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Future of health care financing:

Pathways to sustainable models

Contents

Introduction 3

Challenges in health care financing 4

Solutions for a new era of financing 6

Mobilizing for a transformative future in health care financing 10

Transitioning to the future of health care financing 11

Get in touch 12

Introduction

While health care has evolved and grown as a significant portion of the economy in the United States over the past century, the landscape of health care financing has remained remarkably static and consistent. As the medical field continues its rapid evolution and new scientific breakthroughs in care come to market, the current financial models are increasingly at odds with the promise of these improvements in patient longevity and quality of life. This misalignment has the potential to create obstacles to access, stifle further innovation and, ultimately, affect patient health outcomes. “Insurance” by definition is meant to protect against the risk of unforeseen accidents but has evolved in health care to be a catch-all funding mechanism for every health-related need.

We have identified several key challenges and potential solutions to realign health care financing with the evolving landscape of health care needs.

Challenges in health care financing

Some of the major challenges in financing health care today involve the timing, predictability, and magnitude of costs—and the knowledge gap between choice and cost:

1. Timing of funding and cost

Health care costs and the benefits they deliver often span multiple years, yet current health insurance models assess risk and set premiums on an annual basis. This can create misalignment between the duration of funding and the long-term value of health care interventions.

Key challenges:

- **Annual pricing and risk assessment.** The yearly nature of health insurance risk assessments and pricing doesn't necessarily align with long-term positive impacts from active chronic care management and disease prevention.
- **Legacy expectations and consumer behavior.** The established expectation that health insurance can generally be changed annually can encourage consumer behavior that leads to high churn rates. This can destabilize coverage continuity and complicate cost management, and risk pooling compared to longer-duration life and disability insurances, which tend to promote stability and predictability.

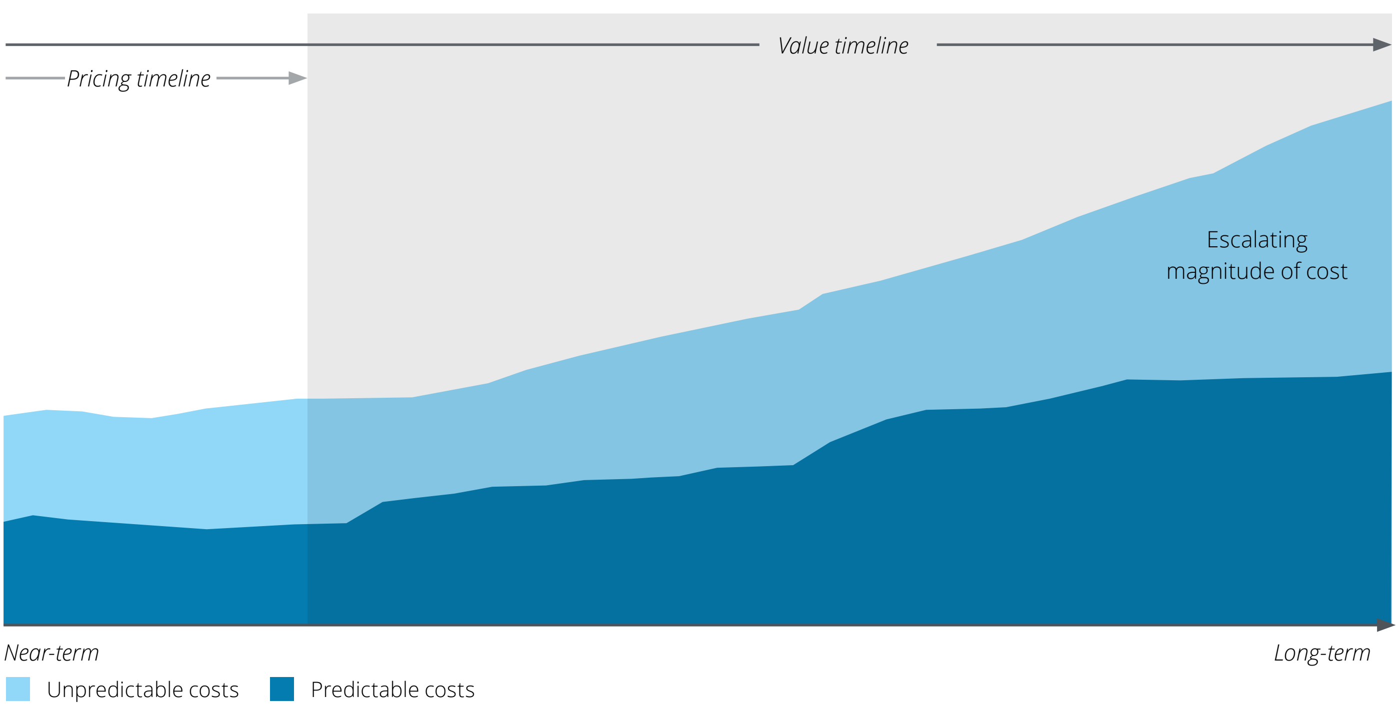
2. Predictability of costs

Insurance is a financing mechanism to plan for the risk of unpredictable events (see sidebar, **Rethinking 'insurance': A conceptual mindset shift**). However, for health insurance, many health care costs are predictable based on historical data, leading to complicated financing models to manage the mix of predictable and unpredictable costs.

Key challenges:

- **Known costs and premiums.** The costs of chronic conditions, routine care, and preventive services are largely predictable. Additionally, recent claims data can provide predictability into major costs expected to continue into the following year. This can result in health insurance premiums being heavily weighted on known costs creating a model that is focused on covering predictable costs for the following year versus truly covering unpredictable risks.
- **Anti-selection.** Consumers have insight into their known conditions and are likely to select better coverage for their personal needs. As consumers pick plans with better coverage for their known conditions or medications, insurers may pick up a disproportionate portion of patients with a specific condition without knowing about it.

Current health care financing challenges



3. Magnitude of costs

The United States tends to be a leader in health care innovation, continually pushing the scientific boundaries of medical technology and treatments. There are numerous factors that drive different cost structure for innovative technologies and treatments in the United States compared to other countries.

Key challenges:

- **High-cost innovations.** Advanced treatments like cell and gene therapy (CGT) are highly personalized and potentially curative but at very high costs for a very small population.[1] These expenses are spread across all insurance policyholders, resulting in higher overall premiums to compensate for the rare instance that one of these therapies is needed for the individual patient.
- **Uncapped financial exposure.** Unlike other insurance coverages, like home or auto, where the maximum financial liability is capped to the value of the asset, there is no cap on unpredictable health care costs that may run into millions of dollars for a single patient. This can put significant financial pressure on a single carrier if they experience a concentration of such high-cost claims..

4. The knowledge gap between choice and cost

Given the complexity of the current health care ecosystem, consumers may have misunderstandings about how to navigate their health as well as the long-term cost implications of their health decisions. This can create challenges with informed decision-making that balances costs and health care impacts. Solving this will likely require enhanced public education, improved health literacy, and a restructuring of financial models to balance health care decisioning and the associated cost implications.

Key challenges:

- **Education and decision-making.** Growth in high-deductible plans can provide consumers with some visibility into short-term costs for specific services; however, consumers often lack important information about the long-term costs and outcomes associated with different health care choices. This lack of knowledge and understanding can lead to poor decision-making that can negatively affect both individual and public health costs.
- **Individual autonomy.** Financing models do not reflect the impact of personal choices related to individual health. Additionally, a lack of transparency and awareness of the cost of care can have an impact on an individual's autonomy and the economic and health implications of their choices.

Rethinking 'insurance': A conceptual mindset shift

The term "insurance" traditionally conjures images of protection against unforeseeable, catastrophic events—like a car accident or hail damage. In auto coverage, for instance, maintenance packages that address routine services are separate from insurance that addresses accidents or natural disasters. However, in the context of health care, the definition of insurance is often different. The reality is that much of what health insurance covers consists of predictable, routine costs rather than just unforeseen emergencies.

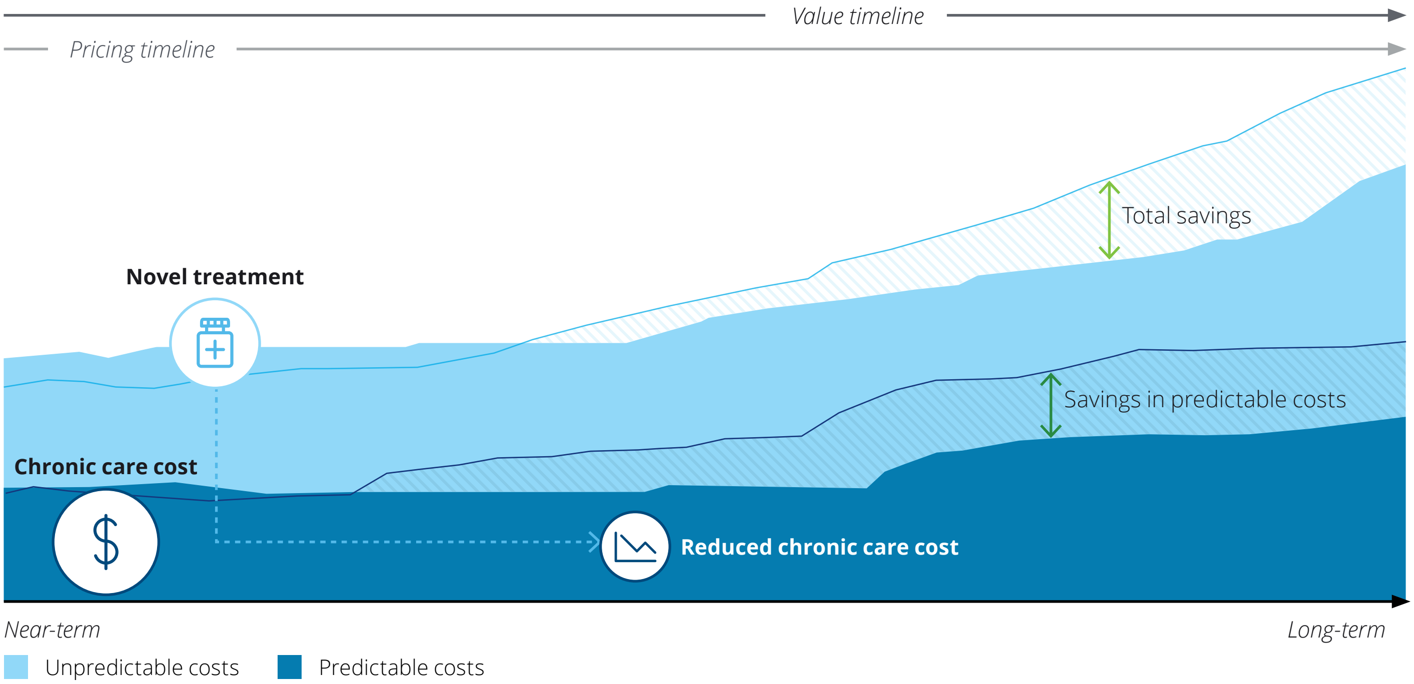
Separating predictable health care expenses from the unpredictable could allow the industry to redefine and refocus insurance. This shift could pave the way for innovations in health care financing that more accurately reflect the dual nature of health care costs—predictable or unpredictable—to set the stage for more sustainable and rational health care solutions.

Solutions for a new era of financing

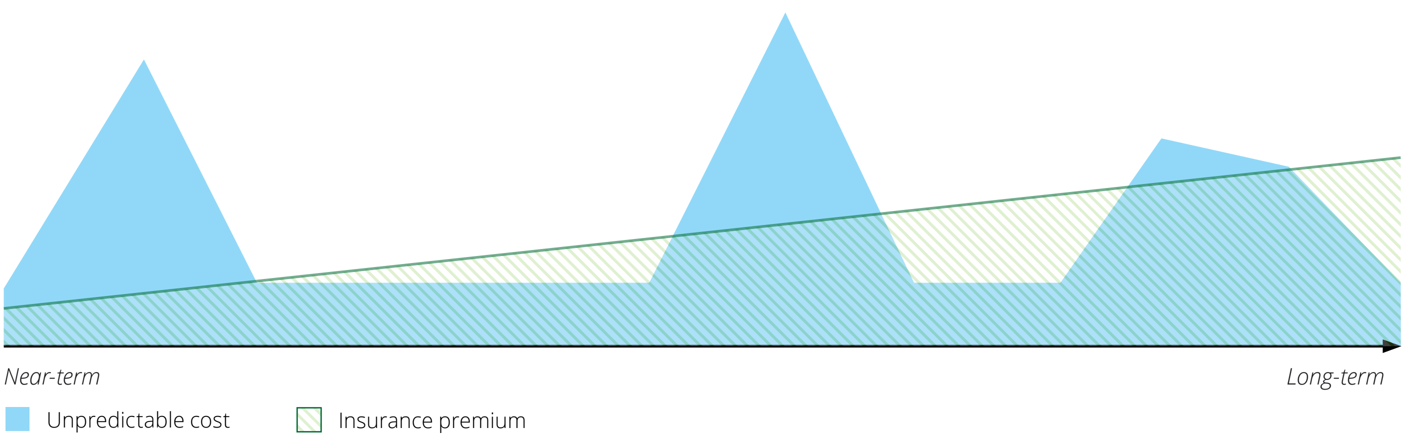
The challenges facing health care financing may appear formidable but are not insurmountable. Addressing these involves a suite of innovative potential solutions, each tailored to meet specific issues while collectively moving health care toward a more accessible, affordable, and sustainable system. This section explores these solutions, weaving together the concepts of policy reform, financial instruments, risk management, and societal engagement to form a multifaceted strategy for the future of health care financing.

Potential solutions for exploration	Health care financing challenges addressed			
	Timing	Predictability	Magnitude	Knowledge
Longer-duration policies Extending the term of health insurance policies beyond a single year can help align financing with long-term care needs, encourage preventive strategies, and promote more stable premiums. This could include multi-year policies (5, 10, or even 20 years) to support chronic condition management and investment in employee health.	✓	✓	✓	✓
Saving and insurance financing vehicles A hybrid model that combines savings accounts for predictable, long-term health care expenses with insurance coverage for unexpected, high-cost medical events can enhance fiscal planning and provide a dual layer of financial protection. It would be similar to how 401(k) plans manage predictable retirement funding while life/disability cover unpredictable losses when planning for retirement financing.	✓	✓	✓	✓
Shared risk pooling By dispersing financial risk across multiple insurers or employers, high-cost treatments can become more feasible to cover without unduly burdening any single payer. This approach can be particularly effective in environments where risk can be unpredictable and potentially devastating, such as with innovative treatments like CGT. Risk pooling can operate through several mechanisms, including across carrier risk adjustments like those utilized in the Affordable Care Act (ACA) or via condition-specific pools managed by third parties		✓	✓	✓
Multi-line insurance offerings Combining various types of insurance (health, life, disability) into a unified multi-line offering presents a strategic solution to enhance the efficiency and effectiveness of insurance coverage. This approach capitalizes on the overlapping economic drivers across different types of insurance; for instance, life and disability insurance sectors benefit from a healthier population, which also reduces costs overall for health insurers. By bundling these insurance lines, carriers can work to enhance overall risk management, optimize profitability, streamline management, and ultimately deliver enhanced value to policyholders.	✓	✓		✓
Personal health incentives Promoting personal autonomy in health care involves implementing financial incentive structures that align with individual autonomy based on their health behaviors. This strategy is designed to motivate healthier lifestyle choices (such as wellness activities, adherence to health guidelines) by directly linking premium reductions to positive behaviors. This approach mirrors successful models in other insurance sectors, such as safe driving behavior, which directly improves an individual's auto insurance cost.	✓	✓		✓
Societal consistency Many social factors shape consumer experiences related to health. Multidimensional societal programs that contribute to overall health, extending beyond traditional medical care to include essential life services such as nutritious food, stable housing, reliable transportation, and necessary sanitary products can create a supportive society that provides consistency in access to health care and opportunities to drive healthy living and lower costs.		✓		✓

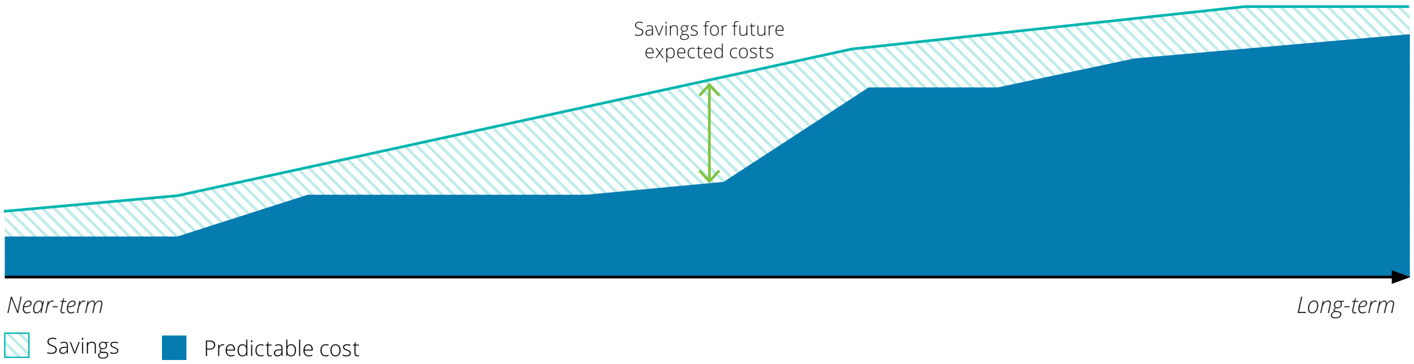
Future of health care financing—longer duration



Insurance for Unpredictable



Savings for Predictable



It's important to recognize that many of these solutions aren't mutually exclusive and can often be most effective when implemented together. For example, combining longer-duration policies with a savings model and mechanisms for personal accountability can significantly enhance chronic care management in conditions like diabetes. Additionally, integrating longer-term policies with risk pooling strategies could help effectively manage the financial demands of high-cost treatments.

This approach can be further enhanced by incorporating portability solutions that allow individuals to transfer their health plans, maintaining a continuity of benefits and responsibilities. As these solutions evolve within the marketplace, it will be important to continuously assess their interactions and potential unintended effects, helping to ensure that each innovation contributes positively to the broader health care landscape.

In action: Proven models parallel to saving and insurance financing vehicles

The concept of combining savings and insurance mechanisms isn't new and has shown its effectiveness in other financial and insurance sectors as discussed below. These parallel models provide an example of how hybrid systems can help enhance stability, predictability, and personal accountability:

1. *Retirement and dependent planning:* Similar to the proposed hybrid health care model, retirement planning often utilizes a 401(k) and individual retirement account (IRA) as savings vehicles. These types of accounts are often co-funded by employers over the course of a career and are designed to cover predictable future needs. Concurrently, life and disability insurance are intended to cover unforeseen life events, mirroring the structure where predictable and unpredictable health costs are managed separately yet complementarily.

2. *Dental insurance:* Dental plans typically operate under a model where basic and expected services, such as cleanings and minor treatments, are covered through a payment structure that resembles a pre-paid service rather than traditional insurance. This setup is generally complemented by a wraparound insurance layer that covers less predictable, more costly dental procedures. This dual structure can help ensure that while routine care is affordably managed, there's still coverage for unexpected needs.

3. *Pension risk management:* Employers managing pension plans often use pension risk transfers to handle the unpredictability of pension payouts, ensuring these risks within a larger pool. This strategy allows for the management of predictable pension benefits through regular funding while mitigating the financial risk posed by the variability in the timing and amounts of payouts.

Mobilizing for a transformative future in health care financing

As we envision a future where health care financing mechanisms are as advanced as the treatments they aim to support, realizing this vision will involve a concerted effort across all sectors of society. Together, stakeholders from various domains should collaborate to implement the innovative solutions outlined, driving toward a more efficient and sustainable health care system.

Employers: As primary purchasers of health insurance, large employers should consider adopting and championing the new models proposed, such as longer-duration health policies and integrated multi-line insurance offerings. By demonstrating the practical benefits and cost savings of these innovations, employers can set benchmarks for industry-wide adoption and prove the viability of these new approaches.

Insurers: Health insurers and multi-line insurance companies have the capability and influence to design and implement the creative financing vehicles needed, such as shared risk pooling and savings plus insurance models. Insurers should consider working collaboratively with regulators, providers, and other stakeholders to refine these solutions, helping to ensure they're viable and responsive to the needs of all parties involved.

Health care providers: Providers should consider advocating for and adopting practices that align with longer-term health financing, focusing on prevention and the management of chronic conditions. They can also influence patient behavior through education and by setting examples of leading practices in health care management..

Life sciences organizations: Life sciences' involvement is important in developing and supporting financing models that align with patient outcomes rather than treatment volume. By participating in outcome-based financing arrangements, these organizations can help ensure that advancements in treatment and technology translate directly into accessible and affordable care—while compensating them for true innovation that drives health and health outcomes.

Disrupters: Innovators and disrupters outside the traditional health care ecosystem can introduce novel ideas and technologies that challenge the status quo. These entrants could collaborate with established players to integrate new solutions that improve system efficiencies and patient outcomes. However, it's important that these innovations are channeled constructively and avoid the creation of additional inefficiencies within the system.

Transitioning to the future of health care financing

These proposed solutions represent a paradigm shift from the existing models. Such a significant transformation would likely necessitate close collaboration among all stakeholders, as well as thoughtful transition strategies to mitigate potential disruptions during the implementation phase. These strategies will be important in managing interim cost spikes and stabilizing risk pools—challenges reminiscent of the multi-year stabilization period following the implementation of the ACA.[2]

Key transition considerations:

- **Adjusting the definition of "insurance" and "risk":** Shifting the focus on the unpredictable aspects of health care may require comprehensive risk transition planning. This includes establishing new rules that support a smooth transition to the new models. It's important to consider that these rules are clear, fair, and conducive to maintaining stability in the health care market.
- **Transitioning to longer-duration policies:** This could involve extensive stakeholder education to help ensure that all parties understand the changes and their implications. It may also include educating customers on the benefits and responsibilities associated with longer-term policies and adjusting pricing structures to reflect the extended coverage period. Additionally, regulatory frameworks should be adapted to support the practical application of these long-term policies.
- **Adapting health care savings vehicles:** While existing savings vehicles like health savings accounts (HSAs) and flexible spending accounts (FSAs) are valuable tools, expanding their use should involve strategies to include individuals who haven't traditionally utilized these mechanisms. This may involve educational initiatives to help people understand how to effectively start and manage their health care savings. The transition strategy should resemble the support systems established when retirement savings shifted from traditional pensions to 401(k) plans, providing a blueprint for facilitating this shift.
- **Public programs policy and funding:** Ensuring that transitions in health care financing don't adversely affect the financially and health vulnerable populations is important. This may involve adjusting public policies to ensure that no one is left behind as the new models are adopted.

The transition to these new health care financing models isn't without its challenges, but with careful planning, clear communication, and collaborative effort, it's possible to move toward a more effective and sustainable health care system. This transition period is an important time for laying the groundwork that will support these innovative solutions, helping to ensure they deliver their intended benefits to all participants in the health care system.

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Endnotes

1. Drew Wilkins, Brian Corvino, and Hussain Mooraj, "Gene therapy pricing models: Explore three innovative patient financial solutions," Deloitte, 2024.

2. Centers for Medicare & Medicaid Services (CMS) Department of Health & Human Services (HHS), *Summary report on permanent risk adjustment transfers for the 2017 benefit year*, July 9, 2018; CMS HHS, *Summary report on permanent risk adjustment transfers for the 2018 benefit year*, June 28, 2019; Bernadette Fernandez, "The Patient Protection and Affordable Care Act's (ACA's) Risk Adjustment Program: Frequently asked questions," Congressional Research Service (CRS) report, October 5, 2018.