand Identity

2021 will require improvements in brand identity in the market. How does the public think of your organization? High quality? Expensive? The best? Fast and easy to use? Consistent care with minimal variation? State-of-the-art? The preferred choice for emergency care? Boards and senior management will need to address their brand honestly as they survey the market and take realistic stock of how they stack up to competitors. The strategy is to improve quality, possibly reduce costs, and obtain positive recognition that the level of care has improved through the co-branding (which includes certain performance expectations: use of care protocols, medical directors, policies and procedures, telehealth, AI tools, access to clinical trials, etc.).

In the boardroom:

- Explore the potential benefits of co-branding and affiliation with partners that can accelerate and elevate your brand identity and awareness to drive preference for your services.
- If you have a strong brand, explore the potential benefits of reaching out to other organizations that could use brand-improvement assistance and that will strengthen your brand by virtue of your alignment.
- How are you engaging and retaining patients?
- What are the organization's strategies for social media, marketing, community relations, and physician alignment and collaboration?

4. Cost Reduction and Total Cost of Care

Healthcare costs, excluding the unknown impact of COVID-19, are expected to rise about six percent (versus about two percent for inflation and three percent in wage growth) in 2021, about the same as 2018 through 2020. This increase is occurring despite the hard-fought efforts to reduce costs by health plans, consumers, providers, and clinicians. The non-COVID-19 increases in healthcare costs are attributed to costs of new technology, new treatments, new drugs, new procedures, the public wanting immediate access to diagnosis and/or treatment (many nations with lower costs limit/delay access to care), and unhealthy lifestyles and health status.

Hospitals are facing greater price transparency pressure from the government and the public. Additionally, the high unemployment caused by COVID-19 has reduced the commercially insured population and increased the Medicaid and ACA ranks, which have a lower provider payment rate resulting in reduced revenue per patient. People paying the bills want to know what their healthcare choices cost them. Price transparency is a cornerstone to the efforts to reduce the total cost of care (including drug costs and use of generics). As the public's percentage of healthcare costs go up,

they become more price sensitive and tend to become more educated and ask questions about the need for tests and other treatments, as well as the accuracy, explanation, and fairness of their prices.

In the boardroom:

- Accelerate efforts to reduce the total cost of care through using fewer resources, using less expensive resources (sites of care: home health, ambulatory, post- acute, telehealth), and ensuring an open supply chain, buying supplies, equipment, etc., at a lower cost.
- Address staffing, benefit costs, salary reductions of non-clinical staff, use of more automation.
- Does your strategic plan assertively embrace population health strategies as well as responsibilities for social determinants of health?
- Monitor if Biden expands ACA subsidies and Medicare eligibility at age 60.

5. Provider Shortages

As caregiver baby boomers retire or cut back their work schedules, turnover and vacancies will increase. This will cause hospitals and health systems to focus on employee diversity hiring, retention, and recruitment actions. This will also cause wages to begin to increase faster than inflation. The shortages may contribute to an increase in use of travelling and contingent workers, which will also cause staffing costs to go up. We might also see the use of more remote digital interactions between caregivers and the patient. COVID-19 has forced many employees to work remotely, use telehealth, and change hours of availability (as children stay home for safety reasons). This will have a bigger impact on physicians as the “old school doctors” retire and are replaced by the younger “manage my lifestyle” doctors who are not, as a group, willing to put in the same number of work hours. Expect private equity firms and IPOs to fund start-ups in the area of machines and technology that will reduce the need for and use of humans to perform work. Expect physician, nursing, and allied professional shortages to increase. The largest shortage is expected with home health aides, especially as more care is driven to homes using remote monitoring and virtual communications technology innovations.

In the boardroom:

- Does your diversity plan focus on the recruitment of caregivers that mirror the socioeconomic profile of the service area population?
- Proactively anticipate potential leadership voids in management as well as board members and ensure that succession plans are in place and up to date.
- Ensure that your medical staff needs assessment plan is up to date.
- Monitor labor costs, productivity trends, unfilled openings, and retirement of staff (especially nursing and allied professionals); ensure that strategies are in place to address them. This will include exploring use and adoption of non- human resources to increase productivity.

6. Cybersecurity/Information Technology

The adoption of artificial intelligence (AI), blockchain, and machine learning will continue its advance as new applications are discovered. Private equity firms and innovators will keep pushing these technologies forward and find new and better uses to apply in healthcare, both clinical and non-clinical. We expect that uses in the back office and revenue cycle will continue to improve and grow, while enhanced use in clinical diagnosis and treatment will come into play. The development of 5G will bolster integration of big data analysis and processing with remote use and telehealth, and clinical use. Concern over cybersecurity will continue (more breaches are likely) and efforts to defeat invasions will increase along with resources in defense. We expect growth in the use of wearables, telehealth, and remote monitoring. As payment for new technologies, population health, and value-based care models increase, these tools will be adopted to assist with the reduction of emergency room use and active intervention with patients suffering from chronic ailments. Expect more innovation, partnering, and competition from Amazon, Google, Microsoft, Apple, and others in this area as they apply new technology uses into care delivery, access, and respond to patients’ needs and expectations.

In the boardroom:

- Ensure that a comprehensive plan is in place for an integrated IT infrastructure to optimize AI tools, analytics, and data to improve quality, value, patient experience, and lower cost.
- Constantly monitor your organization's efforts with cybersecurity, increased training of staff, and use of IT defensive tools to prevent harmful software (ransomware, malware) invasions.
- Have a plan in place that addresses use of AI, machine learning, informatics, and other analytic capabilities to translate data into information to accomplish the goals above.

7. Consolidation and Closures

Despite baby boomers getting older and requiring more healthcare, the per capita inpatient use of hospitals will continue its downward slide from over the past 20 years, mostly as a result of fewer admissions and less from length of stay reductions. Providers have done a very good job of reducing hospital length of stay using care protocols, hospitalists, caregivers, discharge planners, and the development of post-acute care services. The fight for market share will still be a key focal point for hospitals and health systems. The decline in hospital use directly impacts the increasing use of post-acute, ambulatory, outpatient, and home care. Health systems will evaluate the closing and repurposing of underutilized facilities to new ambulatory or post-acute use, or even housing for the homeless to address social determinants and their role in the use of healthcare resources. The smaller-sized mergers may slow down, as many of these targets have already been acquired, while some of the bigger health systems will continue to explore mega-mergers with other large systems in the never-ending quest for greater scale.

In the boardroom:

- What is your vision regarding size, scale, and independence/ alliance?
- Continue to monitor, assess, and address the key drivers of mergers, including insufficient access to capital, poor payer mix, service area population decline, inability to attract physicians, and lack of resources needed to compete in the market.
- What is the organization's plan to attract volume? Acquire medical groups? Additional ambulatory sites? Acquire other hospitals or clinics?

8. Growth of Value-Based Payment Models

Medicare, along with health plans and employers, will continue to introduce payment incentives that will encourage new care models focused on improving the patient's experience and engagement, while improving value through better outcomes at a reasonable cost. Health systems and hospitals will innovate and adopt new ways of delivering care (e.g., telehealth, digital health, greater emphasis on mental health), monitor the patient's experience, and seek to continuously improve. We expect more "two-sided risk payment models" for non-capitated populations through clinically integrated networks (CINs), ACOs, bundled payments, and creation of high-value networks developed separately by both providers and payers. For health systems and hospitals that have experience in these new care models, there will be an attempt to focus on improving performance and shoring up weak spots. The move into value-based care will push right into population health initiatives and require exploring new strategies and partnerships to address social determinants, including housing, transportation, and food security. This push will surface the gaps and needs in the mental health arena and require investment and partnerships to address.

In the boardroom:

- Improve performance in new payment models to lower costs and improve outcomes (strive for top quartile or decile), patient experience, and satisfaction. (This will be more difficult in 2021 as consumer expectations will increase and patients will have higher demands for faster response to their needs, convenience, use of digital tools, and communication.)
- Ensure that you have a clear strategy for population health.
- Monitor Biden health policy and reimbursement changes and prepare for potential impacts.

9. Vertical and Horizontal Integration

Hospitals, health systems, and physician organizations will continue their horizontal expansion into new geographic areas, jettisoning lower-performing business entities in certain markets or service lines. Integration will continue through cautious ambulatory expansion via new delivery sites or modes (telehealth, digital, home, hospital) and access points (e.g., urgent care, retail clinics, ambulatory surgery centers, mobile platforms, and imaging centers). Many providers facing an uncertain or predictable future may choose to sell now while they have some value versus losing more value. With health plans and Medicare expanding coverage of telehealth, and the increasing use of telehealth due to COVID-19, telehealth expansion will be augmented using mobile and digital outreach services, especially in poorer and rural areas of the country. We expect to see cautious movement to partnerships or co-branding of services between community hospitals and either single-specialty or academic medical centers. Lastly, we anticipate seeing more work-site access points.

In the boardroom:

- Take a higher-level strategic view of your hospital/health system's current and future potential competitive position and role in your marketplace. For what geography will you take responsibility?
- Do your strategies address additional access modalities of care delivery, as well as consider partnerships and alliances that could expand and accelerate population health-related financial, clinical, and operational capabilities?
- Does the organization have a robust ambulatory and post-acute care strategy that will acquire struggling providers in the marketplace?

10. Inpatient Decline; Growth in Outpatient, Telehealth, and Alternative Settings

Absent COVID-19, two-sided risk and value-based payment methods will force the continuation of the per capita decline in inpatient admissions and readmissions. The length of stay (LOS), which has been reduced through the efforts of nurses and physicians for years, has hit a saturation point where there is little room left to improve. Physicians, through incentives (economic and ratings), have become more engaged in the cost of care and seek to maximize their value to patients. Look to new entrants such as Walmart, CVS, Amazon, Google, Haven, Apple, and others to enter the market with a focus on reducing costs and improving value. The decline in use of hospitals along with the unknowns of a possible recession, COVID-19, and reduced Medicaid payments, could force mergers, closures, and repurposing facilities to alternate use (e.g., COVID-19 treatment units).

In the boardroom:

- Assess the potential of disrupters in your service area to siphon off patient revenue and volume.
- Assess new care models and expansion of value-based care initiatives as a new source of revenue.
- Monitor private equity investment in new healthcare delivery products and services.
- Create a robust ambulatory strategy that addresses niche markets and micro-consumer segments.
- Reduce expenses due to COVID-19, reduced Medicaid payments, and lower patient volumes.

Beyond “New Normal” to an Extraordinary Future

Success in 2021 and beyond will require that governing boards and senior leaders deliberately look to the future with a clearly defined strategic vision that pulls the hospital/health system or medical group forward with optimism, realism, and authenticity. They will need to think differently, plan differently, be flexible and agile, deliver care differently, and act with a greater sense of urgency than in the past. By building on the pandemic experience and refusing to accept the new normal or status quo, leadership teams can and must identify opportunities amidst crisis, and lead with confidence toward the future challenges that are yet on the horizon.

The Governance Institute thanks Steven T. Valentine, M.P.A., President of Valentine Health Advisers, and Guy M. Masters, M.P.A., Principal at Premier Inc. and Governance Institute Advisor, for contributing this article. They provide keynote presentations on trends, strategies, and governance issues at board retreats and conferences, and facilitate impactful strategic planning processes. They can be reached at stv189.sv@gmail.com or (818) 512-0349 and Guy_Masters@premierinc.com or (818) 416-2166

Key Board Takeaways

- Identify specific strategies to become essential in your marketplace (to payers, patients, providers).
- Update the hospital/health system's strategic plan to specifically address the impacts and lessons learned (financial, operational, strategic, and cultural) from the COVID-19 experience.
- Assess if your market is more vulnerable to incursions and disruptions from both traditional and non-traditional providers (retail, telehealth, venture capital, Google, Apple, Amazon, others).
- Examine if the organization is able and willing to take on more financial risk and/or become more aggressive regarding Medicare risk models. (Model potential scenarios and financial impacts.)
- Identify what additional tools, technology, and decision support resources are required to reduce total costs of care, and improve quality, access, and patient experience.
- Monitor new White House healthcare policies

