In the short span of 18-24 months, th performance trajectories of major health insurers and large providers have effectively reversed.

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Paul Mango's detailed essay, "Fourth Quarter 2024 Update on Health Care Trend provides an intricate analysis of the dynamic shifts in the U.S. healthcare landsca we approach the end of 2024. It offers a comprehensive view of three key themes challenges for health insurers, stabilization of health system performance, and potential policy and market implications of the upcoming presidential election. expanded summary delves deeply into the nuances of Mango's observations, integrating specific data points and illustrative examples to provide a thorough understanding of the evolving trends.

1. Persistent and Growing Challenges f Health Insurers

The essay begins by highlighting the turbulence that health insurers are now fac marking a stark reversal from their post-COVID profitability highs. This sectior provides a granular look at how regulatory, market, and utilization pressures are reshaping the insurance landscape.

Medicare Advantage (MA) Struggles

- Rising Costs and Utilization: Insurers have been hit by higher medical bene ratios (MBR). For example, CVS reported an MBR of 95.2% for the fourth qu driven by increases in utilization, Medicaid acuity, and revised STAR rating Medicare Part D costs have also surged due to changes brought by the Inflat

Reduction Act (IRA), and newly launched GLP-1 drugs have significantly ele
costs.

- Defensive Strategies: Large insurers, including the three biggest MA carrier have scaled back, exiting unprofitable counties and reducing supplemental benefits to seniors. This shift reflects a broader industry pivot toward conservative margin recovery strategies, with long-term profit expectations stabilizing at around 3-4%.

ACA Marketplace Growth and Challenges

- The Affordable Care Act (ACA) marketplace continues to expand, partly fue Medicaid disenrollment. Notable examples include Oscar Health, which rep over 60% year-over-year growth in its ACA segment. However, this expansio brings its own risks, as state-level Medicaid payment structures remain vola

Bright Spots Amid Challenges

- Specialty Pharmacy and PBM Growth: Insurers with integrated pharmacy b managers (PBMs) and specialty pharmacies have seen significant revenue an margin growth.
- Commercial Segment Growth: Robust employment rates have fueled growth both small-group and large self-funded commercial insurance segments.
- AI Implementation: Insurers have increasingly adopted AI in revenue cycle management and contracting processes, achieving notable administrative efficiencies.

Market Outlook

Despite these positive developments, the cumulative pressure from STAR rating adjustments, regulatory changes, and the IRA's phased drug pricing reforms ens challenging road ahead. These structural challenges demand a more resilient, innovation-driven approach to sustain profitability.

2. Stabilization and High Performance Health Systems

In contrast to insurers, health systems have entered a period of remarkable finar recovery and stability. Mango offers a detailed assessment of the factors underpi this turnaround.

Financial Metrics Show Optimism

- Health systems like HCA, Tenet Healthcare (THC), and Universal Health Se (UHS) report robust increases in patient volumes, commercial payer revenue operating margins. For instance:
- HCA experienced a 7.1% increase in same-store revenue, with contract labor down 18%.
- THC reported a 58% increase in ACA admissions and a decline in contract l costs to 2.2% of salaries, wages, and benefits (SWB), compared to 3.1% the previous year.
- UHS behavioral health hospitals saw same-facility revenues rise by 10.5%, highlighting the sector's growth in addressing behavioral health demand.

Operational and Strategic Improvements

High-performing health systems have embraced strategic innovations:

- Ambulatory Shift: Many systems have prioritized investment in ambulatory venues, optimizing asset deployment to align with patient demand.
- Operational Efficiencies: Enhanced patient throughput, digitized patient interactions, and more rigorous staffing models have driven operational suc
- Moderated Labor Costs: Contract labor expenses, which spiked during the pandemic, are now declining, providing relief for health system budgets.

Emerging Threats

Despite high performance, Mango notes two critical concerns for health systems

1. Increased Denial Rates: Insurance carriers, particularly in MA, have increas claims denials, which may strain health system finances.
2. Medicaid and ACA Uncertainty: Potential reductions in Medicaid direct pro payments and the risk of ACA subsidy cuts post-2025 create looming financ challenges.

3. Election-Induced Policy and Market Uncertainty

Mango speculates on how the 2024 presidential election could shape future heal policies, emphasizing the themes of prevention, innovation, fraud reduction, anc transparency.

Emphasis on Prevention

- The new administration appears poised to shift focus from treating diseases preventing them. This could lead to policy adjustments across HEDIS metri Medicare demonstration projects, and regulatory waivers (e.g., 1115 and 133 waivers for Medicaid and ACA marketplaces).

Fraud, Waste, and Abuse

- Fraudulent activities, particularly in Medicaid, remain a focal point. Mango predicts the adoption of AI-based tools to bolster program integrity and red waste across Medicaid and ACA marketplaces.

Reduced Regulation and Promoting Innovatio

- Efforts to foster innovation may include deregulating labor productivity me (e.g., staff-patient ratios) and enabling greater use of non-physician provider Mango also anticipates a relaxation of telehealth restrictions, balanced by ti oversight for program integrity.

Expanding Transparency

- Mango highlights bipartisan support for transparency initiatives that could extend beyond hospital pricing to encompass pharmacy supply chains and 3 drug discount programs.

Key Observations and Quotes from Industry Leaders

Mango concludes with noteworthy industry insights:

- Specialty Drug Costs: UnitedHealth and Humana cite rapid growth in speci drug costs, driven by label expansions and new therapies for cardiovascular, autoimmune, and cancer treatments.
- Behavioral Health Demand: Cigna reports behavioral health therapy utilizat nearly doubling over five years, reflecting escalating demand for mental hea services.
- Innovative Plan Designs: Oscar introduced a multi-condition management p offering cost savings for patients managing complex conditions like diabete cardiovascular disease.

Conclusion

Paul Mango's essay provides a comprehensive lens into the U.S. healthcare secto evolving dynamics. While health insurers face growing financial and regulatory headwinds, health systems have achieved unprecedented stability and profitabili The election's policy outcomes will likely add layers of complexity to an already volatile environment, shaping strategies across the insurance and provider lands Mango underscores the critical need for resilience, adaptability, and innovation navigating the healthcare industry's future challenges.

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