DESIGNING FOR

Reimagining how healthcare is delivered, paid for, and consumed

OliverWyman

EXECUTIVE SUMMARY

Healthcare leaders are rarely able to cast their view deep into the future. Oliver Wyman's position in the industry affords us a unique opportunity. We support payers, providers, innovators, and biopharma companies as they solve pressing business problems, capture near term opportunities, and lay the foundation for radical change. Our work balances helping healthcare leaders tackle challenges in the next quarter while preparing for the next decade. It is from this unique vantage point that we decided to undertake this Designing for 2035 effort — to assess current trends, evaluate the undercurrents of socio-economic change that will influence those trends, and identify where there is significant potential for change over the next decade-plus.

We were confronted with concerning challenges — an aging population, clinical shortages, increasing budget and cost pressures, and potential large scale business failure — and encouraged by new opportunities — rapidly evolving technologies and therapeutics, accelerating consumer-centricity, and improvements in diagnostics and care delivery. There are seeds of progress laying the groundwork for moves that will set the stage for more structural shifts, accompanied by a pace of adoption that signals gradual change.

As we anticipate what the healthcare environment in the US will look like in 2035, we pushed past the cynicism that comes with being in the industry for decades and we challenged the fundamentals behind every pipe dream. We set out to be ambitious. We anticipated what could be but were also realistic about what would exist at scale. For example, while we see that significant cost pressures will drive transformation of healthcare stakeholders, we don't expect a single-payer environment or employers jumping en masse away from their role in healthcare.

This work is a laboratory for what's to come in healthcare. The content will grow to include more detailed findings from our Designing for 2035 effort.

KEY INFLUENCES: SOCIO-ECONOMIC UNDERCURRENTS THAT WILL SHAPE 2035

The healthcare environment will be different by 2035. Challenges facing the industry today will get bigger and major demographic shifts will force stakeholders to rethink their roles and approaches. Business models that operate effectively today are likely to be inadequate in the future as new technologies and therapeutics, as well as ever-tightening financials, spur stakeholders to pick up the pace of transformation.

DEMOGRAPHICS

The silver tsunami: The population is aging and the birth rate in the US is falling. The ratio of working age to senior population will hit 2 to 1, down from 4 to 1 in 2015. This shift will increase pressure on healthcare utilization, workforce dynamics, provider economics, federal spending, and tax collection.

Workforce dynamics: A clinician retirement boom looms large. Retirements will contribute to an expected shortage of between 37,800 and 124,000 doctors by 2034. At the same time, the rise of the gig economy — set to impact over half of workers as soon as 2027 — and an increasingly fluid and competitive labor market will up the ante for healthcare employers across all sectors.

Consumer expectations: Barring a strong reversal of current socioeconomic and environmental conditions, we will see an increasingly polarized world. Companies will be held to a higher standard and consumers will continue to seek advice in channels they trust — not always from the traditional healthcare players of today. Environmental, social, and governance issues will become critical in the boardroom and C-suite. For healthcare leaders, the imperative to combat health inequity traps will need to become more than talking points.

INNOVATION

Tech-enabled care: Technology will improve efficiency and experience. Consumer-facing technologies will continue to grow, with a focus on seamless integration across the care continuum. Tech-enabled health and well-being offerings will allow consumers to engage in their care in more meaningful ways. Increased data interoperability and rapid advancements in artificial intelligence will allow healthcare organizations to improve their insights, automate processes, and drive down costs. Advances in diagnostic technology, medical devices, and medical procedures will make treating complex and acute conditions more efficient and with improved outcomes.

Advancing biopharma science: Pharmaceutical innovation will expand cures for hard-to-treat diseases such as sickle cell and rare cancers and improve treatment and care plans for conditions such as diabetes, obesity, and Alzheimer's disease. Pharmaceutical spending is projected to hit $1.4 trillion in 2035, accounting for 16.2% of total healthcare expenditures.

FINANCIAL AND ECONOMIC

Funding crisis: The demographic shift will add to the burden of healthcare financiers. US employers will struggle to accommodate continued increases year over year. But the biggest impact will be felt in government-funded programs. Medicare and Medicaid will serve larger and larger populations, while slow growing coffers will force federal and state governments to look for ways to cover care at lower costs.

Economic pressures: Challenging economics will accelerate a shift away from traditional healthcare economics. Continued adoption of capitated models will necessitate operational and structural changes. Many aspects of our healthcare system need to go through a fundamental transformation in their business models to accommodate and survive the economic pressure cooker that will be the healthcare industry over the next decade.

Value-based care: We'll see widespread adoption of capitated and downside risk financial models. Value-based care will become more heavily implemented and integrated with other care models. Payers will also continue to push into care delivery — such as through primary care and home care — in an attempt to control costs.

VECTORS OF CHANGE: THE INGREDIENTS OF TOMORROW'S INDUSTRY

Healthcare has been characterized by continuous change. Waves of innovation — though perhaps slower than expected and desired — have challenged traditional business models. New insights and methods are constantly being adopted across medical domains, and real healthcare problems are being solved in new ways by incumbents and net new innovators alike. Looking toward 2035, we've identified four key vectors where the necessity and opportunity to do things differently will converge and likely accelerate change.

A smarter, more efficient industry: Technology and innovation vectors will create step changes in healthcare processes and outcomes.
Necessity: Growing demand for healthcare that's convenient and simple to manage. Socio-economic pressures that squeeze profit pools and accelerate the need to pursue business model evolution to achieve necessary increases in productivity, efficiency, and costs.
Opportunity: Technology can drive gains in efficiency and productivity and allow staff to focus on top of license activities. Adoption of advanced analytics and AI will introduce

process automation and more actionable and timely insights, which in turn presents an opportunity to reimagine experiences for consumers and clinicians alike across the value chain. More data and better connectivity will lead to richer understanding of personalized next-best-actions, available when consumers and clinicians not only need them, but in the mode that they want to receive them.

Better interventions: New therapeutics and medical advancements in diagnostics and treatment regimens will drastically change optimal care pathways.
Necessity: A growing older population with more complex heath needs. Fast paced research and development pipelines that will offer new breakthroughs. A need for aligned funding mechanisms across pharmaceutical companies, payers, and providers to ensure new curative therapies can reach as much of the population as possible at affordable costs.
Opportunity: The launch and rapid adoption of advancing scientific approaches will deliver novel cures, enhance the continuum of care, and improve chronic disease management. Oncology, immunology, endocrinology, and neurology are key areas where we will see the greatest changes in outcomes and spending. New clinical protocols and new structures and roles to deliver and to finance these therapies will emerge.

Realigning delivery: Utilization patterns will shift with care moving to more optimal settings.
Necessity: Technological improvements are redefining what constitutes a site of care. Traditional profit pools are being squeezed by low funding and increased competition; slumping business models are putting independent physicians, rural hospitals, and various service lines at risk.
Opportunity: Care will come through a wider variety of mechanisms, often in more cost-effective and convenient ways. The unit cost of many types of care will begin to drop as mix of care modes and sites of care shifts away from expensive hospital settings.

Innovative products: More affordable health plan options will expand in scope and offer more choices.
Necessity: Pressure from employers and government programs drive changes in benefit structures and markets to procure products. Calls for affordability from all types of funders — government, employer, consumer — conflict with demands for more robust and inclusive coverage.
Opportunity: Integration, coordination, and personalization will be the next frontier for healthcare products. Medicare and Medicaid programs will continue to sharpen the performance curve for payers and providers that deeply understand and align their approaches to serve government program enrollees. Seeking to cap their financial exposure, some employers will turn to fixed contributions supported by an evolved and more affordable direct-to-consumer private solution marketplace or through the Affordable Care Act. Other employers will find ways to provide more personalized benefits for various cohorts within their employees, with more importance on well-being, behavioral health, and focused solutions for conditions or health interest.

THE CHANGING LANDSCAPE: DESIGNING HEALTHCARE FOR 2035 ACROSS FIVE MAJOR MARKETS

New technologies, business models, and processes must be adopted to ensure the needs of specific populations are met. But it's not a one-size-fits-all approach. Below are the changes we anticipate happening in five critical markets. Each has different core medical needs, reflecting their unique demographics. Each will require a different combination of stakeholders to create new business models, make new investments, and create new economic arrangements.

Silver surfers: Organizations will reconfigure physical assets and retool workforces to focus on last-mile care delivery for seniors. New tools and incentive models will reward formal and informal caregivers to address the necessary expansion of the clinical workforce to serve the burgeoning senior population. Alternative care sites will spring up, helping seniors avoid costly and unnecessary hospital stays.

Savvy consumers: A low friction, on-demand model will become the norm. The quantified self becomes actionable, moving from tracking health to influencing decisions daily. A robust infrastructure makes data — from consumers and healthcare entities — actionable for providers, allowing them to cut through the noise. Behavioral health providers become central to the care team, increasingly partnering and integrating with primary care. Building and retaining consumer trust becomes a corporate priority.

Healthy families: Employers will develop health plan products to accommodate families, extending coverage to include both children and aging parents, offering greater flexibility and tailored solutions that are integrated into their work and lifestyles. Care models that treat the family as a unit to accommodate shared history, coordinated needs, and modality preferences will evolve. Price and quality transparency tools will empower families to become more discerning shoppers and activated consumers of healthcare services. A robust marketplace of direct-to-consumer solutions will exist, allowing consumers to curate their own set of solutions and services that matter the most to them.

Rural communities: Buoyed by new state payment models, rural hospitals will increasingly focus on preventive and outpatient care. Community-based organizations will play a larger role in care delivery by helping providers meet cultural needs of each rural population and consumers will have greater access to at-home, virtual, and mobile care, minimizing disruption in their daily lives and reducing travel to larger tertiary centers.

Urban workers: Funded by government programs and integrated into the broader care infrastructure, community-based organizations will become central pillars of care delivery for beneficiaries. Benefits integrated across medical, behavioral and socio-economic supports will give members the solutions and access they deserve.

UNDERSTANDING THE IMPLICATIONS: WHAT THESE CHANGES MEAN FOR INDUSTRY PLAYERS

We intentionally limited discussion of who will be involved in delivering and realizing the value described in each of the 2035 markets. The identity, scope, and strategic roles of different types of players will evolve and be varied — likely by geography since healthcare will remain intensely local. Big incumbents could take on the transformative ambition of delivering value in new ways. Or innovators and new entrants could grab the lead and take control. Consolidation could create real economies of scale and scope, or the pendulum could swing to favor the nimbleness and local intimacy of smaller players. Capital markets and industry regulators will shape, limit, or expand the possibilities. But for each major stakeholder, there are a set of no-regrets directions that should be on the table.

	Today	Tomorrow
Health systems	A model centered on inpatient episodes and per-encounter fees	Systems assess their inpatient operations, focusing on growing operational efficiency and partnering for scale as appropriate
Payers and employers	Competition for a shrinking talent pool drives retention and recruiting challenges as workers demand benefits that better address their needs	Payers help employers expand their role beyond strictly offering health benefits, with increased efforts towards guaranteeing access
Biopharma innovators	A product-centric model with limited connectivity between pharmaceutical companies, providers who select and administer therapies, and payers who cover the treatments	Pharmaceutical companies engage in more partnerships with other stakeholders and become involved throughout the care journey, facilitating delivery in novel ways

As we push forward in these directions, industry players will quickly run into norms, structures, and guardrails that have shaped the industry as it exists today. There are at least two primary areas that will significantly influence the pace of change. The first is developing the workforce that's needed to meet the new demands. That means improved training capacity and focus for new roles, consistent and transferable credentialling, and rebalancing payment rates to create sustainability and stability, among other things. Additionally, we need to foster greater community investment and alignment for critical social programs in underserved and hard to reach cohorts that can both address major social determinants of health and extend the reach of care provision.

REALITIES FOR 2035

Several forces will reshape the economy overall and healthcare specifically by 2035, many of which are taking root today. Below are eight critical shifts that are poised to define that reality. From the societal impacts of an increasingly aging population to the continued integration of cutting-edge technologies, these trends will impact the way we approach healthcare.

EIGHT SOCIETAL SHIFTS THAT WILL INFLUENCE HEALTHCARE

AGING POPULATION

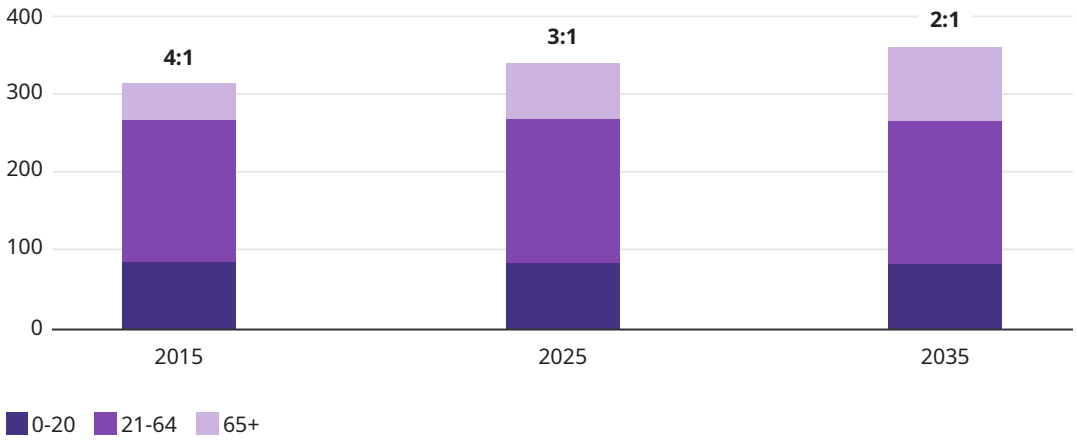
Today: The senior population is exploding. Between 2010 and 2020, the US saw the largest increase in people 65 years or older since the 1880s. Seniors now account for one in six Americans (17%), up from one in eight Americans (13%) in 2010.
There are widespread impacts on society: decreasing productivity — a 10% rise in the share of the 60-plus population decreases growth in GDP per capita by 5.5%, increased healthcare costs, and shifting workforce and caregiver dynamics to account for this grey wave.

2035: Seniors will make up about one in every four Americans (26%). This will increase demand on healthcare services: nearly 95% of older adults have one chronic condition, and 80% have two or more. Since Medicare bed utilization is over four times higher than commercial bed utilization, we expect an increase in overall bed days, further straining government budgets. Everyone in the workforce will begin to act as a caregiver with many sandwiched between parents and child.

If you're currently 70, there's a 2 in 3 chance for men and a 3 in 4 chance for women to reach 80.

The ratio of working-age adults to seniors will be 2 to 1 by 2035

Number of people per age group
In millions



Source: Oliver Wyman analysis

WORKFORCE CHANGES

Today: The US workforce is shrinking relative to the population as a whole. The ratio of working-to-senior population has decreased from four to one in 2015 to three to one today. Healthcare is not immune, with existing demand shortages of 4.9% for primary care providers, 2.8% for specialists, and 1.9% for nurses. Further exacerbating these trends is burnout and the rising age of the workforce: 40% of active physicians are 55 years of age or older.
There are also implications from job hopping. Median job tenure is down 10.9% from 2012 and on consumer turnover within health plans — an estimated two million workers transfer health plans each month.

2035: As the worker-to-senior ratio approaches 2 to 1 in the next decade, these staffing gaps, especially for physicians, will get worse, with projected demand gaps of 10.6% for primary care physicians, 7.5% for specialists, and 5.9% for nurses. Across the board, the workforce will have more leverage and fewer long-term ties to their employers, forcing employers to continue to improve their benefits and employment packages. Beyond enhanced benefits, they'll create more flexible work arrangements and career development opportunities to attract new talent. Additionally, due to increased turnover, employers will need to find return on investment faster, looking for proven solutions when it comes to health plans.

CONSUMER EXPECTATIONS

Today: Consumers value brands that offer quality, convenience, and that can be trusted. In fact, 85% of consumers rated quality as a deal breaker when selecting a brand and 84% said convenience was a top priority; trust was mentioned by 81% of consumers. Healthcare is no different. More than 90% of people say convenience is the most important factor when

selecting their primary care physician. Additionally, consumers are increasingly turning to sources outside of mainstream medicine for health information: 16% look for reliable health information on the news, 11% on social media, and 39% on search engines. Consumers also demand more attention from brands to broader society issues, raising the importance of environmental, societal, and governance platforms. Firms that prioritize ESG have enjoyed 3%-8% performance over benchmark values.

2035: Over the next decade, consumers will continue to seek advice in channels they trust, whether that's an influencer on social media, their favorite news anchor, or a community leader. Healthcare companies need to adapt to ensure that they become one of these trusted voices. They can take a myriad of approaches, including becoming influencers themselves. At the 2023 Oliver Wyman Health Innovation Summit, the TikTok doctor himself, Austin Chiang, MD, detailed the importance of healthcare organizations immersing themselves in social media to counter misinformation. Healthcare companies will also need to demonstrate their impact on climate and social justice initiatives. 60% of consumers base their purchasing behaviors on sustainability and ethical criteria today, a figure that will continue to grow by 10% year-over-year, forcing companies to change business models to keep up.

44% of people aged 18-34 believe the average person can know as much as a doctor, while 56% of consumers have switched healthcare providers for greater "trust and respect."

Edelman, Huron

TECHNOLOGY IMPROVING EFFICIENCY

Today: Over the past decade, we have seen targeted deployment of technology across nearly all facets of healthcare. Telehealth and remote monitoring are commonplace. Backoffice administrative functions are being automated. Advanced technologies like robotic surgery are pushing the boundary of what's possible in the operating room. And there's been steady progress in data storage and interoperability — albeit with timid success. These areas of improvement were perhaps natural ones to start with, areas that provide a more convenient alternative to patients and clinicians and that don't require a medical degree.

2035: Technology will be more widespread and the default in these instances. We will see the expansion of consumer-facing technology, interoperability paving the path for new entrants and market growth, and comprehensive health data leveraged to quantify health and guide decision making. With the advancement of artificial intelligence — see the example of ChatGPT outperforming providers in response to patient questions — self-service models will continue growing to replace many lower-acuity interactions that occur in person today. Today, 63% of clinicians feel that virtual primary care will bypass in person primary care

by 2027. States like Tennessee and Texas are already pushing for regulation that will aid these movements by removing the burden of state-by-state licensing, a movement that will continue for the next decade. Finally, we expect data to become increasingly actionable and drive everyday behavioral and medical decision-making like avoiding certain foods and exercising at specific times.

NEW DRUGS

Today: The number of incurable diseases is decreasing and these interventions are taking place more quickly and more affordably. Through innovations like Teplizumab for T1 diabetes or Anti-Aβ monoclonal antibodies for Alzheimer's Disease, shifting cell and gene therapy towards diseases with more common indications like sickle cell and Parkinson's, and increasingly tailored therapies based on specific genotypic / phenotypic characteristics, American life has both increased in span and quality.

2035: Overall drug spending in the US will be almost $1.4 trillion. Gene therapy will be widely adopted. Based on today's pipeline, more than one million Americans will be treated by gene therapy by 2035. This is not without cost — over $80 billion will be spent globally on CGT. New financing models will emerge to make this more tenable, scrutiny of outcomes and value will increase as payers look to finance these expensive therapies. We still will see underinvestment in major therapeutic areas such as infectious disease, but large advancements in this area will bear major fruit over the next decade.

GOVERNMENT FUNDING CHALLENGES

Today: Government outlays on healthcare have reached all-time highs, with Medicare spending hitting $744 billion in 2022, up from $466 billion a decade earlier. The federal government is playing a more active role in trying to control costs, through avenues such as the Inflation Reduction Act, various risk adjustment changes in Medicare Advantage, and the range of pilots that the Center for Medicare and Medicaid Innovation has targeted at specific cost drivers. States are also stepping up their efforts, including Maryland's total cost of care model and Pennsylvania's rural health program.

2035: The trend of high government spending isn't going anywhere. Demographics will dictate that more and more lives will be covered by government-funded programs. Medicare outlays are projected to increase to $1.7 trillion in 2033. Existing avenues to make money in government-sponsored programs will be squeezed or eliminated as the government looks to further reduce costs, such as going after programs seen as loopholes, ramping up drug price negotiations, or reducing 340B and provider-based billing. Additionally, states and the federal government will look to expand total cost of care programs modeled after initial successes.

CARE DELIVERY UNDER PRESSURE

Today: Hospitals across the country are in survival mode. Traditional hospital economics have been squeezed by external — reimbursement rates, aging population and payer mix — and internal — rising wage costs, operational complexity — factors. This has affected financial performance. The percentage of hospitals with negative operating margins grew from roughly 28% in 2010 to roughly 53% in 2022. Competitors — in the form of new entrants and payers looking to vertically integrate — have been encroaching on traditional profit centers, like UnitedHealthcare offering at-home and virtual care, Amazon's acquisition of OneMedical, and Cigna's Evernorth division.

2035: To maintain viability, we expect providers to accelerate their path into risk, driving investment in alternative sites-of-care, including ambulatory surgery centers and hospital-at-home. We also expect new asynchronous care models to evolve. These efforts will drive down costs, maintain quality, and ensure payers don't divert services. Deeper development of population health initiatives, vertical consolidation, and increased implementation of value-based care will bring about a greater orientation toward consumer-centric services.

VALUE-BASED CARE TAKES CENTER STAGE

Today: We have seen accelerated pressure on traditional economics — aided by greater price transparency, slowly-growing convergence on quality definitions, interoperability, and growing importance of preventive care. One way that the industry is responding to fee for service reimbursement pressure is by adopting value-based care — by mandate and by choice. This is hardly a new idea; we've been talking about it for 15 years but perhaps disappointingly, only 40% of payments were tied to alternative payment models in 2020 and 23% in upside-only arrangements.

2035: We will see widespread adoption of capitated and downside risk financial models. Value-based care will gradually become integrated with other care models, such as behavioral health. At the same time, payers pushing into care delivery — starting with primary care, increasingly home-care, and targeted specialty practices — will continue as payers look to directly control costs.

The challenges of 2035 will be daunting. The industry will need to look different. With new models, new roles, and new rules. The following chapters of this report will highlight the big changes that the industry will undertake and how new healthcare markets will emerge to meet these challenges.

MAJOR DIMENSIONS OF CHANGE

We've identified four dimensions where healthcare will evolve substantially by 2035, each building on underlying trends and dynamics that are evident today and that will lead to an industry that looks quite different in the future. We need to confront current limitations and constraints and be willing to embrace these evolutions if we are going to fulfill the promise of a healthcare industry that is better aligned to meet tomorrow's needs.

TECHNOLOGY INNOVATION WILL CREATE STEP CHANGES IN PROCESSES AND OUTCOMES

Technology is getting faster, cheaper, and smarter by the day.

Faster

Supercomputer power increased by more than 1000% since 2016. And now we are seeing major breakthroughs in quantum computing, which will result in even more data being processed at rates that were once only imagined in the pages of science fiction novels.

Cheaper

Hard drive prices are down by a factor of 400,000 since 1982. The affordability of cloud services has also made it easier for consumers and companies to store large quantities of data. Nearly two-thirds of people around the world have access to the internet today.

Smarter

As early as 2024, ultra-intelligence computers will possess 400% more parametric capacity than the human brain and be nearly 10 times faster in the number of computations that can be run every second. AI models passing such professional qualification tests as state bar and medical licensing exams already exist.

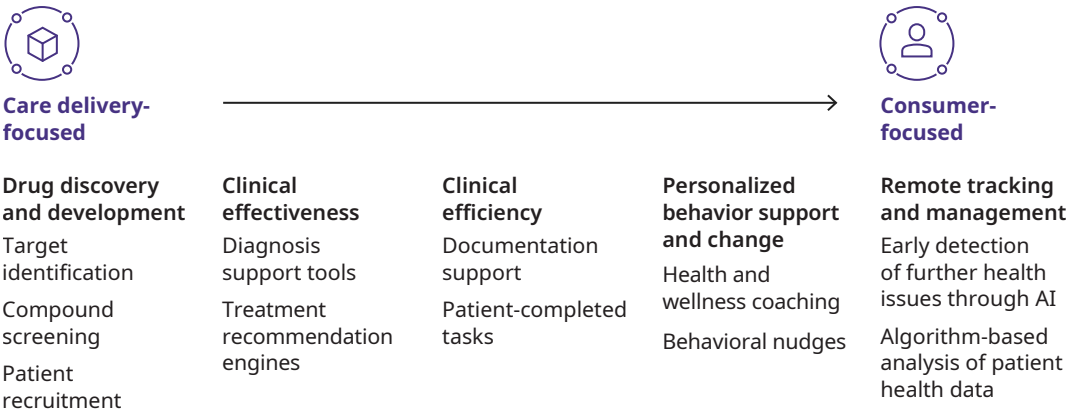
The number of daily digital interactions per capita is expected to more than triple from ~1400 in 2020 to ~4900 in 2025.

RBC Capital Markets

What does this mean for healthcare? The Human Genome Project officially ended in 2003, at a cost of $2.7 billion. Today, whole genome sequencing can be done for $600. Costs will continue to come down; the barrier now is the workforce and the actionability of data collected. By 2035, comprehensive genomic sequencing will be a standard part of medical evaluations, providing insights into an individual's predisposition to diseases and guiding personalized treatment plans. We'll also see advanced diagnostic capabilities propagate in the next decade: point-of-care devices and at-home testing kits will provide quick and accurate results for a wide range of medical conditions, enabling early detection and timely treatment. Additionally, pharmaceutical companies will use predictive models to design and test potential drugs in a matter of days or weeks, rather than the years it currently takes. The telehealth models of 2035 will evolve to seamlessly integrate advanced artificial intelligence, remote diagnostics, and virtual reality to provide a comprehensive, personalized experience for patients as they shift from virtual to in-person care.

Technology is necessary but not sufficient. It is the focus of this section, but true impact will require operational changes. Here are five ways that a combination of technology and operational improvements will alter the healthcare landscape by 2035.

Use cases of advanced technology and analytics



Source: Oliver Wyman analysis

Improving processes across the care continuum

We are able to capture and analyze larger amounts of patient demographic data across more patients, allowing us to develop more equitable clinical pathways. The overall increase in information on outcomes and practice patterns, along with more effective dissemination of data, will lead to a healthcare system that is more readily able to learn from itself. Additionally, clinical evidence that is seamlessly integrated into electronic health record systems will foster faster and more accurate treatment decisions. Today's struggles with interoperability will be overcome, and data will follow the patient in a more efficient manner. Doing a better job of incorporating data into clinical workflows will help ease the burden and burnout that clinicians currently feel from cumbersome technology systems.

Extending the reach of care processes through connected technology

RPM will stand for remote patient management, not just monitoring. Today, healthcare produces roughly 30% of the world's data. Advances like embedding diagnostic tools into smartwatches or generally making them more compact, expanding biomarker testing, and more will enrich the quality of this data. By 2035, we'll be able to handle this data much better. Adjacent advances in computing power will process disparate sources for a more comprehensive and accurate picture of the patient. Automated analyses systems, built on top of the infrastructure, will act as a first line of defense, triaging input data, suggesting interventions based on patient needs, and escalating care as needed.

Aiding in identifying and developing new therapies

Two key levers in the research and development process will see big advances — drug discovery and clinical trial design. Advanced computational methods will analyze vast biological data sets to identify novel drug targets with higher accuracy, and technology-driven advancements in high-throughput screening techniques will expedite compound screening processes. Technology advances will also be used to identify and recruit suitable clinical trial participants more efficiently, matching patients with trials based on their profiles, accelerating recruitment, and improving trial timelines. We could also see institutions beyond academic medical centers running clinical trials, expanding access to a larger patient population. Together they will help address the gender and racial diversity gaps that currently exist in clinical trials. We can also simulate trial participants using technology, lowering the time and cost it takes to get a drug to market. The Unlearn digital twins is an early example. This technology allows a control arm to exist when one would otherwise not be possible, greatly speeding up the time of these trials. Finally, better real-time monitoring of patient safety and data quality during clinical trials will reduce errors and overall improve outcomes.

Scaling personalization of health behavior guidance in real time

Tailored programs like health and wellness coaching or behavioral nudges will become ubiquitous in everyday life. Virtual assistants and mobile apps will provide individuals with real-time guidance and support tailored to their specific health goals and needs. These will rely on generative AI and large language models to build more personalized ways of collecting patient information and engaging with patients to get behavior change, and leverage data from wearables and health records to optimize outcomes.

Elevating labor productivity for greater focus on value-added clinical tasks

We have already seen some advances in technology providing administrative support. Further improvements will largely be in the vein of modifying ChatGPT-like solutions for creating more efficiencies of back office and other administrative functions.

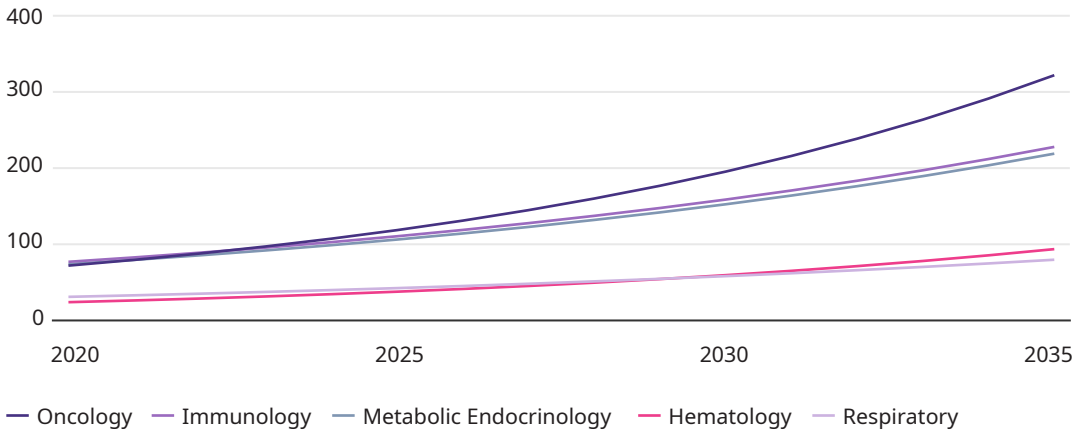
Additionally, AI will support and evolve work completed by nurses, case managers, and social workers. Smart implementation of AI systems has the potential to automate some tasks completely, including prior authorizations, care planning, and consultations triggered by assessments. One net new automation that may develop is robotic medication administration which can identify routine drugs that best serve select patients. While these advances will significantly improve everyday efficiency, the rate of adoption will be limited by cost and resource shortages. Once we reduce this barrier, hospital systems can implement fully baked solutions to optimize operations.

Improvements in interoperability will lead to more advanced marketplaces and better user experiences. With this, we'll see the continued rise of more portable and effective health records and advances in consumer-facing applications such as scheduling. Additionally, better privacy and application programming interfaces will emerge to capture, store, and share data.

ADVANCES IN THERAPEUTICS WILL CHANGE CARE PATHWAYS

We have moved past developing small molecules and running them against disease models to see what sticks. Our understanding of human biology is deepening, from how genetics are expressed in vivo to the impact of exogenous forces on disease progression. The number of drugs continue to increase, and the quality, as measured by ability to modify or even cure disease, will also improve.

US projected drug spend by category, 2020-2035
In billions of US dollars



Note: Initial forecast based off therapeutic area spend in 2020
Source: IQVIA data, IQVIA Global Medicine Spending and Usage Trends

NEW CURATIVE DRUGS

This first category includes therapies affecting diseases that were previously debilitating and often considered a death sentence. Innovations like cell and gene therapy not only offer effective long-term treatment but offer the promise of a cure. One example is CAR-T cell therapy for hematologic diseases like acute lymphoblastic leukemia. While additional care and monitoring may be necessary, the progression of the disease itself is halted. Treatments will be complex and require specialized sites of care — very few of which exist today. Another challenge standing in the way of this bucket is their high prices — Hemgenix for hemophilia B costs $3.5 million for a single treatment, creating funding and access issues. To partially combat these access issues, we'll see the emergence of high-risk pools and more portable payment models. Current indications for this technology are in the rare disease space but it's possible to envision more and more prevalent conditions — therapies for sickle cell and Parkinson's disease are on the horizon within the next five years.

The total addressable patient population for cell and gene therapies will increase from 736,000 today to 1.7 million by 2028.

Oliver Wyman analysis

DRUGS THAT ENHANCE CONTINUUM OF CARE

The second category of innovation is improved therapeutics coupled with advanced diagnostics to better manage conditions and optimize outcomes. The main vectors for change are more specialized drugs and better diagnostics that aid in patient matching. Examples of conditions that would benefit from this include type 1 diabetes and multiple sclerosis. Patients typically cycle through multiple therapies over the course of their journey with these diseases or stay on the same expensive therapy for 10-plus years. Projected advances in diagnostic technology, like the ones outlined in the previous chapter, will help identify the right drug for the right patient at the right time. To optimize treatment, providers must work with patients to identify the correct patient-drug combinations, and step-therapy workflows must be changed so patients don't have to experiment with therapies that aren't best for them in the long run. This will all result in fewer treatment cycles, leading to lower total costs, an improved patient experience, and increased adherence.

DRUGS THAT IMPROVE CHRONIC MANAGEMENT

Chronic conditions affect nearly 60% of adult Americans. Improving overall population health by solving these conditions will have massive implications. Consider the attention to obesity, which is a precursor to chronic metabolic diseases, not to mention the other long-

term downsides. Used in combination with lifestyle management, GLP-1s offer a solution for obesity that reduces the reliance on invasive interventions and multiple medication regimens. While these therapies are the cheapest of the three categories at the per-patient level, they are still expensive and the overall budget impact will be enormous. For providers, these medications may offer a more effective and tailored approach with lower risks for the patient. For payers, the bet is that treating these conditions in the near term will lessen the chance of an expensive health event in the long run. We are still in the nascent days of using GLP-1s to treat obesity. It remains to be seen if they'll become ubiquitous or if prescribing patterns will be more discerning.

REDISTRIBUTING CARE TO OPTIMAL SETTINGS

Hospitals have been important sites of care in our system for two main reasons: Economies of scale — reducing the unit cost of care delivery through asset utilization and economies of scope — and using various capabilities and expertise to bend the cost curve and respond to patient variance. But as care delivery has advanced, the impact of economies of scale and scope has diminished. Scale no longer requires being everything to everyone. Likewise, scope needs are lessened through the ability to manage risk and reliance on more precise diagnosis.

The current inpatient model has limitations: it is capital and staff intensive and therefore expensive. It is not always the safest or most consumer-friendly place to be treated. On top of that, patient preferences and logistics may make being at home the optimal site of care. In response to this, we predict care settings will shift dramatically over the next decade.

SHORTENING LENGTH OF STAY

Care that begins in the hospital will be able to move to the home more quickly by 2035. This will be led by the expansion of minimally invasive procedures, more effective medication, and an increase in available remote patient management devices.

INPATIENT TO OUTPATIENT

Advances in medical technology will allow care for certain conditions and surgical procedures to no longer require an inpatient admission. This shift is already underway, with eight common surgeries experiencing a disproportionate number of outpatient cases in 2020 compared to the few years prior to the pandemic. Shifts in care protocols, including minimally invasive procedures and improved rehabilitation techniques, will push this transition. Retail clinic settings will also have an impact through enhanced accessibility, cost reduction, and a stronger focus on preventive care — meeting patients where they already frequent to provide healthcare services.

OUTPATIENT TO HOME

New technologies and treatments allow providers to assess a patient's condition virtually, currently for the most common incidences. By 2035, this will increasingly happen for complex situations. For the average individual, 28% of the services they receive in a given year are feasible via virtual care. Virtual-focused innovations that allow patients to conduct physical exams themselves while supervised by their physician are an example — thermometers, otoscopes, stethoscopes, and scales that are connected to an app and send real-time information to care teams.

INPATIENT TO HOME

While the shifts outlined above will all become more common over the next decade, the most disruptive transition will be from inpatient care to care at home. We project that 64% of inpatient admissions would be available to occur at home by 2035. This will be enabled by both improved therapeutics and more effective virtual care. There are several drivers that will propel this transition:

Reimbursement pressures: At-home care will be largely cheaper than inpatient care. With continued pressure on fee-for-service economics and government lines of business — Medicare and Medicaid — being largely unprofitable for hospitals, these cost savings will be embraced by most stakeholders.

Aging population: Inpatient utilization is expected to increase as baby boomers age. Building off the discussion in chapter one, the average Medicare admission is roughly four times as long as the average commercial admission. This increased demand is not met with an increasing supply of hospital beds, so innovation outside of the traditional inpatient system will have to occur to help supply meet demand.

Better technology: The Internet of Things allows for more effective at-home care where patients can immediately connect with their provider via video, phone, email, or text and upload real-time information to their medical record. This convenience also saves patients in travel time and cost and allows creates efficiencies for providers.

Patient preferences and satisfaction: Studies show that hospital-at-home patients are four times more likely than acute care inpatients to be satisfied with their physician, six times more likely to be satisfied with the convenience of care, and three times more likely to be satisfied with the overall experience. These numbers will rise as technology facilitates an even better experience.

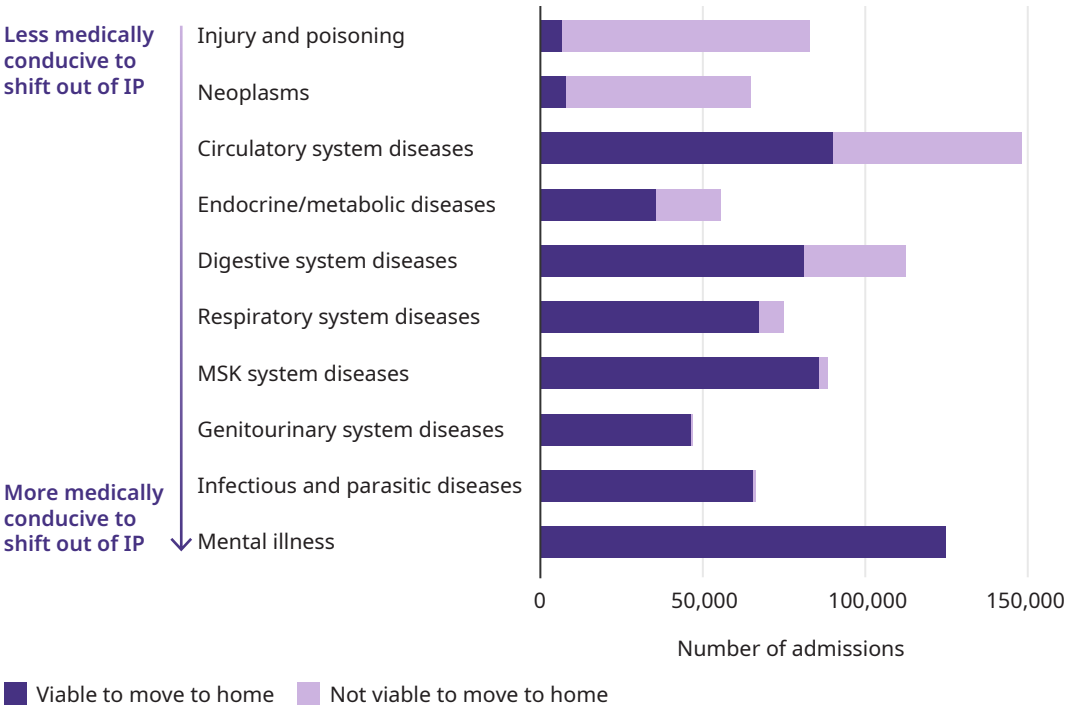
Better outcomes: A recent study shows that hospital readmission rates were lower for hospital-at-home patients compared to hospital inpatients (8.6% vs. 15.6%). This, coupled with the fact that many complications inpatients experience can be lessened at home — lower rates of delirium (9% vs. 24%), bowel complications (9% vs. 16%), and emergency

situations (6% vs. 11%) for hospital-at-home patients — reinforces the argument for migrating more care to the home.

Equity benefits: At home care programs also serve to bolster efforts that address social determinants of health. Giving clinicians and care teams more direct access to the home, especially in low-income settings, enables them to get a broader view of environmental impacts on someone's health.

Still, at-home care has limitations. Shifting out of an inpatient setting is not feasible for high-risk situations or overly invasive procedures. And to be clear, not everything that is available to move to the home should. The overall infrastructure still isn't robust enough to match the potential transition. Only 10% of US housing stock is aging-ready currently, and large swaths of rural America, as well as some inner cities, still lack access to broadband. For any of the above to play out at scale, issues like those must be tackled. This uncertainty is playing out in the market, where two major health systems recently stopped offering hospital-at-home programs.

Share of today's admits by diagnosis category viable to move to the home in 2035, assuming a non-severe case[1,2]



1. Each category has certain severe cases (e.g., with coma, a surgical case, etc.) that are excluded from this analysis;
2. Excluding pregnancy and perinatal conditions
Note: Length of bar refers to total admits within diagnosis category
Source: Oliver Wyman analysis, Marketscan, Medicare 5%, 2019 admission volume

HEALTH INSURANCE WILL EVOLVE SIGNIFICANTLY FOR CERTAIN BENEFITS CURRENTLY ON THE FRINGE

As the healthcare landscape changes, payers must modify their products to meet evolving consumer demands. While the core medical benefit will remain similar barring significant regulatory action, we will see more mental health coverage and a new approach to pharmacy coverage — each benefitting from a higher percentage of the total benefit spend and more personalization within products.

Evolving Product Lines

ACA	Commercial	Medicaid	Medicare
Products evolve to meet new member needs Standardization among products eliminates too many choices Better modes for comparing products facilitated by transparency	Further division among smaller and larger employers **Smaller:** Push towards fixed contribution/ exchange to save on costs **Larger:** Greater scrutiny on ROI	Increasing coordination with other LOBs Integrated offerings across Medicaid/ACA Shift away from coordination-only SNPs to FIDE SNPs	**MA:** Continued margin pressure within existing infrastructure will occur (e.g., moving Stars goalposts, increasing clawbacks) **Traditional Medicare:** Continued push towards APMs and continued and more aggressive CMMI programs

Overarching changes

- Increasingly consumer-driven and personalized products
- More heavily featured mental health and pharmacy benefits
- Evolved payment models for expensive therapeutics

Source: Oliver Wyman analysis

Mental health benefits will be on par with medical and surgical benefits, as required by law. Access to these benefits will increase through the use of technology in both the form of better patient-provider matching and artificial intelligence-powered bots. Coverage for non-clinical behavioral health solutions like peer support services and subscription-based apps will be the norm.

Pharmacy benefits management will be integrated with medical, not separate as it is today. For high-cost, curative therapies, financing will be pulled out into high-risk pools that follow patients. Value-based pricing will be the norm, with pharmaceutical companies taking risk not just on drug spend but also medical spend.

Products in general will be increasingly consumer-driven and personalized as well. This extends past traditional point solutions or advocacy. The market in 2035 will have tailored benefits products that enable individuals to spend their out-of-pocket dollars in areas that will most benefit their health. At the less extreme end, this may take shape as an HMO or POS plan. At the more extreme end, plans that auto-adjust benefits based on health history will emerge.

Individual lines of business will experience their own evolutions, on top of the industry-wide changes. We spotlight those below.

Commercial and Affordable Care Act: Further division among smaller and larger employers

Group insurance trends will vary by market and will depend on the strength of local economies, local regulation, and employer attitudes toward benefits. Places with high unionization, regulation of benefit levels, and significant industry concentration may continue to see competitive, richer benefits, while right-to-work states with less industry concentration will see benefits taper off. Because of this, we project an employer market that roughly resembles what we have today. However, a few things could meaningfully shift the group insurance market by 2035.

A growing number of employers are turning to individual coverage health reimbursement arrangements to meet the ACA's employer mandate. Through ICHRAs, employees are reimbursed for some or all the premiums of an individual plan they purchase on their own. Since launching in 2020, ICHRAs have grown by 350%, according to the HRA Council. There was 171% growth between 2022 and 2023. If we see acceleration of ICHRAs, more consumers will end up on ACA plans. With that, we expect tighter networks and benefit designs. Similarly, state governments are likely to continue pushing the envelope with public options. Colorado, Nevada, and Washington have gone down this road.

The need by large employers to enrich benefits offerings will force greater scrutiny of return on investment for what each benefit contains. Point solutions of today will be seen as table stakes in 2035. Overall point solution fatigue and a need for customization will lead to the growth of aggregators. In parallel, employers will align their benefits to maximize the return on investment on the solutions they deploy.

Currently, many small employers self-fund to avoid facing premium taxes — the percentage of small firms offering self-funded insurance rose from 13% in 1999 to 21% in 2021, a 62% increase. If regulation to close this loophole emerges, this percentage will decrease.

When we look at the ACA market, products will emerge that are designed to better anticipate evolving member needs. A greater push for standardization should eliminate the current problem of too much choice, and narrower bands of actuarial values and increased transparency will allow consumers to more easily compare products.

Medicare: Increased margin pressure

For Medicare Advantage, the Centers for Medicare and Medicaid Services will look to tweak the existing infrastructure to lower costs, by moving goalposts in the Stars Ratings program, increasing clawbacks, and making changes to risk coding. Smaller plans will fail to adapt, driving 90% of plans currently operating to close. Medicare Advantage as a whole, however, will continue to grow — with penetration up to 70% from 48% today. Traditional Medicare will continue to see a growth of alternative payment models to try and derive better value. For both, there will be greater focus on equity and stricter guidelines around access.

Medicaid: A story of integration

Despite ongoing pressure on state finances, the shift in Medicaid reimbursement policies will create opportunities for private capital investments. The venture capital market will play a larger role in Medicaid innovation over the next 10-15 years. With rising enrollment, increasing healthcare costs, and stricter budgets, states will need to find new ways to deliver care while maintaining costs. States will expect plans to offer an integrated offering across Medicaid and ACA — something that is happening in Rhode Island. Elsewhere, we are seeing insurers that already participate in the ACA and Medicaid venture deeper into this integration by transitioning people who lost Medicaid coverage due to redetermination into an ACA plan. There will also be greater emphasis on the integration of care that has historically been at the fringes, including dental, where over half of states only cover emergency services, and behavioral health.

For dual eligibles, there will be a shift away from coordination-only special needs plans to fully-integrated dual eligible SNPs. Already, 22 states have fully or partially integrated care models. The market will increasingly demand Medicaid plans tailored to high acuity patients and to lower acuity patients, resulting in necessary and bifurcated businesses.

These four major pieces of the healthcare puzzle in 2035 will greatly influence the speed and scope of healthcare's evolution over the next decade. With ever-evolving technology impacting a wide array of healthcare processes and sites of care, continual advances in therapeutics changing how we treat conditions across the spectrum, and the healthcare product market needing to modernize to keep up, the industry of 2035 will look different across the board. In the next section, we will dive into several market vignettes that illuminate the tangible ways in which individuals' healthcare experiences could be transformed by these sweeping changes.

MARKETS OF THE FUTURE

Today's healthcare system evolved to serve broad cross sections of communities. One primary goal has been to deliver similar care offerings and experiences across diverse populations. As new roles, technologies, and business models drive innovation, we see varying ways of serving targeted populations emerging. With that, we expect different value propositions, offerings, assets, and expertise to better align with medical, social, and financial needs of specific groups of consumers.

Across the broad landscape, at least three specific segments will emerge as drivers of the new healthcare landscape: seniors, digitally savvy consumers, and families. Each of these will be impacted in different ways between now and 2035.

Markets of the future

Market	From	To
Silver surfers	A growing senior population that puts pressure on caregivers and typical care settings	Care delivery reconfiguration and evolving technology that enables seniors to age at home instead of the hospital and lets caregivers feel increasingly supported
Savvy consumers	A group of consumers who are engaged and on the hook for their healthcare but with limited offerings available	Winning products/groups focused on the quantified self, alternative care options, and trust-building
Healthy families	A system — both on the payer and care delivery sides — not tailored to meet families' needs	Products that are more flexible and focused on assisting families with navigating the care delivery system and care models that treat the family together to save time and produce better outcomes
Rural communities	A market where an overall lack of access drives suboptimal outcomes and local care delivery outlets are not equipped to meet market-specific needs	New, community-based models that move care away from the hospital and to alternative settings
Urban workers	A community with a mismatched distribution of care delivery resources	A reconfigured urban care ecosystem led by stronger involvement of both the government and community-based organizations

— Historically accounted for — Historically underserved

Source: Oliver Wyman analysis

SILVER SURFERS

By 2035, seniors will account for one in every four Americans, up from one in six today. The aging population will result in a growing prevalence of chronic conditions — 80% of older adults have at least two chronic conditions — and larger segment of the population that is overall less healthy than the rest — 20% of seniors are in fair or poor health and 9.4% have difficulty with self-care. As a society, we must develop new care models and capabilities to account for the added complexity and expense of these more varied cases.

Opportunities to improve outcomes for the senior cohort will broaden over the coming years. Easy-to-use medical supplies, remote patient monitoring devices, and life-saving equipment will be increasingly ubiquitous, making care outside the hospital a more viable option. Organizations and technologies that can aid in reconfiguring physical assets and workforces to focus on last-mile care delivery will gain momentum. Amazon Pharmacy is already doing some of this on the drug delivery side but we project examples to spring up, including on the care delivery side through partnerships between corporations and clinicians.

For formal and informal caregivers, new tools and incentive models will spring up, rewarding them for the work they do taking care of older family members. New care models and training programs will emerge on the clinician side, tailored towards teaching providers how to work more efficiently with informal caregivers. On the monetary side, initiatives such as Medicare's family caregiver funding plan and retooled insurance products ease families' financial burdens. Funding for these programs will come from a variety of sources, including employers, who, through evolved health plan products and benefit packages, will end up covering a large chunk of these advances. One such example of an innovation here is a technology platform that offers on-demand, personalized home care booking services and partners with employee benefits plans to provide subsidized elder care benefits to employees. This, in turn, helps to create and retain a more productive workforce.

Finally, alternative care models and sites that are more suited for seniors' distinct needs will spring up, shifting from today's focus on physical conditions to a mix of both physical and cognitive decline. Nearly two-thirds of dementia cases go undetected by primary care physicians. Efforts to improve the situation are already underway. CMS rolled out a Medicare pilot program aimed at improving the quality of life for seniors experiencing cognitive decline. The Guiding an Improved Dementia Experience model will offer 24/7 access to a support line, caregiver training and support services, and pay participants to fund home health aides to give unpaid caregivers a temporary break from their duties. Programs like these will scale and become the norm by 2035.

As these programs proliferate, aging at home will increasingly become the favored alternative. It is already popular today — 90% of older adults prefer to age at home — but our current infrastructure is not set up in a way that makes this a viable option for many. Only 10% of US housing stock is aging-ready, and falls are the leading cause of injury for adults aged 65 and over. Our nursing home stock is also not well-equipped to handle this

age wave either. There are only about three million nursing home beds to accommodate the 70 million baby boomers in the US. Seniors will more easily be able to feel safe in their own homes and age where they would like to due to infrastructure improvements and digital solutions increasing the safety and viability of aging in place — remote monitoring will be crucial for this cohort, especially considering that 42% of seniors live alone.

SAVVY CONSUMERS

While the needs of the senior population will grow relentlessly, the industry must also respond to younger generations that are typically healthier, more technology savvy, and more prone towards self-care. In fact, coming out of the COVID-19 pandemic, 71% of Americans are more observant of their health. While standard healthcare solutions may continue to hold the highest demand, alternative options will gradually gain popularity, including different therapeutic options or care delivery preferences like doula assistance. This cohort prefers solutions that produce real and immediate results, both physically and cognitively, and they don't mind paying for it: 56% of Americans would spend more than $100 per month on weight loss medication.

By 2035, we expect the quantified self to become more actionable, making the shift from simply tracking behavior to influencing decisions daily. Greater connectivity among players in the ecosystem will emerge. Greater connectivity in healthcare data will afford users a single view of their wellbeing. Advances in clinical models will make the data actionable, driving daily decisions on diet, exercise, mindfulness, and sleep. Greater connectivity with the broader ecosystem will enable connections with the traditional healthcare ecosystem and connectivity between physical and virtual care. New businesses — focused on connecting health records, insurance, patient-generated data, and loop in clinicians — will see growth.

Trust will be paramount as healthcare becomes more personalized. Consumers will seek out the information from the sources they trust, and it won't necessarily be big healthcare institutions. Peer-to-peer solutions that feel more organic than current experiences will continue to grow in popularity. Harvard's T.H. Chan School of Public Health has already begun to partner with mental health influencers on TikTok to reach and connect with this group of savvy content consumers in ways traditional providers do not. As Austin Chiang, MD, described during the 2023 Oliver Wyman Health Innovation Summit, healthcare organizations must grow and support influencers to counter misinformation that spreads across social platforms. Chiang, who serves as Chief Medical Officer of Medtronic's gastrointestinal business and Chief Medical Social Media Officer at Jefferson Health, has more than 750,000 followers across his social media platforms. He uses his accounts to drive evidence-based medicine to consumers. Traditional provider groups also have to drive trust through greater community engagement. If they invest in building an infrastructure that facilitates real-time communication among stakeholders in a care journey, consumers will respond favorably.

Behavioral health will become more holistic and increasingly intertwined with primary care as these innovations take shape. Behavioral health providers will increasingly become closer to the first point of contact with patients, and we'll need a lot more of them. As they take on more tasks closer to what we consider primary care, the training needed for behavioral health providers will evolve into much more of a broad set of skills. By 2035, the gap between primary care and behavioral health quality and availability will be harshly cut.

HEALTHY FAMILIES

The current unit of in our healthcare system is the individual receiving care. But for many, healthcare decisions are made on behalf of an entire family. Mothers make 80% of healthcare decisions for their families. Furthermore, the health of parents translates to the health of children. Consider obesity, where a child with one obese parent has a 50% chance of being obese. That climbs to 80% when both parents are obese. Similar statistics exist for diabetes and mental health conditions. It is imperative that we rethink how the entire family unit experiences healthcare.

Health plan products that accommodate families by offering greater flexibility and tailored solutions will emerge by 2035. Regulatory and market pressures to boost price transparency will bear more fruit, arming consumers with more information when making healthcare decisions. An easier-to-use benefits marketplace, perhaps with the ability to toggle specific benefits on and off, will allow families to curate a plan that works for their family. We also foresee situations where employers offer new ways for families to finance healthcare for family members. A model borrowing from 529 college savings plans, for instance, would allow a family member to contribute towards a beneficiary's healthcare expenses long after they stop being a dependent. Additionally, the demand from payers for alternative pricing models and support programs like providing transportation to and from appointments will expand.

On the care delivery side, models that treat the family as a unit to accommodate their shared history, needs, and preferences will emerge. Families will increasingly rely on biomarker tests that can impact the whole unit. Correspondingly, providers will develop care plans for the whole family, not just the individual. We'll also see the continued growth of multi-specialty clinics, particularly in suburban areas, with visit templates that accommodate a family. Increased investment in navigation solutions from providers will also make it easy for busy parents to know what their dependents need, when they need it.

Similar to the savvy consumer cohort, transparency and trust building will greatly influence this segment. We especially forecast retailers playing an increased role. These retailers will continue to grow their reach and service a larger portion of care needs. National chains like CVS Health, Kroger, and Walgreens have expanded into chronic care management, for instance. We expect them to also increase their footprints, whether it be with in-location clinics at local superstores or increased remote supply provided through mail-order logistics. Upfront costs will also be more transparent as we approach 2035, and families will increasingly make decisions based on such data.

We'll see models and health plan products that embrace the flexibility required when seeking healthcare for an entire family unit emerge by 2035, and meet families where they're at, whether it be their favorite retail location or directly at their home.

RURAL COMMUNITIES

Beyond the specific needs outlined above, a combination of geography, demographics, economic conditions, and broader societal challenges will impact how markets evolve nationally. Innovations, new market structures, and increased societal commitment will be especially important in two key markets that incorporate people from all the cohorts described above — rural America and urban working poor.

While rural communities all differ demographically, they generally skew older and with lower employment and income figures. One thing that is consistent among them is the financial challenges they face related to healthcare. Roughly one out of 12 rural hospitals have closed since 2010, and one out of three remaining rural hospitals are in danger of closing. This has led to adverse health outcomes: rural life expectancy is roughly three years shorter than it is for people in urban areas.

By 2035, and buoyed by new state payment models, we'll see rural hospital models that allow for longer-term sustainability. We expect an increased focus on preventive and outpatient care, largely stemming from a greater amount of predictable, capitated funding from state governments. Pennsylvania has already instituted a similar program here that received $25 million of federal funding. We forecast more states adopting scope of license flexibility to allow for greater dependence of third-party specialists and virtual treatment and management. This will also ease the impact of physician shortages as nurses and other practitioners will be able to handle more direct patient care. Finally, there will be more intentional training and career paths for prospective clinicians to work in rural hospitals versus alternatives, leading to increased staffing flexibility.

Greater at-home, virtual, retail, and mobile care will emerge, empowering consumers to get the care they need without taking days off to travel to more urban sites. Remote specialists that work with local advanced practice practitioners will become a popular option, along with care models built around common incidents in rural communities. The greater presence of telehealth will facilitate lower acuity interactions, with a hybrid model developing for episodes that require a bit more in-person interaction. At-home resources for everyday healthcare management will be more popular and facilitated by more widespread internet access and devices that don't require intensive amounts of bandwidth to function. Retailers such as dollar stores or grocers will continue to extend services to more healthcare applications.

For all of the above to work, we need greater trust and community engagement among providers. Existing physical spaces like community centers and faith-based locations will increasingly function as care delivery sites. For traditional healthcare providers like hospitals, targeted cultural models that resonate with the specific nuances of a particular rural population will surface. In some rural markets where a large employer already plays an outsized role, their influence over health will only intensify.

URBAN WORKERS

This section focuses on low-income urban workers who struggle to access healthcare services. The outcome disparities are stark: Poor adults are five times as likely as those with incomes above 400% of the federal poverty level to report being in poor or fair health. Addressing these needs is not merely about shifting resources. It also requires new types of care, new structures that address underlying determinants in new ways, and the creation of new models that are tailored to unique local needs.

Overall, care will be reconfigured and better integrated into the broader urban ecosystem. Community-based organizations will become central pillars of care delivery, aiding in identifying patients with social determinant of health needs. These organizations will be more actively integrated into benefit structure — more on this below — and engage with social workers to assist with transitions out of formal care and act as a liaison between patient and provider. Specialized sites of care tailored around behavioral health, substance abuse, chronic disease management, and other common problems for this cohort will develop in and outside of the hospital. The government will be increasingly involved here as well, such as through best practice requirements and direct delivery and production of materials, like California producing insulin.

Additionally, this cohort will get the flexibility they deserve through integrated benefits across government healthcare programs. We predict that Medicaid, CHIP, and ACA plans will expand transition resources, such as common income standard and one application process. States and insurers will build off the expertise they honed as Medicaid redeterminations ramped up post COVID.

Greater Medicaid funding will expand investment horizons and we'll see increased spending on social and economic programs that take the individual's needs, lifestyle, and history into account. Increased funding will encourage engagement between stakeholders and propel innovation for both high and low acuity members. High-acuity Medicaid will attract venture capital dollars and act as a bedrock for innovation. States will continue to leverage Medicaid innovation waivers to organize tailored support for the community — 16 states have already approved such waivers and we project more by 2035.

As community-based organizations and more-integrated benefits across government lines of business emerge, the working urban market will see a much-needed improvement in care access and outcomes.

The shifting landscape of healthcare cohorts by 2035 presents both opportunities and challenges for the US healthcare system. While seniors, digitally-savvy consumers, and families are poised to benefit from evolving healthcare technologies and services, we must also prioritize addressing the unique needs of historically underserved populations such as rural and low-income urban worker communities. By recognizing these disparities and implementing targeted strategies, we can strive for a more equitable and inclusive healthcare system that meets the diverse needs of all individuals, fostering a healthier and more resilient society for years to come.

Markets of the Future in Action

1

Silver surfers

Remote monitoring advances targeted for seniors

Last-mile care delivery — companies with existing footprint getting involved

2

Savvy consumers

Alternative solutions (e.g., different drugs, doulas)

Quantified self improvements with greater connectivity across the system (single benefits interfaces, wearables, health dashboards)

3

Healthy families

One appointment for multiple children

Evolved products with more flexibility for total family care

4

Rural communities

In person APP/remote specialist

Community spaces like churches/community centers etc., used for vaccines and low-acuity care

5

Urban workers

Community based organizations at the center of care delivery

Innovative solutions using Medicaid dollars to solve more than just health (social/economic programs)

Source: Oliver Wyman analysis

THE NEW INDUSTRY IMPERATIVES

WHAT KEY PLAYERS WILL LOOK LIKE IN 2035

The previous chapters of this report paint a picture of what the industry could look like in 2035. It's time to discuss how we will get there. A lot will depend on how organizations react to current market trends and their perceptions of the threats and opportunities the future holds. Big incumbents could tackle transformative ambitions of delivering value in new ways. Innovators and new entrants could continue to siphon off profitable market segments and eventually take more of a leading role. The pace of consolidation may accelerate to create real economies of scale and scope, or the pendulum could swing to favor the nimbleness and local intimacy of smaller players. Capital markets and industry regulators will respond in varying ways to limit, or expand, all of these possibilities.

The future makeup of the industry depends on what organizations within and outside of healthcare do today. For each of these stakeholders, a set of no-regrets decisions should be on the table.

HEALTH SYSTEMS

Health systems face mounting cost and revenue pressures. Care continues to shift to low-cost outpatient settings. Outpatient revenue now contributes almost half of community hospital revenues. The growth in less-profitable government payer lines of business also puts pressure on revenue. And the ever-increasing price of supplies and medications, coupled with ongoing labor struggles, are a strain on the bottom line.

Health systems don't have 10 to 12 years to address these risks. While profitability has rebounded slightly post COVID, the long-term outlook for this sector is challenging. More than 60 hospitals and health systems in 2023 were downgraded by at least one of the three big credit rating agencies and over half of hospitals have a negative operating margin. This is particularly acute for rural and safety-net hospitals. Both community hospitals and academic medical centers need to reevaluate their inpatient operations, focusing on growing operational efficiency and partnering for scale as appropriate. They'll need to strategically divest direct ownership and invest in coordination of care, all the while continuing to increase expectations on patient experience. Revenue models will evolve, bringing greater visibility, but requiring investments in population health and a focus on government lines of business.

The health system of tomorrow will also have fewer, higher-acuity inpatient beds. Instead, targeted scopes of services will be supported by smaller on-site teams and partnerships, a larger and more diverse ambulatory footprint — including for post-acute care, and partnerships for virtual specialist access. While the pace of change will vary — some hospitals will continue to afford favorable fee for service rates for decades to come — most health systems will need to radically rethink operations to succeed in a new market.

PAYERS AND EMPLOYERS

Today's private payers will have to adapt as the preferences and needs of each segment evolve and the overall funding environment becomes more constrained. Employers need holistic health plan offerings that more directly address the needs of their workforce. As competition for a shrinking talent pool picks up, employers will need the flexibility to use tailored benefits as a retention and recruiting tool. Payers need to help employers expand their role beyond strictly offering health benefits, with increased efforts towards guaranteeing access, especially toward behavioral health. Additionally, as coverage increasingly includes therapies with high upfront costs, payers will need new ways to provide access to those services, guarantee quality, and ultimately manage costs, including through risk pools that share in that cost.

Greater integration between government programs will be vital for establishing better continuity of care; it will no longer be possible to run these lines of business-like separate segments. Medicare Advantage payers will need to maintain their benefits while revamping operations in the face of challenging macroeconomic trends and funding pressures. Across product lines, payers must make investments in operations that can pay long-term dividends in cost and flexibility.

BIOPHARMA INNOVATORS

Pharmaceutical companies today focus on the development, manufacturing, marketing, and distribution of innovative therapies. In this product-centric model, there has been limited connectivity between pharmaceutical companies, the providers who select and administer therapies, and the payers who cover the treatments. The pharmaceutical company of tomorrow will engage in more partnerships with other stakeholders and be involved throughout the care journey, facilitating delivery in novel ways. While they will continue to drive forward research and development, they will also play an increased role in therapy administration, management cycle, and bringing pre-test services to patients' homes. We'll see more companies supporting care teams, providing financial assistance, and supporting other logistics or compliance items, all with sustainability in mind given the ongoing climate situation. They will participate in new pricing and revenue models that incorporate multi-year horizons or outcome-based pricing. These new capabilities formed inside pharmaceutical companies will serve as a bridge between healthcare stakeholders when it comes to therapeutics and empowering patients to own their journeys by arming them with necessary knowledge and tools.

These stakeholders each face a challenging and meaningful road to change. They make investments, undertake transformation, and build new models while looking to other industry frameworks and structures to evolve at the same time. Whether its evolving state-based licensing or regulatory requirements, enabling new supply or education of clinicians, or top of license practicing challenges and boundaries, many enabling structures need to align to realize what's needed.

TAKE ACTION

We encourage you to explore the diverse topics covered in this report. The goal is to help inform your strategies, foster innovation, and, ultimately, contribute to the betterment of healthcare for all. The changes we outlined will not happen all at once but the foundations and momentum for a different healthcare system in the future are evident. Market leaders and innovators are already moving in the directions we've highlighted. Make no mistake, 2035 will be here before we know it. Mobilizing now, having hard conversations, and beginning to plot out a path to that future is not optional.

Oliver Wyman is a global leader in management consulting. With offices in more than 70 cities across 30 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has more than 7,000 professionals around the world who work with clients to optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities.

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