Improving US Healthcare

Idea In Short

Improving US healthcare requires competition, collaboration and leadership across government, private sector, payers, providers and patients. Focus on reducing administrative waste, shifting from sick care to proactive health management, and addressing access disparities. No single solution exists.

Complex Problems Lack Simple Answers

There is no simple answer to fixing US healthcare. It took more than 70 years for the system to reach its current state of fragmentation, complexity, political entrenchment and inequity. Improvement will require competition, collaboration and leadership across government, private sector, non-profits, payers, providers and patients. There is a lot of wood left to chop, and every stakeholder must contribute.

Healthcare Matters

No one denies that healthcare matters. If you have ever been sick and recovered, medicine feels like magic. In 1900, the average life expectancy in the United States was 50 years. Medical advances have added decades to human life, and the pace of innovation continues to accelerate. Healthcare is not just an economic sector. It is a fundamental determinant of human flourishing.

Healthcare Is Massive

Healthcare constitutes approximately one-fifth of the US economy, measured in the trillions of dollars. Total national health expenditures reached $5.3 trillion in 2024, or approximately $15,474 per person. 1 That is the equivalent of leasing a luxury vehicle for every person in the country, every year. The system includes more than 5,600 hospitals and thousands of additional care sites including ambulatory surgery centers and urgent care facilities.

The scale creates both opportunity and inertia. Large systems resist change because too many stakeholders depend on the current structure. Any reform effort must account for the millions of jobs, trillions in revenue and deep institutional commitments embedded in the status quo.

Healthcare Is Complex

Multiple healthcare systems run concurrently in the United States. Private and public providers coexist. Medicare serves the elderly. Medicaid serves the poor and disadvantaged. Commercial plans serve the employed or those who pay out of pocket. The Veterans Administration serves military personnel and veterans. The system is not one structure but a patchwork of programs with different rules, funding mechanisms and incentive structures.

Medicaid alone provides coverage to approximately 83 million low-income people and accounts for roughly one-fifth of all health care spending. 2 The federal government pays for 69 percent of Medicaid spending, with states covering the remainder. This joint financing creates tensions between federal and state priorities that complicate every reform effort.

Healthcare Results Are Variable

There is no such thing as average in US healthcare. The country has some of the best care in the world, and foreigners travel to the United States for treatment. The United States is also the only wealthy Organisation for Economic Co-operation and Development [OECD] nation that does not insure everyone. Approximately 8 to 10 percent of Americans have no health insurance. They go to emergency rooms as their primary care, which is expensive and painful for everyone involved.

Healthcare Is Changing

People are living longer and are more likely to die of chronic illness than infectious diseases. If you have high blood pressure, you need to eat right, exercise, take medication, see your primary care doctor and maintain accountability for your health. Until recently, the US system operated as sick care. You got sick and then got fixed. The shift toward proactive health management requires fundamental changes in how care is delivered, financed and incentivized.

Healthcare Has Many Middlemen

Ask anyone in healthcare how much time they spend on paperwork. The system has an incredibly complex structure of charges, lists, regulations, processes, middlemen and charting. Most doctors spend one hour of paperwork for every hour they spend with patients. Pharmacy benefit managers sit between pharmaceutical companies and providers. A secretive list of negotiated payment rates exists between providers and payers. The case mix, meaning the percentage of commercial payers versus Medicare versus Medicaid, drives the profitability of hospitals and physician groups.

Administrative costs are massive. McKinsey estimates that approximately $265 billion could be saved through administrative simplification. 3 This waste represents resources that could be redirected toward patient care, technology investment or lower premiums. The complexity is not accidental. It reflects the accumulated layers of regulation, contracting and process that have built up over decades.

How to Think About Healthcare

A structured approach to understanding healthcare reveals the levers for improvement. The framework spans current situation analysis, economics, hospital operations, insurance, Medicare, pricing, strategy and quality. Each area presents distinct challenges and opportunities for reform.

Hospitals and physician groups generate approximately 50 percent of total healthcare spending. High fixed costs create barriers to entry and exit. Average hospital profitability ranges from 2 to 7 percent depending on the case mix and year, which is not robust. The shift to ambulatory care raises strategic questions about what hospital leaders should do with more than 900,000 inpatient beds nationwide.

Strategy and Tradeoffs

Strategy in healthcare means creating sustainable competitive advantage. Best practices are often freely shared among providers, yet many remain unimplemented. Strategy requires tradeoffs because you cannot be all things to all people. Better to focus and be excellent at a narrow set of services. Strategic planning focuses on inputs and risk reduction, while strategy focuses on results and winning.

Implementation requires clarity of intent and cultural commitment. Huge mergers and acquisitions in the provider space, such as Kaiser combining with Geisinger, reshape the competitive landscape. Healthcare spans a dozen different industries including pharmaceuticals, providers and medical devices, each with varying margin profiles.

Quality and Cost

Quality failures take four forms: over-use, under-use, mis-use and variation. The Donabedian Triad frames quality as a progression from infrastructure to process to outcomes. The Joint Commission serves as the largest accreditation body, and without its approval, hospitals face serious consequences. Readmissions reduction programs represent one example of how Centers for Medicare and Medicaid Services [CMS] puts more risk-sharing on providers.

On the cost side, critical to quality analysis asks what is truly needed and value-added. Eight kinds of waste exist: transportation, inventory, motion, waiting, overproduction, overprocessing, defects and skills. Reducing clinical variation represents a huge opportunity because the definition of standard care varies dramatically across providers. Consumerism has begun as patients shop around due to higher copays and other incentives. Economies of scale provide benefits of being big: financial, operational, talent, clinician and population health advantages.

Access and Provider Well-Being

Americans, even those with insurance, often wait too long for care. Rural America represents 20 percent of the population, and many critical access hospitals with fewer than 25 beds are underfunded. Provider capacity remains a challenge. Telehealth adoption spiked during the pandemic, but many obstacles remain. Disruptive innovation offers less for less, which sounds bad but is practical and cost-saving.

The system is burning out clinicians. Technology often makes providers' lives more difficult and increases costs rather than reducing them. Healthcare equity is not the same as access. Who you are, where you were born and where you live all matter. The vaccines developed in response to Covid-19 demonstrated the power of ingenuity and focus. The task now is to sustain that energy across the broader challenges of access, quality, cost and provider well-being.

- 1NHE Fact Sheet
- 210 Things To Know About Medicaid
- 3US Healthcare Could Save $265B In Administrative Costs

Summary

US healthcare is massive, complex and deeply entrenched. Progress demands engagement from patients, providers, payers and policymakers. The shift from sick care to proactive health management, combined with administrative simplification and access reform, offers the most promising path forward.