



# Managing Margin Challenges and Getting Back to Black

## Spring 2023 CFO Forum Meeting Roundup

Discussion highlights from the March 2023 in-person meetings for the Chief Financial Officer Forum

## Leading Health Systems in Attendance



## Summary of Themes

### Key Takeaways from Select Sessions



**Focusing on the “duality of growth”:** Managing financial challenges while innovating operations has CFOs are striving to run their current business and transform it at the same time with a focus on pursuing both growth and efficiency through consolidation and descaling initiatives.



**Seeking transformative labor solutions:** Ongoing workforce challenges have CFOs redesigning compensation and benefits packages to improve retention and leveraging AI/ML technology that augments their limited workforce and supports their objective to reduce dependency on agency staff.



**Actionable health equity measures:** When health equity initiatives are data informed and have tracked KPIs, CFOs have a better understanding of health equity as an investment with long term gains (e.g., lower readmissions, shorter LOS, improved access, etc.).



**Attempting to renegotiate rates with payers:** Payer negotiations have been an ongoing pain point for LHS, especially when rates aren’t meeting LHS’ rising costs. CFOs are recalibrating their negotiation strategy with payers and agreed the best tool for payer negotiation is to be the “must have in a payer’s market.”



**Developing price transparency strategies** as LHS continue to face media scrutiny about their higher prices. CFOs want to change the narrative and impression of their (often higher) prices by leveraging the price transparency data pool and serving as a partner to CMS.

## Getting Back to Black

# Managing rising labor costs is CFOs main focus for improving margins

*Session Spotlight: CFOs discuss the initiatives they are prioritizing for both short- and long-term returns with a big focus on sustainable workforce solutions.*

Facilitated by: Andy Barrow, CFO, Cone Health

### Key Takeaways

- To improve razor thin margins, CFOs are primarily focused on finding workforce solutions that lower their operating costs. Right now, they're navigating the best options between increasing compensation/benefits to improve retention versus continuing to rely on travelers, or going without the staff they need and shutting units or services.
- CFOs agreed they are currently torn about their continued use of travelers. LHS need travelers to keep their hospitals operating, but going reliance on travelers is not a sustainable long-term solution. Extensive use of travelers creates higher, more variable labor costs with inconsistencies in care delivery that has translated into longer LOS and declining quality.
  - Some LHS have resorted to closing units to save costs and curtail their continuous reliance on travelers.
- Implementing international nursing programs and leveraging bonuses to increase retention are two ways CFOs are attempting to close workforce gaps. But many LHS are looking to technology like AI and RPA as long-term solutions for their workforce shortages and to offset the growing workload of existing staff.
- While many LHS have automated their back-office capabilities, most are still in the early stages of implementing AI and RPA more broadly and navigating the challenges of scaling smart-technology solutions across the organization.
- CFOs are also trying to find other operational efficiencies that generate cost savings.
  - One LHS centralized their ER registration across hospitals with a regional distribution center, automated form filling, and remote staff.
  - Another LHS is looking to outsource more supply chain and warehousing responsibilities.

***“We have a gas prices mentality when it comes to travelers. We hoard when there’s a shortage, so we hate to let travelers go.”***

***– CFO, Leading Health System***

***“We’re focused more on the balance sheet than ever before. We need to know what is the right amount of cash to have versus the right amount of cash to spend.”***

***– CFO, Leading Health System***

## How the Global Economy Will Impact Healthcare in 2023

### For CFOs getting back to black requires stronger approaches to payer negotiation

*Session Spotlight: Bank of America shared how global financial trends are impacting in the healthcare sector, and CFOs shared how their LHS are navigating financial headwinds, and the latest approaches they're using for managing workforce challenges and payer negotiations.*

Facilitated by: Jennifer Mintzner, CFO, Baylor Scott and White; Mike Quinn, Managing Director, Bank of America Merrill Lynch

#### Key Takeaways

- The healthcare industry is facing unprecedented growth in labor costs combined with low investment returns, debt accumulation, and limited control over payer negotiations that are impacting healthcare prices.
- These difficult economic circumstances has led to underfunded and unfunded capital projects for many LHS who are in a difficult position, wanting to stay true to their missions, but needing to make tough decisions about portfolio reallocation.
- In the immediate term, CFOs agreed they're mainly focused on generating revenue by monetizing non-core assets (e.g., ambulatory strategy, consumer strategy, etc.). But ultimately, they believe ensuring their financial longevity will need to come from strengthening their negotiating power with payers. LHS' best tool for payer negotiations is differentiating themselves enough to make them a "must have in your market".
- CFOs also acknowledge there are things LHS can do to bring down costs, including improving efficiency by standardizing operations, optimizing ERP systems, and revising rules that prevent employee transfers and shift adjustments, which can reduce waste.
  - And yet, workforce shortages continue to impact LHS' operations and ability to achieve greater efficiency. Some of the latest strategies CFOs are using to improve retention and manage administrative work include restructuring compensation to offer a "hazard pay" model for higher acuity facilities and seeking high school students to take on basic administrative work in short shifts.

*"Revenue growth is not keeping up with expenses to a degree that I've never seen before in my 30 years in healthcare."*

– Banking Industry Expert

*"The state is proposing a higher wage for healthcare workers. How do you fund growth with those costs coming?"*

– CFO, Leading Health System

## C-suite Collaboration: Partnership and Prioritization

### Improving workforce challenges requires breaking away from old approaches

*Session Spotlight: Mass General Brigham's (MGB) CFO and CHRO presented how they approached their compensation and benefits redesign to improve employee retention.*

Facilitated by: Niyum Gandhi, CFO and Treasurer, Mass General Brigham; Rosemary Sheehan, CHRO, Mass General Brigham

#### Key Takeaways

- Historically, CFOs and CHROs have different priorities and approaches around employee compensation and benefit design. But ongoing high turnover is compelling senior leaders to reconsider their long-held processes and outlooks towards employee compensation.
- Going into pandemic, MGB suffered from lack of standardization around benefits packages and had a one size fits all approach to employer contributions. To fix the ongoing workforce challenges, the CFO and CHRO worked together to redesign a benefits package that guarantee improved retention and employee satisfaction.
- Redesigning their benefits structure involved a comprehensive effort to standardize job titles, compensation, and the pre-onboarding process. They also restructured their benefits package to have MGB contributing more to the lowest paid employees' benefits packages (making benefits virtually no cost). **The lowest paid employees will have 94% of cost covered by MGB.**
- In a survey of CFOs in the room, they indicated that shortages are the number one workforce challenge, and the lack of a healthcare workforce pipeline was the root cause. MGB executives argue that a comprehensive benefits package redesign and offering a compelling career pathing vision can be used to enhance recruitment argument.

*"We took a systemic approach to tackling HR issues and as a result, we turned the tide from a blame game to solutions."*

*– CHRO, Leading Health System*

*"I found I had to break some of our own models and rules to fix the problem. I am really trying now to be the 'CF maybe' versus the 'CF NO'."*

*-- CFO, Leading Health System*

## The Equity Mindset: Building the Capacity for Sustainable Change

### CFOs have a role to play in advancing health equity

*Session Spotlight: CFOs discuss the role they play in health equity and the financial perspective they need to take on to advance health equity initiatives*

Facilitated by: Rob McMurray, CFO, Christiana Care; Robin Damschroder, EVP & CFO, Henry Ford Health System; Jasmine McClain, Executive Director, Health Equity Alliance, The Health Management Academy

### Key Takeaways

- Incorporating a health equity lens across LHS investments and operations requires senior leaders to evolve their outlook towards health equity initiatives.
- CFOs specifically need to see health equity initiatives beyond their budgetary impact and view them more comprehensively as long-term investments with gains in improved health outcomes and lower readmission rates.
  - CFOs that are further along in their health equity strategy agreed it has potential to unlock real savings. For example, one LHS was able to find real savings in lowering black women's readmission rates for post-partum hypertension by 66% when their patient demographic data showed that their rates were twice as high compared to other populations.
- Stakeholders are more likely to get CFOs on board with health equity initiatives if they provide data backed performance benchmarks and KPIs that will be tracked. KPIs do not have to be specific to a financial ROI but should align with LHS' other non-financial goals (e.g., improving care access).
- Health equity initiatives often take a long time to show meaningful impact and requires multistakeholder community engagement. Therefore, it's important for LHS to prioritize which initiatives they need to lead and initiatives that would benefit from LHS playing a supportive to community partners.

***"I can drive two miles east and life expectancy drops 18 years. When you put that outcome next to our mission, clearly something is misaligned."***

***– CFO, Leading Health System***

***"The shift in mindset as a CFO came to light through the budgeting process. It's not about just allocating budget dollars; it is making an investment. We need to see returns, but they are long-term investment, not short term."***

***– CFO, Leading Health System***

## Responding to the Biggest Challenges in Hospital Pricing

### LHS want more control of the price transparency narrative

*Session Spotlight: CFOs discuss their current challenges and concerns around implementing price transparency, and the active role they need to play to implement a process that works for their overarching goals.*

Facilitated by: Don Halliwell, CFO Carilion Clinic

### Key Takeaways

- Since price transparency went into effect on Jan 1, 2021, CFOs have struggled with leveraging the data, because, despite it all being machine readable, it isn't standardized and can't be extracted for true comparison.
- LHS continue to face media scrutiny about their higher prices, but CFOs complain that the press is often riddled with inaccuracies. CFOs want to change the narrative and impression of their (often higher) prices.
- While there is broad consensus that transparency is the way forward, CFOs recognize the sheer complexity and challenge of what is ahead, how they aren't completely ready, and the lack of good solutions for true transparency
- CFOs are concerned about unions, payers, and industry partners using their price data against LHS and the implication of patients leveraging pricing data.
- However, CFOs agree that they need to do a better job telling their story. If LHS proactively work with CMS on implementing price transparency, then maybe they can help control the narrative.

***“When it comes to price transparency, we’ve got to get great at telling our story.”***

*– CFO, Leading Health System*

***“I think we have an opportunity to get a seat at table to discuss price transparency policy. If we actually work with CMS, we could make it work better for us.***

*– CFO, Leading Health System*