# Unmasking the Financial Statements

Greater Heartland HFMA Chesterfield, MO

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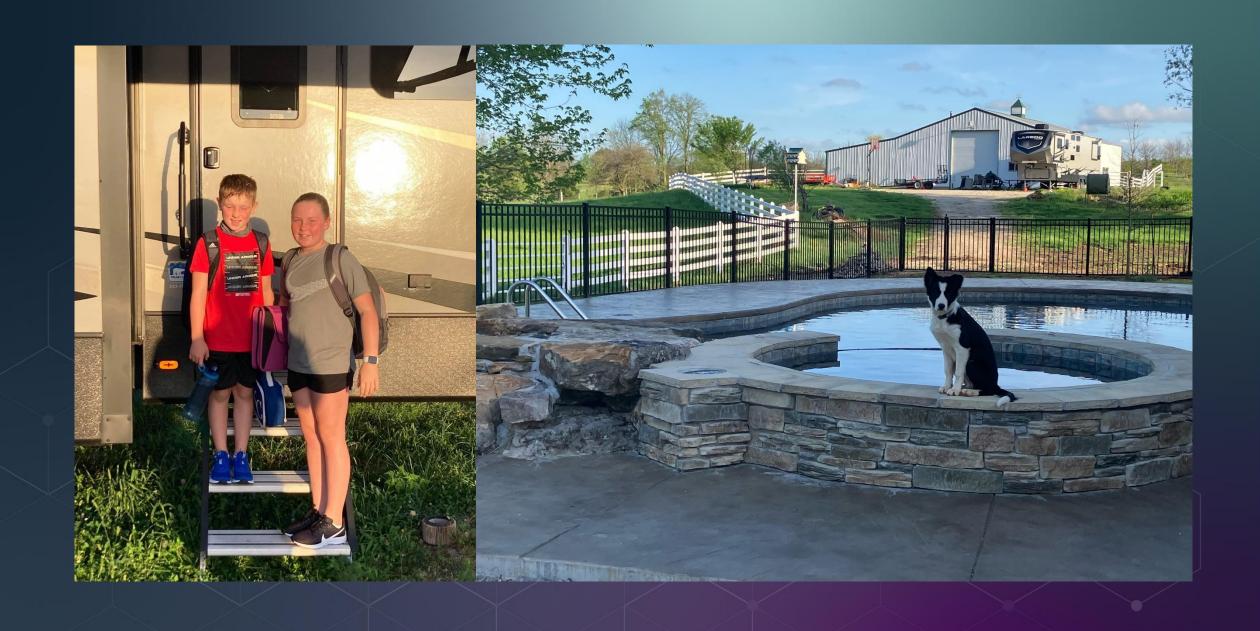
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## Today's Agenda & Learning Objectives





We will provide operational performance improvement ideas coming out of the pandemic



Case studies and how to apply improvement initiatives from other hospitals within your organization



Understanding trends that could disrupt your organization in the coming months and how to prepare your organization in advance





1,030 LTC & Senior Living

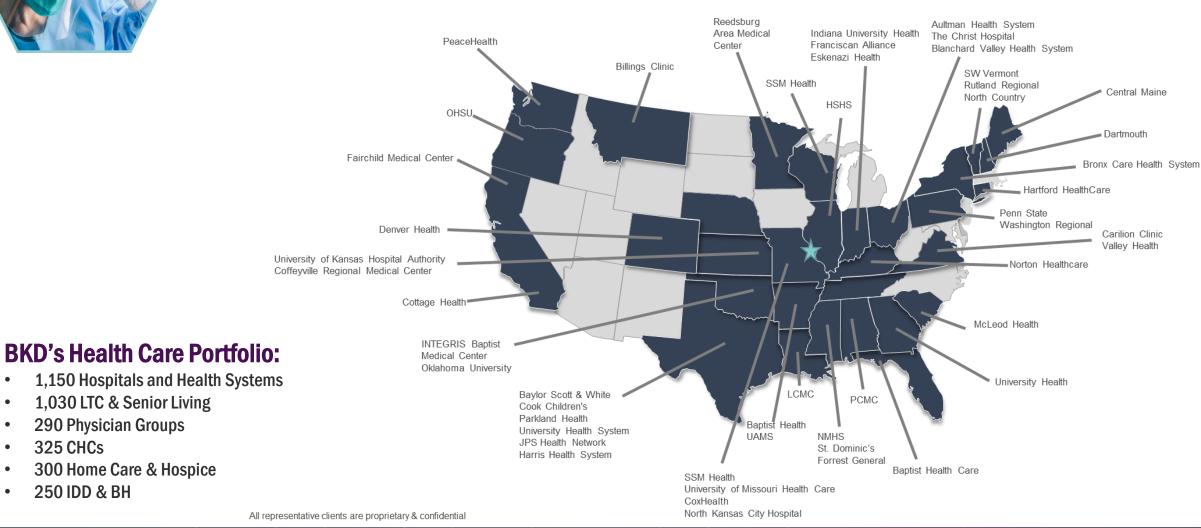
300 Home Care & Hospice

290 Physician Groups

**325 CHCs** 

250 IDD & BH

#### **Focusing National Perspective Through a Local Lens**



Everyone needs a trusted advisor. Who's yours?

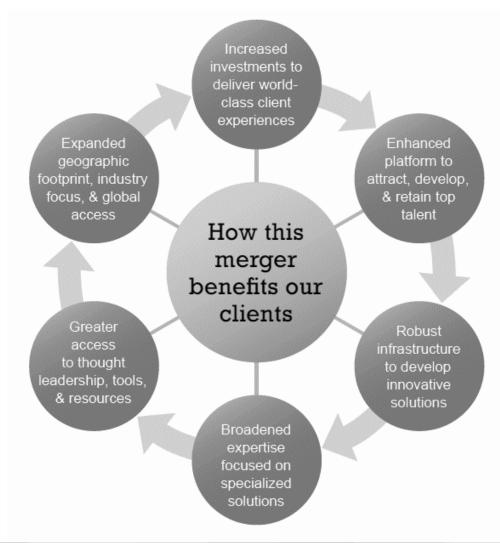


#### BETTER TOGETHER | CLIENT-CENTERED IN EVERY WAY

#### BKD + DHG

## Two Leading Accounting Firms Join Forces to Create 8<sup>th</sup> Largest National Professional Services Firm

- Builds a national firm with \$1.4 billion in revenue, uniquely positioned to deliver outstanding opportunities for team members and clients.
- Merges two, well-established firms with strong operating histories spanning nearly 100 years.
- Positions the firm for continued growth, expanding the breadth of services available to each firm's current client bases while deepening the resources required to serve larger private and Fortune 1000 advisory clients.



#### BKD + DHG

\$1.4BN

in revenue

8<sup>th</sup>

largest US firm

530+

partners & principals

5,400+

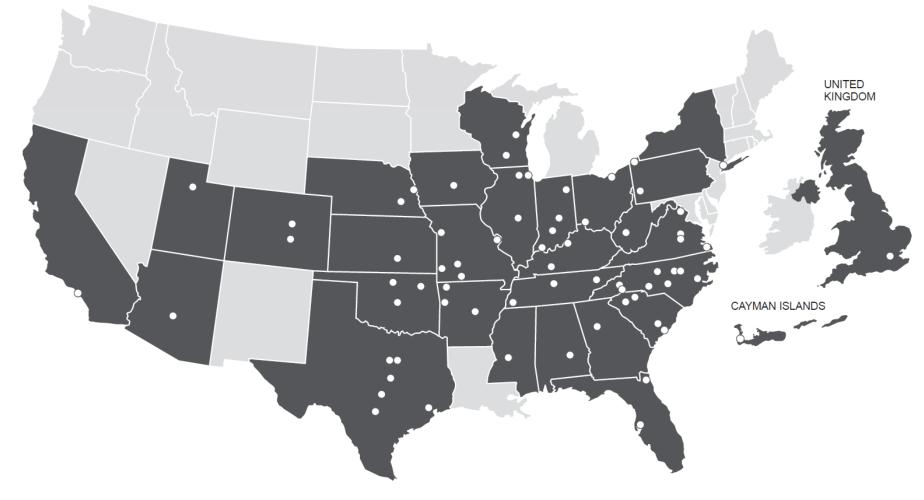
team members

**69** 

markets

**27** 

states + UK & Caymans

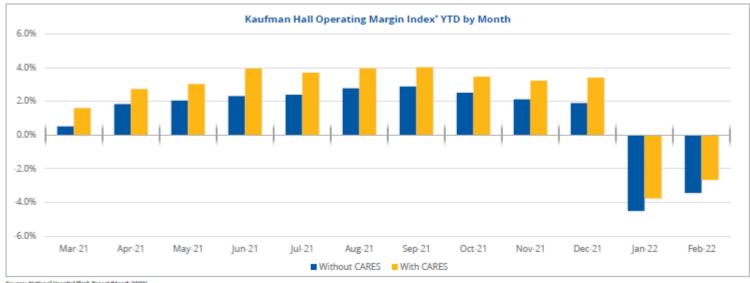


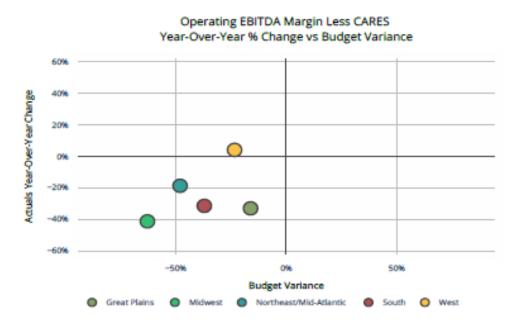
# Operational and Strategic Improvement Ideas Coming Out of the Pandemic

#### **Current Operations are Unfavorable**

VOLUMES % CHANGE	Budget Variance	Month-Over-Month	Year-Over-Year	Year-Over-Year 2020
Discharges	-7.7%	-7.6%	-0.3%	-13.7%
Adjusted Discharges	-7.3%	-0.6%	0.6%	-10.8%
Patient Days	0.8%	-13.3%	3.9%	-4.7%
Observation Patient Days as a Percent of Patient Day	-4.3%	19.4%	1.5%	-10.1%
Adjusted Patient Days	0.5%	-7.6%	5.2%	-4.7%
Average Length of Stay	11.3%	-5.3%	3.6%	12.6%
ED Visits	-9.9%	-17.4%	7.2%	-21.4%
Operating Room Minutes	-4.9%	6.5%	3.7%	-5.4%

Unless noted, figures are actuals and medians are expressed as percentage change





Who's yours?

What happens to your financials when the Stimulus goes away?

		12 Months 2021		12 Months 2020		3 Months 12/31/2021		3 Months 12/31/2020	
Revenues, Gains, and Other Support Without Donor Restrictions									
Patient service revenue	\$	650,347	15%	\$	564,075	\$	171,120 11%	\$	153,51
Other revenue		77,530			54,034		19,237		17,5
Net assets released from restrictions used for operations		1,434			1,704		174		2
Total revenues, gains, and other support			•	-	<del></del> -	-	· · · · · · · · · · · · · · · · · · ·		
without donor restriction		729,311	18%		619,813		190,531 11%		171,3
Expenses and Losses									
Salaries and benefits		353,619	10%		321,268		87,991 3%		85,0
Supplies		186,580	18%		158,076		49,746 11%		44,
General, administrative & other		77,352	7%		72,370		20,978 20%		17,
Purchased services and professional fees		70,393	33%		52,891		26,347 83%		14,
Depreciation and amortization		32,847			31,104		8,204		8,
Interest		6,142	-		11,593		1,463		1,
Total expenses		726,933	12%		647,302		194,729 13%		172,
Operating Income (Loss)		2,378	0%		(27,489) -4%		(4,198) -2%		(
Other Income (Expense)									
STIMULUS - State & Federal		13,500			14,000		5,137		1,4
One time gains (losses) due to weather related events		713			(2,250)		1,080		
Investment return, net		12,814			3,049		6,951		5,
Other		(4,139)			(8,184)		(1,678)		(1,
Total other income (expense)		22,888			6,615		11,490		5,4
Excess (Deficiency) of Revenues Over Expenses	\$	25,266		\$	(20,874)	\$	7,292	\$	4,



#### **Short and Long-term Challenges Remain**

#### FOUR CHALLENGES .....



Manage capacity, staff resiliency through remaining Covid-19 surges



Stabilize financials, recover volume



Adjust to new consumer behaviors, preferences



Address changing health status, equity

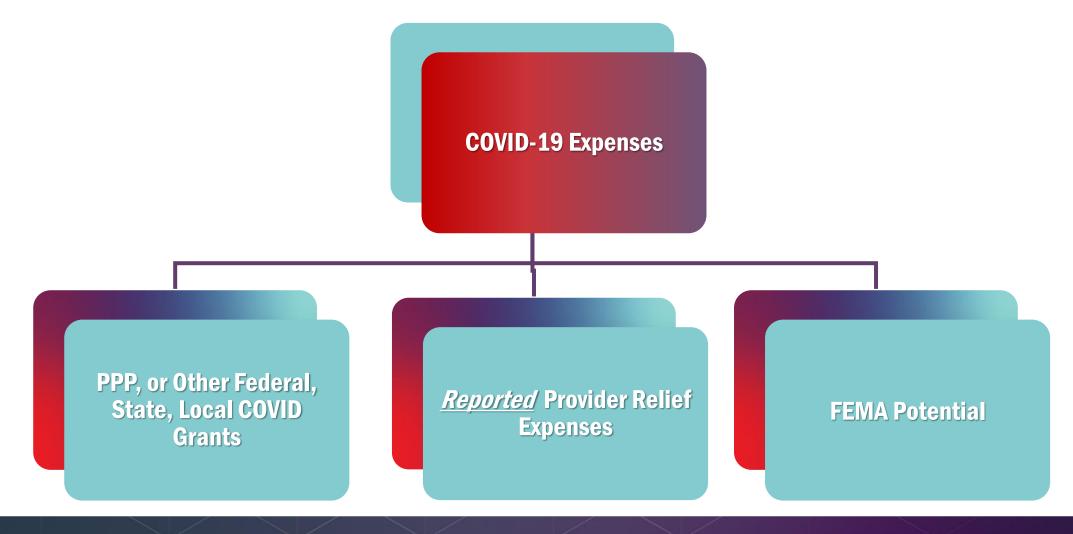
**NEAR TERM** 

LONGER TERM

## Do you have a COVID Funding Strategy to Maximize Funding Sources?



#### **Your COVID Funding Strategy**





#### **Expenses Likely to Remain Elevated**

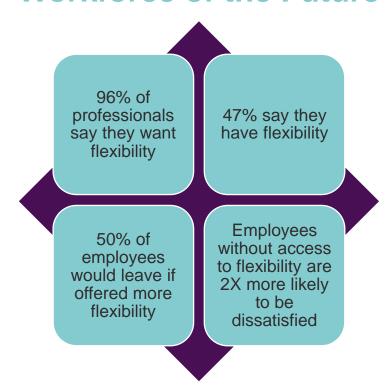
Costs have rise	n due to	adjusted discharge (January 2019–January 2022)	Future outlook
Labor	<ul> <li>Significant sign-on and retention bonuses required given shortages brought on by early retirements, higher reports of "burnout," and highly-inflated salary expectations</li> <li>Premium labor required to adequately staff during surge periods (especially in the ICU)</li> </ul>	19%	Elevated costs due to burnout, salary inflation, and labor shortages; premium labor costs will likely decline
Supply chain	<ul> <li>Instability and unpredictability in the global supply chain resulted in shortages, stockpiling, and price increases</li> <li>Longer lengths-of-stay raises per-discharge supply costs</li> </ul>	21%	Volatility in demand, continued Covid-19 admissions, global supply chain risks, and price inflation will keep supply expenses elevated
Prescription drugs	Drug spending rose significantly due to utilization of new standard- of-care treatments (such as oral antivirals and monoclonal antibody treatments for Covid-19) and longer lengths-of-stay	37%	Covid-19-related drug use will likely drop, but pharmaceutical company price increases and new-to-market drugs will keep expense growth elevated
Non-operating expenses (IT and physical infrastructure)	<ul> <li>Hospitals expanded and/or renovated physical infrastructure to treat and immunize Covid-19 patients safely alongside non-Covid-19 patients</li> <li>Capital investments have mostly resumed after being put on hold early in the pandemic; additional investments (and continuing operating expense are planned to enable telemedicine, home care, and remote work</li> </ul>	20%	IT and facility-related expenses may be necessary for providers to remain competitive, but as a more controllable expense category, degree of expense growth will vary widely across providers based on financial performance

Expense growth per

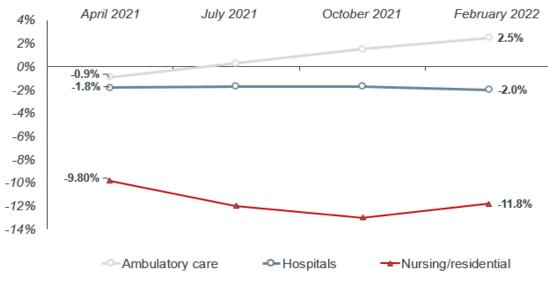


#### **Labor Challenges**

#### Workforce of the Future

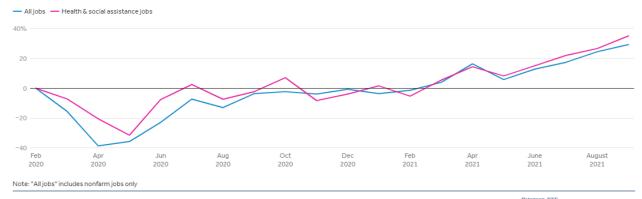


#### Change in employment by setting compared to February 2020



Job quits hit all-time highs in all sectors, including health & social assistance

Cumulative % change in job quits since February 2020, by month, health & social assistance jobs, and all jobs



Source: Bureau of Labor Statistics Job Openings & Labor Turnover Survey (JOLTS) • Get the data • PNG

Health System Tracker



#### Staffing Firms & Impact Labor Market



#### Total agency labor & traveling labor expense as a percentage of payroll

n=143 provider organizations, FY2021 median



As nursing staff gravitate to higher-paying agency work, critics scrutinize practices as "opportunistic"

"Rural hospitals losing hundreds of staff to highpaid traveling nurse jobs"

NBC News, September 2021

"Agencies are exploiting desperate situation for personnel by inflating prices beyond reasonably competitive levels"

AHA and AHCA/NCL letter to White House, January 2022



#### Workforce

<u>Labor</u>	
Total Salaries	\$70,045,837
Total Contract Labor	\$4,936,189
Total Fringe Benefits	\$13,710,002
Total Labor Cost	\$88,692,028
Labor Ratio	53.13%
Number of Employees (FTE's)	832



#### The Big Dilemma: Investing in staff to grow volumes or keeping labor costs low to improve margins?

- Labor cost ranges from 45% 60% of NPSR
- Salary increases now "baked" into operations
- High turnover rates are costly and time consuming
- Phasing out contract labor
- Flexibility and redefining of the term "productive"
- Outsourcing of non-core functions
- Span of control

#### **Rebasing and Monitoring Productivity**

 COVID impact on benchmarking, units of service, and drivers of variance



## 2021 Workforce Case Study: Mid-Sized Hospital, Colorado

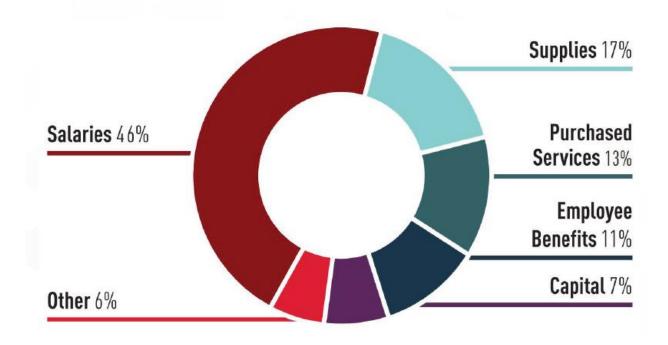
Annualized Salary Expense Reduction of \$5.65M (7% improvement to bottom line) 453 Total Paid FTEs in PayPeriod 5, FY2022 (Started at 540 15% reduction)

#### **FTE Comparison**

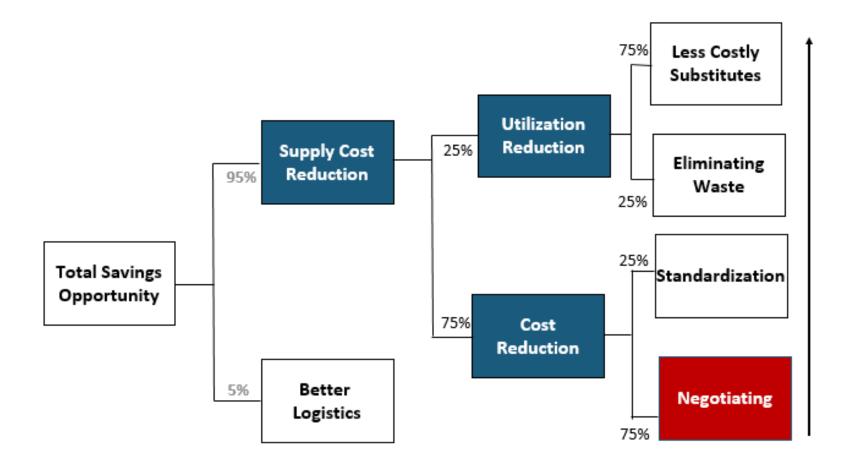


#### Non-Labor Cost Management

- The supply chain for most health systems is vast and complex. However, with the right strategy and skills, it can be leveraged to generate reliable savings.
- Average cost reduction initiatives increase margins by 1% to 3.5% of NPSR.
- Common initiatives include:
  - Med/Surg supplies
  - Medical devices
  - Pharmaceuticals
  - Food & nutrition
  - Lab reagents and blood
  - Employee benefits
  - Utilities
  - Biomed
  - Technology
  - Purchased Services



#### The Art of the Deal



Experience shows
negotiating can
garner 300% more
than popular thinking,
with incremental
savings of \$3.75M on
average for those who
invest in these
savings (based on a
100M-200M NPSR
hospital)

#### Cost Management Myth: GPOs

Category	% of		Total \$		GPO\$	% Covered				
Salaries - Exclude	46%	\$	92,000,000 N/A		\$ 92,000,000		92,000,000		N/A	N/A
Supplies	17%		34,000,000		14,960,000	44%				
Purchased Services	12%		24,000,000		2,880,000	12%				
Employee Benefits	11%		22,000,000		-	0%				
Capital	7%		14,000,000		1,680,000	12%				
Other Costs	7%		14,000,000		1,120,000	8%				
	54%	\$	108,000,000	\$	20,640,000	19%				
Total Operating Expense	100%	\$	200,000,000							
·										

Outsid	0	Comple	ment G	РО	Replaced GPO					
		40.000	51 /5			011:		400.000		
Furniture	\$	18,000	Plastic / Paper	\$	28,000	Office Supplies	Ş	132,000		
MaintClin(2)		96,000	Bed Rentals		126,000	Forms		63,000		
Cleaning		10,000	Radiology (4)		165,000	Surg-Ortho (3)		217,000		
Telecomm		89,000	Lab (5)		208,000	Surg-Cardiac (4)		128,000		
MaintBldg (2)		37,000	Surgery (4)		86,000					
Cardiac (3)		110,000	Surgery (6)		123,000					
Surgery (8)		168,000	Dietary		91,000					
Dietary (3)		31,000								
Agency (6)		306,000								
Other		207,000	_			_				
29 Contracts	\$	1,072,000	22 Contracts	\$	827,000	9 Contracts	\$	540,000		
				Total	Savings		Ś	2.439.000		

#### Other Cost Management Myths

- 1. "All savings are in standardization. Without physicians support we can't move volume to provide win-win incentives"
- 2. "Self contracting is futile. Only a few percentage points are available, if any...we have less volume than GPOs"
- 3. "Contracting for high technology areas is a waste of time"
- 4. "I don't have the resources to generate savings on my own"

<u>Item</u>	SKU's	High	Low	Avg.	Benchmark
Pens	118	\$9.99	\$0.06	0.46	\$0.07
Binders	78	34.99	0.75	5.60	7.10
Staplers	29	69.99	1.97	15.90	2.75
Markers	51	1.98	0.25	0.58	
Highlighters	26	1.05	0.12	0.37	
Post-Its	42	3.59	0.23	0.84	

Description	Ol	d Price	(	Old Spend	Ne	w Price	N	lew Spend		Savings
8 oz foam cup	\$	12.04	\$	6,287.05	\$	11.23	\$	5,862.06	\$	424.99
30x36 black liner (now HD 24x33)	\$	21.01	\$	23,275.23	\$	18.60	\$	20,608.80	\$	2,666.43
38x58 Xhvy liner	\$	17.39	\$	18,222.12	\$	9.57	\$	10,029.36	\$	8,192.76
40x46Red Printed Liner	\$	15.32	\$	3,553.48	\$	13.37	\$	3,101.84	\$	451.64
Natural multifold towel	\$	12.83	\$	38,364.00	\$	12.39	\$	37,046.10	\$	1,317.90
Natural singlefold towel	\$	13.42	\$	483.00	\$	12.39	\$	446.04	\$	36.96
			\$	90,185			\$	77,094	\$	13,091
										15%
	8 oz foam cup  30x36 black liner (now HD 24x33) 38x58 Xhvy liner 40x46Red Printed Liner Natural multifold towel	8 oz foam cup \$  30x36 black liner (now HD 24x33) \$  38x58 Xhvy liner \$  40x46Red Printed Liner \$  Natural multifold towel \$	8 oz foam cup       \$ 12.04         30x36 black liner (now HD 24x33)       \$ 21.01         38x58 Xhvy liner       \$ 17.39         40x46Red Printed Liner       \$ 15.32         Natural multifold towel       \$ 12.83	8 oz foam cup       \$ 12.04         30x36 black liner (now HD 24x33)       \$ 21.01         38x58 Xhvy liner       \$ 17.39         40x46Red Printed Liner       \$ 15.32         Natural multifold towel       \$ 12.83	8 oz foam cup       \$ 12.04       \$ 6,287.05         30x36 black liner (now HD 24x33)       \$ 21.01       \$ 23,275.23         38x58 Xhvy liner       \$ 17.39       \$ 18,222.12         40x46Red Printed Liner       \$ 15.32       \$ 3,553.48         Natural multifold towel       \$ 12.83       \$ 38,364.00         Natural singlefold towel       \$ 13.42       \$ 483.00	8 oz foam cup       \$ 12.04       \$ 6,287.05       \$         30x36 black liner (now HD 24x33)       \$ 21.01       \$ 23,275.23       \$         38x58 Xhvy liner       \$ 17.39       \$ 18,222.12       \$         40x46Red Printed Liner       \$ 15.32       \$ 3,553.48       \$         Natural multifold towel       \$ 12.83       \$ 38,364.00       \$         Natural singlefold towel       \$ 13.42       \$ 483.00       \$	8 oz foam cup       \$ 12.04       \$ 6,287.05       \$ 11.23         30x36 black liner (now HD 24x33)       \$ 21.01       \$ 23,275.23       \$ 18.60         38x58 Xhvy liner       \$ 17.39       \$ 18,222.12       \$ 9.57         40x46Red Printed Liner       \$ 15.32       \$ 3,553.48       \$ 13.37         Natural multifold towel       \$ 12.83       \$ 38,364.00       \$ 12.39         Natural singlefold towel       \$ 13.42       \$ 483.00       \$ 12.39	8 oz foam cup       \$ 12.04       \$ 6,287.05       \$ 11.23       \$         30x36 black liner (now HD 24x33)       \$ 21.01       \$ 23,275.23       \$ 18.60       \$         38x58 Xhvy liner       \$ 17.39       \$ 18,222.12       \$ 9.57       \$         40x46Red Printed Liner       \$ 15.32       \$ 3,553.48       \$ 13.37       \$         Natural multifold towel       \$ 12.83       \$ 38,364.00       \$ 12.39       \$         Natural singlefold towel       \$ 13.42       \$ 483.00       \$ 12.39       \$	8 oz foam cup       \$ 12.04       \$ 6,287.05       \$ 11.23       \$ 5,862.06         30x36 black liner (now HD 24x33)       \$ 21.01       \$ 23,275.23       \$ 18.60       \$ 20,608.80         38x58 Xhvy liner       \$ 17.39       \$ 18,222.12       \$ 9.57       \$ 10,029.36         40x46Red Printed Liner       \$ 15.32       \$ 3,553.48       \$ 13.37       \$ 3,101.84         Natural multifold towel       \$ 12.83       \$ 38,364.00       \$ 12.39       \$ 37,046.10         Natural singlefold towel       \$ 13.42       \$ 483.00       \$ 12.39       \$ 446.04	8 oz foam cup       \$ 12.04       \$ 6,287.05       \$ 11.23       \$ 5,862.06       \$         30x36 black liner (now HD 24x33)       \$ 21.01       \$ 23,275.23       \$ 18.60       \$ 20,608.80       \$         38x58 Xhvy liner       \$ 17.39       \$ 18,222.12       \$ 9.57       \$ 10,029.36       \$         40x46Red Printed Liner       \$ 15.32       \$ 3,553.48       \$ 13.37       \$ 3,101.84       \$         Natural multifold towel       \$ 12.83       \$ 38,364.00       \$ 12.39       \$ 37,046.10       \$         Natural singlefold towel       \$ 13.42       \$ 483.00       \$ 12.39       \$ 446.04       \$



#### Recent Non-Labor Case Studies

#### **Hospital #1**

#### 325 Bed Regional Health System

- \$4.5M savings from GPO comprehensive competitive review process
- Pharmacy redesign and therapeutics committee implemented new protocols and controls
- Biomed and IT eliminated 23% of cost (\$MM) through negotiations and eliminating non-value add services
- Purchased Services redefined service delivery models in security, housekeeping, dietary, and facilities to increase service levels and decrease costs
- Redefined operational approval and capital financing processes.
- \$32M savings in 9 months with \$12.5M savings in non labor.

#### **Hospital #2**

#### **100 Bed Community Hospital**

- 30% 40% savings in physician preference categories of: total joints, trauma and neurostimulators
- \$464,000 in ED revenue charge capture
- New GPO affiliation reduced med/surg costs by 22% (over \$1M annually)
- Supply costs down more than 7.5% as volumes increased 10%
- Reversed years of negative margins to breakeven for FY20
- \$3.5M savings in 1<sup>st</sup> year



#### Recent Non-Labor Case Studies

#### Hospital #3

#### Hospital #4

#### **100 Bed Community Hospital Affiliated with AMC**

#### **65 Bed Community Hospital**

- \$498,000 savings with incumbent GPO
- Reduced PPI \$240,000 without a change in supplier or products
- Reduced reference lab costs by more than 33%
- Reduced property tax by \$135,000
- Revenue cycle enhancement of \$527,000
- Facilities and utilities savings of \$93,500
- \$2.1M savings in 1<sup>st</sup> year with 8:1 ROI in following years

- Change in GPOs was not preferred due to internal staff changes. Savings of \$400,000 achieved through coloration with incumbent to optimize offering.
- Worked with physicians on preference items to reduce costs with shoulders and implement protocols
- Opportunities found to increase retail capture of 340B prescriptions. Software setup errors and orphan drug errors corrected and rebillled. Savings \$750,000.
- Pharmacy Benefits Management had been renegotiated twice in the past two years, yet J-Code rebates were still withheld. Savings achieved with the incumbent totaling \$260,000, or 25%.
- Reduced rates of collection agency 28% while increasing liquidation rates by 38%. Savings over \$600,000.
- \$1.8M savings as of Q1 2022



#### **Denials Heard Around the Country**

"It's like playing whack-a-mole"

"There's a big increase in overall denials"



"[The payer] takes the most stringent government policies, overlays their own criteria, and then adds more criteria to have more reasons to deny the claim"

"We're undoubtedly seeing a huge uptick in denials, and they're getting harder to overturn"

"It's time, it's energy, it's effort. It's relentless"

"Just when you thought you have it all figured out, things change"

"I've needed a way tougher approach to appeals"



#### **Top Revenue Cycle Opportunities**

#### **Front**

Patient liability strategy

**Pricing** 

Payer contracting

#### Middle

Status determination

Post-COVID LOS management

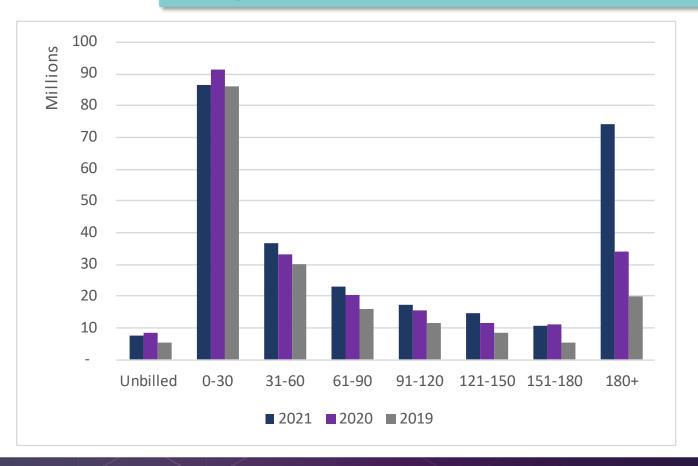
#### Back

Denials

A/R Management

#### **Denial Stats**

- 3.3% hospital net revenue lost due to claim denials
- 9% of total hospital claim charges submitted receives an initial denial
- \$118 avg to formally appeal denied claim
- Negative patient experience



#### Meet Your New Consumer

#### Profile of the "peri-Covid-19" consumer

More fearful

**41%** of U.S. adult consumers reported delaying medical care due to concerns over Covid-19<sup>1</sup>

Financially insecure

**50%** of consumers who lost their jobs due to Covid-19 were still unemployed in late September<sup>2</sup>

More experienced

29% of consumers used a virtual visit during the pandemic compared to 19% before the pandemic

Sicker

32% of consumers said they have skipped routine care (including annual check-ups) due to Covid-19

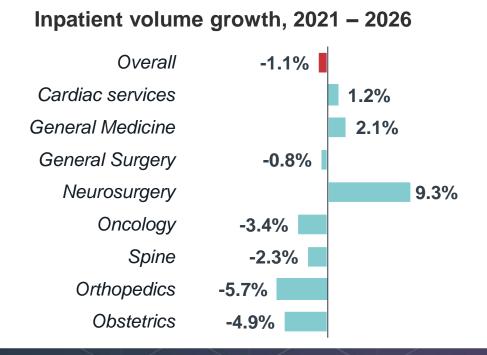
Certainty of impact

Permanence of impact

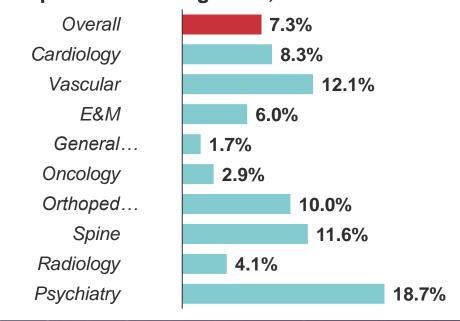


# Reassessing Service Portfolio & Settings

- 5-year growth outlook favors ambulatory providers
- Payer pressures fueling shift from IP to OP/Ambulatory settings impacting revenues.
- Significant competition in OP/Ambulatory space
- HOPD revenues at risk



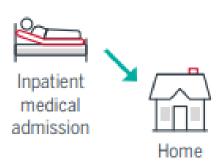
#### Outpatient volume growth, 2021 – 2026

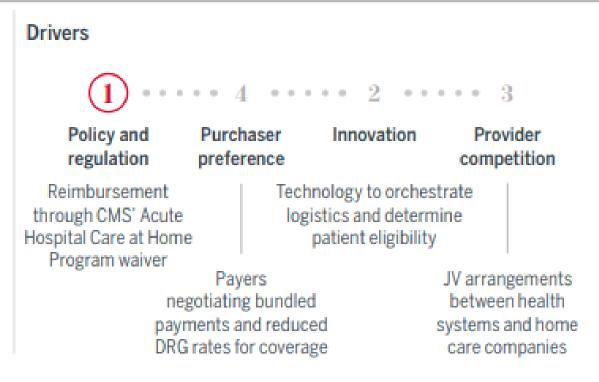


#### **Home Care**

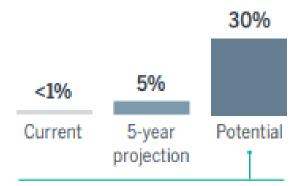
#### HOME-BASED CARE Shift

Inpatient medical admissions are shifting from the hospital to the home setting





Percentage of inpatient volume that could shift to Hospital at Home\*



Represents approximately 162 DRGs, 10.5M inpatient admissions, and \$82B in inpatient revenue

Source: Advisory Board



## Telehealth Utilization Remains Elevated, has Room to Grow

DATA ANALYSIS

26%

Of feasible outpatient visits that could be performed virtually

11%

Telehealth visits as a percentage of total visits as of 5/7/21

Among clinicians, behavioral health specialists had the highest increase in telehealth visits. In 2019, only 1% of visits to behavioral health specialists were telehealth; in 2020, the percentage jumped to 38.1%. By the end of 2020, telehealth visits to behavioral specialists were as common as in-person visits.

#### Future telehealth utilization depends on:



#### Consumer preference

- Will consumers continue to use telehealth if an in-person provider is deemed equally safe and accessible?
- Would consumers pay a premium for accessing their providers virtually?



#### State and federal actions

- Which active bills and proposed expansions under Medicare will end up permanent telehealth policy after the public health emergency expires?
- Will Medicaid agencies continue to cover telehealth?



#### Favorability of economics

- How many states will pass payment parity laws for private insurers?
- In non-payment parity states, what will private payer reimbursement look like?



# Questions

### Thank You!

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