Strategic Agility:

Preparing Your Health System for the Next 3 Years - Understanding Today and Tomorrow's Market Factors and Trends Impacting Providers

February 11, 2025 | HFMA

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Objectives for Today

1. Identify how key stakeholders are impacting healthcare delivery and operations today
2. Understand the current and emerging trends impacting healthcare providers
3. Evaluate strategic and financial considerations to navigate these trends
4. Identify what tomorrow's healthcare marketplace will need to be and do to be successful in this next generation of healthcare

A Lifetime in Five Years

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Current Attitudes Toward Our Healthcare Industry

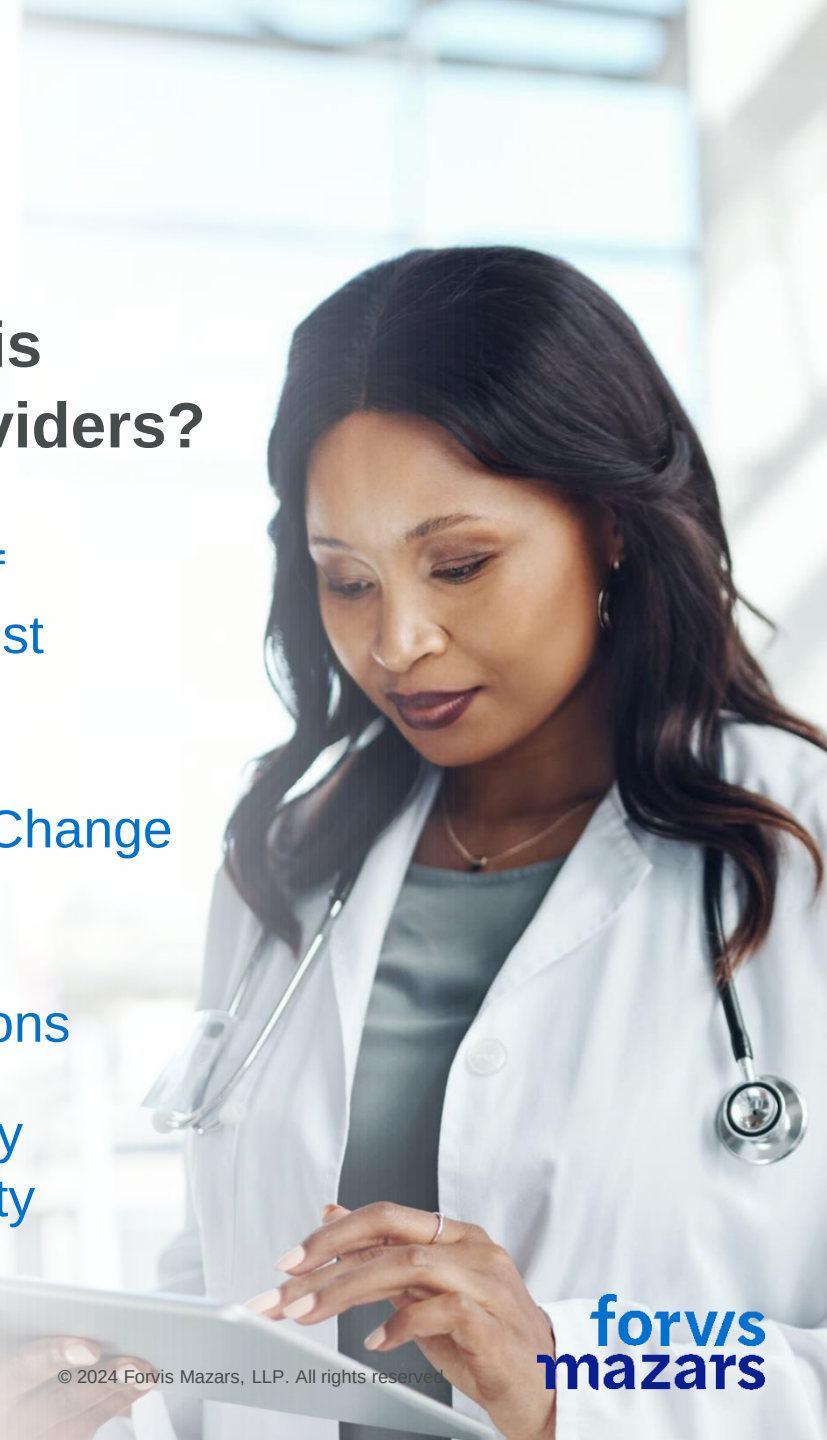
60% think the system is **fundamentally flawed & in need of major change.**[1]

60% believe the system puts **profits above patient care.**[1]

74% think **price controls are needed.**[2]

What does this mean for providers?

- Erosion of Public Trust
- Calls for Systemic Change
- Changing Expectations
- Regulatory Uncertainty



[1] The Healthcare Workforce Crossroad: Incrementalism or Transformation, paulkeckly.com, July 8, 2024
[2] Keckley Poll: The Public is Fed Up with the Health System…so what else is New?, paulkeckly.com, November20, 2023

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A Redefinition: How Systems are Achieving Health

A Narrowing Focus on Stakeholders and the Role they Play

A critical aspect of Achieving Health is redefining what it means to increase value for those who rely on the healthcare system from those that create the system.

Patients, Families & Communities

Providers

Collaborating with payors and other stakeholders to creative innovative care delivery models that improve access and patient experiences that drive high-quality outcomes

Employers

Reframing their goals for providing coverage that focuses on the health of the communities their employees live in and demanding products from payors that are easy to understand and use

Payors

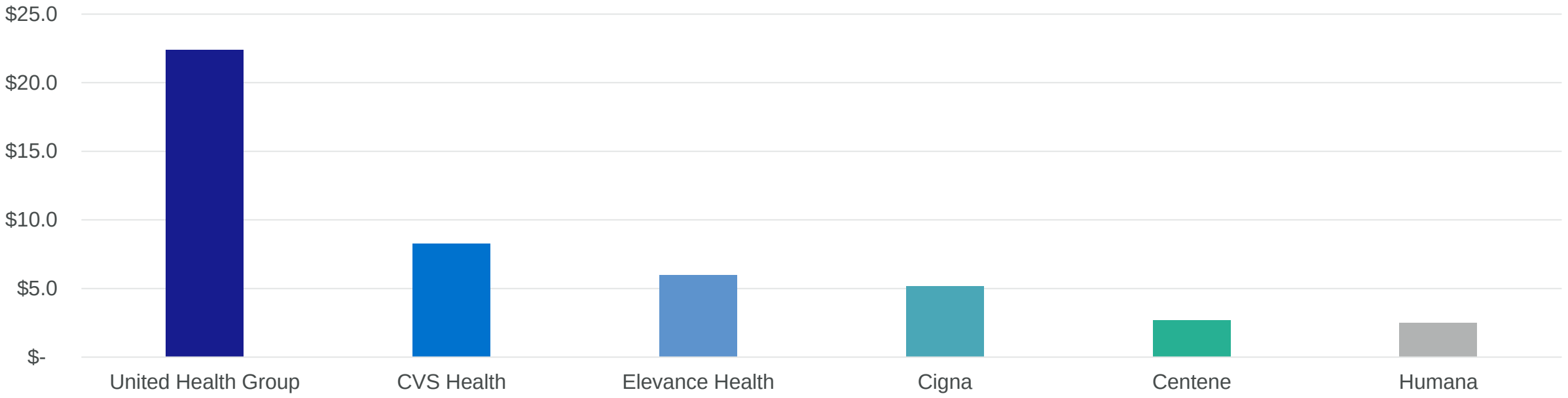
Setting the expectations for improving outcomes relevant to the populations they cover and create meaningful economic incentives to develop cost-efficient methods

Policymakers

Creating a stable, simplified regulatory environment that rewards employers, individuals, and other purchasers when they receive care from provider networks

Reality 1: Negotiating With and Competing Against Well-Funded Participants

The Big Payors, Ranked by 2023 Profit[2]



Capitalizing on Size & Scale

Capitalizing on Scope of Services

[1] 12 healthcare trends and issues we are following for 2024, beckershospitalreview.com, January 2, 2024
[2] Big payers ranked by 2023 profit, beckerspayer.com, February 7, 2024

Reality 2: Facing Provider-Payor Challenges

One of the **largest** insurers has become one of the **largest** employers of doctors. In 2023, UnitedHealthcare with Optum **increased** the number of employed or affiliated physicians to **90,000** & has plans to **continue expansion**.

The **largest** health systems are **10x smaller** than the **largest payors,** creating an **imbalance** in negotiations. Negotiated rates are **one portion** of payor trends that are shifting.

The combination of **Medicare & Medicaid** is now **larger** than commercial payor sources, creating a larger **rate differential**.

Medicare rates are **not** increasing at substantial levels amid **large** cost increases. These lower increases are **not** offsetting the cost increases seen by health systems.

Source: Becker Hospital Review

Reality 3: 2025 Medicare Payment Updates

The Medicare market basket/conversion factor updates across all payment systems are inadequate (again).

Federal Fiscal Year/Calendar Year 2025 Final
Net Medicare Payment Updates

Payment System	Net Update*
Inpatient/Outpatient PPS	2.9%
LTCH PPS	3.0%
Psych PPS	2.8%
Inpatient Rehab PPS	3.0%
Skilled Nursing PPS	4.2%
Home Health PPS	0.5%
Physician Fee Schedule	-2.8%

*For hospitals/facilities/providers meeting quality reporting & meaningful use requirement. Only includes market basket update & ACA-mandated productivity adjustment. No other budget neutrality adjustments are included.

Source: Analysis of PPS Final Rules for 2025

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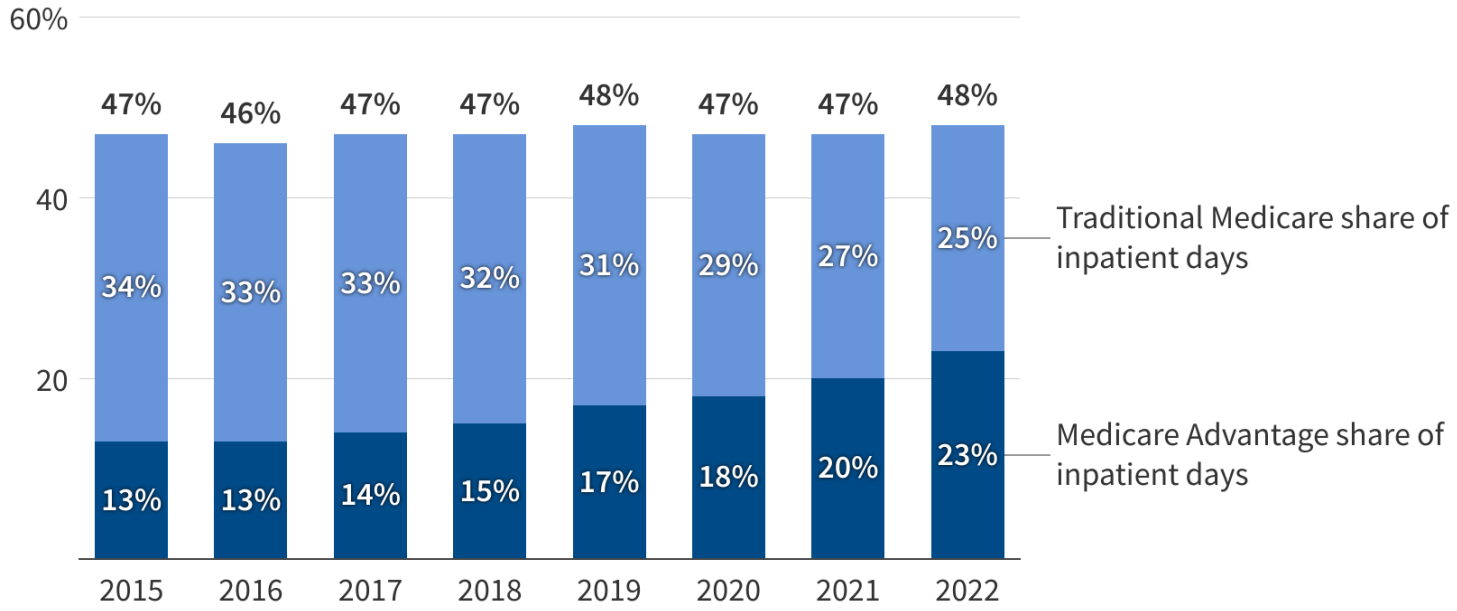
Reality 4: Medicare Advantage Benefits

Under the new administration MA plans will likely see a more favorable regulatory environment & continue to grow as a percentage of the Medicare payor mix.

Medicare & Medicare Advantage Days as a Percentage of Total Inpatient Days *2015–2022*



Note: Sample includes general short-term hospitals with full-year cost reports that ended in a given year, excluding hospitals located in U.S. territories as well as those that were missing data on Medicare Advantage shares, traditional Medicare shares, or both in a given year.

Source: KFF analysis of RAND Hospital Data, 2015-2022

KFF

Source: "Medicare Advantage Enrollees Account for a Rising Share of Inpatient Hospital Days," kff.org, July 23, 2024.

Potential Policy Actions

Legislation:

- Default Enrollment Option?
- Prior Auth Reform

Administrative Action:

- Improve Pmt. Updates
- Revisit Changes to Star Ratings
- Minimize Coding Scrutiny

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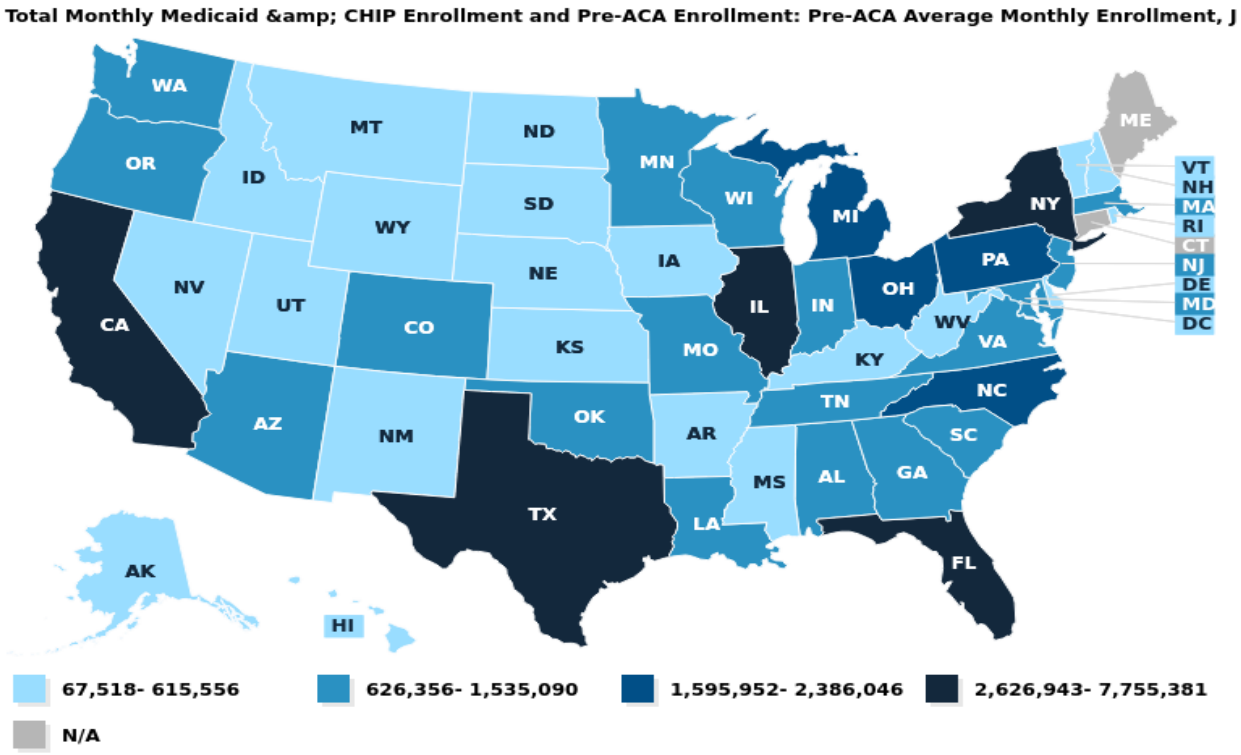
Reality 5: Medicaid At Risk

- President Trump promised not to cut Medicare & Social Security, leaving Medicaid as the primary source of significant healthcare savings.
- Extracting that savings may be difficult politically given Medicaid's reach.



SOURCE: KFF's State Health Facts.

Potential Policy Actions

Legislation:

- "Rationalize" ACA Match Rate
- Allow ACA DSH Cuts
- Enable Work Requirements

Administrative Action:

- Allow Waiver Flexibility
- Supplemental Payment Scrutiny
- DHS "Public Charge" Requirements

Source: "Total Monthly Medicaid & CHIP Enrollment and Pre-ACA Enrollment," kff.org, July 2024.

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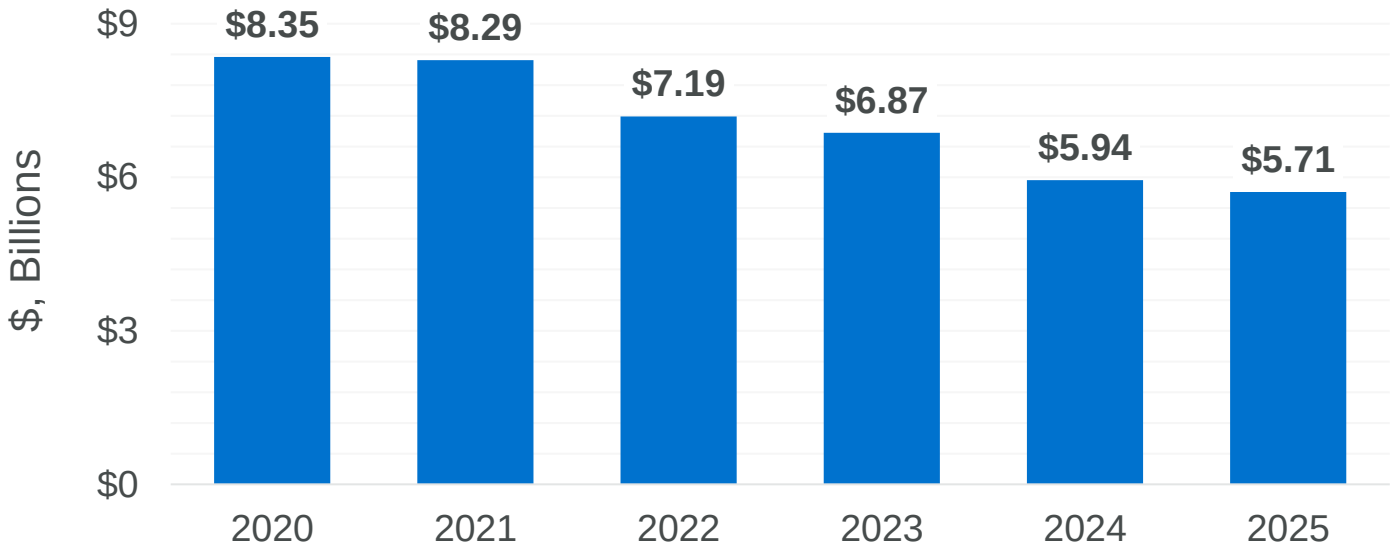
Reality 6: Deep Uncompensated Care DSH Cuts

CMS has reduced Medicare uncompensated care DSH payments by 32% since 2020.

Medicare Uncompensated Care DSH Pool
2020–2025



Source: Analysis of FFY 2020–2025 IPPS Final Rules

CMS' under-projection of uninsured rates has reduced payments to safety net hospitals by $2.6 billion in 2025 compared to 2020.

Reality 7: A New Global & Political Healthcare Landscape

Topic	Implications
Congressional Overview: Republicans currently hold a five-seat majority in the House and three in the Senate. It is anticipated that legislation extending the Tax Cuts and Jobs Act will pass. Although, it will be difficult to pass legislation that satisfies the need for reduction in federal spending and addresses concerns about payment cuts that will negatively impact constituents.	• If legislation extending the tax cuts and jobs act is passed, it will likely include **reductions in payments to hospitals.**
2025 Budget Resolution and Extenders: Congress passed a continuing resolution (CR) funding the federal government through March 14, 2025. The bill includes a number key healthcare "extenders" that either delay payment cuts that would have taken effect on January 1, 2025 or continue funding for key programs that support rural healthcare and access to services via telehealth.	• Increased risk that the various **extenders** (MDH/LVA status, telehealth waivers, CHC funding, Medicaid DSH cuts) in the December bill **may not get renewed before they expire** at the end of March.
Medicaid: Republicans are looking at Medicaid as a significant source of savings for deficit reduction and to offset the cost association with extending the Tax Cuts and Jobs Act. Responsibility measures may include reducing the cap on provider taxes ($175 billion) and implementing Medicaid work requirements for the able-bodied population ($120 billion).	• If work requirements are implemented, it will impact some not-for-profit hospitals' **ability to qualify for 340B**. CMS is anticipated to closely **scrutinize new applications for state directed payment programs**. They may also **repeal some existing waivers**.
Medicare: There are a number of options for savings from the program being discussed. The most likely is further expansion of site neutral payments and requiring hospitals to bill for services provided at HOPDs using a separate identifier.	• CMS is likely to **eliminate the inpatient only list**, **expand the list of services** that Medicare will cover **in ASCs**, and take other steps to encourage covered services to be performed in **lower-cost sites of care.**

Source: Internal Political Landscape Expertise

Global & Political Healthcare Landscape

Topic	Implications
340B: Absent resolution on the issue of defining an eligible patient, additional legislation on 340B is not anticipated. Five manufacturers are currently suing HRSA in an attempt to convert the 340B program from a discount model to a rebate model.	• There is significant risk that the Trump administration will reinterpret the statute to **allow for rebates (instead of discounts) which could significantly reduce the savings available to qualifying hospitals** and other covered entities.
Federal Tax-Exempt Status for Not-For-Profit Hospitals: IRS is currently reviewing the level of community benefit provided by 35 NFP hospitals the agency believes are providing insufficient community benefits. Eliminating tax exempt status ($260 billion) is on the menu of options to include in the reconciliation bill extending the TCJA	• While it is not anticipated that a wholesale repeal of NFP status for hospitals will be included, it is **possible** that legislation will include provisions that **clarify the definition of community benefit** and establish some **minimum threshold for eligibility.**
Price Transparency: It is likely Congress will pass legislation codifying the price transparency requirements in statute. Further, it is anticipated the new administration will more aggressively enforce the price transparency requirements by shortening the length of time hospitals have to cure alleged non-compliance issues.	• Legislation may **increase the penalties for non-compliance, change some provisions, and expand the requirements** to other providers like **Ambulatory Surgery Centers.**
Tariffs: On February 1st, Trump ordered tariffs of 25% on imports from Canda and Mexico, and 10% tariffs on goods from China. They are slated to take effect on February 4th. Much of the healthcare industry relies on goods imported from Canada, China, and Mexico.	• The taxes **could lead to higher prices, less innovation, and disruptions to supply chains**. Shortages could be seen in essential supplies such as medical technologies, implants, PPE, and pharmaceuticals.

Source: Internal Political Landscape Expertise

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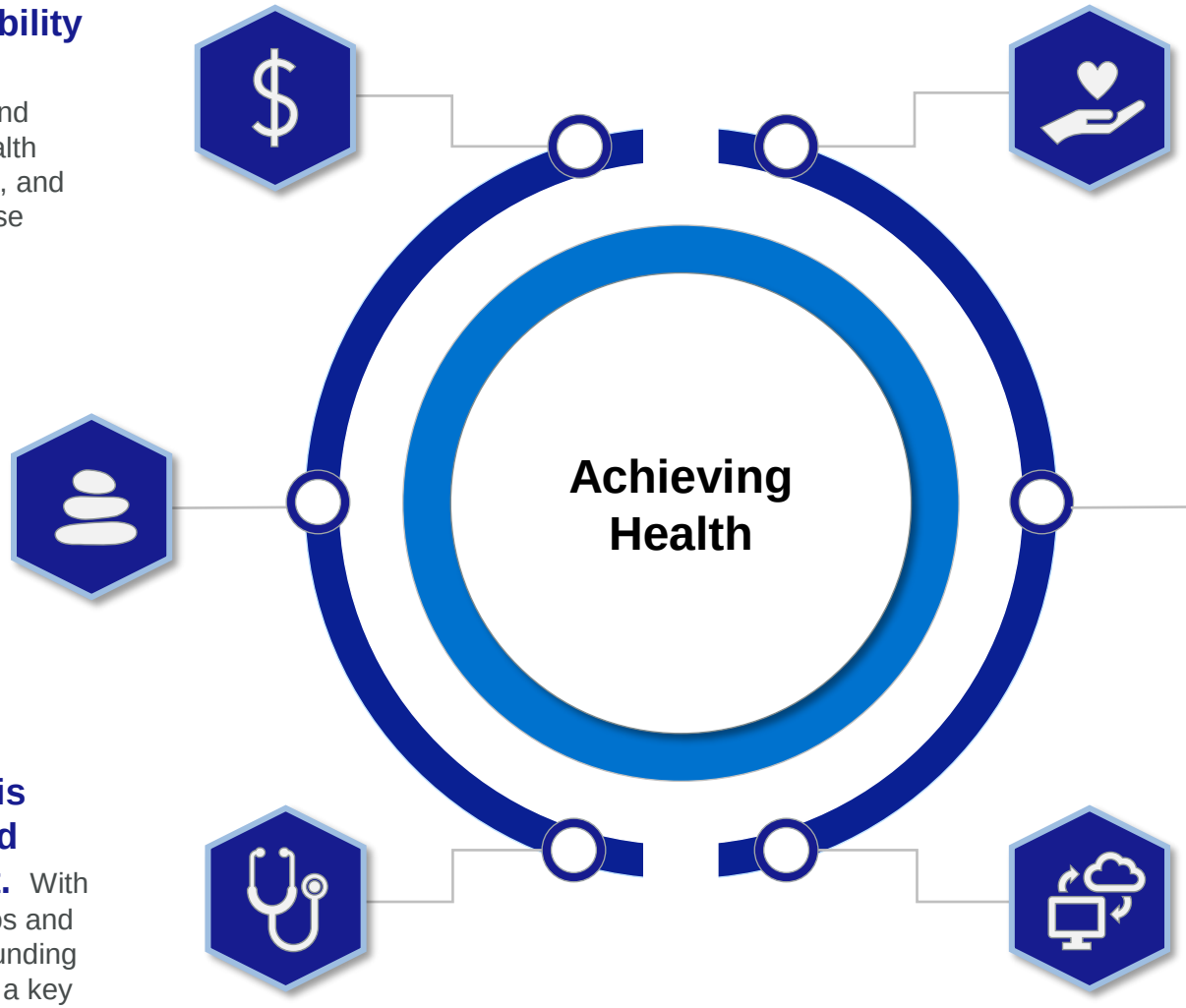
What Providers are Telling Us – Achieving Health

Demonstrating Sustainability

Ensuring long-term sustainability through financial health; quality and clinical outcomes, community health investment, operational discipline, and re-imaging the physician enterprise

Evaluating Value-Based Care

Shifting to value-based care models to improve patient outcomes while controlling costs



Strategic Focus and Discipline with a Priority on Growth

Maintaining a clear strategic direction; prioritizing initiatives that align with core mission and goals; and a strong focus on the need for Growth

A Look at Healthcare Transactions

Analyzing mergers and acquisitions to reveal growth opportunities

Gaining a Foothold in this Changing Legislative and Regulatory Environment.

With a new administration comes chaos and priorities around regulatory and funding pressures. Revenue Integrity is a key area of focus across all health systems.

Innovation & Technology

Embracing cutting-edge technologies to drive advancements in patient care and operational efficiency

Driving Sustainability – The Basics

Winning by Navigating Multiple Market Forces

Organizational Agility	Population/ Demographic Changes	Financial & Capital Discipline	Service Line Priorities	Ambulatory/ Outpatient Shift
Patient, Provider & Team Experience	Innovation & Transformation	Reimaging the Physician Enterprise	Clinical Outcomes	Clinical Standards & Protocols
Health Equity	Partnerships & Affiliations	Financial Performance	Workforce Alignment	Community Health

Achieving Stability with Transitioning Sites of Service

Inpatient & Surgery

The anticipated rise in the aging population is projected to escalate inpatient care costs, driven by heightened demand for healthcare services, complex medical needs, and a growing prevalence of age-related diseases, while a shift towards outpatient and preventative services may result in a relative decrease in the volume of inpatient care.

Surgery is poised to shift from treating to preventing illness, as healthcare increasingly focuses on establishing and maintaining good health, disease prevention and prediction, and early intervention; consequently, the volume of inpatient surgery may see a relative decrease, with advancements in minimally invasive procedures and a growing emphasis on outpatient care contributing to a shift towards ASCs.

Outpatient

Outpatient departments will grow by an anticipated 18% in the next decade, driven by an upsurge in outpatient care as healthcare trends favor more accessible and cost-effective treatment options, shifting away from traditional inpatient settings. Outpatient care remains health system' key growth strategy.

Observation

Patient monitoring is expected to become more tailored to individual needs, considering factors such as age, comorbidities, and lifestyle, with a significant increase in the volume of patient observation driven by advancements in remote patient monitoring technologies, the increasing geriatric population, and the growing emphasis on patient-centered care.

Emergency Department

Emergency departments (ED) can anticipate various changes, such as increased patient volume, care in alternative settings, a higher proportion of older adult patients, and the influence of private equity firms; concurrently, with critical access hospitals closing and rising rates of uninsured Americans, a surge in individuals relying on the ED for all health issues is expected.

Ancillary / Support Services

The ancillary care provider services market is projected to grow at a Compound Annual Growth Rate (CAGR) of 7.1% within the forecast period of 2023-2030, with anticipated advances in diagnostic and therapeutic technologies and a focus on preventative care suggesting a potential increase in the volume of ancillary services.

Ambulatory Surgery Centers

Surgeries performed at ambulatory surgery centers will grow by an anticipated 25%, reflecting a rising preference for surgeries in ambulatory surgery centers over the traditional inpatient setting.

Critical Care

The future of critical care must address the global burden of critical illness, focusing on improving access to care, reducing disparities, and promoting health equity, as the volume of critical care is expected to increase moderately due to evolving medical complexities, an aging population, and the ongoing demand for intensive medical interventions. Pella is positioned well to capture this growth as a stabilized financial community and hospital.

Virtual and AI Partnerships

Increased effort and money being put into the usability of virtual and AI based platforms are anticipated; the volume of virtual care is poised for a moderate increase due to ongoing integration of telehealth services, driven by advancements in technology, patient preference for remote consultations, and the need for flexible healthcare delivery model. 2025 is the year to perform. Health systems are looking to strategic partners to enhance AI capabilities.

Non-Core Businesses

Health systems plan to refocus on their core operations and service lines and turn to partners to run non-core service lines like home care, pharmacy, lab, and other ancillary businesses. This refocusing allows for a shift to boost growth and overall operational efficiencies.

Redesigning the Physician Enterprise

Key Issues

Service Line Rationalization

Typically Presents for Health Systems as

Backwards-looking, subsidy-centric conversations

Employer of Choice for Physicians

Typically Presents for Health Systems as

Reactionary efforts to improve recruiting & retention

Team-Based Care Operating Model

Typically Presents for Health Systems as

Nurse practitioner chart review & as-needed hallway conversations

Advance Practice Provider (APP) Strategy

Typically Presents for Health Systems as

Gap fillers or second-class physicians, generally unmanaged, untrained, & unsupervised by dedicated leadership

How to Align Providers to the redesign:

*Physician Enterprise needs to have **material** provider incentives tied to service line objectives.*

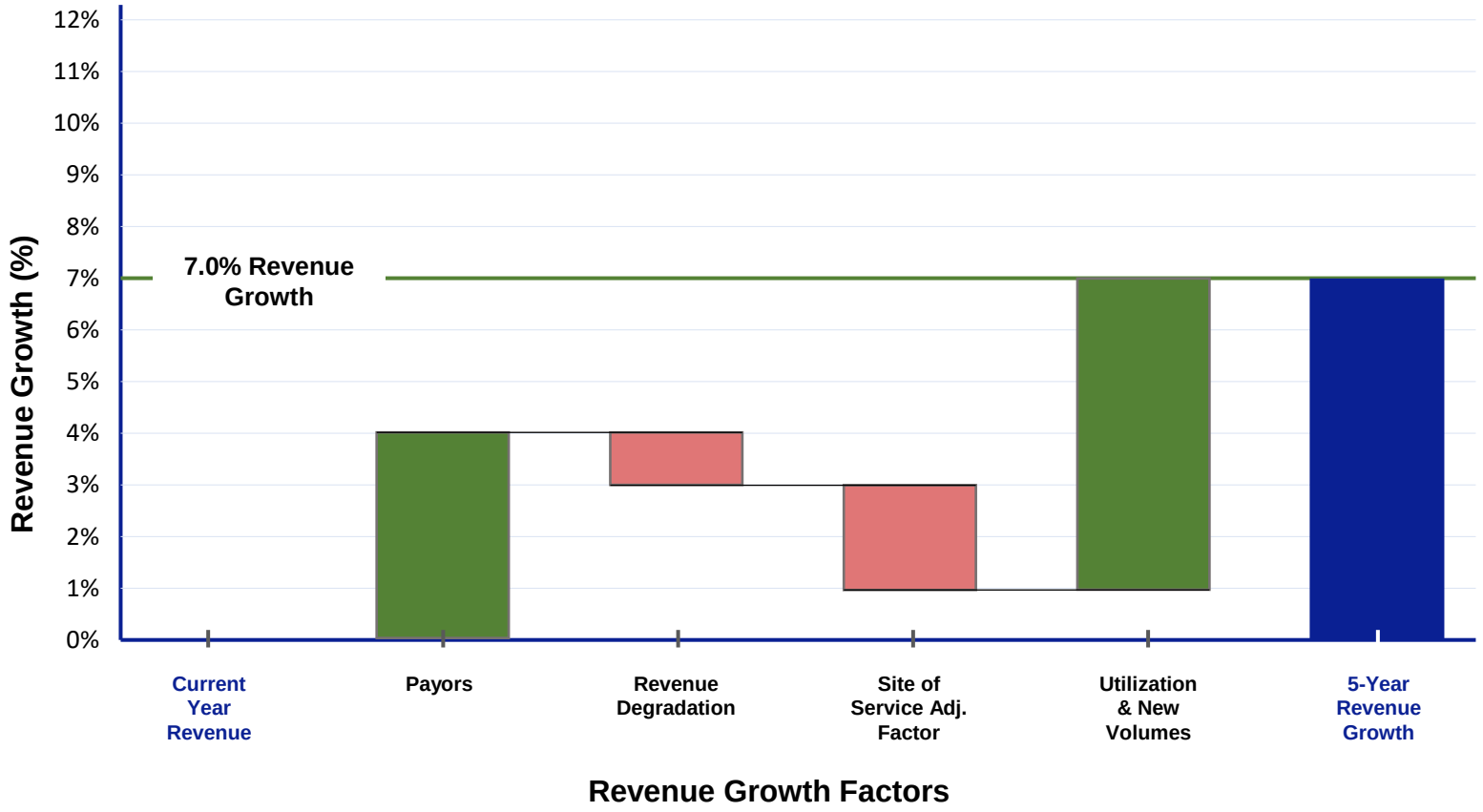
Also needs to reward individual effort & be flexible for lifestyle needs.

While being dedicated (& paid) time to truly operate as a care team with APPs.

And, APPs need an integrative model that reflects their activity levels, skill, level of independence, & care setting.

Focusing on Growth: Evaluating YoY Growth to Support Sustainability

Revenues

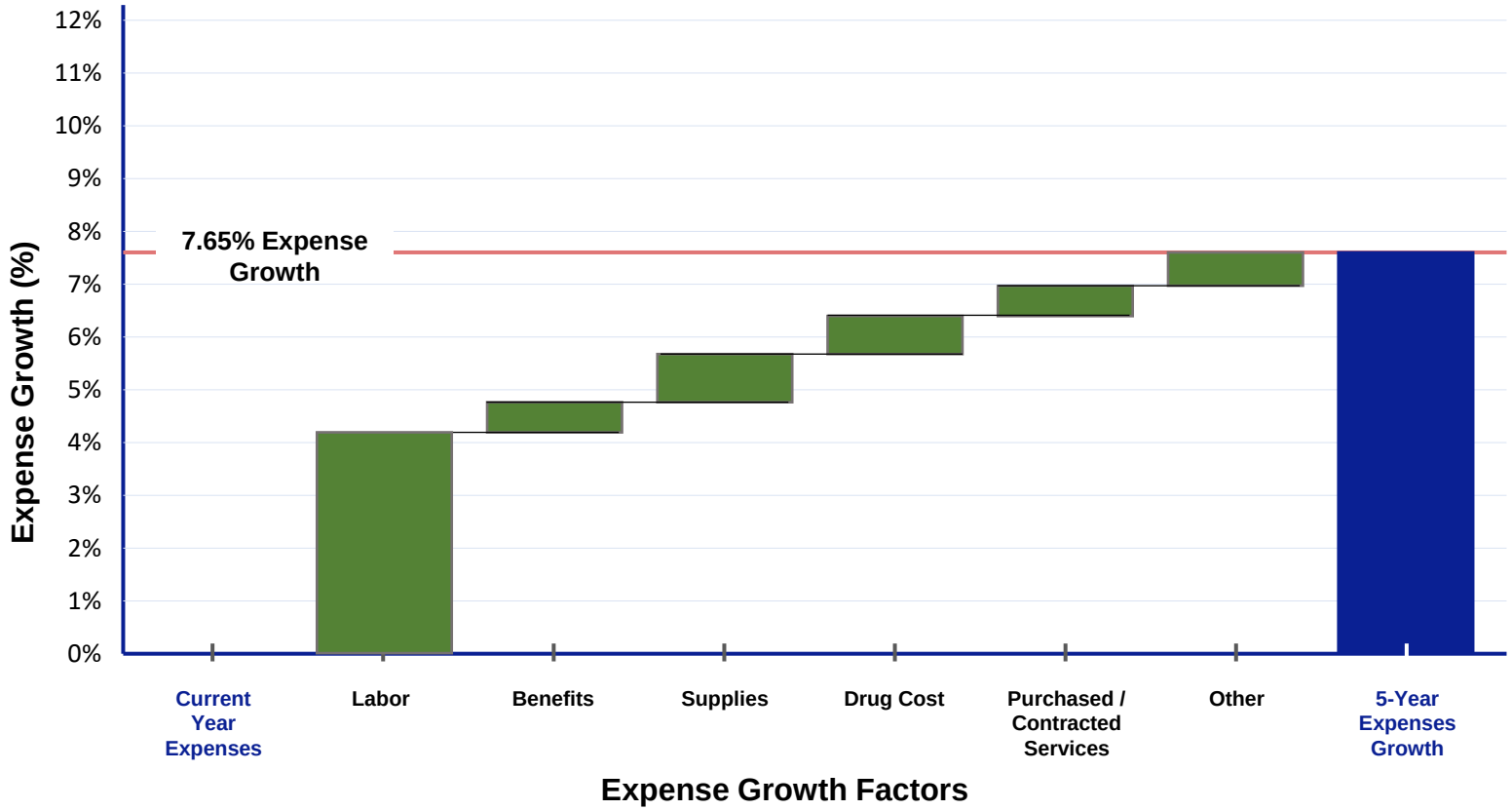


Revenue Growth Factors	% Growth
Payor (All Sources)	4.0%
Revenue Degradation	(1.0%)
Site of Service Adj. Factor	(2.0%)
Utilization & New Volumes	6.0%
Total Revenue Growth	**7.0%**

Sources: Fitch, Moody's, Strata Financial Decision Support Systems, Forvis Mazars, Kaufman Hall Flash Report (2019 – Q2 2024)

Evaluating YoY Growth to Support Sustainability

Expenses



Expense Growth Factors	Growth %
Labor	4.08%
Benefits	0.72%
Supplies	0.91%
Drug Cost	0.64%
Purchased / Contracted Services	0.64%
Other	0.66%
Total Expenses Growth	**7.65%**

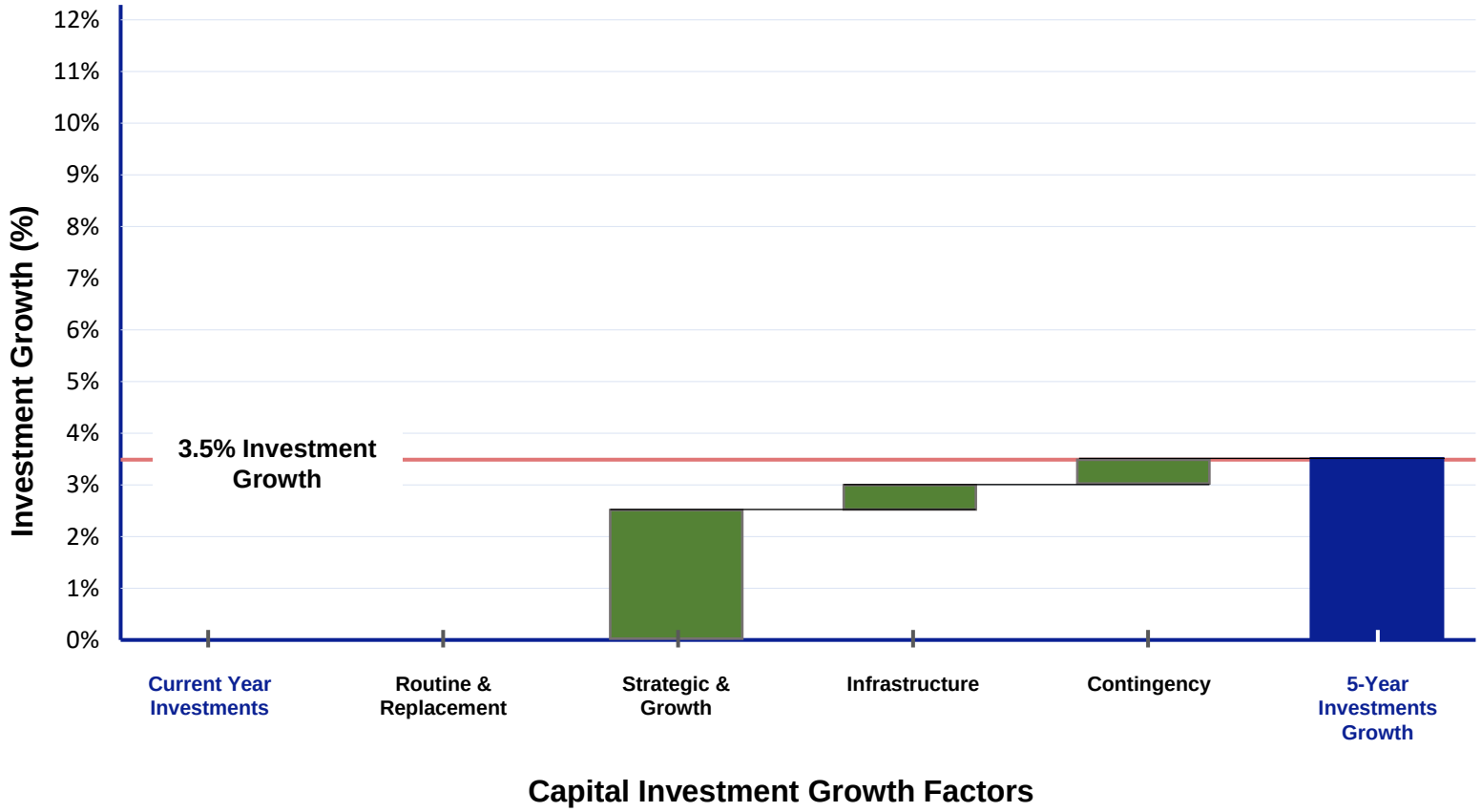
Expense Growth Factor	% of NPSR	Annual Growth Rate (%)
Labor	51.0%	8.0%
Benefits	9.0%	8.0%
Supplies	13.0%	7.0%
Drug Cost	8.0%	8.0%
Purchased / Contracted Services	8.0%	8.0%
Other	11.0%	6.0%

Notes: Expense growth rates are weighted growth rates; expense categories are represented as a % of NPSR with an annual growth rate (2019 – 2024) applied. Expense growth rates are inclusive of volume growth. Labor growth rate is 4.5% inflation and 3.5% volume growth.

Sources: Fitch, Moody's, Strata Financial Decision Support Systems, Forvis Mazars, Kaufman Hall Flash Report

Evaluating YoY Growth to Support Sustainability

Capital Investments

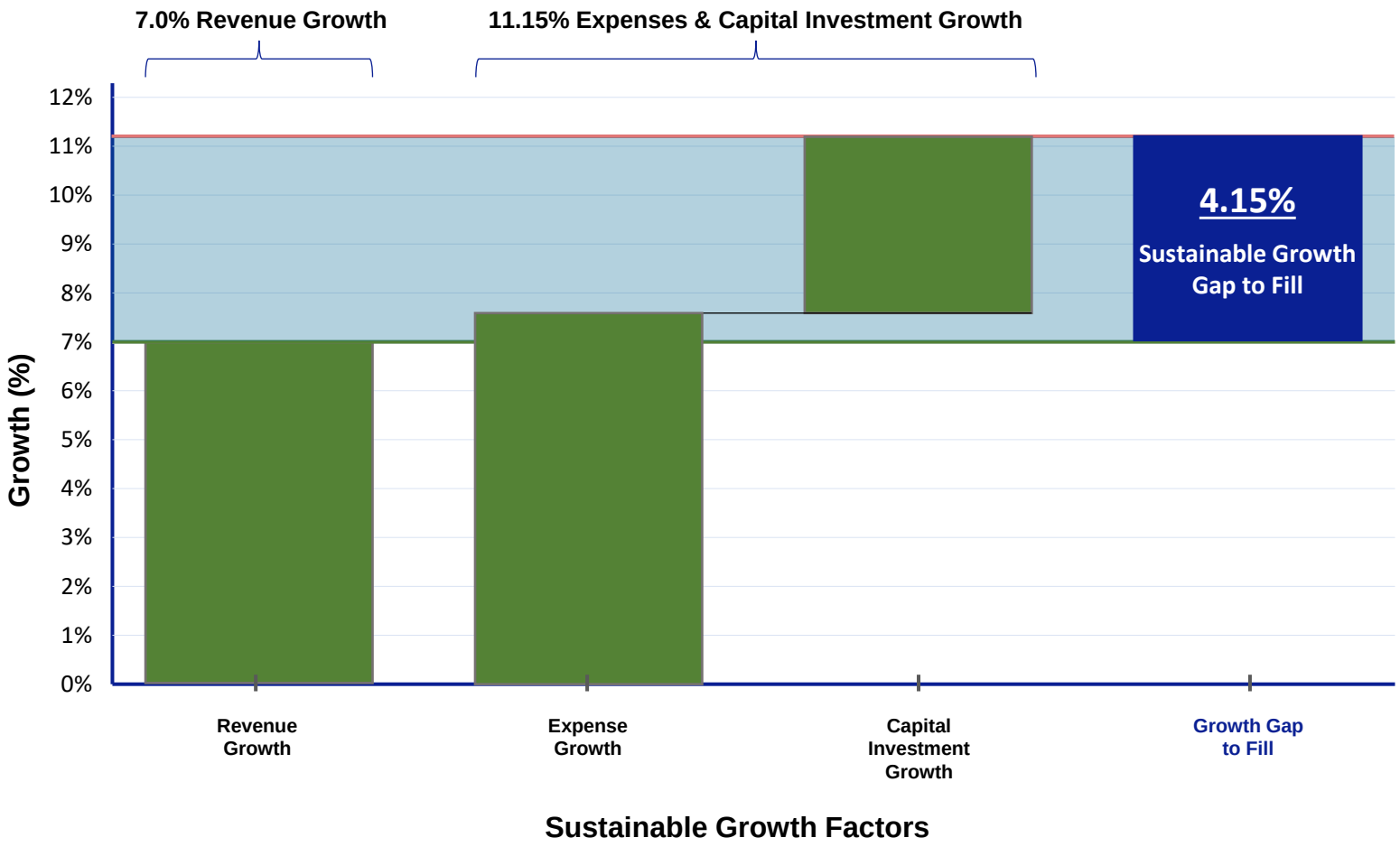


Capital Investment Growth Factors	% Growth
Routine & Replacement	-
Strategic & Growth	2.5%
Infrastructure	0.5%
Contingency	0.5%
Total Capital Investment Growth	**3.5%**

Sources: Fitch, Moody's, Strata Financial Decision Support Systems, Forvis Mazars, Kaufman Hall Flash Report

Evaluating YoY Growth to Support Sustainability

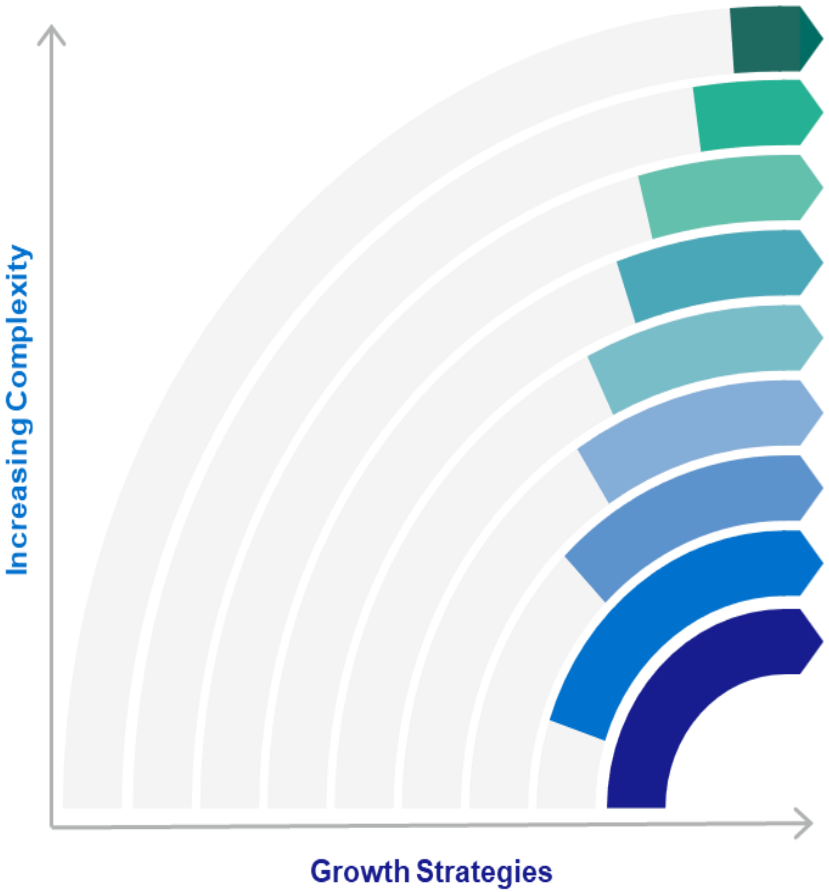
Combining All Factors



Sustainable Growth	% Growth
Revenue Growth	7.0%
Expenses Growth	7.65%
Capital Investment Growth	3.5%
Sustainable Growth Gap to Fill	**(4.15%)**

Sources: Fitch, Moody's, Strata Financial Decision Support Systems, Forvis Mazars, Kaufman Hall Flash Report

Forvis Mazars: Strategic Approach to Growth



Growth Strategies	Areas of Evaluation
Portfolio Company Evaluation	Alternative healthcare investments, core support services, payor services, innovation/transformation capabilities, clinical services, allied health, SDOH verticals
Strategic Partnerships	M&A, Joint Ventures, Affiliations, Partnerships, Clinical Affiliations, Joint Operating Agreements
Managing Populations & Health Risk Outcomes	Payor services, PHSO, ACO/CIN, clinical risk, premium risk
Revisioning the Provider Group Enterprise/Structure	Sustainability planning, partnership structures, value-based care, population health strategies
Expanding Geographies	Expanding clinical capabilities, mergers/acquisitions/ affiliations/partnerships, new market entry
Building Ambulatory capabilities	ASC, Imaging, Infusion, Radiation Oncology, Lab services, OP cardiology, therapies
Expanding Core Service Lines	Cardiology, oncology, orthopedics, women's, neuroscience, med specialties, surgical specialties
Expanding Access	PCP, Urgent Care, FSED, FQHC & RHC, MOB Expansion/Specialty, Telemedicine
Acute IP, Hospital OP, & Emergency Services	Clinical acuity, standards of care, enhance medical/surgical capabilities

Evaluation Points Informed by:

1. Market & Population shifts
2. Market Demographics
3. Market Opportunity
4. Shifting epidemiology & sites of service
5. Partnership Alignment
   - Downstream / Peer to Peer / Upstream/ Clinical Services / JV / Provider Alignment Capital, Control provisions and Sustainability requirements

Re-Evaluating Value-Based Care

While VBC promise is clear, urgency, action planning, & ROI are uncertain.[1]

In absence of clarity from CMS or commercial payors, provider prioritization of VBC initiatives has declined & market momentum has slowed.

10%

Of healthcare executives ranked VBC development as their top priority for the next two years.

<30%

Of healthcare executives believe their VBC aspirations align with their operating model & organizational capabilities.

83%

Of provider organizations have less than half of reimbursements flowing through value-based agreements.

[1] Mindsets 2024 Healthcare Executive Leadership Report, forvismazars.us, June 18, 2024

Creating the need to Return to Strategic Planning

Today’s strategic planning requires agility, execution, & accountability.

75%

Of healthcare organizations now develop or update their enterprise strategic plan every 1–3 years.

48%

Spend less than 10 hours per month on strategic planning.

35%

Achieved less than half of their strategic plans’ stated objectives.

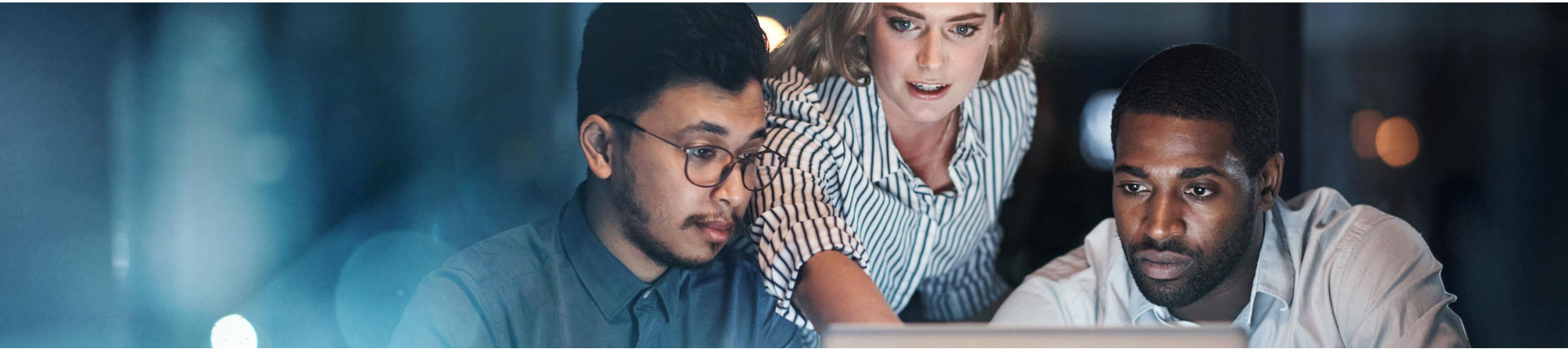
<50%

Say their strategic plan was of high relevance to their routine decision-making process.

Today’s Success Depends on an Effective Process

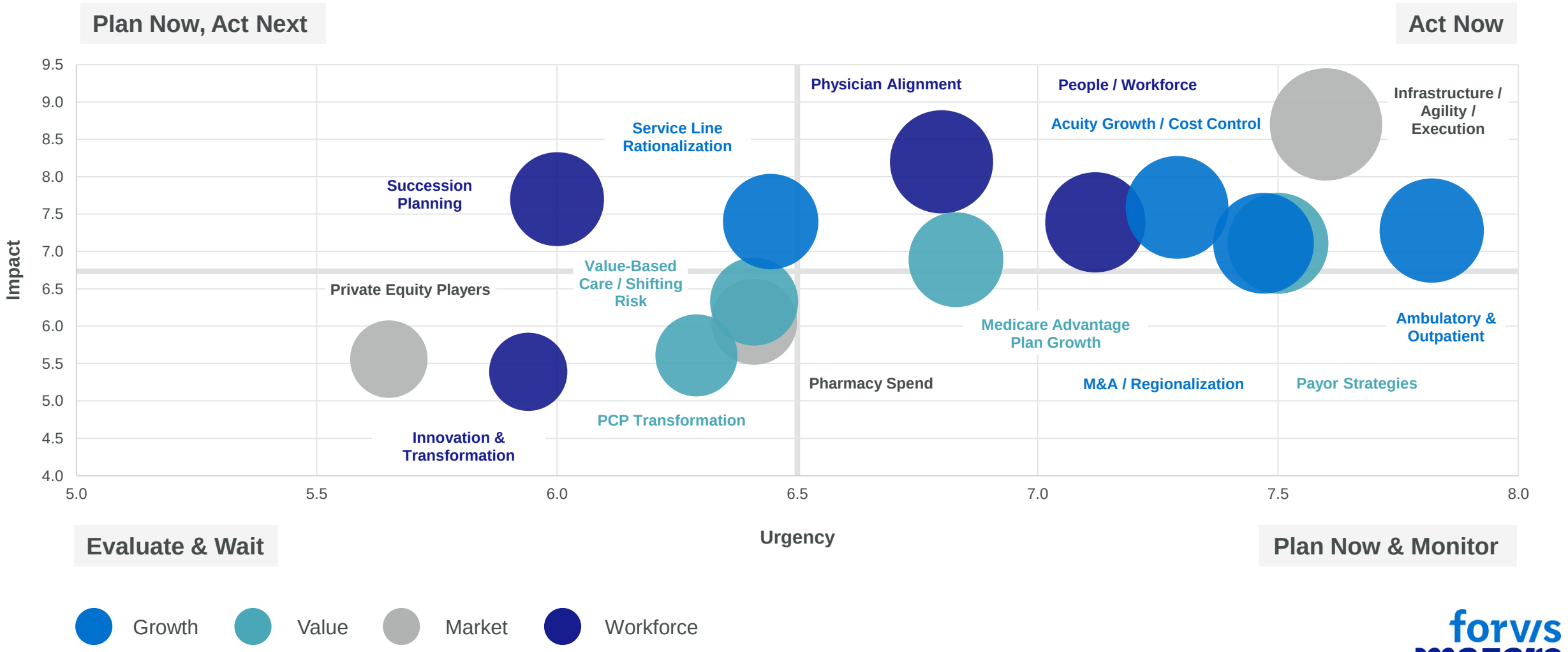
- Agile Process
- Growth-Focused
- Results-Driven & Measurable
- Informed by Market, Competitor, & Community Needs
- Deeply Cascaded
- Proactively Adaptable
- Financially Enabled
- Intentionally Executed
- Compensation Aligned

While Understanding the Key Priorities & Initiatives to Tackle



- Financial Sustainability
- Revenue Integrity
- Operational/Clinical Efficiency
- Quality & Engagement
- Growth & Access
- Ambulatory & Outpatient
- Market Informed
- Innovation & Transformation
- Value-Based Care
- Provider Enterprise
- Workforce Optimization
- Partnerships
- Regulatory Changes
- Community Impact
- Organizational Health & Change Management
- Aligning Incentives

Required Prioritization: Urgency & Impact to Drive Resources



Whatever Yours Is – Be Disciplined to a Strategic Planning Framework

Framework for Success

Stage 1 Engage

- Project Planning
- Expectations, Roles & Responsibilities Setting
- Mission, Vision & Values Confirmation

Stage 2 Discover

- Market and Industry Assessment
- Financial Snapshot
- Current State Organizational Understanding
- Future State Ideation

Stage 3 Vision

- Executive Leadership Workshop
- Strategic Opportunity Review
- Strategic Priority Identification
- Preliminary Strategic Framework Development

Stage 4 Develop

- Strategic Priority Workstreams
- Draft Strategic Plan
  - Strategic Goals, Objectives & Tactics
  - KPIs, Measures & Outcomes Sponsors
- Draft Financial & Capital Plan
- Executive Leadership Workshop
  - Validation
  - Prioritization and Sequencing
  - Sunsetting & Integration

Stage 5 Deliver

- Final Strategic Plan
- Final Financial & Capital Plan
- Execution Playbook
- Executive Leadership Report Out
- Board Executive Summary & Report Out

Stage 6 Execute & Monitor

- Implementation Oversight, PMO Mobilization, and Transition Planning
- Accountability and Performance Tracking
- Annual Checkpoint Workshops

Operating Model

Governance	Communication	Change Management	Project Management

Key Questions to Ask at the Start of a Strategic Plan

The strategic planning process is stakeholder-driven, community-oriented, and execution-focused, building out roadmaps and key performance measurements, including the integration of your long-range financial plan.

An effective strategic plan must be personalized to each healthcare organization. We modify our approach based on the answers to these key foundational questions.

1. What do you hope to achieve in your next strategic plan?
2. Is the focus of your strategic plan primarily on the aspirational and visionary components—or more operational-focused?
   - Aspirational/Visionary: Bold strategic direction and initiatives that drive the organization into the future and create a lasting impact
   - Operational: A focus on optimizing and creating greater efficiencies through existing business units
3. What did you like about your last planning process? Where did your previous plan fall short, *i.e.,* ambition, innovation, execution, etc. What must stay the same? What do you want changed?
4. What level of engagement throughout the organization do you want your team to have in the development of your strategic plan?
5. How will you define success in your strategic planning process and in the plan itself?

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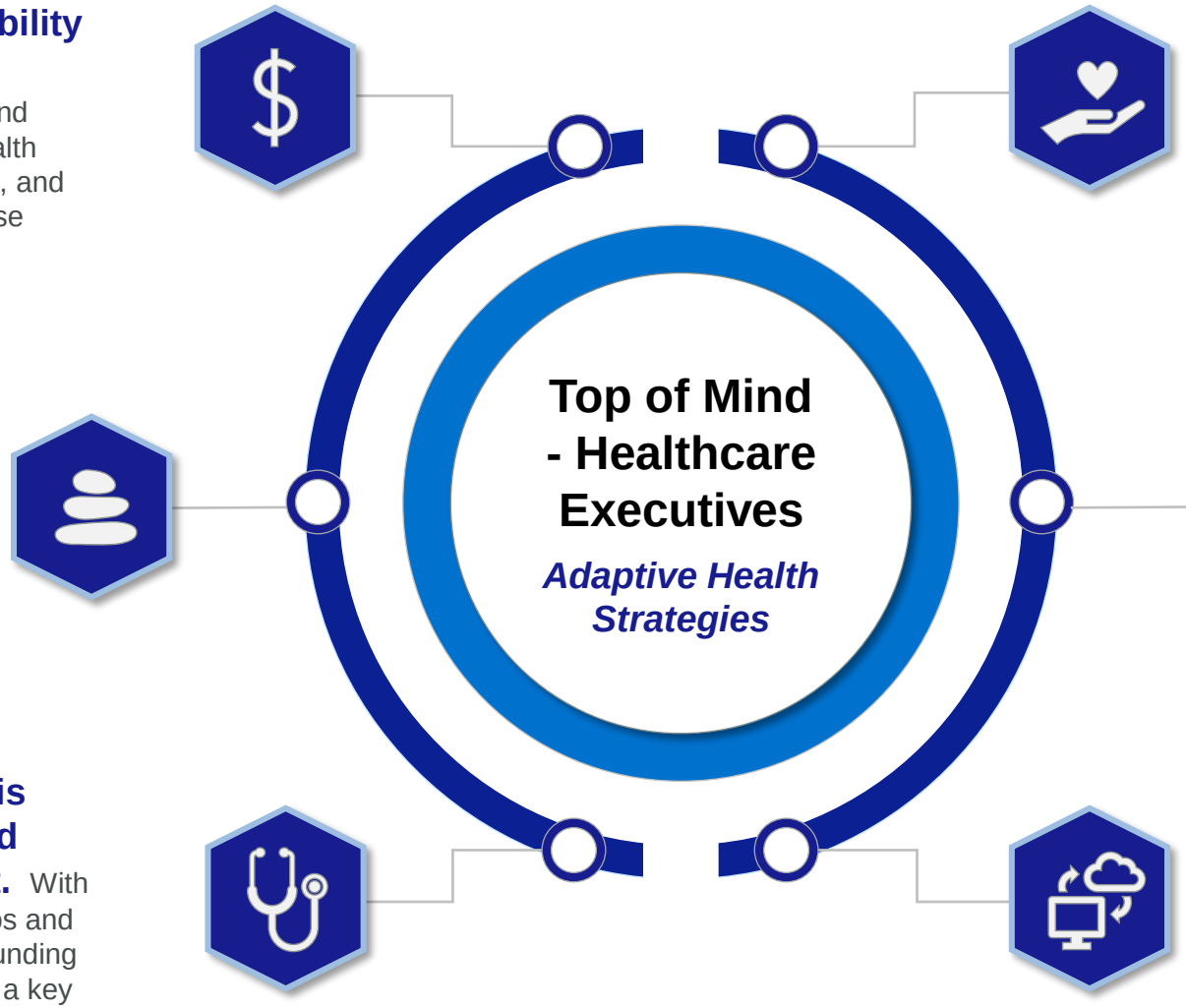
Putting it all Together: Adaptive Strategies are Essential for Navigating the Current Healthcare Landscape

Demonstrating Sustainability

Ensuring long-term sustainability through financial health; quality and clinical outcomes, community health investment, operational discipline, and re-imaging the physician enterprise

Evaluating Value-Based Care

Shifting to value-based care models to improve patient outcomes while controlling costs



Strategic Focus & Discipline with a Focus on Growth

Maintaining a clear strategic direction; prioritizing initiatives that align with core mission and goals; and a strong focus on the need for Growth

A Look at Healthcare Transactions

Analyzing mergers and acquisitions to reveal growth opportunities

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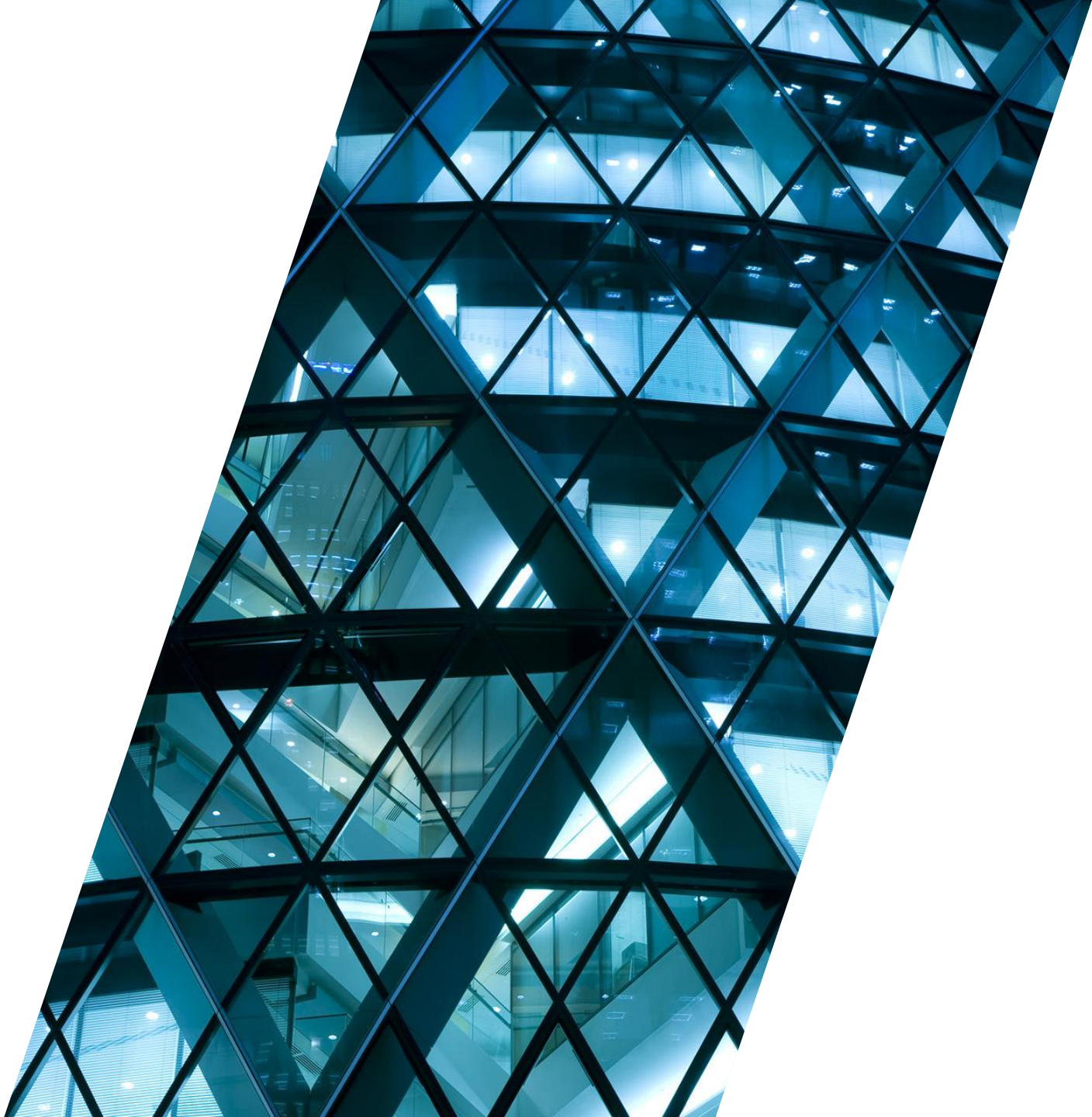
Innovation & Technology

Embracing cutting-edge technologies to drive advancements in patient care and operational efficiency

Thank you!



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