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# Economic Outlook & Strategies for Navigating Economic Uncertainty

Leadership Institute Roundtable

February 2023

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Analysis is focused on economic and business implications and does not address quality and access considerations.

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## Contents

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**Macroeconomic trends** and performance across health system landscape



**Shifting profit pools** and response from others across healthcare



**Growth mindset** for health systems to advance diversification and performance

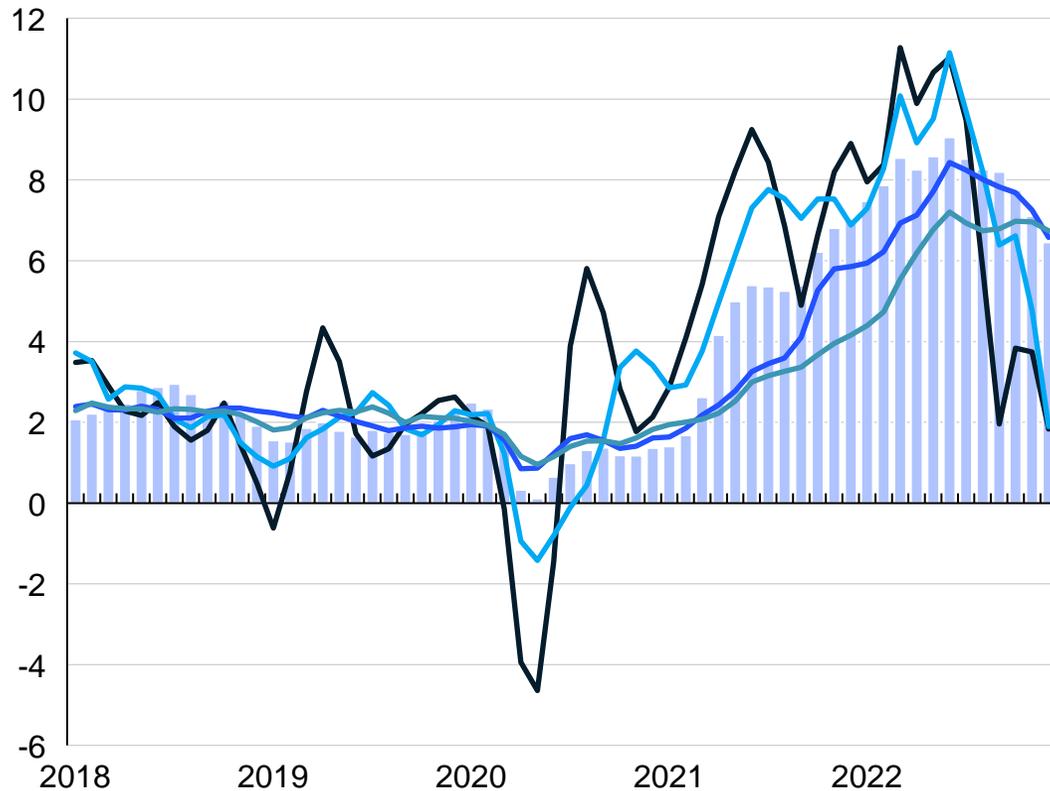
# Core CPI has moderated in recent months

Chair Powell: “[W]e look at core because core is actually a better indicator than headline of all inflation going forward”

— 3-mo — 6-mo. ■ 12-mo. — 18-mo. — 24-mo

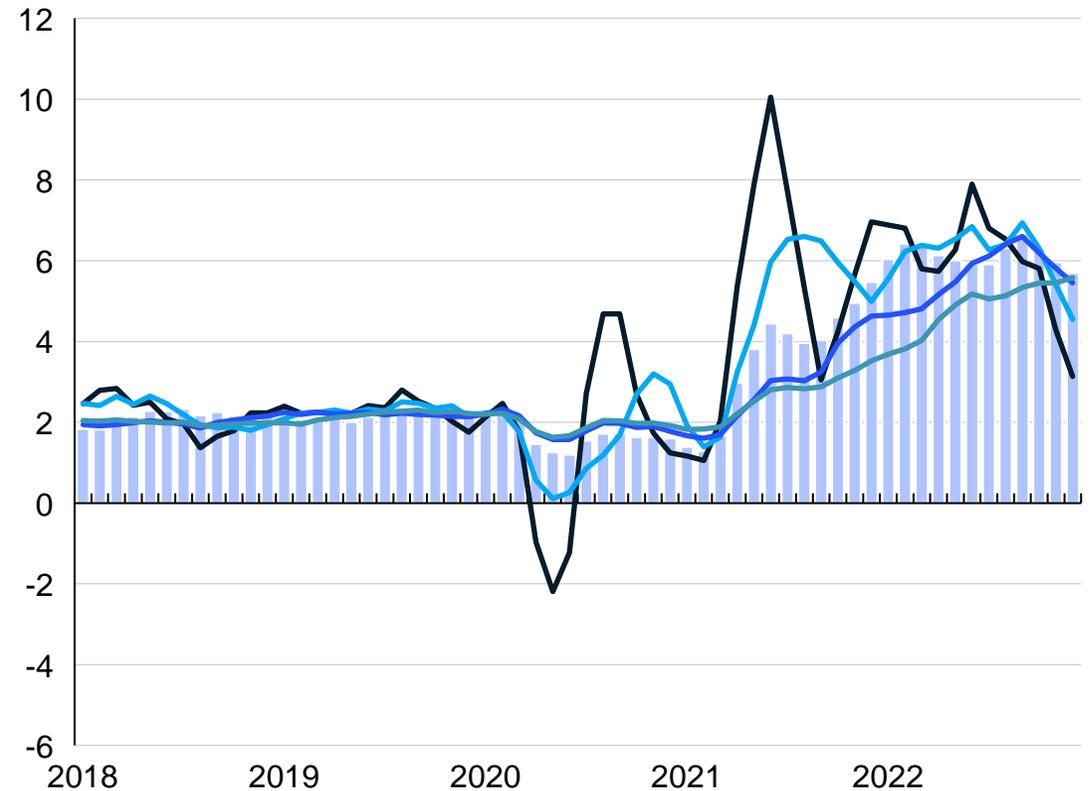
## Change in headline CPI—all items

Annualized percent change, through December 2022



## Change in core CPI—all items excluding food & energy

Annualized percent change, through December 2022



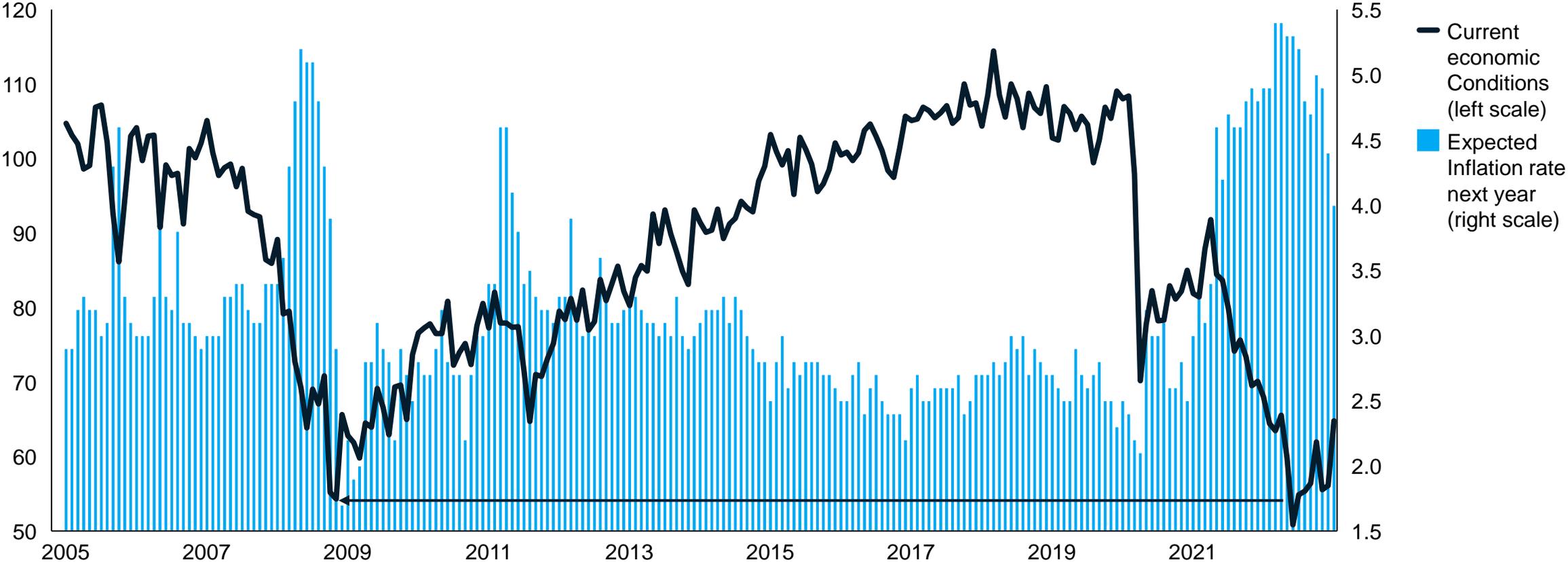
# Inflation expectations are falling, and consumer sentiment is rising from post-Great Recession lows

**Consumer sentiment, current economic conditions**

Index, 2005=100, through January 2023

**Consumer expected inflation rate, next year**

%, through January 2023

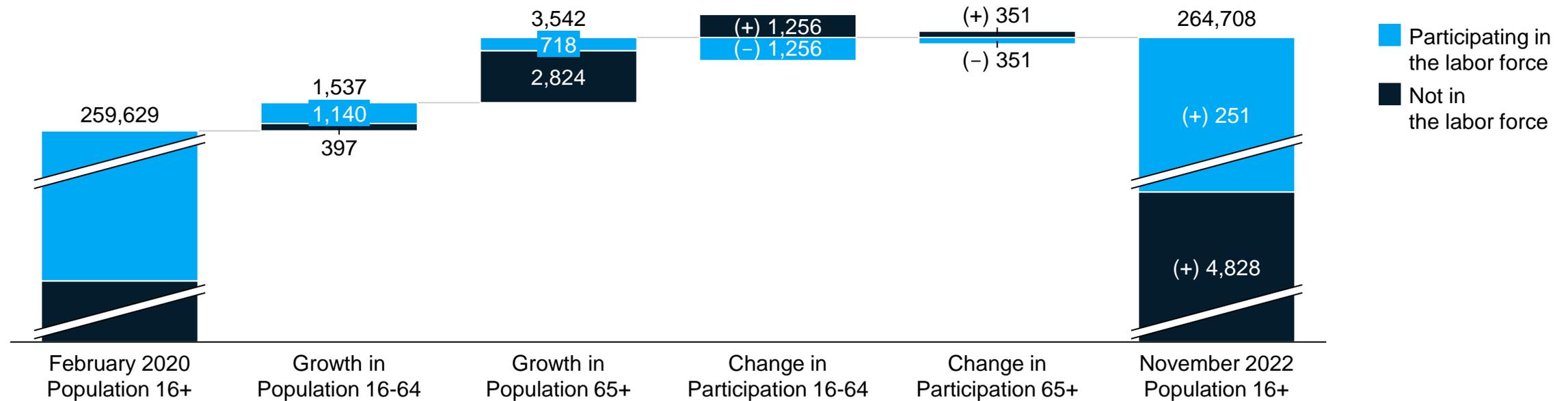


# Shift in labor force largely represents Baby Boomer retirements and a drop in participation

1.6M fewer workers cannot alone explain the increase of 3.7M job openings

## Change in population and labor force participation

Thousands



**6,363M**

Monthly job openings,  
April 2019 to  
February 2020

**Labor force participation assumed  
unchanged from February 2020**

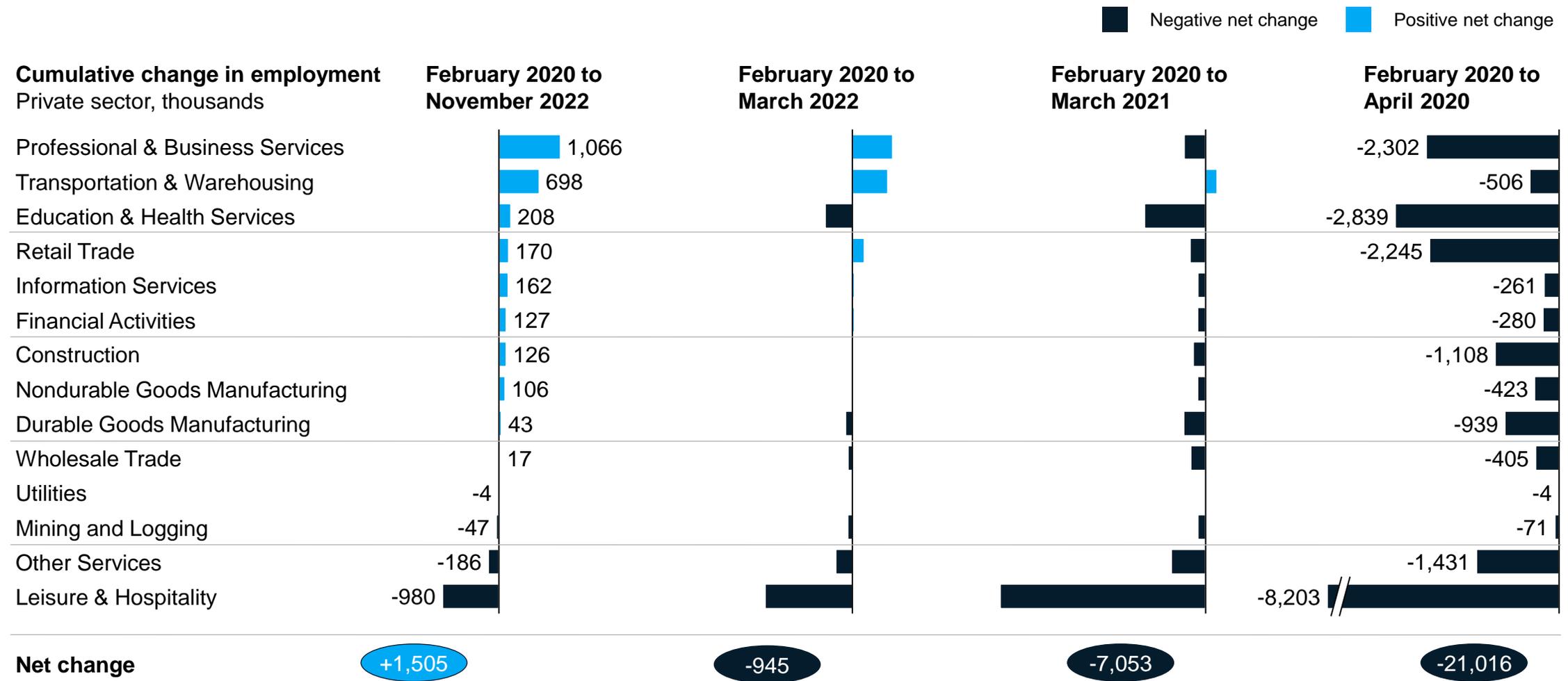
**Drop in labor force participation  
February 2020 to November 2022**

**10,064M**

Monthly job openings,  
January to  
October 2022

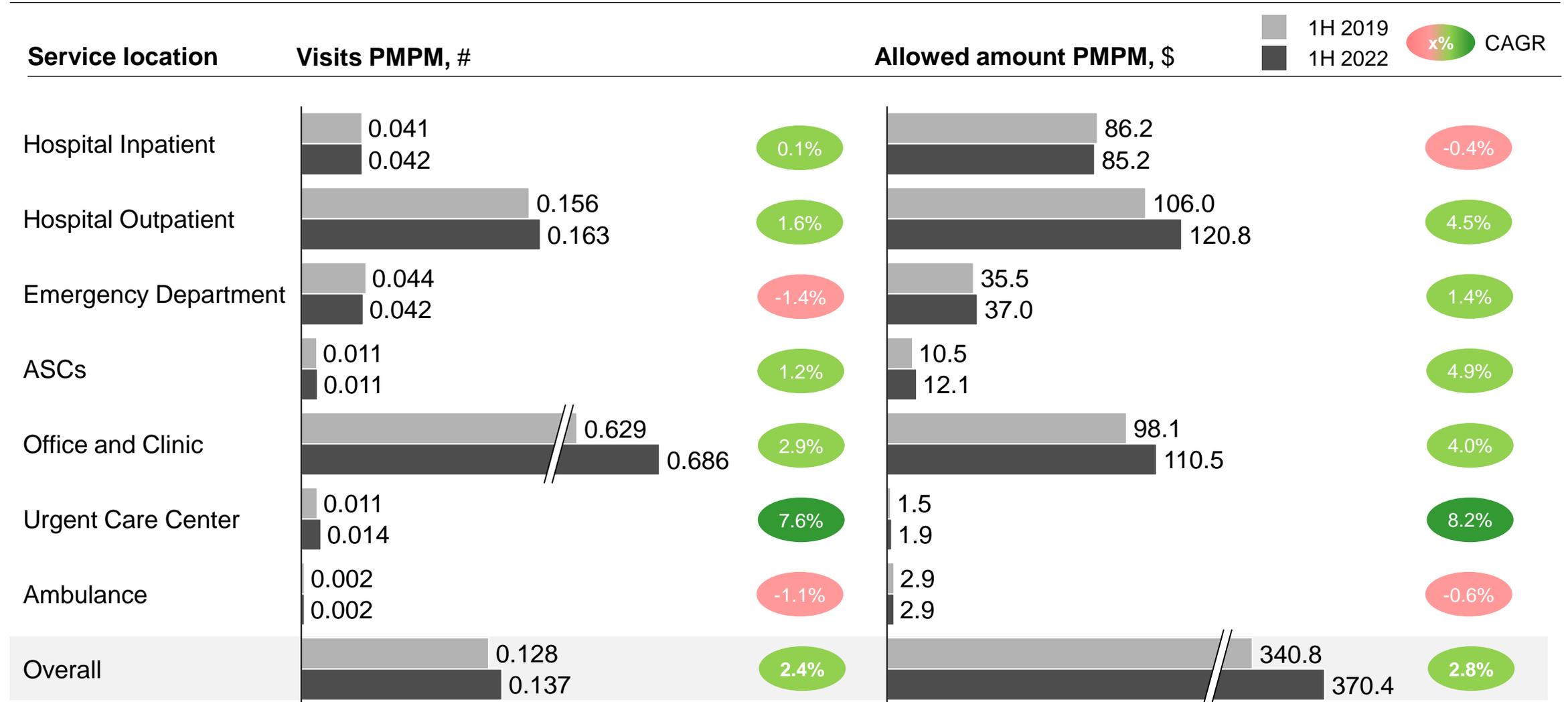
# Education & Health Services has rebounded above Feb' 2020 levels, though demand remains

Changing priorities and preferences of the potential workforce has also significantly impacted the matching process<sup>1</sup>

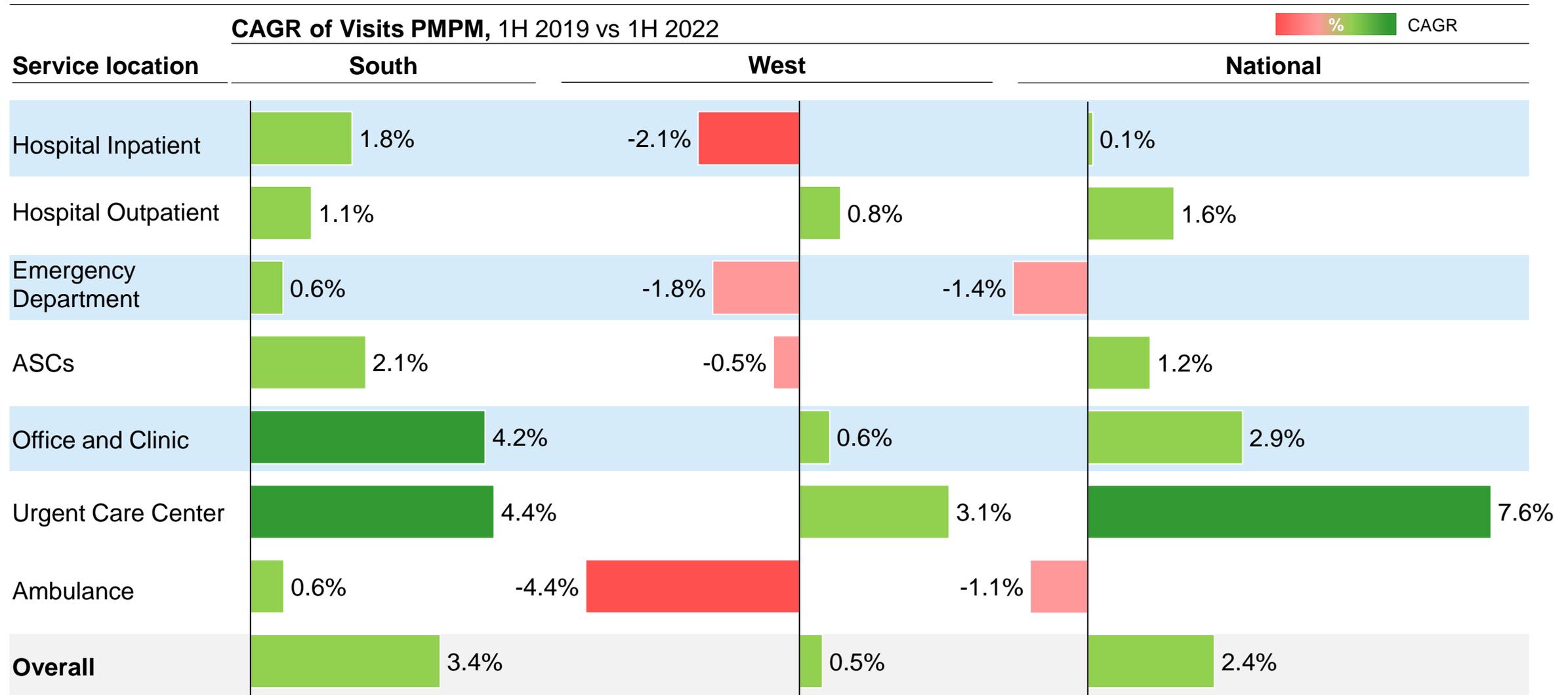


1. Aaron De Smet, Bonnie Dowling, Marino Mugayar-Baldocchi, and Bill Schaninger, "Great Attrition' or 'Great Attraction'? The choice is yours," McKinsey.com, September 8, 2021

# From payers' point-of-view, Commercial utilization and allowed amounts exceed pre-COVID levels, with variation by site of care



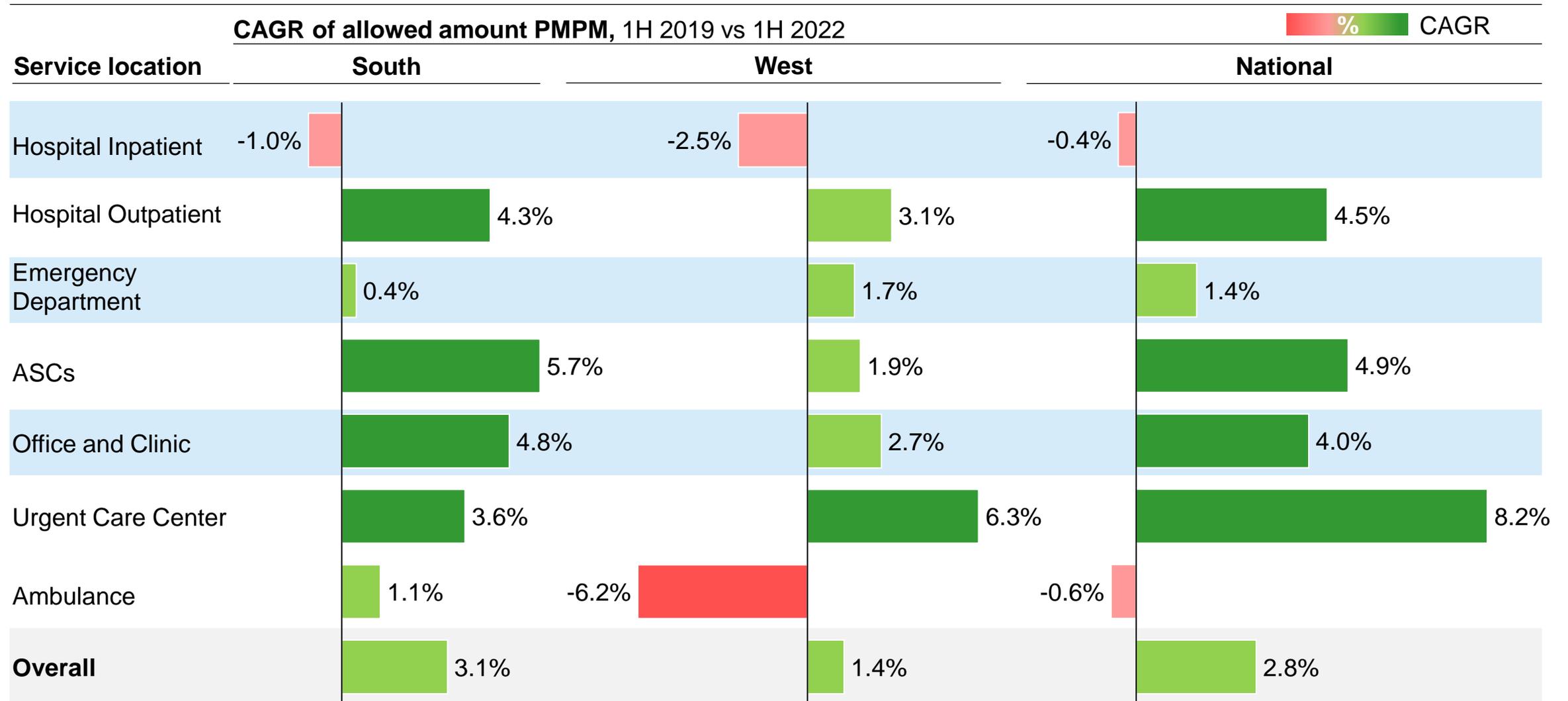
# Commercial patients' volume shifts since pre-COVID have varied substantially across regions



Note: regions bucketed by US census region, except by division for South (East South Central and West South Central) and South Atlantic

Source: Nationally representative, de-identified claims source from commercial plans claims data for 2019 H1 and 2022 H1; Medical claims only (Pharmacy claims not included)

# Commercial allowed amounts have also shifted – and often differently than visits, equating to price and service mix changes

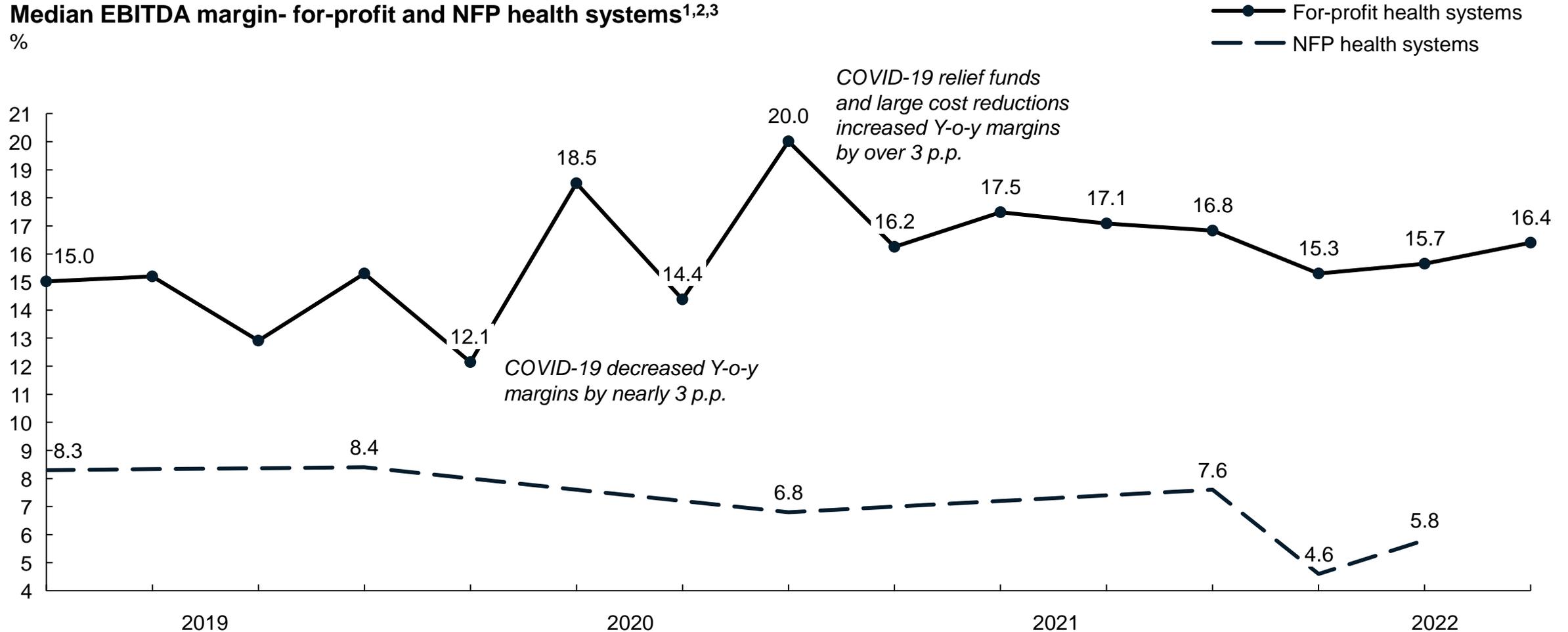


Note: regions bucketed by US census region, except by division for South (East South Central and West South Central) and South Atlantic

Source: Nationally representative, de-identified claims source from commercial plans claims data for 2019 H1 and 2022 H1; Medical claims only (Pharmacy claims not included)

# For-profit health system median margins now exceed 2019 levels, while not-for-profit medians lag

Median EBITDA margin- for-profit and NFP health systems<sup>1,2,3</sup>  
%

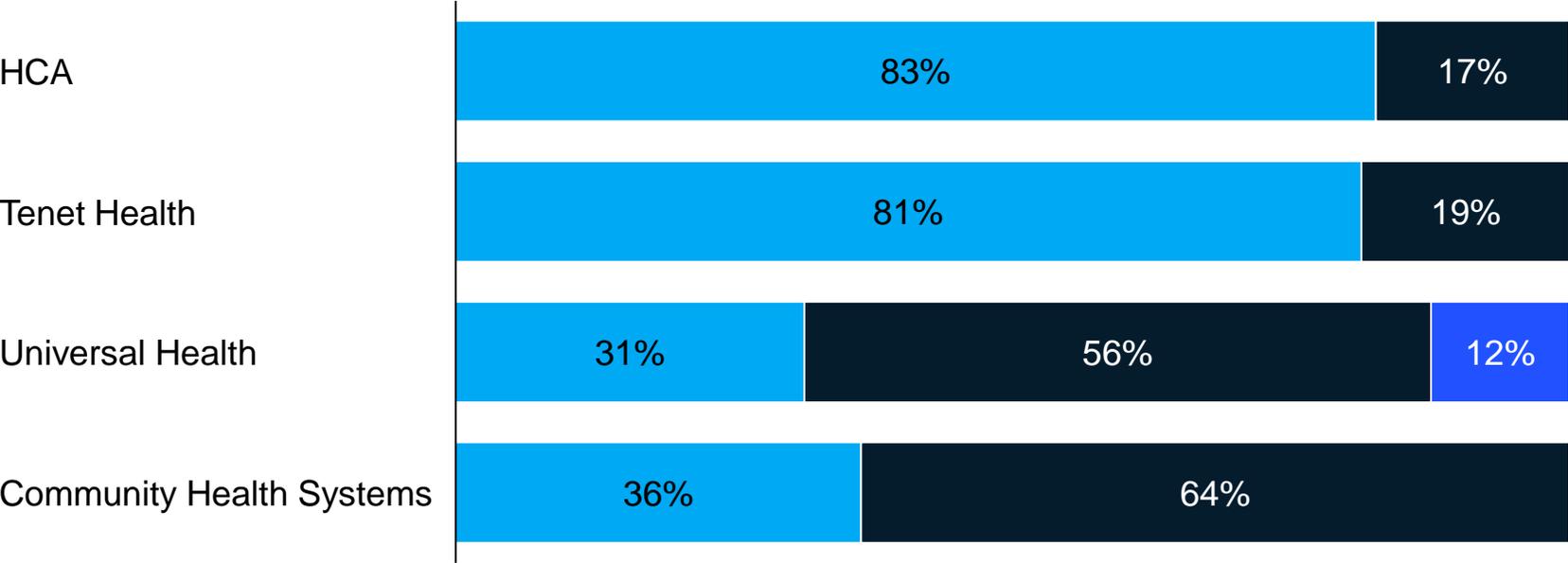
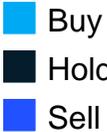


1. Trend data represents for-profit health systems (HCA, THC, UHS and CYH) only; Tenet's hospital segment and Universal's acute care business only  
 2. Margins are calculated consistently across systems to allow for apples-to-apples comparisons; as such, figures shown may differ from company-reported values.  
 3. Q3 2022 NFP financials not available yet

# Analysts have “buy” recommendation on leading for-profit health systems

## Analyst consensus buy/sell recommendations

Latest analyst recommendations, out of 100%, as of 2/6/2023



Note:  
Buy: includes the # of analysts that provided BUY and OUTPERFORM recommendations  
Sell: includes the # of analysts that provided SELL and UNDERPERFORM recommendations

Source: MarketWatch NYSE: HCA; S&P Global; McKinsey Analysis; S&P Global Ratings ([link](#)); Moody's Investors Services ([link](#)); Fitch Ratings ([link](#))

In contrast, S&P, Moody's, & Fitch have maintained or revised their **2023 outlooks for not-for-profit health systems to deteriorating or negative**

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## Contents

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**Growth mindset** for health systems to advance diversification and performance

# Latest profit pool forecast shows deceleration across several segments, impacted in part by specific winners in 2021

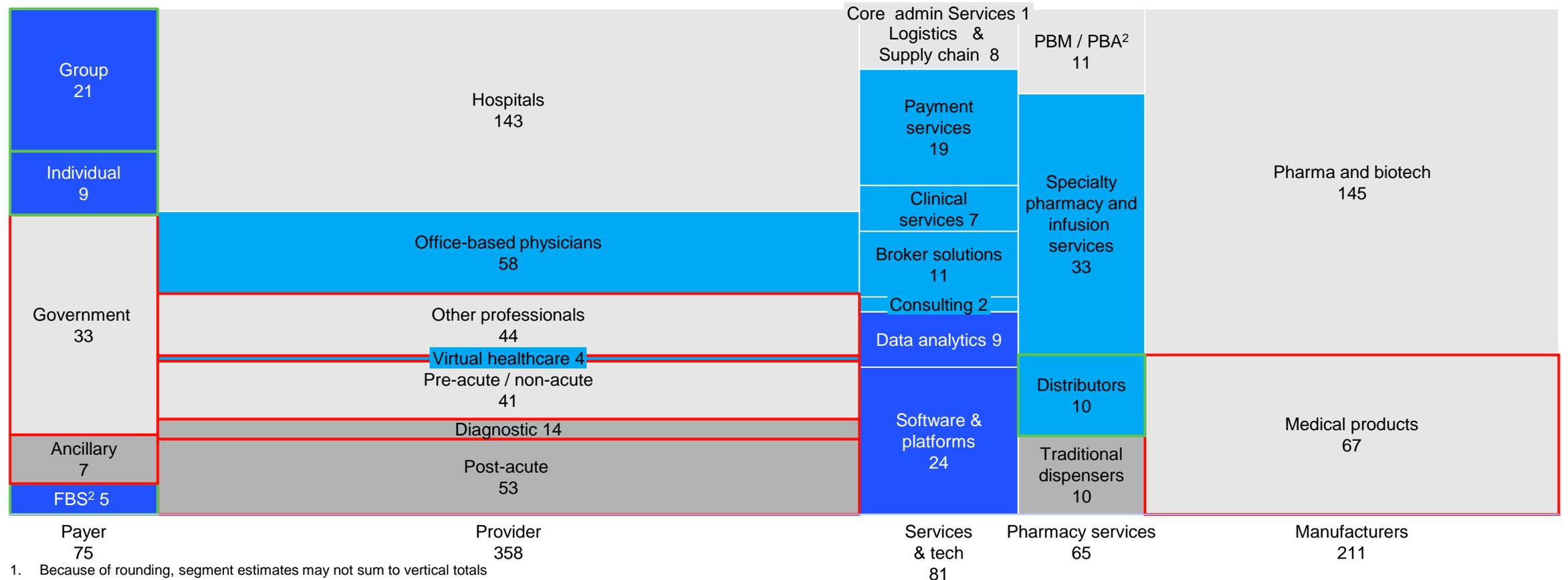
2021-2026 growth rates

■ = <0%   ■ = 0 - 5%   ■ = 5 - 10%   ■ = >10%

Shift in growth rate projections from 2019-2026

□ = Decelerated   □ = Accelerated

Distribution of projected healthcare EBITDA across healthcare segments<sup>1</sup>, 2026, \$B



1. Because of rounding, segment estimates may not sum to vertical totals  
 2. FBS = fixed-benefit and supplemental; PBM / PBA = PBM / PBA = pharmacy benefit manager / pharmacy benefit administrator  
 3. EBITDA CAGR based on growth in nominal dollars

# Specialist physicians and ASCs remain most attractive, while other segments project slower EBITDA growth

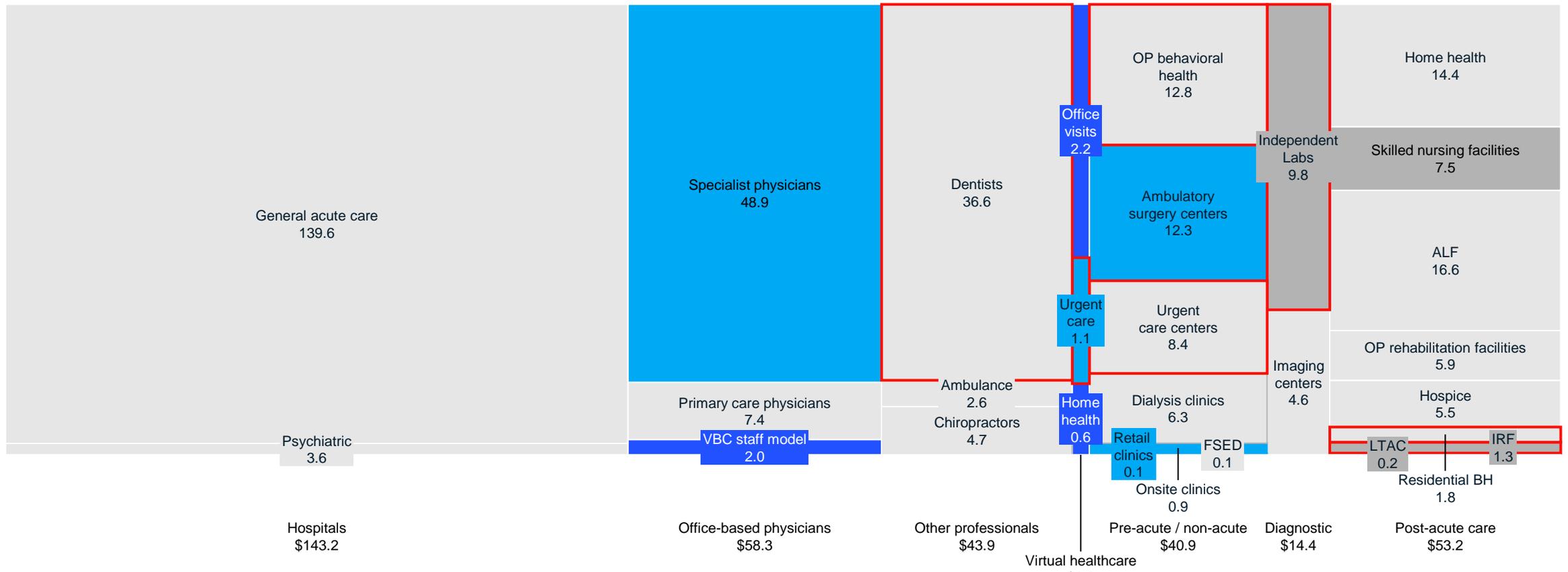
## 2021-2026 growth rates

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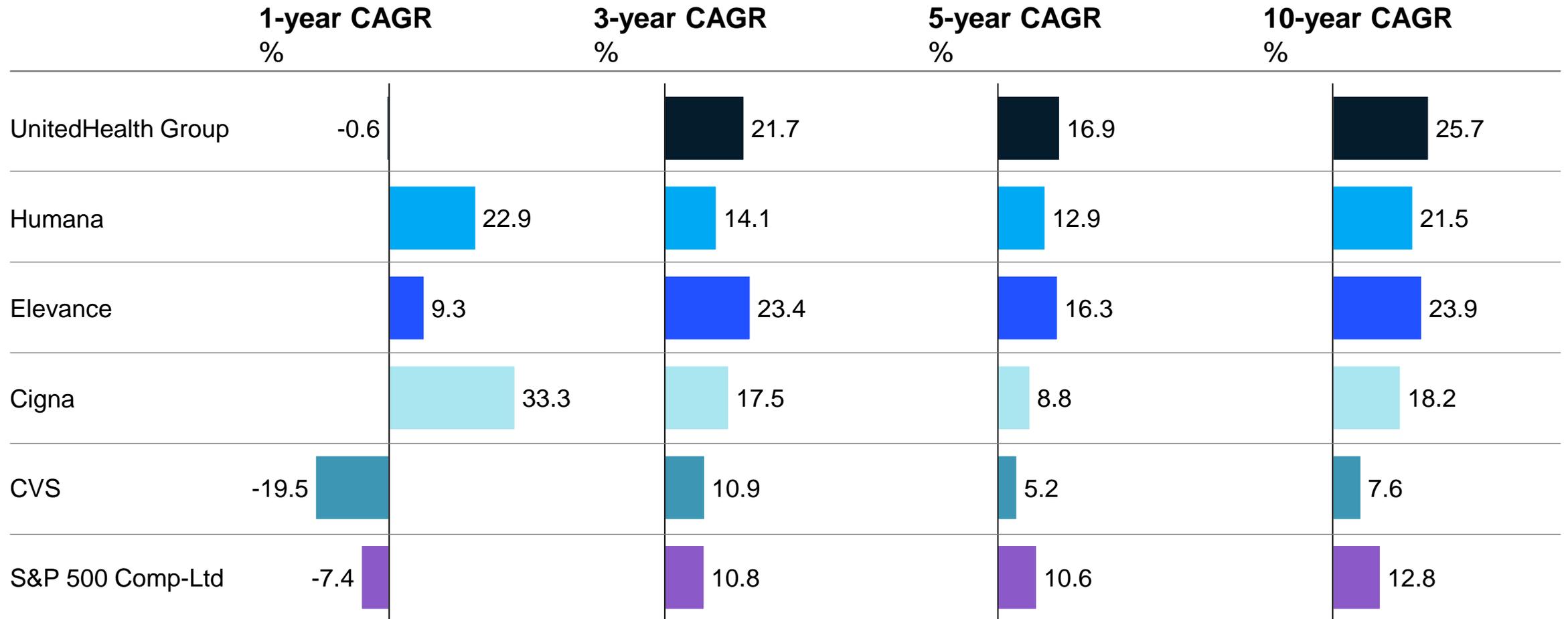
Distribution of projected healthcare EBITDA across provider segments, 2026 Baseline, \$B



Note : FSED – Freestanding Emergency Department; ALF – Assisted Living Facilities; Hospice – includes palliative care centers; IRF – Inpatient Rehabilitation Facilities; LTAC – Long Term Acute Care Hospitals, BH – Behavioral health EBITDA CAGR based on growth in nominal dollar margins

# Large payers have on average delivered total shareholder returns exceeding S&P 500 over the 3-, 5-, and 10-years

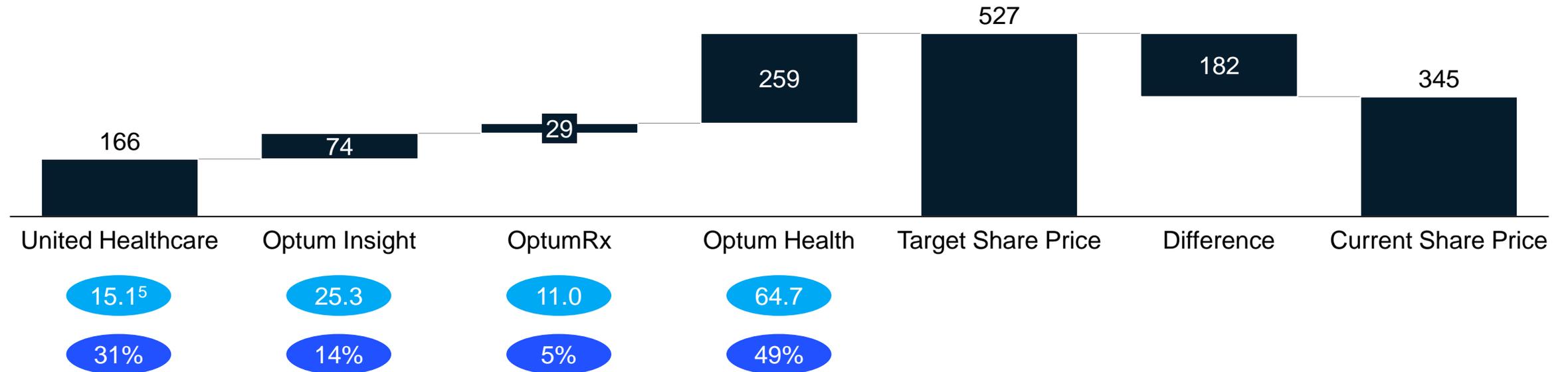
Total shareholder returns (TSR) for major healthcare payors over time, as of Feb. 2, 2023



# At start of 2021, Morgan Stanley Research estimated a 53% upside for UnitedHealth Group by 2022

x P/E multiple<sup>3</sup> x % of total<sup>4</sup>

## Morgan Stanley research sum-of-the-parts analysis<sup>1,2</sup>



“ ” In our Sum of the Parts analysis, we estimated that **Optum accounts for approx. 70%** of total UNH value, with new care models (OptumCare within OptumHealth) and OptumInsight estimated to drive 49% & 14% of the total enterprise value.

– MS Research report

1 Based on Morgan Stanley 2022 SOTP analysis.

2 Current share price as of January 5, 2021

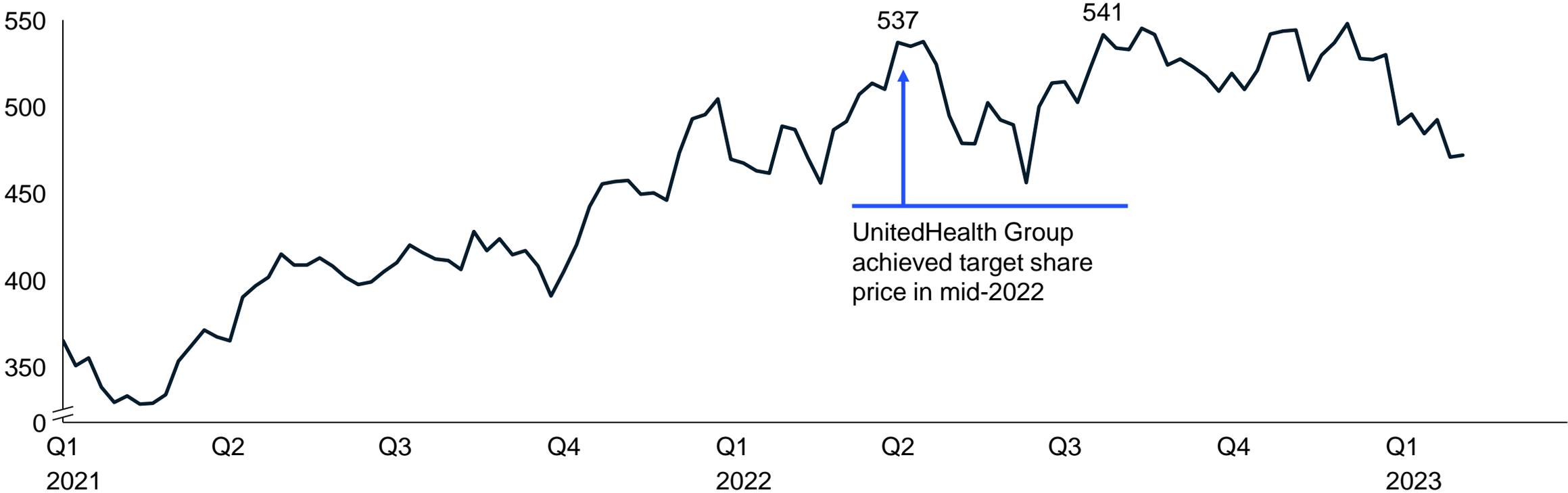
3 Morgan Stanley 2022 Estimate.

4 % of total Equity Value Estimate of Morgan Stanley.

5. Based on weighted average of MS estimates of P/E multiples for Medicaid, Commercial Risk, Commercial ASO and Medicare.

# UnitedHealth Group achieved anticipated upside in 2022

UnitedHealth Group stock performance by week<sup>1</sup>, Jan. 2021 to Feb. 2023, \$

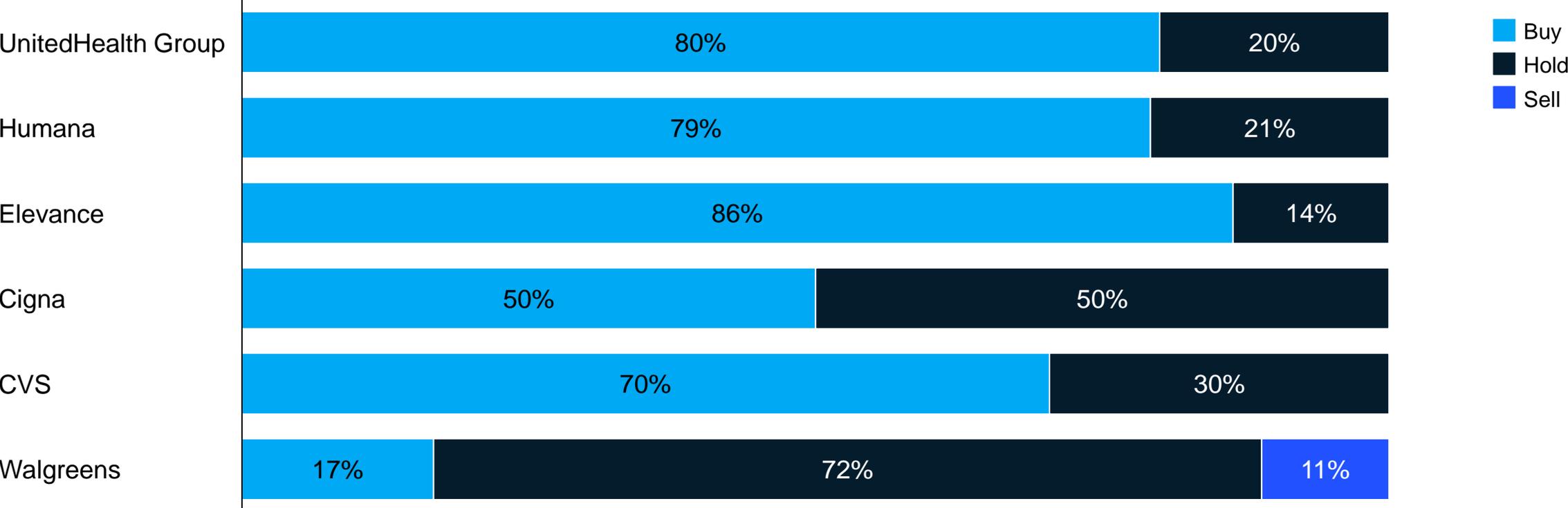


1. Weekly close price

# Payers' diversification has been rewarded with 'buy' recommendations from equity analysts

## Analyst consensus buy/sell recommendations

Latest analyst recommendations, out of 100%, as of 2/6/2023

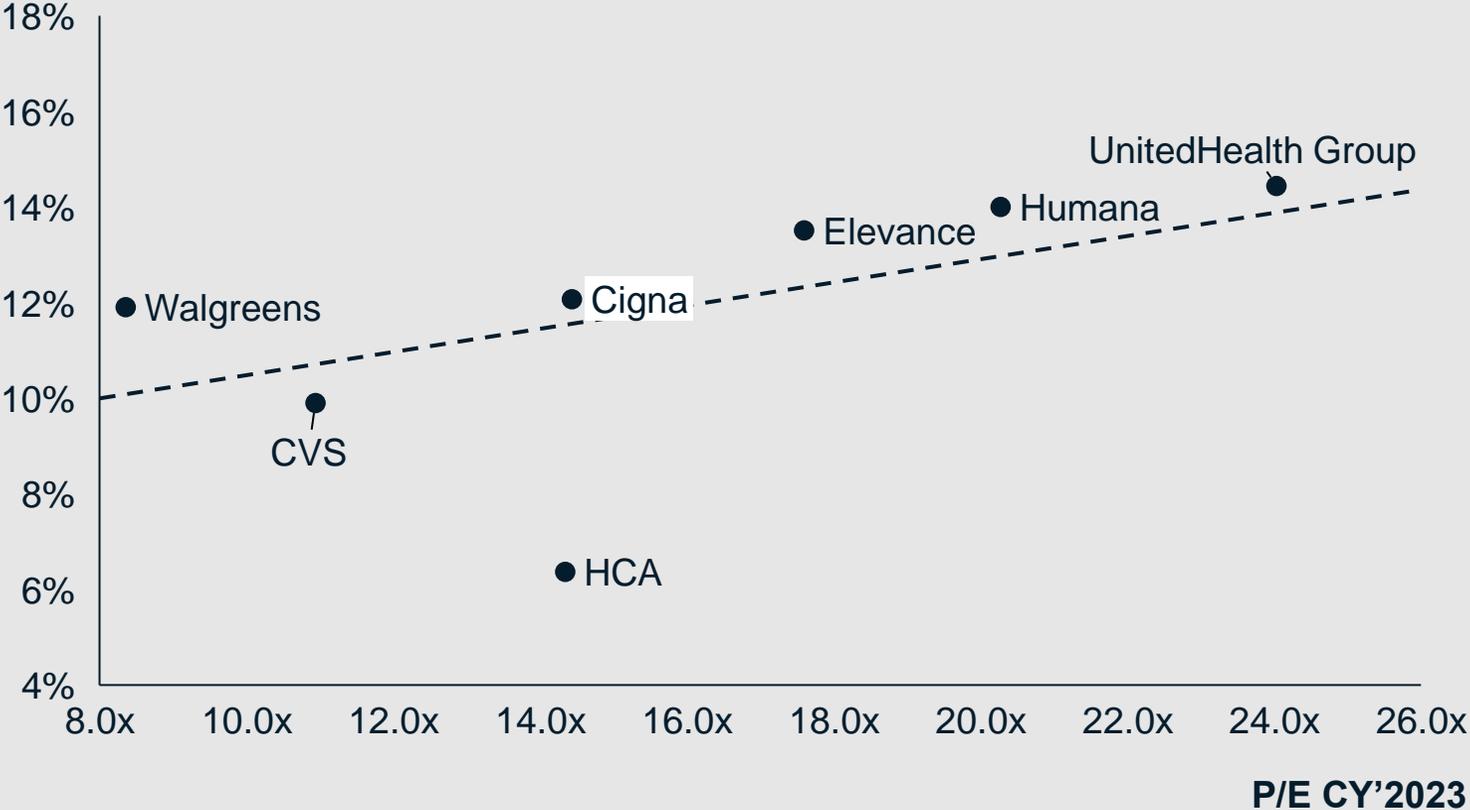


Note:  
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**Financial analysts' expectations continue to favor those payers who have diversified and accelerated vertical integration**

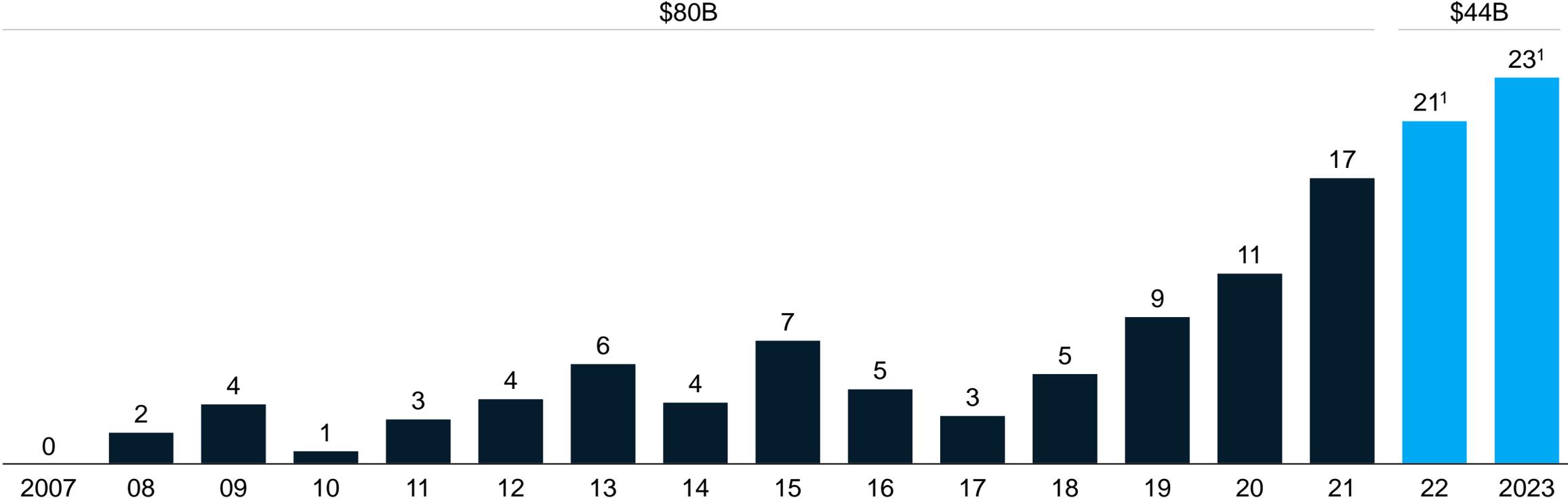
### Large-cap healthcare services company valuations

#### Long Term EPS Growth



# Between 2007 and 2023, Medicare Advantage (MA) coding intensity generated nearly \$124B in excess payments

Medicare payments to MA plans for uncorrected coding intensity, \$B

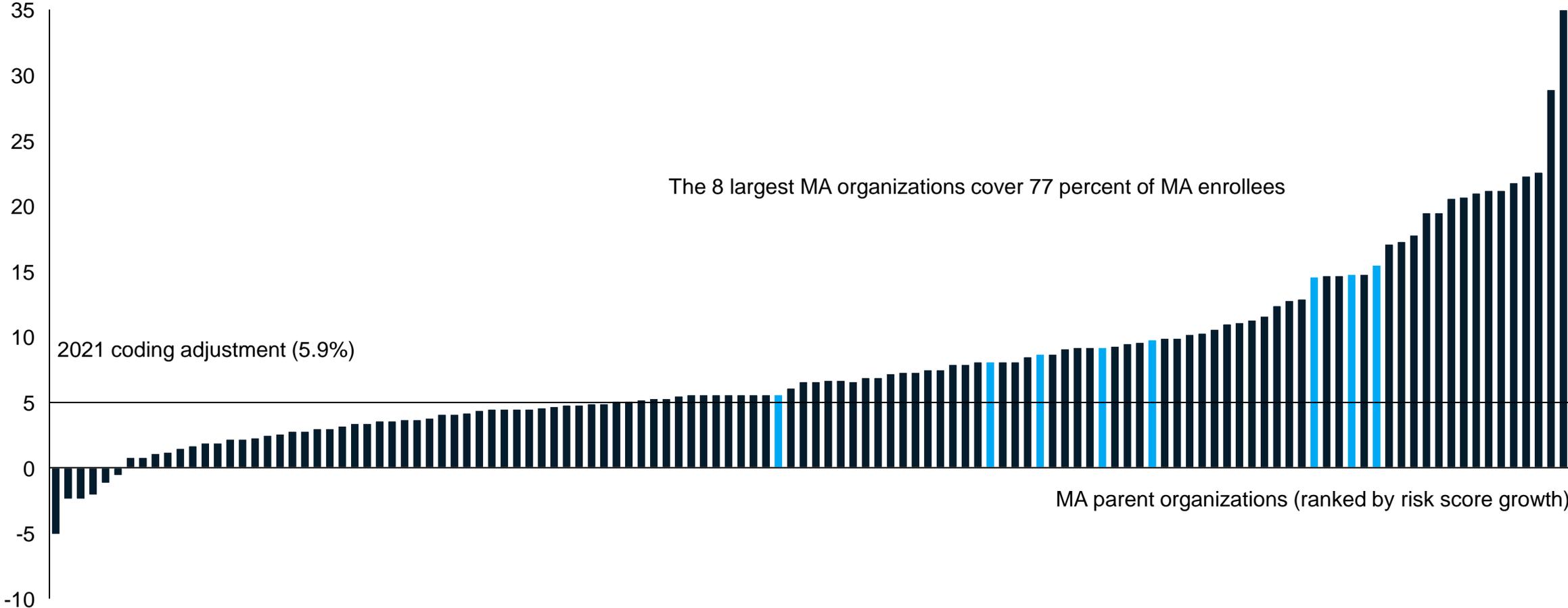


1. 2022 and 2023 estimates assume that uncorrected coding intensity will be the same as in 2021 (4.9 percent, although all evidence suggests that it will be larger) and are based on projected Medicare spending for MA plans from the 2022 Medicare Trustees' Report

# Coding intensity varies by 9 percentage points across the eight largest Medicare Advantage (MA) organizations

2021 cumulative risk score growth relative to fee-for-service (FFS), %

■ Largest MA organizations ■ All other MA organizations

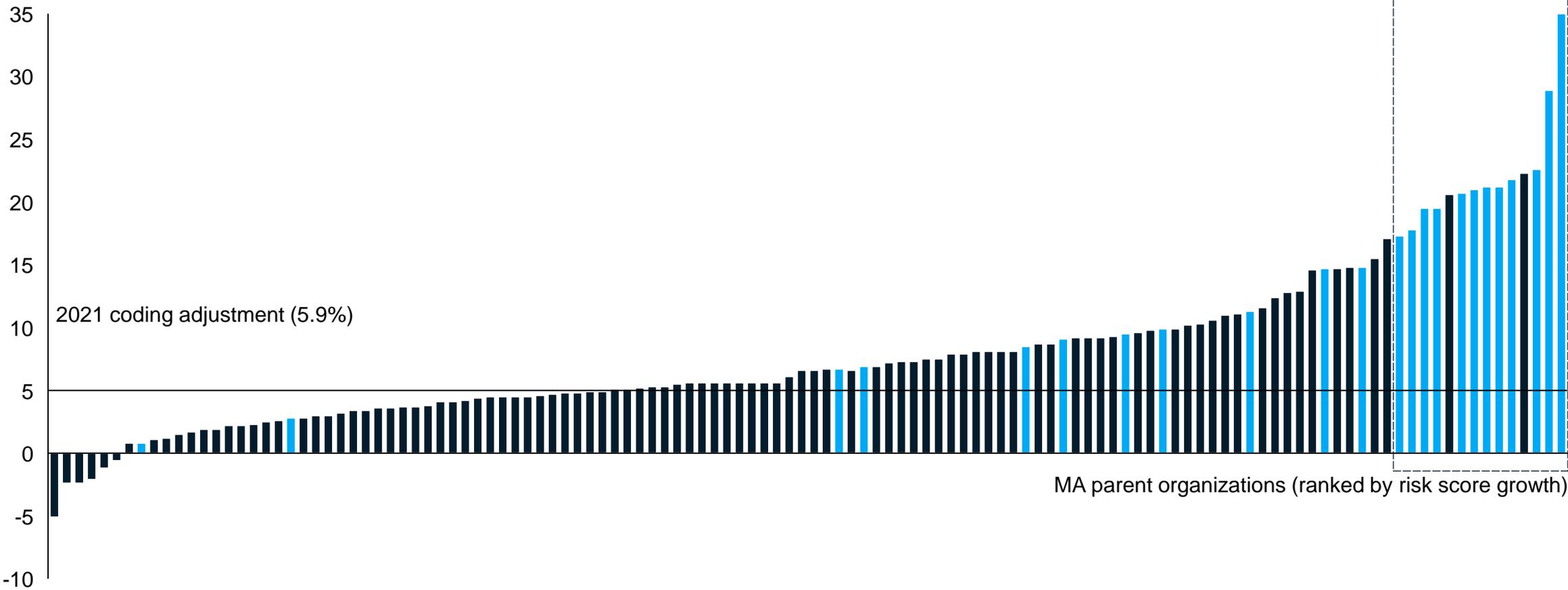


Analysis excludes special needs plans, Program of All-Inclusive Care for the Elderly contracts, and parent organizations with enrollment below 2,500

# Highest coding intensity concentrated among Medicare Advantage (MA) organizations primarily in California or Florida

■ MA organizations with enrollment mostly in CA or FL   ■ All other MA organizations

2021 cumulative risk score growth relative to fee-for-service (FFS), %



Analysis excludes special needs plans, Program of All-Inclusive Care for the Elderly contracts, and parent organizations with enrollment below 2,500

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## Contents



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# Health systems are taking decisive actions, while building core competencies

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## Growth through both conventional and diversified means

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- Capital deployment in attractive value pools across care ecosystem
- Highly-coordinated, high quality care
- Aligned physicians and workforce
- Risk-bearing (VBC)
- Efficient operations
- Data and digital transformation
- Consumer-centric lens



## M&A Growth

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- Strategic evaluation of horizontal M&A
- Strategic pursuit of capability-adding partnerships
- New business building and innovation



## Organization

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- Growth-oriented organizational structure and culture
- Aligned strategy and operating plan
- Meeting talent attraction targets

# Growth mindset is not always present among health systems

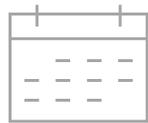
## Mindsets growth leaders share:



“I have a growth story I tell all the time.”

**80%**

communicate growth successes often, internally and externally



“I focus on long-term growth.”

**60%**

have a clear multi-year mandate to pursue growth initiatives, and the autonomy to do so without having to show short-term results



“I favor timely action over perfection”

**70%**

prioritize speed over perfection



“I am willing to fail.”

**70%**

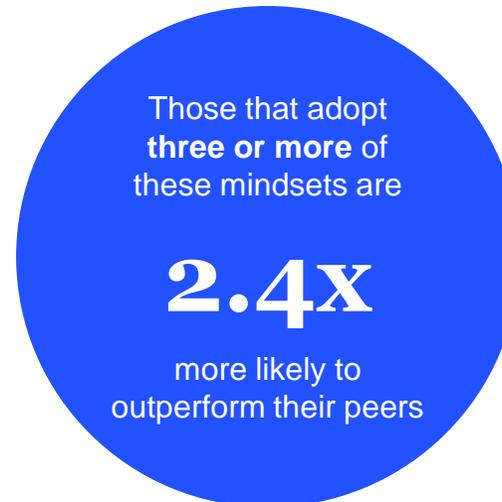
make multiple long-term growth bets rather than just a few



“I know my customer as a person.”

**70%**

build an understanding of customers' needs through formal and informal methods {ethnography, surveys, in-store visits, etc.}



# Organizations are entering range of discussions to realize growth ambitions

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**Pursue strategic partner** to access capabilities at scale, including via joint ventures or M&A



**Work with financial sponsors** to provide access to leadership, capital, and/or capabilities and accelerate growth, especially in non-core activities



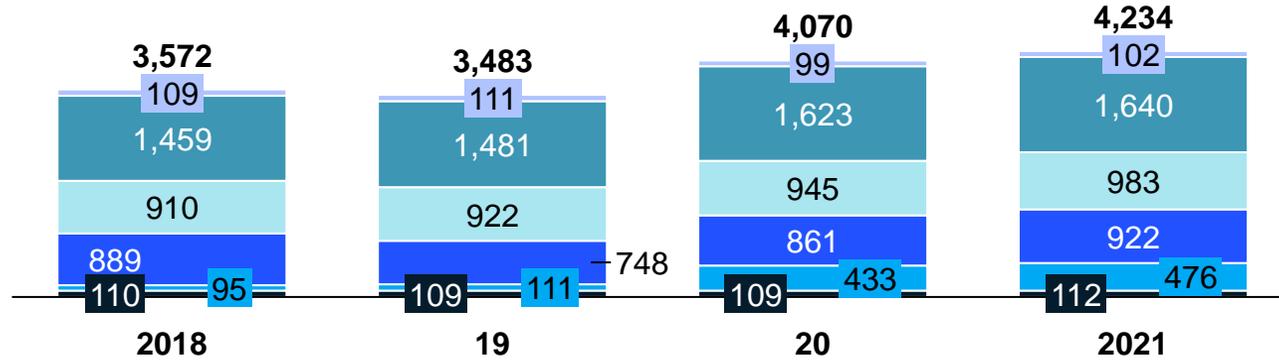
**Collaborate among a group of health systems** to build at-scale operational capabilities rather than outsourcing or operating sub-scale

**Organizations (and Boards) vary widely in their willingness to approach each of these strategies** versus continued focus on operational improvement

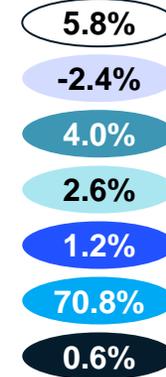
# Context on BCBSLA performance

ASO Large Group Small Group Individual Medicare Advantage Medsupp

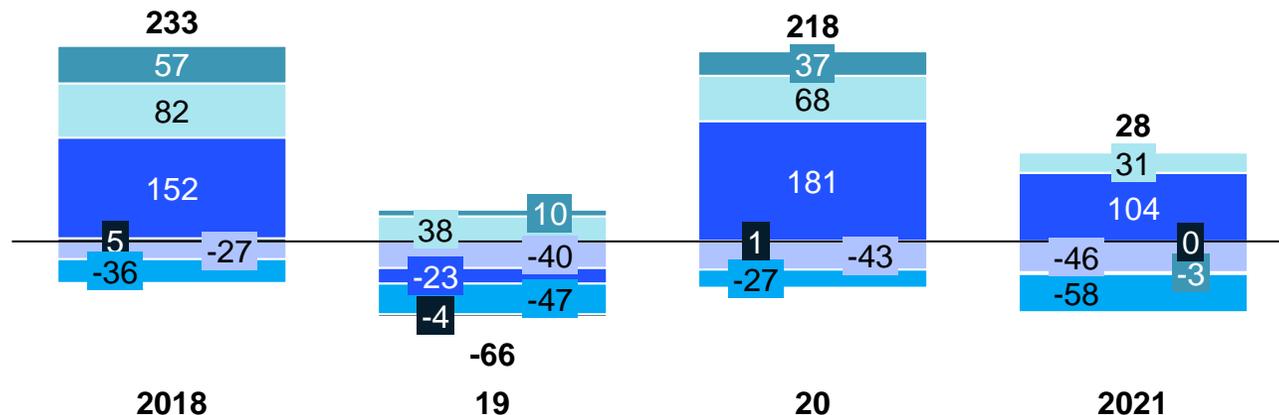
Revenue by segment<sup>1</sup>, \$M, 2018-21



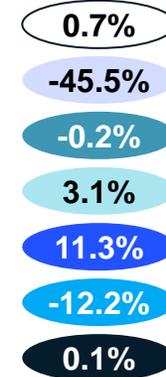
CAGR, %, 2018-21



Margin by segment<sup>1</sup>, \$M, 2018-21



Margin, %, 2021



BCBSLA capital position, 2021

Capital reserves, \$M 2,338

Excess capital<sup>2</sup>, \$M 1,346

RBC ratio, % 942%



## Key takeaways

- BCBSLA experienced growth primarily driven by expansion of MA & Large Group businesses
- Negative margins in MA & ASO have lowered overall enterprise margin recently

1. Does not include Medicaid or Duals through Healthy Blue Louisiana JV

2. Excess calculated as capital above 400% RBC ratio

# Building a strong diversified business to enable growth requires six essential elements



**Strongly committing to business building**, including clear alignment on growth orientation



**Obsessively focusing on value-creation ideas** that meaningfully and measurably improve healthcare



**Having a bias toward “open architecture” capabilities** that leverage partnerships, ecosystems, acquisitions, and homegrown assets to deliver on the initial value proposition



**Instilling culture of test-and-learn agility**, where executives can experiment, learn, and pivot with pace, to ensure the best fit that unlocks scaling



**Ensuring sufficient distance of the new build from the core**, to avoid impeding the new build with processes designed for mature organizations



**Establishing dynamic performance management and measurement** across time horizons, with a focus on capability building, data, and milestones in early days

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# Questions?

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