



The Governance Institute—October 3, 2022

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# CONFRONTING A NEW ECONOMIC REALITY

What Has Changed and How  
Independent Health Systems Must Adapt

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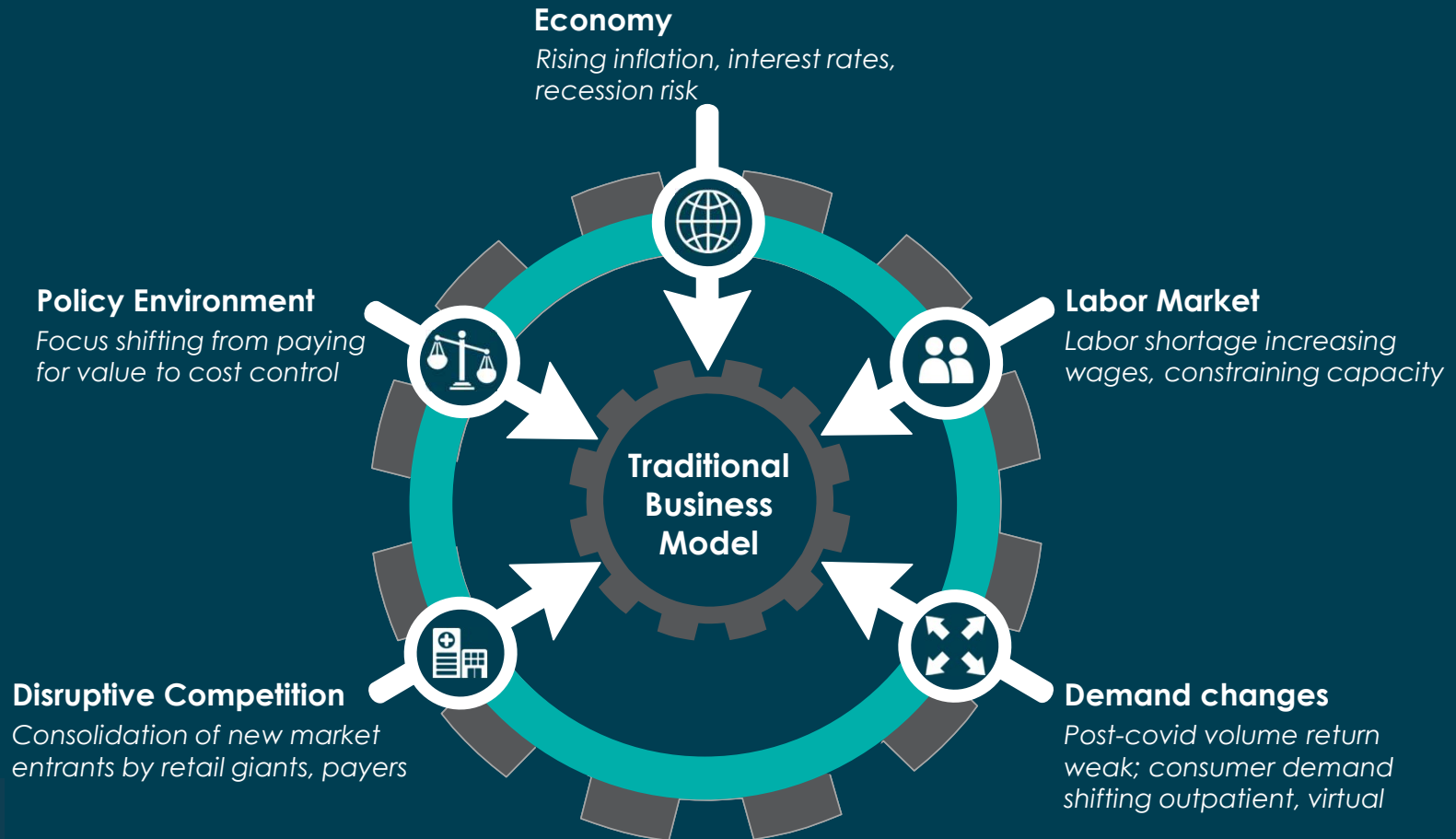
## 2 Postcard from Our Past

### The Health System Strategic Agenda, Circa 2012



- 1 Transition to value-based care**  
*Pursue Medicare ACO programs; private payers and large employers will follow Medicare's lead to financially reward providers for value*
- 2 Create an integrated multispecialty medical group (and a CIN too)**  
*Build a high-performing medical group to "lock in" physicians and high-margin referrals; double down on PCPs to manage risk*
- 3 Plan for defined contribution health benefits**  
*Prepare for potential delinking of health coverage and employment, with consumers directing both choice of benefits and care*
- 4 Build an information-powered health system**  
*Invest in common EHR, data exchanges to improve patient care delivery, coordination across providers and care sites*
- 5 Support industry advocacy**  
*Hospital and physician lobbying groups delivered on ACA compromise, and will continue to drive provider-friendly policy*

### Market Forces Pressuring Traditional Health System Business Model

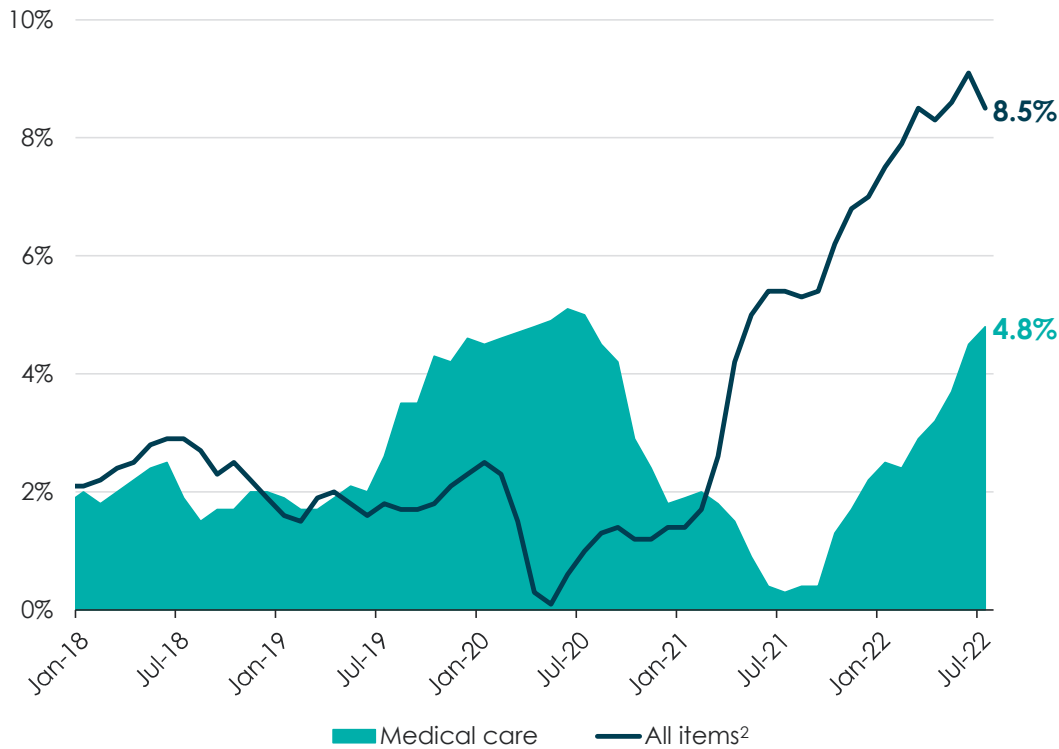


ECONOMY

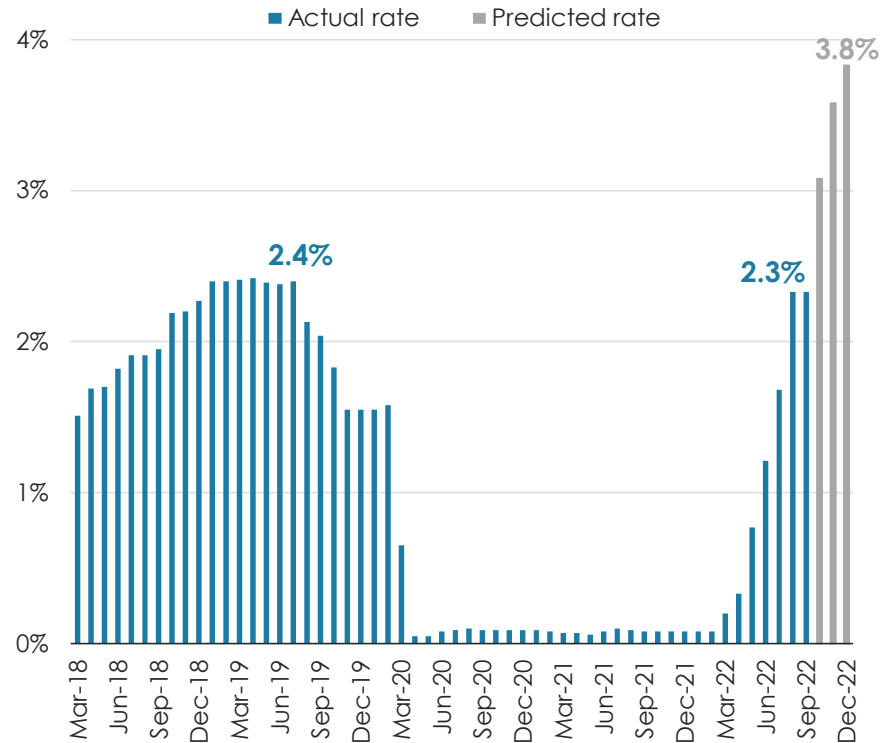
4 Healthcare Inflation is Catching Up to Economy-Wide Inflation

Fed Raising Interest Rates to Manage Inflation

12-Month Percent Change In Prices<sup>1</sup>, Monthly by Sector



Federal Funds Effective Interest Rates, by Month



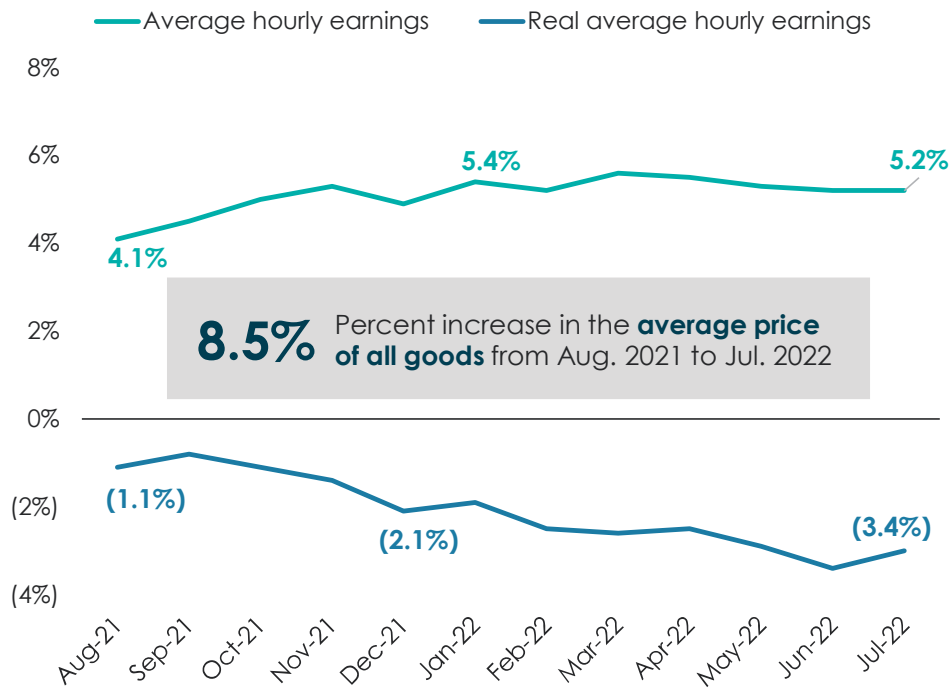
1. Bureau of Labor Statistics consumer price index for all urban consumers, seasonally adjusted.  
 2. Out-of-pocket spending on medical care, defined by the Bureau of Labor Statistics as 82% medical services (professional services, hospital services, health insurance) and 18% medical commodities (medicinal drugs, medical equipment and supplies).

Source: Bureau of Labor Statistics. "Consumer Price Index for All Urban Consumers." Aug. 2022; FRED Economic Data. "Federal Funds Effective Rate." St. Louis Fed, 8 Sep. 2022; Moore, S. "Here Are The Dates For The Remaining 2022 Fed Rate Decisions, And What The Market Expects From Them." Forbes, 27 Jul. 2022; Gist Healthcare analysis.

## 5 Inflation Reversing Wage Gains and Depressing Consumer Confidence

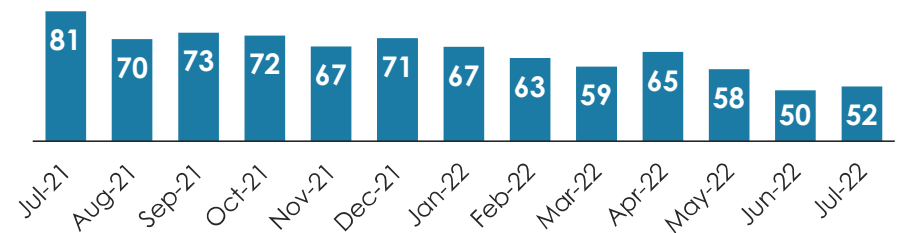
Healthcare Expenses Making Up Four of Top Seven Household Financial Worries

### Year-on-year Change in Hourly Earnings, Last Twelve Months



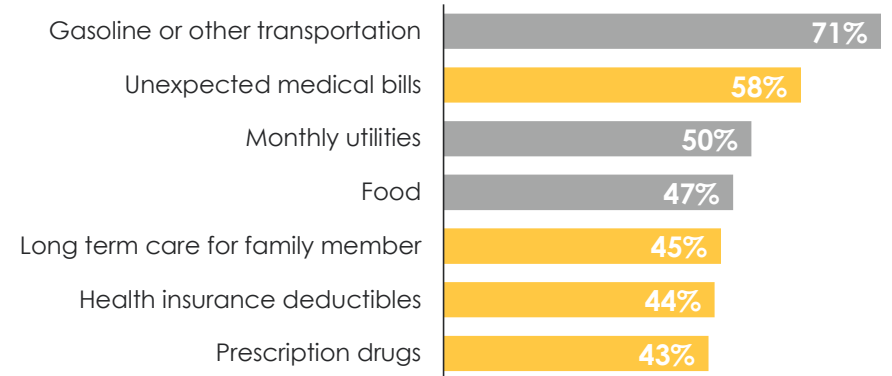
1. Combines surveys on current economic conditions and consumer expectations.

### US Consumer Sentiment Index<sup>1</sup>, Last Twelve Months



### Top Seven Things Households Worry About Affording

n = 1,243; Mar. 2022



Source: Bureau of Labor Statistics. Job Opening and Labor Turnover Survey, Sep 2022; University of Michigan. "Surveys of Consumers." Aug. 2022. Montero, et al. "Americans Challenges with Health Care Costs." Kaiser Family Foundation. 14 Jul. 2022; Gist Healthcare analysis.

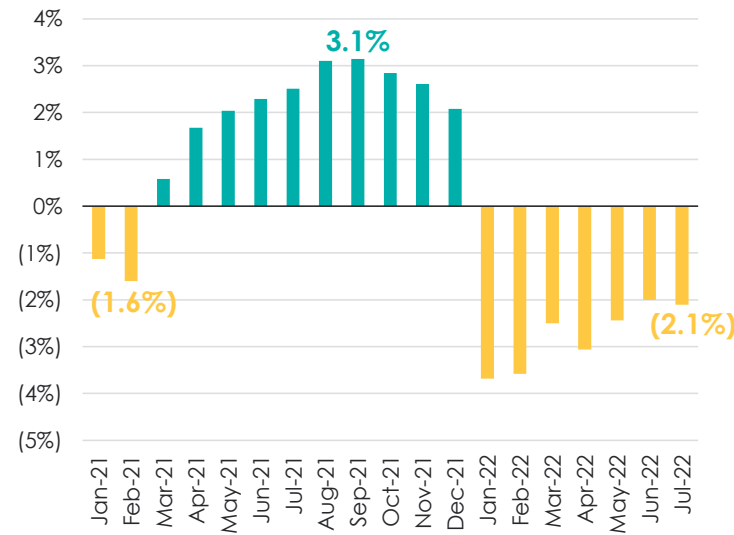
# Hospital Margins Recoil in 2022

After hospital margins bounced back in 2021—largely thanks to investment income and federal aid—operating margins have been persistently negative since the start of 2022

## Even the Largest Health Systems Reporting Negative Margins

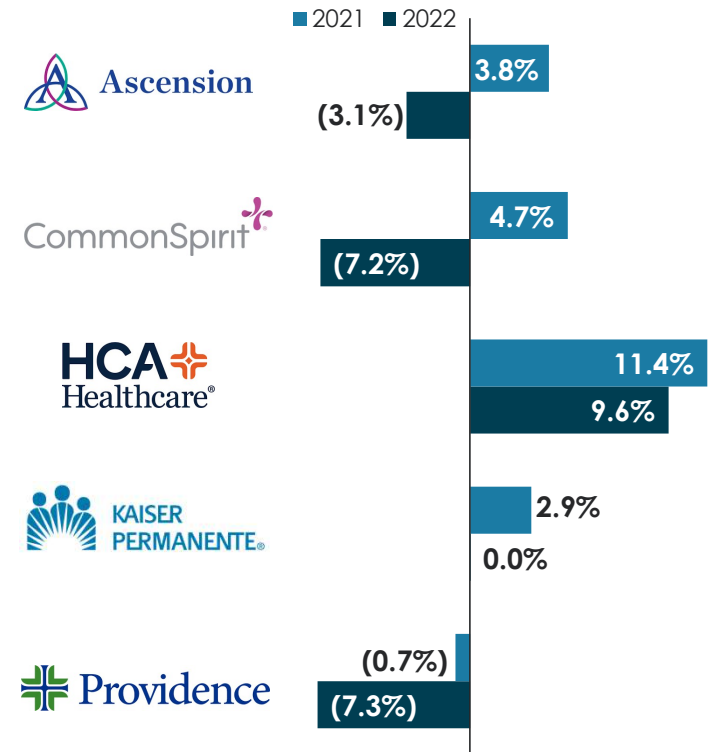
Median Hospital Operating Margin Less CARES Act Funds, by Month

n = 900+ hospitals



Fitch Ratings revised its **nonprofit hospital sector outlook from neutral to deteriorating** in August 2022

Select Health System Operating Margins, YTD 2022 vs 2021<sup>1</sup>



1. Ascension and CommonSpirit margins data from last 9 months prior to March 31, 2022 and 2021.

Source: Kaufman Hall. "National Hospital Flash Report." Aug. 2022; Liss, Samantha. "Outlook for nonprofit hospitals is 'deteriorating,' Fitch says." *Healthcare Dive*, 17 Aug. 2022; Publicly available investor forms, various health systems; Gist Healthcare analysis.

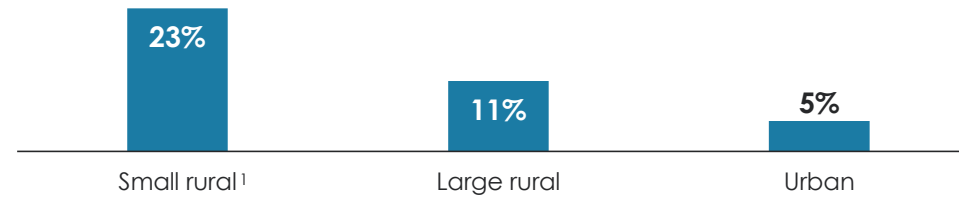
# Rural Hospital Closures Slowed During Pandemic

Federal pandemic relief covered a large portion of rural hospital expenses, but underlying financial picture for many remains grim

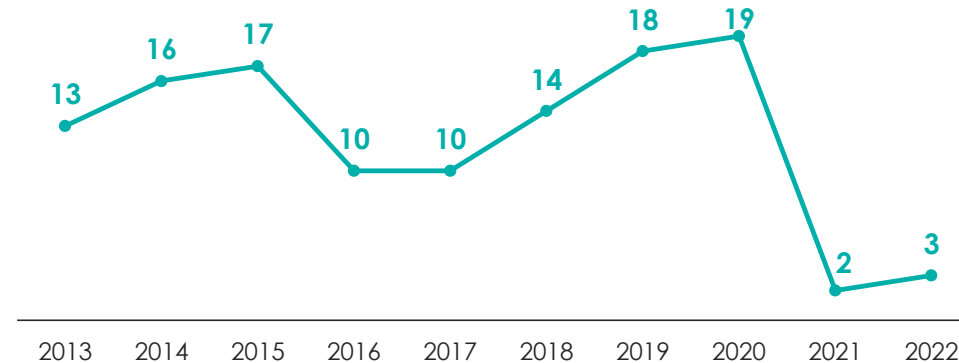
## Provider Relief Funds Temporarily Stemmed Rural Closure Tide

Rural Hospital Closure Rate Likely to Resume with End of Federal Pandemic Support

Provider Relief Fund Awards as Percentage of Total Annual Expenses, by Hospital Type

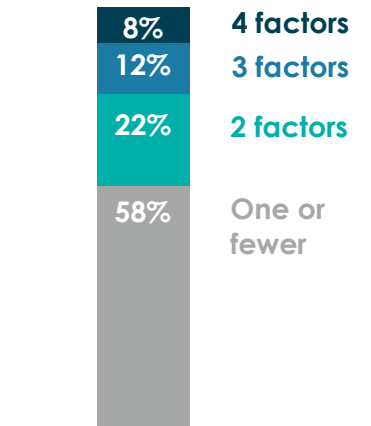


Rural Hospital Closures Over Last 10 Years



Rural Hospitals by Financial Stress Factors, 2017-2020

2,176 hospitals



Financial Stress Factors

- Negative total OM<sup>2</sup>
- Negative patient services OM
- Negative current net assets
- Negative total net assets

1. Small rural hospitals defined as having less than \$35M in annual expenses.  
2. Operating margin.

Source: Bhatanger, et al. "The Impact of COVID-19 on the Rural Healthcare Landscape." *Bipartisan Policy Center*, May 2022; Sheps Center for Health Services Research. "Rural Hospital Vulnerability," Sep. 2022; Center for Healthcare Quality and Payment Reform. "Impact of Pandemic on Rural Hospitals." Jul. 2022; Gist Healthcare analysis.

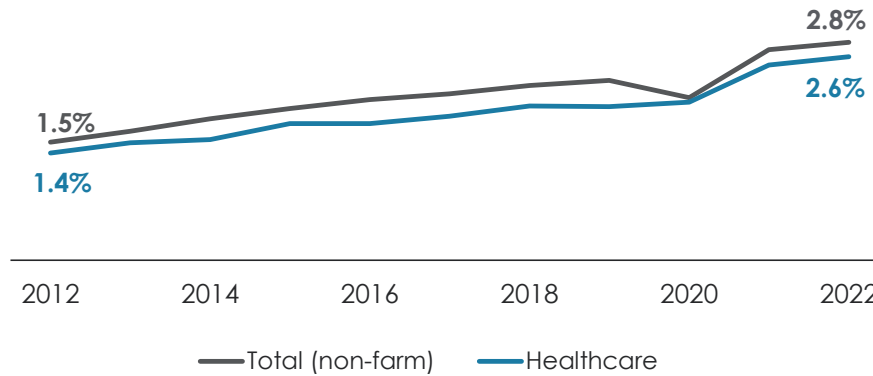
8 LABOR MARKET

# Hot Labor Market Churning Workers Across Economy

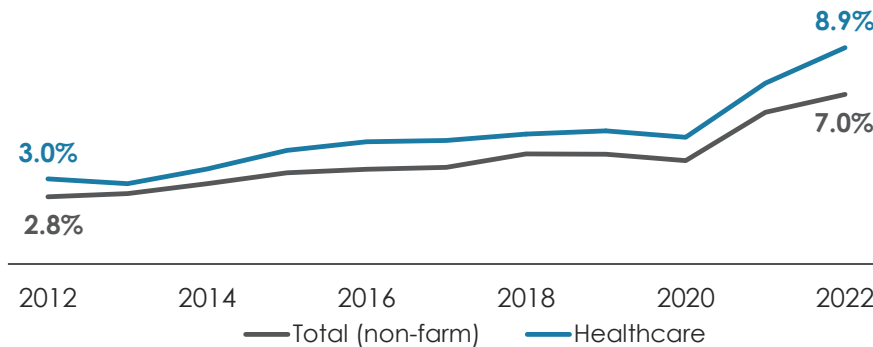
While talk of a “Great Resignation” may have been overblown, an unprecedented labor shortage has seen greater numbers of employees voluntarily leaving their positions

## Mismatched Supply and Demand Create a Sellers’ Market for Labor Healthcare Not Immune from Economy-Wide Trends

Job Quits Rate by Sector and Year



Job Openings Rate by Sector and Year



**40%**

Workers considering leaving their jobs in the next 3-6 months

**32%**

Nurses likely to leave their jobs in the next year

Source: Bureau of Labor Statistics. Job Openings and Labor Turnover Survey, Aug. 2022; McKinsey. “Surveyed nurses consider leaving direct patient care at elevated rates.” Feb. 2022; McKinsey. “The Great Attrition is making hiring harder. Are you searching the right talent pools?” Jul. 2022; Gist Healthcare analysis.

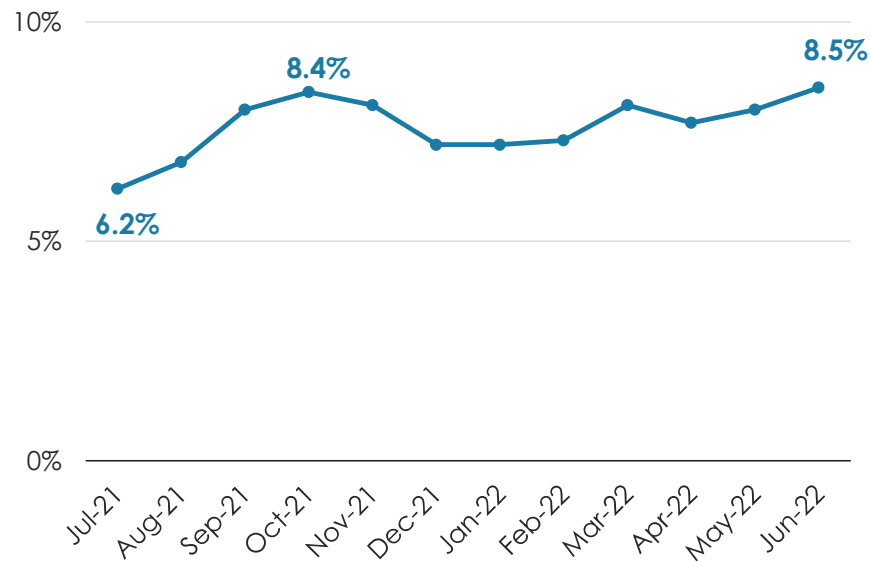


# Hospital Worker Wage Increases Driving Labor Cost Growth

The inability to quickly raise prices to respond to wage inflation is key contributor to current hospital margin pressure

## Amidst Shortage, Worker Earnings Rising Faster Than Hospital Prices

### Year-Over-Year Change in Average Earnings for Hospital Workers, by Month



**3.3%** Annualized increase in hospital prices, July 2022

### Impact of Cost Inflation to Health System Care Delivery

higher

- Labor**
  - Higher turnover rates among clinical staff
  - Better pay for lower-wage work outside healthcare
- Drugs**
  - New, expensive specialty drugs driving up spending
- Supplies**
  - Delays and disruptions to global supply chain
  - Shortages of raw materials

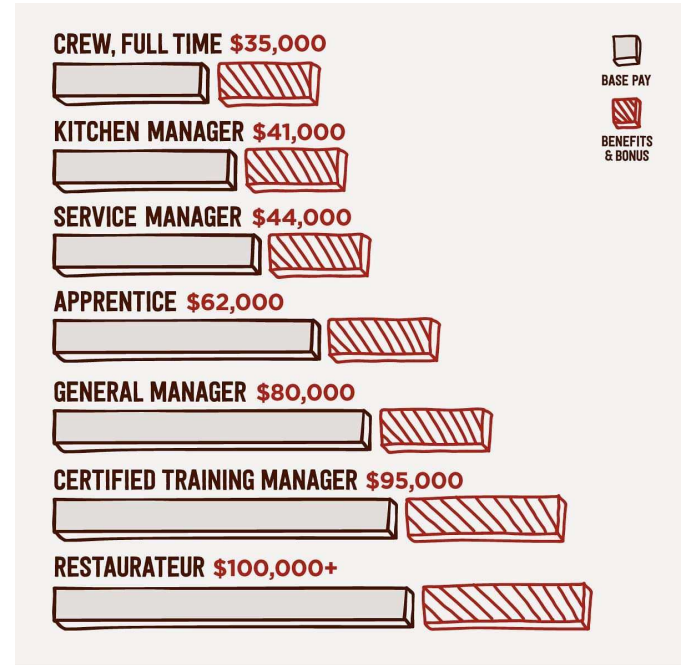
lower

Source: Altarum, "Health Sector Economic Indicators." Jul-Aug. 2022; Gist Healthcare analysis.

# The Fight to Attract and Retain Talent

Competition for labor is fierce; hospitals are now competing with a range of other employers for lower-wage workers, and their traditionally rich benefits packages aren't providing the boost they used to

## Many Companies Increasing Wages and Touting Creating Career Mobility

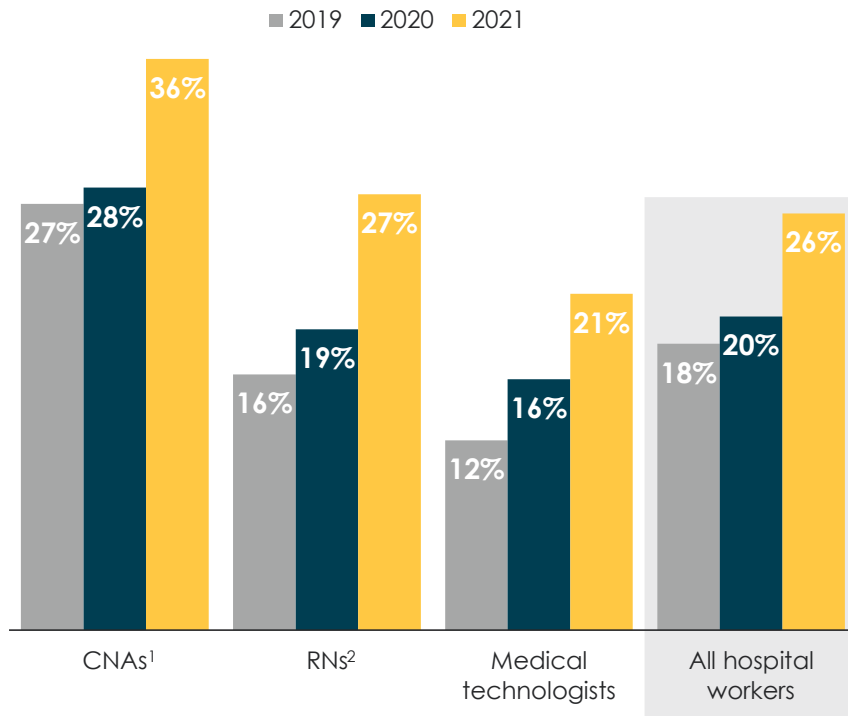


Source: Bucee's Convenience Store Chain Displays Its Pay Bands. *Business Insider*, June 13, 2018; Chipotle base pay chart. LinkedIn; Gist Healthcare analysis.

## Attrition Rates for Hospital Employees Growing Steadily

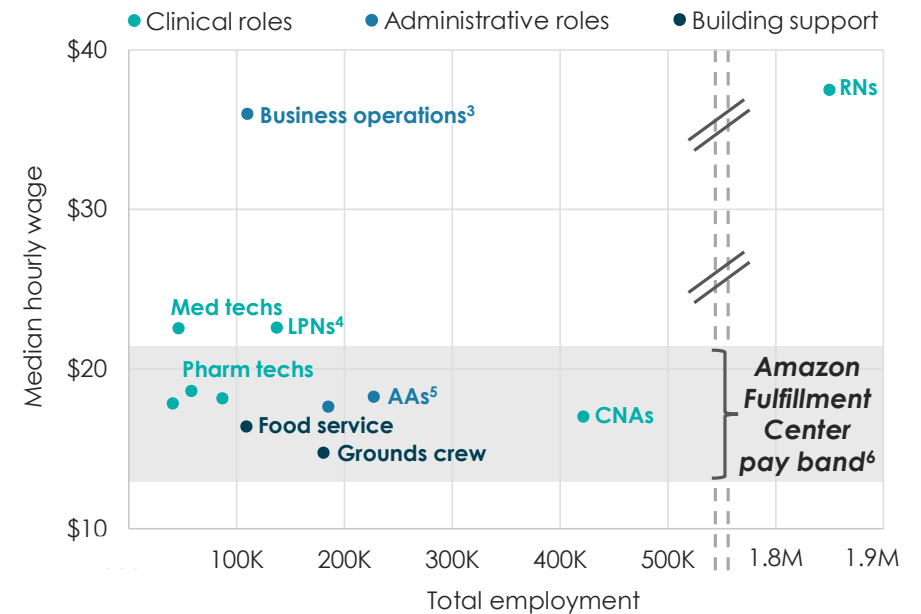
Over a Quarter of Hospital Employees Work Jobs that Pay Less than Amazon Warehouses

### Annual Attrition Rates for Select Hospital-Based Occupations, 2019-2021



1. Certified nursing assistants.
2. Registered nurses.
3. Licensed practical nurses.
4. Major category that includes purchasing agents, compliance officers, human resources, budget analysts, and other financial operations.
5. Administrative assistants.
6. 25th-75th percentile of wages for Amazon Fulfillment Center jobs, according to ZipRecruiter.
7. Excluding hospitals owned by federal, state, or local governments.

### Average Wage and Total Hospital Employment for Select Non-Physician Occupations, 2021



**27%**

Percentage of total<sup>7</sup> hospital employees working jobs with a **lower median wage than Amazon Fulfillment Center employees**

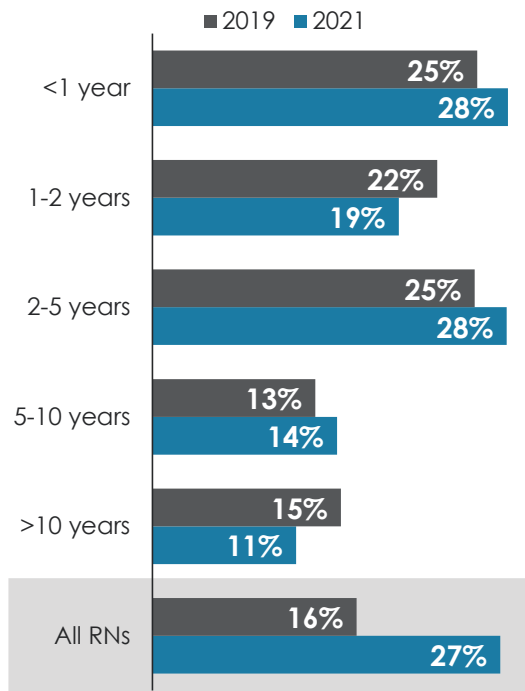
Source: Nursing Solutions, Inc. "2022 NSI National Health Care Retention & RN Staffing Report." Mar. 2022; Bureau of Labor Statistics. "Job Openings and Labor Turnover Survey." Jun. 2022; Bureau of Labor Statistics. "Occupational Employment and Wage Statistics: May 2021 estimate." Mar. 2022; ZipRecruiter. "How Much Do Amazon Gist Healthcare analysis."

## Registered Nurses (RNs) Changing Jobs at Record Rates While Labor Pool Shrinks

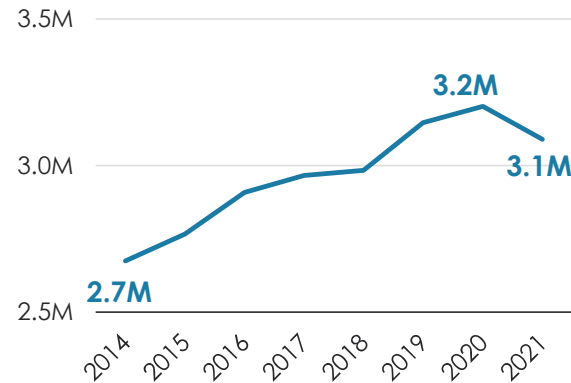
Younger Nurses Have Left the Profession at Four Times the Rate of Older Nurses Since 2019

### RN Annual Hospital Turnover Rate, by Tenure

n = 272 facilities; Jan. 2022



### RN Workforce Total FTEs<sup>1</sup>, by Year



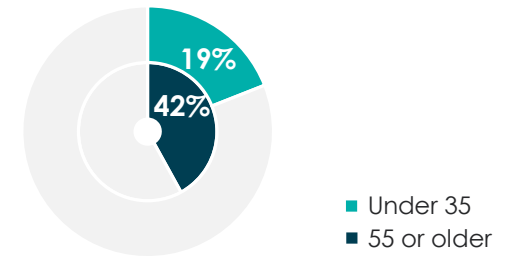
### Percentage Reduction in RN Workforce from 2019-2021, by Age

- (4%)** Percentage reduction in FTEs for **RNs under 35**
- (1%)** Percentage reduction in FTEs for **RNs over 50**

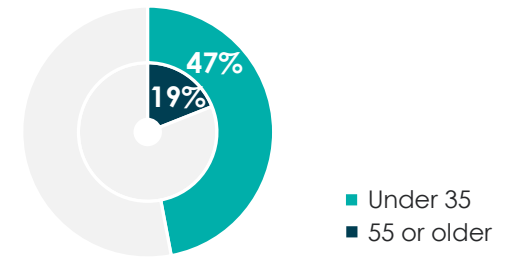
### Percentage of RNs Agreeing with Statements about Their Work

n = 12,694; Jan. 2022

"My organization really cares about my well-being"



"I am not emotionally healthy"



1. Full-time equivalents.

Source: American Nursing Foundation. "Pulse on the Nation's Nurses Survey Series: COVID-19 Two-Year Impact Assessment Survey," 1 Mar. 2022; Auerbach, et al. "A Worrisome Drop in The Number Of Young Nurses." *Health Affairs*, 13 Apr. 2022; NSI Nursing Solutions, Inc. "2022 NSI National Health Care Retention & RN Staffing Report," Mar. 2022; Gist Healthcare analysis.

# Competing Health Systems Collaborate on Workforce

Northeast Ohio's three largest health systems partnered with local nonprofit to provide local lower-wage workforce with skills necessary for a career in healthcare

## Addressing Critical Shortage of Entry-Level Healthcare Talent

Three Cleveland-Based Health Systems Collaborate on Common Challenge

### Priorities for Employer-led Collaborative

**1** Address entry-level talent shortage for employers

**2** Develop career pathways in under-resourced areas

**3** Improve opportunities for lower-wage job seekers



#### Partnering with Local Allies



#### Finding and Keeping Talent

- Hire **100 entry-level full-time employees** within first 4 months
- Retain **70 percent of program graduates** at health systems in roles like environmental services, nursing support, patient transport
- Draw 80 percent of trainees from **high-unemployment areas**



#### Providing the Tools to Succeed

- Create cohorts who complete **8 days of soft skills and professionalism training**
- Offer each trainee **\$200 stipend and guaranteed interview at one of the health systems**
- Provide 6 months of **post-hire job coaching**

### Case in point: Healthcare Career On-Ramp Training Program



Source: Suttell, Scott. "Health systems work with on-ramp program to turn jobs into careers." *Modern Healthcare*. 22 Feb. 2022; Gist Healthcare analysis.

## Creating a Health System Employee Value Proposition

<b>Vision</b>	<b>We will be the _____ employer in our market</b> <i>(highest paying, most flexible, most community-impactful, etc.)</i>					
<b>Pillars of Value</b>	<b>Compensation</b>		<b>Work-Life Balance</b>		<b>Career Support</b>	
	Basic		Employee "Hierarchy of Needs"		Additional	
<b>Focus Areas</b>	<b>1 Competitive Pay</b>	<b>2 Targeted Benefits</b>	<b>3 Scheduling Flexibility</b>	<b>4 Emotional Wellness</b>	<b>5 Career Pathing</b>	<b>6 Preceptorship &amp; Mentorship</b>
<b>Guiding Questions</b>	<ul style="list-style-type: none"> <li>Do we want to match, or lead, the market in terms of our employee compensation levels?</li> <li>How should we structure ordinary, versus incentive, pay to keep our long-range cost growth in check?</li> </ul>	<ul style="list-style-type: none"> <li>How should we balance our compensation resources between pay and benefits?</li> <li>Should we target certain employees with enhanced benefits (ex: younger, working parents)?</li> </ul>	<ul style="list-style-type: none"> <li>Does the retention and recruitment value of flexible scheduling outweigh the quality risks and difficulty of operational changes?</li> <li>Will remote work negatively affect productivity or our organizational culture?</li> </ul>	<ul style="list-style-type: none"> <li>Are our current health benefits adequate to pandemic stress?</li> <li>Will our employees be more likely to use on-site or virtual mental health support?</li> <li>What operational obstacles must we overcome to ensure employees take their breaks?</li> </ul>	<ul style="list-style-type: none"> <li>Do we view career development as aiding shorter-term retention efforts or enabling employees to grow in the organization over the longer-term?</li> <li>How are we ensuring offered educational opportunities are available?</li> </ul>	<ul style="list-style-type: none"> <li>Have we reinvested in manager training, especially for nurse managers?</li> <li>Can we leverage older or retiring nurses to provide first-year nurse mentorships? What technical solutions can we also explore?</li> </ul>
<b>Fundamentals</b>	<b>Mission Orientation ~ Culture and Values ~ Workplace Safety ~ Communication</b>					

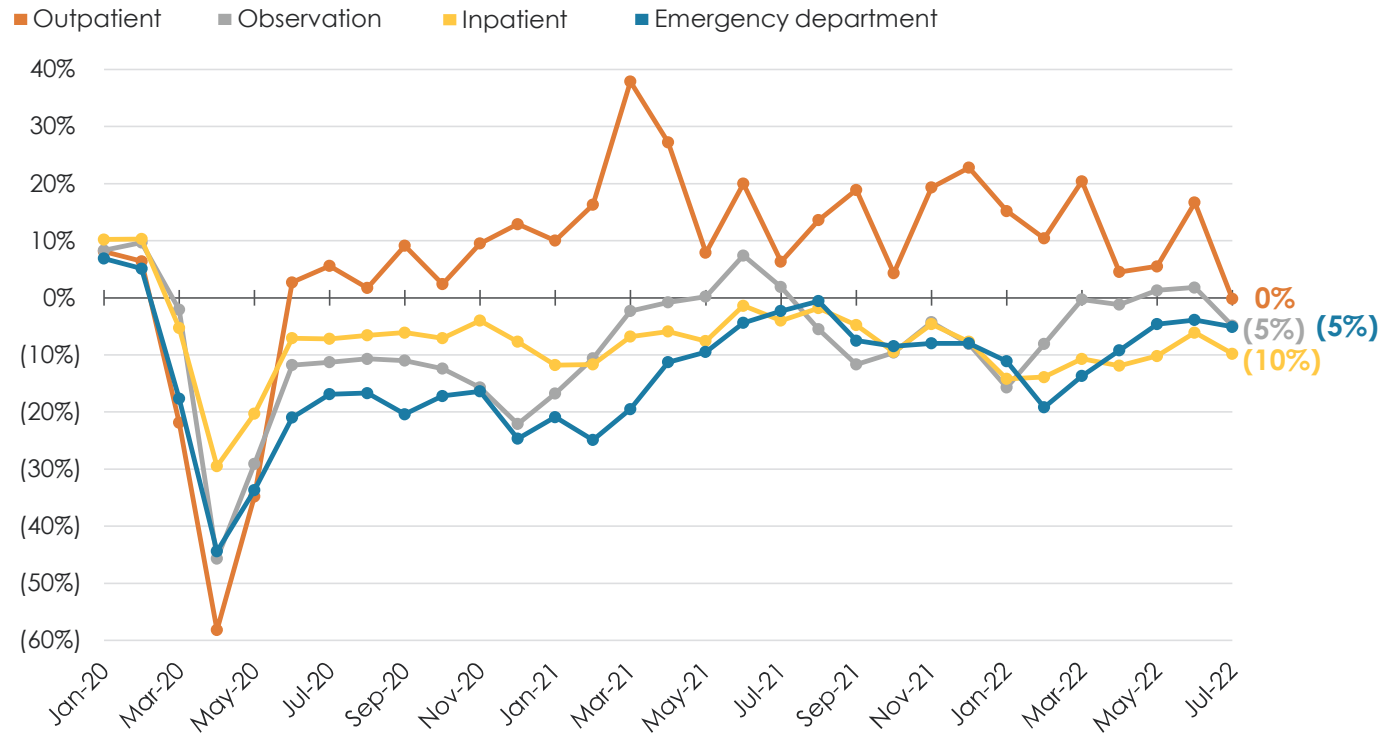
15 DEMAND CHANGES

# Hospital Volumes Stuck Below Pre-COVID Levels

While outpatient volumes had enjoyed a COVID bump, monthly admissions of all types of health system care settings are now at or below 2019 volumes

## All Four Admission Categories See Recent Volume Downturn

Monthly Hospital Volume Changes  
Percentage change from 2019 monthly volume

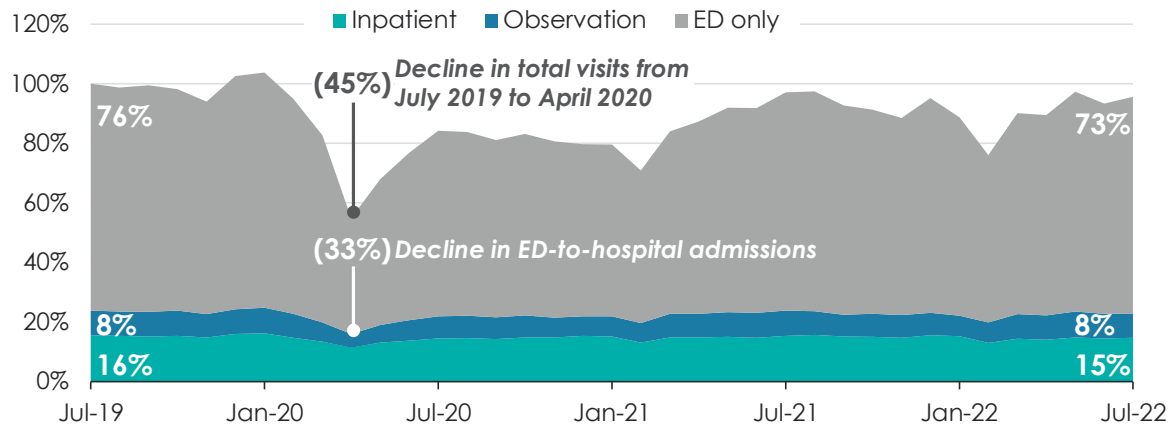


Source: Source: "The National Patient and Procedure Tracker," Strata Decision Technology, Aug. 2022; Gist Healthcare analysis.

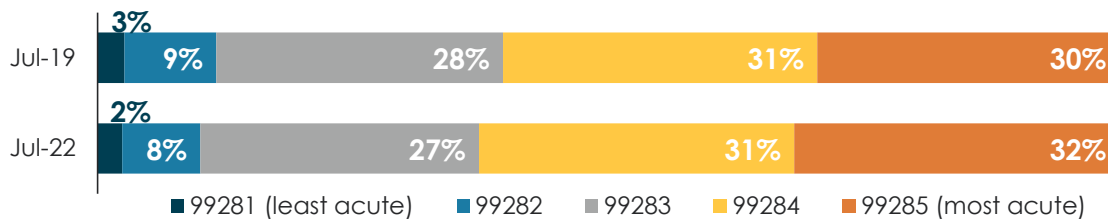
## 16 Emergency Department Visit Acuity Largely Unchanged by COVID

*Slight Decline in Lower Acuity Visits Projected to Accelerate in the Next Decade*

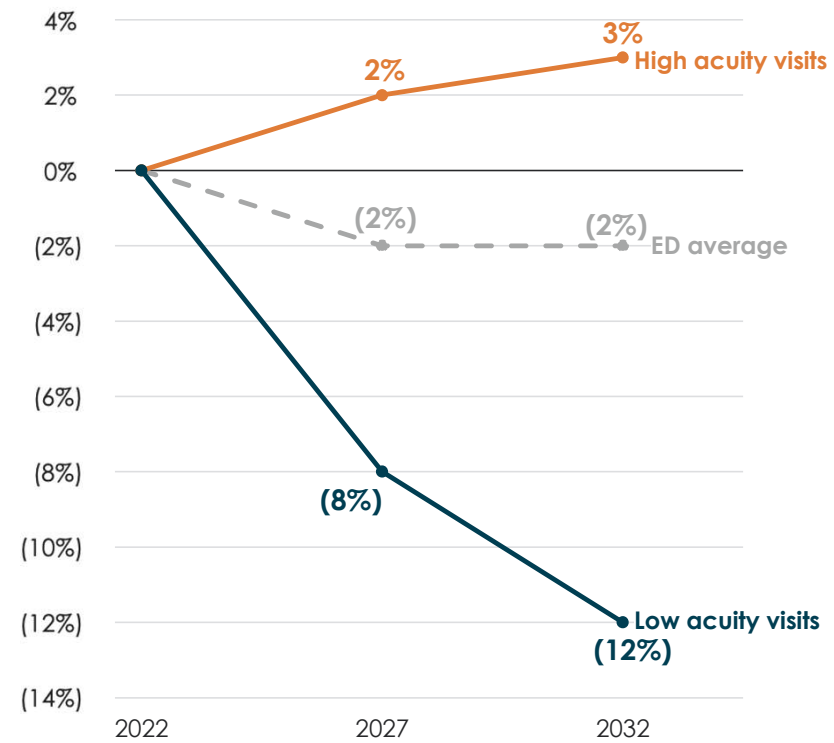
### Monthly ED<sup>1</sup> Visits by Admission Decision, Relative to July 2019 Levels



### Emergency Department Billing Code Distribution by Month<sup>2</sup>



### Forecasted Emergency Department Volumes, by Visit Type



1. Emergency department.  
2. Graphs don't sum to 100% because of rounding.

Source: Strata Decision Technology, StrataSphere Dataset; Vizient. "2022 Impact of Change Forecast Highlights." \$g2. 7 Jun. 2022; Gist Healthcare analysis.



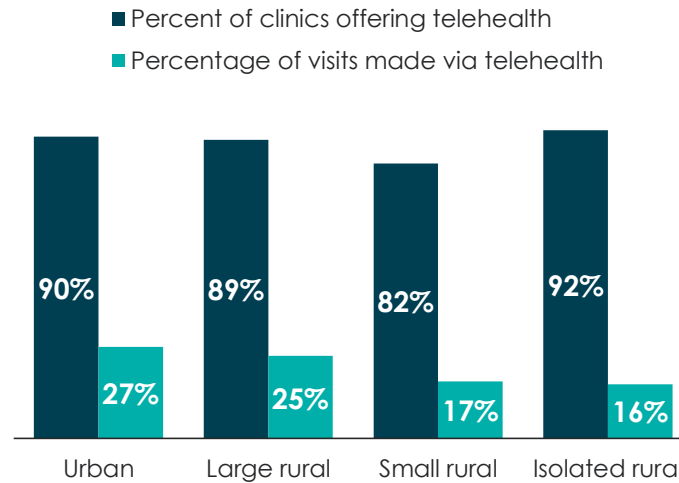
# Consumers Leveraging Virtual Care, Especially for Behavioral Health

COVID-19 spurred widespread adoption of virtual care technologies, but rural residents face greater access challenges; behavioral healthcare via telehealth is particularly popular in rural areas

## Rural Providers Offering Telehealth, but Patient Use Lags Urban Areas Rural Residents Accessing Virtual Behavioral Healthcare at Higher Rates

### Availability and Usage of Telehealth at Safety-Net Clinics, by Locality

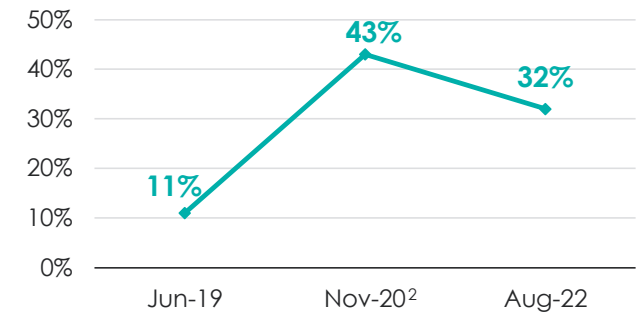
n = 1.02M patients; 2021



**35%** Percentage of rural residents reporting internet quality as obstacle to virtual care, versus 24 percent of non-rural residents<sup>1</sup>

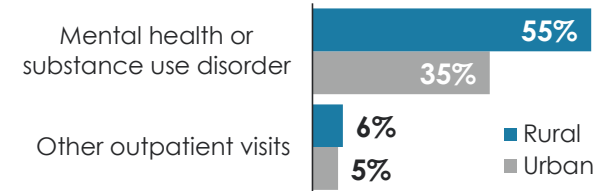
### Share of Adults Experiencing Anxiety or Depression in Last Seven Days

n = 40-60K adults per survey



### Share of Outpatient Visits Delivered by Telehealth, by Locality

n = 126M patients; Mar-Aug. 2021



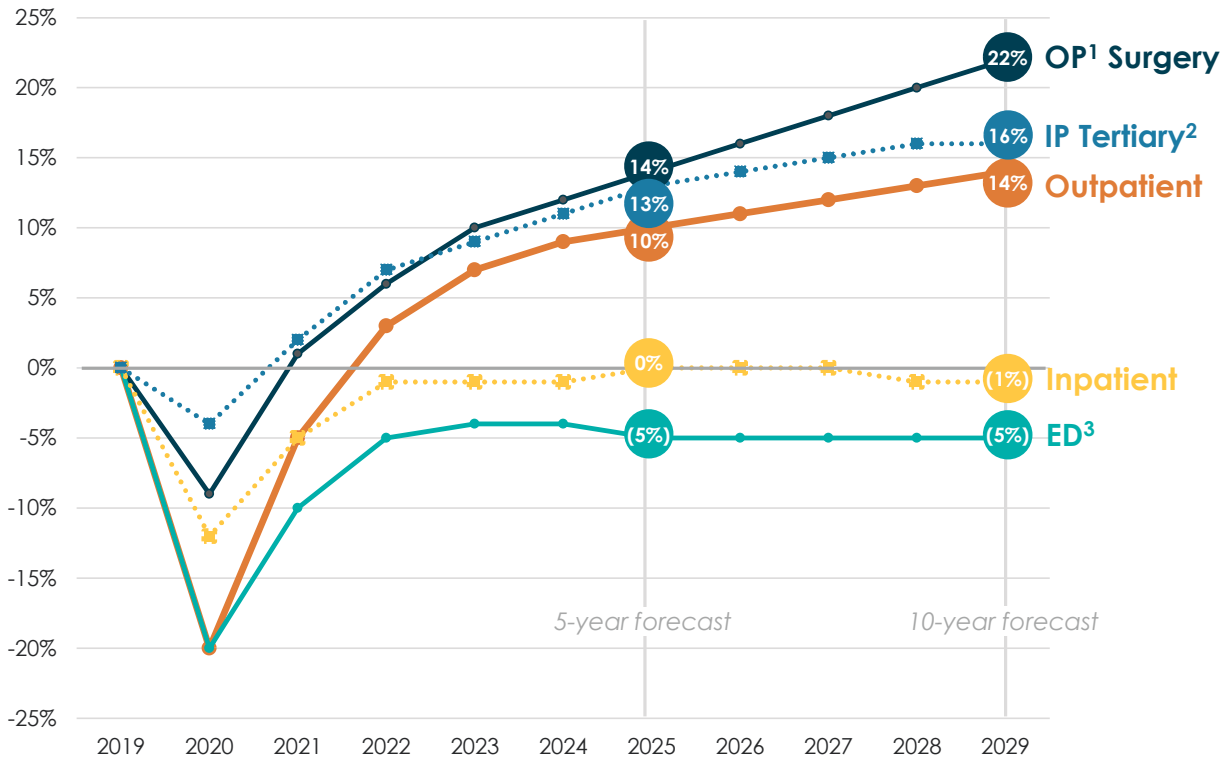
1. Survey from Aug. 2021; n = 1,776 adults.  
2. Nov. 2020 represents pandemic-era peak.

Source: Larson, et al. "Before and During Pandemic Telemedicine Use: An Analysis of Rural and Urban Safety-Net Clinics." *American Journal of Preventative Medicine*. 9 Sep. 2022; Kaiser Family Foundation. "Adults Reporting Symptoms of Anxiety or Depressive Disorder During COVID-19 Pandemic." Acc. Sep. 2022; Lo, et al. "Telehealth Has Played an Outsized Role Meeting Mental Health Needs During the COVID-19 Pandemic." *Kaiser Family Foundation*. 15 Mar. 2022; Gist Healthcare analysis.

## Forecast: Demand for High-Acuity, Outpatient Care Increasing Over Next Decade

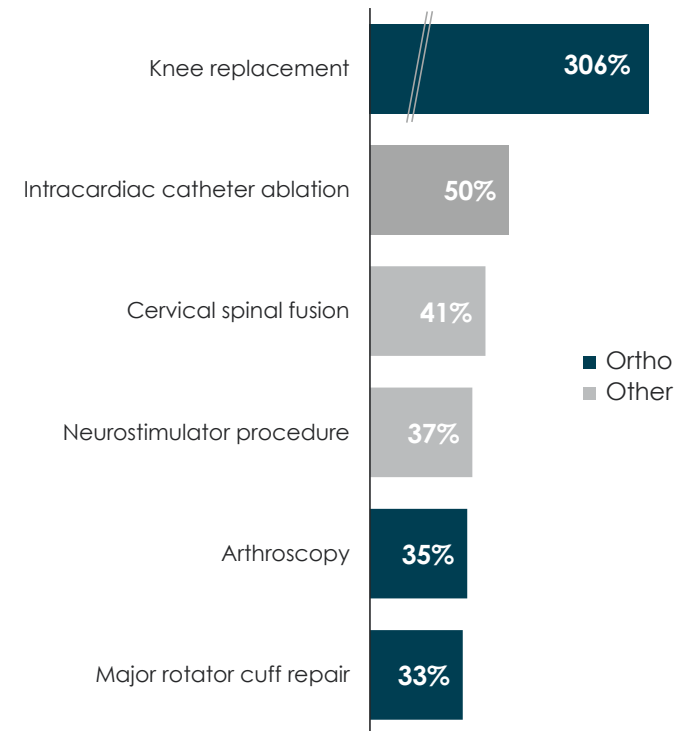
Chronic Disease, Aging Population and Shift to Outpatient Setting Drives Demand for Outpatient Services

### Percentage Change in Adult Hospital Volume Forecast



1. Outpatient.  
 2. Highest acuity inpatient DRG codes.  
 3. Emergency department.

### Percentage Change for Highest-Growth Procedures, 10-Year Forecast

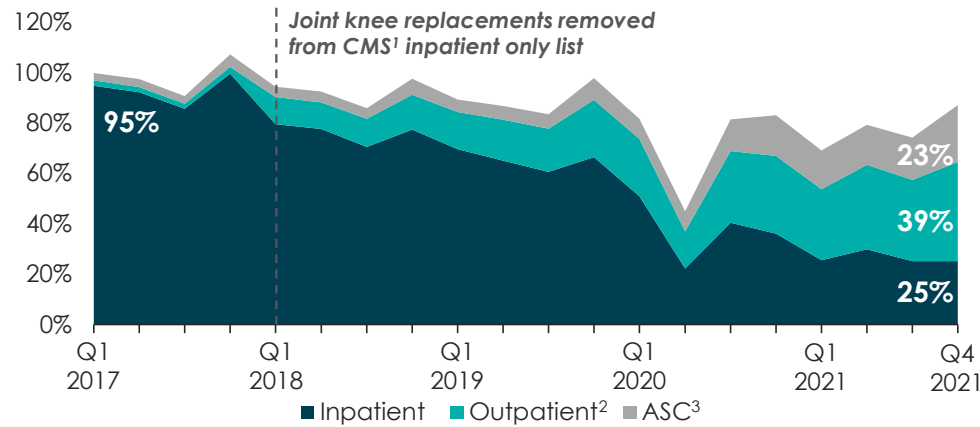


Source: 2021 Impact of Change® Forecast Report, SG2 Healthcare Intelligence, 2 June 2021; Gist Healthcare analysis.

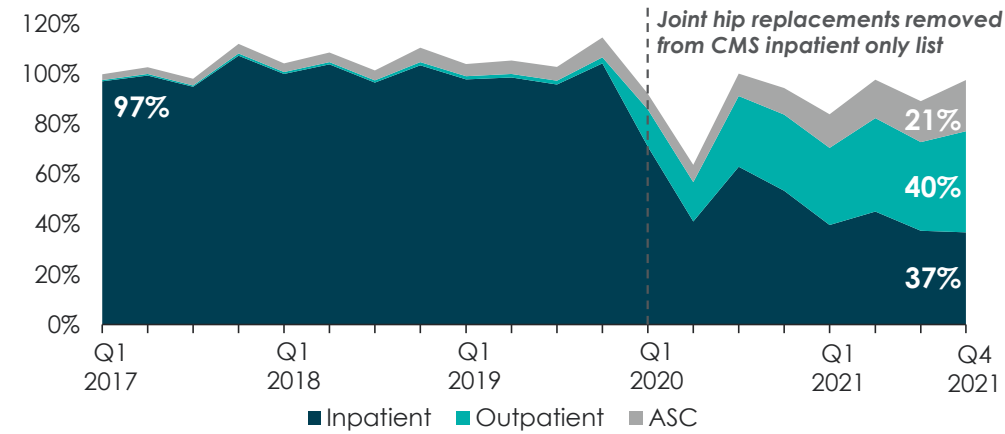
## 19 Majority of Knee and Hip Replacements Have Already Gone Outpatient

*Inpatient Ortho Procedures Especially Reliant on Medicare*

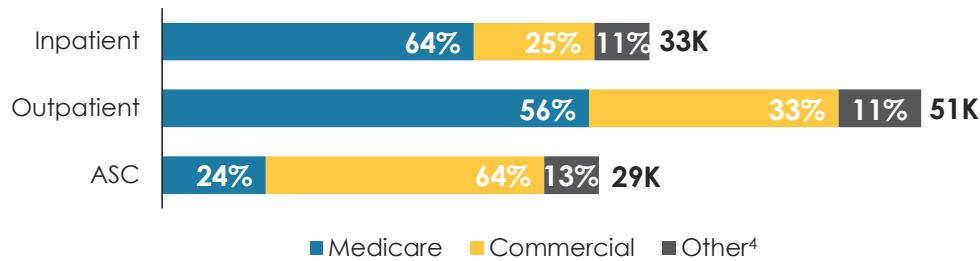
### Joint Knee Replacements by Setting, Relative to Q1 2017



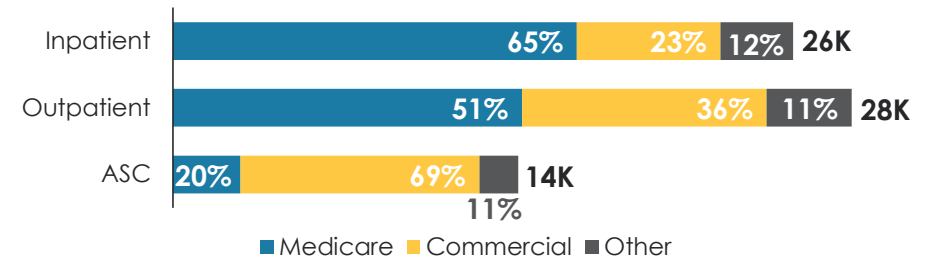
### Joint Hip Replacements by Setting, Relative to Q1 2017



### Joint Knee Replacements by Setting and Payer, Q4 2021



### Joint Hip Replacements by Setting and Payer, Q4 2021



1. Centers for Medicare and Medicaid Services.  
 2. Hospital outpatient departments.  
 3. Ambulatory surgery center.  
 4. Medicare Advantage, Medicaid, and other.

Source: Stratascan proprietary All-Payer Claims Data, 2022; Gist Healthcare and Stratascan analysis.

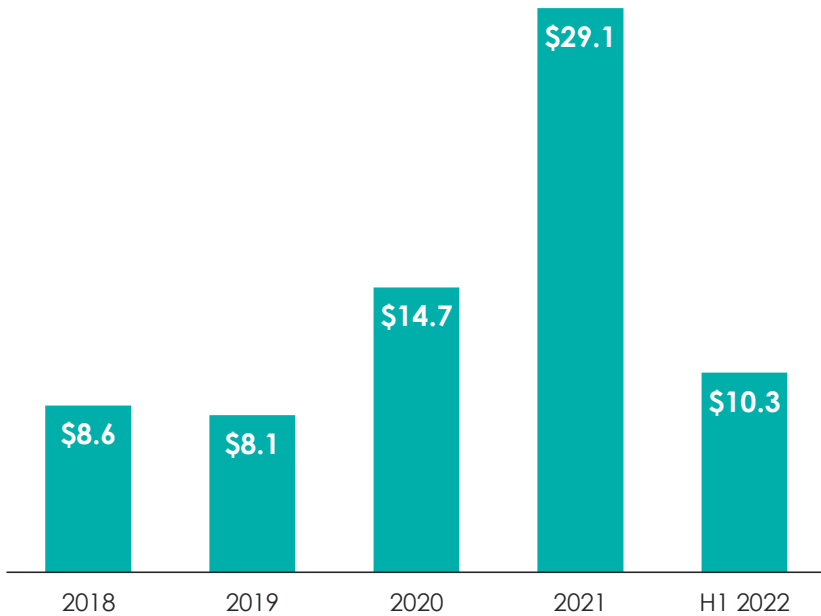
DISRUPTIVE COMPETITION

20

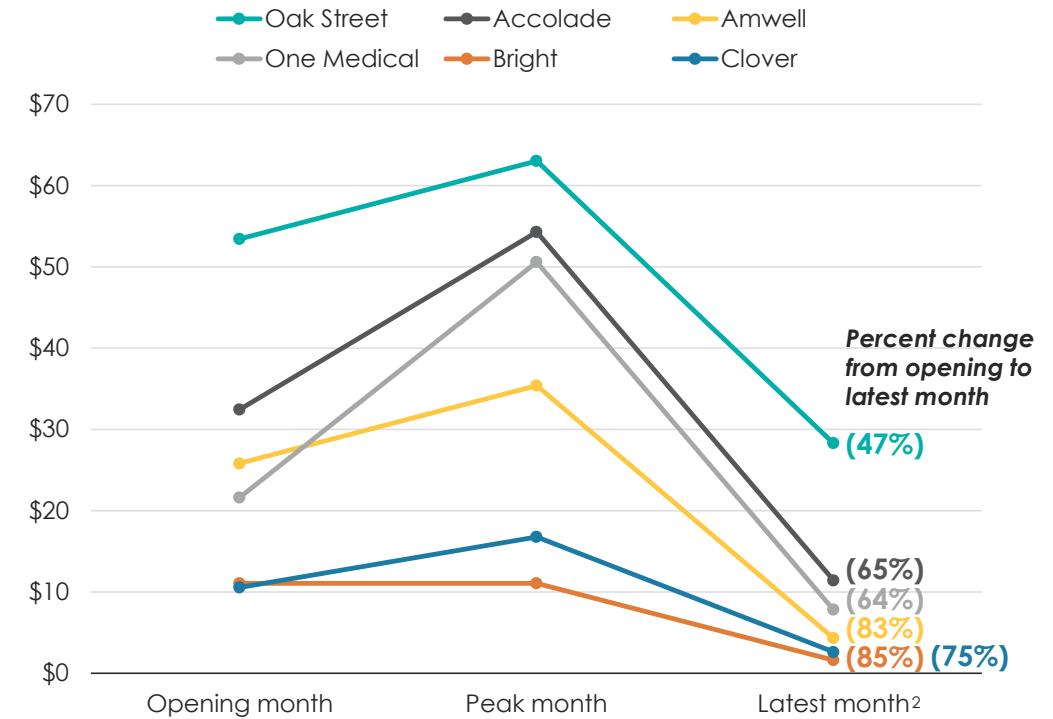
## Digital Health Funding Pace Slows As Newly Public Companies Crash

After Initial Fervor, Many New Healthcare Stocks Have Dropped Double Digits

**Annual Venture Funding for Digital Health Funding Billions**



**Closing Stock Prices of Select Healthcare IPOs<sup>1</sup> Since 2020**



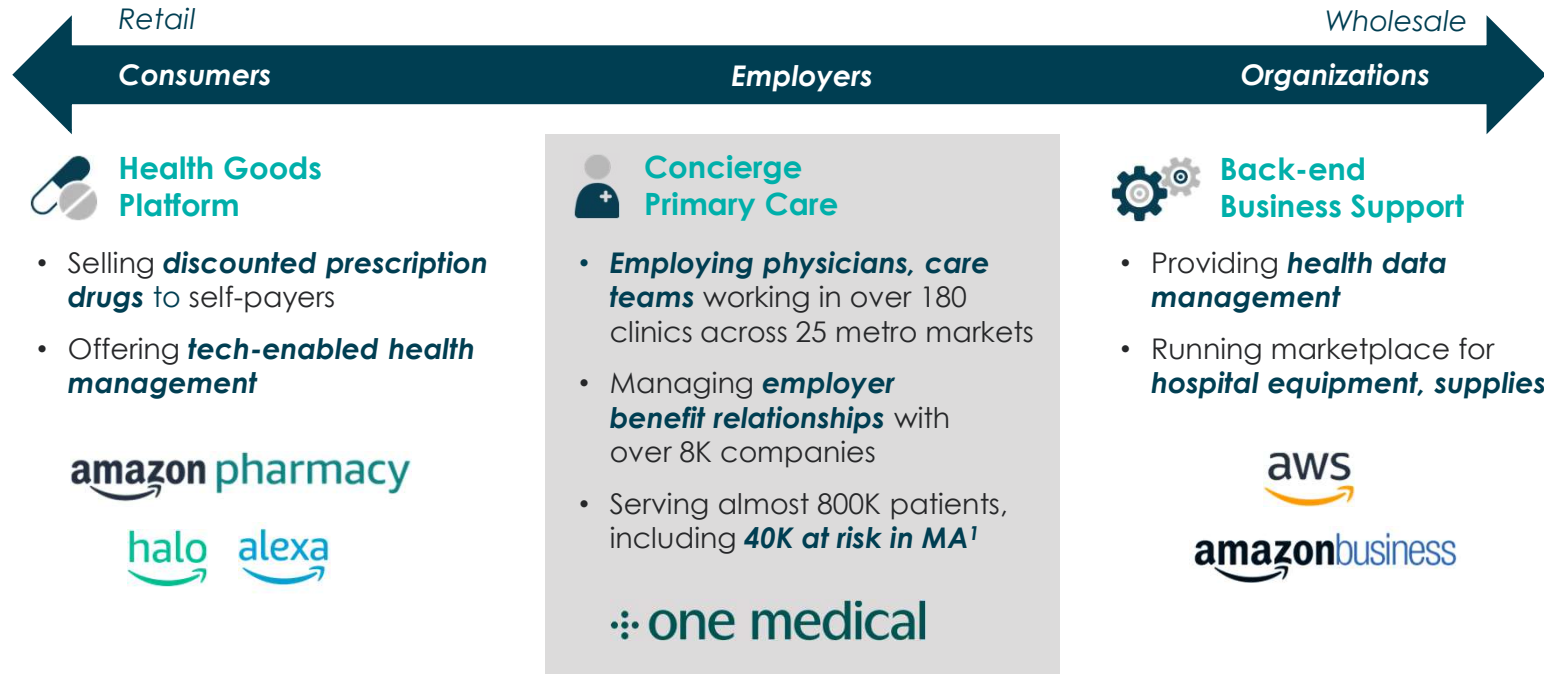
1. Initial public offerings.  
 2. Latest month stock price reflects Sep. 2022 average for all stocks except One Medical, which uses the Jul. 2022 average prior to Amazon buyout.

Source: Nagappin, A. et al. "H1 2022 digital health funding: Two sides to every correction." Rock Health. 10 Jul. 2022; Yahoo Finance data. 12 Sep. 2022; Gist Healthcare analysis.

# Amazon Assembling Continuum of Health Solutions

Amazon's proposed acquisition of One Medical provides a bricks-and-mortar footprint along with thousands of employer relationships, something it struggled to achieve through Amazon Care

## One Medical Acquisition Provides Amazon a Missing Customer Base



Case in point: Amazon













1. Medicare Advantage; though One Medical subsidiary Iora Health.

Source: O'Donovan, Caroline. "Amazon Care is Dead, but the tech giant's health-care ambitions live on." *Washington Post*. 4 Sep. 2022; Gist Healthcare analysis.

## 22 Retail Giants Building Primary Care Hubs

CVS, Walgreens, Walmart Hiring Physicians and Expanding Care Services

	Full-Service Primary Care	Retail Health Clinics	Virtual Care Capabilities	Home Healthcare
	<ul style="list-style-type: none"> <li>• <b>Super Clinics</b> will provide physician-led primary care without retail component<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>• 100+ <b>HealthHUBs</b> for chronic disease management</li> <li>• 1,100+ <b>MinuteClinics</b> for low-acuity care</li> </ul>	<ul style="list-style-type: none"> <li>• <b>National virtual care plan</b> via Teladoc partnership targeting employers</li> </ul> 	<ul style="list-style-type: none"> <li>• Acquired <b>home health company Signify</b>, targeted at MA patients</li> </ul> 
	<ul style="list-style-type: none"> <li>• <b>VillageMDs at Walgreens</b> combine quality care with retail shopping</li> </ul> 	<ul style="list-style-type: none"> <li>• <b>Walgreens Health Corners</b> offer tests, screenings, nurse consultations</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Walgreens Find Care</b> connects patients virtually to partnered providers</li> </ul> 	<ul style="list-style-type: none"> <li>• Invested in home-based <b>post-hospital care company CareCentrix</b></li> </ul> 
	<ul style="list-style-type: none"> <li>• <b>Healthcare Supercenters</b> will offer comprehensive care and testing services<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Partnering with UHG<sup>2</sup></b> to improve care options at Walmart Health clinics</li> </ul> 	<ul style="list-style-type: none"> <li>• Purchased <b>telemedicine provider MeMD</b> in 2021</li> </ul> 	

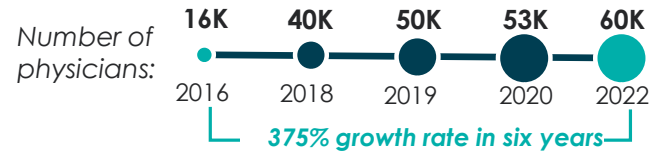
1. Previewed to investors but not yet in operation.  
 2. UnitedHealth Group.

Source: Various investor presentations; Gist Healthcare analysis.

# Optum Assembles a Health System Without Hospitals

Optum is close to operating as a "system without hospitals" in several markets with its aggregation of physicians and ambulatory care, along with virtual and home-based care solutions

## Aggregating Physicians Nationwide



## Diversifying Care Settings, Specialties

**70%** Urgent care center growth over past 5 years, to more than 250

**25%** Percentage increase in new surgeon affiliations in 2020



## Investing in Virtual, Home Care Solutions

Investing in virtual behavioral health, remote monitoring tools, patient community platforms, and home care solutions



## Creating a Business Services Vertical

Providers population health management, pharmacy benefit management, analytics, consulting and other services

**80%** US hospitals using at least one Optum solution

**75%** US health insurance companies using at least one Optum solution

## Case in point: Optum



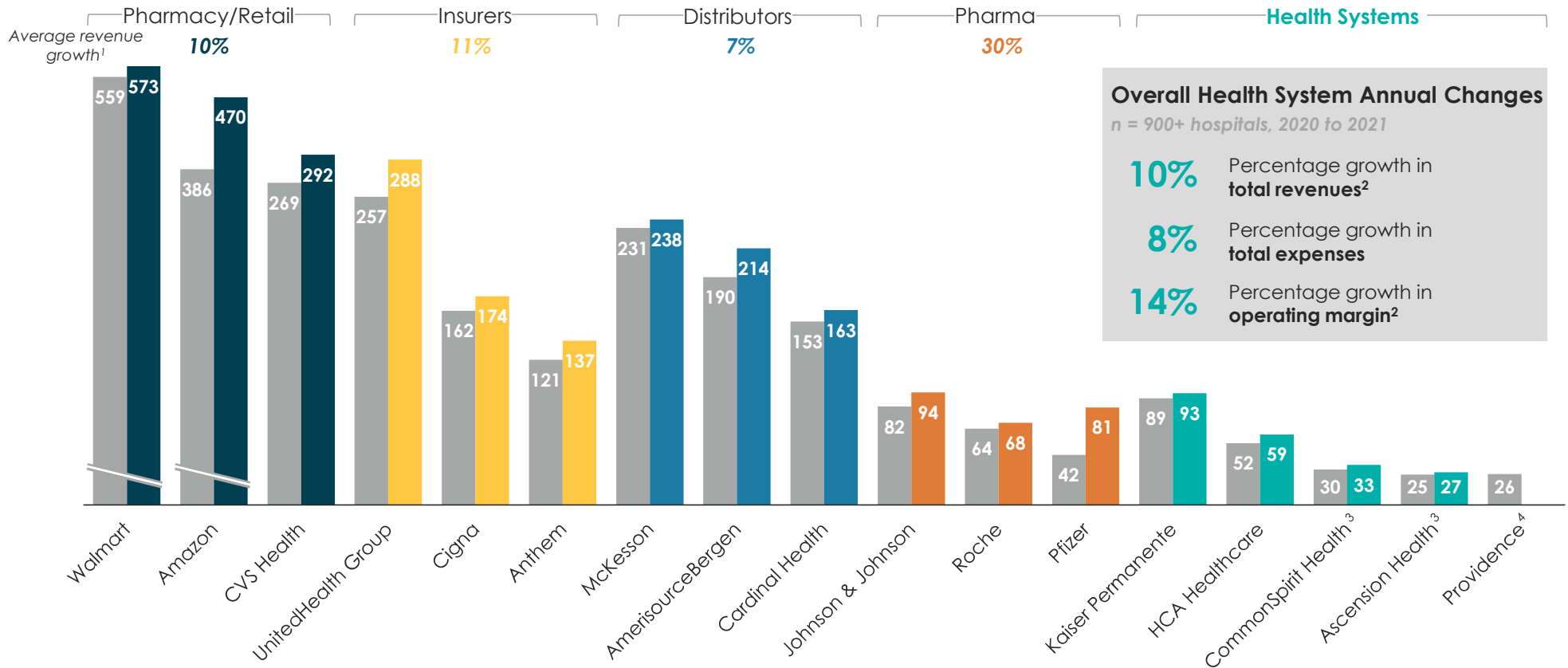
Source: Dyrda, Laura. "Optum Has 50,000 Employed, Affiliated Physicians and a Vision for the Future." *Becker's ASC Review*, 17 Sept. 2019; "Portfolio." *Optum Ventures*, Nov. 2020; "Top 5 Largest Health Insurance Payers in the United States." *HealthPayerIntelligence*, 13 Apr. 2017; Dyrda, Laura. "SCA Centers Added 1,000+ New Surgeons in 2020 so Far: 5 Things to Know." *Becker's ASC Review*, 15 Oct. 2020; Japsen, Bruce. "Urgent Care Centers Eclipse 9,200 Driven By Optum And Hospital Systems." *Forbes*, *Forbes Magazine*, 12 Dec. 2019; "Our Growing Presence." See *Our Growing OptumCare Presence: Interactive Map*, UnitedHealth Group, Nov. 2020; Gist Healthcare analysis.

## 24 The New Competitive Landscape for Healthcare

### Annual Revenue of Largest Healthcare Companies and Health Systems

Billions of Dollars

■ 2020 ■ 2021



#### Overall Health System Annual Changes

n = 900+ hospitals, 2020 to 2021

- 10%** Percentage growth in total revenues<sup>2</sup>
- 8%** Percentage growth in total expenses
- 14%** Percentage growth in operating margin<sup>2</sup>

1. Average revenue growth among top 3 companies in each segment.  
 2. Excludes CARES Act funds.  
 3. Fiscal year ended in June 2021.  
 4. 2021 annual revenue not yet released.

Source: "National Hospital Flash Report." Kaufman Hall, January 2022. Web. Publicly-available financial statements and investor reports; Gist Healthcare analysis.

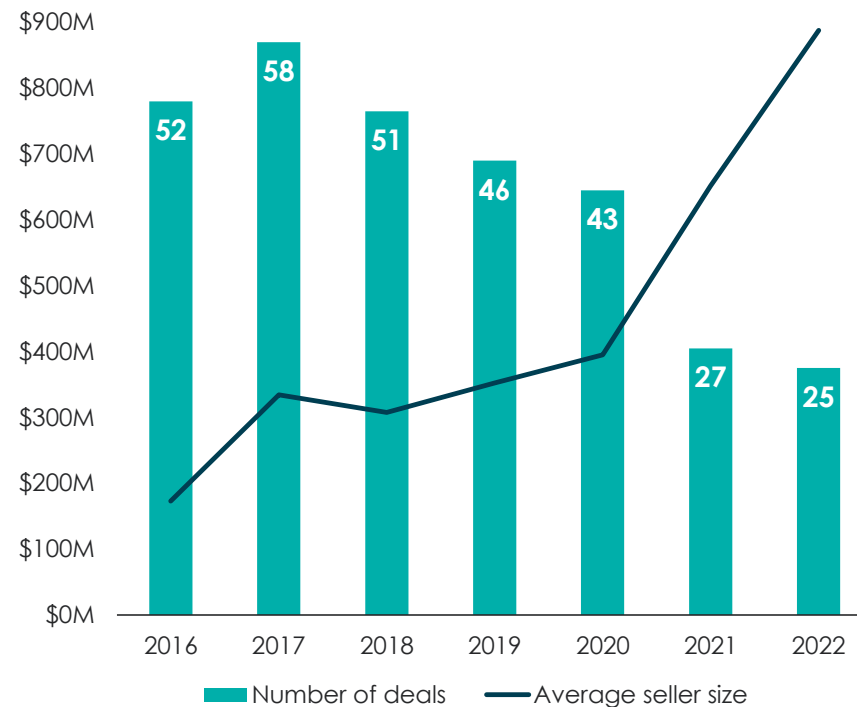


# Fewer but Larger Health System Mergers

Health systems are becoming more selective with merger opportunities, years of consolidation have left fewer small acquisitions on the table

## Regulatory Pressures Limiting Merger Opportunities

### Announced Health System Mergers and Average Seller Sized, First Six Months of Each Year



### Recently Abandoned Hospital Mergers by the Numbers

- 12** Number of system mergers or affiliations called off since Aug. '21
- 4** Number of cancelled mergers that first received FTC scrutiny

### 24%

Percentage of US hospitals owned by the ten largest health systems

Source: Kaufman Hall. "M&A Quarterly Activity Report: Q2 2022 - Transactions Between Hospitals and Health Systems." 13 Jul. 2022; Becker's Hospital Review. "12 hospital deals called off in past year." 12 Aug. 2022; Deloitte. "The potential for rapid consolidation of health systems." 10 Dec. 2020; Gist Healthcare analysis.

# Health Systems Finding Larger Partners

With the Biden administration blocking horizontal mergers within markets, health systems have found opportunities for scale from neighboring markets, states, and other regions

## Recent Examples of Large Mergers Across Markets

<p><b>Beaumont – Spectrum</b> <i>Regional systems unite to cover whole state</i></p> <ul style="list-style-type: none"> <li> Almost \$13B combined annual revenue</li> <li> 22 hospitals, now Michigan's largest health system</li> <li> Brings new markets to Spectrum's 1.2M Priority Health plan</li> </ul> <p><b>Beaumont</b> <b>Spectrum Health</b></p>	<p><b>Intermountain – SCL</b> <i>Large system expands across multi-state region</i></p> <ul style="list-style-type: none"> <li> Over \$14B combined annual revenue</li> <li> 33 hospitals in seven states</li> <li> Expands Intermountain's 1M member SelectHealth plan into Denver market</li> </ul> <p><b>Intermountain Healthcare</b> <b>SCL Health</b></p>	<p><b>Advocate Aurora - Atrium</b> <i>Regional powerhouses joining forces</i></p> <ul style="list-style-type: none"> <li> Over \$27B combined annual revenue</li> <li> 67 hospitals in six states</li> <li> Merger of equals who will retain their own brands</li> </ul> <p><b>AdvocateAuroraHealth</b> <b>Atrium Health</b></p>
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## Case in point: Recent Health System Mergers

Source: Muoio, D. "Beaumont Health, Spectrum Health complete 22-hospital merger to form Michigan's largest health system." *Fierce Healthcare*. 1 Feb. 2022; Liss, S. "Intermountain, SCL Health complete merger, forming \$12B system." *HealthcareDive*. 6 Apr. 2022; Muoio, D. "Nonprofit systems Advocate Aurora Health, Atrium Health announce \$27B, 67-hospital merger." *Fierce Healthcare*. 11 May, 2022; Gist Healthcare analysis.

POLICY ENVIRONMENT

27 What's at Stake When the Federal COVID-19 Public Health Emergency Expires



COVID Care Reimbursement

Enhanced Inpatient Payment

- Hospitals will no longer receive a 20% Medicare payment boost for treating hospitalized COVID-19 patients

Waived Cost-Sharing

- Payers will no longer be required to fully cover the costs of most COVID testing, vaccines, treatment

~\$4B

Additional PHE-tied payments made for Medicare beneficiaries hospitalized with COVID-19 through Nov. 2021



Medicare Telehealth Coverage

Increased Access

- CMS<sup>2</sup> will no longer cover telehealth visits for non-rural Medicare beneficiaries, those made from a beneficiary's home, or those using audio-only technology

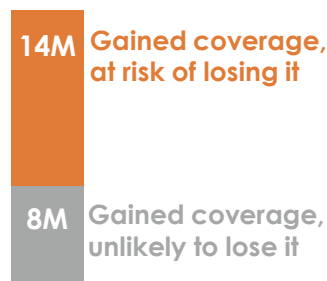


Expanded Medicaid Coverage

Federal Medicaid Support

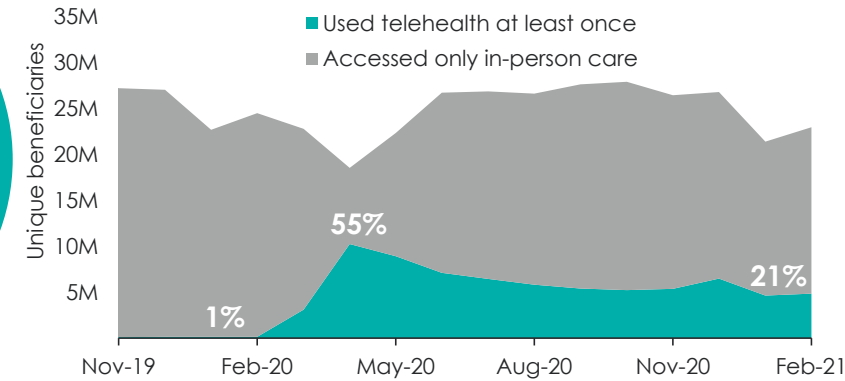
- States will no longer receive a 6.2% Medicaid payment boost in exchange for maintaining Medicaid enrollment and premiums
- When the PHE ends, millions of individuals could lose Medicaid coverage as states reassess their Medicaid rolls

Medicaid Enrollment<sup>1</sup> Change, 2019-2022



Key Policies Tied to the Federal COVID Public Health Emergency (PHE)

Telehealth Penetration<sup>3</sup> Among Medicare Beneficiaries



Hospital at Home

- CMS will no longer reimburse for hospital-level care at home, as the waiver program expires with the PHE

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Number of hospitals that have received the Acute Hospital Care at Home waiver

<sup>1</sup>Includes full and partial enrollment. Centers for Medicare and Medicaid Services.  
<sup>2</sup>Penetration: calculated as the share of beneficiaries making at least one telehealth visit out of those who accessed at least one telehealth-eligible service that month.

Source: Cubanski, et al. "What Happens When COVID-19 Emergency Declarations End? Implications for Coverage, Costs, and Access." Kaiser Family Foundation, 8 Apr. 2022; Williams, et al. "Fiscal and Enrollment Implications of Medicaid Continuous Coverage Requirement During and After the PHE Ends." Kaiser Family Foundation, 10 May, 2022; "Medicare Telemedicine Snapshot." Centers for Medicare and Medicaid Services, 29 Mar. 2022; Gist Healthcare analysis.

**28** **After Bailing Out Providers and Boosting Coverage, Policy Focus Returning to Costs**  
*Competition, Price Cuts, and Provider Risk the Pillars of Cost Strategy*



**Promoting Competition**

**Antitrust Enforcement**

- Challenging healthcare mergers more actively

**Transparency**

- Ramping up enforcement of price transparency rules

**Scope of Practice**

- Signaling support for reforming occupational licensure



**Price Controls**

**Mandatory Sequester**

- 2% sequester for Medicare returns July 2022

**Site-Neutral Payments**

- Elimination of fee schedule differentials
- Reduction of Medicare IPO<sup>1</sup> list

**Prescription Drugs**

- Negotiated prices for a limited number of high-cost drugs



**Provider Risk**

**Impact to Date**

**\$8.6B**

Projected savings from MSSP<sup>2</sup> ACO<sup>3</sup> programs 2023-2030

**\$10.8T**

Total projected Medicare spending, 2023-2030

**Possible Outcomes**



Voluntary risk programs superseded by mandatory programs



Increased focus on MA spending

**Policy Supports for Coverage Expansion**

**ACA Subsidies**

- IRA<sup>4</sup> extended the enhanced exchange subsidies through 2025

**Medicaid Expansion**

- Eligibility redeterminations to resume when PHE ends

**Support for the Exchanges**

- Reinstate funding for marketing
- Extend promotional period

**8%**

Q1 2022 national uninsured rate, **an all-time low**

1. Inpatient-only list.  
 2. Medicare Shared Savings Program.  
 3. Accountable care organization.  
 4. Inflation Relief Act.

Source: FY "Biden Administration Healthcare Year in Review," Cardinal Health, Jan. 2022; "Tracking Regulatory Changes in the Biden Era," Brookings, 16 Jun. 2022; CMS, "2023 Medicare Proposed Physician Fee Schedule Proposed Rule," 7 Jul. 2022; CMS, "NHE Projections," 2022; Bureau of Labor Statistics, "Job Openings and Labor Turnover Survey," Aug. 2022; Gist Healthcare analysis.

WHERE TO FROM HERE?

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## Not Business as Usual Anymore: Health System Truisms are Being Challenged



### “Moving to value will ensure future financial success”

- Decade-long value journey has generated little business model transformation
- Most ACOs are not actually generating any savings
- Commercial payers aren't willing to share risk with providers



### “Consumers will naturally gravitate to our brand/services”

- Consumer loyalty remains fickle
- Healthcare fragmentation continues fueled by disruptors, startups
- Employers remain an entrenched intermediary



### “Healthcare is recession-proof”

- Post-COVID economic uncertainty, consumer reticence, labor disruptions are squeezing hospital margins



### “The integrated multispecialty physician network is our most important asset”

- Current alignment models centered around economic relationship rather than consumer needs
- “Everyone under the same money-losing tent” strategy isn't working
- CINs costly, returning little value



### “More scale means better margins”

- Larger health systems aren't weathering current storm any better
- Inorganic growth temporarily papers over our business model weaknesses
- Few mergers have delivered true benefits from scale



### “We'll democratize healthcare data”

- Investment in EHR is expensive and necessary, but not sufficient
- Healthcare data sharing still well behind rest of the economy
- AI/analytics returns remain elusive



### “We can count on political protection”

- No future bailouts coming
- Pandemic bump in sentiment has largely receded
- Now seen more as “the largest cost driver” vs. “the greatest community asset”

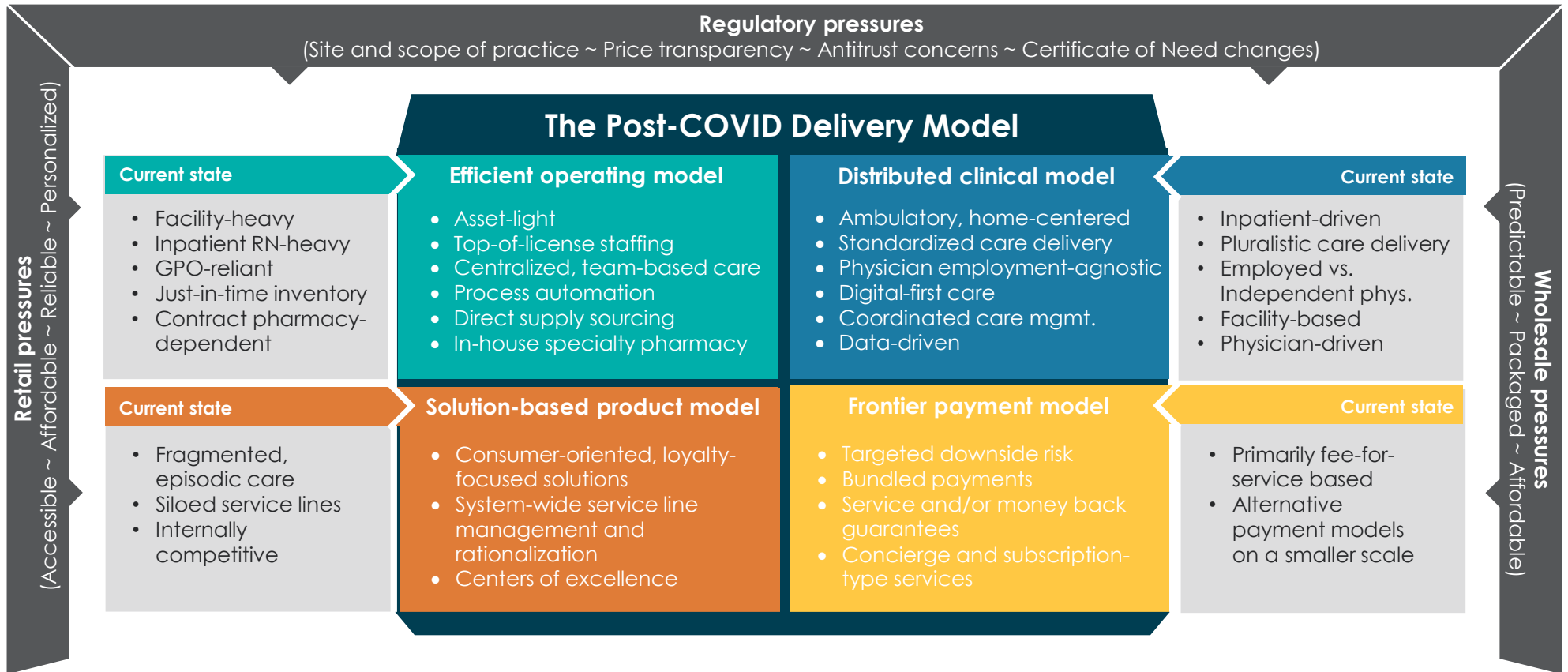
# Our Near-Term Strategy Playbook

Given current business model instability, hospitals should narrow their focus to six key areas to best prepare for the changed future

## Where Health Systems' Attention is Needed Now

- 1 Focus on the core business**  
*Pursue operating model efficiencies that have long been on the table*
- 2 Lower structural costs**  
*Embrace caring for patients in lower-cost sites and with lower-cost staff, not for risk-based payment upside but to prevent further margin erosion*
- 3 Recruit and retain employees**  
*Develop and leverage strong employee value value proposition focused on employee needs*
- 4 Deliver greater value from systemness**  
*Before pursuing further growth, maximize the return from your current scale*
- 5 Refocus physician partnerships around solutions**  
*Align all physicians—regardless of our economic relationship—around consumer-focused solutions*
- 6 Make health IT deliver returns**  
*Leverage data investments for quality, financial, consumer and strategic goals*

## 31 Reconfiguring for a Sustainable Care Delivery Model





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