For retirement plan advisors, the healthcare sector may offer a double dose of opportunity.

First, 403(b) retirement plans represent a $1 trillion market—and the healthcare sector accounts for 23% of it. Like other not-for-profit plan sponsors, healthcare organizations are under pressure from new regulations that ramped up their workload and broadened their fiduciary liability. As a result, they’re reaching out to advisors like you for help. In fact, almost 80% of 403(b) plan sponsors say they used an outside vendor to help them meet the requirements of IRS regulations.

At the same time, however, healthcare also faces an entirely different set of challenges unique to the industry. Three major trends are reshaping the landscape for plan sponsors—and creating new opportunities for retirement plan specialists like you:

1. Healthcare reform

The Affordable Care Act (ACA) had an important impact on healthcare organizations. In the name of value-driven performance, regulators have set new standards for technology, quality of care and price. All these changes are designed to reward innovation and enable purchasers to make more informed choices. However, complying with these new standards may come at a cost. Providers are facing major increases in their technology spend for electronic medical records and new, federally mandated diagnostic and procedural codes.

The ACA also implemented a long list of cost-containment measures, some of which take a major bite out of current revenue models. These reforms include the state and federal exchanges, cuts in Medicare payments, a new tax on high cost health plans, the establishment of accountable care organizations, penalties for hospital readmissions, and more. Reimbursement models are changing as well, moving from the traditional fee-for-service arrangement to alternatives such as bundled payments for a given episode of care or capitation payments to cover groups of patients over a given time period.

The current wave of reforming zeal isn’t confined to the federal government. Several years ago, the California Public Employees Retirement System (CalPERS) decreed a $30,000 reimbursement cap on total joint replacements—forcing many hospitals to drop their $80-$120,000 price tag for the procedure to $29,999.

2. A challenging economic environment

Healthcare faces other strong economic headwinds as well—to the point that ratings agencies have soured on the sector.

For example, hospital utilization rates for inpatient and many outpatient services are falling. This drop in demand may seem surprising, considering the growing need for medical care among Boomers and the influx of newly insured patients after the passage of the ACA. However, these factors are just blips in a long-term trend. Point of service delivery is moving away from hospital settings and out into the community, as providers increasingly rely on prevention and primary care to keep people out of the hospital in the first place. In addition, the growing popularity of high-deductible health plans is also dampening down utilization, as patients decide to skip or postpone costly procedures when the money comes out of their own pockets.
Pressures on revenues, increased IT spend and compliance costs are driving up the costs of doing business to the point that many organizations will be forced to sell. One survey found that 88% of healthcare executives expected to pursue some sort of merger and acquisition activity in 2014.\footnote{LIMRA Secure Retirement Institute, Not-for-Profit Market Survey (NFP), first-quarter 2015 results.}

3. Resource and staffing shortages

Even as healthcare organizations are trying to make do with less, they need to hire more. A global health workforce shortage is expected reach 12.9 million in the next few decades.\footnote{WHO press release. “Global health workforce shortage to reach 12.9 million in coming decades.” November 11, 2013.} The Association of American Medical Colleges expects the shortage of physicians in the U.S. to grow by more than 90,000 by the year 2020. A PricewaterhouseCoopers CEO Survey found that 34% of healthcare industry leaders “canceled or delayed a key strategic initiative” due to talent constraints, with nearly half saying they found recruiting more difficult.\footnote{David Weldon, “Talent shortage hampers healthcare IT initiatives.” January 15, 2014.}

Even if a healthcare organization is able to attract top talent, retaining it is another matter. A third of healthcare recruiters in the United States ranked employee turnover as their top staffing concern, according to a study by Health eCareers. Retirement savings and planning assistance ranks second among the top areas of concern for improving employee retention.\footnote{Valerie Gleaton, “Staff Turnover Top Concern for Healthcare Recruiters.” Health eCareers Network, March 29, 2015.}

Why retirement plan advisors will play a key role

How do these trends affect healthcare retirement plans—and the advisors who work with them? Together, they could help make your expertise even more critical to plan sponsors.

Regulation, margin compression and operational efficiency are driving fundamental change in healthcare. Providers should consider evolving their business models—retooling their operational structures and ramping up their use of technology. At the same time, they also need to attract and retain highly trained staff to carry out their missions. To balance those competing demands, it’s critical that plan sponsors get their retirement plans right—not only to help control costs and manage liability, but also to reposition themselves as employers of choice. In this fast-changing environment, you may have a unique window of opportunity to play a more strategic, top-level role in your clients’ success.