



2024 Healthcare Industry Outlook

Nearly one year removed from the end of the COVID-19 public health emergency, the healthcare industry expects a number of new opportunities in 2024, despite lingering challenges exposed by the pandemic. For example, healthcare organizations anticipate issues related to workforce shortages and legislative challenges; however, the industry also expects that opportunities emanating from technological advancements will allow them to grow and transform.¹ This Health Capital Topics article reviews anticipated U.S. healthcare industry activity for 2024 as well as trends that may drive change in the industry.

Legislative Landscape

Congress failed to pass any major healthcare legislation in 2023, despite several bills being proposed. Nevertheless, there is hope that significant legislation could be passed in 2024, despite it being a presidential election year (historically an inopportune time in which to pass major legislation).² The delay in passing proper appropriations legislation has resulted in the stalling of major healthcare spending, as well as of numerous programs and bills that need to be reauthorized through the legislative process.³

On January 18, 2024, Congress passed a short-term funding bill to extend the federal government's spending authority until early March 2024, which will narrowly avoid the partial shutdown of federal agencies once it is signed by President Biden.⁴ The bill extends funding for the agencies covered by four appropriation bills until March 1, 2024, and the funding covered by the remaining eight appropriation bills is extended until March 8, 2024.⁵

The legislation includes numerous healthcare provisions, including:

- Extending funding for the Department of Health and Human Services (HHS) through March 8, 2024;
- Extending funding for the Department of Veterans Affairs (VA) and the Food and Drug Administration (FDA) through March 1, 2024.
- Delaying \$8 billion in cuts to Medicaid Disproportionate Share Hospitals (DSHs) through March 8, 2024;
- Extending the Work Geographic Index Floor for Medicare physician reimbursement through March 8, 2024, although the pay cut to physician reimbursement for 2024 will be retained;

- Extending certain public health emergency flexibilities through March 8, 2024; and
- Extending special diabetes programs, community health centers, the National Health Service Corps, and the Teaching Health Center Graduate Medical Education Program through March 8, 2024.⁶

Despite these various extensions, the appropriations legislation leaves many other healthcare priorities untouched, such as legislation to stiffen pharmacy benefit manager (PBM) regulation, mandate greater pricing transparency in healthcare, and increase access to telehealth services.⁷

AI Implementation

Technology such as generative artificial intelligence (AI) is expected to present both challenges and opportunities to the healthcare industry in 2024.⁸ According to a Deloitte survey, healthcare executives have acknowledged and agree that many of the healthcare sector's most important issues (i.e., patient wait times, claims, staff burnout, and access) could be potentially addressed with AI, and ultimately change the way healthcare is delivered, resulting in potential improvements ranging from better customer experience to improved efficiencies.⁹

The adoption of AI and similar technology will fuel the reinvention of healthcare business models, with providers and payors leveraging AI to enhance provider, member, and patient experiences, while lowering administrative costs and increasing productivity.¹⁰ AI is expected to play a crucial role in achieving more affordable healthcare, with estimations showing that the application of AI could cut annual U.S. healthcare costs by \$150 billion by reducing the number of treatments, doctor visits, and hospitalizations, and by focusing AI on overall health management, rather than the treatment of disease.¹¹

The sprint toward AI in all industries has raised concern about the technology's risks and the lack of regulatory scrutiny; consequently, regulators have been scrambling to create and modify regulations related to AI usage.¹² On October 30, 2023, President Joseph Biden signed an executive order to establish new standards for AI in the U.S.¹³ The executive order focuses on protecting the privacy of Americans and establishes new standards for security and safety in AI.¹⁴ While the executive order is not specific to healthcare, the order contains some

healthcare-specific provisions to enable more regulation and oversight on the usage of AI in the healthcare sector.¹⁵

The level of development and the pace of clinical AI implementation may be directly influenced by the liability faced by practitioners, designers, and health systems, as more liability could discourage the use of AI in healthcare.¹⁶ As the technology continues to be developed and utilized in 2024, new legal pathways will need to be established, especially as increased liability would likely repel practitioners, designers, and health systems from implementing and developing clinical AI models.¹⁷ While generative AI will continue to disrupt the healthcare industry, it aims to ultimately increase the efficacy of the healthcare delivery system.

Mergers & Acquisitions (M&A)

Despite market challenges, the outlook for healthcare sector deals appear cautiously optimistic.¹⁸ While regulatory concerns, interest rates, and valuation gaps have impacted the sector, record levels of non-traditional deals and capital are expected to drive momentum in 2024.¹⁹ Experts suggest that companies may need to invest time in ensuring deals are structured to prepare for potential concessions in the case that a merger is challenged, and to appease regulators.²⁰

The COVID-19 pandemic was responsible for a sharp drop in merger and acquisition (M&A) activity, but that activity has largely rebounded, and is expected to continue rebounding into 2024.²¹ Larger healthcare organizations have partnered with and acquired non-traditional industry innovators and disruptors (i.e., retail, tech giants, and telecom) as they aim to meet the needs of more empowered healthcare consumers.²² Some of the new healthcare industry entrants have a stronger focus on consumer needs, and that focus may help health systems transition from their usual business models to offer services that meet the expectations of consumers.²³

Workforce Shortages & Outsourcing

The U.S. is in the midst of a precarious healthcare workforce shortage that is projected to worsen.²⁴ By 2030, the country could face shortages of nearly 124,000 physicians and 200,000 nurses; these shortages are due to not just increased demand for healthcare services from the aging population, but also a contracting supply of providers as a result of the aging healthcare workforce and workers leaving due to burnout.²⁵ As a result, healthcare staffing needs are expected to continue to intensify, as industry leaders struggle to retain and attract talent.²⁶ To alleviate these staffing needs, employers are expected to turn to off-shoring, outsourcing, and managed care partnerships.²⁷

While many in the healthcare industry may be hesitant to outsource given the potential impact on local employees, increasingly compelling drivers such as rising gaps in capabilities, inability to access needed talent, and the combination of financial value proposition, may leave industry leaders with no choice.²⁸ Experts say that healthcare organizations may benefit from determining what they can do well, and outsourcing other functions that may be done at a lower cost and more efficiently.²⁹ By analyzing the efficiency, quality, and cost of outsourcing, healthcare organizations may be able to improve efficiencies, reduce costs, and streamline their operations.³⁰

According to a Deloitte survey, more than half of healthcare system executives are expecting workforce challenges and shortages in talent that will impact organizational strategy in 2024.³¹ Some healthcare executives are aiming to simultaneously address and reduce clinician burnout, while attracting and retaining staff for clinical roles.³²

Conclusion

In 2024, healthcare M&A is expected to continue rebounding and healthcare systems are expected to continue implementing transformative technology. The healthcare industry will turn to AI technology and outsourcing to address urgent workforce needs and satisfy consumers. Legislative challenges will continue to impact the healthcare industry, and federally-backed healthcare spending and programs may stall as a result. While challenges remain, industry experts predict the healthcare industry will experience transformative changes over the next year.

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