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VIRGINIA-DC HFMA 2025 SPRING CONFERENCE

Breakout 2B: Healthcare Finance Basics: The Big Picture

Healthcare Finance Basics: The Big Picture

JOY VOLARICH, MBA, MHA, FHFMA
MHA Program Faculty- Healthcare Finance
George Washington University

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Introduction

JOY VOLARICH, MBA, MHA, FHFMA

2008- present
George Washington University,
Milken Institute School of Public Health

1991-2009
Large physician practice and practice mgmt
Consulting– federal contractor
Health system

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Agenda

Learning Objectives and audience poll

1. For-profit vs Not-for profit corporations
2. Mergers and acquisitions
3. Industry financial trends
4. Expanding your knowledge of healthcare finance

Q&A

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Learning objectives

- Explain the different regulatory requirements for NFP & FP hospitals/health systems
- Describe different types of mergers and acquisitions and current trends
- Explain current financial trends in the healthcare industry
- Learn about options to expand your knowledge of healthcare finance

Audience Poll:

Time in the healthcare industry

Area of Expertise

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1. FOR-PROFIT VS NOT-FOR - PROFIT CORPORATIONS

For-profit vs Not-for-profit corporations

Business Structures

- Sole proprietorship
- Partnership (general, limited, LLP)
- Corporation (C, S, LLC)
- Other types
  - Professional associations
  - Business trusts
  - Professional corporations (PC)

Business Structures: Six Distinguishing Items

- Tax status → For-profit (FP) / Not-for-profit (NFP
- Liability
- Risk and control
- Continuity of existence
- Transferability
- Expense and formality

For-profit vs Not-for-profit corporations

Not-for-Profit Status

- Defined in Section 501(c) of U.S. tax code
- 29 types of organizations exempt from federal income tax

Examples of NFP Organizations

- 501(c)(1): corporations organized under act of Congress (federal credit unions)
- 501(c)(2): title holding corporation for exempt organization
- 501(c)(3): religious, educational, charitable, scientific, literary, testing for public safety, to foster national or international amateur sports competition, or prevention of cruelty to children or animals organizations
- 501(c)(4): civic leagues, social welfare organizations, and local associations of employees

- … up to 501(c)29

For-profit vs Not-for-profit corporations

Not-for-Profit Status

• Note that hospitals and health care entities are not listed for tax-exempt status but are designated under 501(c)(3) as charitable organizations.

But… there is no definition for a “health care charitable organization”

For-profit vs Not-for-profit corporations

Not-for-Profit Status : Community Benefits Standard

•Defined by IRS (1969)

•Hospitals and health care entities seeking NFP tax status must meet the following five criteria:

1. Representative board of trustees (i.e., must include community members on board)
2. Medical staff open to all qualified MDs
3. Operate an emergency room (can't deny care to those in need)
4. Serve those who would not ordinarily get access if they could not pay
5. Reinvest excess revenues in facility

Tax Avoidance for an NFP Hospital

		Avoided Expenses and Taxes
Property tax: real estate (land, buildings, fixed equipment)	($500M gross assets *35% assessment*7% tax rate)	12,250,000
Postage	(0.44 - 0.22)* # pieces of mail	770,000
State sales tax (supplies)	$12.5M * 7%	8,750,000
FUTA	6000 employees *.8%	336,000
Interest on tax exempt bonds	$300M bonds (6.75% - 5.00%)	5,250,000
Avoided expenses		**27,356,000**
Federal income	35% *43M	15,050,000
State income	8.5%*47M	3,995,000
Local income	2%*48M	960,000
Avoided income taxes		**20,005,000**
TOTAL avoided expenses and taxes		**47,361,000**

Source: Cleverley, W. *Essentials of healthcare finance* (7th ed.)., p. 123.

Community Benefit Provided for an NFP Hospital

		Community Benefit Amount
Charity care	recorded at cost, not charges	36,600,000
Unreimbursed Medicaid	charges $100M, overall 38% cost to charge ratio = $38M; reimbursement = $31M, so $7M unreimbursed	7,000,000
Unreimbursed Medicare medical education		10,000,000
Subsidized care		1,800,000
Community health services	screenings, support groups, etc.	1,000,000
Other misc.		400,000
Total community benefit		**56,800,000**

Largest amount

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Unreimbursed Medicare medical education		10,000,000
Subsidized care		1,800,000
Community health services	screenings, support groups, etc.	1,000,000
Other misc.		400,000
Total community benefit		**56,800,000**
TOTAL avoided expenses and taxes		**47,361,000**
Total excess community benefit		**9,439,000**
Source: Cleverley, W. *Essentials of healthcare finance* (7th ed.)., p. 123.		

IRS looks at this favorably

More recent changes in NFP law

IRS- added Schedule H (for hospitals)

- effective with 2009 Form 990, the tax form for NFP organizations
- hospitals must now submit new Schedule H
- Includes detailed information on charity care, community benefits, and facilities

Affordable Care Act (ACA), 2010

- An ACA goal was to provide insurance for those without it
- Created health care exchanges where uninsured patients can access insurance
- Result is that charity portion of community benefit will decrease significantly; comm benefit will not exceed avoided taxes.
- Community benefit standards still apply, ACA created new requirements for assessing and implementing them

For-profit vs Not-for-profit corporations

Four New ACA Requirements for NFP Hospitals, amended IRS tax code, Section 501(r) – (2010)

1.Community health needs assessment (CHNA)- 2013 start
2.Written financial assistance policy (charity care)
3.Same charges for self-pay and insured patients
4.Must not engage in hardcore collections before checking for Item 2

For-profit vs Not-for-profit corporations

Five New Requirements for CHNA, hospitals must update this every 3 years (2013, 2016, 2019, 2022, 2025…)

1.Description of community served
2.Description of assessment methodology
3.Description of data and gathering methods
4.Prioritized description of needs identified
5.Description of existing resources to help meet the needs

•Plus: annual update to "Implementation Strategy" document

For-profit vs Not-for-profit corporations

CHNA Reporting

- Applies to all NFP hospitals
- Results of assessment must be posted on hospital website
- Must attach “Implementation Strategy” to annual Form 990 tax return, which describes progress towards goals

For-profit vs Not-for-profit corporations

Conclusion

- 80% of acute care hospitals are NFP (2023)and are impacted by these rules

•Changes in reporting requirements from IRS (Schedule H) and increased reporting by NFP hospitals

•Hospitals are no longer held to the 1969 standard that community benefit should exceed avoided taxes. Under ACA mandated Section 501r, community benefit is now met through completion of CHNA reporting, plus the three other items.

For-profit vs Not-for-profit corporations

Takeaway

Check the website of your favorite NFP hospital- can you easily find their CHNA and written charity care policies?

For-profit vs Not-for-profit corporations

Food for thought…research on FP vs NFP charity care (2010)

"…even after adjusting for patient, hospital, and market-level factors we found no evidence that NFP hospitals provide a greater level of uncompensated care than FP hospitals…

While we cannot comment on other types of community benefits that not-for-profit hospitals may provide, concerns about the tax exempt status of not-for-profit hospitals may be warranted."

Cram, P., Bayman, L., Popescu, I. *et al.* Uncompensated care provided by for-profit, not-for-profit, and government owned hospitals. *BMC Health Serv Res* **10**, 90 (2010). https://doi.org/10.1186/1472-6963-10-90.

For-profit vs Not-for-profit corporations

Food for thought…research on FP vs NFP charity care (2024)

“Compared to other types of hospitals, nonprofits spend the *least* on charity care. For every $100 in expenses, government hospitals spent $4.10 on charity care, for-profit hospitals spent $3.80, and nonprofits spent $2.30.

…. To make sure patients are getting adequate charity care, Congress must ensure the tax benefits for non-profit hospitals are put to good use..”

A National Charity Care Law to Improve Nonprofit Hospitals, Published February 13, 2024, *Thirdway.org*. https://www.thirdway.org/report/a-national-charity-care-law-to-improve-nonprofit-hospitals.

2. MERGERS AND ACQUISITIONS

Mergers and Acqusitions

Google beckers mergers and acqusitions 2024

Becker's Hospital Review
https://go.beckershospitalreview.com › financewp › the...

The state of healthcare M&A in 2024

The state of healthcare M&A in 2024. Healthcare merger and acquisition activity remained steady in 2023 and is expected to accelerate through the end of this ...

Becker's Hospital Review
https://www.beckershospitalreview.com › hospital-merg...

Hospital mergers ring in the new year

Jan 3, 2025 — Several hospital and health system mergers and acquisitions closed as 2024 turned into 2025.

Becker's ASC
https://www.beckersasc.com › 5-massive-hospital-merg...

5 massive hospital mergers and acquisitions to know in 2024

Sep 10, 2024 — "Discover the latest trends in healthcare consolidation and its impact on ASCs, including major hospital deals and mergers in 2024, ...

Becker's Hospital Review
https://www.beckershospitalreview.com › 15-hospital-m...

16 hospital M&A moves to know in the 1st half of 2024

Jun 28, 2024 — "Stay updated on the latest hospital mergers and acquisitions with our list of 16 notable moves from the first six months of 2024.

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Mergers and Acquisitions

Ways that health organizations can work together…

- Clinical Affiliation
- Regional Collaboration
- Clinically Integrated Hospital Network
- Accountable Care Organization

- Merger and Acquisition

***We will focus only on M&A for this discussion

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Mergers and Acquisitions

Merger

- Voluntary joining of two orgs on roughly equal terms into one legal entity
- ONE NEW tax ID
- Assets of the two orgs are combined
- Owners/BOT work as co-owners in new organization

Acquisition

- One firm purchases another firm
- ONE EXISTING tax ID
- Owner of purchasing firm becomes owner of combined company
- Resources of the acquired entity are eliminated/sold and combined with new entity

** For our purposes, we will talk about mergers and acquisitions (M&A) interchangeably.

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Mergers and Acquisitions

M&A activity in the healthcare sector:

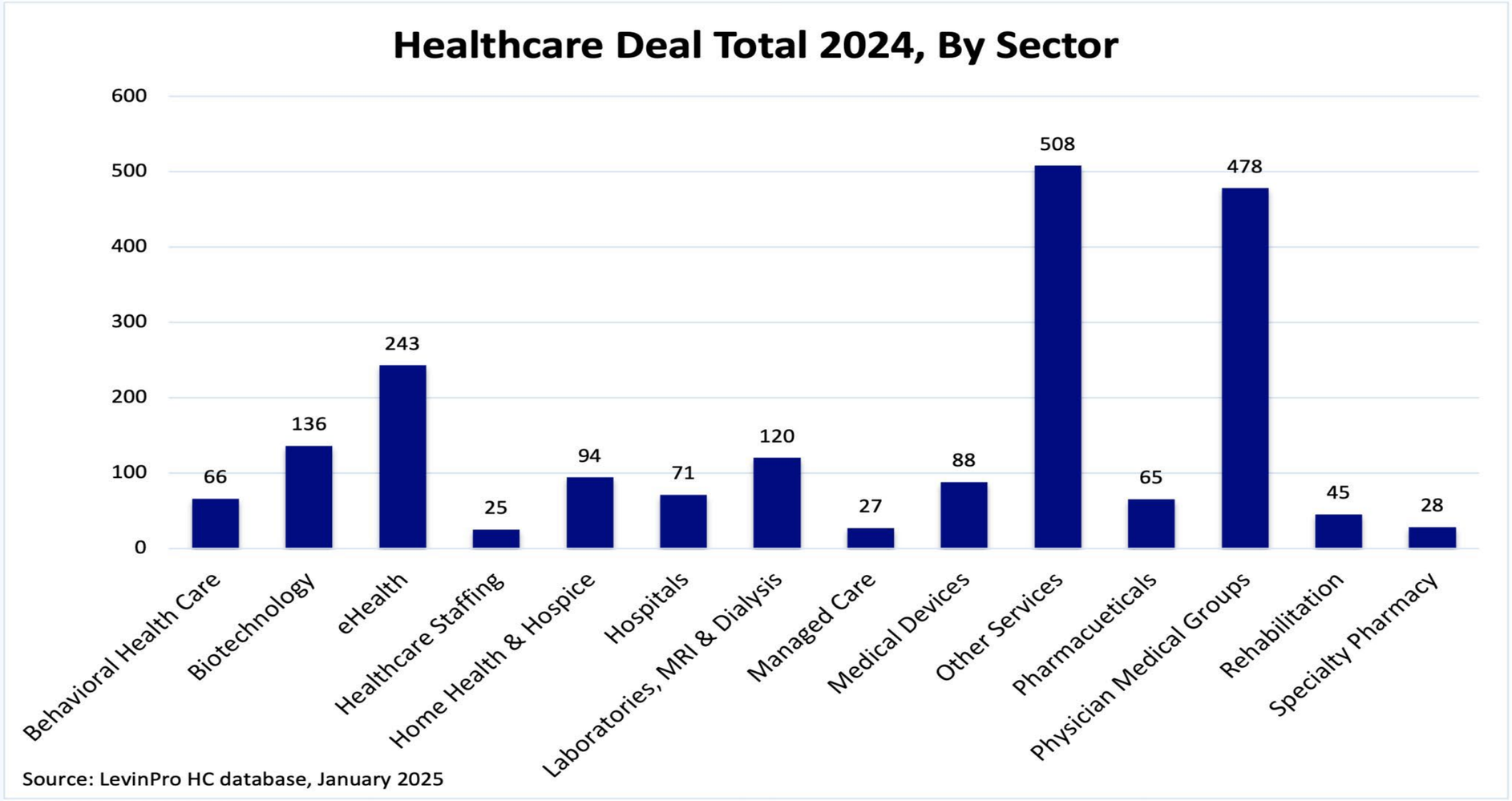
- NFP / FP hospitals acquired by other health systems

- Other companies acquired by health systems/ physician groups/PE:
  - Physician practices
  - Home health care
  - LTC, Rehab, Psych
  - Lab, Rad, dialysis

- Other health markets:
  - Pharma, devices, biotechnology
  - HIT

Mergers and Acquisitions

M&A activity by healthcare sector:



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Mergers and Acquisitions

Source: http://www.levinassociates.com;
* Kaufmann Hall

Hospital M&A trends activity through 2024 :

2008	60	2018*	90
2009	50	2019*	92
2010	76	2020*	79
2011	92	2021*	49
2012	94	2022*	53
2013	90	2023*	65
2014	99	2024*	72
2015	102		
2016	90		
2017*	115		

2011-2019 every year 90+. Drop in 2020 and 2021,slowly building back

Mergers and Acquisitions

Why the recent increase in Hospital and Health System M&A activity?

- Large regional hospitals/health systems continue with horizontal integrations with each other for expense consolidation and profit enhancement.
- Smaller hospitals/health systems continue to seek buyers for access to capital and clinical care coordination.
- Increased focus on shift to outpatient care for vertical integration

Mergers and Acquisitions

Why the recent increase in Physician Group M&A activity?

- Hospitals/health systems continue with vertical integrations and physicians control the “front door” to the health system.
- Private practices- Physician life style and access to capital
- Private Equity firms buying practices in specific specialties for consolidation to increase profits: dermatology, vision, radiology.

Mergers and Acquisitions

Conclusion on access to capital:

CASH: Many hospitals/physicians are experiencing steady or decreasing revenues along with increased expenses, resulting in lower net income (profits)

BORROWING: These 3 things result in lower bond rating, decreased ability to borrow (loans or bonds) and higher interest % and exp.:

- Low number of admissions/visits
- Low revenues
- Stand alone hospital / practice

Limits ability of stand alone hospitals and private practice physicians to upgrade facilities, equipment, and invest in new IT and M&A activity

Mergers and Acquisitions

Health System Membership:

•Roughly 80 percent of the approximately 4,500 general acute care hospitals in the United States are controlled by private non-profit or for-profit organizations. Largest systems:

1.	HCA	TN	219
2.	Universal HS	PA	182
3.	Encompass Health	AL	164
4.	Veterans Affairs	DC	161
5.	CommonSpirit	IL	158

Mergers and Acquisitions

Is my hospital strong enough to remain standalone?

Criteria

1. Strong market position
2. EXCELLENT financial performance and access to capital
3. Effective physician-hospital alignment
4. Ready for population health management
5. Capable and engaged leadership

Ex. Smalltown Hospital, Anywhere USA

1. Suburban, high Medicaid area with 2 other hospitals within 15 miles;
2. Moody's BB Negative, 60 days cash on hand
3. 5 PCPs employed for OP clinic; other PCP + specialists are private practice with other hosp affiliations
4. No
5. CEO of 2 years recently resigne

Mergers and Acquisitions

Utilize a scorecard to determine compatibility between the two organizations: M&A scorecards with' SimilarityIndex™

(Trilliant Health SimilarityEngine™)

Community Health System announced the sale of two North Carolina hospitals (Lake Norman Regional Medical Center and Davis Regional Medical Center) to Novant Health	Lake Norman Regional	1799	57.9
	Forsyth Memorial Hospital	1625	
Steward Health Care announced the sale of its Utah care sites, including five hospitals to CommonSpirit Health/Centura Health	Penrose/St. Francis Healthcare	542	75.3
	Jordan Valley Medical Center	840	
John Muir Health buying out Tenet Health's 51% ownership stake in San Ramon Regional Medical Center	John Muir Medical Center	7	84.7
	San Ramon Regional Medical Center	12	

Best chance for success

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Mergers and Acquisitions

- 10-health-system-mergers-to-know-2024

Mergers and Acquisitions

Takeaway

Start reading the M&A activity in Becker's Hospital Review, or your favorite news update for your geographic area - you will have a new appreciation!!

3. INDUSTRY FINANCIAL TRENDS

Industry Financial Trends

Overarching: volume to value-based care

A. Focus on prevention and community needs
B. Providers take on increasing risk in reimbursement models
C. Clinical data analysis: decision making for better patient care

Industry Financial Trends

A. Focus on prevention and community needs

From FP vs NFP section above)

Community Health Needs Assessment (CHNA)

- Survey your community, identify and prioritize needs, take action and collaborate with other community organizations
- Publish on website; Submit to IRS with Form 990
- Update every 3 years (started 2013)

Industry Financial Trends

A. Focus on prevention and community needs

Addressing Social Determinants of Health(SDoH)

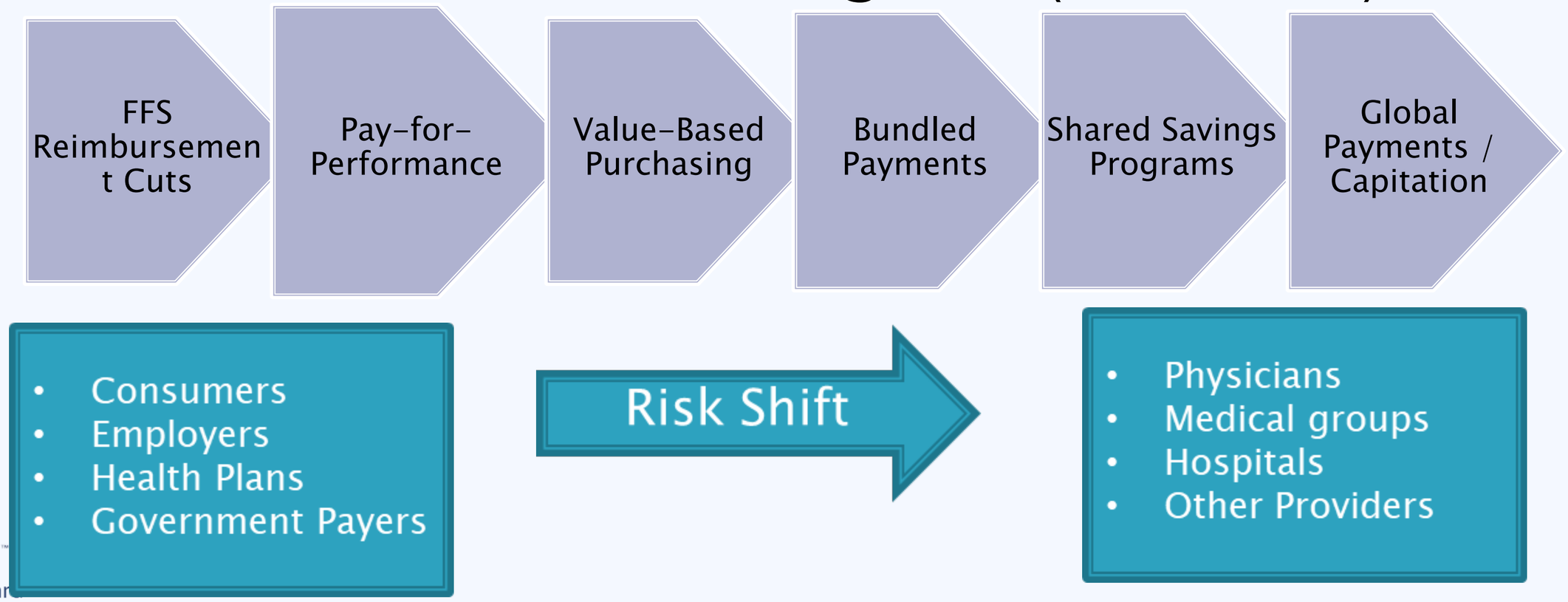
- ICD-10-CM codes Z55-Z65 (“Z codes”), identify non-medical factors that may influence a patient’s health status.
- Ex. - Z59 – Problems related to housing and economic circumstances
- May be documented by physicians, case managers, discharge planners, social workers and nurses
- AHA encourages hospitals to embrace SDoH coding

https://www.aha.org/system/files/2018-04/value-initiative-icd-10-code-social-determinants-of-health.pdf

Industry Financial Trends

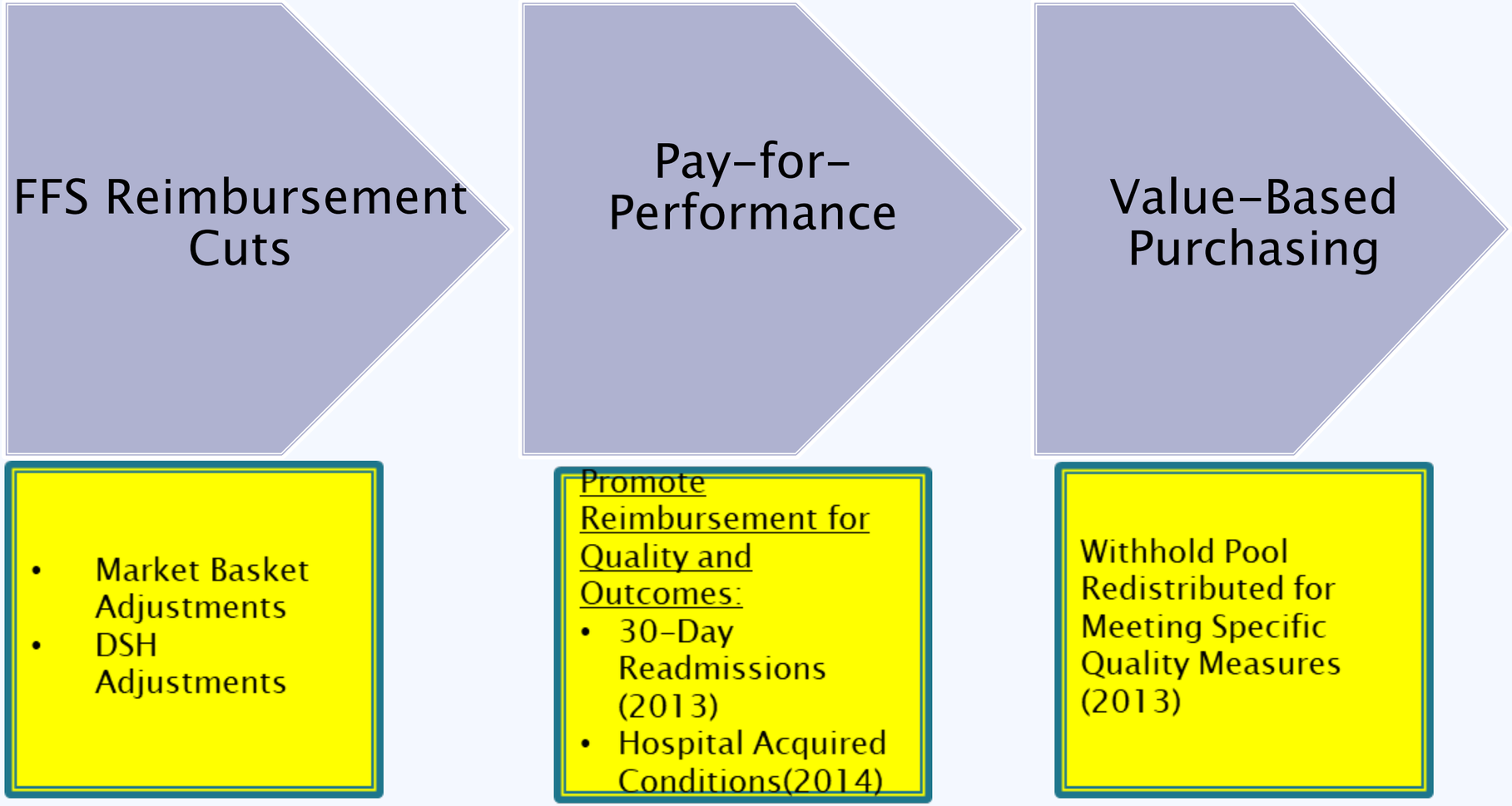
B. Providers take on increasing risk in reimb models

CMS Volume to Value: Shifting Risk (after 2008)



Industry Financial Trends

B. Providers take on increasing risk in reimb models



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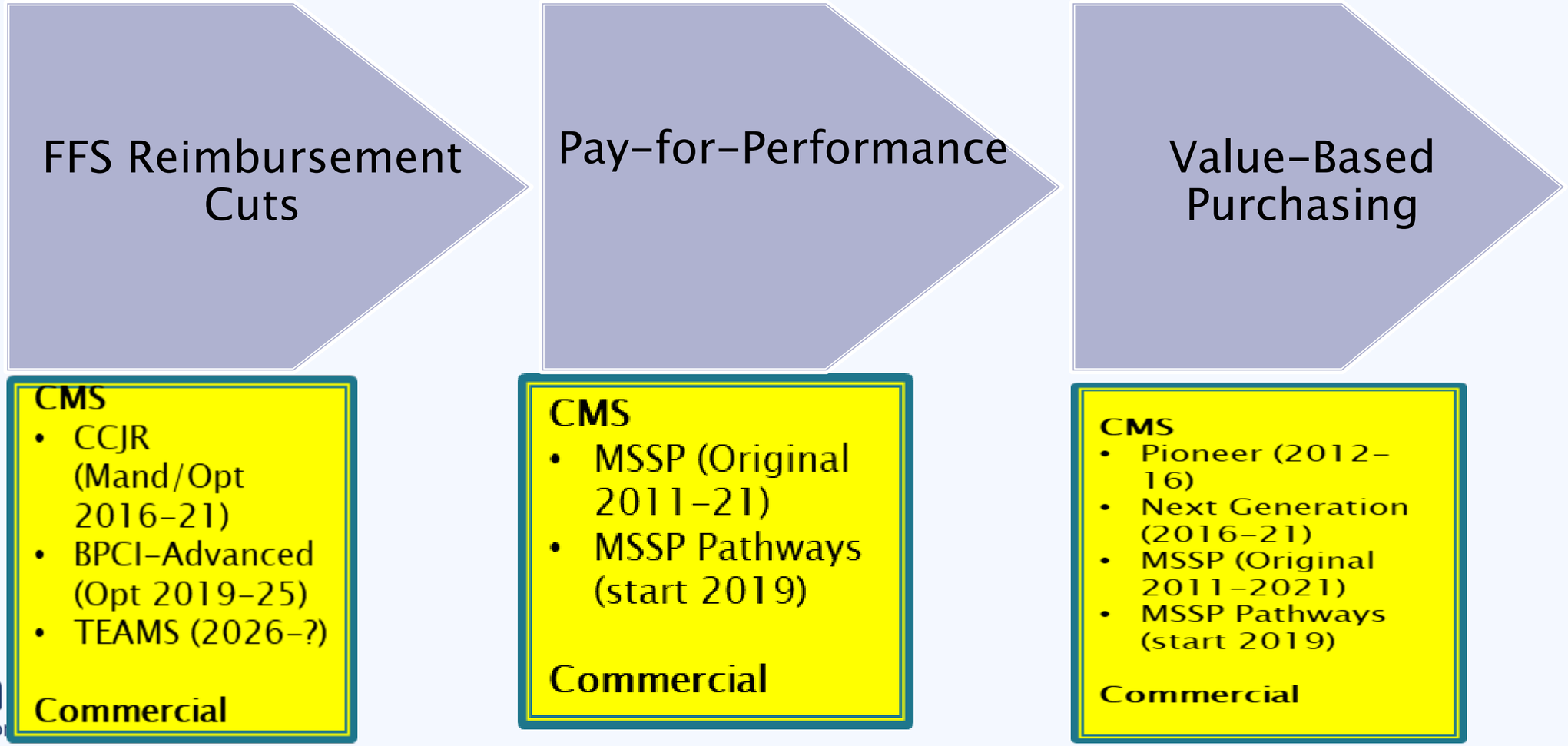
Industry Financial Trends

B. Providers take on increasing risk in reimb models



Industry Financial Trends

C. Clinical data analysis: decision making for better patient care

Hot-spotting methodology for classifying patients in value based care models (Bundled Pymt, ACO, Other Capitation PMPM):

Members should be categorized into different levels of risk:

***Very high risk*:** High risk scores, multiple co-morbidities, expected to spend 50 to 70 percent of the plan's annual cost.

***High risk*:** High risk scores, usually multiple co-morbidities., significant users of healthcare services

Moderate risk: conditions that benefit from management

Very low or low risk

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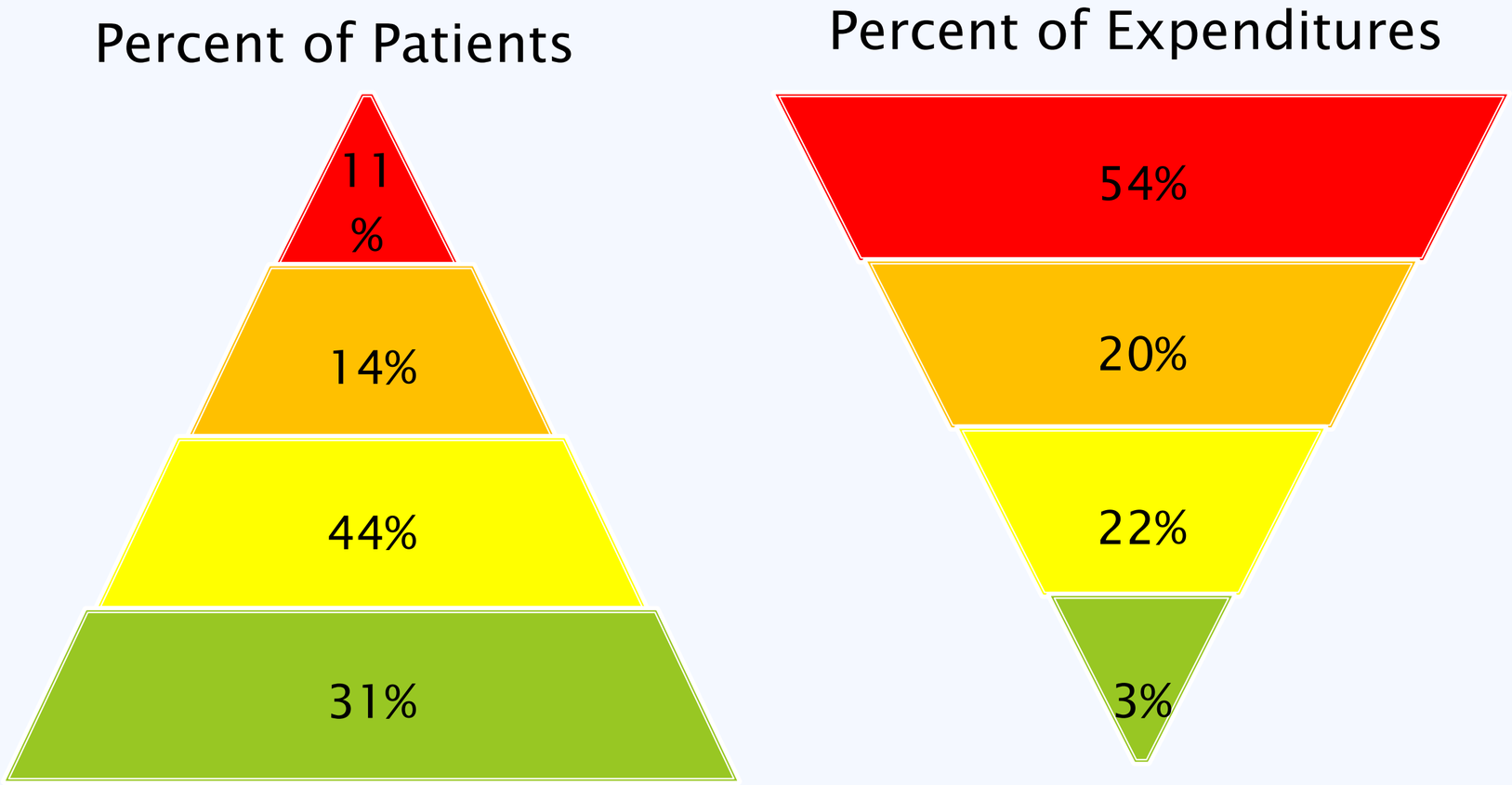
Industry Financial Trends

C. Clinical data analysis: decision making for better patient care



Example: Advocate Health Care / BCBS Illinois

Industry Financial Trends

C. Clinical data analysis: decision making for better patient care

- Large Language Models (LLM), ex. Chat GTP
  - Examples: draft response to patient inquiries through patient portals, records physician/patient conversation and turns into a medical note in EHR, create coding assistants
  - ChatGTP and physician diagnosis, recent study, Chat GTP (80%) did better than physicians(60%) when given a difficult set of data and determining the correct diagnosis.
  - AI models use clinical data to predict future disease risk

4. EXPANDING YOUR KNOWLEDGE OF HEALTHCARE FINANCE

Educational Opportunities

“The Future in Full Bloom: Innovation and Growth in Healthcare Finance”

Growing in your career:
Expanding your knowledge of healthcare finance

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Educational Opportunities

Guest: Lauren Rose
George Washington University, MHA (online), 2023
George Mason University, BS, 2019

Practice Administrator
Progress Rehabilitation Network LLC
Glen Allen, VA

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Educational Opportunities

Opportunity #1: Be curious: newsletters & updates

- HFMA daily news & webinars (free for members)
- Becker's newsfeeds and webinars (free)
  - Hospital Review
  - Payers Issues
  - CFO Report
  - Misc for your specialty

Educational Opportunities

Opportunity #2: Certifications- HFMA (12)

FINANCE	**Certified Specialist Accounting and Finance (CSAF)**	**Certified Specialist Business Intelligence (CSBI)**	**Healthcare Financial Professional (CHFP)**	**Fellow of the Healthcare Financial Management Association (FHFMA)**
REVENUE CYLCE	**Certified Revenue Cycle Representative (CRCR)**	**Certified Revenue Cycle Representative (CRCR) – GCC,**	**Certified Specialist Payment and Reimbursement (CSPR)**	**Executive of Healthcare Revenue Cycle (EHRC)**
OTHER	**Certified Hospital Cost Report Specialist (CHCRS)**	**Certified Specialist Physician Practice Management (CSPPM)**	**Certified Specialist Ambulatory Practice Management (CSAPM)**	**Micro-credential: Comprehensive AI Governance**

Educational Opportunities

Opportunity #2: Certifications- Other

- CPA
- Project Management Professional (PMP)
- Lean Six Sigma- yellow belt, green belt, etc.

- LinkedIn Learning – software, mgmt. skills, etc.

Educational Opportunities

Opportunity #3: Academic Certificates (Master's)

- Usually 18 credits: Finance, Accounting, Internal Audit, etc.
- Good way to acclimate yourself with learning again, if you haven't done it recently
- Most programs allow / encourage you to roll these credits into a full master's program (ex. MBA)

Educational Opportunities

Opportunity #4: Master's Degree (40-50 credits)

On-line

- Flexibility

-Regional or national students

In-Person

-Relational

-Local students = networking

Hybrid

- On-line w/ occasional on- campus cohort meetings

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Educational Opportunities

Opportunity #4: Master's Degree

- MBA
- MBA-Healthcare
- MHA
- MS-Finance
- MS-Accounting
- Other?

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Educational Opportunities

Opportunity #4: Master's Degree

- Business School Accreditation:
- MHA Accreditation:
- Attributes to look for:
  - Geared towards working professionals
  - Weekly live sessions with faculty and classmates
  - Master's project or thesis
  - **IT WORKS FOR YOU!!**

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Educational Opportunities

Opportunity #4: Master's Degree

- Online MBA VA-DC: US News and World Report
  - #25 James Madison University
  - #33 William and Mary
  - #55 George Mason University
  - #55 George Washington University
  - #55 Virginia Tech University
  - #66 Virginia Commonwealth University
  - # 100 American University
  - #135 Longwood University
  - #150 Old Dominion University

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Learning objectives

- ✓ Explain the different requirements for NFP & FP hospitals/health systems
- ✓ Describe different types of mergers and acquisitions and current trends
- ✓ Explain current financial trends in the healthcare industry
- ✓ Learn about options to expand your knowledge of healthcare finance

Questions?

Contact info: Volarich@gwu.edu

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