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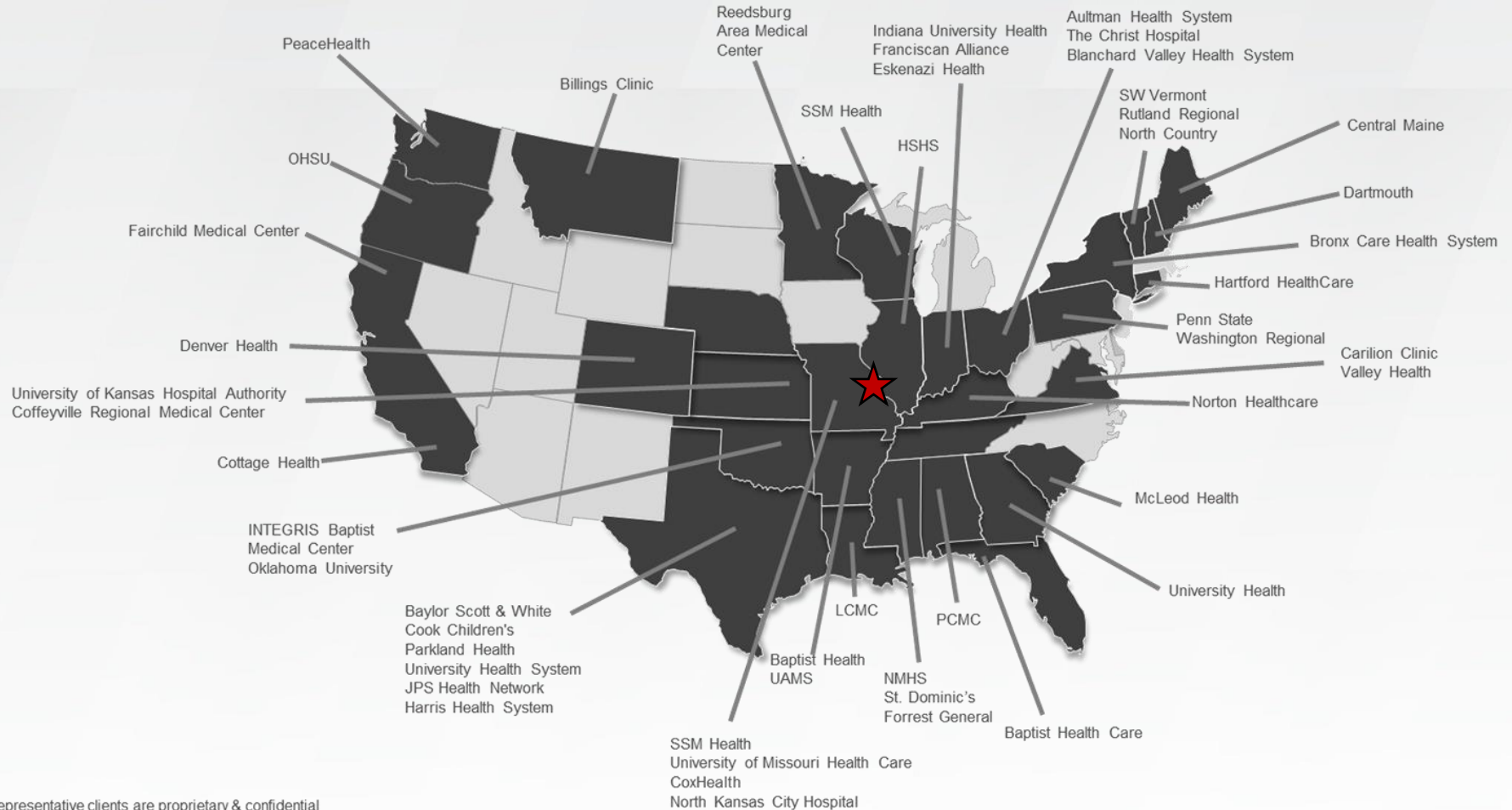
Surviving in Turbulent Times: *What are 2 Health Systems Doing to Sustain Profitability*

Jean M. Nyberg / May 24, 2023

A National Perspective Through a Local Lens

FORVIS' Health Care Portfolio

- 1,150 Hospitals and Health Systems
- 1,030 LTC & Senior Living
- 290 Physician Groups
- 325 CHCs
- 300 Home Care & Hospice
- 250 IDD & BH



All representative clients are proprietary & confidential

FORVIS

A little about Jean...



**Partner at FORVIS Springfield, MO
~ August 2003-TBD
HFMA Region 8 Executive
Treasurer Child Advocacy Center
Mom of 2 – Anika (13), Nicholas (11)
Married for 16 years last Thursday
1 Dog – Rocky (after the movie)**

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HFMA Update

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Today's Learning Objectives

- What financial challenges providers are facing today
- Two Health Systems case studies on how they implemented margin improvement initiatives within their hospitals
- Learn what is next on these two Health Systems horizon

MA SI 2023

August 6-9, 2023
Minneapolis, MN

Featuring Dennis Daylen
CFO Mayo Clinic &
Incoming Chair of HFMA 2023-2024



Future Dates & Locations

August 11-14, 2024
Omaha, NE

TBD 2025
Omaha, NE

TBD 2026
Des Moines, IA

TBD 2027
Des Moines, IA

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Helpful Information about Upcoming Events

Nebraska Chapter Information

[Nebraska HFMA Chapter Info](#)

Nebraska Chapter Calendar

[Nebraska HFMA Events Calendar](#)

Region & MASI Information

[Region 8 Mid-America Summer Institute \(hfma.org\)](#)

Region 8 Calendar

[Region 8 events: Calendar view \(cvent.com\)](#)

Professional Membership Association – serving both individuals and organizations

100,000+

**MEMBER COUNT
AS OF APRIL 2023**

95%

**ENTERPRISE
MEMBERSHIP
RETENTION RATE
AS OF FEBRUARY
2023**

88%

**MEMBERSHIP GROWTH
FROM JUNE 2020 TO
FEBRUARY 2023**

Organizational Membership

- Organizations can offer HFMA benefits and resources to all employees - administrative and clinical.
- Cost effective means for providing teams with relevant healthcare finance training and tools.
- Build staff competencies, knowledge and engagement.
- Drive organizational performance.
- Options for all sizes of provider and business partner organizations.

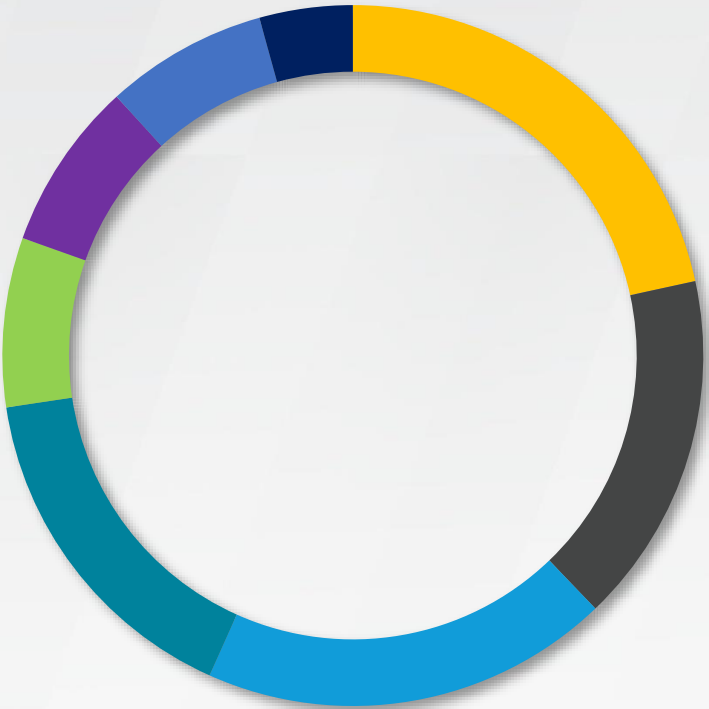
Enterprise
Solutions

hfma™

hfma.org/enterprise

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Primary Member Job Functions

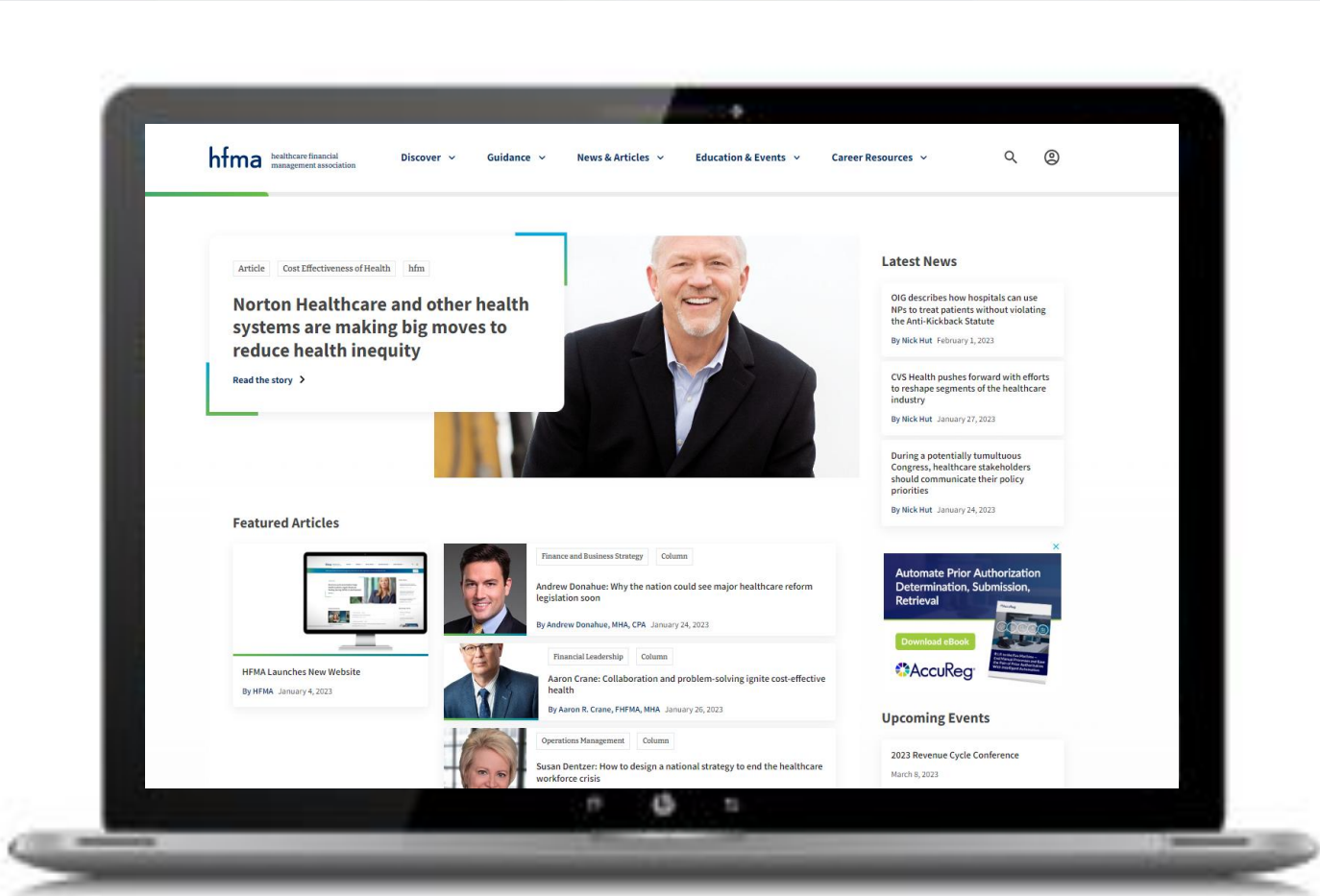


- **REVENUE CYCLE**
- **FINANCE**
- **PATIENT ACCESS**
- **PATIENT FINANCIAL SERVICES**
- **ACCOUNTING**
- **ADMINISTRATION & OPERATIONS**
- **HEALTH INFORMATION/MEDICAL RECORDS**
- **DECISION SUPPORT/BI/ANALYTICS**

As of February 2023

Online Member Home

- New website launched January 2023
- Bold new layout and design
- Updated navigation
- Enhanced search
- Personalized experiences when logged in



hfma.org/newsite

Included with HFMA Membership



**Professional
Certifications**



**E-Learning Courses
+ Webinars**



Community

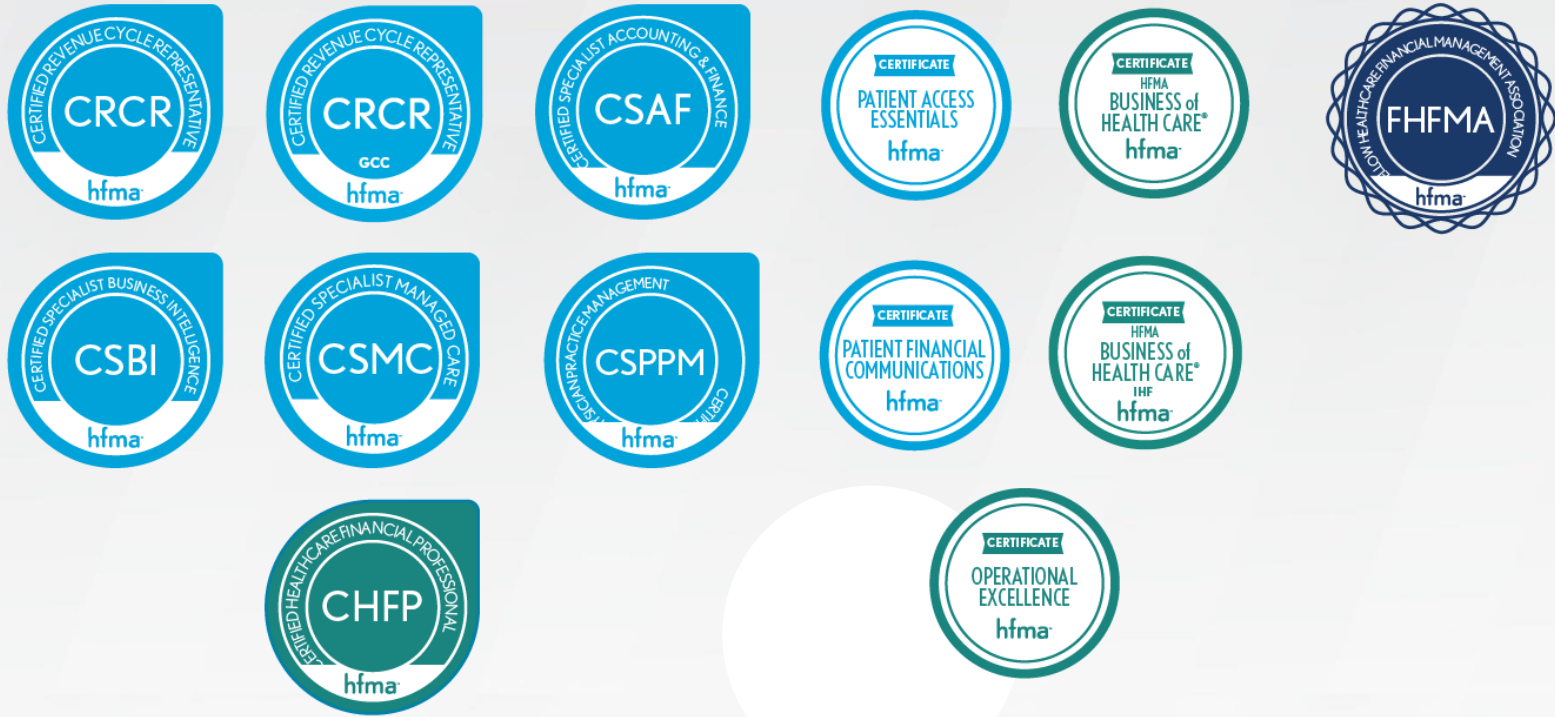


E-Newsletters



**Member-Only
Content**

Distinguish Yourself with Certification



hfma.org/certifications

News, Strategies, Insights

hfm magazine



- Health systems are making big moves to reduce health inequities
- The role of community partnerships in reducing cost of care and improving health outcomes
- How to support underserved patients through in-home care
- Susan Dentzer: A national strategy is needed to end the healthcare workforce crisis
- Jill Geisler: Resolve to upgrade your communication in 2023

Read the current issue



Winter 2022



November 2022



October 2022



September 2022



Summer 2022



May 2022



April 2022



March 2022

E-Newsletters

- HFMA Daily
- Revenue Cycle Insights
- Cost Effectiveness of Health Report
- Leadership
- Healthcare Finance Strategies



Download app to read on your device.



A Few Final Thoughts...

Healthcare is changing quickly and in unexpected ways. HFMA's "Healthcare 2030" four-part series unpacks the challenges and opportunities for CFOs and other healthcare leaders created by the evolving industry, looking ahead to 2030.

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HFMA 2030

hfma HEALTHCARE 2030 SUPPLEMENT

'DISRUPTION IS REAL'
Reflections on HFMA's Healthcare 2030 Series

Featuring
MIKE QUINN
Bank of America

DANIELLE SOLOMON
BKD National Healthcare Group

ROB GAMBLE
The Chartis Group

MIKE MORRIS
Xtend Healthcare

What are we seeing with our clients?

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Health Care Environment: 30,000 Foot View

Financial Stress

Work force

Supply Chain

Consumerism

Stock market &
investment
income volatility

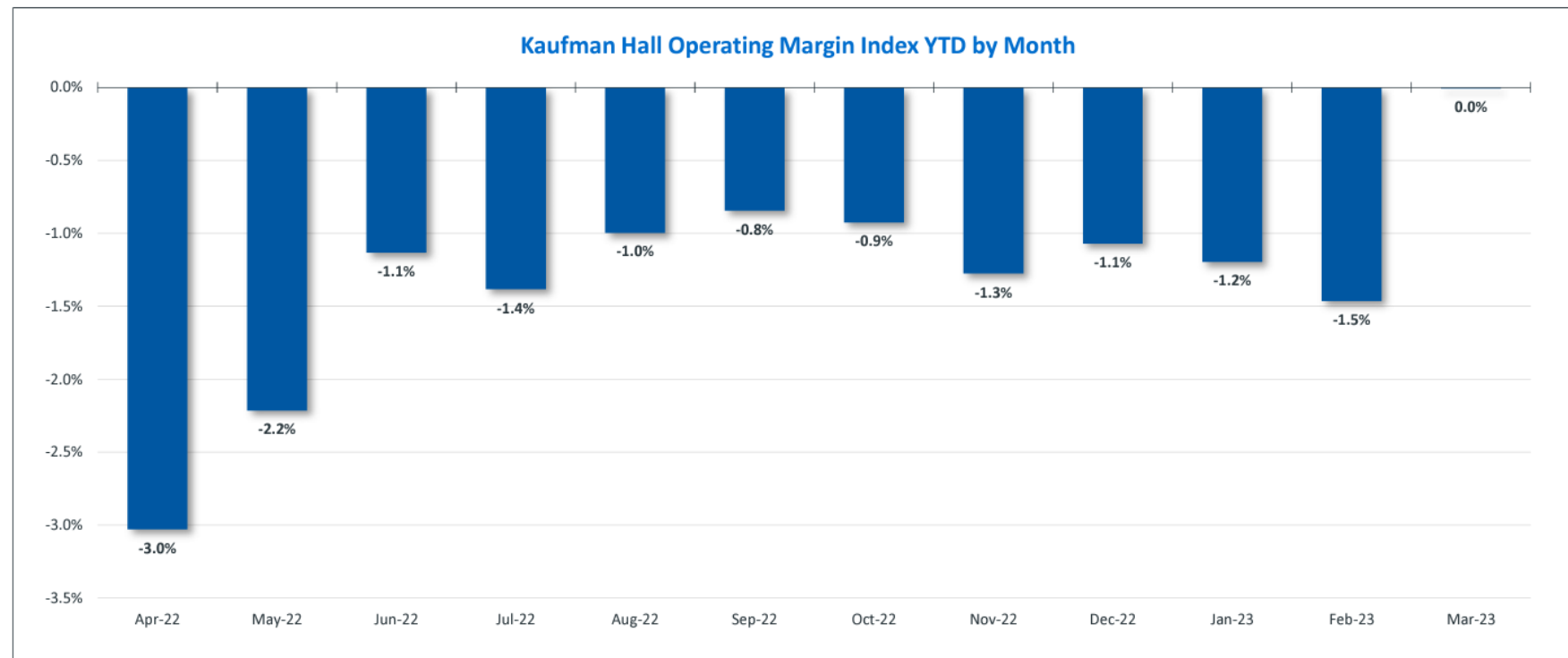
Inflationary
pressures,
including higher
interest rates

Health Equity

Environmental,
Social &
Governance

Financial Stress

Operating Margin



Kaufman Hall, National Hospital Flash Report (April 2023)

* Note: The Kaufman Hall Hospital Operating Margin and Operating EBITDA Margin Indices are comprised of the national median of our dataset adjusted for allocations to hospitals from corporate, physician, and other entities.

Financial Stress

Patient volumes are not back at pre-pandemic levels

69% of health system strategic planners reported operating margins below pre-pandemic performance

10% increase in median proposed premium increase for individual market plans across 72 insurers

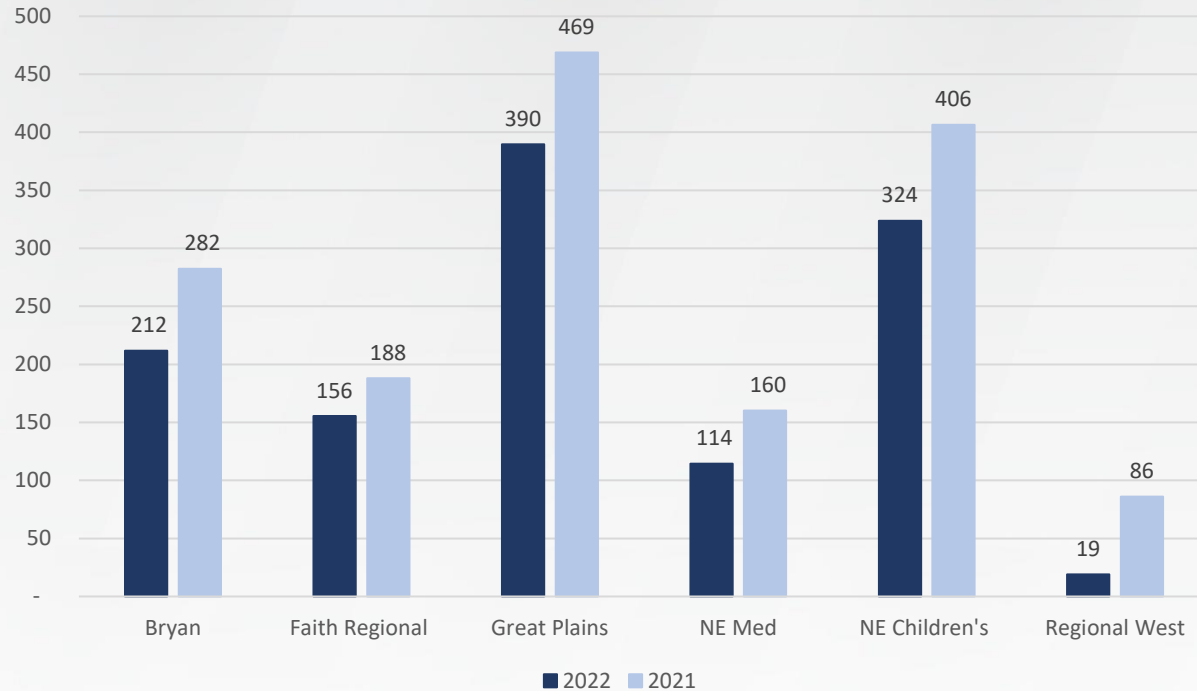
Providers can not depend on Federal COVID-19 relief funding

Medicare reimbursement rates are not increasing at substantial levels

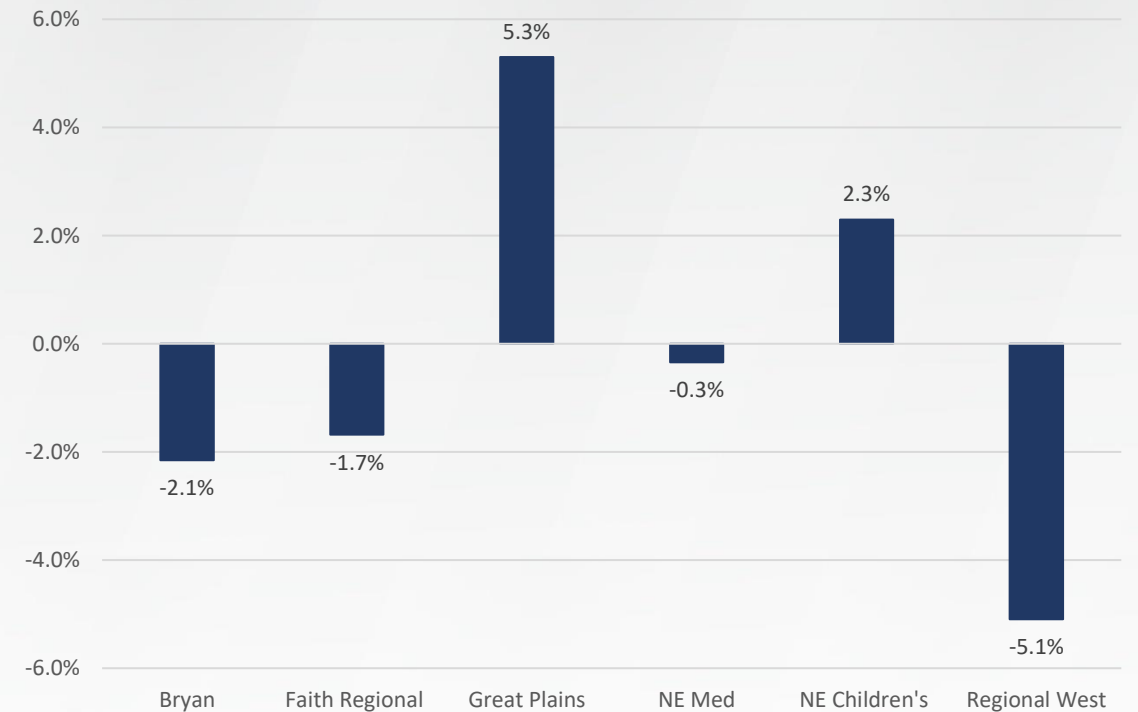
Patient care continues to shift to outpatient care which will negatively impact hospital profit margins

Financial Strength from a Local Lens

Days Cash on Hand



Operating Margin -Rolling 12 Months as of 12/31/2022



Note: For comparisons utilized December 31, 2022 and 2021, information annualized for each Health System using public bond filings from www.emma.msrb.org

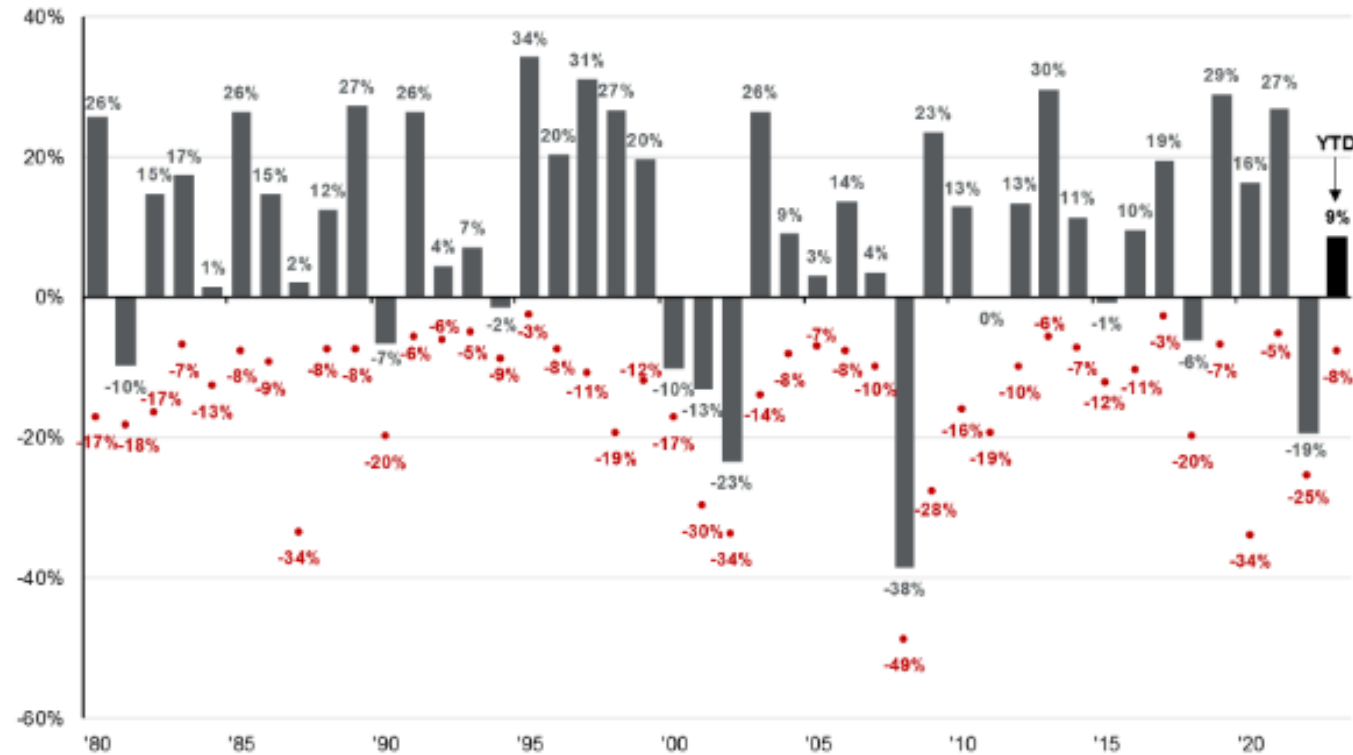
Unrealized Losses Have a Significant Impact on Hospital Balance Sheet Strength

Annual returns and intra-year declines

GTM U.S. 15

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns were positive in 32 of 43 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2022, over which time period the average annual return was 8.7%. Guide to the Markets - U.S. Data are as of April 30, 2023.

J.P.Morgan
ASSET MANAGEMENT

The economic future is not set in stone

Scenario 1: Stabilization avoids a painful recession

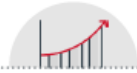
Guided intervention and market self-corrections alleviate economic crises indefinitely

Federal interest rate hikes appropriately stem demand and curb consumer prices

Unemployment overall remains low and health care workforce challenges persist

Labor costs overall remain high, including for the health care workforce

Supply chain challenges improve, bringing down input costs



Indicators to watch

FEDERAL INTEREST RATE

▲ 2.25% point June 2022 YOY¹

UNEMPLOYMENT RATE

▲ 3.7% August 2022

EMPLOYMENT COST INDEX

▲ 5.1% June 2022 YOY

PRODUCER PRICE INDEX

▲ 9.8% July 2022 YOY

Scenario 2: Mitigation now triggers a recession later

Intervention now improves economic indicators in the near term, but triggers a recession in reaction

Federal interest rate hikes are too aggressive, so businesses struggle to borrow and invest capital

Unemployment overall spikes, but with limited potential to ease health care labor shortages in time

Labor costs overall decline, but remain high for much of the health care workforce

Supply chain challenges and costs improve for some sectors, but remain high for others

¹ Year-over-year Source: "Employment Cost Index Summary," BLS, July 2022; "Federal Funds Target Range," Federal Reserve Economic Data; "Civilian unemployment rate," BLS, August 2022; "Producer Price Index News Release Summary," BLS, August 2022



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Businessweek Remarks

Next Big Job Cuts Will Be in Finance and Health Care, Data Show

Companies with declining revenue per employee and slumping stock prices seem most likely to reduce head count.

Financial Management

35 hospitals, health systems cutting jobs

Kelly Gooch - Updated 22 hours ago



A number of hospitals and health systems are trimming their workforces or jobs due to financial and operational challenges.

Below are workforce reduction efforts or job eliminations that were announced within the past seven months and/or take effect later this year.

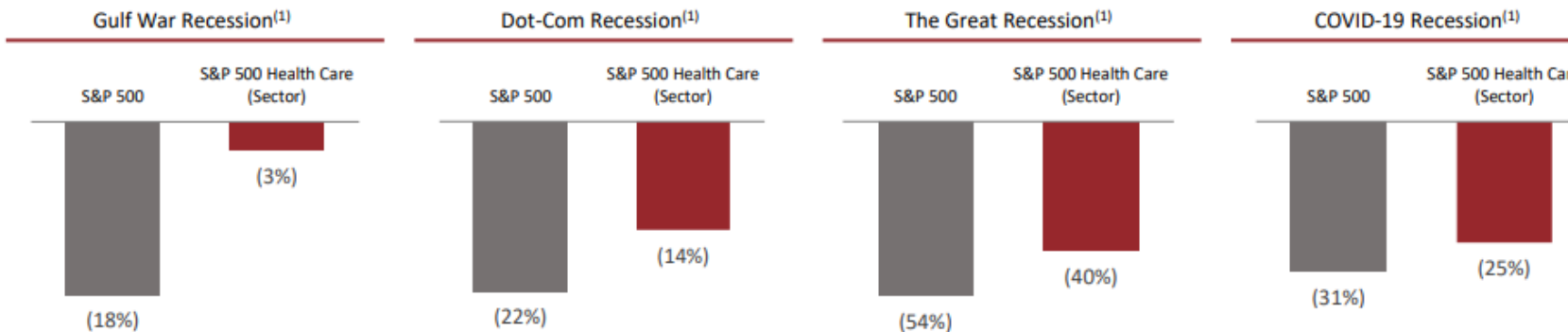
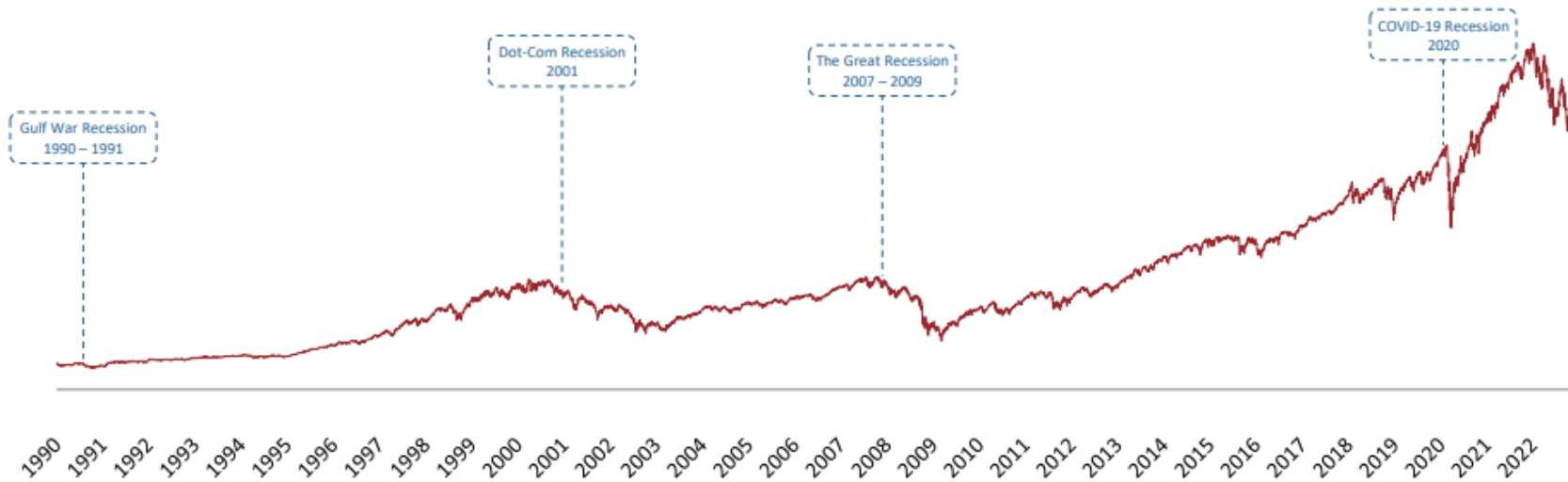
Editor's Note: This webpage was updated April 4 and will continue to be updated.

1. Danbury, Conn.-based Nuvance Health will close a 100-bed rehabilitation facility in Rhinebeck, N.Y., resulting in 102 layoffs. The layoffs are effective April 12, according to the *Daily Freeman*.
2. Charleston, S.C.-based MUSC Health University Medical Center laid off an unspecified number of employees from its Midlands hospitals in the Columbia, S.C. area. Division President Terry Gunn also resigned after the facilities missed budget expectations by \$40 million in the first six months of the fiscal year, *The Post and Courier* reported March 30.
3. Winston-Salem, N.C.-based Novant Health laid off about 50 workers, including C-level executives, the health system confirmed to *Becker's* March 29. The layoffs affected Jesse Cureton, the health system's executive vice president and chief consumer officer since 2013; Angela Yochem, its executive vice president and chief transformation and digital officer since 2020; and Paula Dean Kranz, vice president of innovation enablement and executive director of the Novant Health Innovation Labs.
4. Penn Medicine Lancaster (Pa.) General Health eliminated fewer than 65 jobs, or less than 1 percent of its workforce of about 9,700, the health system confirmed to *Becker's* March 30. The layoffs include support, administrative and executive roles, and COVID-19-related support staff, spokesperson John Lines said, according to *lancasteronline.com*. Mr. Lines did not provide a specific number of affected workers.
5. McLaren St. Luke's Hospital in Maumee, Ohio, will lay off 743 workers, including 239 registered nurses, when it permanently closes this spring. Other affected roles include physical therapists, radiology technicians, respiratory therapists, pharmacists and pharmacy support staff, and nursing assistants. The hospital's COO is also affected, and a spokesperson for McLaren Health Care told *Becker's* other senior leadership roles are also affected.
6. Bellevue, Wash.-based Overlake Medical Center and Clinics laid off administrative staff, the health system confirmed to the *Puget Sound Business Journal*. The layoffs, which occurred earlier this year, included 30 workers across Overlake's human resources, information

Healthcare is such a large % of GDP, can we afford for it to fail?

Healthcare has historically been more resilient than other industries and has proven to be a growth driver of the economy, with healthcare as a percentage of U.S. GDP rising from 13% in 2000 to 20% in 2022.

S&P 500: 1990 – 2022⁽¹⁾



Today ALL of my clients
have significant cost
cutting and operational
improvement initiatives in
place

Rising Costs



Rising costs

are decimating provider margins, which will also impact payers and commercially insured patients.

Skyrocketing expenses, 2022 vs 2019¹

+37% Labor costs per adjusted discharge

+37% Drug costs per adjusted discharge

+21% Supply costs per adjusted discharge

IMPACT

69%

Of health system strategic planners reported operating margins below pre-pandemic performance in 2022²

10%

Median proposed premium increase for individual market plans across 72 insurers in 13 states and Washington, D.C., in 2023³

Workforce Top Concern of CEO's for 1st time since 2004

Personnel Shortages Top Issue Confronting Hospitals in 2021

Results by ACHE's Executive Office, Research.

"...clearly understand that shortages and financial challenges go hand in hand as labor costs rise and solutions seem elusive...." – Deborah Bowen, President/CEO ACHE

Financial challenges (n = 310)









Increasing costs for staff, supplies, etc.	87%
Reducing operating costs	53%

Personnel shortages (n = 310)

Registered nurses	94%
Technicians (e.g., medical technicians, lab technicians)	85%
Therapists (e.g., physical therapists, respiratory therapists)	67%
Primary care physicians	45%
Physician specialists	43%
Physician extenders and specially certified nurses (physician assistants, nurse practitioners, certified nurse midwives, etc.)	31%
Other	17%
Pricing and price transparency	27%
Emergency Department overuse	26%
Moving away from fee-for-service	25%
Other	n = 11

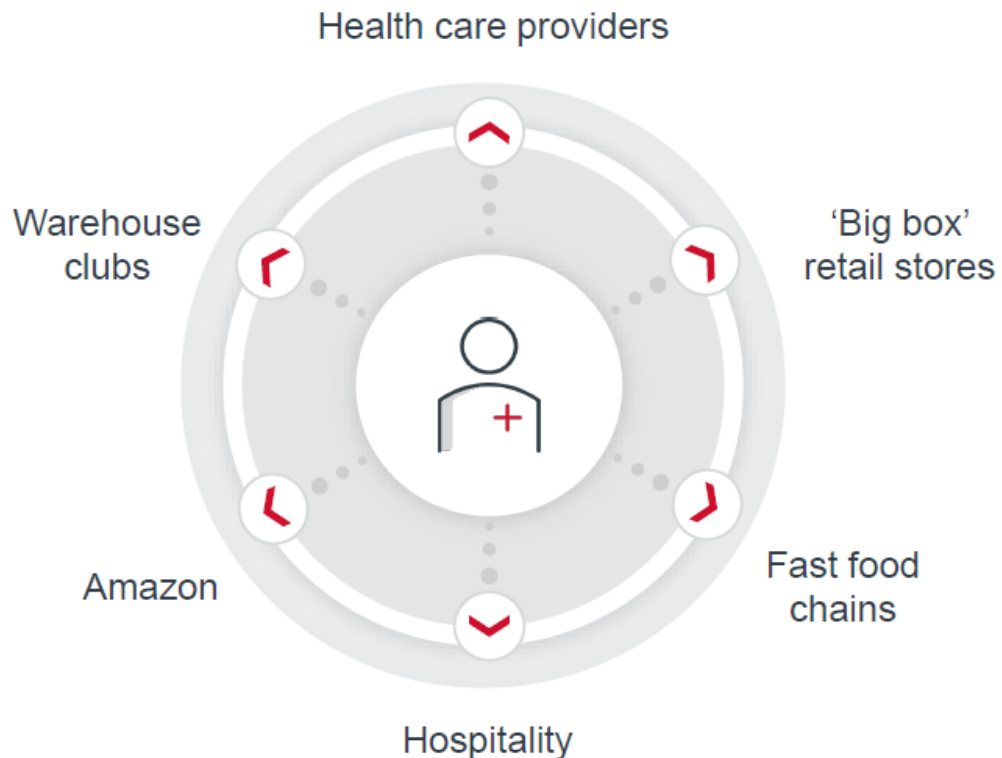
The average rank given to each issue was used to place the issue in order of how pressing it is to hospital CEOs, with the lowest numbers indicating the highest concerns

Staffing Stretched with Turnover Across Key Roles

ROLE	TURNOVER NUMBERS	PIPELINE STATUS
 Registered nurses	18% turned over in 2021	Weakening ; qualified applicants being turned away due to academic capacity
 Licensed practical nurses	20% left the workforce, Apr 2020 to Jun 2021 compared to pre-pandemic	Weak ; lack of schools available, historical reduction in hiring hinders interest
 Nursing aides	35% turned over in 2021	Weak ; lack of training programs available, difficulty enticing interest in role
 Physicians	7% median turnover in 2020	Moderate ; varies by specialty; length of training delays new physician availability
 Pharmacy technicians	21% turned over in 2021	Weakening ; scope of role changing as techs take on more patient-centric work
 Medical assistants	21% plan to seek training and/or employment in an occupation outside health care in the next 5 years	Weak ; lack of training programs available, difficulty enticing interest in role
 Pharmacists	10% turned over in 2021	Weak ; lengthy training program delays new pharmacist availability
 Nurse practitioners	15% turned over in 2021	Strong ; predicted surplus of NPs over the next decade

Healthcare Competing for Assistive Staff

Source of competition



DATA SPOTLIGHT

Minimum wage of major entry-level workforce competitors

\$15

Amazon starting wage for all US employees

\$16

Costco starting wage for all US employees

\$15

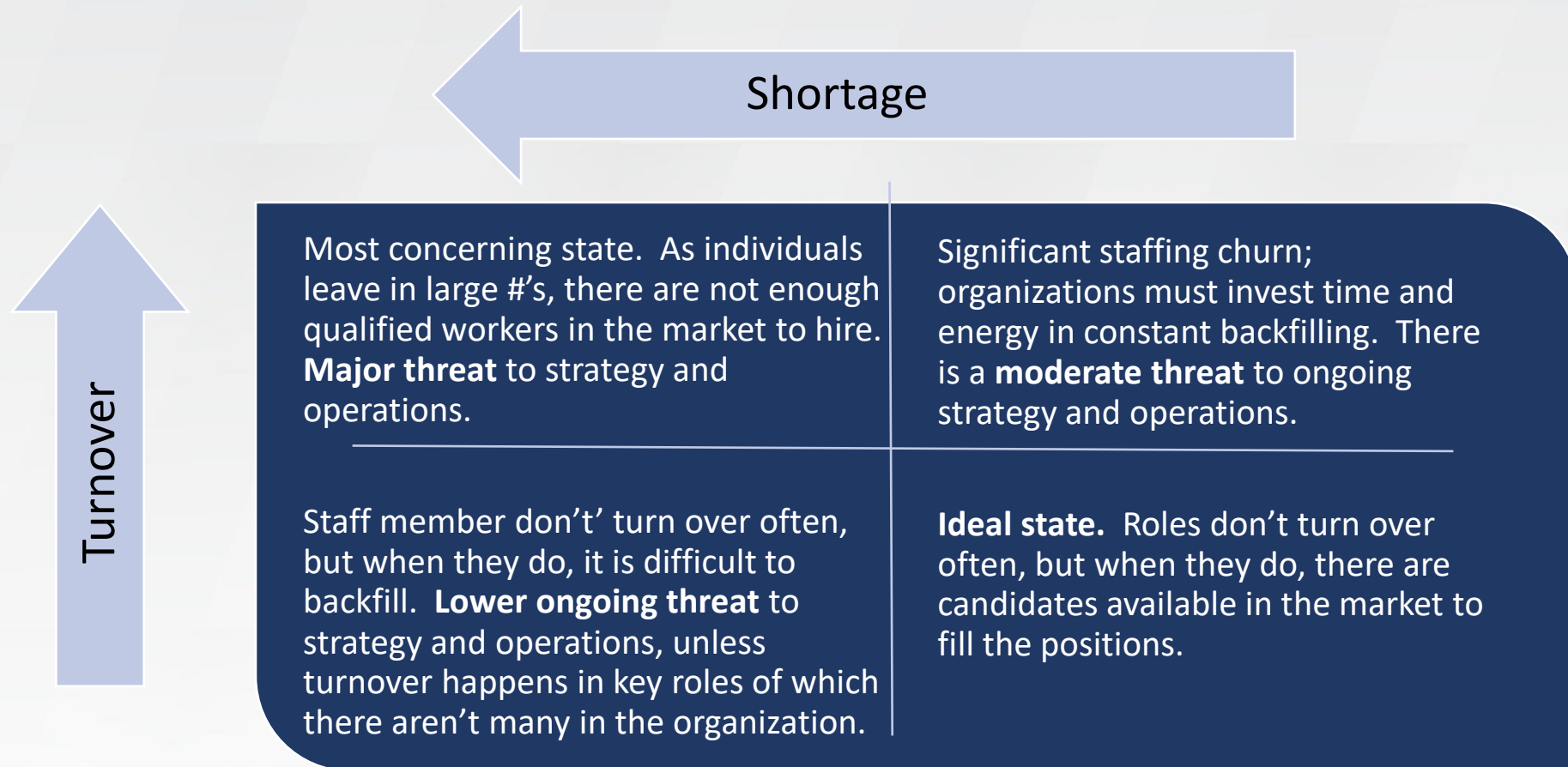
Starbucks starting wage for all US employees by 2023

\$15

Target starting wage for all US employees

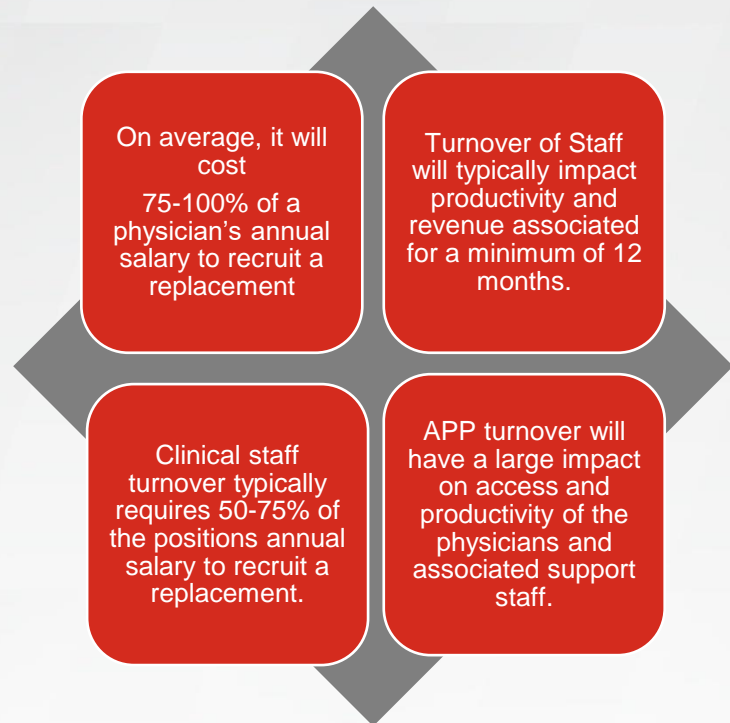
Source: "Costco, Amazon, and 16 Other companies That Raised Their Minimum Wage to \$15 (or more)," Go Banking Rates, August 2021.

Turnover and Shortage are **NOT** the Same Thing



Cost of Turnover

Estimating Cost Associated with Turnover



Expense Components of Staff Turnover

- Reduced Capacity – effecting downstream revenue
- Recruitment Costs – including marketing, sign-on, moving allowance, training
- Contract labor – fill staffing position during the recruitment process
- Cultural Implications – stress, burn-out creating potential for additional turnover
- Financial Impact
 - \$40,038 average turnover for RN, and each percentage change will either cost or save \$270,800 per year

Women held 530,000, or 3.8%, fewer 2020 health care jobs in October than in February, likely due to limitations on safe and affordable child care.¹⁰⁰

200,000 women's jobs were lost in nursing homes, likely due to fewer elective surgeries and subsequent demand for rehab, the toll of COVID-19 on residents and people opting for in-home care.¹⁰¹



Men held 36,000, or 1.2%, fewer 2020 health care jobs in October compared with February.¹⁰²

Recruitment Re-envision Rather than Simply Rebuild

Diversify and strengthen diversity recruiting

Review and expand your talent sources to ensure that you're tapping into diverse school populations, networks and events that reach diverse candidate pools:

- Leverage social media as part of your recruiting channel mix.
- Make sure you get the word out about your DEI commitment by publicizing the right content to the right audiences.
- Encourage diverse leaders in your organization to share their stories.
- Walk in the shoes of a diverse job seeker and take an honest inventory of your candidate's experience to weed out racial, gender and other conscious or unconscious bias.

Things we know about the labor/ staffing trends

- Labor rates are often not “market” in many hospital departments within nursing, but also impacts many other non-clinical areas
- Remote work should be a consideration for your organization
- Many staffing ratios have increased even though volume may not be trending higher
- Can automation be a strategy for your organization?

Methodology: Compression De-Compression & Market Salary Ranges

- **Compression Formula:** Calculated the percent change from current base to current lowest paid staff member in that job class and applied that percentage to each staff member who has tenure ≥ 1 year
 - Percent Change from Current Base to Current Lowest Paid:
 - Job Code 1= i.e., 28%
 - Job Code 2= i.e., 5%
- **Salary Range - Market Formula:**
 - All effected Job Codes:
 - Base Rate Formula: New Base + Inflationary Factor
 - Ceiling Rate Formula: New Ceiling + Inflationary Factor

Annual Salary Program and Experience Credit

- Annual Merit Program
- Develop a methodology for co-workers who reach ceiling, options:
 - Lump Sum Merit Increase
 - Longevity Bonus
 - Additional PTO Accrual
- Develop a standard experience credit table that can be used across for experienced hires

Experience Credit Table Example

Experience Credit Up To:		3%			
Prior Years of Service	Job Code 1	Job Code 2	Job Code 3	Job Code 4	
0	\$15.00	\$24.00	\$36.09	\$42.00	
1	\$15.45	\$24.72	\$37.17	\$43.26	
2	\$15.91	\$25.46	\$38.29	\$44.56	
3	\$16.39	\$26.23	\$39.44	\$45.89	
4	\$16.88	\$27.01	\$40.62	\$47.27	
5	\$17.39	\$27.82	\$41.84	\$48.69	
6	\$17.91	\$28.66	\$43.09	\$50.15	
7	\$18.45	\$29.52	\$44.39	\$51.65	
8	\$19.00	\$30.40	\$45.72	\$53.20	
9	\$19.57	\$31.31	\$47.09	\$54.80	
10	\$20.16	\$32.25	\$48.50	\$56.44	

Base	\$15.00	\$24.00	\$36.09	\$42.00	
Midpoint	\$18.82	\$30.11	\$46.22	\$52.69	
Ceiling	\$22.64	\$36.22	\$56.35	\$63.39	

ERI Data ¹		
Supervisor	Manager	Director

\$37.45	\$43.35	\$52.26
\$42.65	\$50.10	\$64.71
\$47.84	\$56.84	\$77.16

Rate of Inflation ² 6.29%		
FORVIS Recommended		
Supervisor	Manager	Director

\$39.81	\$46.08	\$55.55
\$45.33	\$53.25	\$68.78
\$50.85	\$60.42	\$82.01

¹ ERI Median Market Salary Analysis for City, Specialty Health Location database as of 7/1/2022

² Inflation Calculator (2021 = 4.70% and YTD June 2022 7.87%)

Internal Staffing Agency

Opportunity to reduce contract labor expense through implementing staffing agency focused on both internal and international nursing team members

- Internal Concepts
 - One Location Strategy
 - Multiple Location Strategy (Internal Agency)
- Short/Long Term Foreign Trained Strategy

Internal Float Pool Strategy

- Staffing Matrix to support each unit to include all job codes
 - Well defined roles and responsibilities
- Optimization of Scheduling Platform
- Schedules filled using current process
- Open shifts are filled by using internal float pool
 - Tiers with different competencies and pay categories


Foreign Trained Nursing Strategy


- Candidate signs 3-year contract (considered permanent staff)
- Competencies: Med/Surg or ICU nurses
- Benefits are the same as staff plus short-term living assistance
- Longer term strategy
 - Approximately 18 months from interview to on-site & working; immigration process is parallel to this process

Workforce Insights – Productivity Culture


- Identify improvement opportunities for workforce or production; based on leading practice comparative benchmarks & established departmental productivity standards (productive hour/unit of service)
- Every hour saved equals dollars straight to the bottom line

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HOSPITAL 


Workforce Productivity Manager 


Benchmarking
(How does your workforce productivity compare?)


 **Benchmark Departments**


Bi-Weekly Tracking
(How are we tracking to our productive standard?)

 **Executive Summary**

 **Productivity Reporting**

 **Financial Opportunity**

 **YTD Trending**

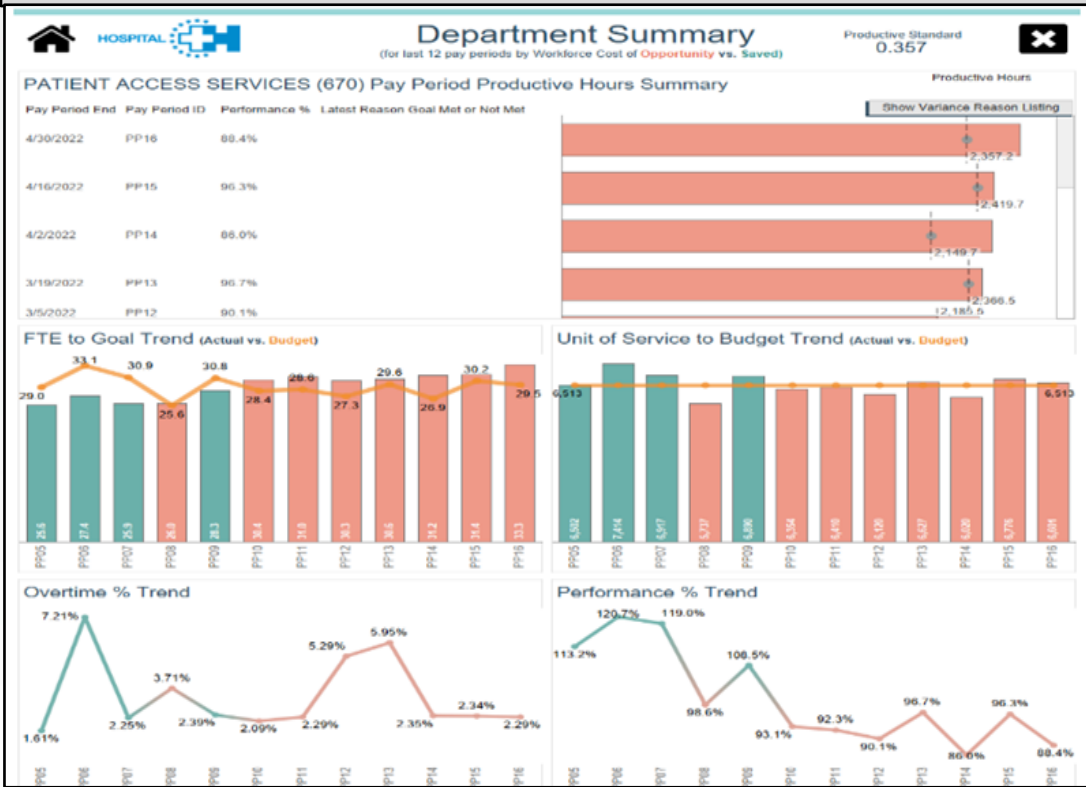


Workforce Insights

Trends for C-Suite leaders over time, as well as top performing departments & those departments that need coaching to improve



Department Managers need bi-weekly performance trends, volume trends, hour(FTE) trends, overtime trends in one location to allow variance reporting



Additional Benefits with Productivity Tracking

- Tracking and Trending for:
 - Contract & Travel Hours & Spend Tracking
 - Premium Pay Tracking & Trending
- Variance Reporting by Pay period
- Developing of Manager “Productivity Culture”
 - Expanding Business Acumen of Clinical Leaders/Managers

What Should Shape Your Workforce Strategy

- 1 Stabilization isn't enough; aim for workforce sustainability
- 2 Physician turnover isn't high, but intent to leave is red flag
- 3 Nurse realignment is common, but there are pockets of resignation
- 4 Assistive personnel are the backbone of staffing but are at the apex of turnover
- 5 Technology must be seen as a critical member of the care team

Technology Can Assist Sustainability Achievement

CLINICAL INVESTMENTS



Decision support

- Patient triage
- Predictive patient diagnostics and suggestions



Virtual care

- Remote patient monitoring
- Medication reconciliation

ADMINISTRATIVE INVESTMENTS



Documentation and transcription

- Voice-to-text transcribing
- Patient information auto-population



Clerical task automation

- Staff scheduling
- Automated data collection and entry

Putting It All Together

Wrap Up

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/ **Do you have an integrated strategic plan?**



/ **Do you have a recruitment and retention plan that drives cultural and cost results?**



/ **Have you considered integrated tools to support your strategic plans?**

Other pockets of operating expense cost savings

- Lease contracts
- Property taxes
- Supplies
- Pharmacy
- Third party services, brokers, etc.
- Others?

Brokers, Benefits and Bids

- HR leaders overwhelmed last 2 years. Does your broker have your best interests in mind? Will they be a fiduciary?
- Benchmark broker fees
 - Medical: \$2 - \$3 PMPM + PBM: \$2 - \$2.50 PMPM
 - Ancillaries: Commission or flat fee
- Stop loss thresholds
 - Most are \$350K individual limit (versus overall)
 - Key is collaboration with carrier
 - Typical opportunity is 10% - 35% savings
- Short term disability
 - Consider premium-based, voluntary program (through carrier) rather than hospital funded benefit. Can create PTO misalignment and abuse incentives
- Employee Assistance Programs: Pharmacy and Medical charitable services/foundations

PBM Narcos

- What are the rebates...and where are they going?
- Gamesmanship Levers
 - Defining specialty drugs
 - Rebates per specialty drug
- Brand vs Specialty Drugs
- Specialty Rx is ~ 2% - 3% of total Rx count and should have avg of \$2,600 - \$3,800 rebate per Rx
- Spread pricing
- Step therapy
- Typical PBM savings 15% - 20%

Category	Rebate per Rx
Retail Brand	\$200 - \$220
R90 Brand	\$300 - \$700
Mail Brand	\$600 - \$900
Specialty Brand	\$2,600 - \$3,800

Combating 340B Eroding Margins

- 22 Manufacturers have implemented restrictions for contract pharmacy arrangements
 - 3 Court Cases
 - 1 ruling in favor of manufacturers
 - 2 cases – waiting for ruling – expected by July 2023
 - Supreme Court
 - Congress Regulation
 - Supreme Court Rulings
 - Patient definition – in favor of hospitals
 - OPPS reimbursement – in favor of hospitals
 - 340B ESP
 - Submit claims data
 - Designate single pharmacy
 - Other strategies
- Entity-owned pharmacy
- Expansion of hospital outpatient departments (provider-based clinics)

Top line improvements are likely sizable for most... What is your organization most focused on?

- Pre-authorization and medical necessity
- Coding
- Denials
- Staffing & Workforce productivity
- Timely billing follow up
- Contracting and verification of payment rates
- Automation/ AI

Denial Reduction is a Top Priority for Providers

Recent survey identified denial reduction as a top priority for healthcare professionals and key challenges to address

According to a Recent 2022 Survey of healthcare professionals:

- **75%** of survey responses indicated reducing denials is their highest priority and 70% said it is more important than prior to the pandemic
- **Survey indicated Top 3 reasons** healthcare professionals believe are responsible for increase in claims denials:
 - Insufficient Data Analytics (62%)
 - Lack of Automation in claims/denials process (61%)
 - Lack of Thorough Training (46%)

Insurance Denials Are Not Slowing Down

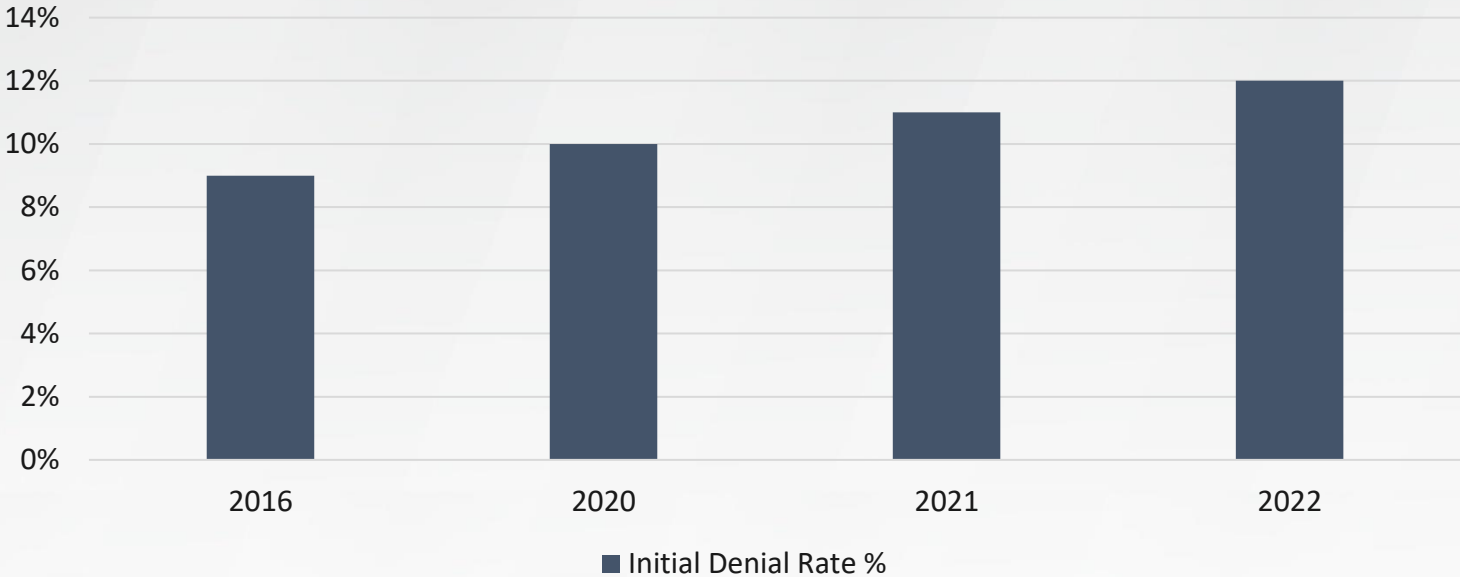
Insurance Denials and US Healthcare Complexity Continue To Rise Year over Year

Increase in National Average Insurance Denial Rate from 2016 to 2022¹

100,000 Estimated payor policy changes between 2020-2022²

12% of all provider claims submitted partially or completely denied¹

National Average Claim Denial Rate Trends 2016-2022¹



Provider Challenges Addressing Denials

Our clients and healthcare providers at large continue to struggle reducing insurance denials and revenue loss from preventable operational issues

1

Revenue Cycle Staffing- Staffing and turnover challenges in revenue cycle have limited organizations abilities to take a pro-active approach including prevention initiatives and staff education

2

Denial Visibility and Reporting- System and reporting limitations and complexity have limited providers ability to prevent denials and monitor appeal success

3

Regulatory and Payor Complexity- Providers continue to have difficulties adhering to constantly evolving regulatory requirements and successfully defending post payment audits

Two Hospitals with the
same goal but different
approaches for margin
improvement

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Phelps Health

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

A little about Phelps Health:

- 242 bed hospital located in Rolla, MO
 - opened in 1951
 - 7 county service area
- 100+ Physician Group
 - Outpatient Clinics in 5 counties
- Home Health/Hospice Services



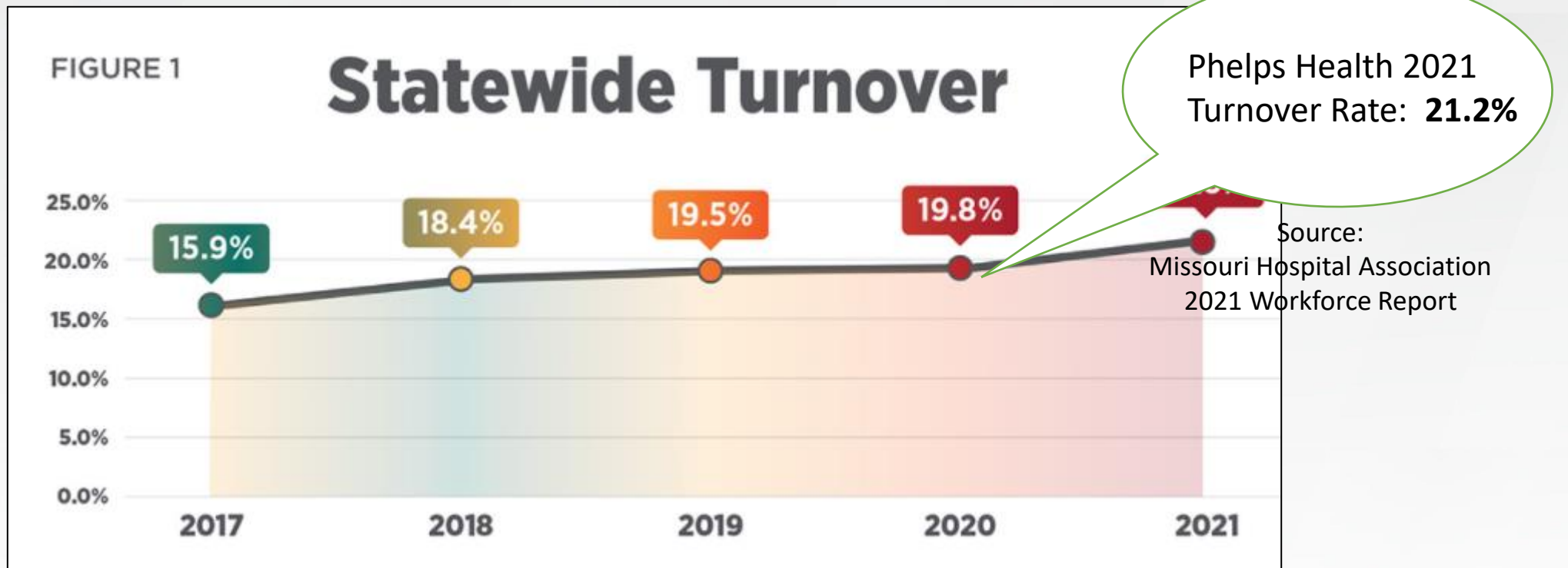
Phelps Health – Where we were...

- Negative Margins (w/out Stimulus funds)
 - + 7/8 months from October 2021-May 2022
- Expense per Adjusted Hospital Discharge increased 24.7% from 2019
 - + Supply Expense increased 15.0%
 - + Pharmaceutical expense increased 52.4%

Phelps Health

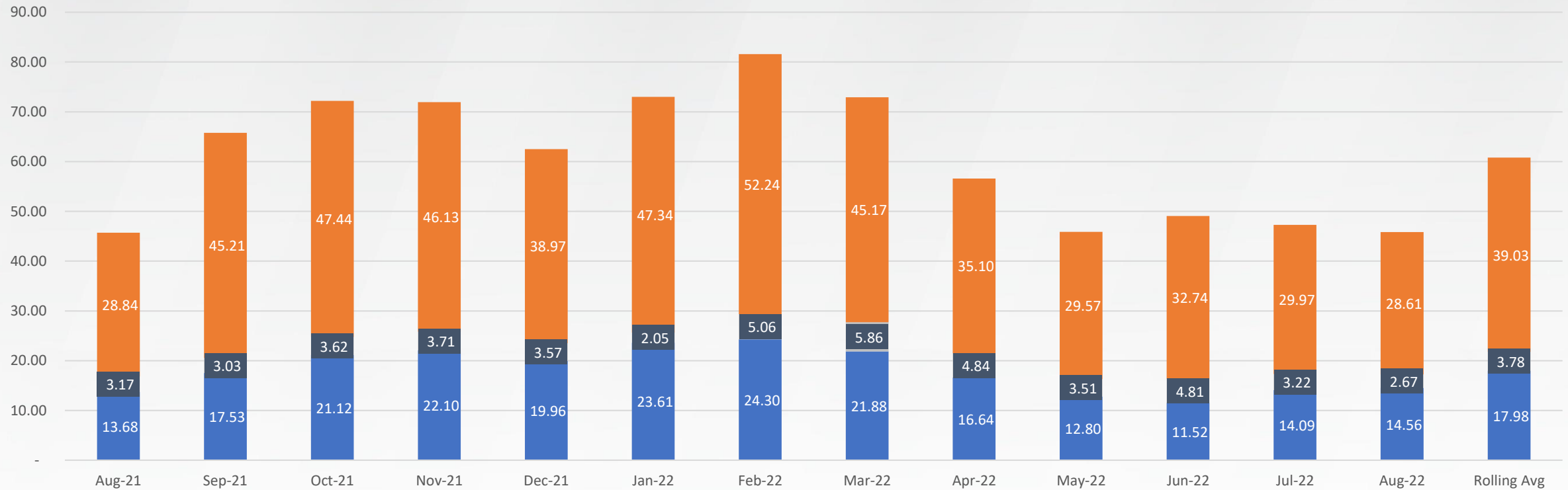
- Labor expense per adjusted discharge increased 22.1% from 2019
 - Agency expense increased 59.5%
 - Covid Differential \$1.0 million
- Turnover
 - Entry Level Positions turnover very high
 - Housekeepers +70%
 - Nurse Aides - +50%
 - Pharmacy Technicians +35%
 - Focus on Recruitment & Retention
 - Sign-on Bonuses
 - Retention Bonuses
 - Minimum Wage Increases/Market Increases \$5.2 Million

Missouri Hospital Turnover



Phelps Health Agency Use

Phelps Health Agency FTE's
August 2021 - August 2022



Project Impact Overview

- What it was:
 - Targeted financial improvement - \$8.5 million-\$14.0 million
 - + Cost saving initiatives
 - + Revenue enhancements
- What is was not:
 - Reduction of labor

Project Impact Key Factors:

- Started with approval from Board of Trustees
- Executive buy-in
- Supported by Finance not led by Finance
- Communication and culture

Project Impact Overview

- 6 Groups Led by an Executive Director
 - + Multi-Disciplinary teams
 - + 11-13 Department Directors
 - + Each team given a target of 10% of non-salary related expenses
- Vice President group led by CEO
 - Organizational wide initiatives
- Each group assigned a representative from Finance

Project Impact Timeline

- January
 - Kickoff meeting with Executive team leads
- January –April
 - Team meetings to identify savings opportunities
 - Executive Directors presented monthly to VP team
 - Savings identified by April 2022
- May-December
 - Report to Finance Committee/Board of Trustees
 - Groups continue to meet to implement and monitor results

Project Impact Approach

- Each team worked independently
 - Presented on top 3 expenses
 - Revenue departments met with Finance to verify revenue
 - Reviewed subscription/purchase services/maintenance contracts
 - Discussed with employees

Project Impact Results

- Revenue
 - Revenue integrity review
 - Annual wellness visits
 - Access to care
 - + Managed care contracts
 - Clinical Documentation Improvement
 - Complex Claims
 - Provider Based Billing
 - 340B Pharmacy Expansion

Project Impact Results

- Salaries Expense:
 - Orientation
 - Covid differentials
 - Entrance screeners
 - Replacement FTEs
 - Agency expense
 - Cell phone stipends

Project Impact Results

- Employee Benefit Expense:
 - Pension Match
 - Paid Days Off
 - Health Insurance Plan
 - + Plan design
 - + Eligibility
 - + Pharmacy rebates
 - Cell phone stipends

Project Impact Results

- Supply Expense
 - Restructured value team
 - Product substitutions
 - Renegotiated pricing
 - Negotiated sole vendor pricing – Orthopedics
 - Pharmacy

Project Impact Results

- Surgery Team
 - Dedicated Time
 - +Multi-Disciplinary team met bi-weekly including Physicians, Leadership & Finance
 - Focused on 3 areas:
 - +Contracts
 - +High cost items
 - +Provider/case variations

Project Impact Results

- Surgery Team
 - Dedicated Time
 - +Multi-Disciplinary team met bi-weekly including Physicians, Leadership & Finance
 - Focused on 3 areas:
 - +Contracts
 - +High cost items
 - +Provider/case variations

Project Impact Results

- Surgery contracts and high-cost items:
 - Identified top spends
 - Started conversation to understand the drive for each specific vendor (quality, convenience, habit...)
 - Evaluated alternative vendors and ability to get competitive pricing
 - Information was brought back to team to weigh pro and cons of change
 - Transparency of costs of items

Project Impact Results

- Nursing Services:
 - Walked through process of admission with staff
 - Retrained staff and redefined processes for use of supplies
 - Looked at items with branding
 - Reviewed linen usage with staff
 - Created workflow for patient one-on-one sitter usage

Project Impact Results

- Software subscriptions
 - Retired those replaced by EPIC
- Purchase Services review
 - +Brought some services in-house
 - +Renegotiated pricing
- Maintenance Contracts

Project Impact Results

- Service Line Analysis:
 - Focus on Loss Leaders
 - Closed one Service Line
- Accountability
 - Established monthly variance meetings

Project Impact What's Next

- Investment in Revenue Cycle:
 - New Positions to help implement initiatives
 - Focus on Denial management
 - Focused on Financial navigation for patients to improve patient experience & reduce bad debt
 - Initiative to improve upfront collections
 - How do we renegotiate payor contracts with record inflation
 - How can we automate high volume/low value revenue cycle touches

Project Impact What's Next

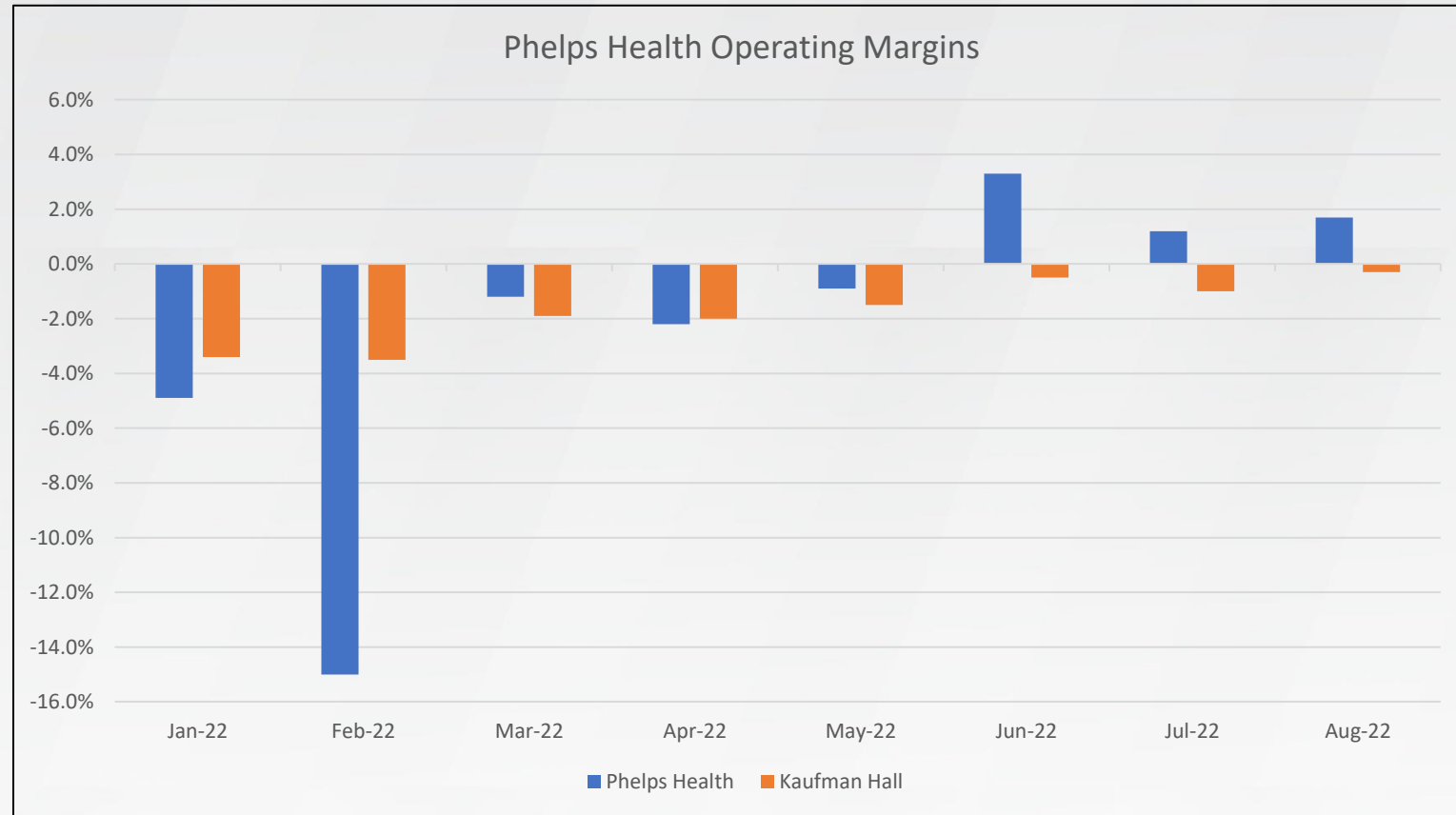
- Government Relations Team:
 - What are our legislative priorities
 - Capital Projects
 - Grant Opportunities
 - FEMA reimbursement

Project Impact Lessons Learned

- Communication is important
- Executive buy-in to create culture
- Negative employee feedback
 - Employee annual survey

Project Impact Results

- Still working on implementing some initiatives
- 3 months of positive margins



A Little About Freeman Health System

Freeman Health System in Joplin, MO

- Opened in 1925
- 460-bed, three-hospital system
- 4,000+ employees; 300+ physicians
- 70+ specialties
- Cancer care, heart and vascular care, neurology and neurosurgery, orthopaedics, children's and women's services
- Ozark Center – behavior health provider
- Children's Miracle Network Hospital
- 5 Star Promise – Compassion, Communication, Teamwork, Professionalism, Ownership
- 5 Pillars – People, Service, Quality/Safety, Financial, Growth



Freeman Health – where we were/are

- Negative Operating Margins (excluding Provider Relief Funds)
 - + 9 out of 12 months from October 2021-September 2022
 - + No months with a negative operating margin in the previous 2-3 years+
- Total Expense per Discharge increased 26.6% from FYE 3/31/20 to FYE 3/31/22
 - + Medical Supplies and Drugs increased 12.9%
 - + Salaries & Wages + Benefits increase 14.9%
- Freeman Joplin Operating Margin declined from 4.6% to 3.7%
 - + 3.0% without Provider Relief Funds
- Operating Margin Currently: 6 months into FYE 3/31/23 it is 0.8%
 - + -1.6% without Provider Relief Funds

Freeman Health – where we were

- Labor expense per discharge increased 27.5% from FYE 3/31/20 to FYE 3/31/22
 - + Contract Labor (agency nursing) expense increased \$650,000+ (FY2022)
 - + COVID Disaster Premium \$510,000 (FY2022) – *ICU, Medical, RT, Acute Care, CMU, etc.*
 - + COVID Bed Extra \$1.7M (FY2022) – *Incentive Pay to work extra shifts due to short staffing*
 - + COVID Call Back \$630,000 (FY2022) – *Similar to Bed Extra but for PRN or PT employees*
- Turnover (16% overall)
 - + RN (bedside only) 25%
 - + Entry Level Positions turnover very high
- Focus on Recruitment & Retention
 - + Sign-on and Retention Bonuses
 - + Mid Year Wage Increases - \$15/hour Minimum Wage - \$5.5M
 - + Mid Year Targeted Market Increases \$9.5M (RNs x2, LPNs, Scrub Techs x2, Radiology, etc.)

Housekeepers 77%
Nurse Technicians 27%
Pharmacy Technicians 21%
Lab Technicians 28%

Freeman Health– Project Overview

- Financial Improvement Team (FIT)
 - + Cross functional team
 - > Finance, Supply Chain, HR, IT, Facilities, Surgery, Clinics, Rx, Imaging, Lab
 - + Executive leadership buy-in and involvement
 - > CEO, CFO, CMO, CCO, VP Supply Chain, CHRO, CIO, Physician Groups
 - + Project Period
 - > Assessment/Planning - October 2021 to December 2021
 - > Implementation – January 2022 to August 2022 (and ongoing)
 - + Largely Nonlabor Focused
 - + Formal assessment and project with Forvis CPAs and Advisors
 - > Insights, benchmarking, negotiating, analysis

Financial Improvement Team (FIT) - Overview

- Areas of Focus
 - Med/Surg Supplies
 - Group Purchasing Organization
 - Physician Preference Items
 - Lab Supplies, Reagents & Blood
 - Reference Lab
 - Food/Cafeteria
 - Biomedical
 - Buildings and Grounds
 - Utilities
 - Pharmaceuticals
 - Benefits
 - Environmental Services
- Opportunity: \$4.4M (low) to \$8.1M (high)

Financial Improvement Team (FIT)– GPO / Supplies

- Opportunity: \$750,000 - \$1.25M
- Official RFP to Vizient, HealthTrust and Premier
- Achieved \$887,000
 - +3-year renewal agreement with incumbent GPO
 - >Additional fee share
 - >Benchmarking software free of charge
 - >Removing unnecessary aspects of agreement

Financial Improvement Team (FIT)– GPO / Supplies

GPO Sourcing Models

Flexible-Voluntary Model

- Vizient National GPO
- Individual choice
- No penalties
- Broad contract portfolio with options
- No local prohibition
- Limited voice in sourcing decisions

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Enhanced Flexible Model

- Flexible aggregation groups (i.e. MSS, S3P, WCPC, MNS)
- Group choice
- Limited penalties
- Selective contract portfolio
- Minimal local prohibition
- Compliance monitoring
- Voice in sourcing decisions

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Committed Model

- Committed Aggregation groups (Captis, Excelerate)
- Committed category programs (Vizient Achieve)
- Anchor driven groups
- Financial penalties
- Selective contract portfolio
- Local prohibition
- Compliance enforcement
- Participation requirements by category
- Voice in sourcing decisions

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Value

Financial Improvement Team (FIT)– Physician Preference Items

- Opportunity: \$725,000 - \$1.075M
 - +Orthopedic (Recon/Trauma) \$1.3M
 - > Pricing and Rebate
 - > Slightly higher commitment (90% commitment)
 - +Orthopedic (Shoulder) \$120,000
 - > Pricing negotiation
 - +Neuro/Spine - 9-18% benchmark savings (ongoing)
 - > Target is \$310,000 (25%ile) to \$605,000 (10%ile)
 - > Exercise of total spend, commitment %, and benchmarking

Financial Improvement Team (FIT)– Other Surgery

- Opportunity: \$375,000 - \$550,000
- Lithotripsy
 - + Benchmarking indicated 17.5% opportunity
 - + Patient satisfaction consideration
 - + Status: On Hold
- Reprocessing
 - + Identify more reprocessing of single use devices (EP, O2 sensors, energy products)
 - + Alternative sourcing of non-reprocessed devices (West Coast Medical)
 - + \$175,000 achieved

Financial Improvement Team (FIT)– Reference Lab

- Opportunity: \$450,000 - \$850,000
- Reference Lab spend at \$3.2M
 - + Quest benchmarked 15% above average and 34% above target
 - + Mayo benchmarked 10-20% above target
- Incumbent negotiations and competitive bidding
- Achieved \$278,000 in savings
 - + Pricing improvement
 - + Initial target did not account for physician ordering preferences and resources constraints

Financial Improvement Team (FIT)– Cardiovascular / Imaging

- Opportunity: \$250,000 - \$425,000
- Radio pharmacy
 - + Cardinal - low energy, Essential Isotopes - high energy
 - + Aggregate Buying Group considerations
 - + Request for Proposal process, possible to result in change in vendor
 - + Current projected savings \$150,000+
- AAA - Endovascular Grafts (ongoing)
 - + Target is \$128,000 (25%ile) to \$182,000 (10%ile)
 - + Pricing negotiation and potential RFP/trial
 - + \$50,000 guaranteed (rebate)

Financial Improvement Team (FIT)– Pharmacy

- Opportunity: \$187,000 - \$400,000
- IV Solutions
 - + Standardization from two vendors to one vendor
 - + Better pricing as a result of standardization
 - + Conversion of IV sets (ongoing negotiation)
 - + Low end of savings opportunity guaranteed

Financial Improvement Team (FIT)– Biomedical

- Opportunity: \$300,000 - \$850,000
- Historical utilization review of preventative maintenance and service usage to reduce costs
- Medical Imaging Equipment Vendor #1
 - + \$55,600 annual savings – pricing reduction
 - + 5-year fixed pricing agreement
- Medical Imaging Equipment Vendor #2
 - + \$150,000 annual savings (ongoing)
 - + Contract ending 8/31/22 - \$1.7M in total spend
- Initial target included complete outsourcing of biomedical department

Financial Improvement Team (FIT)– Benefits

- Opportunity: \$450,000 - \$675,000
- Wide variety of topics proposed
 - + Health insurance, PBM, ancillary benefits, stop loss, etc.
- Ancillary Benefits (LTD – Voluntary and Employer Paid)
 - + Current rate was \$0.42, target was \$0.25, range \$0.51 to \$0.25
 - + Savings of \$74,000, rate of \$0.29 achieved - No coverage changes
- Health Insurance and Pharmacy Benefit Manager (ongoing)
 - + Annual fixed administrative costs reduced 55%+
 - + Engaged Marsh & McLennan Agency – Rx Solutions
 - + \$1.1M over current contract, \$556,000 improved over current proposal
 - + 1-year contract

Financial Improvement Team (FIT)– Purchased Services

GPO Foodbuy Program	\$420,000
Retail Pricing	\$240,000
Free Meals	\$93,000
Waste Not Program	\$68,000
Station Restructuring	\$64,000
Management FTEs	\$35,000

FORV/S

- Opportunity: \$500,000 - \$900,000
- Food & Nutrition Services (FANS)
 - + Dietary total costs per day benchmarked high
 - + Cafeteria, catering and floor stock benchmarked well
 - + 3-year extension – \$650,000 - \$920,000 annual savings
 - + Management fee reduction, GPO fee share increase, GPO food contract transition, management FTE restructuring, waste management program, software, etc.
- Housekeeping/Environmental Services (EVS)
 - + Hourly staff productivity benchmarked well, managed FTE count was high
 - + 2-year extension - \$300,000 one-time credit for minimum wage increase
 - + \$50,000 investment in EVS equipment; \$50,000 to Freeman Foundation

Financial Improvement Team (FIT)– Future Projects

- Gloves price reduction - \$270,000 opportunity
- Custom procedure trays - \$188,000 opportunity
- Standardize acute and nonacute distributor
- Workforce Development (nurse tech, scrub tech, anesthesia assistants, etc.)
- Revenue Cycle - Payor Management
 - + Denials
 - + Pre-certifications
 - + Medical Records review
 - + Unilateral Down-coding
 - + Reimbursement (incorrect rates, not according to contract, etc.)
 - + Contracting

Since the PHE ended on
May 11th, what other
funding sources maybe be
available to help prop up
my bottom line in 2023?

Grant Funding & Legislative Advocacy

FEMA

USDA

SAMHSA

ARPA

NHA

NRHA

Others

FORVIS

Biden-Harris Administration Invests \$74 Million to Improve Health Care for People Living in 37 States, Guam, and Puerto Rico; more than \$2 million awarded in Nebraska

Development Under announced that USDA is improve health care facilities in han \$2 million was awarded

h care organizations expand n 37 states, Guam, and Puerto illion for 67 rural health care organizations to help more than 1 million people living

Name: Meredith Mingleddorf
Email: Meredith.Mingleddorf@usda.gov
Phone: (402) 437-5563
City: Lincoln
Release Date: Aug 11, 2022

Rural Nebraska receives \$28M from USDA in one year



In the last year, rural Nebraska received \$28 million in federal funding from the US Department of Agriculture.

By [Madison Pitsch](#)
Published: Feb. 8, 2022 at 4:30 PM CST



LINCOLN, Neb. (KOLN) -In the last year, rural Nebraska received \$28 million in federal funding from the US Department of Agriculture to help communities grow and improve on healthcare, education and public safety services.

The money is from the USDA's Rural Development's [Community Facilities Direct Loan and Grant Programs](#).

Brown County used the grant to improve their sheriff's office by improving communications operations between officers and improving their record management.

"It helps with the officers being out on the road to be able to do the reports in the units and respond in a more timely manner. It's a change for us, big change, but the future is going this way, so we went this way," said Brown County Sheriff Bruce Papstein.

Newsroom - BHECN opens applications for ARPA awards

BHECN opens applications for ARPA awards

WRITTEN BY [Lisa Spellman](#) | PUBLISHED Aug 17, 2022



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The Behavioral Health Education Center of Nebraska (BHECN) is accepting proposals — the first in a series of funding cycles — to develop the behavioral health workforce in Nebraska.

Earlier this year, the Nebraska Legislature allocated \$25.5 million in American Rescue Plan Act (ARPA) funding to BHECN. In turn, BHECN will award that funding through a competitive process to address the impacts of the COVID-19 pandemic and the shortage of behavioral health professionals.

"The pandemic caused a dramatic increase in the need for behavioral health services, and with providers already in short supply, many people experienced long wait times or a complete inability to access behavioral health care," said Marley Doyle, MD, director of BHECN, the state's behavioral health workforce development center administered at the University of Nebraska Medical Center. "This has become a crisis for many areas of the state, particularly in rural areas."

Capital Financing Options

- Publicly traded debt and bank loans rates are less desirable
- New Market Tax Credit Opportunities
 - <https://ded.mo.gov/content/opportunity-zones>
 - <https://www.cdfifund.gov/programs-training/programs/new-markets-tax-credit>
 - <https://www.forvis.com/nmtc>
- USDA
 - <https://www.rd.usda.gov/>

West Holt Memorial Hospital: A Rural American Success Story

Meredith Mingledorff

07.01.2022 COMMUNITY FACILITIES



Recent Bond Financings

Select Transactions									
Obligor	State	Underlying Rating (M/S&P/F)	Sale Date	Tax Status	Total Par Amount	Final Maturity	Final Mat. Coupon/Yield	Final Mat. Spread (bps) ⁶	Lead Underwriter
Texas Children's Hospital (2015-2) ³	TX	Aa2/AA/NR	03/14/23	TE	\$50M	2045	Var.	Var.	TD Securities
Texas Children's Hospital (2015-3) ⁴	TX	Aa2/AA/NR	03/14/23	TE	\$110M	2045	Var.	Var.	TD Securities
Moffitt Cancer Center (2023A) ⁵	FL	A1/A/NR	03/08/23	TE	\$326M	2054	5.75% / 4.65%	+107 bps	BofA
Covenant Health (2023)	MA	NR/BBB-/BBB	03/07/23	TE	\$90M	2037	4.00% / 4.92%	+178 bps	RBC

renovated waiting area, multi-purpose space, new patient check-in area, new staff workspace, and a new boardroom.

Recent USDA Rates

Current interest rates for the 2nd Quarter of Fiscal Year 2023, effective January 1, 2023 – March 31, 2023:

Poverty: 4.500%*

Intermediate: 4.125%*

Market: 3.750%*

For this quarter, all loans may be obligated at the lower market rate.

Thank you to Jana Cook & Michael Sanders



Jana Cook, MBA, CPA · 1st
Chief Financial Officer at Phelps Health

United States · [Contact info](#)



Michael Sanders · 1st
Controller at Freeman Health System. CPA, FHFMA, CHFP, CSAF, CRCR,
CSMC, CSBI, CSPPM

Joplin, Missouri, United States · [Contact info](#)

The case study information was originally presented by Michael & Jana at the Greater Heartland October 2023 HFMA meeting. The original presentation can be found at the following link.
<https://www.hfma.org/chapters/region-8/greater-heartland/past-presentations/>

Let's Talk...

Q & A

FORV/S

Thank you!

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The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by FORVIS or the author(s) as to any individual situation as situations are fact specific. The reader should perform its own analysis and form its own conclusions regarding any specific situation. Further, the author(s) conclusions may be revised without notice with or without changes in industry information and legal authorities. FORVIS has been registered in the U.S. Patent and Trademark Office, which registration is pending.

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