# Finance Diversification Strategies for Health Systems to Consider

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# RSM Introductions

## Michael Haas

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Michael has over 15 years of health care revenue cycle experience and system implementations. He has lead process improvement engagements in revenue cycle successfully growing the bottom line and has built educational materials used to train coders and physicians on compliant billing coding practices.

As one of RSM's health care analysts, Michael contributes thought leadership articles and content on industry trends affecting middle market businesses

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# Topics To Cover

- *Trends Shaping the Need to Consider A Revenue Diversification Strategy*
- *Regulatory issues for health care organizations to consider*
- *Revenue Diversification Strategies from Joint Ventures to Alternative Investments*

# Course Objectives

By the end of this course, you will be able to:

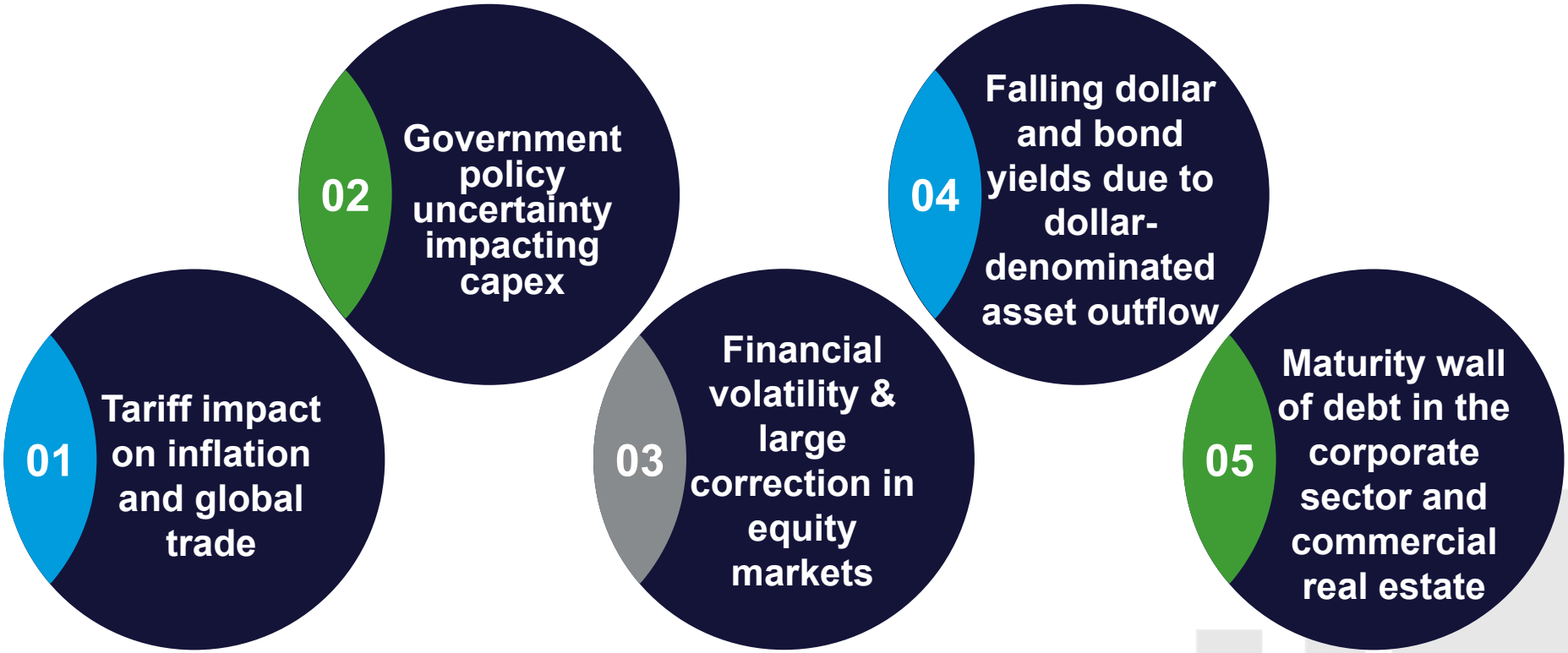
- *Identify the economic and industry pressures driving health systems to diversify their revenue streams, such as declining operating margins, rising costs, and increased competition from non-traditional health care players.*

- *Understand the key C-suite considerations and steps to identify financial diversification strategies*

- *Identify the organizational capabilities, planning approaches, and risk management practices necessary for effective diversification.*

# Economic outlook

# Negative risks to the outlook



# Positive risks to the outlook

# Current challenges: tariffs

While the Trump administration has waivered on its implementation of some tariffs on imported goods, American Hospital Association (AHA) President and CEO, Rick Pollack, has called for exceptions for medical devices and drugs that are essential to “safe, effective care”.

**75%**

Of available U.S.- marketed medical devices are manufactured out of the country*

**69%**

Of available U.S.- marketed medical devices are manufactured ***solely*** out of the country*

**14%**

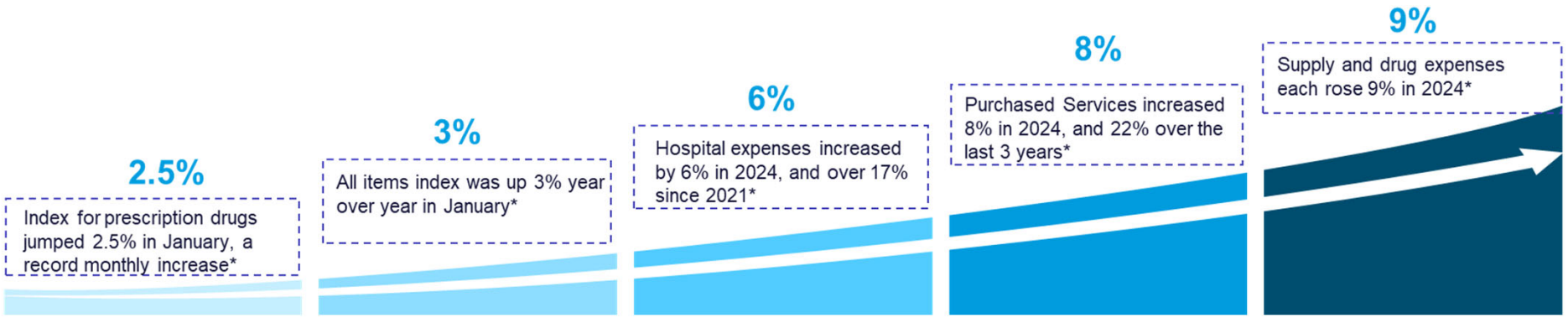
Of total U.S.- marketed medical devices are manufactured in China*

**How are healthcare organizations responding?**

- ✓ Monitor the political climate and changing policies
- ✓ Identify items that are at risk and work with manufacturers, where required
- ✓ Review contracts to identify products that are not price protected
- ✓ Quantify current and future financial impact of the tariffs
- ✓ Leverage Group Purchasing Organization (GPOs) and distributor reports to receive information on tariff impacts
- ✓ Determine if there are alternative products that can be sourced from countries not impacted by tariffs
- ✓ Renegotiate contracts to include price protection language

*According to Medical Economics, Article “If tariffs go through, the cost of medical devices will go up”, November 11, 2024

# Current challenges: inflation

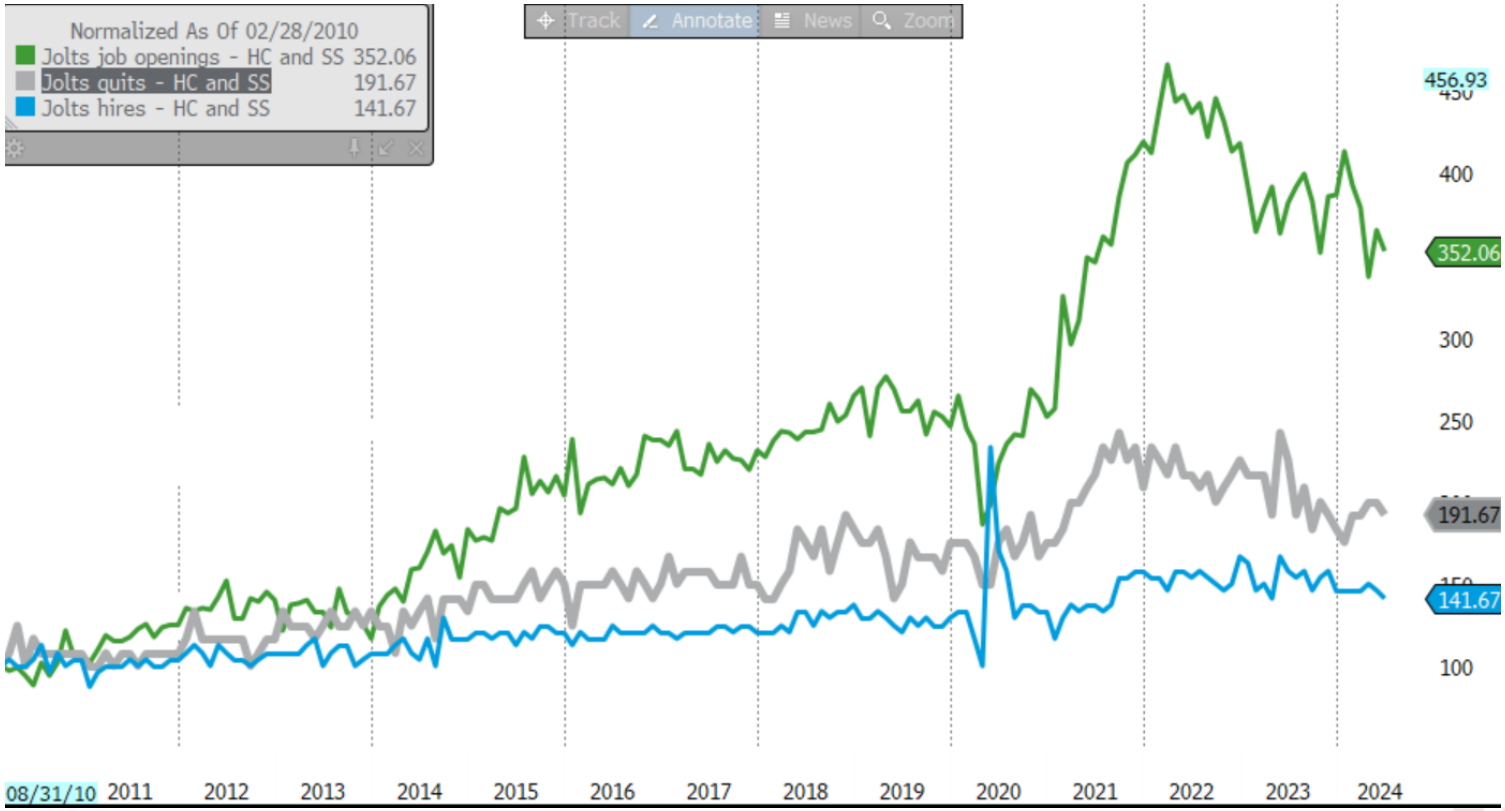



## What are healthcare organizations doing about it?

- Review accounts payable and purchase order data
- Benchmark supply and purchased services spend
- Review the vendor agreement to validate increase or confirm price protection
- Review alternative products/vendors
- Renegotiate contract with lower pricing
- Consider going to RFP

*According to a February 2025 article published by Becker's Hospital CFO Report

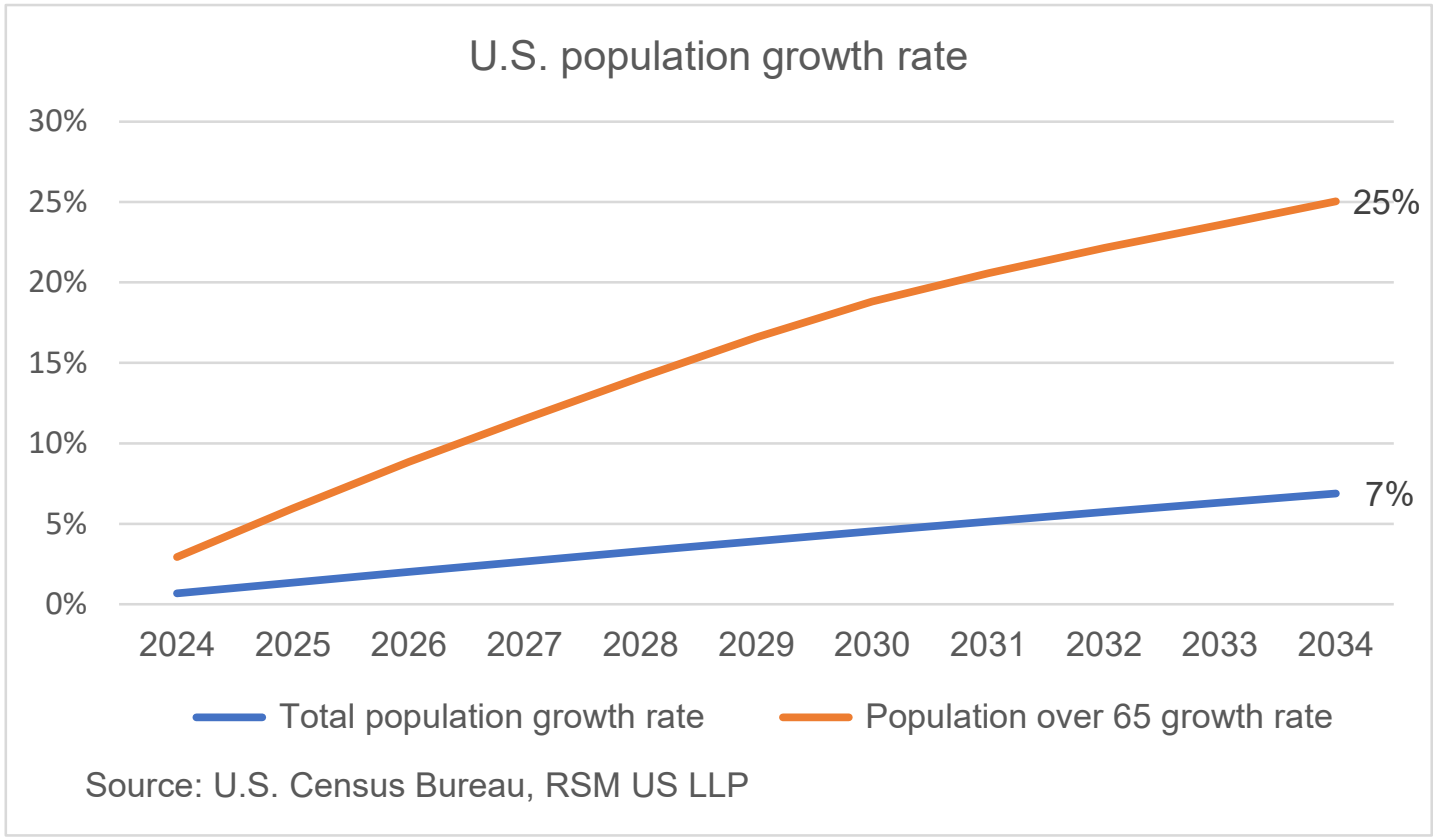
# Tight labor market – plenty of jobs to choose from




Source: BLS, RSM US LLP

Source: Bloomberg, RSM

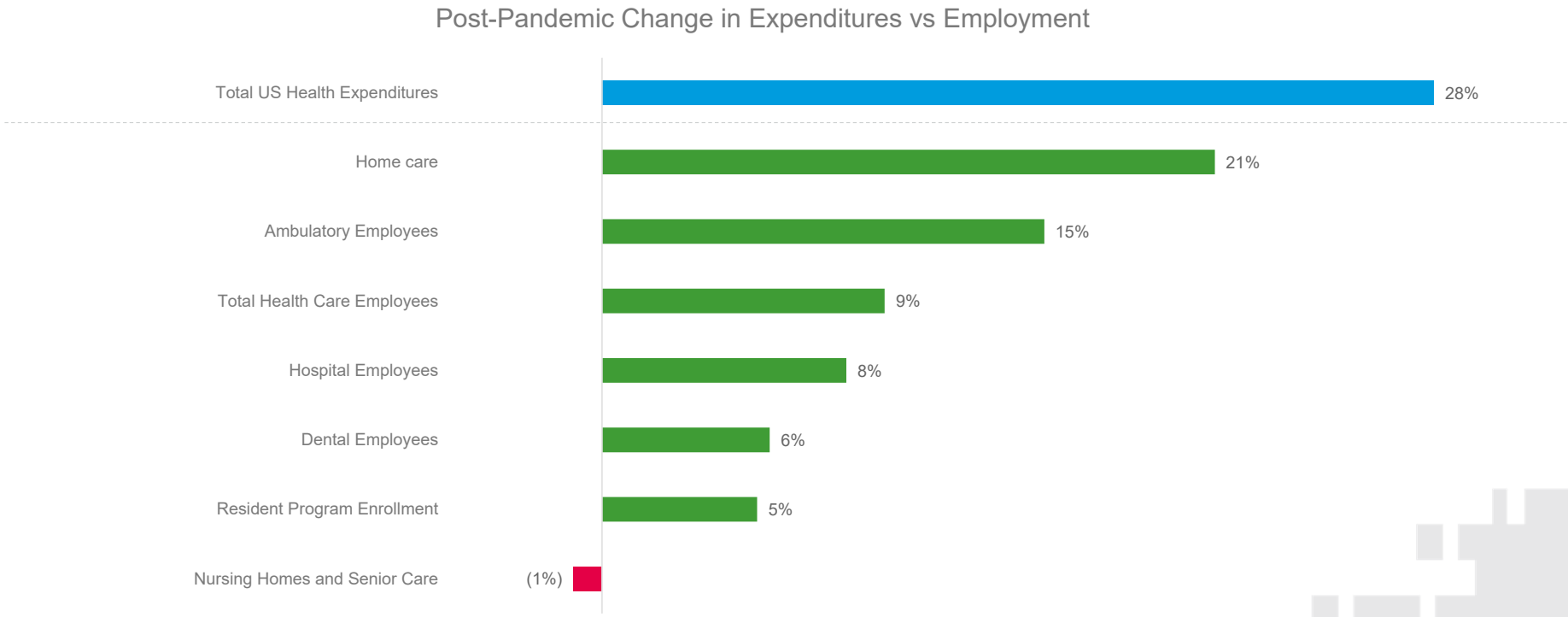
# Age demographic shifts - shifting how care is delivered




Source: Bloomberg, RSM

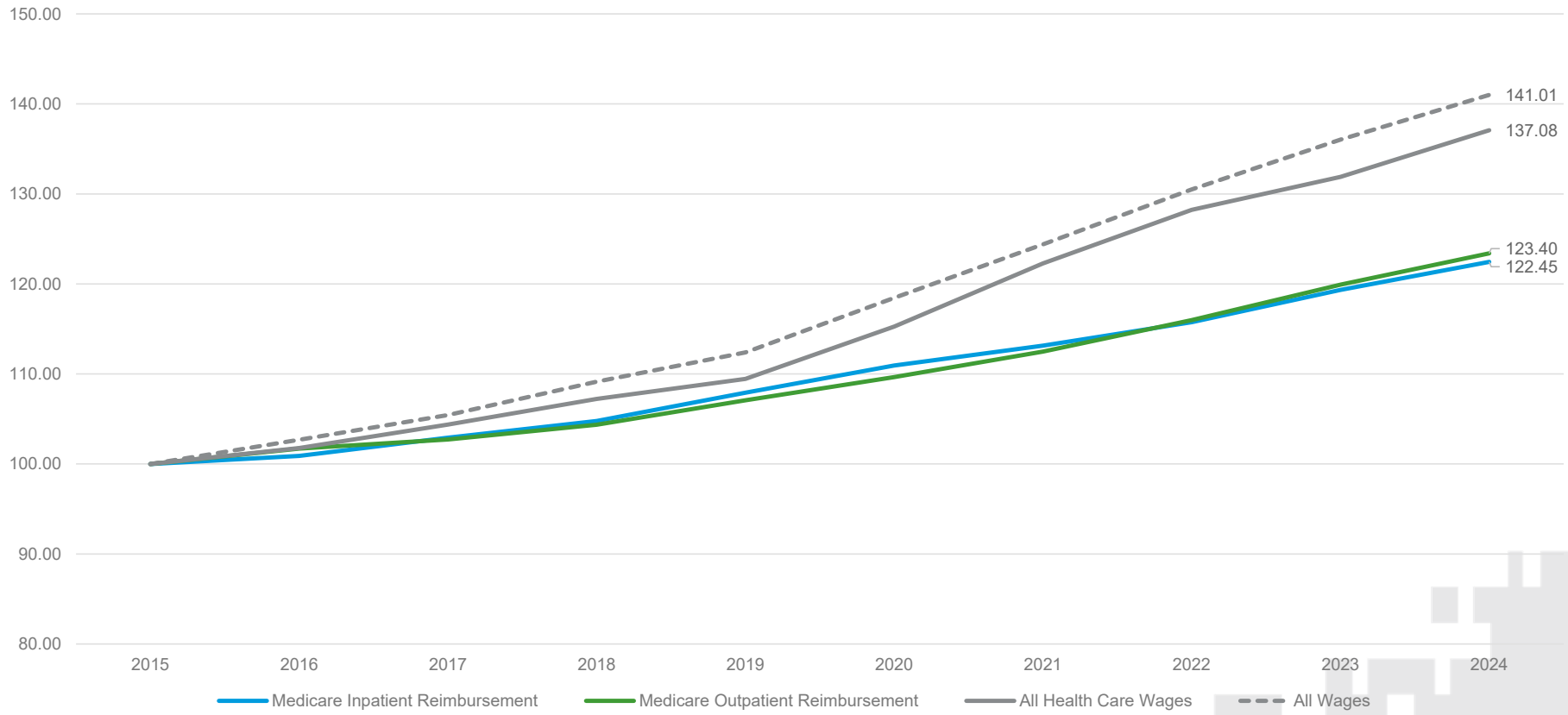
# Labor supply has not fully recovered from COVID

Post-pandemic change in US health expenditure dollars vs. employment headcount by sector



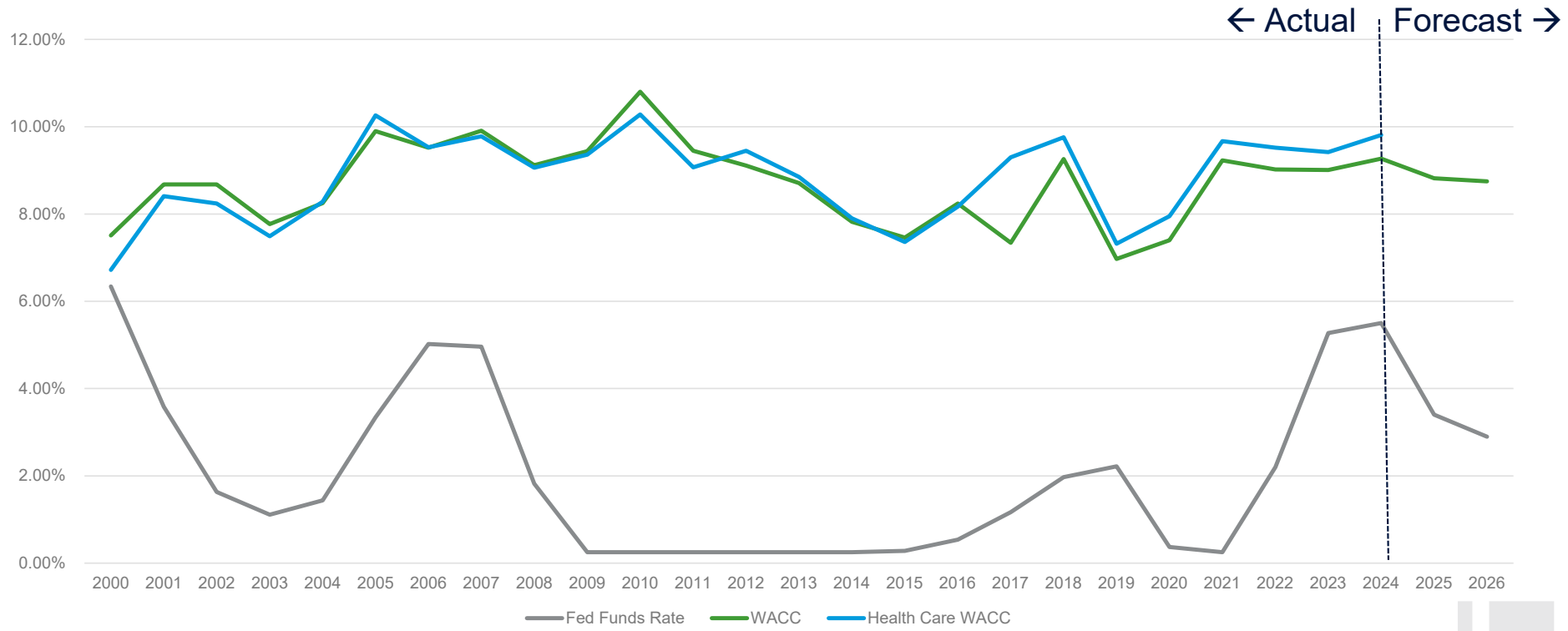

Source: AACM, BLS, RSM

# Reimbursement lags wage increases



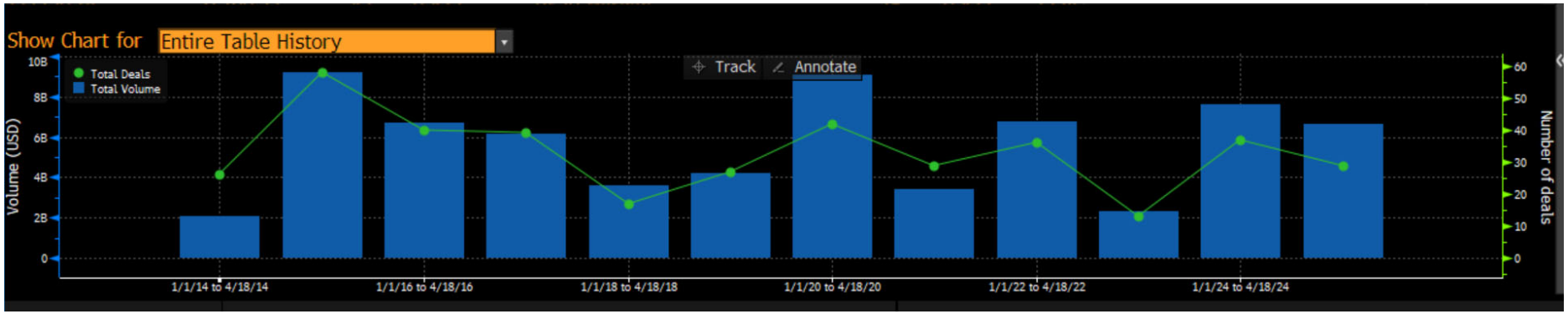

2015 = 100
Source: BLS, CMS, RSM

# The cost of capital will remain elevated



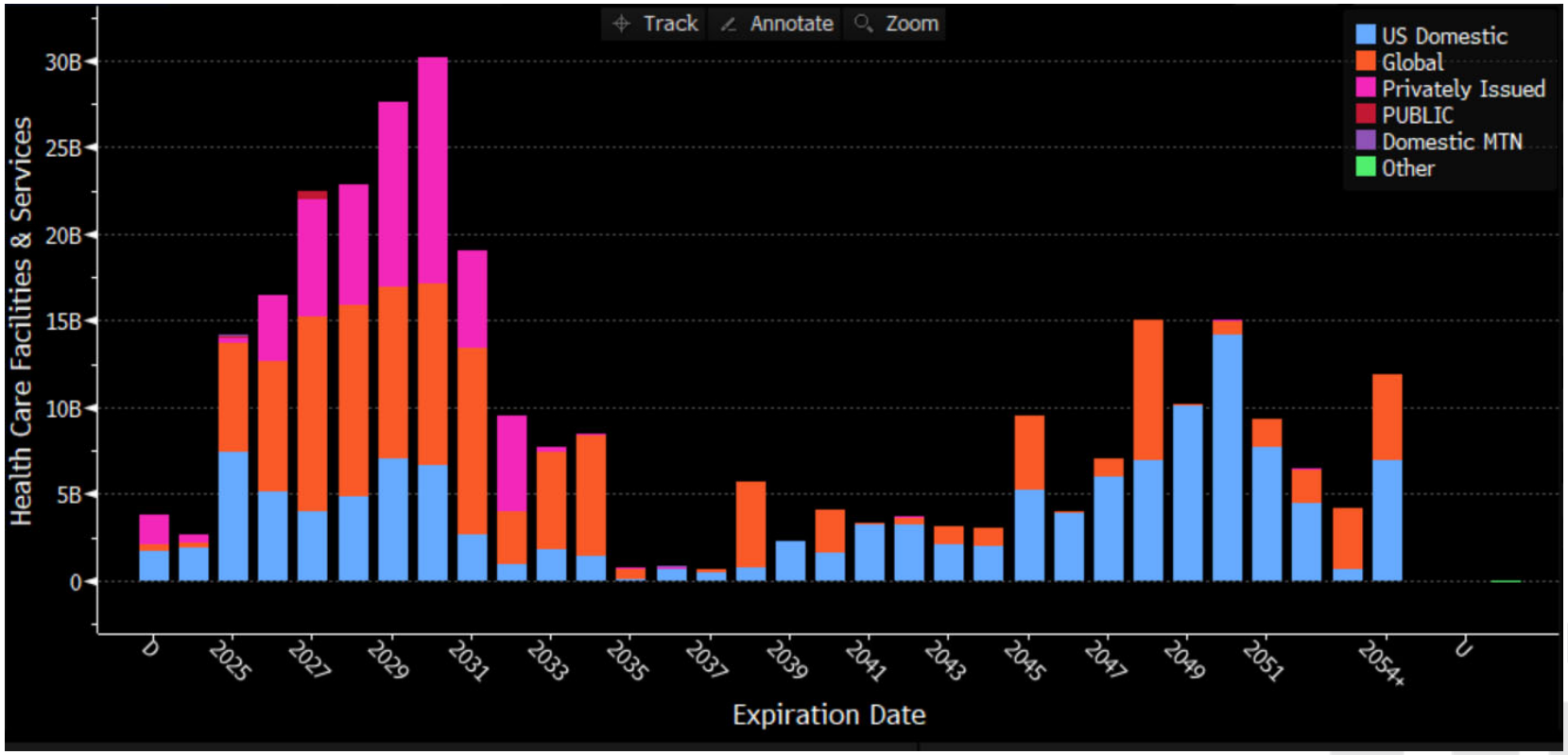

Source: Bloomberg, RSM

# Long term municipal health care financing remains elevated




Source: Bloomberg

# Expect future financing to increase with the looming debt maturity wall




Source: Bloomberg

# Regulatory issues for health care organizations to consider

# One Big Beautiful Bill Act

$988 billion Medicaid cuts

**Medicaid Expansion**

- Affordable Care Act
- Undocumented immigrants
- Mandatory Cost Sharing

**Eligibility Policies**

- Work Requirements
- Eligibility Determinations
- Verification
- Coverage

**Financing**

- Provider taxes
- DSH payments
- State directed payments
- Waivers

**Long Term Care**

Nursing home staffing

Home equity limits

**Access**

- Provider choice and type of care
- Out-of-state enrollment
- Screening requirements

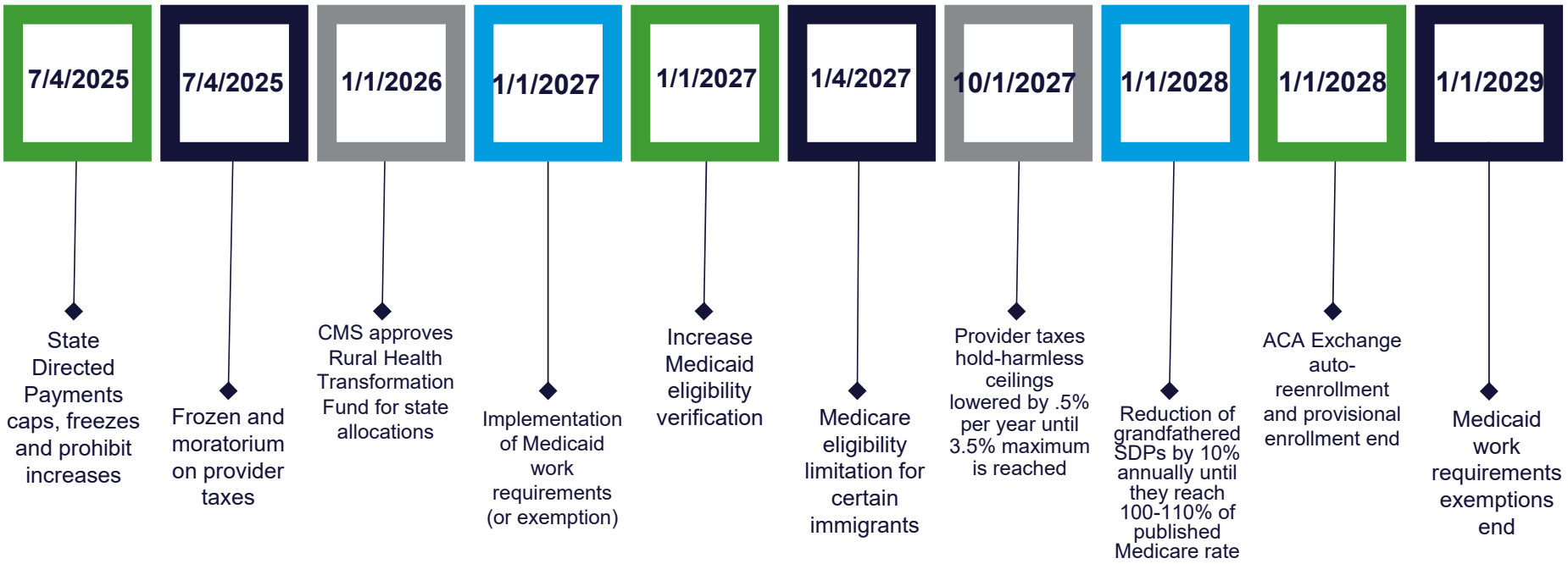
**Prescription Drugs**

- Pricing and rules for Pharmacy benefit managers

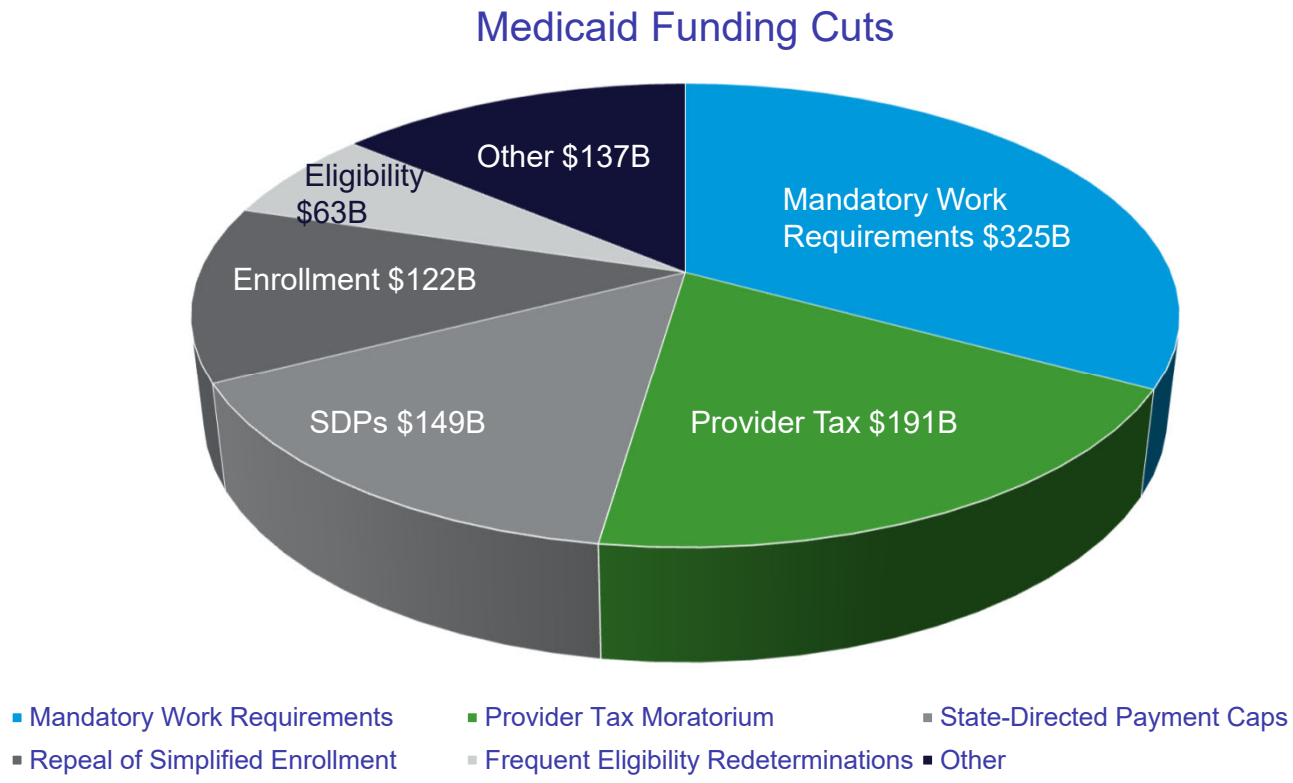
CBO Estimates

# OBBBA Timeline

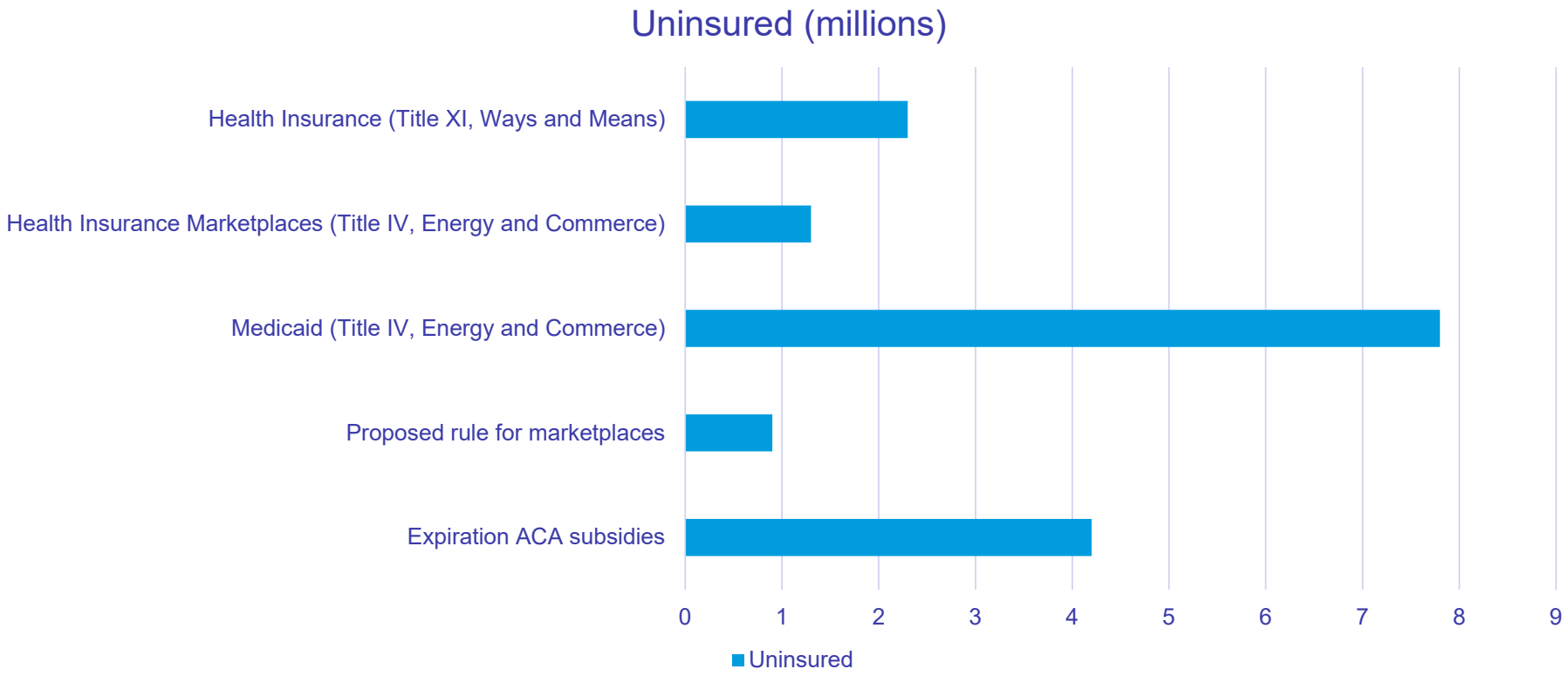
## Health policy



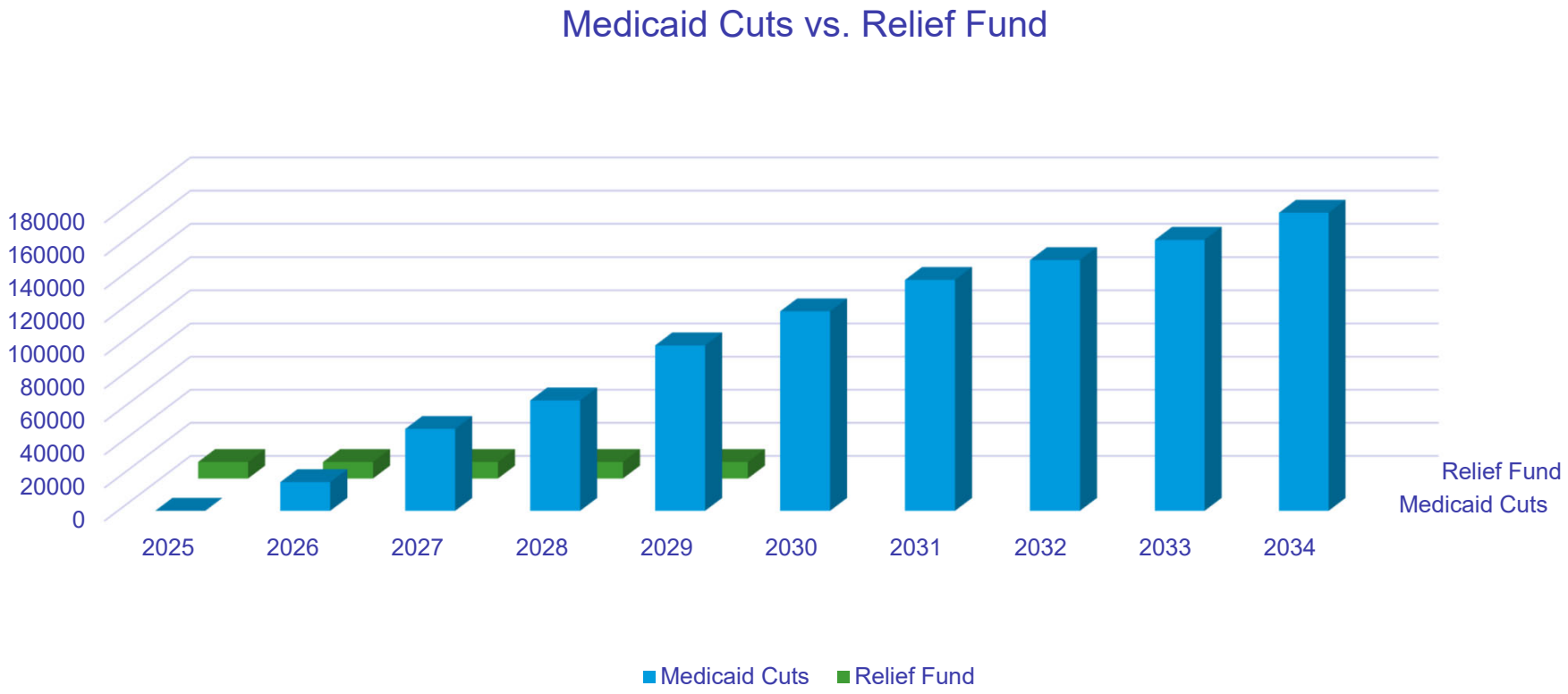
# Top 5 Medicaid funding cuts - $851B



# 16.5 million uninsured



# $50B Rural Health Transformation Fund



# Rural Health Transformation Fund priorities

Improve Access and health care outcomes

Data and technology solutions

Strategic partnerships

Economic opportunity

Financial solvency

Risk management

# Long term strategic planning

- Infrastructure
- Technology
- Margin improvement
- Community outreach and education
- Joint ventures
- Community benefit

# On the horizon

MEDICARE ADVANTAGE

340B DRUG PRICING

SITE NEUTRAL


If there isn’t enough labor to keep up with demand, then what are we going to do?!

# 2025 reimbursement update

- **Medicare conversion factor decreased 2.83% to $32.35 in 2025**
  - Directly affects services billed under Medicare Physician Fee Schedule
  - Indirectly affects direction of reimbursement for other services
  - Trump Admin expected to mitigate reductions for 2026
  - Medicare Advantage growth has slowed, and Congress is concerned with cost. Still, the program remains popular and there is talk of making MA the default option for retired seniors.
- AMA released new telemedicine codes for synchronous audio/video meetings and synchronous audio-only meetings
  - Affect on reimbursement will vary by provider. Some providers will see a boost because it expands patient base, others may see reduction if patients opt for telehealth compared to in-person
  - Will vary by specialty and geography

**Selected specialty-specific changes**

- **Dermatology**: 88305 (Surgical pathology codes) 2% global decrease and 1% and 3% for tech/prof components. High volume code for most practices.
- **Substance abuse**: expansion of audio-only telehealth visits for opioid treatment programs, including initiating methadone treatment. CMS expects to extend coverage to new FDA-approved opioid treatment medication Opvee and Brixadi
  - Providers limited to diagnosing and treating mental illness will be able to bill for interprofessional consultations, which may open new revenue streams for some clients
- **Fertility**: Significant expansion of IVF coverage, including to Federal government employees and retirees. Private plans continue to expand coverage.
- **Dental**: some Medicare Advantage plans are reducing dental benefits to offset rising costs in other areas of care
- **Home care**: Net increase of 0.5% Medicare reimbursement increase in 2025. Expansion of home health value-based care purchasing models will likely benefit most providers.

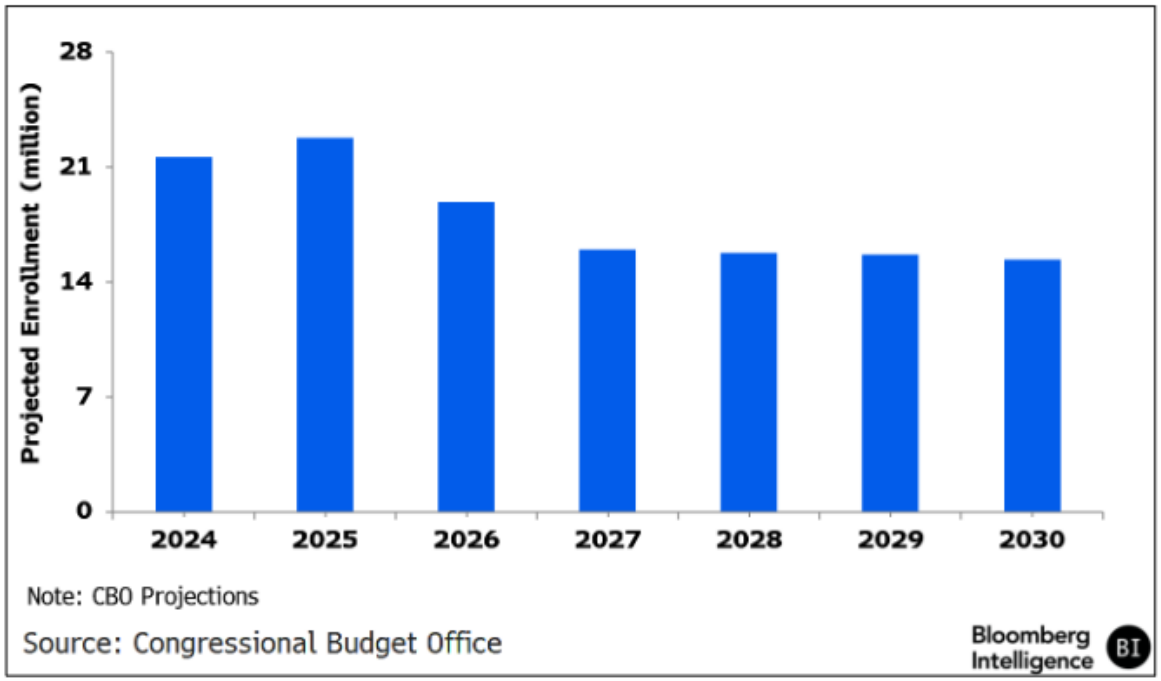
# Health care funding may be cut to pay for tax extensions

| Policy area* | Estimated 10-year budget savings ($ billions) |
|---|---|
| Hospital site-neutral payment | $156 |
| Medicaid Work Requirements | $135 |
| Reduce Medicaid Expansion Rate | $596 |
| Caps on Federal Medicaid Spending | $907 |

Policy areas are sorted by most to least likely affected, according to Bloomberg Intelligence

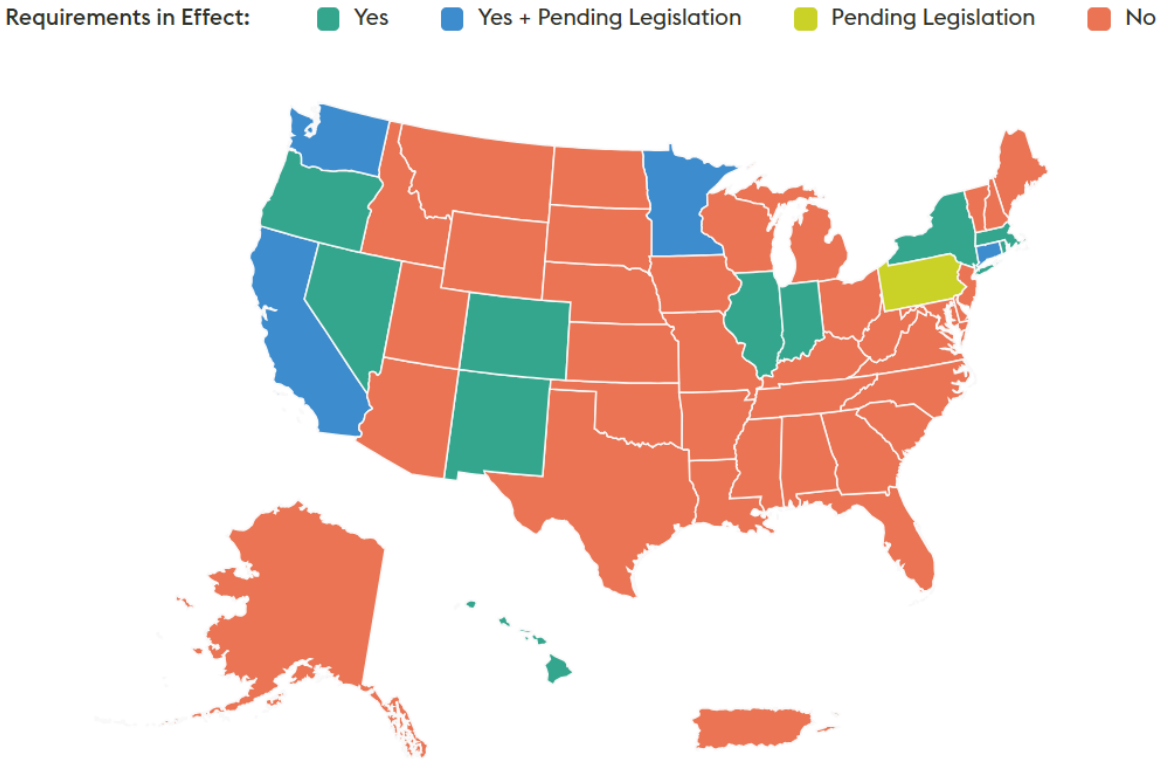
Source: Bloomberg Intelligence, Congressional Budget Office

# Marketplace subsidies likely to expire in 2026




- 2.2 million people expected to lose coverage in ’26
- 3.7 million in ’27
- GOP particularly critical of subsidies to individuals making over $60k
- Potential $15b hit to insurers
- ACA in general is expected to remain unchanged

# Regulatory scrutiny heats up for private equity health care transactions




Source: McDermott Will &Emery

# What are these Regulatory Issues?

Regulator issues continue to take shape and change the way private equity groups strategically position themselves in the marketplace.

### Increased Federal Scrutiny

The FTC, DOJ, and HHS have launched a cross-government inquiry into private equity's influence on health care.

### Antitrust Concerns

There is heightened attention on potential anticompetitive practices, particularly in emergency rooms, where private equity firms oversee a significant portion.


### Debt and Financial Stability

Private equity firms often use significant amounts of debt to finance acquisitions. This can lead to financial instability for the acquired health care providers, potentially affecting their ability to operate effectively

### Billing Practices

Private equity-owned health care providers have been scrutinized for aggressive billing practices. This includes surprise billing, where patients receive unexpected charges for out-of-network services. .

### State Level Regulations

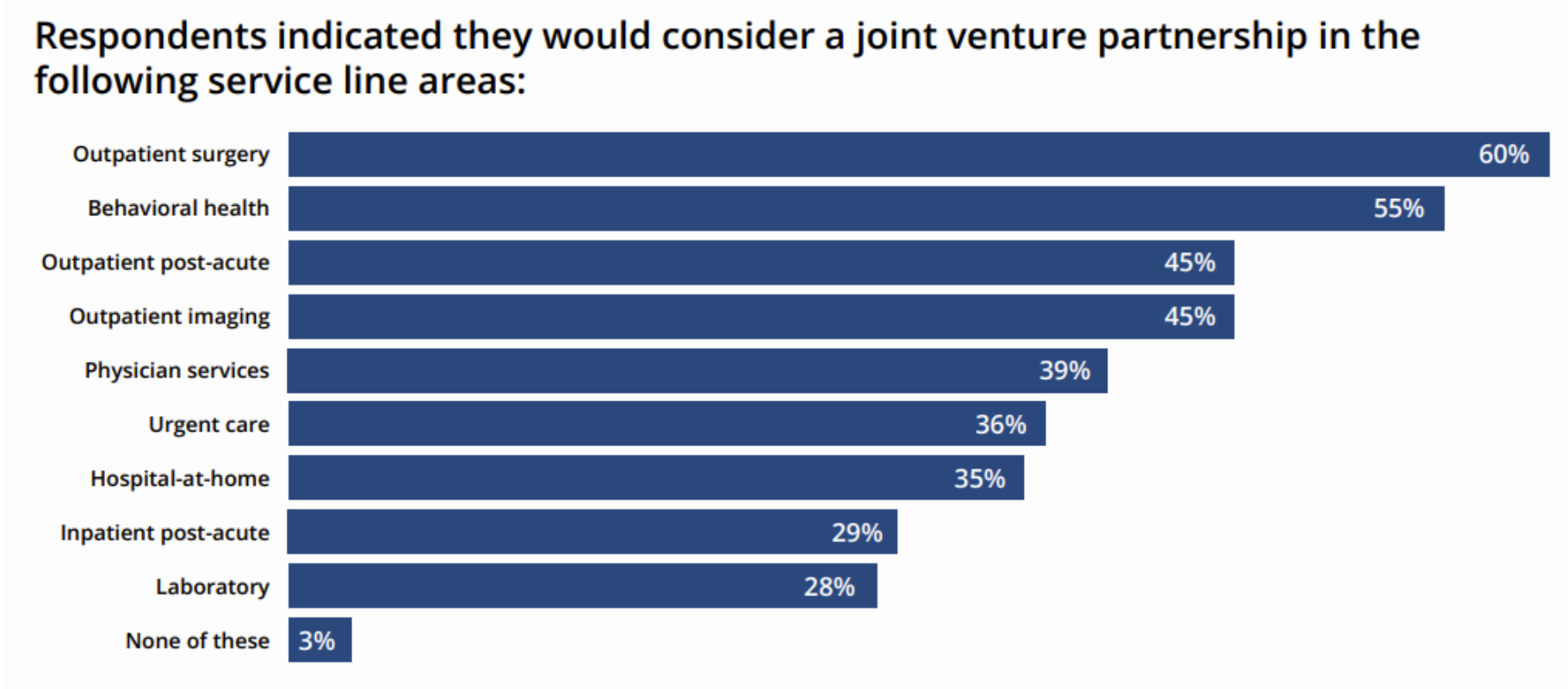
Various states are implementing new laws requiring regulatory approval for health care transactions involving private equity, aiming to ensure transparency and protect patient interests.

### Ethical & Clinical Implications

The ethical and clinical impacts of private equity in health care are under scrutiny, with concerns about how profit motives might influence medical decisions.

# Revenue Diversification Strategies from Joint Ventures to Alternative Investments

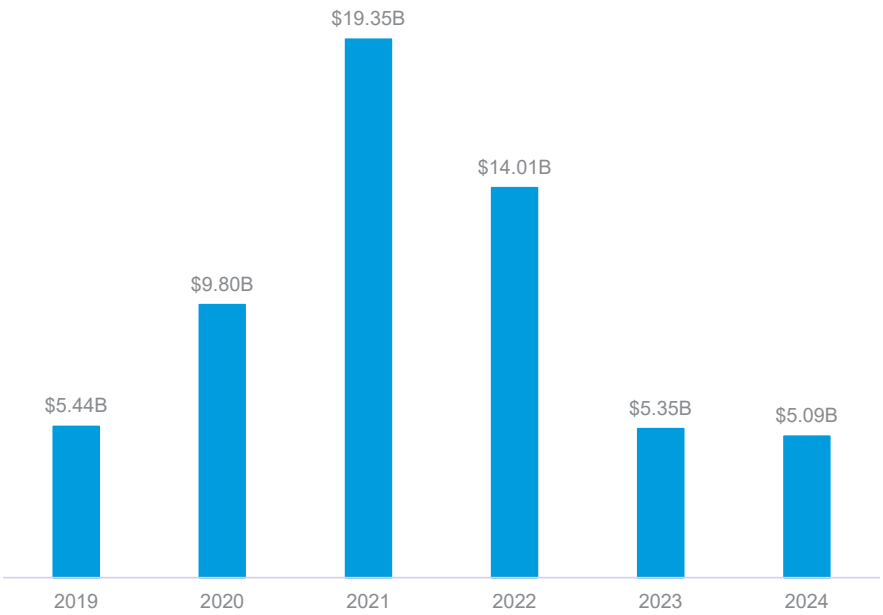
# Joint venture focus areas for health systems




Source: VMG Health

# Investment in technology will increase

Health care technology VC investment from strategic investors




Source: Pitchbook, RSM

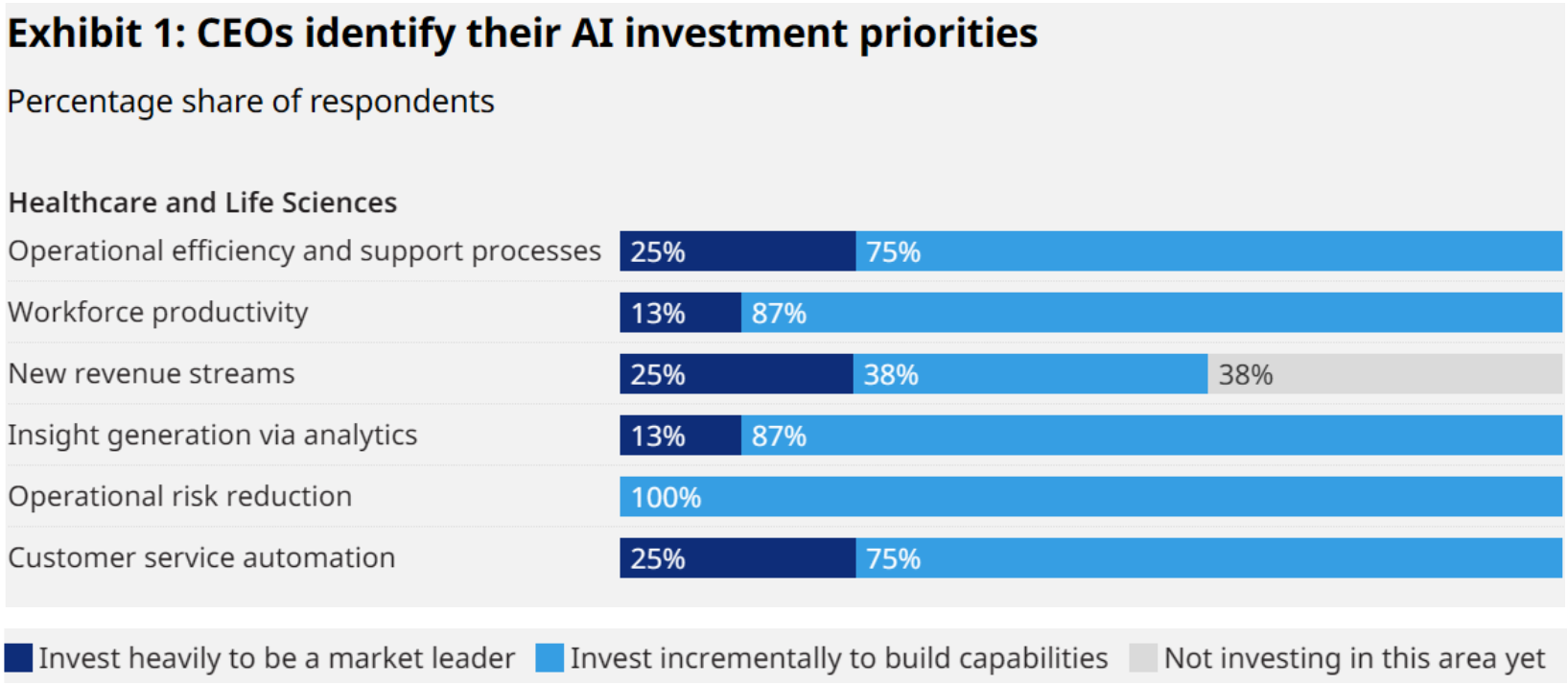
IDC expects health care technology spend in 2025 to increase 8% to $231.2 billion

IDC further predicts that 10% of clinical time will be freed up by generative AI in 2025

The global artificial intelligence in health care market is expected to grow 40% per year through 2029 to $174 billion

McKinsey estimates broad adoption of AI in the US health care system could save $360 billion

# Surveys show executive are using technology to diversify revenue streams



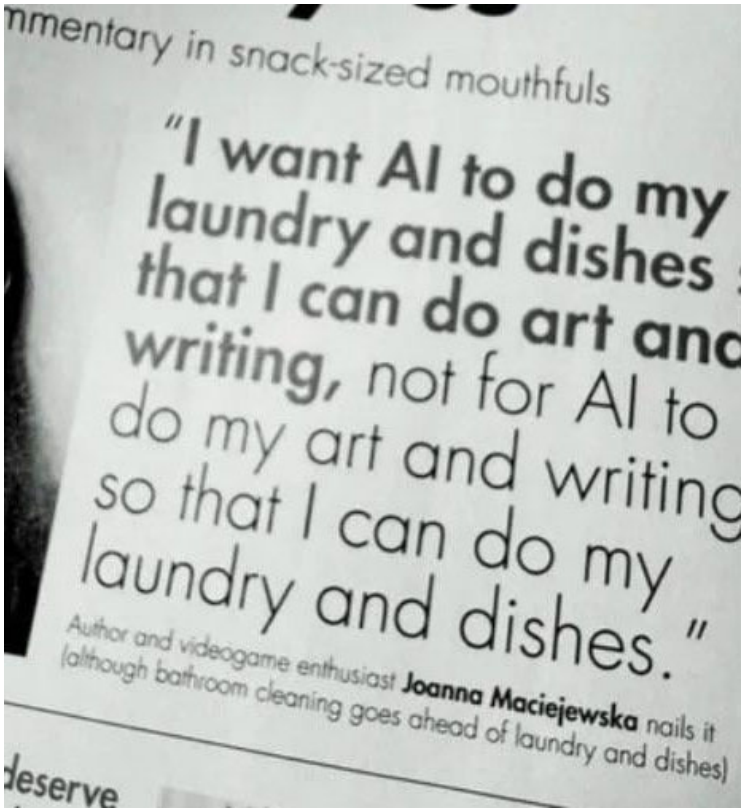

Source: Oliver Wyman

# Health care automation investments

- Bridge gap of labor needs
- Support margin improvement
- Align people, processes, **and technology**

# Artificial Intelligence

Let’s address the elephant in the room first….

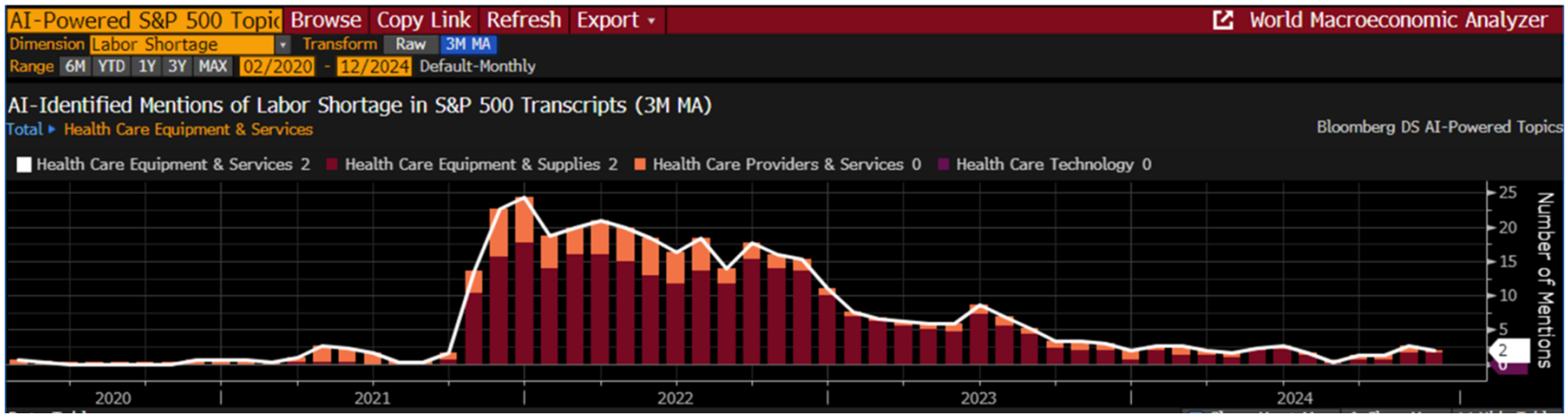


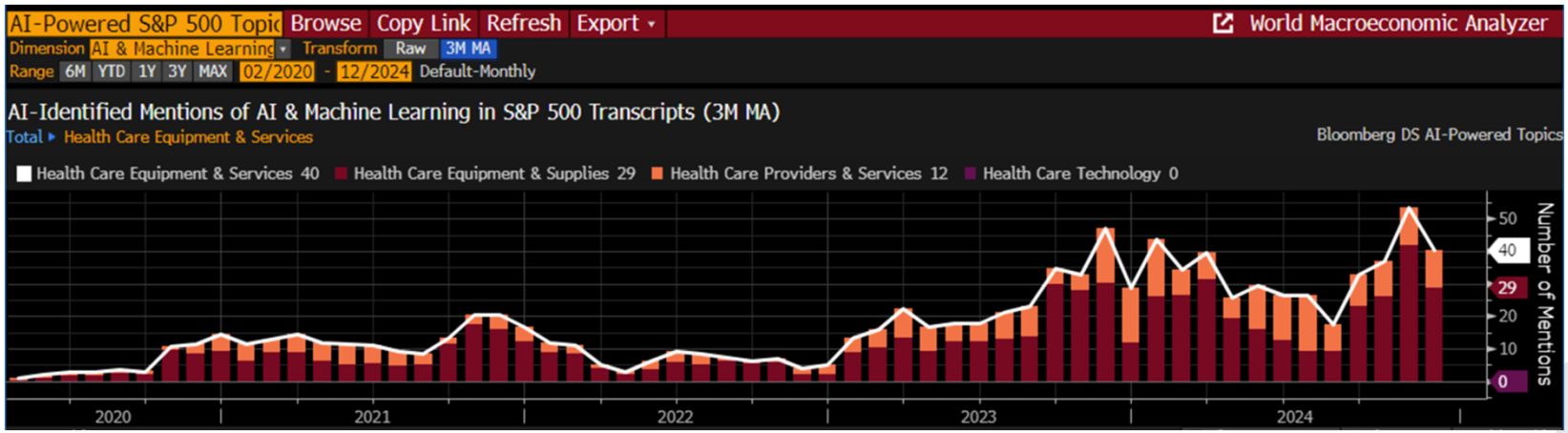
78% of middle market companies-which includes health care organizations-indicating they are using AI

Nine out of 10 respondents indicated they expect to increase their generative AI budget next year

**RSM Middle market AI survey 2024: US and Canada**

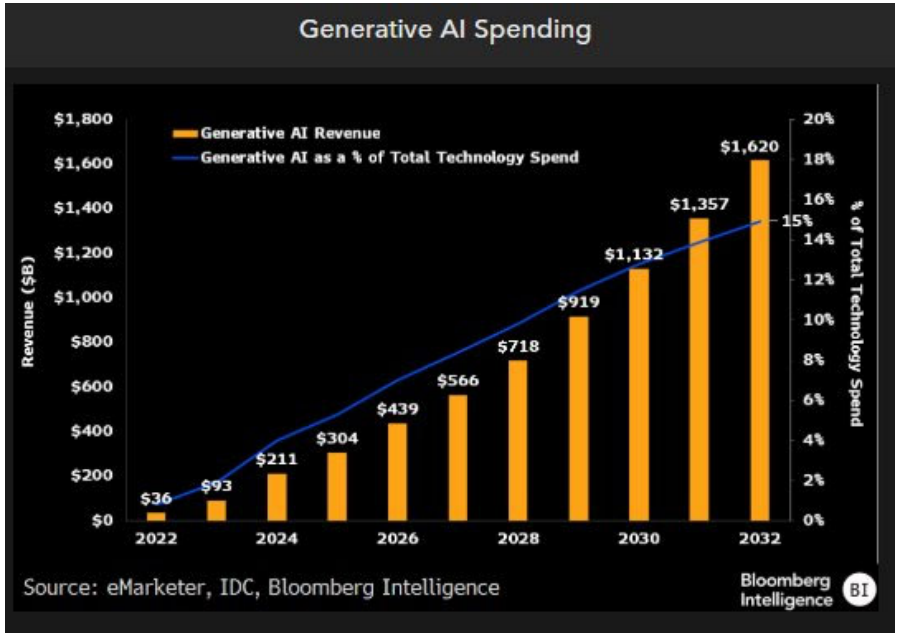
# Labor and AI discussion trend, one is unlike the other



# Worldwide AI Opportunity – Most profound change in % impact of GDP

# Generative AI market outlook - $ Trillion



# Examples of leveraging technology

RSM partners with EQUIFAX to utilize their proprietary tool **Supplier Risk Solution™** and provide clients visibility into their supply chain and the risk profile of their suppliers.

Equifax leverages its extensive databases to deliver real-time updates on global events, helping you assess potential disruptions to your operations and overall supplier risk.

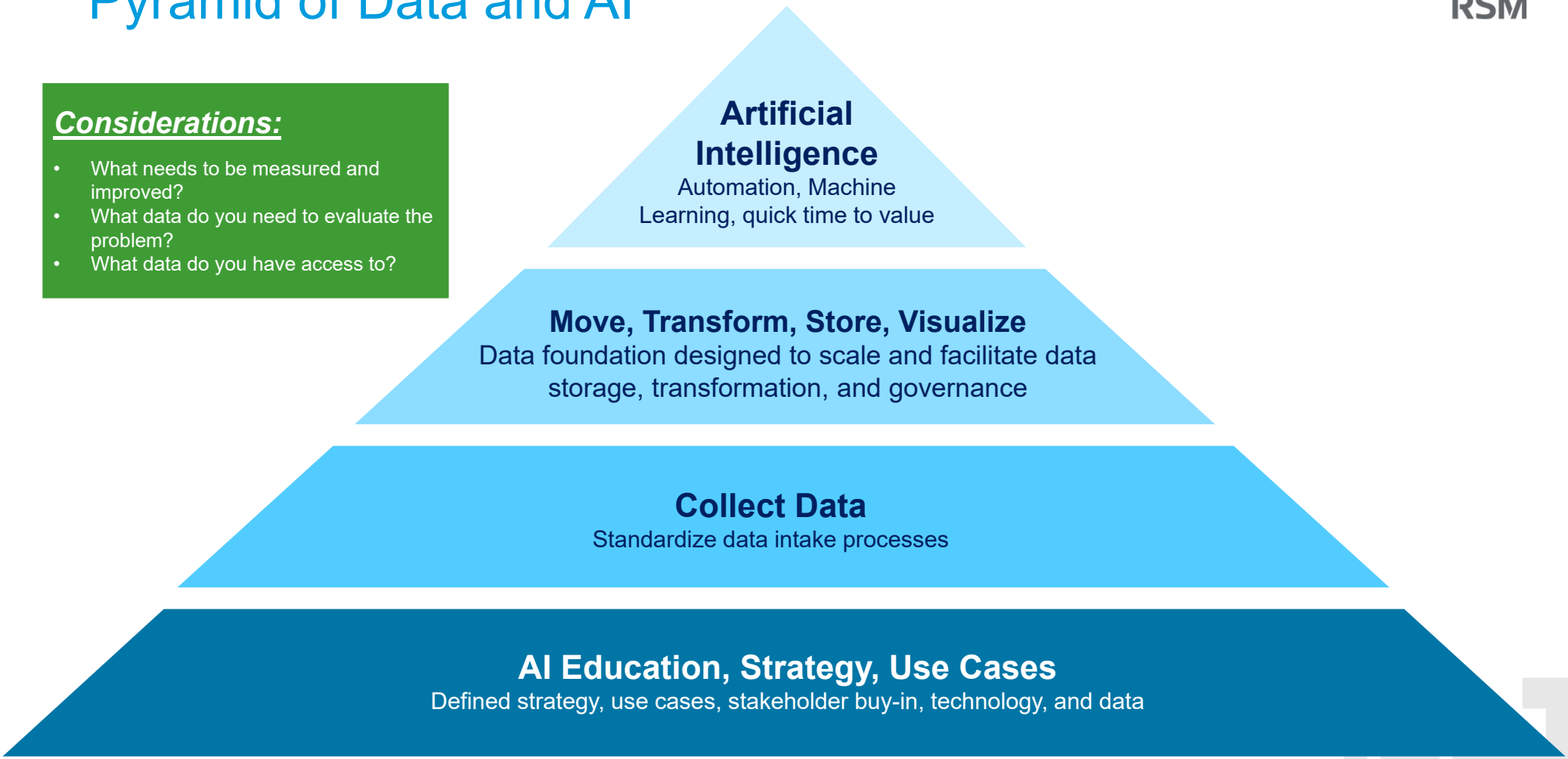
Supplier risk ratings are aggregated based on six risk factors:

- Financial
- Environmental, social, and governance (ESG)
- Cyber
- Restrictions
- Geopolitical
- Catastrophic

# Pyramid of Data and AI

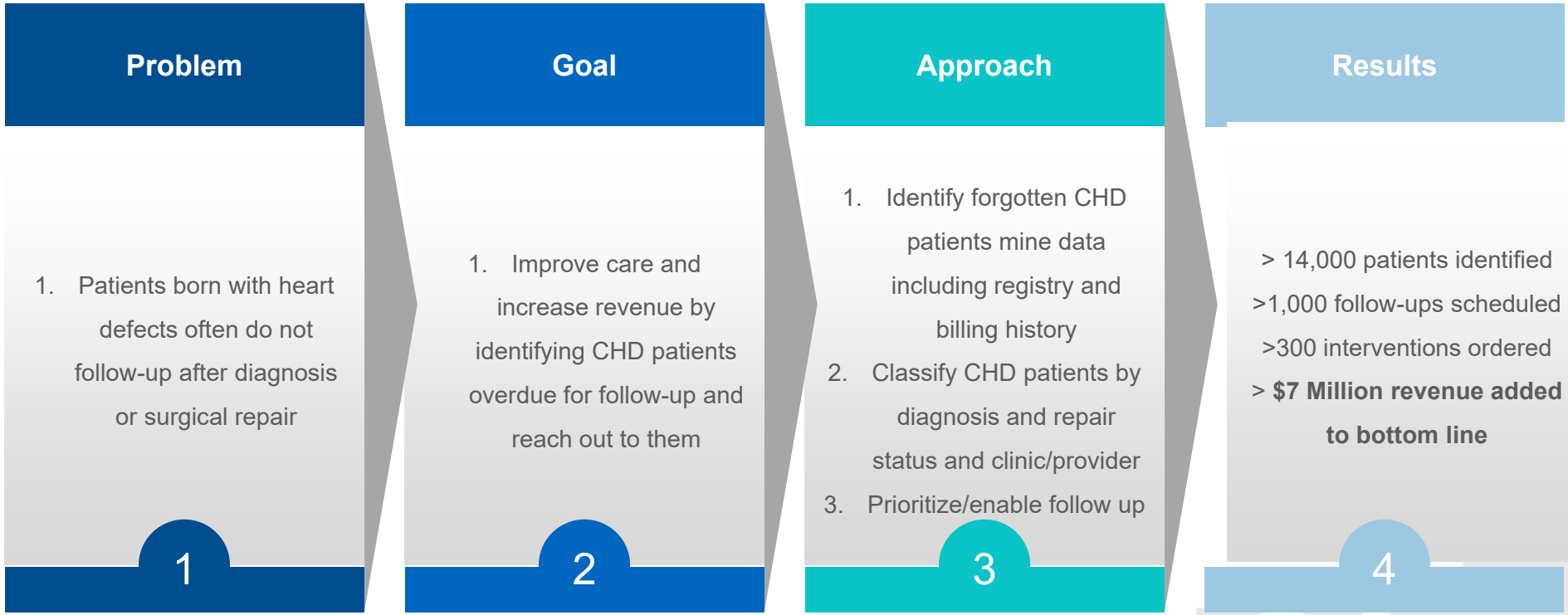
***Considerations:***

- What needs to be measured and improved?
- What data do you need to evaluate the problem?
- What data do you have access to?



# When done right, improved patient outcomes guided by data insights can occur!

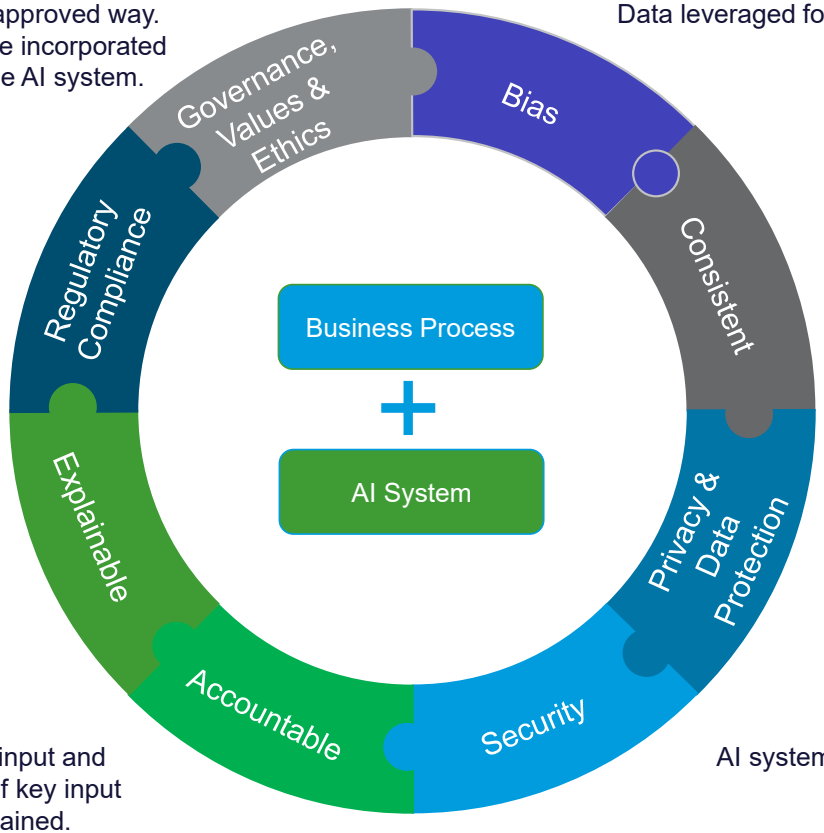
Congenital Heart Defects (CHD) case study



# Responsible AI Governance Framework

Only authorized AI should be used in an approved way. Organizational values and ethics should be incorporated into the design and implementation of the AI system.

Data leveraged for AI systems should be equitable and unbiased.




Applicable regulations should be factored into the design and implementation of the AI system.

The AI system is trained to produce consistent results.

The stakeholders should be able to understand the input and explain the model's output.

Data privacy and protection rules and regulations are incorporated in the design and implementation of the AI system.

The ownership and audit of the AI model's input and output should be clearly defined. Audit trail of key input and updates should be captured and retained.

AI systems are protected from cyber and physical attacks.

# Generative AI Use Cases (Hospitals & Physician Groups

## Continuity of Care

- Summarize discharge information and follow-up needs for post-acute care
- Generate care summaries for referrals
- Synthesize specialist notes for primary-care physician teams

## Quality and Safety

- Synthesize and recommend tailored risk considerations for patients based on their medical history and existing medical literature

## Value-Based Care

- Improve documentation accuracy
- Create patient education videos, images, and summaries
- Autogenerate provider segmentation summaries by specialty

## Market & Clinical Insights

- Summarize market performance and comparisons based on external resources and data
- Leverage conversational language to obtain analytics insights
- Use AI-assisted coding to automate repetitive tasks or generate new code

## Reimbursement

- Develop prior authorization documentation for payers
- Generate a list of current conditions and potential codes based on voice, electronic medical records (EMRs), text, and other data
- Automate coding and checks based on physician notes

## Clinical Operations

- Generate post-visit summaries and instructions
- Generate care coordination notes, changes in EMRs, dictations, and messages
- Create educational materials on disease identification and management

## Corporate Operations

- Draft contracts and vendor communications
- Create purchase orders based on supply levels
- Create customized standard operating procedures and education for new hires
- Develop chatbots to address IT and HR questions

## Patient Satisfaction

- Analyze patient feedback by extracting online text/images
- Create personalized care instructions, videos, visuals, and communications
- Improve chatbots for patient servicing of nonclinical topics
- Autogenerate notifications and outbound communications

# To Recap

- *Diversification enables health systems to strengthen financial resilience by generating new revenue streams, reducing reliance on traditional hospital operations, and better positioning themselves against industry disruptions and shifting patient preferences.*

- *Leading strategies include monetizing existing capabilities (such as transforming internal services into profit centers), expanding into ambulatory and outpatient care, and investing in innovation through partnerships, acquisitions, or direct investment in health care startups.*

- *Successful diversification requires aligning new ventures with organizational goals, ensuring operational readiness, and building capabilities that support both short-term cash flow and long-term value for core hospital operations.*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Q&A


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Thank you!

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