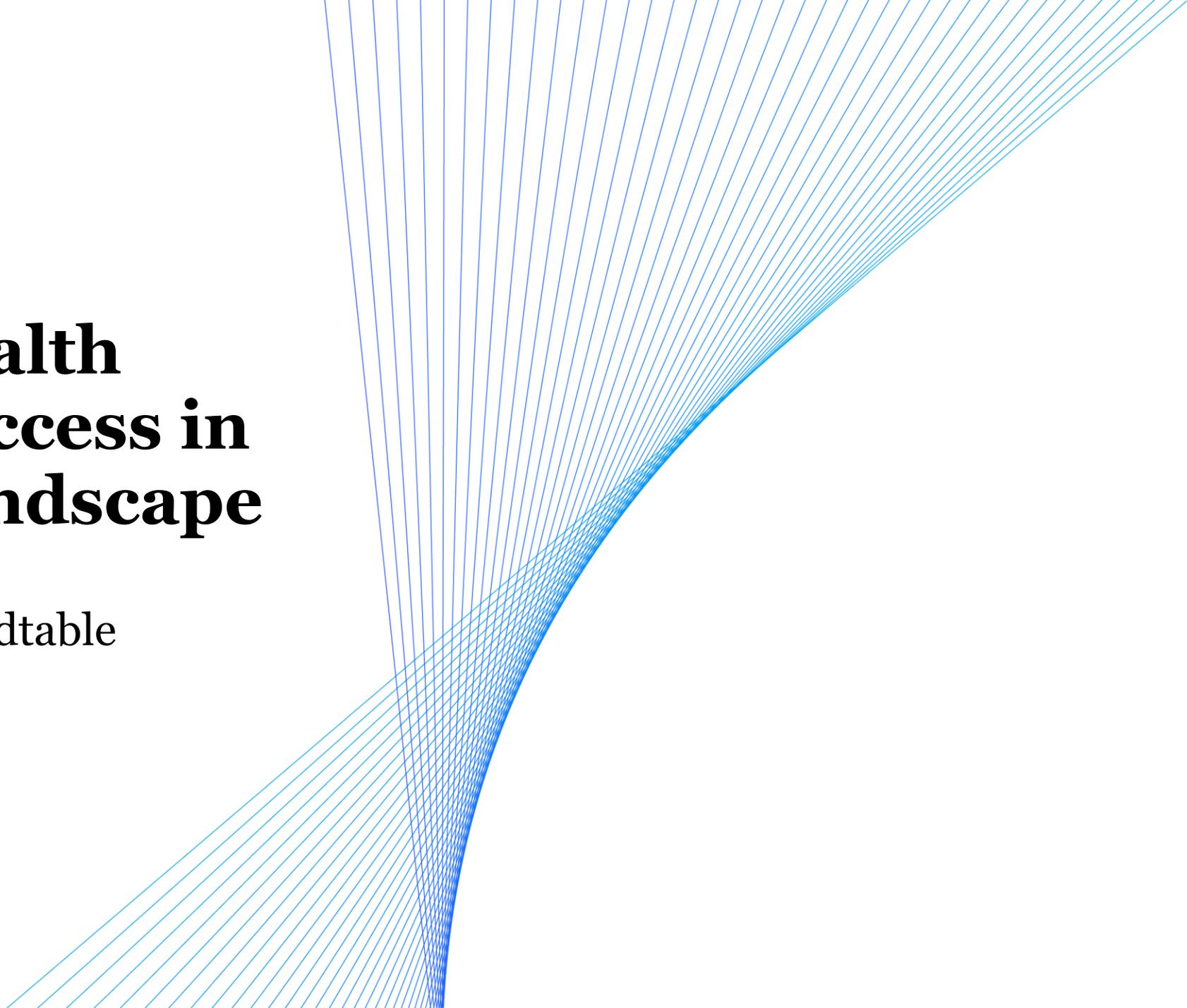


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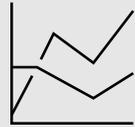
Positioning Health Systems for Success in an Evolving Landscape

Leadership Institute Roundtable
February 2024

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Agenda



Macroeconomic Outlook & Implications



Long-Term Trends & Potential Opportunity

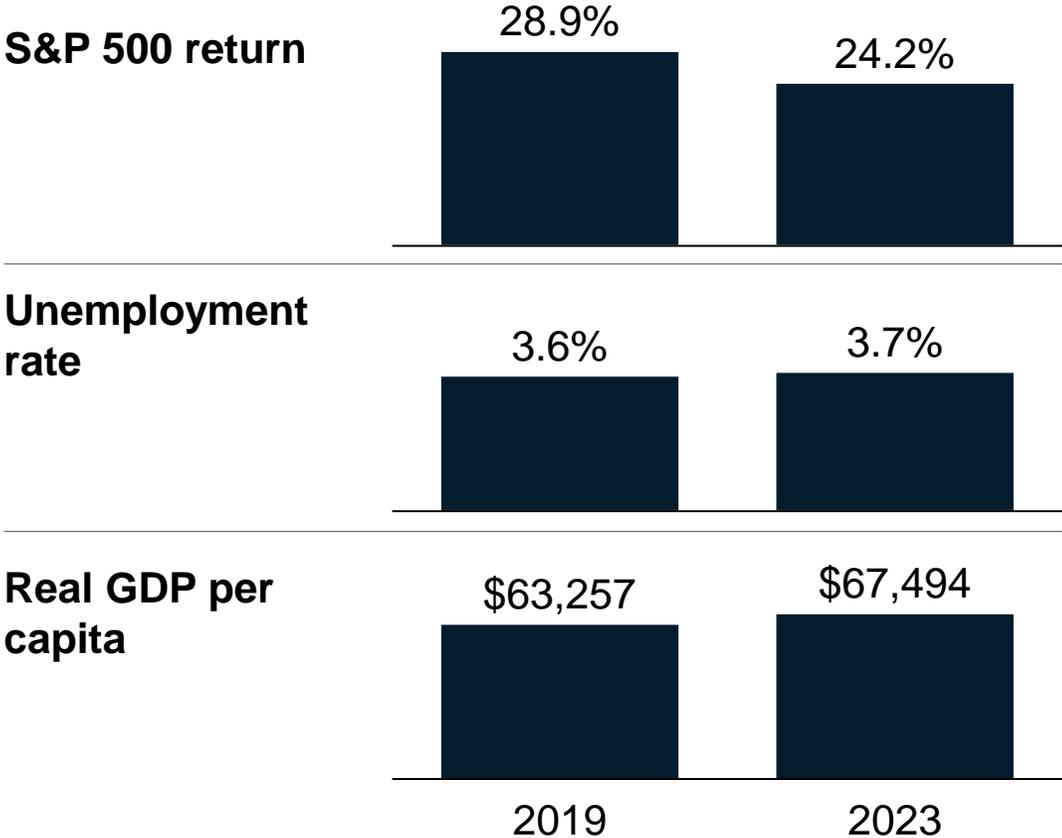
GLP-1s

ICHRA

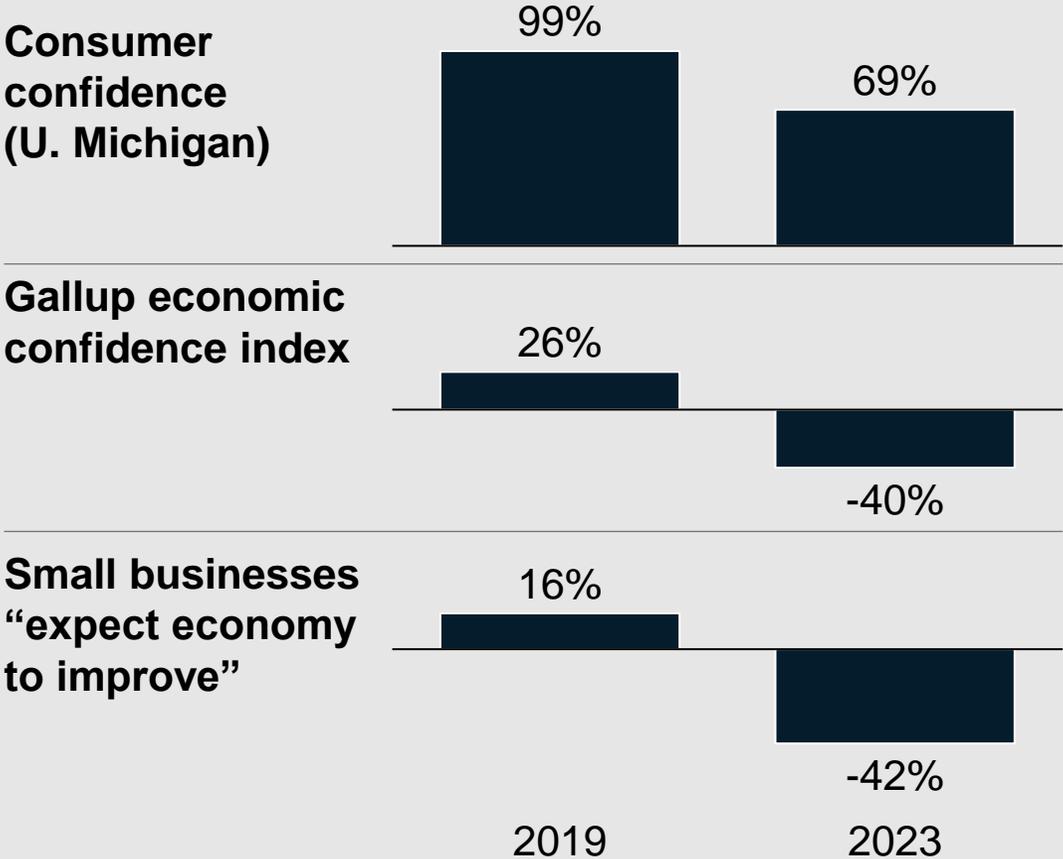
Medicare

Consumer and economic indicators appear mismatched

Economic indicators



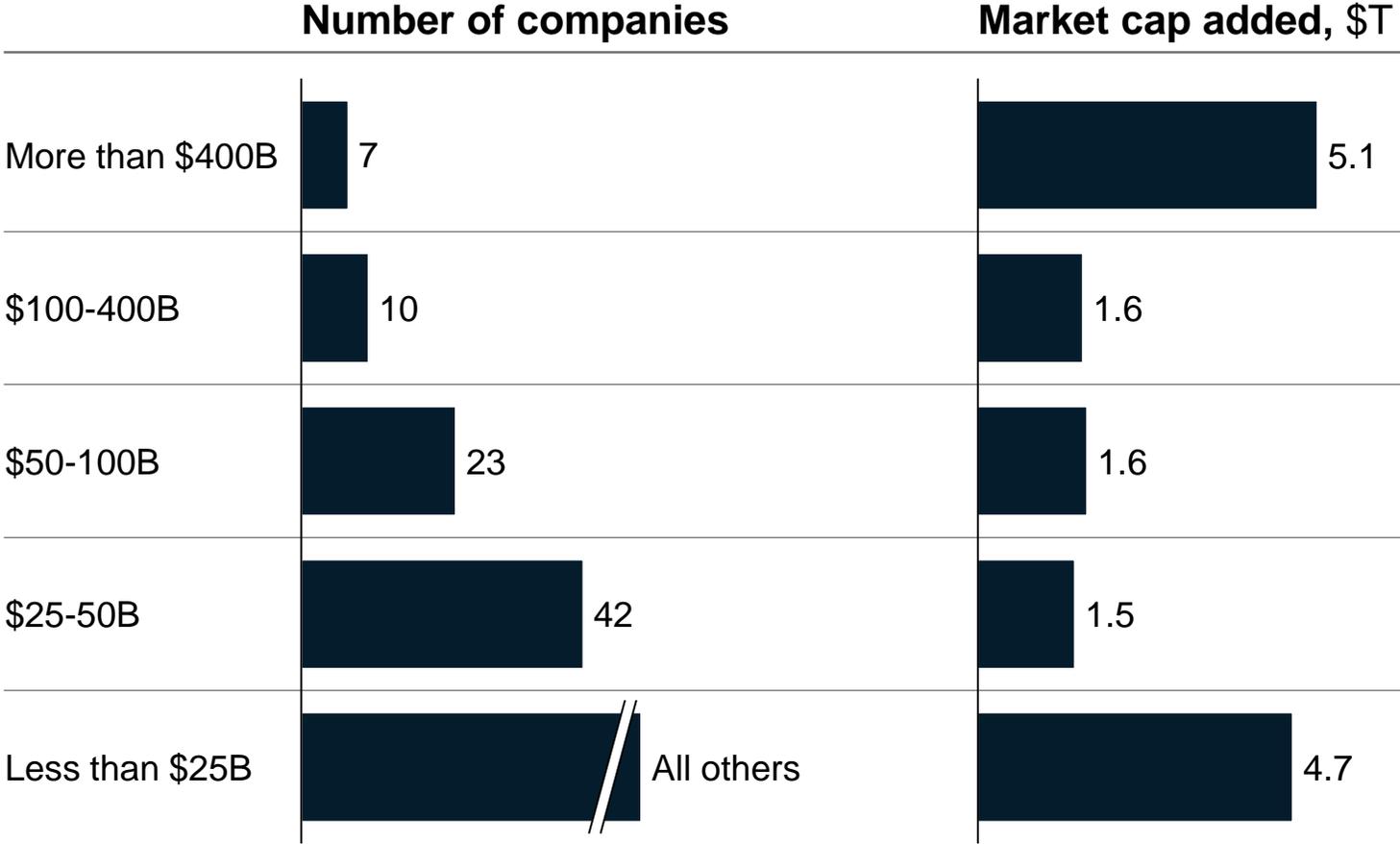
Consumer indicators



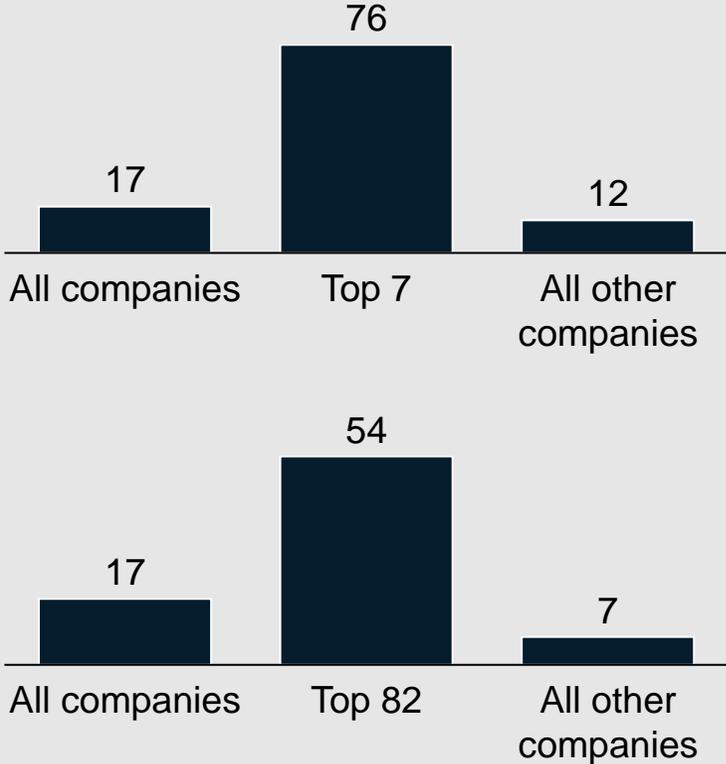
Source: S&P (Macrotrends); Unemployment (BLS); Real GDP (FRED); Consumer Conf (UM); Gallup: NFIB (2019.2023)

A handful of companies drove majority of returns in 2023

Market capitalization added in 2023 in \$T



Global Market Returns (TSR) 2023 in %



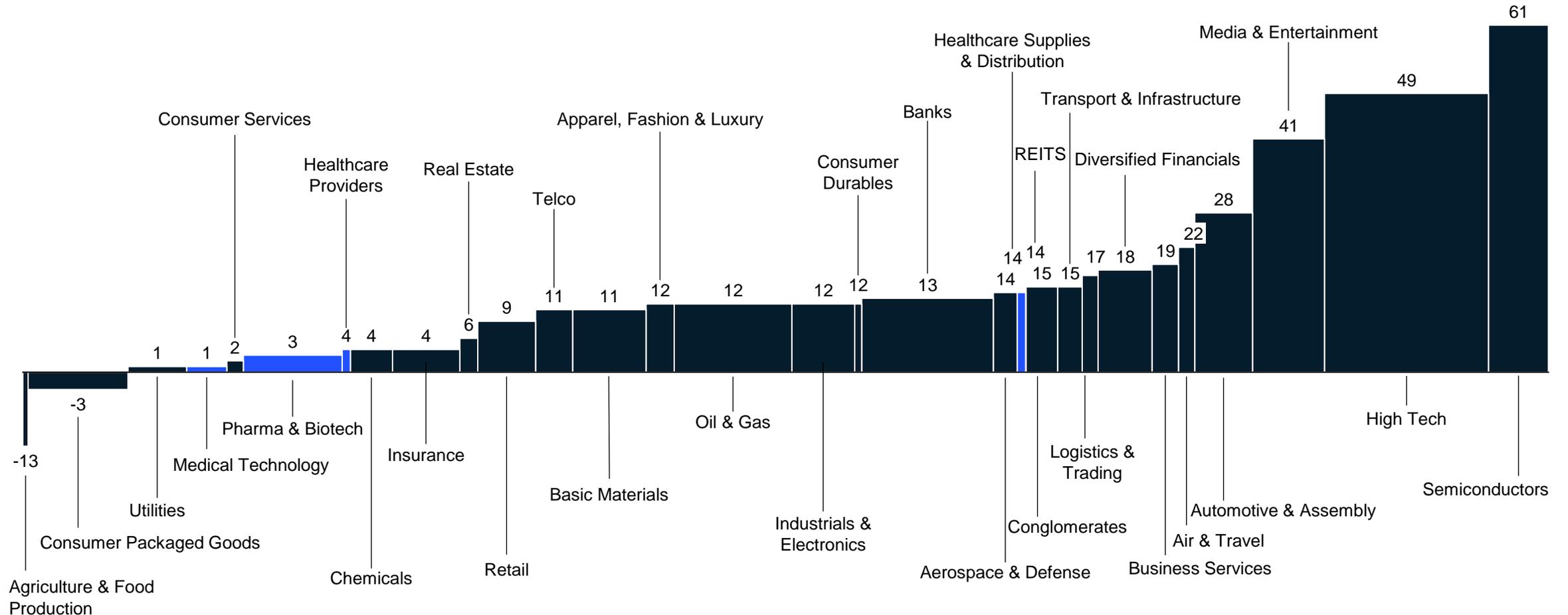
Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

Healthcare largely lagged among the Global 5000¹ in 2023

Weighted Average 2023 TSR by industry (%); width of bar is 2022 market capitalization in \$s

As of December 31, 2023

Healthcare



1. Based on the top 5000 companies globally by market cap as of 12/31/2022

Source: McKinsey Value Intelligence Platform, S&P Global Market Intelligence

Retail pharmacies have trailed S&P 500 on shareholder returns

Total Shareholder Returns: Feb 2, 2019 – Feb 2, 2024

TSR Index

February 2, 2019 = 100



1 Year CAGR
Percent

5 Year CAGR
Percent

CVS

-13

5

Walgreens
Boots

-36

-18

Rite Aid

-98

-64

S&P 500

21

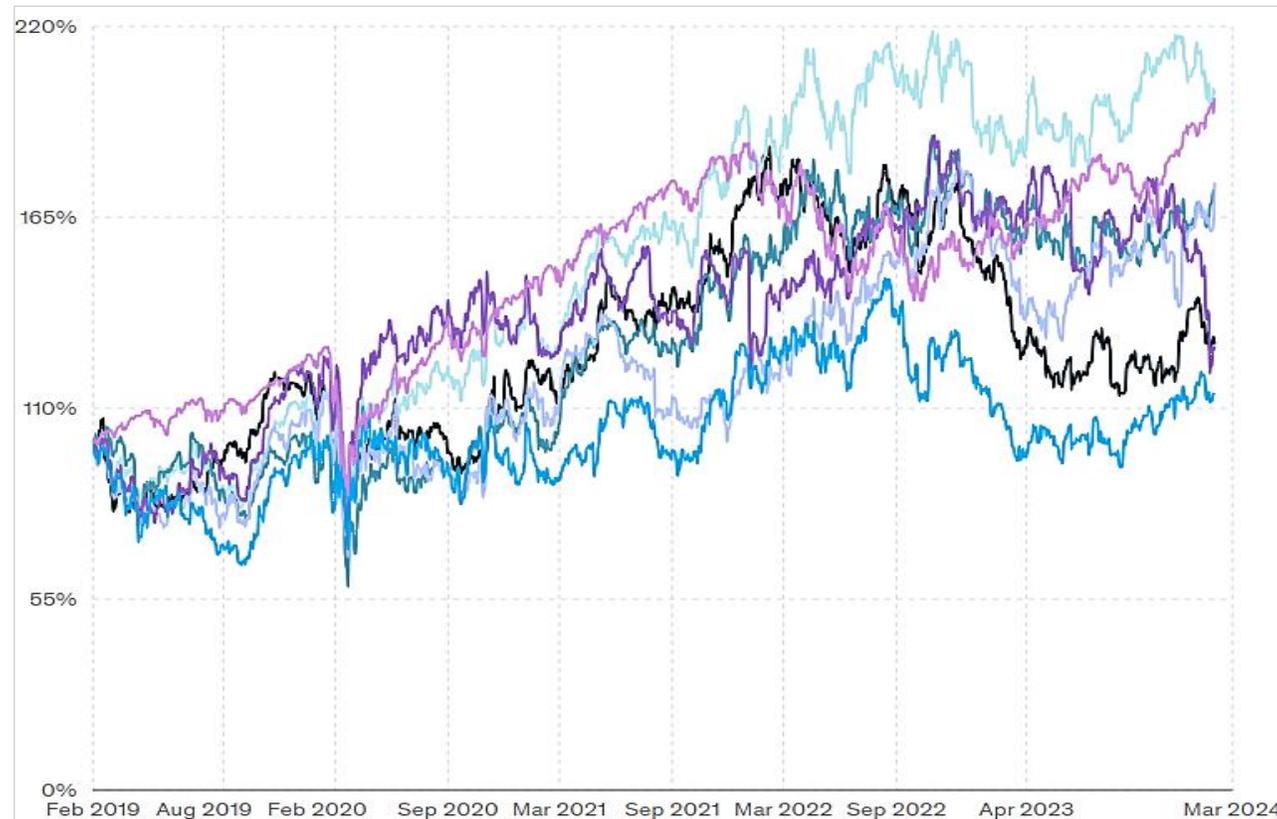
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Despite long-term gains, payors have also trailed the S&P 500

Total Shareholder Returns: Feb 2, 2019 – Feb 2, 2024

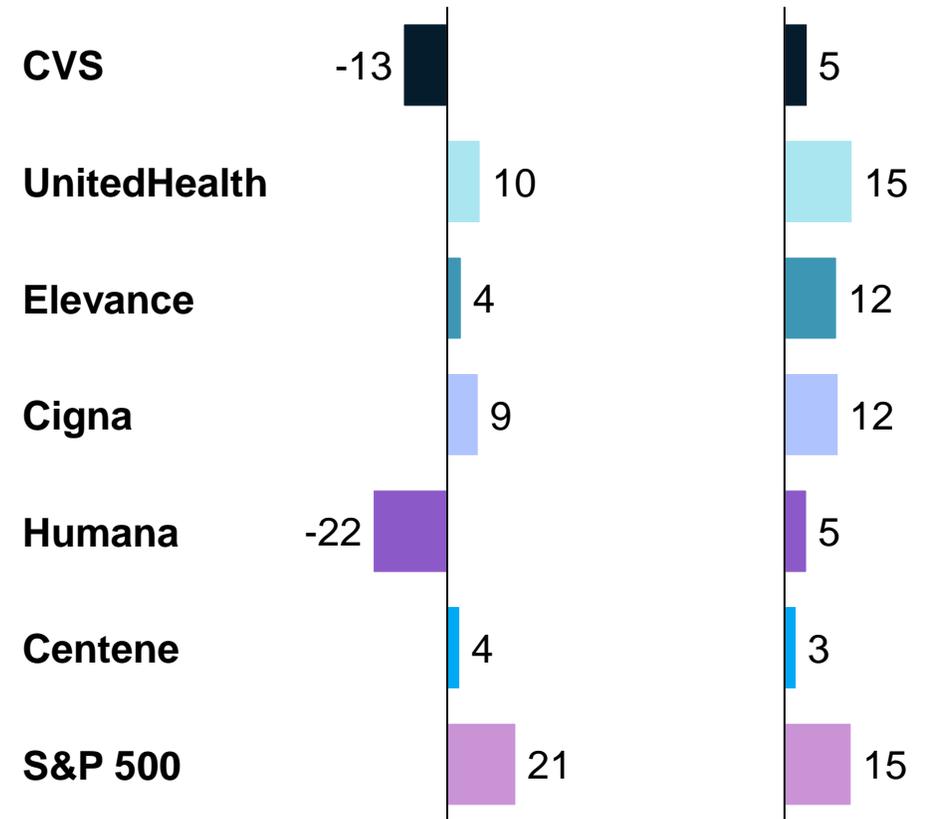
TSR Index

February 2, 2019 = 100



1 Year CAGR
Percent

5 Year CAGR
Percent

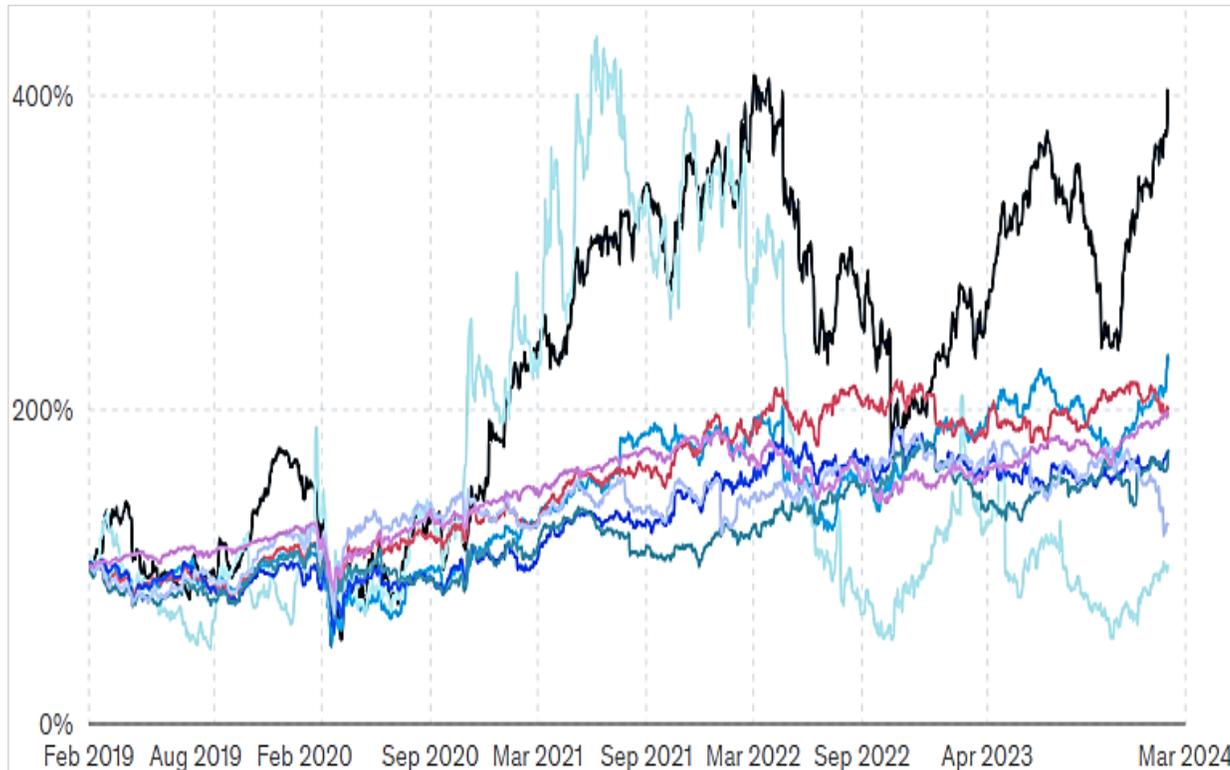


Select for-profit providers exceeded 1- and 5-Year S&P 500 gains

Total Shareholder Returns: Feb 2, 2019 – Feb 2, 2024

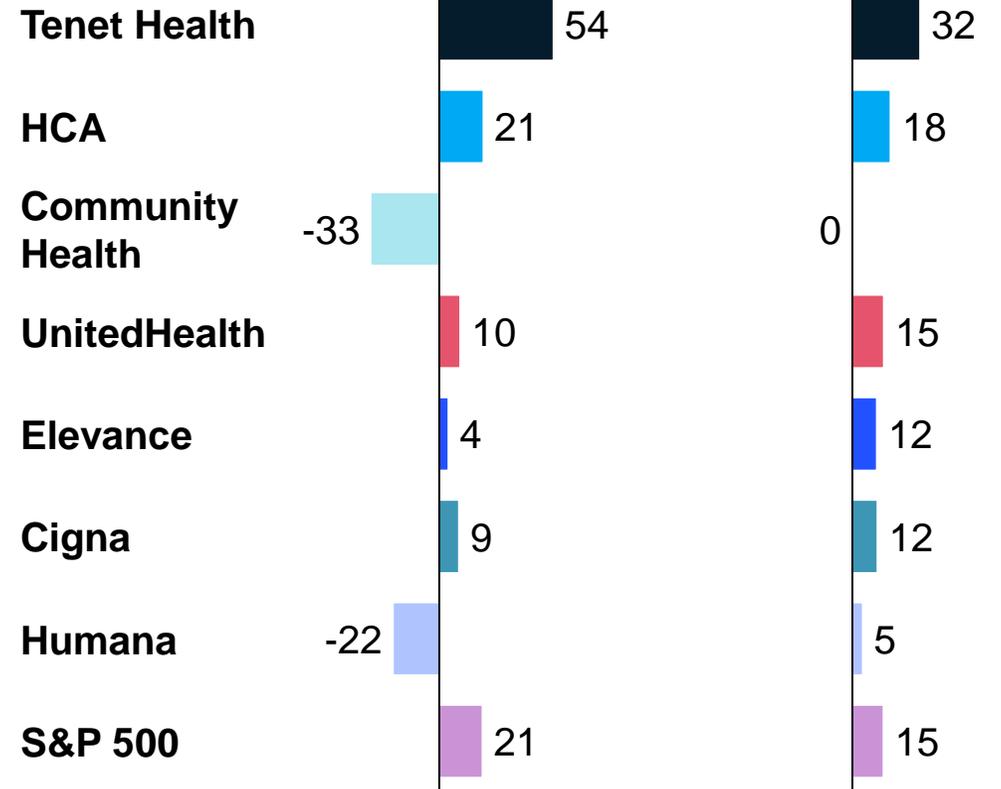
TSR Index

February 2, 2019 = 100



1 Year CAGR
Percent

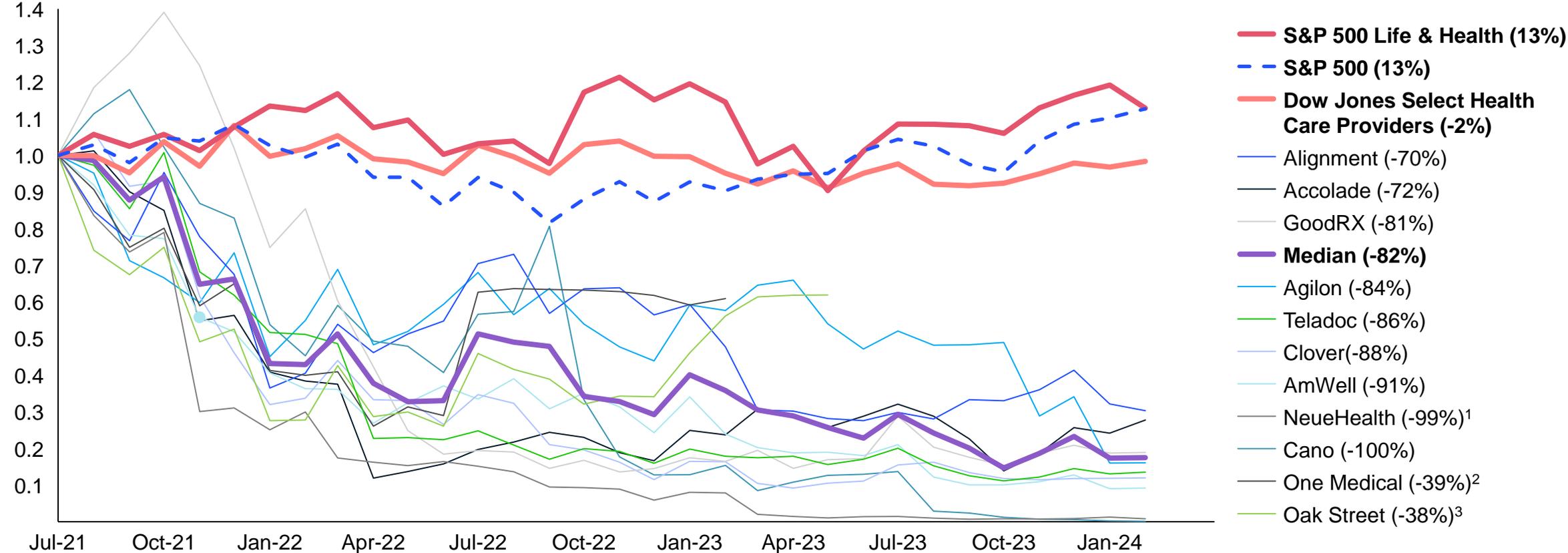
5 Year CAGR
Percent



And many prior disruptors have fallen or been acquired

Monthly Stock Price of Select Companies & Indexes since July 2021
Relative to July 2021 (or post-July 2021 IPO price)

Price change since July '21, Percentage (%)

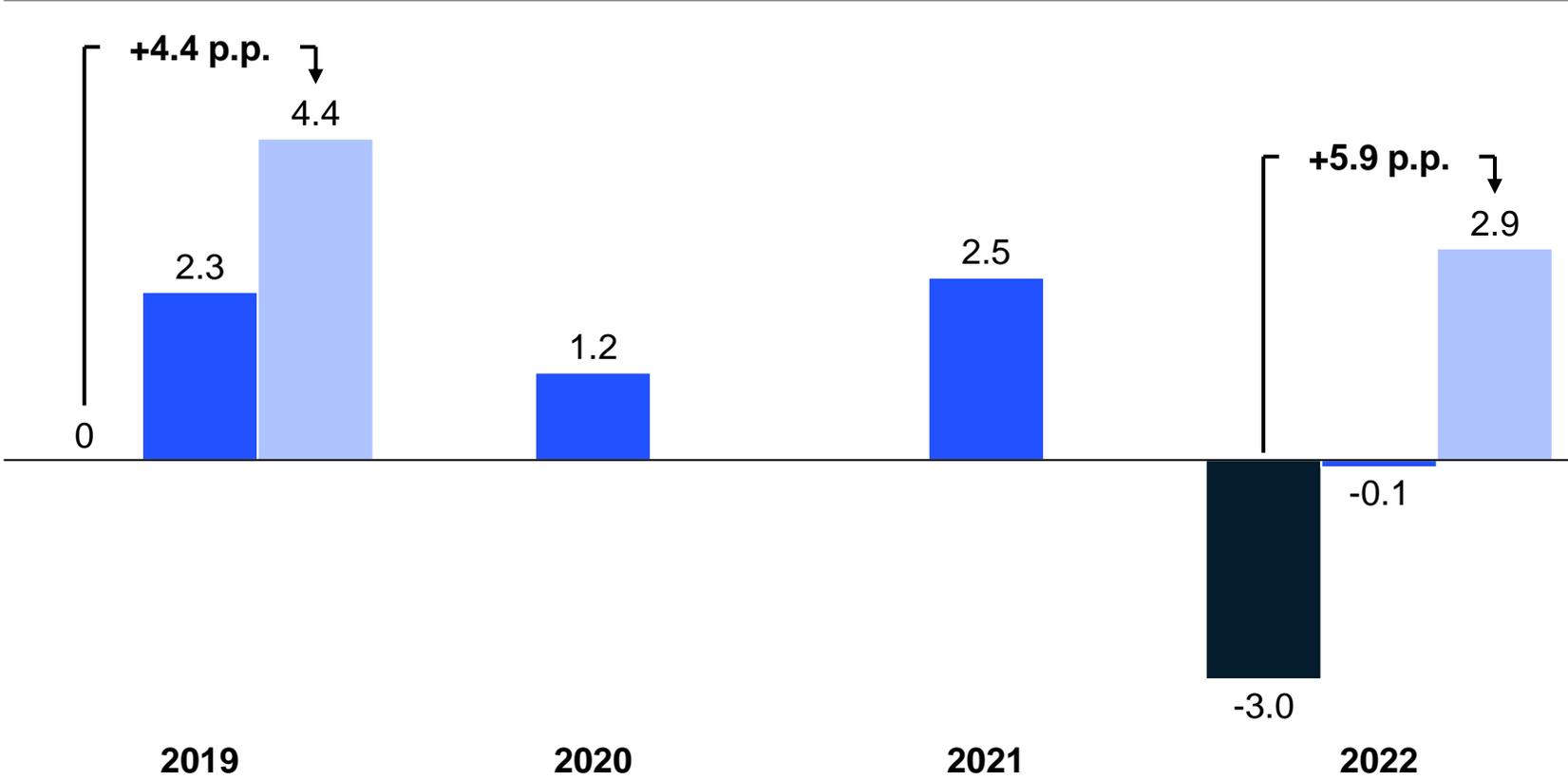


1. Formerly "Bright Health"
 2. Acquired by Amazon in Feb 2023. Last available stock price on Feb 23rd, 2023
 3. Acquired by CVS in May 2023. Last available stock price on May 1st, 2023

Source: Market Watch, Yahoo Finance; stock prices current as of 2/1/2024

Among health systems, median operating margin has fallen, and the range has expanded – yet days cash remains stable

US NFP health systems operating margin¹ (%) ■ 25th percentile ■ Median ■ 75th percentile



Median DCOH² for not-for-profit health systems was largely unchanged from 2019 to 2022

- 210.2 in 2019
- 209.5 in 2022

Investment returns in '23 boosted DCOH for many health systems

1. Operating margin is defined as net operating income margin equal to (total operating revenue) - (total operating expenses); operating expenses include SW&B, supplies, interest, D&A, and services fee

2. Days cash on hand

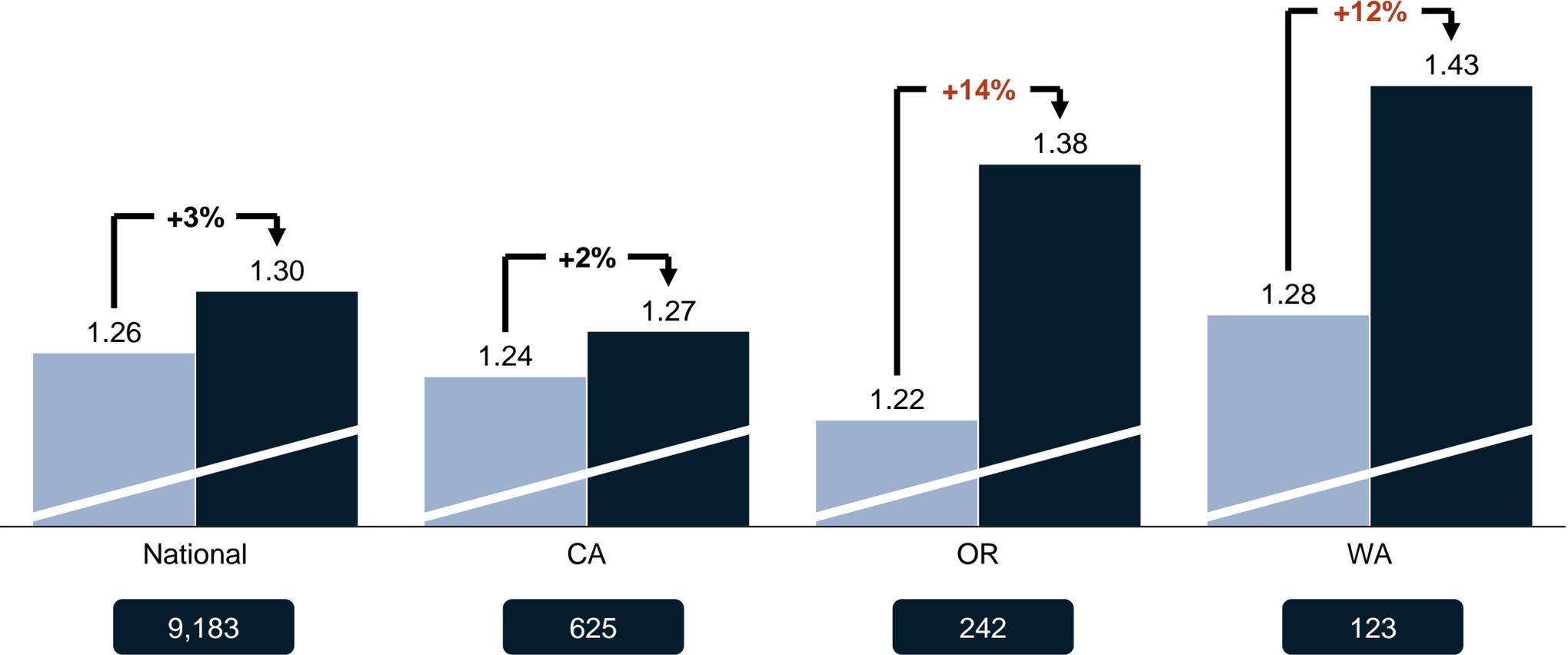
Source: S&P Global – U.S. Not-For-Profit Acute Health Care 2022 Medians: Historically Low Metrics Signify a Long Road to a New Normal (September 15, 2023) – medians include 370 institutions, which represent 91% of S&P Global Ratings' total U.S. Not-For-Profit Acute Health Care portfolio

Variation has also been seen in clinical operations

Observed-to-Expected Geometric Mean Length of Stay (O/E GMLOS)

Medicare FFS Claims, 2022

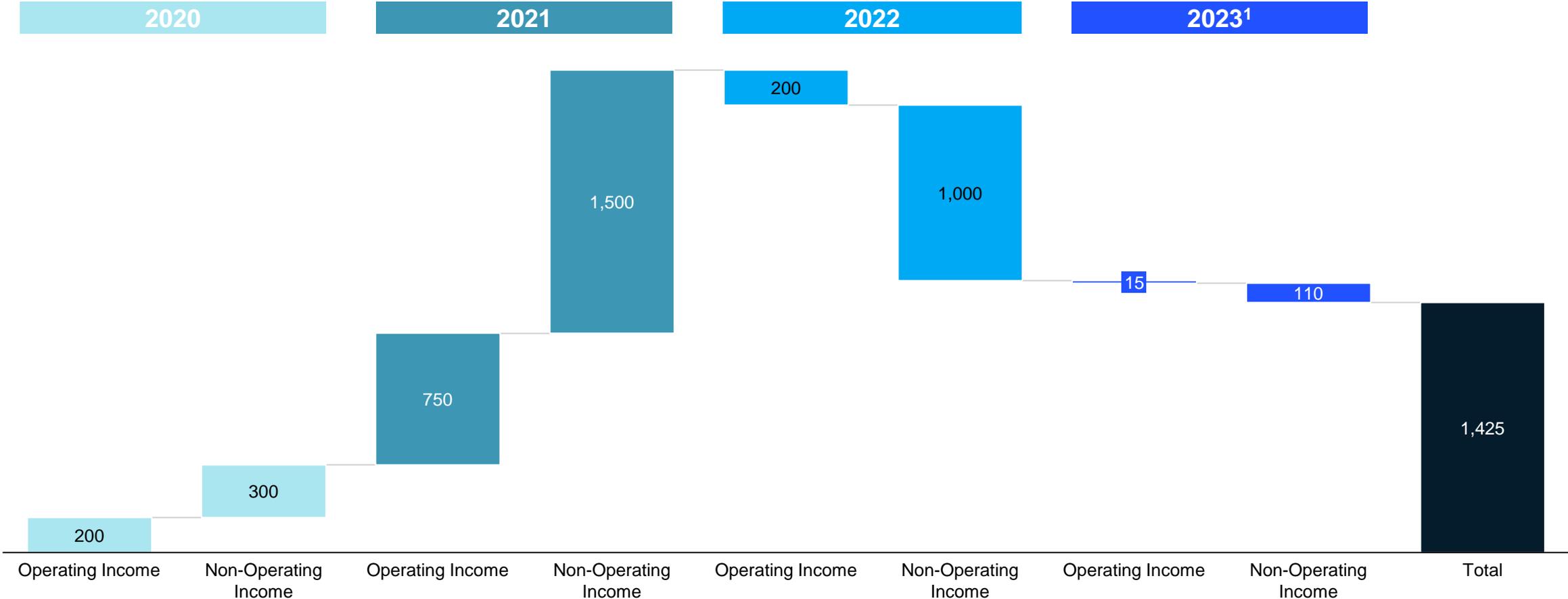
2019 2022



2022 # of claims, K

Through-cycle view for many health systems remains positive...

Cumulative operating and non-operating income for an illustrative AA-rated NFP health system², 2021 – 2023¹, \$M



1. Through Q3 2023
 2. Rounded average values from sampling of AA-rated NFP health systems

...and credit ratings for NFP providers have remained stable

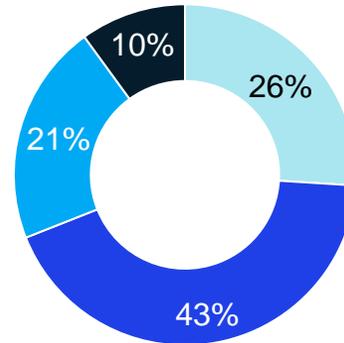
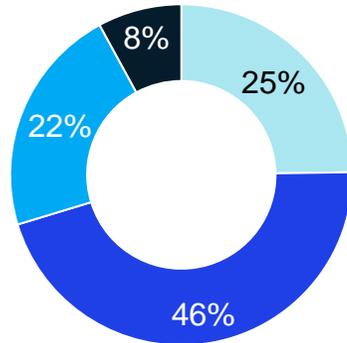
AA A BBB SG

Negative Stable Positive

2019 breakdown

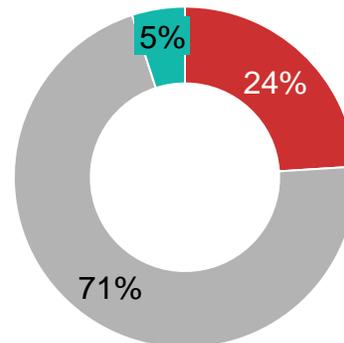
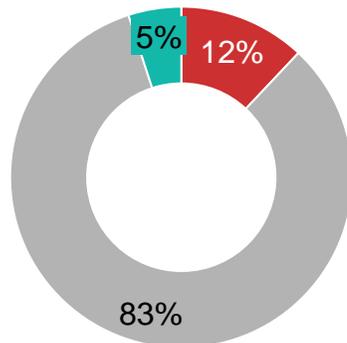
2022 breakdown

Credit Ratings



~**2/3** of health systems have 'A' or 'AA' credit ratings

Outlook



~**75%** of health systems have a stable or positive outlook

Agenda



Macroeconomic Outlook & Implications



Long-Term Trends & Potential Opportunity

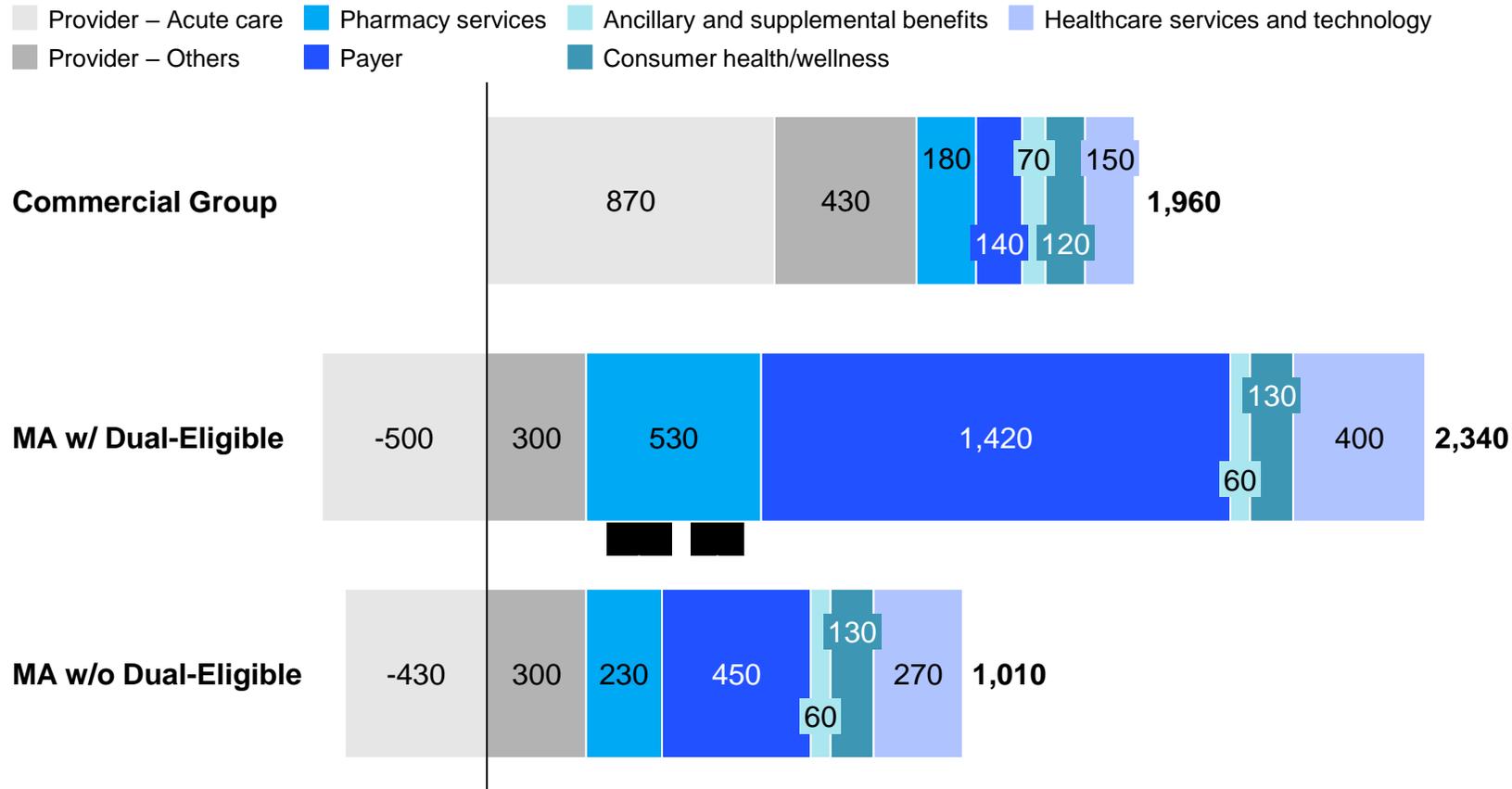
GLP-1s

ICHRA

Medicare

Health systems face multiple long-term forces that can become part of a proactive strategy

Profitability per Member for Managed Care Populations EBITDA PMPY, 2022



Long-term forces

- **Pharmaceutical innovation**, as seen with GLP-1s
- **Shift of lives from Commercial Group**, aging into Medicare and moving to new coverage (e.g., ICHRA)
- **Headwinds in MA** and how those cascade to health systems
- **Workforce** with focus on augmenting talent pipeline

Agenda



Macroeconomic Outlook & Implications



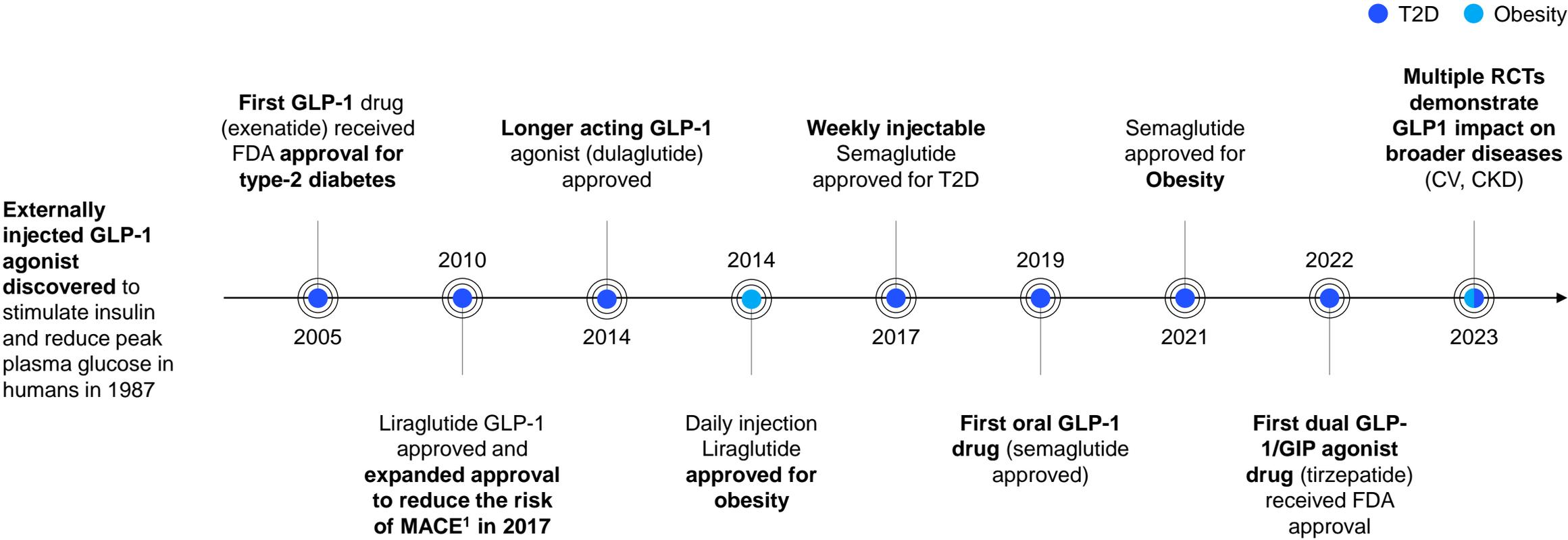
Long-Term Trends & Potential Opportunity

GLP-1s

ICHRA

Medicare

GLP-1s have treated diabetes since 2005, with recent expansion in indications to include obesity



There are several drugs in clinical trials seeking approval to expand GLP-1 treatment to other indications

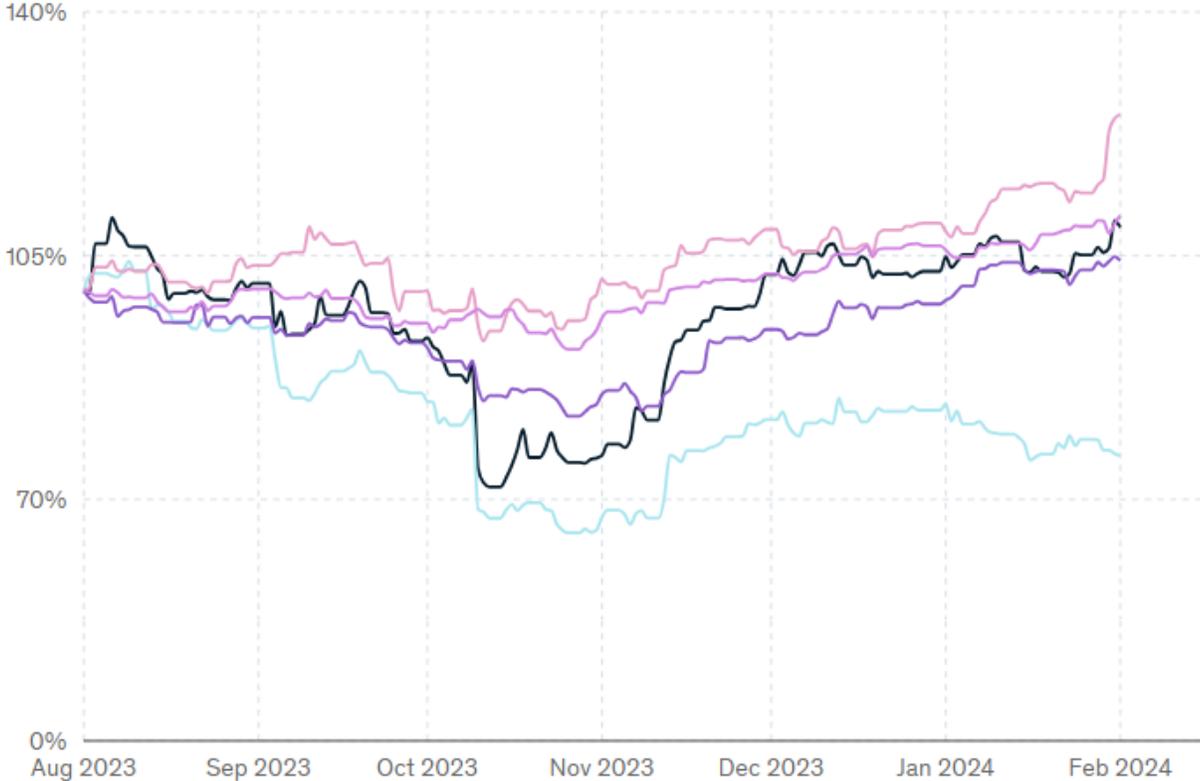
1. MACE, major adverse cardiovascular events
 Source: Fierce pharma, Individual company websites

After equity market declines in 2H 2023 with rising awareness of GLP-1s, device and dialysis companies have largely rebounded

Total Shareholder Returns: Aug 2, 2023 – Feb 2, 2024

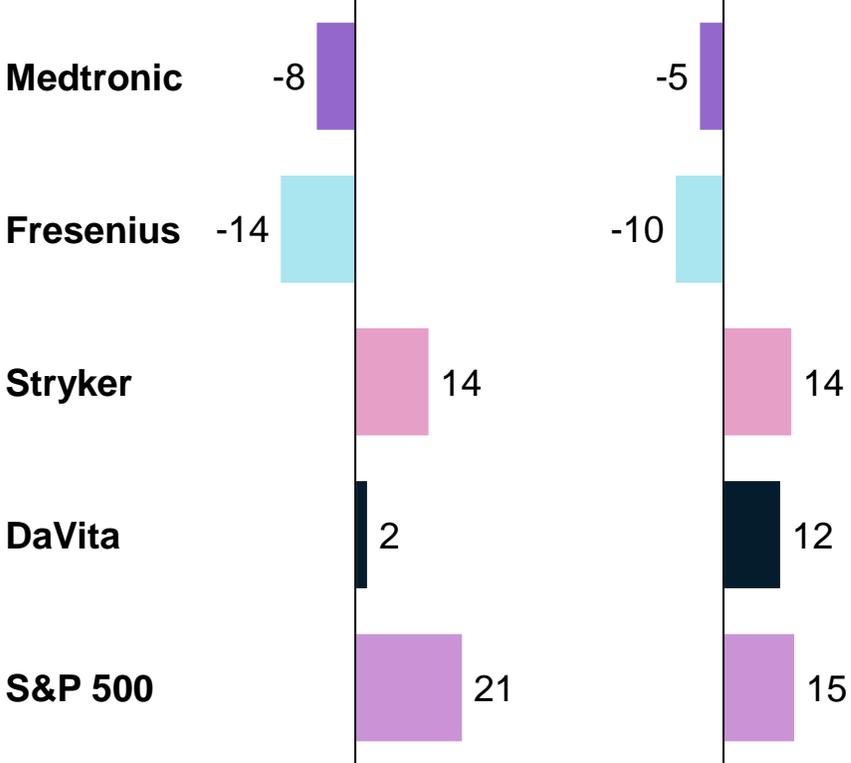
TSR index

August 2, 2023 = 100%



1 Year CAGR
Percent

5 Year CAGR
Percent



Recent earnings calls and bank reports reflect a neutral outlook for the impact of GLP-1s on medical devices and kidney care



While GLP-1s will be a huge drug class, **MedTech volumes can also increase over time – we think both can live side by side and don't see them as mutually exclusive**

**Robbie Marcus,
J.P. Morgan**

December 2023

We are mindful of headwinds, including the drugs' high (\$1,000+-a-month) price and the open question of insurance coverage... At the same time, we're eyeing the low valuations of stocks caught in the GLP-1s' wake... **we're selectively looking for opportunities where we think the reaction is exaggerated or the conclusion is just plain wrong**

Citi Wealth Outlook

January 2024

At the end of the day, we expect a net neutral impact on dialysis volume over the next decade.

And we did a lot of probabilistic adjustments and weighted as to how many people would participate, etc...

Javier Rodriguez, DaVita

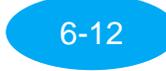
February 2024



Initial estimates indicate modest impact of GLP-1s on MedTech – yet this may present another headwind to acute care volumes

Not exhaustive

 increase
  decline
  stable

	Medtech sector (disease)	Base market size ¹	Est. patient impact (%)		Commentary
			Base	Breakthrough	
A	 PCI² (Coronary artery disease)	1M percutaneous coronary interventions (PCI)	  	  	Assumes sustained GLP-1 usage lowers risk of emergent PCI; negligible elective impact GLP-1 may lead to improved cardiac function and slowed disease progression
B	 CRT² (Heart failure)	11k CRT implantation procedures	  	 Limited direct impact on TAM, but impact on product positioning	Assumes sustained GLP-1 usage meaningfully reduces BMI, resulting in lower incident rate For monitoring, GLP-1s likely to impact non-insulin patients more substantially
C	 CGM (Diabetes)	39M Diabetes patients	  	Assumes sustained GLP-1 usage meaningfully reduces BMI, resulting in lower incident rate GLP-1s might moderate symptoms in some patients but will not reverse cartilage degeneration	
D	 Arthroplasty (Osteoarthritis)	2M total hip and knee replacement procedures			

 % change in market size due to GLP-1

While expectations may be moderating since Oct '23, pharmaceutical pipeline may further impact acute care volume

1. PCI: Percutaneous coronary interventions; CRT: Cardiac resynchronization therapy

Source: LSI 2021-2023 US estimate

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GLP-1s

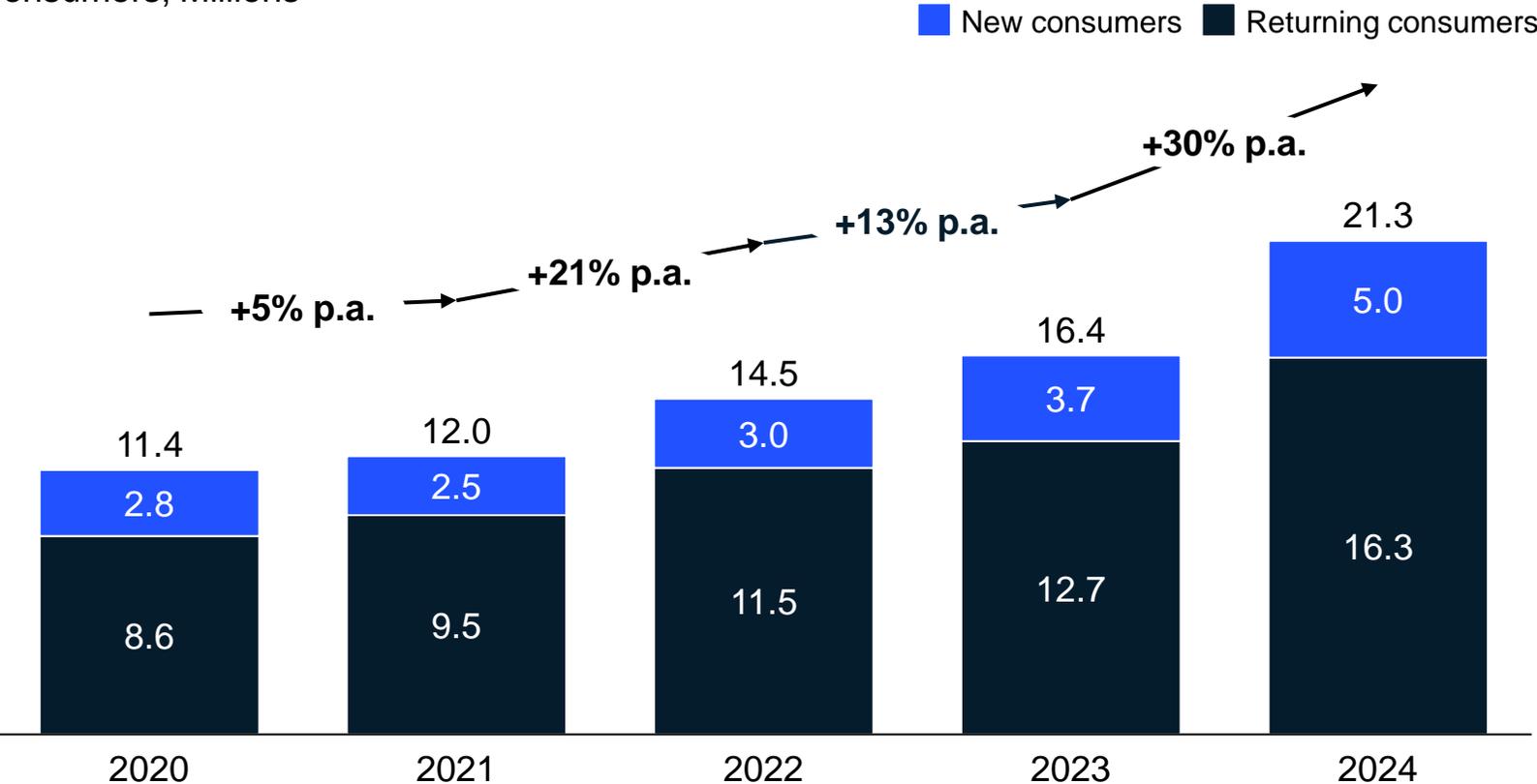
ICHRA

Medicare

Individual market has seen steady growth over the last 5 years

National Plan Selections on Exchanges¹, 2020-2024

Consumers, Millions



Individual market has nearly doubled since 2020, with increased premium stability and carrier participation

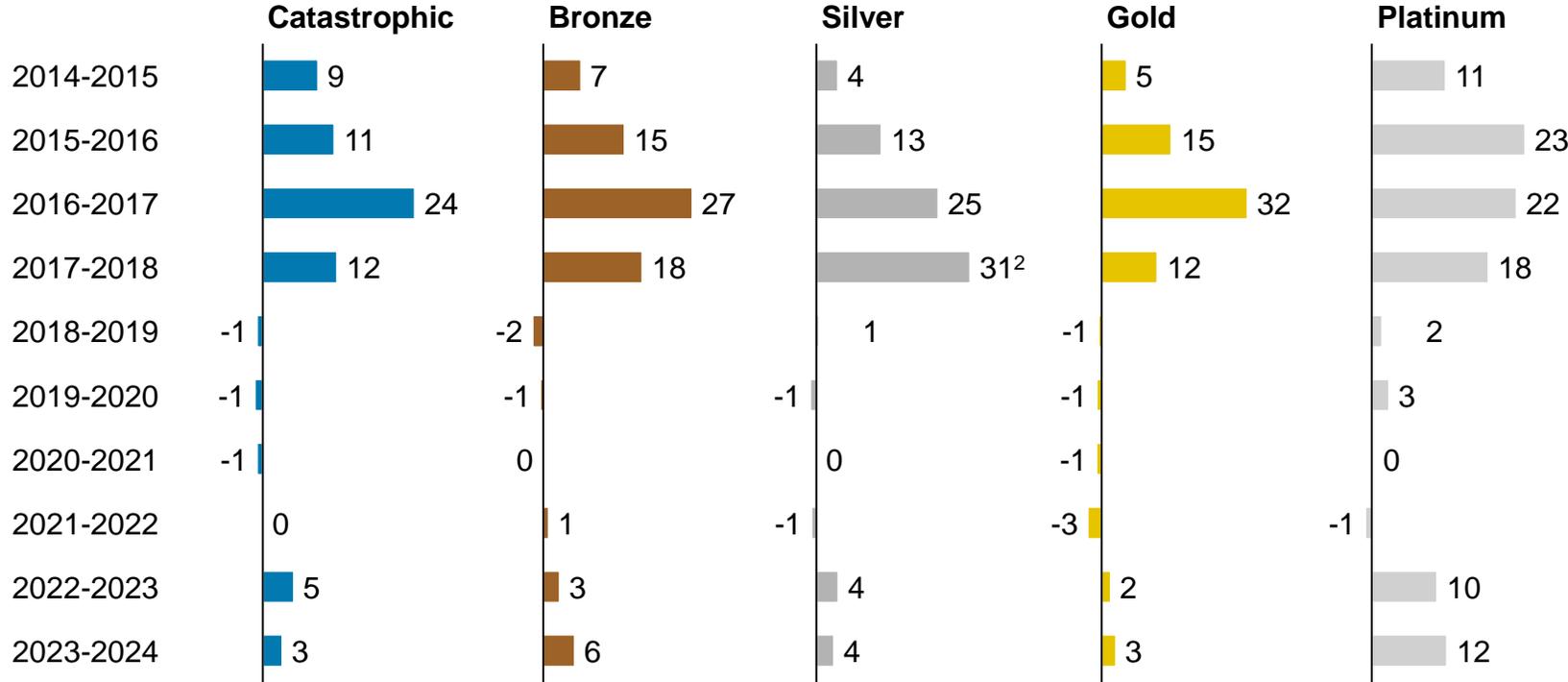
Medicaid redetermination appears to have contributed to greater rate of increase in '24

1. Note: On-exchange selections only. On-exchange represents ~85% of total Individual enrollment based on 2023 URRTs; effectuation rates average 90%+ for the industry.

Source: McKinsey analysis of federal and state individual marketplace data

Premiums have been largely stable after initial years of volatility

Percent change in gross premium by metal tier and year^{1,2}, Median change in gross premium (before subsidies) of the lowest-price plan by metal tier

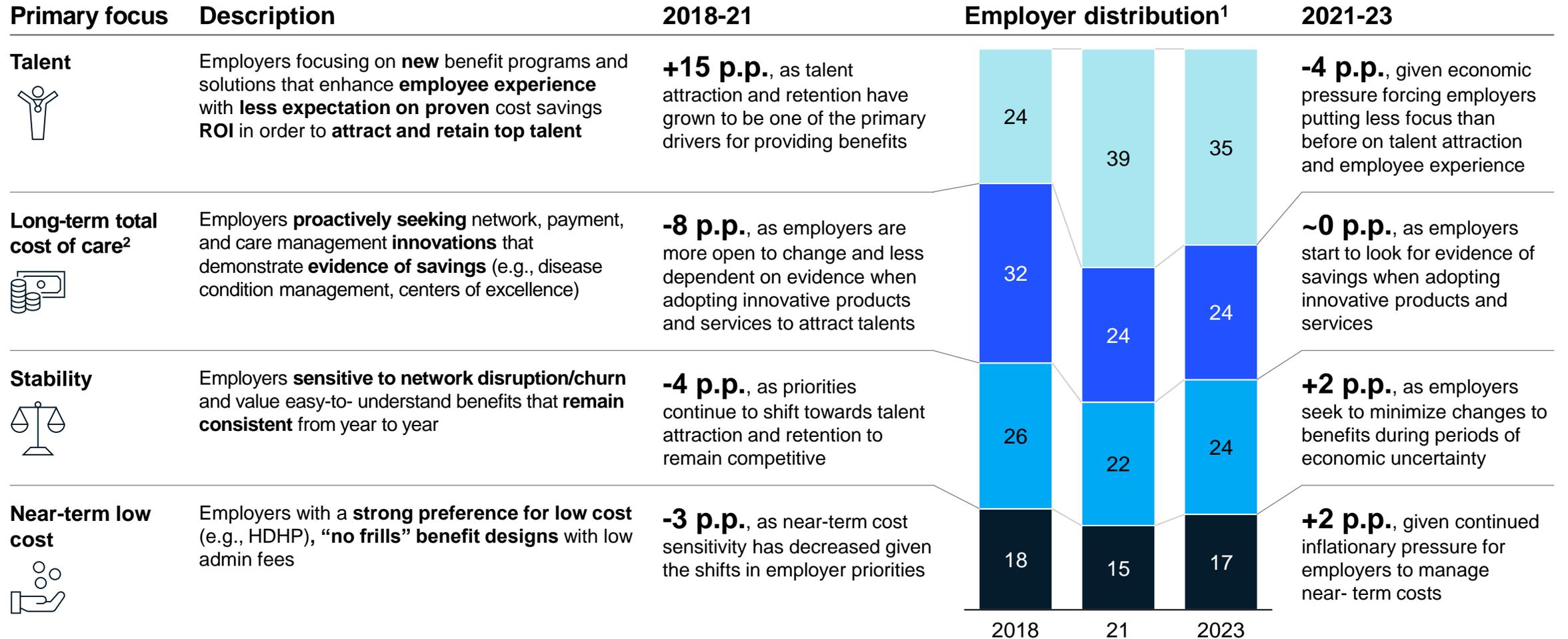


Employer plans likely fall between Gold and Platinum tiers

Premiums increased in 2023 and continue to increase in 2024 due to rising costs after being flat or negative across the market for multiple years

1. Premium changes may differ from CMS estimates due to differences in methodology including use of lowest cost plan rather than second lowest cost plan
 2. Cost-sharing reduction subsidies for silver plans were no longer directly federally funded starting in 2018

Surveyed employers reported maintaining a focus on talent proposition with benefits versus long-term cost of care



1. Employer distribution is reflective of self assessment results
 2. Potential for lower total cost of care trend in the medium to long term

ICHRA may change how employees choose health benefit plans

Not exhaustive

Current State: Traditional Group Insured Plan

Employer designs or selects a few plans for employees to choose from (1-3 plan options from typically one carrier)

Employer subsidy is implicit, in that employee only pays a portion of premium

Typically requires minimum participation as part of carrier rate offer

Employee cannot keep health plan if separated from employer (outside COBRA)



Future State: Employer Coverage Under ICHRA

Increased Employee Choice: Employee can select a carrier and plan from Marketplace (>80 available options on average)

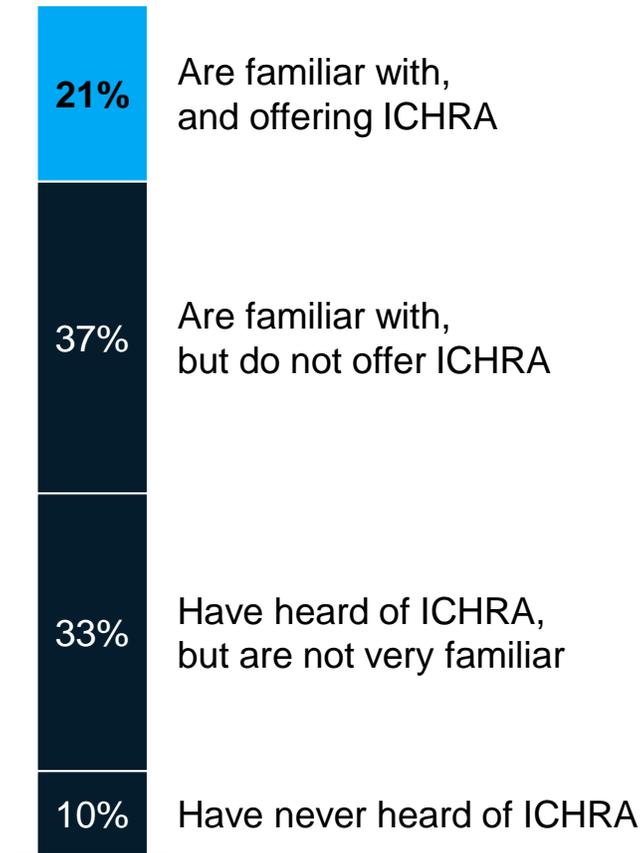
Increased Transparency: Employer provides employee an explicit, fixed subsidy, which can be used against premiums and other qualified medical expenses

No minimum participation requirements

Increased portability, given health plan is available independent of employment status

Barriers to ICHRA adoption include concerns around employer's role in benefit design, administrative complexity

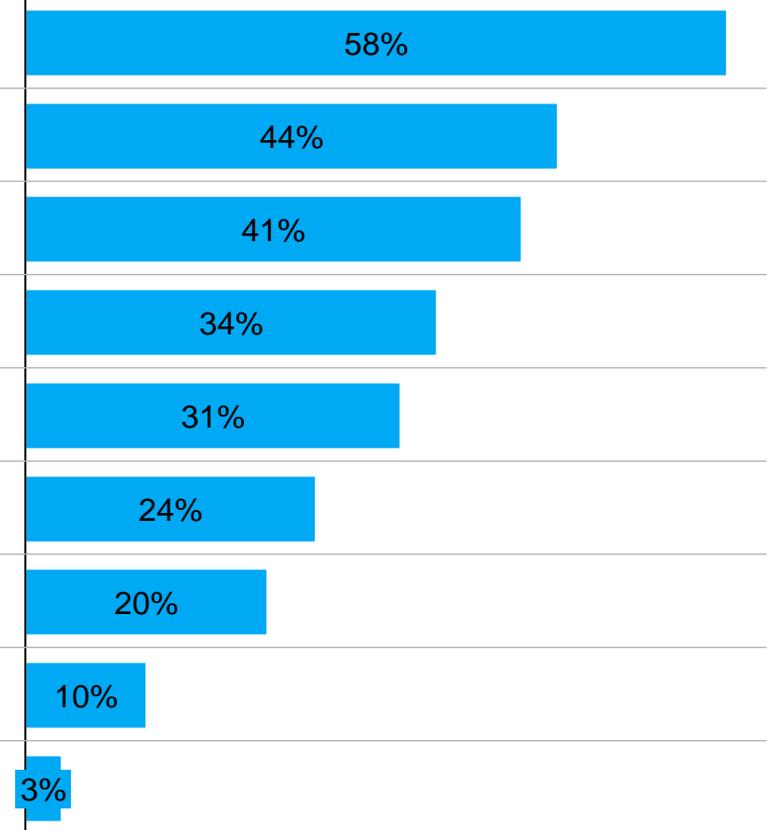
Of the 251 employers we surveyed,



Factors that make employers hesitant to offer ICHRA to their employees

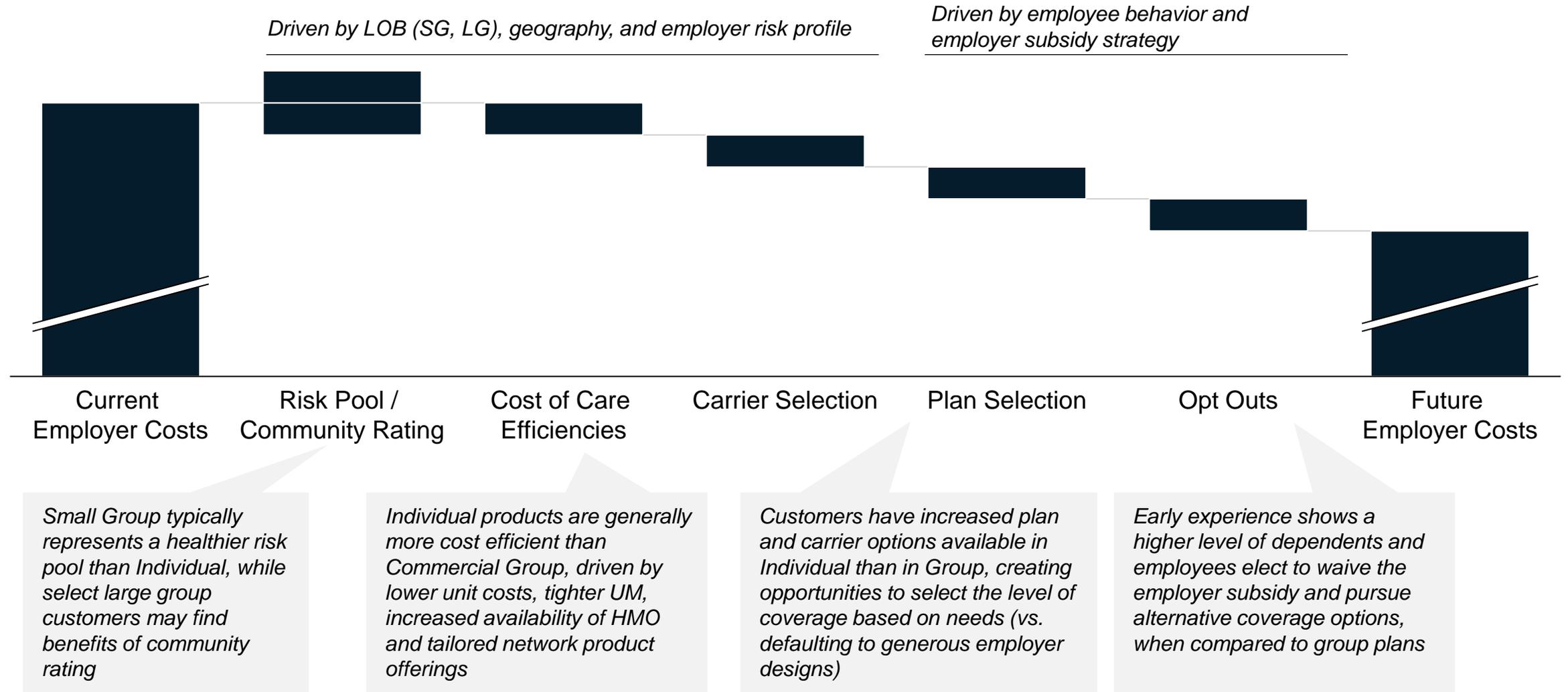
- We prefer to play an active role in benefit design for employees
- We are happy with our current option and do not want to change
- ICHRA seems like a complex process that would add administrative burden
- We are concerned about employee retention / attraction
- It would be too difficult to transition and educate employees
- The benefit design and network breadth of plans on the Individual market would not fit our employee needs
- Plan options on the Individual market available to our employees would be too limited
- We do not anticipate realizing any cost savings on health benefits spend and administration
- Other

Employers that consider each factor as a barrier to ICHRA adoption



Employer savings are driven by a mix of factors which vary by market and by individual employer

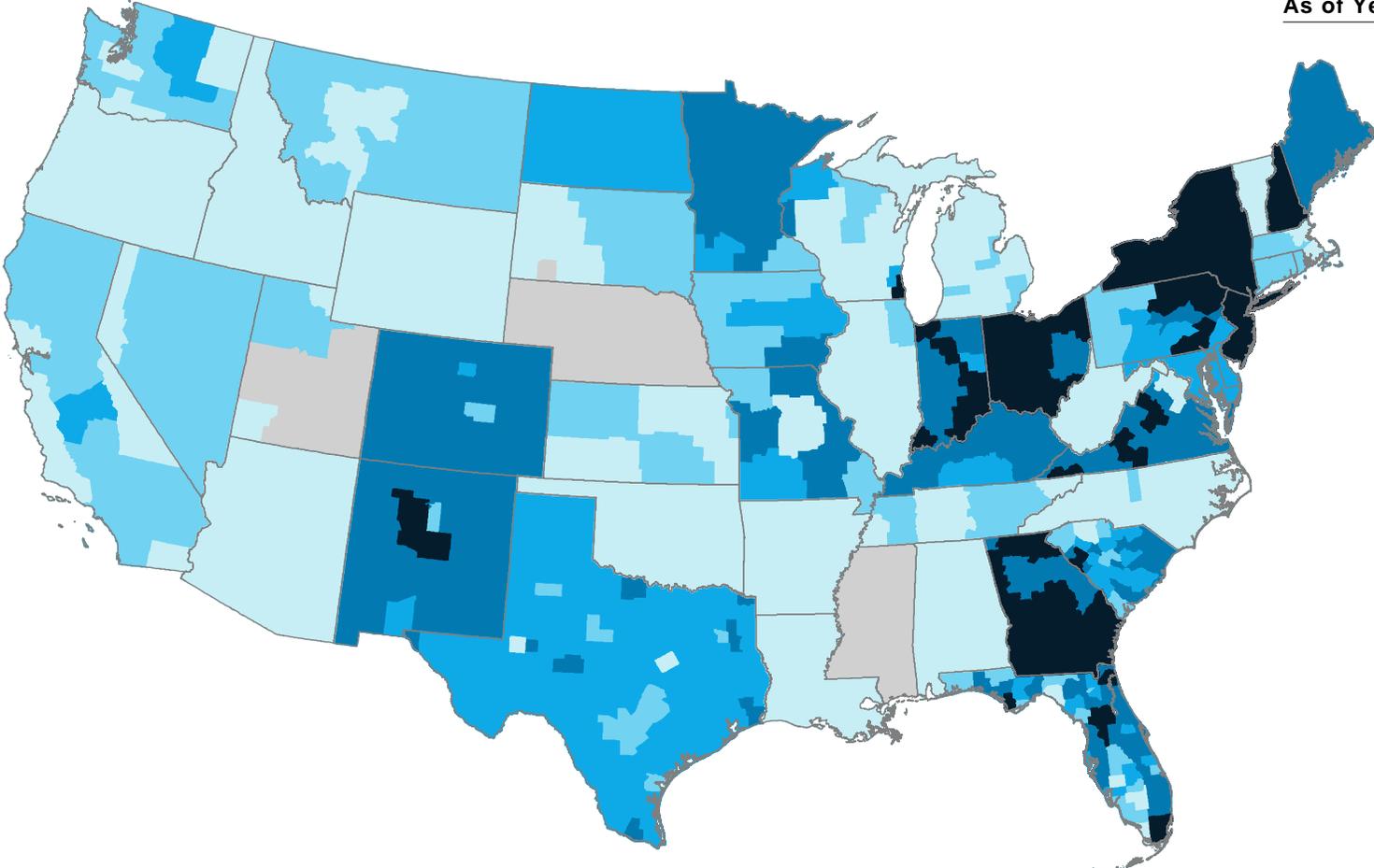
ILLUSTRATIVE



Individual market rates were less expensive than Small Group for >30% members

In sufficient data
 <20% loss
 5-20% loss
 <5% savings or loss
 5-20% savings
 >20% savings

As of Year-end 2022



Price advantages of Small Group have eroded as Individual market price increases have been relatively flat

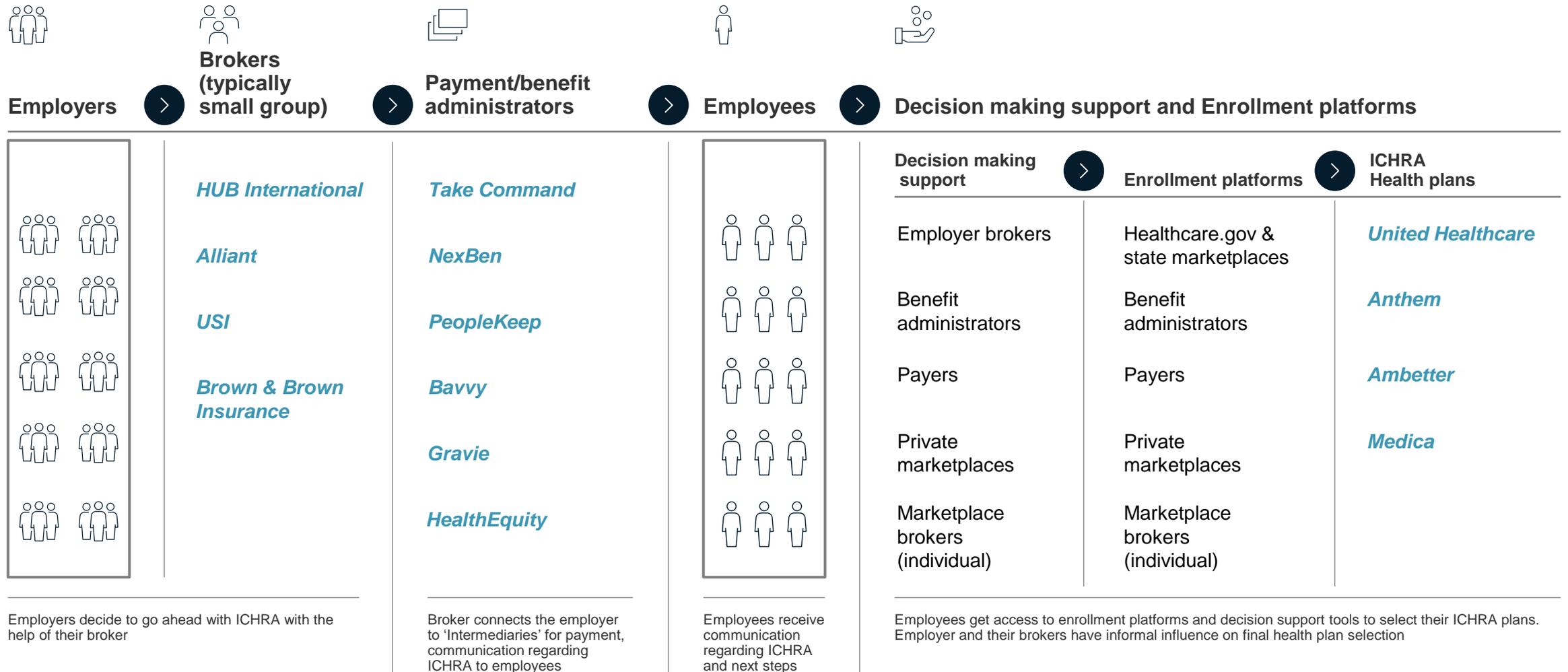
Comparison varies by metallic tier (Bronze comparison shows >50% of markets with savings as of 2023)

Source: Premium comparison analysis based on 2023 data for individual and 2022Q4 for small group from HIX Compare. Analysis compares on and both, on and off, individual non-CSR and non-child only lowest-cost Silver plans to equivalent small group plans for individuals with single coverage and age 27 and controls by state, rating area, and plan type. Enrollment data based on URR2 20221027 and weighted by rating area using commercial fully insured weights.

The ICHRA value chain typically begins with small group brokers, and includes decision support and enrollment intermediaries

Current ICHRA ecosystem overview

NOT EXHAUSTIVE



What you would have to believe for ICHRA adoption to scale

Cost Pressure: Employers will be facing increased cost pressure, which could increase the role of CFO in benefits management and prioritize focus on cost savings opportunities

Market Perception: Shift to Marketplace via ICHRA will not be perceived as a takeaway to employees; perceptions have evolved as exchanges have stabilized and offerings have expanded; effective go-to-market by payers and brokers will position as evolution of group benefits, similar to a 401(k)

Up-Market Adoption: Adoption will expand into the mid-and large-group segment of the employer market, driven by increased benefits of community rating; increased adoption in specific cost-advantaged geographies will shift the market

Payer Growth Opportunity: Individual market payers with limited group business will pursue ICHRA as a growth vector; group-focused carriers will participate via segmented go-to-market strategies similar to level-funded, and/or will pursue net new growth via employers that do not currently offer benefits (e.g., small group, part-time employees)

Available Savings: Individual market will continue to drive cost efficiencies even as the customer profile evolves; savings erosion due to provider fee schedule adjustments will not severely impact adoption; CMS will evolve the risk adjustment formula over time such that lower risk groups become more profitable and attractive for payers to enroll in the Individual segment

Broker Capabilities and Incentives: Group brokers will be incentivized to learn about and sell ICHRA products as an opportunity to proactively engage prospective clients; established commissions for products listed on exchange platforms (either partnered or owned) will alleviate concerns over revenue cannibalization for existing customers

Agenda



Macroeconomic Outlook & Implications



Long-Term Trends & Potential Opportunity

GLP-1s

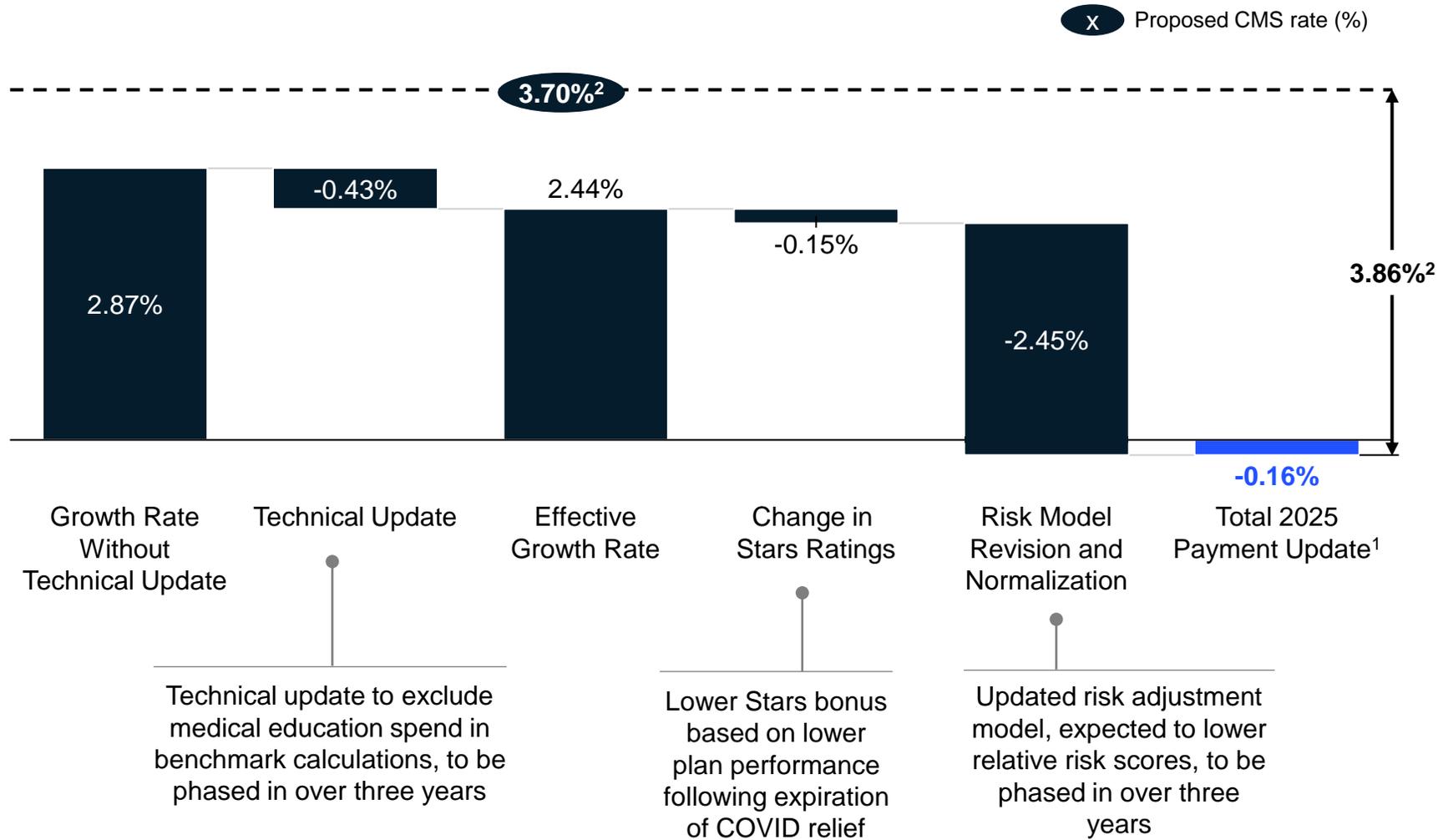
ICHRA

Medicare

8 noteworthy regulatory changes in Medicare Advantage (MA)

	Trend	Impact on market attractiveness
	A Risk adjustment model and auditing updates	
	B First cuts to payment rates in years	
	C Changes to Star ratings	
	D Part D cost-sharing changes	
	E Increased plan oversight and approval standards	
	F New standards in Dual-SNP plans	
	G UM and marketing changes	
	H Suggested MedPAC changes	

Revenue: CMS proposed rate decrease of 0.16% in 2025



0.16%

decrease represents a **2nd consecutive year of financial headwinds to MA**, albeit less negative than 2024 (-1.12%)

MA had seen consistent annual rate increases from 2017 to 2023, peaking with a 5.0% increase in 2023

The impact to specific plans will vary, driven by geographic footprint, Stars performance, condition mix of enrollees, and level of coding intensity realized under the current risk adjustment model²

1. Excludes effect of changes for risk coding trend

2. CMS estimates 3.7% increase after accounting for a 3.86% increase in MA risk score trend

Cost: Five recent drivers of higher utilization in the MA space

Not exhaustive

Substantial impact
 Moderate impact
 Low - moderate impact

Driver	Overview	Impact to payers	Impact to risk-bearing providers
Growth in PPOs	Faster growth in PPO vs HMO products , because of increasing preferences for network flexibility particularly among younger MA age-ins, and growing parity in benefits offered across both types of plans		
Adverse selection	Humana and UHC's richer benefits and larger proportions of 4-5 Star-rated plans inherently attracting higher acuity members with higher utilization tendencies		
Actuarial forecasts	Unforeseen upticks in inpatient and outpatient care stemming from pent-up demand post-COVID, plus new medical discoveries		
Increased supp. benefit utilization	Increased utilization of supplemental benefits, in particular dental , has led to an increased cost trend		
Aging US population	Aging of US population is expected to translate into more intense healthcare needs , driving higher utilization		

Cost: High utilization was a common trend in 2023 and is expected to persist in 2024

Humana	Strong results in Medicaid and primary care business offset by higher-than-expected utilization in MA Increase in initial MLR projection to 91.4% above initial projection of 89.5%
United Healthcare	Overall shifts in care patterns with high levels of outpatient care among seniors Projected full year medical cost ratio for 2024 expected at upper end of estimated range
Agilon Health	Utilization surge starting in Q2 from outpatient surgeries, part B drugs and associated specialist costs, impacting 2023 performance Medical costs \$90M higher than expected , reducing medical margin expectation by \$110M
CVS Health	Observed increased utilization driven by outpatient and supplemental benefits Reduced full-year 2024 guidance , including MLR, by 40 basis points¹ due to increased MA utilization and anticipated ongoing higher medical costs in 2024
Centene Corporation	No observed substantial increase in utilization. 2024 bids and pricing remains consistent with original 2024 Medicare outlook

1. 2024 projected MLR increased by 50 basis points with 40 basis points attributed to higher utilization

Conclusion

Beyond advancing the day-to-day agenda, health system leaders should:

- **Reflect Optimism:** Health systems' outlook has often been described in dire terms in recent years, yet many data points show both resilience and opportunities ahead – especially as the core attribute of health systems, the primacy of your relationship with patients, remains strong
- **Maintain Through-Cycle View:** For many health systems, balance sheets are stronger now than in 2019, especially with investment gains in 2023. At the same time, the cost of capital has risen for public companies and many of the disruptors have been repriced in public and private markets. Health systems now have a privileged moment to invest and reposition for the future.
- **Understand Medium-Term Outlook and Its Implications:** Beyond near-term headwinds, ongoing reliance on cross-subsidization from Commercial insured patients poses one of the greatest business model risks to health systems. Developing a clear view on potential disruptions (and timing) is key, along with preparing “no regrets” actions for a range of scenarios (e.g., improving patient access)

Finally, several themes we have discussed before, including the value of scale and the approach to new capabilities, continue to hold true – and can help achieve the goals reflected above.

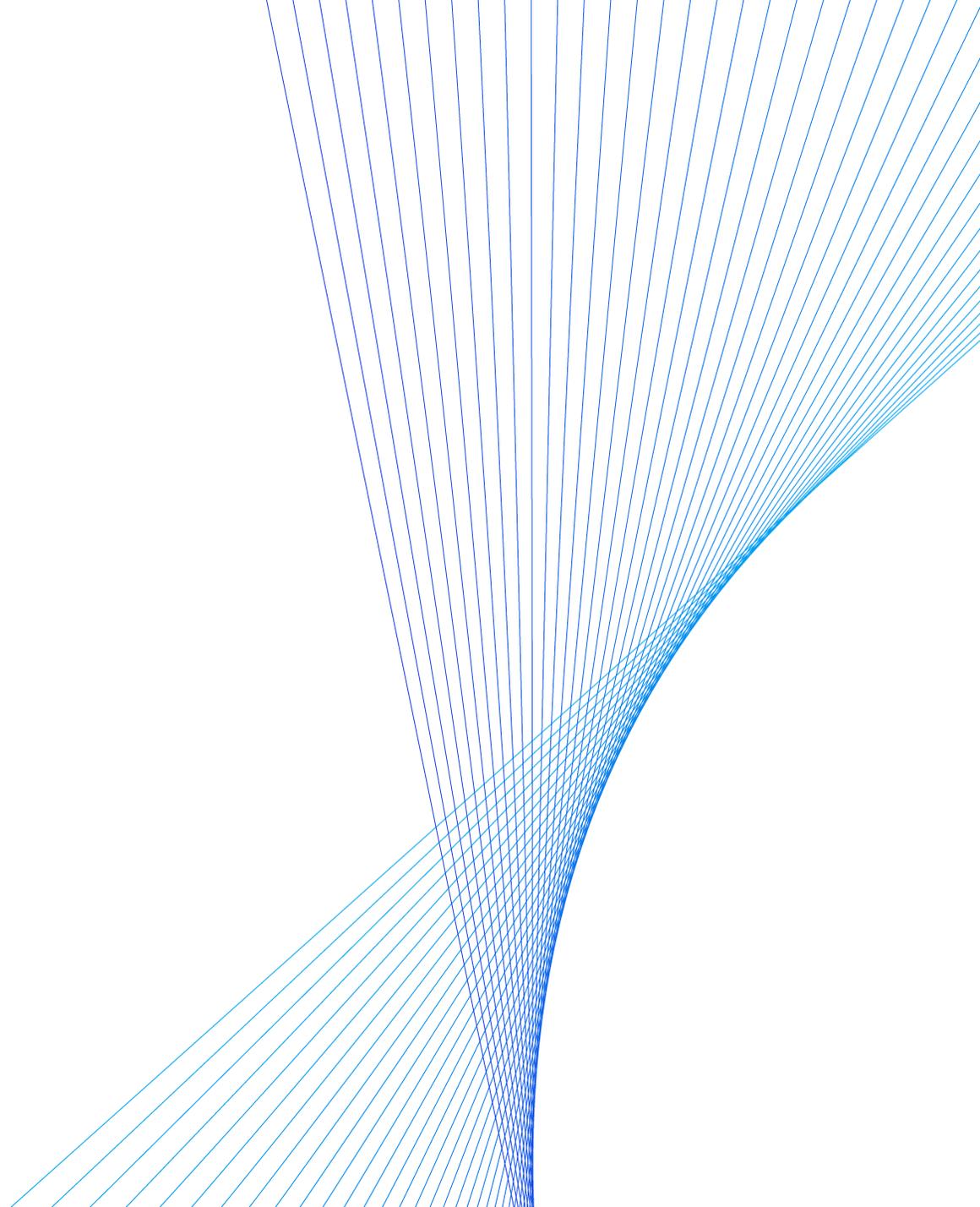
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Questions?

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