



Planning for Resiliency on the Journey Forward

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This is the final article in a series on resiliency through our regular collaboration with Kaufman Hall.

The COVID-19 pandemic likely will have lasting impacts on healthcare.

Having experienced the convenience of telehealth, for example, patients will be less inclined to travel to a physician's office for routine care needs. The financial stresses that many organizations and the economy as a whole have experienced during the pandemic is expected to heighten the trend toward greater consolidation, including vertical integration between payers and providers to pursue new value-based models that bring greater affordability of care. Organizational structures will change as more of the workforce stays remote or positions are outsourced to specialized service vendors.

As vaccinations promise a return to a more stable operating environment, now is the time for hospital and health system boards and senior leaders to assess what local market changes they anticipate will result from the pandemic and identify the gaps these changes may open within the current strategic and financial plan. But now is also the time for leaders to go one step further, and begin planning for scenarios that are foreseeable, even if their impacts have not yet been felt. If the pandemic has taught us anything, it is that organizations must build resiliency to withstand the shocks that may come their way and to be in a position to pursue the opportunities that rapid and significant change can create.

We define resiliency as a company's ability to weather the three stages of dislocation: the shock of initial crisis, the fight for stabilization, and the transition to normalization. Resiliency requires a framework that can balance two potentially opposing forces: preparedness, which emphasizes operational stability, and efficiency, which seeks to optimize the financial returns that enable growth.

The role of strategic and financial planning within this framework is to:

1. Identify and assess credible potential scenarios on an organization's horizon.
2. Model the impact these scenarios could have on the current strategic and financial plan if they become reality.
3. Determine alternative pathways an organization could follow to maintain or advance its strategic and financial position.

Identifying and Assessing Potential Scenarios

Every hospital or health system faces a multitude of risks. The focus here is on “macro-market” scenarios: those that are foreseeable, would have a material operational or financial impact—either positive or negative—on the organization, and are beyond the organization's direct control.

Some macro-market events, like a pandemic, might be national (or even global) in scale; others will have a more local impact. Examples of macro-market scenarios include:

- **Changes in the competitive environment:** A competitor seeks partnership with a larger health system seeking to expand in the local market, for example, or

→ Key Board Takeaways

- As hospitals and health systems begin to recover from the COVID-19 pandemic, now is the time to begin building resiliency to withstand additional shocks from new scenarios that may come their way.
- Macro-market scenarios are foreseeable, would have a material operational or financial impact (either positive or negative), and are beyond the organization's direct control. They should be the focus of this planning effort.
- Modeling the potential timing and impacts of a macro-market scenario helps organizational leaders understand the magnitude of risk, the resources that will be needed to hedge any downside impacts, and the amount of time the organization will have to adjust to the impact.
- Once key scenarios are identified and their potential impact is defined, leadership can identify “trigger points” that indicate change is coming and a response is required.
- Leadership should also identify and, if necessary, pursue alternative paths forward that will help the organization maximize upside opportunities or minimize downside risk.

a health plan vertically integrates with an independent multispecialty practice to grow its share of managed covered lives. A recent example is UnitedHealth Group's OptumHealth unit seeking to acquire Atrius Health, the largest independent physician group in Massachusetts.¹

- **Regulatory or legislative change:** The U.S. Congress, state legislatures, or federal or state agencies enact laws or regulations affecting government program payments and the healthcare market. For example, the most recent COVID-19 stimulus act eliminates income level caps on subsidies for individual health plans offered on the exchanges created by the Affordable Care Act, and instead subsidizes premiums at no more than 8.5 percent of income, regardless of income level. This measure is temporary, but if it is made permanent, employers could begin moving their employees to the exchanges for health plan coverage.² This impact would be magnified if Congress subsequently passed a Medicare-based "public option" to compete against commercial health plans on the exchanges, which could dramatically affect provider organizations with lower payment levels for wide swaths of the population.
- **Consumer-driven change:** Consumers activate and move away from higher cost care settings. For example, Amazon is moving to expand its app-based Amazon Care digital health platform into 21 states at a time when consumers have become much more accustomed to digital health visits because of COVID-19 restrictions on in-person visits.³

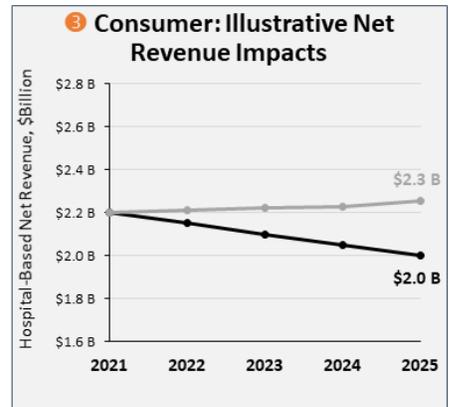
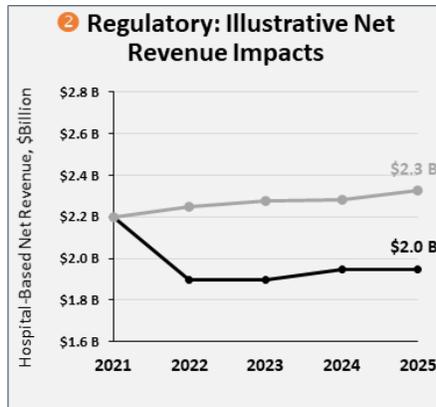
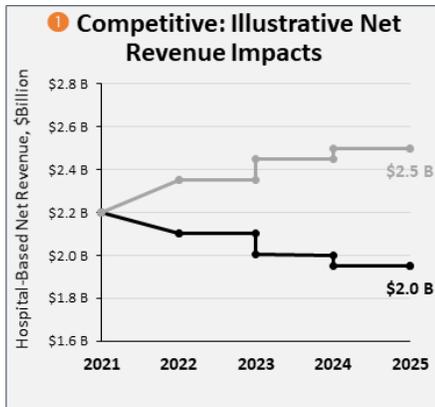
Modeling the Impact of Macro-Market Scenarios

The impact of changes from macro-market scenarios will differ in their intensity, as will the time period over which these impacts are felt. As shown in **Exhibit 1**, impacts may come in a series of steps; as a single, concentrated shock; or as an increasing trend over time.

Modeling helps to estimate how quickly impacts will be felt by the organization and the size of the impact. It estimates both upside risk, which may reflect assumptions

- 1 John Tozzi, "UnitedHealth Chases 10,000 More Doctors for Biggest U.S. Network," *Bloomberg*, March 5, 2021.
- 2 Congressional Budget Office, *Reconciliation Recommendations of the House Committee on Ways and Means, As Ordered Reported on February 10 and 11, 2021, Cost Estimate*, revised February 17, 2021.
- 3 Katherine Anne Long, "Amazon's Telehealth Arm Quietly Expands to 21 More States," *Seattle Times*, March 5, 2021.

Exhibit 1: Examples of Macro-Market Scenario Impacts Over Time



- Scenario 1 shows a stepwise impact driven by a compilation of large discrete transactions vs. organic growth over time

- Scenario 2 shows a single concentrated shock based on government action (shown in 2022 on graph)

- Scenario 3 shows a gradually increasing trend over time as consumers begin to activate and select away from high-cost care settings

Legend:

Gray = upside impact
Black = downside impact

Source: Kaufman, Hall & Associates, LLC

of the current strategic and financial plan, and downside risk, which reflects assumptions that would disrupt that plan. For example, a plan to grow market share in a service line by a certain percentage through alignment with an independent physician group (upside risk) could be disrupted if that group decides to align with another competitor (downside risk). This information helps organizational leaders understand the magnitude of the risk, the resources that will be needed to hedge the risk if it has a downside impact, and the amount of time the organization will have to adjust to the risk's impact.

Identifying Alternative Paths Forward

With an understanding of key macro-market scenarios and the impact that these scenarios could have on the strategic and financial plan, hospital and health system leaders should identify "trigger points" that indicate change is coming and a response is required. For changes in the competitive environment, for example, a trigger point might be the announcement of an intention to merge, while the

issuance of a draft rule from a government agency might be the trigger point for regulatory or legislative change.

Organizational leaders should also identify and, if necessary, pursue alternative paths forward that maximize the potential upside for the organization and mitigate downside scenario risks. For example, a focused effort to reduce total cost of care could maximize the margin realized on healthcare services under existing payment models while preparing for the potential impact of a Medicare-based public option and the migration of individuals away from employer-sponsored insurance. New investments that enhance a health system's digital health platform could help build customer loyalty to the system while preparing for new competition from tech companies entering the healthcare market.

Board members should be kept fully apprised of the macro-market scenarios that senior leaders have identified and the assumptions underlying their modeling of potential impacts; if necessary, board members should ask if senior leadership is actively engaged in scenario planning. Board members should also understand what trigger points have been identified and the alternative paths forward that the organization might pursue if a scenario becomes reality. An informed board will be able to pivot quickly with the senior leadership team and make the decisions necessary to help keep the organization on course.

The forward-looking perspective provided by planning for macro-market scenarios gives hospital and health system leaders both time and opportunity to build resiliency by strengthening their operations, evaluating their capital needs and debt capacity, and deploying their resources to best serve the organization's long-term strategic and financial goals. As organizations recover from the shock of the COVID-19 pandemic, it is time to start preparing for what may lie on the journey forward.

The Governance Institute thanks Dan Majka and John Poziemski, Managing Directors at Kaufman, Hall & Associates, LLC, for contributing this article. Dan can be reached at dmajka@kaufmanhall.com and John at jpoziemski@kaufmanhall.com.

