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Healthcare Costs Projected to Grow in 2022

A June 2021 PricewaterhouseCoopers (PwC) report found that healthcare costs have been on a steady decline for the past decade, but trailing effects from the COVID-19 pandemic could cause increases above anticipated rates over the next several years. In 2007, the annual cost growth for healthcare spending was 11.9% and declined steadily until 2017, where it floated between 5.5% and 6.0% until 2020.[1] However, projected healthcare cost growth for 2022 is expected to reach 6.5% due to factors such as deferred or forgone care, increased mental health issues, preparation for future pandemics, and investment in digital tools.[2] While still lower than the projected 7.0% growth for 2021, 2022's projected cost growth still raises concerns as healthcare expenditures near 20% of the gross domestic product (GDP).[3] This *Health Capital Topics* article will examine the expected inflators and deflators of the cost growth projected for 2022, as well as pertinent medical cost trends.

Higher Utilization Due to Deferred Care

Deferred or forgone care in 2020 during the COVID-19 pandemic caused health spending to be lower than expected. However, with some of that care expected to be returning into 2022, healthcare spending will likely increase. According to a June 2021 PwC Health Research Institute (HRI) study, 15% of Americans deferred some type of care between March and September 2020, along with over half of commercially-insured patients in the U.S. skipping an annual preventative exam.[4] After the economic recession that started in February 2020, the rebound in healthcare spending and utilization could be seen as the healthcare industry regained momentum. However, patients, providers, and payors may experience different spending implications based on the type of care forgone or deferred. First, services that were forgone by patients included: the aforementioned annual preventative care; diagnostic imaging and laboratory testing that may no longer be needed; and, surgery that was replaced with less invasive interventions.[5] These services had decreased utilization and spending in 2020 and thus far 2021, but there will likely be no significant impact in 2022.[6] Second, the HRI report includes necessary, non-urgent procedures that patients deferred and plan to reschedule at a later date. Without this access to care in 2020, spending and utilization were expected to increase in 2021 and again in 2022.[7] Third, higher cost activity will result from deferred care, which will lead to worsening conditions and subsequently require more specialized interventions. Deferred care such as preventative screenings and untreated diabetes will likely increase healthcare utilization and spending due to the deterioration of the patient's condition.[8]

Worsening Population and Mental Health

In addition to deteriorating health conditions that patients may experience due to forgone or deferred care, mental health and the overall health of the population have been negatively affected by the COVID-19 pandemic and are expected to impact healthcare costs in 2022.[9] A concerning trend looming from COVID-19 is the gaps exposed in the U.S. mental health system. Not only did a majority of Americans report depression or anxiety due to the pandemic, but mental health claims showed a noticeable increase in the past 12 months.[10] Notably, this trend was more pronounced in the teenage and young adult populations.[11] With annual mental health spending already more than $200 billion, worsening mental health among the U.S. population could lead to other health problems and complications, resulting in higher utilization and spending in other lines of care.[12]

The HRI study also found that individuals developed poor health behaviors during the COVID-19 pandemic as a result of stay-at-home orders, quarantines, and isolation.[13] Poor health behaviors can cause direct and indirect costs that can quickly accumulate.[14] Lack of exercise, poor nutrition, cigarette smoking, and abuse of alcohol, opioids, and other substances were behaviors that all increased during the pandemic.[15] When these behaviors become prolonged habits, they can lead to additional health burdens, chronic conditions, and increased healthcare spending for the U.S. as a whole.[16]

Preparations for the Future of COVID-19 and Next Pandemic

Another way cost and utilization are expected to be impacted in 2022 is through the testing, treatment, and vaccination of COVID-19 patients. Health systems are being told to prepare for the possibility of COVID-19 becoming a persistent, seasonal disease.[17] Costs for testing and treating COVID-19 patients are expected to shrink, but it is unclear how long the U.S. government will continue to pay for vaccines, and further, how much

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manufacturers will charge for them.[18] Even with 52% of Americans fully vaccinated as of June 3, 2021, many will still need seasonal vaccinations or booster shots to ensure herd immunity.[19] These steps still may not prevent winter surges or new variants that continue to appear. Hospitals and health systems may need to plan and budget for seasonal COVID-19 utilization and over-burdened intensive care units in the winter months, along with hospitalizations from other seasonal viruses such as the flu.[20]

Health systems are not only calling for preparation related to seasonal spikes in COVID-19 infections, but also for emergency preparedness related to any future pandemics, after the many burdens experienced by unprepared facilities during the early months of 2020.[21] The HRI study predicts that payors and employers are bracing for increased spending as pandemic readiness is expected to inflate medical cost trends in 2022.[22] After most hospitals, health systems, and other providers experienced a supply chain shortage or disruption during the first wave of COVID-19, many healthcare executives are looking to invest in some type of forecasting.[23] At least 80% of provider executives plan on investing in predictive modeling, with smaller percentages of 31% and 23% planning to invest in scenario planning and simulations, respectively.[24]

In addition to forecasting supply chain disruptions, increased spending typically is required to sustain public health preparedness capabilities.[25] A report from McKinsey & Company estimates the economic disruption from COVID-19 to amount to over $16 trillion lost in global GDP.[26] Despite those costs, prevention of future pandemics could cost between $85 billion and $130 billion initially, and up to $50 billion per year to sustain these efforts.[27]

Digital Investments

Aside from preparations for seasonal spikes in COVID-19 infections, as well as for future pandemics, providers are using telemedicine investment to diversify sources of revenue and keep relationships with patients. Telemedicine was able to ameliorate some access and cost issues during the pandemic, and providers want to continue to invest in these digital services.[28] While telemedicine utilization is down from its April 2020 levels, it is still significantly higher compared to pre-pandemic levels.[29] Before the onset of COVID-19, telemedicine only accounted for 1% of all physician visits, but has sustained a level of approximately 20% of all physician visits through the end of 2020.[30] With the Centers for Medicare & Medicaid Services (CMS) increasing the number of covered telemedicine services, those utilization rates may be here to stay. While telemedicine has the potential to improve access to healthcare, many patients and physicians have their doubts about diagnoses from telemedicine visits. On one hand, telemedicine's ability to increase access brings more patients into the healthcare system that may not have a pressing need to seek care and creates higher downstream utilization.[31] On the other hand, it may catch patients in earlier stages of chronic conditions, who might have gone to the more expensive emergency department (ED) for treatment when their condition worsened.[32]

Deflators

While there are multiple inflators expected to increase healthcare costs in 2022, value-based care is expected to deflate costs.[33] First, patients are looking to access lower-cost sites of care instead of the hospital, ED, or traditional physician office. Patients are also starting to shop around for care, instead of seeking the nearest, most immediate care. Most notably is the reduction in ED utilization. At the beginning of 2021, ED patient volume was still down a quarter from pre-pandemic levels.[34] Keeping the utilization of this expensive setting down could result in significant cost savings; the HRI study found that a drop of 10% in non-emergency ED visits could save almost $1 billion annually.[35]

Will Anticipated Trends be Inflators or Deflators?

The HRI study's researchers will be keeping an eye on specific trends in 2022 – drug spending, cybersecurity, and surprise billing regulations – to determine whether they are inflators or deflators of healthcare costs.[36] In past years, specialty drug spending was a consistent driver of medical cost trends. More recently, the Food and Drug Administration has approved costly cell and gene therapies, with many more anticipated approvals in the next five years.[37] Cell and gene therapies have major cost implications due to their high price tags, but the ability to treat rare, or previously untreatable, diseases such as Alzheimer's. To put the cost of cell and gene therapy in perspective, nearly two million people who have been diagnosed with Alzheimer's are covered under Medicare, and one year of the new Alzheimer's drug (Adulhelm) costs $56,000.[38] To cover just a quarter of patients for this treatment would cost Medicare an additional $29 billion annually.[39] The FDA has raised concerns with its hasty approval of Adulhelm, which is expected to increase all prescription drug spending by 8% and non- retail drug spend by 25%.[40] Further, the U.S. expects a boom of biosimilars, prescription drugs that are "copies" of biologic drugs which are made up of living proteins but with slight variations from batch to batch.[41] Biosimilars can be used to treat diseases like arthritis, Crohn's disease, or psoriasis, and are expected to be a relatively cost-effective treatment option, saving upward of $100 billion over the next three years.[42] Another notable trend is the expected rise in cybersecurity costs, as cyberattacks, ransomware attacks, and data breaches on healthcare systems have increased in recent years, and can compromise a health system's ability to effectively operate.[43] Health systems have attempted to stay one step ahead of hackers by employing automated and artificially intelligent systems.[44] Such technology requires a large upfront investment, but many health systems would rather invest in cybersecurity upfront than retrospectively spend (more) money as the result of a breach or attack.[45] Lastly, medical cost trends may be affected by the No Surprises Act, which limits the amount providers may

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charge patients for "surprise out-of-network" bills.[46] The law, which will take effect at the beginning of 2022, aims to lower premiums and help consumers better anticipate their medical bills.[47] However, because providers will consequently receive smaller, in-network reimbursements, this could lead to increases in arbitrary costs that the patient does not see, such as administrative costs, which would still drive healthcare costs as spending shifts from the patient to the payor.[48]

Conclusion

As the latter half of 2021 approaches, the true medical cost inflators and deflators will become more clear. Experts are predicting that deferred care (which is anticipated to return post-pandemic) will be the main inflator, with poor health outcomes, digital investments, telemedicine utilization, and pandemic preparation not far behind.[49] With health expenditures approaching 20% of the GDP, every healthcare provider will be looking for ways to reduce costs. A notable deflator for 2022 will be the result of patients starting to shop around for care, embracing value-based care, and utilizing the ED less. Trends that could be either inflators or deflators of medical cost trends include cybersecurity, new legislation, and drug spending. While Americans return to some sense of normalcy, COVID-19 is expected to affect the U.S. healthcare industry for years to come.

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