PwC Health Research Institute

Medical cost trend: Behind the numbers 2022

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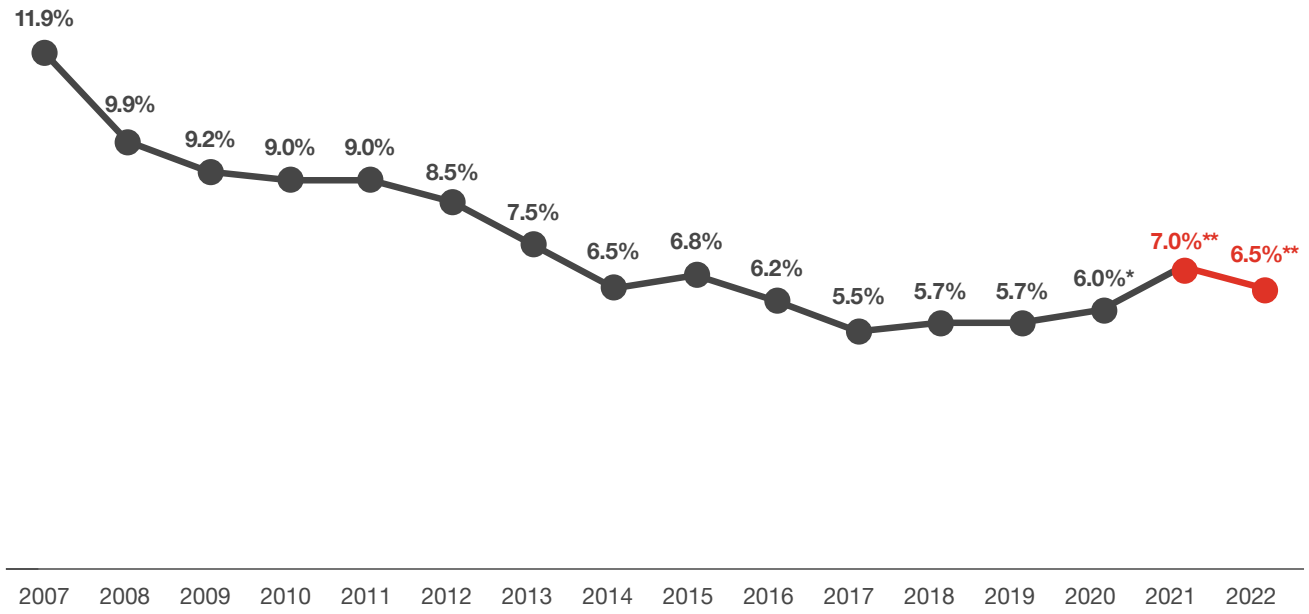
Chart Pack

Figure 1: HRI projects medical cost trend to be 6.5% in 2022, down from 7% in 2021



Source: PwC Health Research Institute medical cost trends, 2007-22
*Projected medical cost trend. Does not account for the effects of the pandemic on actual 2020 spending.
**Growth in spending expected over prior-year spending, with the effects of the pandemic removed from the prior-year spending. See report Appendix for details.
Note: The 7% medical cost trend for 2021 was revised from a range of scenarios, from 4% to 10%, originally projected in PwC Health Research Institute's "Medical Cost Trend: Behind the Numbers 2021" report in June 2020. This revision reflects the average medical cost trend that was used for 2021 premium rate setting in 2020, shared with HRI during interviews conducted February–May 2021. Please see report Appendix for details on this revision and more information on the effects of the pandemic on the medical cost trend projection and healthcare spending.

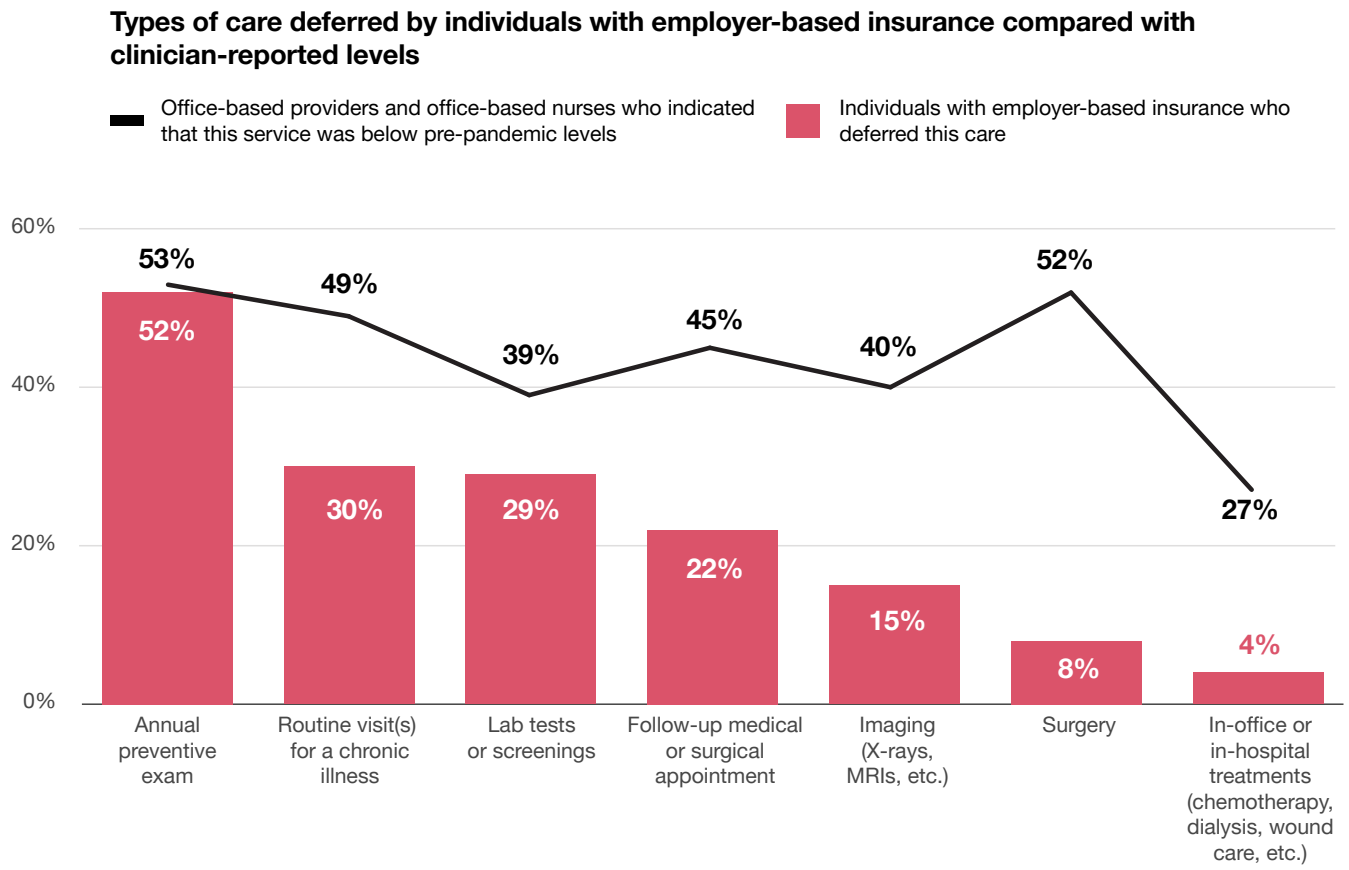
Figure 2: Care deferred during the pandemic that comes back in 2022 could be higher acuity, higher cost than it would have been in 2020

Type of care	Examples	Spending impact 2020	2021	2022
Forgone, not coming back	• Annual preventive care visit • Diagnostic lab or imaging that is no longer needed • Surgery that has been replaced with a less intensive intervention	↓	↓	/
Deferred, coming back in the same form	• Knee surgery • Sinus surgery • Other non-urgent but necessary procedures	↓	↑*	↑
Deferred, now requires more intervention	• Delayed cancer screening that catches stage 3 cancer that could have been caught at stage 1 • Prediabetes that worsens into diabetes	↓	↑*	↑

↓ Decreased utilization and spending ↑ Increased utilization and spending / No expected impact

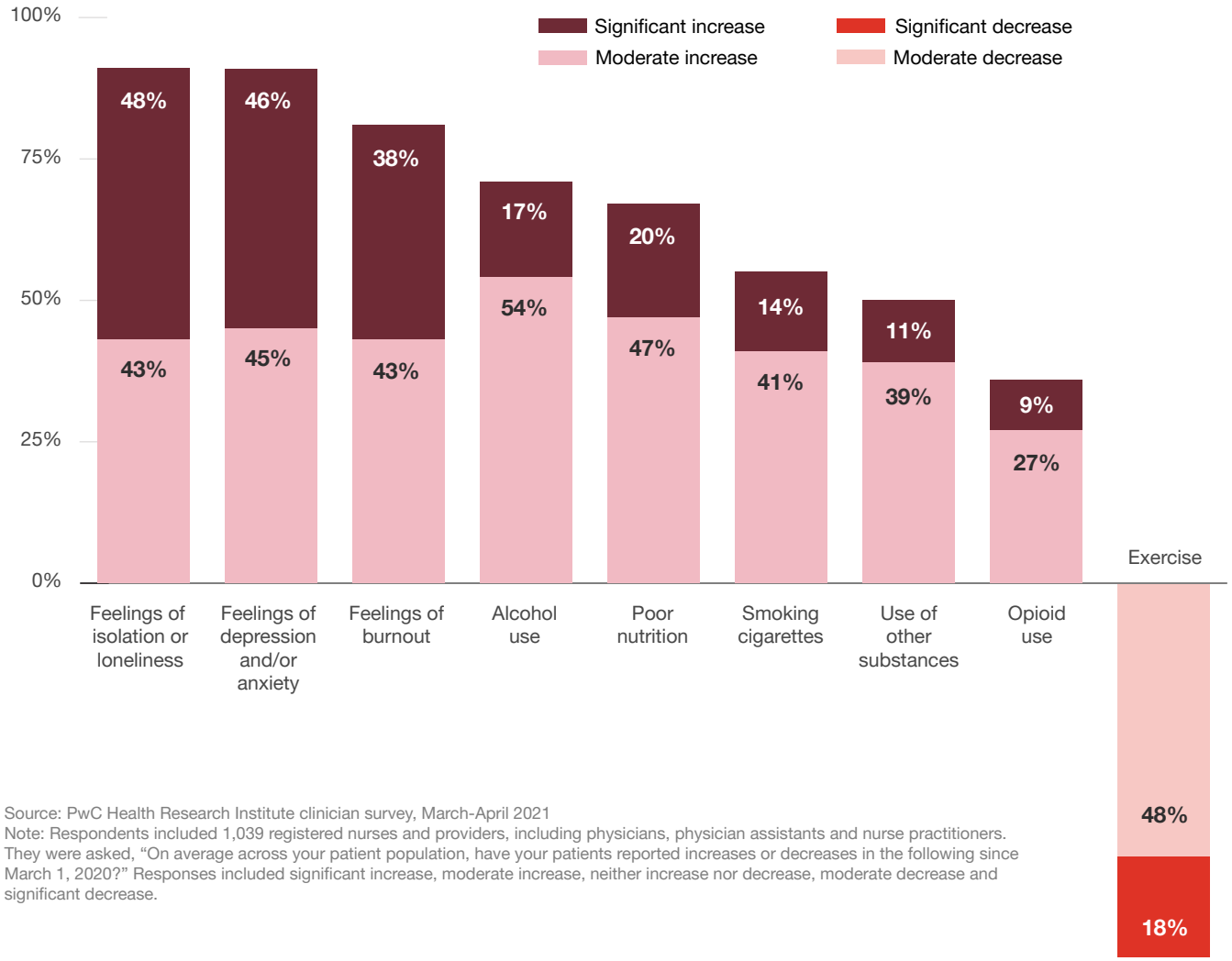
Source: PwC Health Research Institute analysis of interviews with executives at employer coalitions, healthcare coalitions and health plans, February-May 2021
Note: The spending impacts reflect the impact on spending in a given year compared with what would normally have been expected in that year if there had not been a pandemic.
*Initial dampened utilization and spending expected during the first half of 2021 with an increase in utilization and spending during the second half of the year, netting to a cumulative increase for the year.

Figure 3: During the first six months of the pandemic, individuals with employer-based insurance most commonly deferred their annual preventive visits



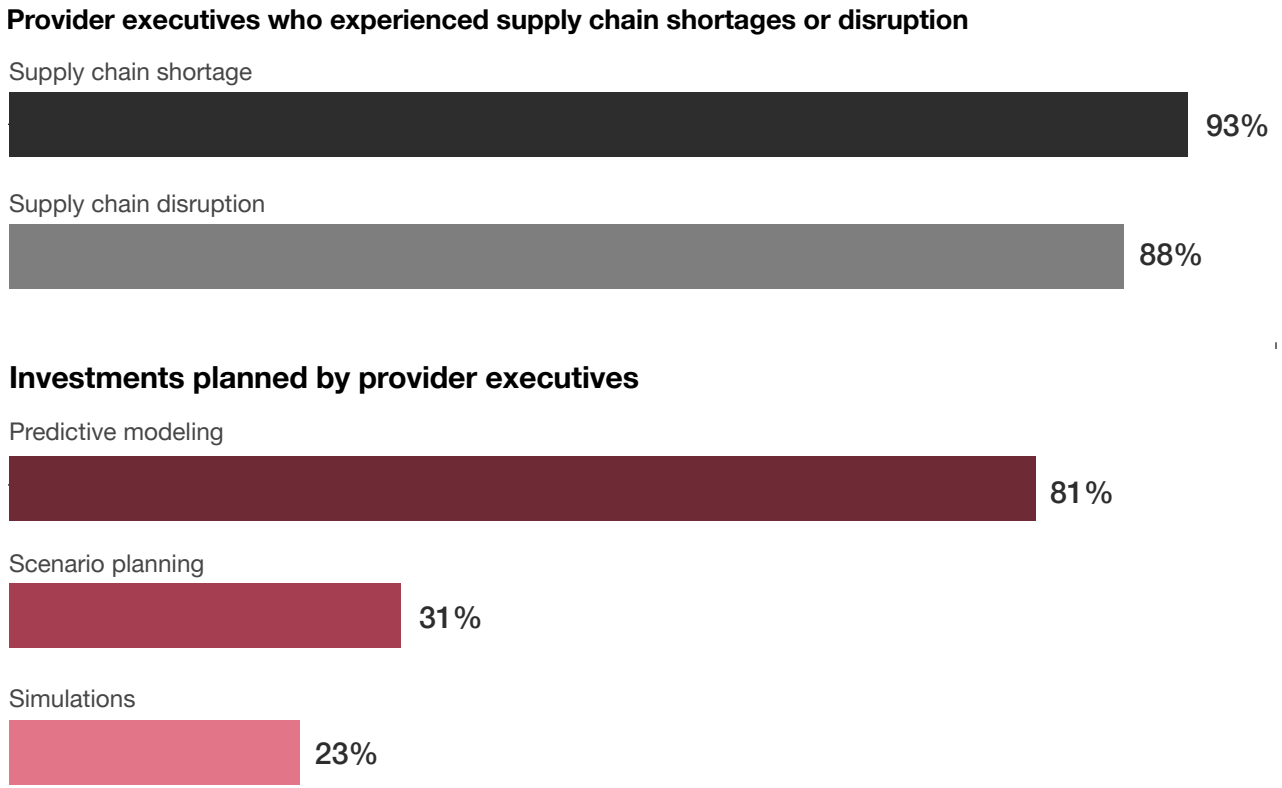
Source: PwC Health Research Institute clinician survey, March-April 2021, and PwC Health Research Institute consumer survey, September 2020
Note: Based on responses from 168 individuals with employer-based insurance who said they had delayed some care since March 1, 2020, and still had not received it as of September 2020; and from 752 office-based providers and office-based nurses who indicated where patient volumes for certain services were as of March-April 2021 compared with before March 1, 2020 (pre-pandemic). Office-based providers include providers (physicians, physician assistants and nurse practitioners) working outside a hospital setting and in a specialty other than hospitalist or intensivist. Office-based nurses include registered nurses working outside a hospital setting and in a specialty other than acute care nursing.

Figure 4: Providers and nurses report increases in alcohol use, smoking, poor nutrition and loneliness among their patients during the pandemic



Source: PwC Health Research Institute clinician survey, March-April 2021
Note: Respondents included 1,039 registered nurses and providers, including physicians, physician assistants and nurse practitioners. They were asked, "On average across your patient population, have your patients reported increases or decreases in the following since March 1, 2020?" Responses included significant increase, moderate increase, neither increase nor decrease, moderate decrease and significant decrease.

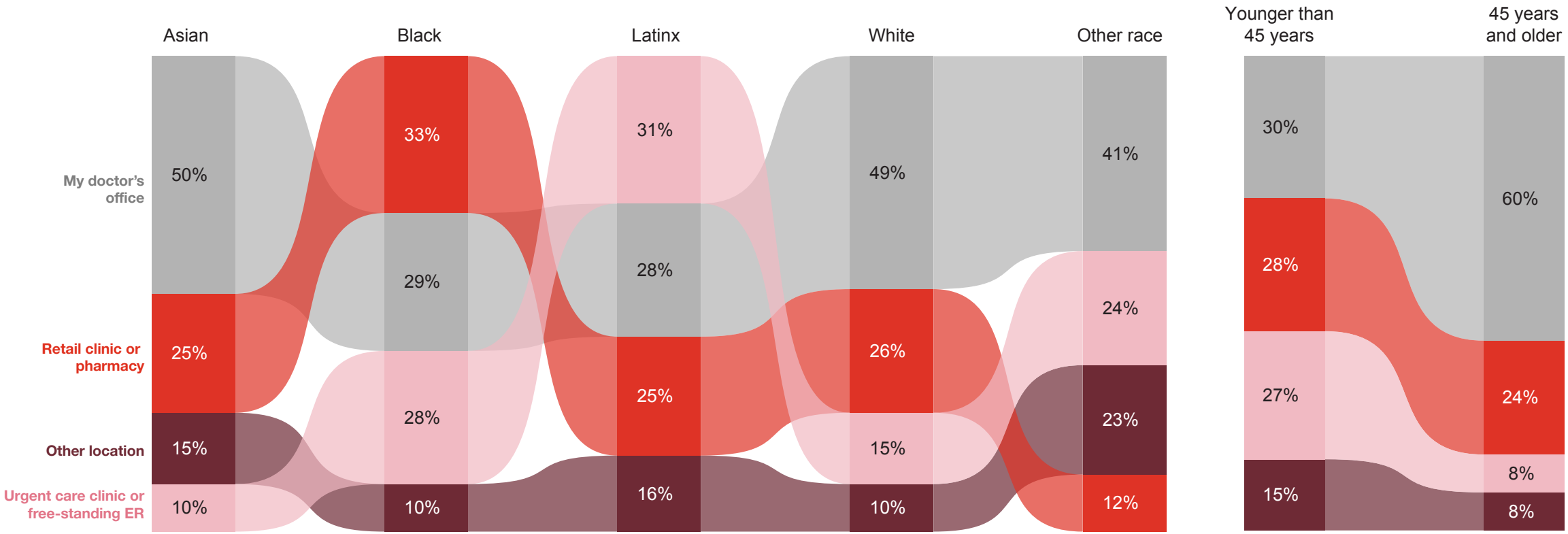
Figure 5: Provider executives report significant supply chain shortages and disruption due to the pandemic, plan to invest in better forecasting



Source: PwC Health Research Institute health executive survey, August-September 2020

Figure 6: Top preferred location for vaccination among those with employer-based coverage varies by race and age

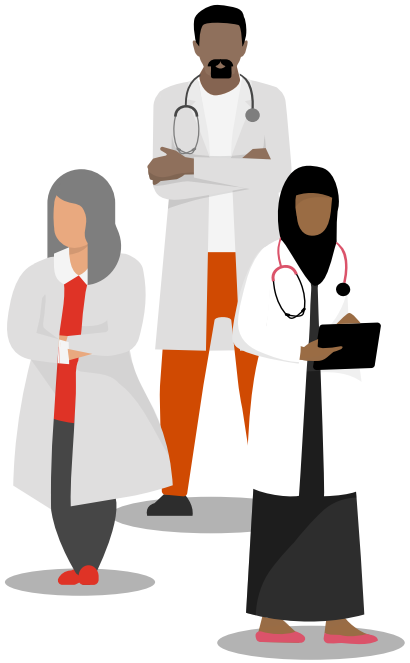
Preferred location to receive the COVID-19 vaccine for individuals who have employer-based insurance and plan to receive the vaccine within one year of vaccine approval

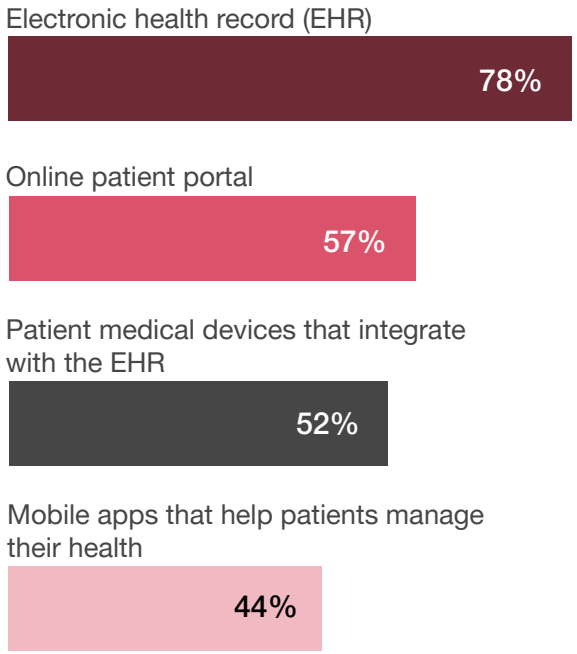


Source: PwC Health Research Institute consumer survey, September 2020
Note: 774 people with employer-based insurance said they would be willing to get a vaccine within one year of approval (or, in the case of the vaccines against SARS-CoV-2, within one year of FDA emergency use authorization). The category "other race" includes Hawaiian Native or other Pacific Islander, American Indian or Alaskan Native, two or more races, and prefer not to respond. The category "other location" includes at my church, my local YMCA or community center, administered in my home by a licensed health professional, on-site health clinic at my work, other and none of the above.

Figure 7: Providers and nurses still see electronic health records as important. They also want more digital connections with patients

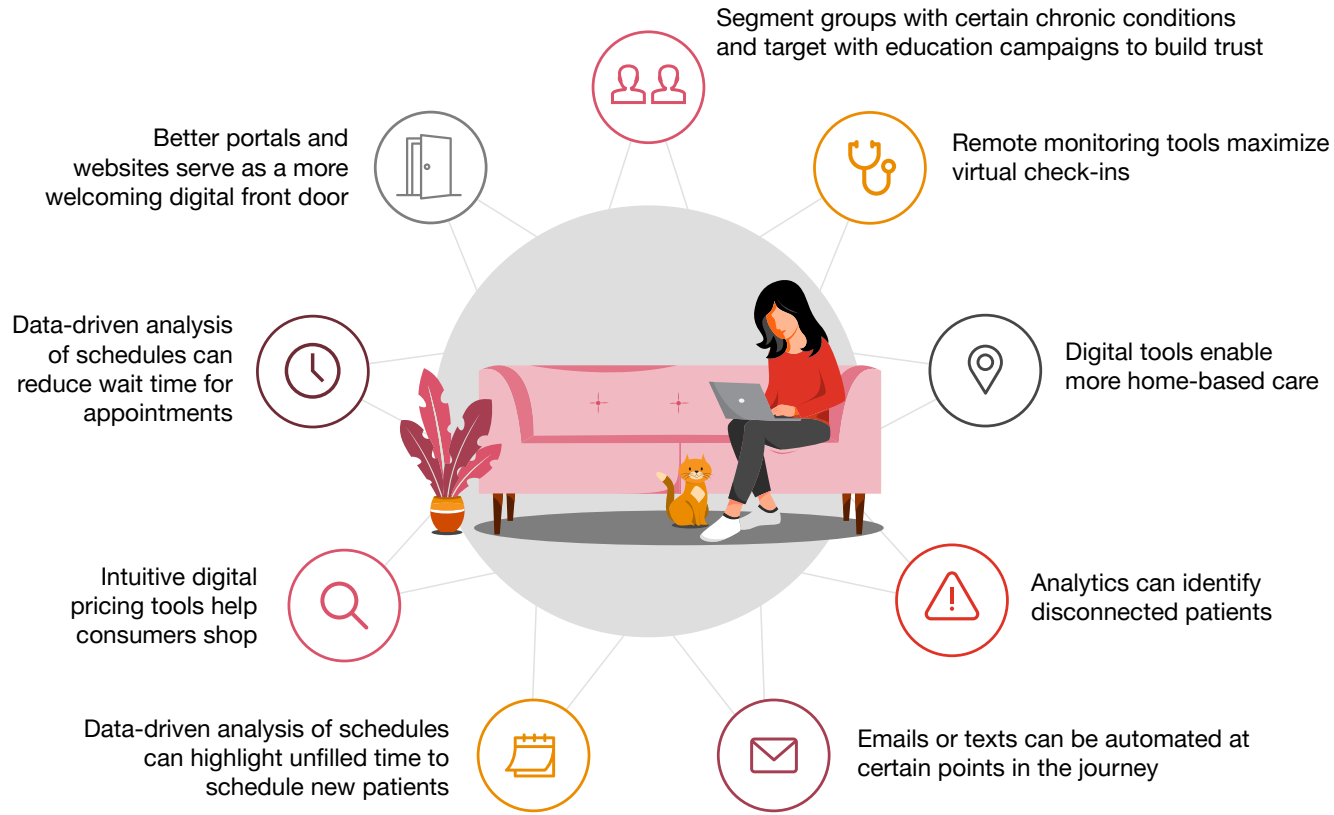
How important are each of the following technologies to you today?





Source: PwC Health Research Institute clinician survey, March-April 2021
Note: Responses include the percentage of providers and nurses who responded with 6 or 7 on a scale of 1-7 when asked, “In your opinion, how important are each of the following technologies to you today?” with 1 assigned “not important at all” and 7 assigned “very important.”

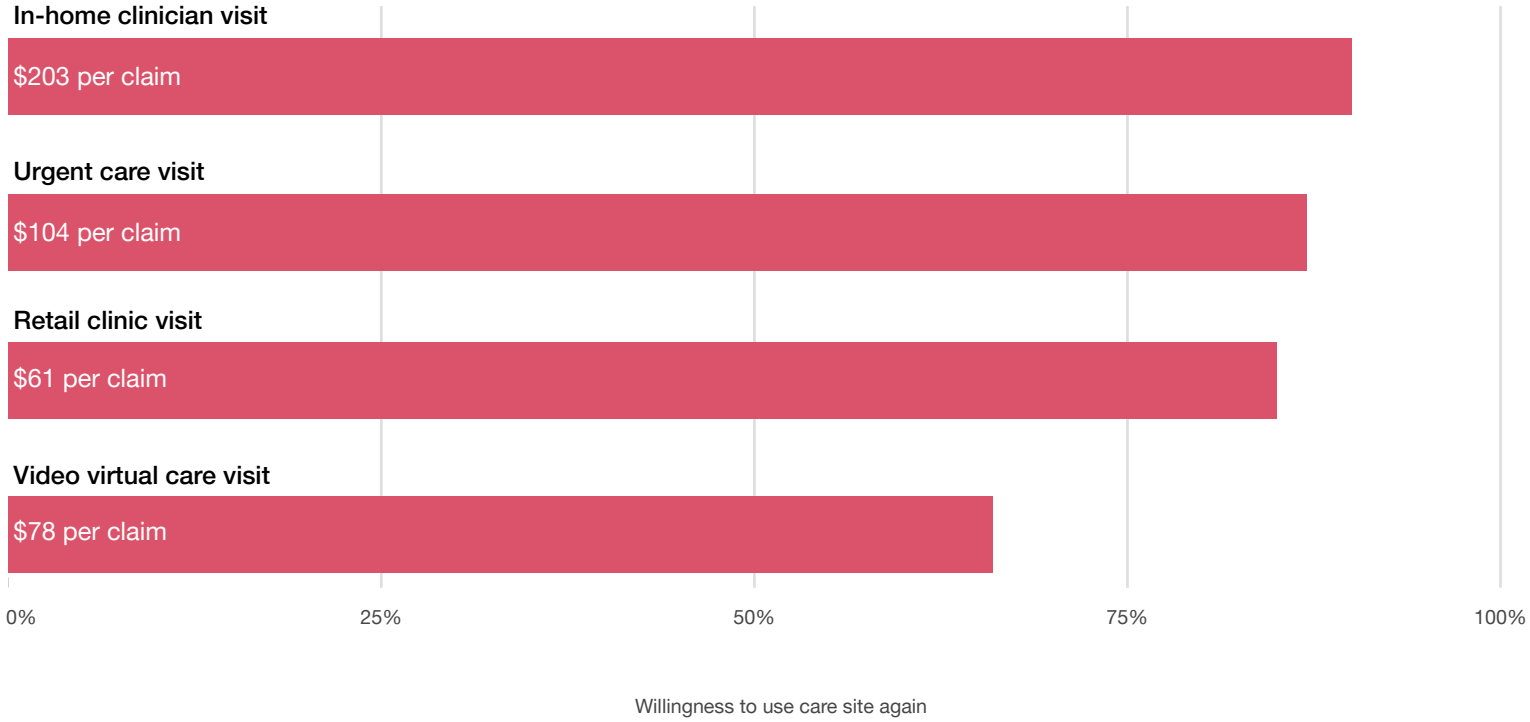
Figure 8: Providers plan to invest in digital tools that improve relationships with consumers and drive better health outcomes



Source: PwC Health Research Institute analysis

Figure 9: Willingness to seek care again in lower-cost settings is high among consumers with employer-based coverage

Willingness among consumers with employer-based coverage to use care site again compared with average cost per claim

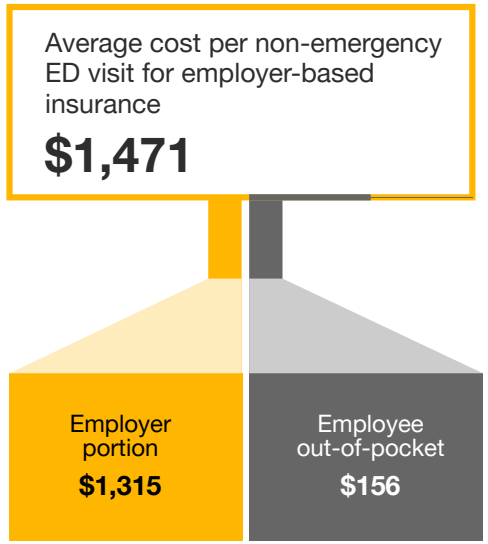


Source: PwC Health Research Institute consumer survey, September 2020, and PwC analysis of 2019 employer claims data from a proprietary claims database. See report endnote 66.
Note: The percent willingness shown is the percentage of individuals with employer coverage who used that type of care either before or during the pandemic and indicated they would be somewhat or very willing to use that setting in the future. See report endnote 67.

Figure 10: A 10% decrease in non-emergent ED visits could save employers millions annually

Gross impact of drop in non-emergent ED spending*

	Spending/potential savings on non-emergent ED care	Employer share	Employee share
2018 baseline	*$ 9.7 billion*	*89%*	*11%*
5% decrease	—$483 million	—$432 million	—$51 million
10% decrease	**—$966 million**	**—$864 million**	**—$102 million**
20% decrease	—$1.9 billion	—$1.7 billion	—$205 million



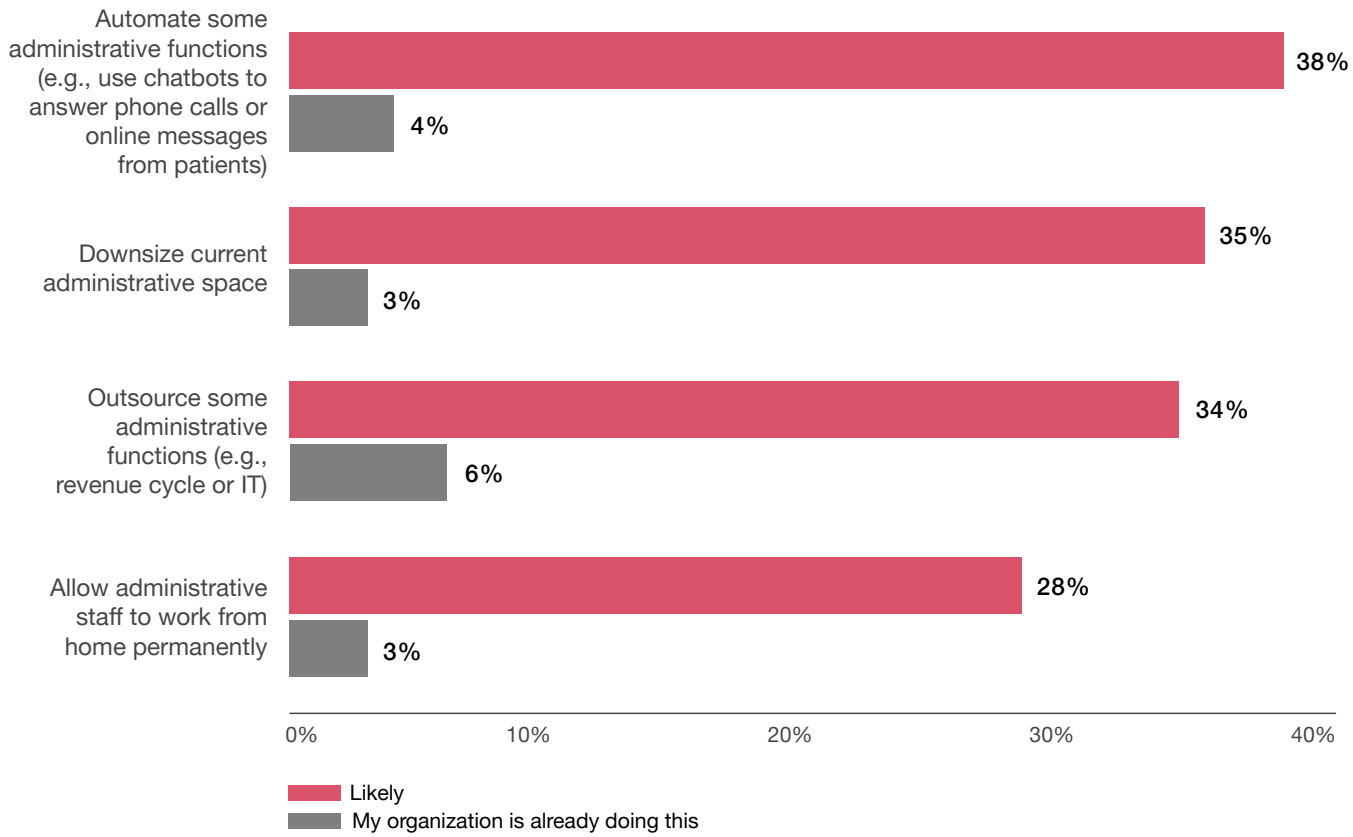
Source: PwC Health Research Institute analysis of 2018 Medical Expenditure Panel Survey (MEPS) data
*Analysis shows the gross savings of a decrease in ED visits rather than the net savings that would include an increase in spending resulting from some of the non-emergency ED visits shifting to urgent care centers, telehealth or other lower-cost care settings. The net savings would be lower than the amounts shown in this figure.
Note: The total annual ED visits and total annual spending by employers and employees included in this figure may be lower than actual, as MEPS data are based on MEPS respondent reporting, which is known to be lower than provider-reported data for ED visits. See report endnote 72.

Figure 11: Consumers with employer-based insurance, particularly those with complex chronic disease, are interested in using telehealth, some even for emergency situations, which could lead to reduced ED utilization and spending

	All consumers with employer-based insurance	Healthy adult enthusiasts	Healthy adult skeptics	Adults with mental health condition	Adults with chronic disease	Adults with complex chronic disease
Consumers with employer-based insurance who have used telehealth	**29%**	15%	29%	38%	28%	**51%**
Consumers with employer-based insurance who have used telehealth **and would consider using it again**	**91%**	81%	91%	93%	95%	**95%**
Consumers with employer-based insurance who have used telehealth **and would consider using it for emergency purposes**	**18%**	16%	23%	11%	12%	**24%**

Source: PwC Health Research Institute consumer survey, September 2020
Note: Consumers with employer-based insurance who have used telehealth are shown as a percentage of all consumers with employer-based insurance. The subsequent two rows are shown as a percentage of consumers with employer-based insurance who have used telehealth. Five of the seven HRI consumer groups are shown in this breakdown of individuals with employer-based insurance by consumer group. See “About This Research” section for details on the consumer groups. The frail elderly consumer group is excluded, as this group generally does not apply to individuals with employer-based insurance. The adults with cancer consumer group is excluded because of an insufficient sample size for those who have employer-based insurance and had used telehealth.

Figure 12: Organizational changes clinicians expect as a response to the COVID-19 pandemic



Source: PwC Health Research Institute clinician survey, March-April 2021
Note: The responses shown do not total 100%, as the options “Unlikely” and “I don’t know” are excluded.

Figure 13: How a shared health system business office reduced costs through new ways of working and technology innovation

Strategies	Results
 **Continue work-from-home strategies post-pandemic**	Before COVID-19, leased more than 100,000 square feet for 700 business office employees at a cost of more than $2 million a year. After COVID-19, plans to reduce lease footprint by 75% with permanent work-from-home arrangements.
 **Implement process automation for back-office and revenue cycle functions**	Many back-office and revenue cycle staff members worked with manual processes for intake of data, sorting and synthesizing. Process automation implementation reduced manual work by 25% to allow staff to focus on higher functions and to reduce overall staff needs.
 **Use real-time dashboard for financial oversight**	It historically took days of effort to get a snapshot on receivables and collections. This meant high effort to get information that was stale by the time it was prepared. By creating an online dashboard accessible via laptop or mobile device, the business office reduced labor costs and allowed for better executive decision-making and faster interventions for any challenges.

Source: PwC Health Research Institute interview with the leader of a shared health system business office on March 25, 2021

Figure 14: Trends to watch in 2022

Not all trends are new or clearly inflators or deflators of the medical cost trend, but some are important enough influencers to watch. These are the top items HRI will be following over the next year to see how they influence the medical cost trend.

Drug spending

Specialty drug spending is a consistent driver of medical cost trend.

The pipeline of costly cell and gene therapies is only expected to increase, as the FDA has approved two new cell therapies to treat cancer already this year and 15 to 30 such therapies are anticipated to hit the market in the next five years.

Use of biosimilars, a cheaper but still costly version of branded biologic medicines, has started to increase in the US and is projected to result in $104 billion in savings from 2020 to 2024, with the bulk of savings coming in 2023 and 2024, according to IQVIA.

Employers are covering more of the increases in costs. On average, insurance covers a larger share of retail prescription drug spending than a decade ago, while consumers' share has leveled off in recent years.

Cybersecurity

The costs associated with data breaches and ransomware attacks can be material, hindering an organization's ability to operate.

Companies that used automation technologies to identify and respond to security events experienced less than half the data breach costs of companies that did not—$2.5 million vs. $6 million on average. Twenty percent of health industries executives responding to PwC's 2021 Global Digital Trust Insights survey in fall 2020 said they were already seeing benefits from using artificial intelligence in cyber defense.

While cyber attacks remain a big threat, determining how much to invest in mitigating that threat is not always simple. Forty-eight percent of health industry executives surveyed by PwC said they are increasing their cyber budgets in 2021. "You can't pour enough resources into it. You are trying to stay one step ahead of the hackers," Mary Grealy of the Healthcare Leadership Council told HRI.

Surprise billing

An intra-industry squabble between payers and providers that often left consumers with unexpected medical bills has largely been put to rest with the No Surprises Act, which takes effect Jan. 1, 2022.

The implications for employer healthcare spending are uncertain. The Congressional Budget Office said the law will lower premiums by 0.5% to 1% because of "smaller payments to some providers." Others think the law could drive higher spending as costs shift from the consumer to the payer or employer, and the new costs of arbitration come into play.

"The mechanism we are using to end surprise billing seems like it may raise administrative costs that will ultimately be passed on to consumers via higher premiums," said Niall Brennan, president and CEO of the Health Care Cost Institute, in an interview with HRI.

Source: See report endnotes 110-117.

Figure A: Medical cost trend projected to be 6.5% in 2022, down from 7% in 2021

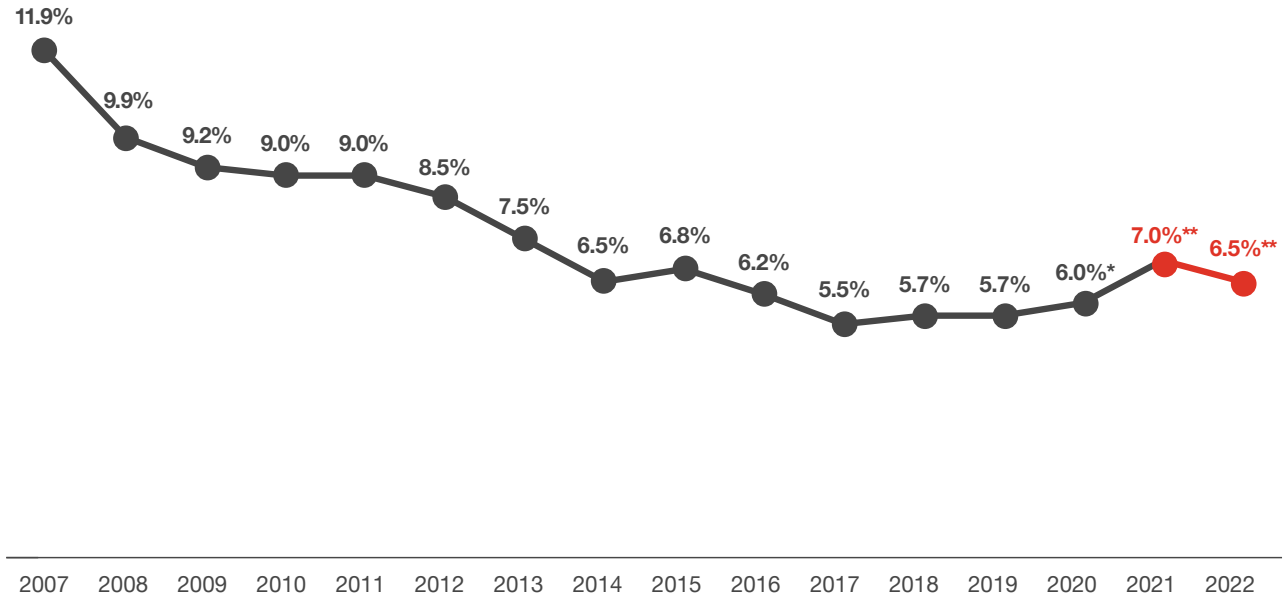


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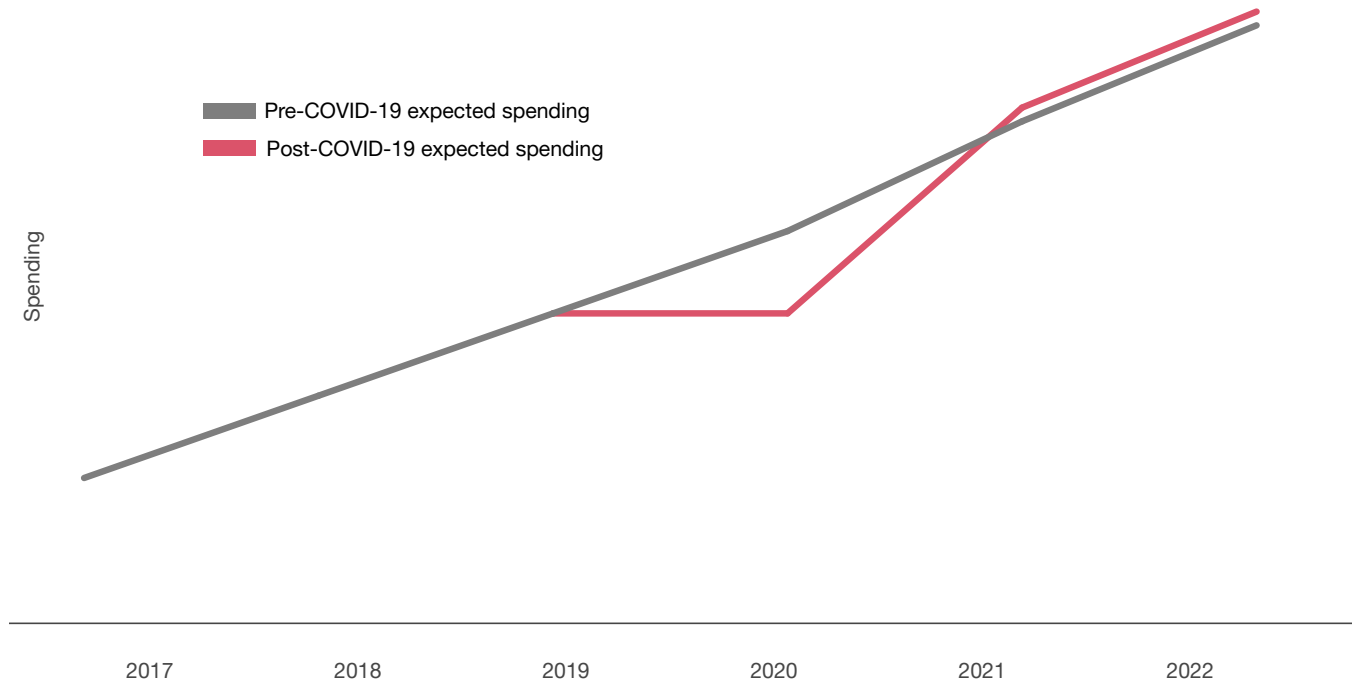
Figure B: Health plans and employers expect spending in 2022 to be higher than what would have been expected in 2022 before the pandemic



Source: PwC Health Research Institute illustrative example comparing projected spending trend pre-pandemic and post-pandemic
Note: Spending in 2020 was lower than expected because the savings from the deferral of care outweighed the costs of care related to COVID-19. In 2021, healthcare spending is expected to return to normal levels and, in some cases, grow above those levels as some care not received in 2020 is received in 2021. The continued costs of care related to COVID-19, including testing, treatment and vaccinations, are expected to push costs further above normal levels in 2021. By 2022, healthcare spending is expected to return to nearly normal levels, with boosts from the continued costs of COVID-19 testing, treatment and vaccinations, as well as worsening population health.

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