4sight Health Roundup Podcast
Another Blank Check for Healthcare Spending
1/16/25

David Burda:
Welcome to the 4sight Health Roundup podcast, 4sight Health's podcast series for healthcare revolutionaries, outcomes matter customers count and value rules. Hello again, everyone. This is Dave Burda, news editor at 4sight Health. It is Thursday, January 16th. After today, we'll have just three more days left of the United States as Abraham Lincoln envisioned it, a government of the people by the people and for the people. Let's all work hard to make sure it doesn't perish from this earth over the next four years of Idiocracy. That's the kind of mood I'm in. Let's see, what kind of mood Dave Johnson, founder and CEO of 4sight Health and Julie Murchinson partner at Transformation Capital are in today when we break down the latest government figures on national health expenditures. Hi Dave. Hi Julie. How are you two doing this morning, Dave?

David W. Johnson:
Well, for me, I'm expecting the largest, most hugest crowd ever for next Monday's inaugural, as you were talking about. Although Michelle Obama won't be there, and Melania Trump is refusing to have tea with Jill Biden, which is a tradition among First Ladies. There is a reality TV show opportunity in here somewhere. <Laugh>

Burda:
Dave, that, that was your Trump impersonation. That was pretty good.

Johnson:
It's pretty easy.

Burda:
Yeah. Must be working on it. Well done, <laugh>. Julie, how are you? Didn't think you'd hear that this morning, did you?

Julie Murchinson:
I don't know if I'm ready for four years of Dave's Trump impersonations <laugh>. I, well, I've been in San Francisco at the JP Morgan conference, and you know, it's been quite a week for a lot of people. There's definitely a bit of a beat here, but not a health plan in sight, that's for sure.

Burda:
That's not surprising. Okay. Before we talk about national healthcare spending, let's briefly talk about Monday, January 20th. It's Martin Luther King Jr. Dave, any factoid, revelation or personal insight to share about MLK Jr?

Johnson:
Well, thanks for asking. I had coffee last week with my neighbor John E., who just won the Pulitzer Prize for his MLK biography. For those of you who haven't read it, it's just an incredible book. Took him six years to write. And when I read it, I remember being surprised by three things. First was just how young Martin Luther King was. He died at age 39. And look at his record of accomplishment in those 39 years. Just remarkable. Also, it's his, I guess his reputation or his story has been sanitized a little bit. You know, he was much more radical on policy

prescriptions than is is typically put forward. For example, he was in favor of a guaranteed minimum wage. That's what the poor person's March in Memphis was all about. And I guess the last thing that was surprising and very scary is the extent to which our government invaded his private life with the intent to cause him harm. But anyway good for John the Pulitzer Prize. He's working on his next book, which is gonna be George Soros <laugh>. Can't Wait. <Laugh>.

Burda:
sounds like a great read. Thank you Dave. Julie, how about you, anything to about MLK Junior, not RFK Junior?

Murchinson:
<Laugh>? Well you know, I've appreciated raising kids in San Francisco at Progressive hippie schools. And I'm sure there's a lot of other schools across America that do this, but our kids preschool would always happen. MLK prayed. And we still have the little signs that the kids made, you know, on the, the Popsicle stick with the cardboard glued to it. And they're part of a collage that say things like, he used his voice. He was nice <laugh>, and all these very simple messages. And it's, sometimes, I always think about that on this day. 'cause I think, gosh, it's really amazing how schools teach about people like this who had such an enormous impact. And, you know, kids parade around the school and the like, like it's, we should do more of this in our, in our schools, that's for sure.

Burda:
That's where it starts. Thanks, Julie. Well, here's mine. MLK Jr. spoke at my alma mater, Elmhurst College, which is now Elmhurst University in July of 1966. I was six at the time. And my parents didn't take me. I don't think they even knew about it. And I didn't know he spoke there until a few years ago, which blew me away. And if you knew the demographics of the town of Elmhurst in 1966, and even today, it would blow you away too. It makes me even prouder to be an alum there. Can you imagine that meeting? Hey, let's have MLK Jr come out and speak at the college. Who's gonna tell the town<laugh>?

Johnson:
Well, that was when he was leading the protest for Fair Housing in Chicago. And he King made the observation that he thought the racism in Chicago was as bad or worse than anything he'd seen in the South. So you're spot on there.

Burda:
Wow. Wow. So we all have something to celebrate on Monday. Should we be celebrating the latest data on national healthcare spending? And there's your transition. In December, CMS published its latest historical data on national health expenditures. Dave, you briefly mentioned it at the end of our final podcast in 2024, but now it's time to dig a little deeper. I'm gonna share some highlights from the new report and then I'm gonna get your reaction. Here it goes. Total spending rose, 7.5% to $4.9 trillion in 2023. Spending on hospital care rose, 10.4% spending on physician and clinical services rose, 7.4% retail spending on prescription drugs rose, 11.4% spending on home healthcare rose 10.8% and spending on long-term care rose 9.5%. That's a lot

of spending. Dave, give me your reaction to the numbers. What policy failures are behind the increases, and what can we do policy wise to finally bend that cost curve?

Johnson:
Well I gotta say, if you're part of the healthcare industry, the traditional healthcare industry, [speaks French: laisse les bons moments rouler]; “Let the good times roll” right? I mean, look at these numbers. Overall spending up seven and a half percent particularly good for hospitals. And, you know, if you're an incumbent, you can almost feel the huge sigh of relief. Okay, we're back to the way we've always done things, which is we hospitals, we healthcare get more than our fair share of the national economy. So inflation was 4% in 2023. I just reviewed the Kaufman Hall Flash report to get ready for this their latest one in November, 2024. And guess what? Next year's numbers are gonna be every bit as bad as this year's in terms of the expenditure increases. Just on the hospital side, operating margin is 4.6, it's up 15% from last year. Length of stay is down, discharges are up. Again, we're just kind of reverting back to pattern. And I suppose if you're in the healthcare industry, that's a good thing, unless it isn't. And the reason it wouldn't be is, as I've said a couple of times here, I think we've entered this period of disequilibrium in healthcare a little bit like in physics where water turns to steam and very small changes can have disproportionate impact. So what is really happening with all of this added funding going back into healthcare, is just putting more pressure on a system that's already under enormous pressure. So I'm expecting to see, you know, some, some small changes have a disproportionate impact. You asked about the policy failure. It's really just enabling the monopoly and monopsony pricing power not just in in hospitals, but kind of across the board within the industry. And until we attack that, we aren't ever going to see the industry revert to more normal economic oriented, value oriented, consumer oriented behaviors. I found this quote from Jeff Goldsmith from a 1989 issue of Harvard Business Review, talking about the future of hospitals. And he wrote, except for major regional institutions, the acute care hospital, as we know it, will probably not survive. In the future, acute care will be concentrated in a small number of high tech regional centers, treating traumatic and chronically ill patients. Community hospitals will continue to provide some acute care still most of the care will be ambulatory and often located off campus. Well, that is as true today as it was in1989, Goldsmith had to walk back his prediction because he underestimated the resilience of the hospital sector. What he really underestimated was their lobbying power and ability to capture the regulatory process governing hospitals. Policy wise, what would be wise policies? We need better buying. We need removal of the medical protectionism embedded within regulations at both the federal and state levels. More pricing, transparency and all this is happening. And that's why I think we are at a period of disequilibrium and where something, some things are gonna happen and they're gonna have a disproportionate impact. So it's gonna continue this way, you know, excessive spending on the acute care sector until it doesn’t.

Burda:
Yep. Falls off a cliff. But until then, let the good times roll. Right?

Johnson:
Yeah. <Laugh>.

Burda:
Thanks Dave. Julie, any questions for Dave?

Murchinson:
So Dave, I don't know if you saw some of this discussion around Congress looking at policy changes to decrease spending on hospitals and particularly their outpatient clinics. Did you see any of this have thoughts on it?

Johnson:
Well, the real body blow here for hospitals would be the implementation of site neutral pricing. A lot of the healthcare margins that I just referenced are built on the fact that they can charge hospital based prices for procedures conducted in outpatient centers, doctor's offices, ambulatory settings, and there's a lot of pressure to just get rid of that. The other program that's under attack that could be a body blow to hospitals are the 340B subsidies for hospitals and drug purchases that that directs a lot of revenue into hospitals that if it went away would be catastrophic. The way I look at it is US healthcare to use a metaphor is very good at rescuing people when they're drowning. But we don't teach people how to swim. So what really needs to change? And these prescriptions, like site neutral pricing will force it. We have to shift focus to prevention and, and health promotion. So we don't need as much pure healthcare.

Burda:
Like paying $10 for a Diet Coke at the movies, <laugh>. Exactly right. There's my analogy. Thanks Dave. Julie, you're up in one of our recent podcasts, you said a single snowflake doesn't feel responsible for the avalanche or something like that. What's your reaction to the numbers? What market failures are behind the increases, and what can the market do to bend the cost curve in the right direction?

Murchinson:
That has been my favorite phrase as of late. You know, I'm with Dave on everything he said earlier. These numbers are you know, covid years catching up with us, fueled by inflation in all the key cost categories. And, you know, we know the labor situation was out of control in the particular year that this data came from. So hopefully Dave will see a little bit of a light sizing perhaps from the labor component in the future. But supplies were also out of control with the supply chain being really interrupted. And some her Qing efforts to get supplies into facilities and just inflation in general, that's now stuck with us. Right. We have an entirely new pricing floor. So just as slower growth during Covid resulted in somewhat artificially low numbers, these feel like a catch up cost. But I also agree with Dave, you know, we're gonna see numbers in the next couple years that I think could be as bad or worse. But I was intrigued by the comparison of the cost categories you talked about Burda; three in particular, hospital care is 1.5 trillion, or 31% of the total physician and clinical services is 978 billion or 20% of the total. And retail prescription drugs is only 449.7 billion or 9% of the total. And when you look back in history, you know, a hospital expenditures grew most during the seventies, and then the eighties and nineties, you saw prescription drug prices. And our spend and the spend on physician and clinical services, you know, rise faster. So from 2020 to 2023, this retail prescription drug category has experienced the fastest growth at 8.6% when it had been in a previous decade, 3.3%

on average. And in the hospital and physician clinic category, it was more like, you know, six plus percent. So it's this retail prescription drug category, I think is most interesting in many ways. Since 2020 it's grown faster than any other categories. And of course, diabetes and obesity drugs are now really contributing to that jump. And of course, it's, you know, boosting spending and across all categories. We're gonna see a massive catch up on retail drugs. And the question is, how will that as affect this 1.5 trillion and climbing on the hospital side? So to Dave's point, embedding the cost curve, you know the site neutral payment, softball, <laugh>, Dave. Yeah. that, you know, health systems, I heard it at JP Morgan in the not-for-profit track, you know, from every presentation, almost every presentation, not from the academics as much, but they're all talking about their movement into ambulatory as ASCs and other ways to just build a broader footprint because they know that acute care is not here forever. At the same time, they're all building new buildings. So, you know, site neutral payments are gonna be key here in terms of how that building the footprint actually shifts the cost for sure. You know, everything I look at magnifying the human laden processes is still moving relatively slowly. And as we all know, some of these technical processes, technologies are actually increasing costs before they actually can decrease costs. And the jury's out on some, right? So our ability to really harness virtual care hasn't really come to fruition unfortunately, but we are seeing health systems start to thread it through their business models in a much bigger way. So I have hope that we're gonna see more savings or I hate to say savings more impact from technology in the coming years. Even navigating consumers and health plan members to higher quality, lower cost providers, it's happening, but it's still in the really, really nascent stages and trying to work out the kinks and figure out how to do it right, and how to engage, you know, health land members, et cetera. But I come back to, I think it's this drug spend, you know, we're, we're seeing movement, even though the, the prices and the expenditure on drugs will increase, we're cutting out the middleman now. So I think the, we're gonna bend the cost curve in some way by cutting out that middleman. And that's what I get most excited about.

Burda:
Isn't there some expression about middlemen and technology, right? That's where technology has its biggest impact to replace….

Johnson:
Well, it's Mark, it's Andreen from Andreessen Horowitz, Mark Andresen, who said that great technology eats the middle.

Murchinson:
Yeah.

Johnson:
Basically gets rid of the, all the administrative layers that <laugh>. And I don't think any industry has more of those than healthcare, so.

Burda:
Thanks Julie. Dave, any questions for Julie?

4sight Health Roundup Podcast
Another Blank Check for Healthcare Spending
1/16/25

Johnson:
The overall healthcare expenditure increase of 7.5% in 2023 is absolutely breathtaking. Unbelievably, or maybe not. When you look at the relationship between commercial spending and government spending commercial health insurance jumped at an even higher rate of 11.5%. Given these numbers and the annual Medicare enrollment increases of over 2 million baby boomers a year now, how much ability do you think providers are going to have to cost shift from the higher paying commercial rates to cover their costs? Can they remain solvent with the current delivery models? And by the way, did anybody say fault line <Laugh>?

Murchinson:
Oh, yeah. Listen, I don't think this is happening quite so overnight, as maybe your question would make it sound, Dave and everyone's still chasing commercial, right? But let's just talk about how health systems chase commercial, they put up billboards, right? <Laugh> mm-hmm <affirmative>. Yeah. Like there's, most health systems are still not using market segmentation and, you know, contemporary marketing techniques to pull commercial patients into their health system. So there will be winners and losers, I would say, you know, more quickly than maybe I said in the beginning of those health systems that actually really start to run like businesses, they'll be able to make it work. And you'll see markets start to really evolve based on those health systems that try to engage in that way. I still think there's a lot of meat here, Dave, but I do think we're gonna see these numbers flip pretty quickly from the commercial to the Medicare. It'll just be sort of a market by market winners and losers, and then there'll be nothing left. And I, you know, I don't know how many years I give it, but I give it a couple.

Burda:
Thanks Julie. Well, I know my gross income didn't go up 7.5% in 2023. That's bad. But on the other hand, unbridled healthcare spending gives me something to write about, so that's good. But at least once before I retire, I would like to write about healthcare spending going down. How cool would that be? You know, like, like winning the Super Bowl and then announcing your retirement, right? Go out on top. Not like the Packers', Vikings or Dolphins this year, unfortunately. No. Ouch. Ouch, ouch. Triple. Ouch. Yeah. All right. Let's talk about other big healthcare news that happened this past week. It wasn't all bad. Was it, Julie? What else happened that we should know about?

Murchinson:
Well, we're starting to see news from the Trumpet administration on who will be some of the, his picks for big positions. And Chris Klump, who is a tech entrepreneur from Collective is said to be leading the $1 trillion Medicare program, otherwise known as CMS. So that's interesting.

Burda:
Yeah. At least he has some healthcare experience, right?

Murchinson:
At least. Yeah.

Burda:

4sight Health Roundup Podcast
Another Blank Check for Healthcare Spending
1/16/25

Dave, what other news is worth mentioning?

Johnson:
My big news for the week, I think we need a drum roll for this. The FDA announced that it was banning red dye number three except in Marino Cher. So cocktails and ice cream sundaes are still gonna be okay.

Burda:
There goes the what? The Manhattan, is it the they go in Manhattan, right? Okay.

Johnson:
So they're following Europe and Australia. We'd already been banning red dyes in cosmetics since 1990. And it does portend an increased focus on food safety, which is a, probably a good thing. The reason the FDA is getting rid of red dye in food is because it causes cancer in rats, but there's also all kinds of concern that it leads to autism and A DHD and kids. Eight food dyes remain that are still allowable. But RFK is coming, so watch out Lucky Charms and Captain Crunch….

Burda:
<Laugh> Classic and Pink Peeps around Easter. Right. We're gonna have to stock up.

Murchinson:
Beet peeps.

Johnson:
Yeah.

Murchinson:
Beet peeps!

Burda:
Thanks Dave. And thanks Julie. That is all the time we have for today. If you'd like to learn more about the topics we discussed on today's show, please visit our website@4sighthealth.com. You also can subscribe to the roundup on Spotify, Apple Podcast, YouTube, or wherever you listen to your favorite podcasts. Don't miss another segment of the best 20 minutes in healthcare. Thanks for listening. I'm Dave Burda for 4sight Health.