Hospital Focus

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COVID-19's Impact on Financial Sustainability and Resilience

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Sustainability requires long-term thinking. How do we meet the needs of today without compromising our ability to meet the needs of tomorrow? What must we do now to ensure we can continue serving the community for years to come? Resilience is short term. How can we bounce back from a crisis? How do we overcome the barriers we are facing today?

Right now, COVID-19 is testing the healthcare industry's resilience. As we make short-term changes to bounce back (e.g., furloughs, overhead restructuring, and postponed capital expenditures), we must also continue the board's primary role of evaluating and guiding long-term strategies to position hospitals for the needs of tomorrow.

Even before the pandemic, many independent hospitals were questioning their sustainability, and with good reason. ECG's financial and operational health index stratifies U.S. short-term acute care hospitals based on the current year and a four-year trend of operational and financial metrics.[1] Findings from this index suggested that 35 percent of hospitals were marginal/at-risk and another 27 percent were technically failing, with the latter characterized by both negative operating and EBITDA margins and experiencing expenses growing faster than revenues.

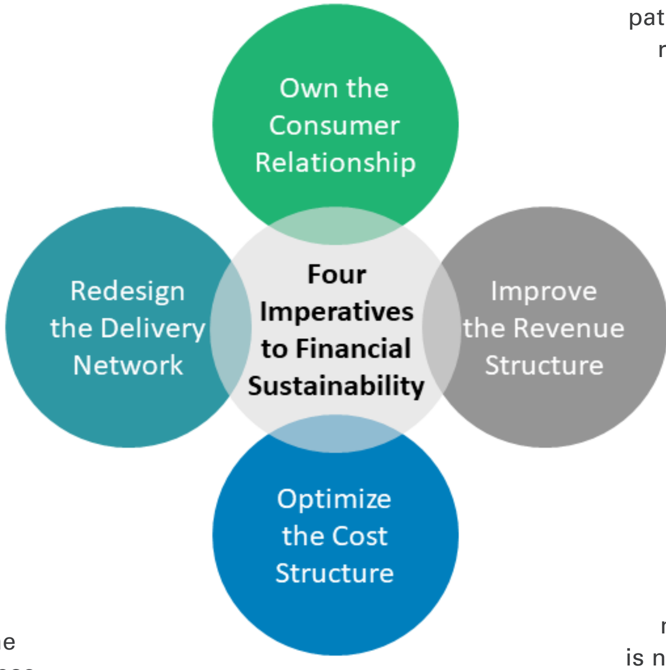
1 ECG analysis of Medicare cost report data for U.S. short-term acute care hospitals, 2014–2018. The analysis excludes Kaiser, government hospitals, long-term acute care hospitals, critical access hospitals, children's hospitals, and specialty hospitals.

Hospitals' futures will be characterized by continued challenges, including an aging and sicker population, a return to high national levels of uninsured individuals, pricing pressures, cost escalations, and aging physical plants. Additionally, the migration of diagnostic and procedural cases to ambulatory environments will accelerate. Some hospitals will not survive. To avoid that fate, providers must not allow the short-term challenges of the pandemic to stall long-term plans that support sustainability.

Given today's operational and financial challenges, what strategies should independent hospitals pursue to support sustainability, and how should we monitor resilience moving forward?

Key Board Takeaways

- Undertake structured opportunity assessments to identify potential gains through payer contract renegotiations.
- Recognize that optimizing the cost structure requires a cultural transformation; it is a continuous process, not an event.
- Require a management discipline to define clinical priorities for the organization and assess which programs have potential for investment and which need to be rationalized, consolidated, or potentially eliminated.
- Reposition and bolster the hospital's delivery network—doing so will require leaders and board members to let go of a hospital-centric mentality and embrace a geographically diverse ambulatory network.
- Have a multifaceted consumer engagement strategy with a clear digital health and consumer engagement focus, and use a customer relationship management platform to manage the vast amounts of data available to strengthen the bond with consumers.



The areas healthcare organizations must consider are not unfamiliar: revenue and cost structures, delivery network design, and consumer engagement.

Improve the Revenue Structure

Payer Contracting

Even with support from the CARES and Families First Coronavirus Response Acts, U.S. providers will experience average revenue shortfalls worth roughly two years of their operating margins, with some faring much worse. Payers have not experienced the same financial hardships; they need to be part of the solution. Providers should reopen contracts and pursue terms that address rates, care management fees, and investments in public health. In addition, hospitals will be best served by partnering with payers on commercial and Medicare Advantage products to secure more of the premium dollar in value-based contracts. The pandemic has demonstrated the imperative of effectively ensuring at-risk patient populations receive preventive services and care in the most appropriate settings. Providers should share in those risks and rewards.

Revenue Cycle Management

Realizing payment from payer contracts, or revenue cycle management (RCM), is not a single event but a process around all aspects of the patient journey that impacts charges and an organization's ability to collect. A focus on RCM is imperative to improve cash flow and minimize bad debt. Best practice supports considering front-end aspects of the patient journey, including insurance verification and precertification, financial counseling, case management, and advance or time-of-encounter collections of patient financial responsibilities. Improvements in cash collections, charge capture, denials, days in A/R, and bad debt provide persistent returns and may allow an organization to invest in its future.

Optimize the Cost Structure

Operating Costs

Hospitals are currently experiencing record-low operating margins, despite years of operational improvements, layoffs, and consolidations. Trends in payment, Medicare enrollment, ambulatory services migration, asset-heavy business models, and other influences on cost structures may not be kind in the future. Managing cost increases to levels just below annual payer rate increases isn't good enough, or even the right mindset. To be successful, organizations must consistently reexamine business models and reduce unit costs by improving efficiency and productivity. Ample opportunities exist to innovate in regard to care and business processes.

Capital Investment Plans

Most hospitals quickly pulled back capital investments as the pandemic developed. Now, long-range financial plans need to be updated and run against multiple future volume and revenue stream scenarios. Accordingly, capital investments will require greater scrutiny, particularly those related to significant hospital facility improvements. There are even more reasons to devote capital investments to aggressively building ambulatory networks and telehealth platforms. Consumers have quickly adapted to these models, and it will be difficult to revert from the "new normal."

Redesign the Delivery Network

Clinical Portfolio

Gone are the days of attempting to be all things to all people; hospitals simply cannot afford to offer full ranges of services when many go underutilized or have poor financial performance due to high costs, inefficiency, and/or insufficient payment rates—particularly if quality and safety levels are low. Independent hospitals need to reshape their clinical portfolio to shed low-margin services and adjust consumer expectations for how and where care is delivered. Discussions surrounding the scope and mix of services offered and the distribution of services should be informed by an assessment of the hospital's clinical portfolio that weighs quality implications, community access, market competition, clinical expertise, and financial viability.

Ambulatory and Physician Networks

A hospital's ambulatory network and its aligned physician network are the metaphorical front door to the hospital. This is why cost, access, and convenience are so critical. A hospital's ambulatory network design must be efficient, underpinned by a revenue and cost structure that supports a sustainable business model and remains competitive with private ambulatory providers. These are strenuous requirements for many independent hospitals still locked into a delivery model that centers around the hospital campus. They need to move in this direction or risk being marginalized by other providers.

Own the Consumer Relationship

Consumer Engagement

Many hospitals don't realize a race is already underway to secure consumer relationships. Insurers and other disruptors are investing large sums in digital health consumer engagement vehicles. While these arrangements are principally value-added member services, they also ultimately influence consumer behavior—where they get their health information and what services they use and when. These tools are being designed to help patients navigate the complexities of today's healthcare system and garner a strong consumer advocate in the process. There is nothing inherently wrong with the current measures of patient satisfaction and engagement, as, at the end of the day, patients agreeing to recommend a provider organization will remain a good outcome. In addition, establishing long-term relationships with a consumer population whose mindset is "I wouldn't think of going anywhere else" can be a market differentiator. The hospital's brand must be managed to this end.

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Digital Health

The future of healthcare is digital, not just in digitally enabled care delivery such as telehealth and remote monitoring, but ultimately in artificial intelligence-enabled health management and precision medicine in care delivery. Hospitals must appreciate that the rich data locked within electronic health records is a strategic asset that can be used to strengthen the bond with consumers, though providers will need training to utilize this information proactively. When effectively used, this information gives hospitals an essential advantage over new market entrants and disruptors. Hospitals can connect with larger population segments and expand service areas beyond traditional boundaries while reducing costs if they invest in operational efficiency and alternative means of care delivery. However, many organizations are already late entrants to digital health and need to design or find external partners to provide digital solutions that secure consumer relationships.

Time to Lead

Hospitals are not only taking actions to weather the storm of COVID-19; they are also pursuing initiatives that will enhance their long-term financial performance by focusing on revenue and cost structure, care network design, and consumer engagement. Maintaining financial resilience and sustainability is not a one-time fix but rather a journey. Navigating this journey to improved financial health requires a clear vision, strong leadership, a healthy respect for uncertainty, and a firm belief that if hospital boards are not proactively driving change in the U.S. healthcare industry, others will take the lead while hospitals sit on the sidelines and are marginalized to vendor status in the process.

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