

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



LEARNING OBJECTIVES:

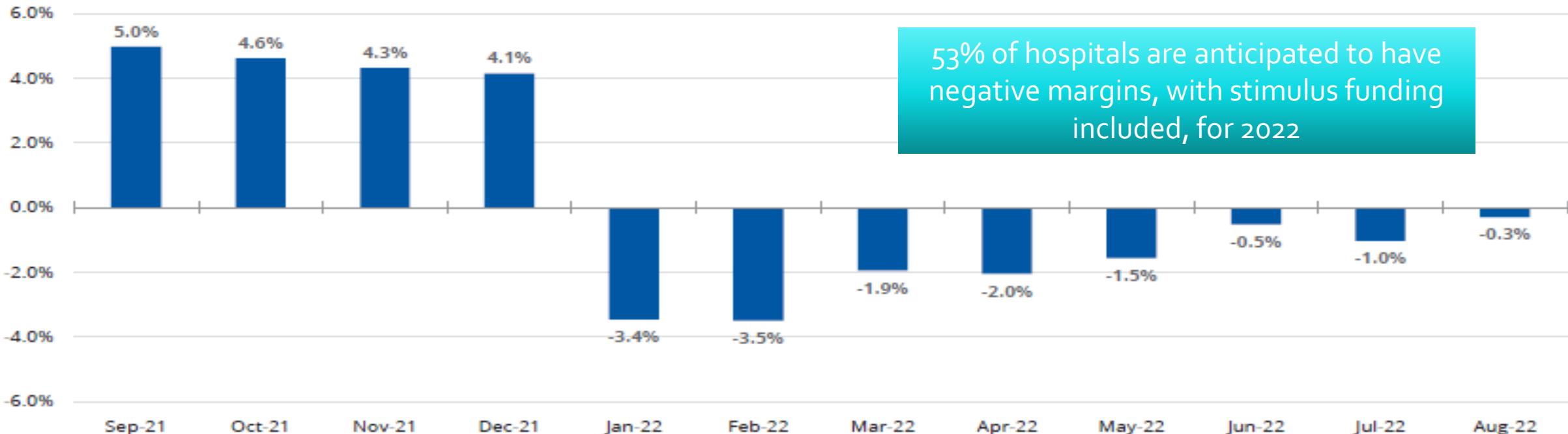
- What are the financial challenges providers are facing
- 2 providers will present how they implemented margin improvement initiatives within their hospitals
- Learn what is next on their horizon
- Discussion on key lessons learned

MARGIN CHANGE BY PERCENTAGE	Month-Over-Month	Year-Over-Year	Year-Over-Year 2020
Operating EBITDA Margin	38.9%	-14.3%	-20.9%
Operating Margin	53.2%	-24.0%	-28.0%

Unless noted, figures are actuals and medians are expressed as percentage change

MARGIN CHANGE BY PERCENTAGE POINTS	Month-Over-Month	Year-Over-Year	Year-Over-Year 2020
Operating EBITDA Margin	3.7	2.0	-2.7
Operating Margin	4.2	2.1	-2.5

Kaufman Hall Operating Margin Index* YTD by Month



53% of hospitals are anticipated to have negative margins, with stimulus funding included, for 2022

Source: National Hospital Flash Report (September 2022)

Source: Kaufman Hall National Hospital Flash Report (September 2022)

CONTINUED HEADWINDS

- Continued fluctuation of volume due to deferred care and COVID-19 waves
- Higher supply expenses with longer length of stay, higher patient acuity
- Continued billing and collecting difficulties from payers
- Stock market and investment income volatility
- Higher staffing costs, including travelers
- Inflationary pressures, including higher interest rate environment
- Uncertainty of additional Federal stimulus for healthcare organizations

INFLATION IS HARMING HOSPITALS.

Expenses are significantly higher — on an adjusted admission basis — than in 2019.

2019

2021



Missouri Hospitals under Pressure:

Total Hospital Expenses per Adjusted Admission up 17%

Source:
Missouri Hospital Association



65 Medicare acute inpatient prospective payment system hospitals
35 critical access hospitals
5 federal military or veterans hospitals
5 general or specialty pediatric hospitals

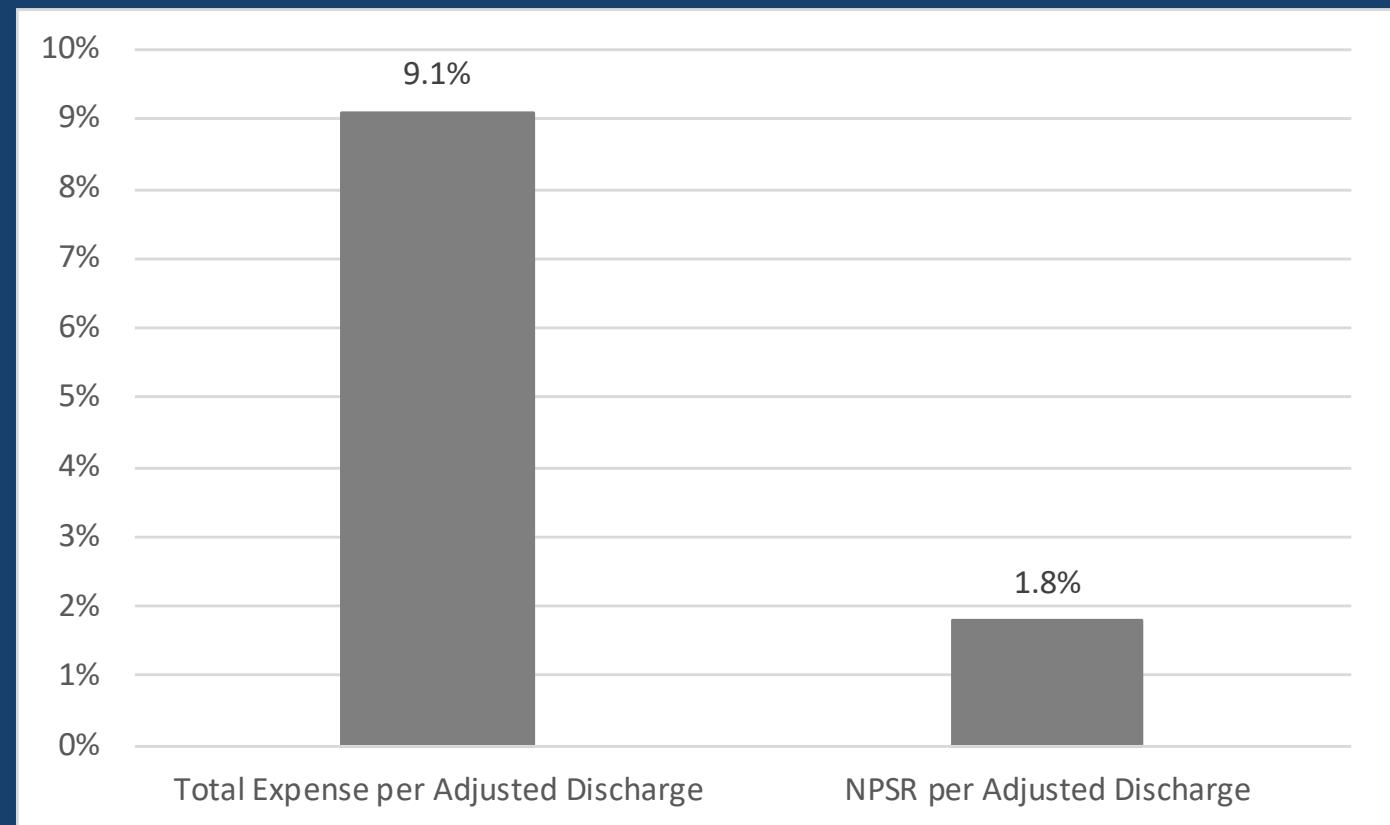
16 psychiatric hospitals
6 long-term, acute care hospitals
6 rehabilitation hospitals
31 for-profit organizations

109 tax-exempt organizations
69 private, not-for-profit organizations
30 state or local government acute care hospitals
6 psychiatric hospitals owned by DMH

ALL HOSPITALS	URBAN	RURAL	CAH
BUSINESS MIX <i>(Ratio of Outpatient to Inpatient Visits)</i> 34.3 : 1 24,701,519 outpatient visits 720,267 admissions	BUSINESS MIX <i>(Ratio of Outpatient to Inpatient Visits)</i> 28.2 : 1 17,520,363 outpatient visits 620,954 admissions	BUSINESS MIX <i>(Ratio of Outpatient to Inpatient Visits)</i> 72.3 : 1 7,181,156 outpatient visits 99,313 admissions	BUSINESS MIX <i>(Ratio of Outpatient to Inpatient Visits)</i> 107.9 : 1 1,857,702 outpatient visits 17,217 admissions
HOSPITAL PAYER MIX	HOSPITAL PAYER MIX	HOSPITAL PAYER MIX	HOSPITAL PAYER MIX
PERCENT OF BUSINESS THAT REIMBURSES LESS THAN COST <i>(governmental and self-pay)</i> 68.9%	PERCENT OF BUSINESS THAT REIMBURSES LESS THAN COST <i>(governmental and self-pay)</i> 68.5%	PERCENT OF BUSINESS THAT REIMBURSES LESS THAN COST <i>(governmental and self-pay)</i> 75.4%	PERCENT OF BUSINESS THAT REIMBURSES LESS THAN COST <i>(governmental and self-pay)</i> 71.7%
OPERATING MARGIN <i>Percent of hospitals operating at a loss/gain.</i> Average Operating Margin 3.1% Average Operating Margin W/O Provider Relief Funds -3.0% <small>Percent w/ negative margins and Percent w/ Positive margins</small> 40.3% ▼ 59.7% ▲	OPERATING MARGIN <i>Percent of hospitals operating at a loss/gain.</i> Average Operating Margin 5.5% Average Operating Margin W/O Provider Relief Funds 0.4% <small>Percent w/ negative margins and Percent w/ Positive margins</small> 27.9% ▼ 72.1% ▲	OPERATING MARGIN <i>Percent of hospitals operating at a loss/gain.</i> Average Operating Margin 0.4% Average Operating Margin W/O Provider Relief Funds -3.7% <small>Percent w/ negative margins and Percent w/ Positive margins</small> 53.1% ▼ 46.9% ▲	OPERATING MARGIN <i>Percent of hospitals operating at a loss/gain.</i> Average Operating Margin -0.8% Average Operating Margin W/O Provider Relief Funds -3.0% <small>Percent w/ negative margins and Percent w/ Positive margins</small> 50.0% ▼ 50.0% ▲

INCREASE IN EXPENSES OUTPACES REVENUE GROWTH

- Gross operating revenue (excluding Cares) is up 9%
 - Inpatient 4.7%
 - Outpatient 12.7%
- Labor Expense is up 16.7%
- Non-labor Expense is up 10.3%



MEDICARE PAYMENT UPDATES

MEDICARE'S ECONOMIC IMPACT ANALYSIS FOR 2023

	PROPOSED	FINALIZED
Inpatient PPS operating	1.4%	2.6%
Inpatient PPS capital	-0.4%	+0.6%
Long-Term Care Hospital PPS	0.7%	2.3%
Inpatient Psychiatric Facility PPS	1.5%	2.5%
Inpatient Rehabilitation Facility PPS	2.0%	3.2%
Skilled Nursing Facility PPS	-0.9%	2.7%
Outpatient PPS	2.7%	TBD

Inflation is far exceeding
Medicare Proposed Payment
increases

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%
 - Labor expense increased 22.1%

PHELPS HEALTH: STAFFING

- Turnover
 - Entry level positions turnover very high
 - Housekeepers +70%
 - Nurse Aides - +50%
 - Pharmacy Technicians +35%
- Agency
 - Agency expense per adjusted discharge increased 59.5%
 - 2021 agency spend \$14.4 million - increased \$5.4 million
 - Travel agency rates increased on average 60%
 - 81 Agency FTEs February 2022

PHELPS HEALTH: STAFFING

- Other staffing expenses
 - Covid differentials \$1.0 million
- Focus on recruitment & retention
 - Retention Bonuses - \$0.8 million
 - Recruitment Bonuses - \$0.3 million
 - Minimum Wage Increases \$15 hour/Market Increases \$7.0 Million

PROJECT IMPACT: OVERVIEW

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

PROJECT IMPACT: OVERVIEW

- 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/Clinic Managers
 - 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
 - Goal to identify savings by April 2022
- May-December
 - Report to Finance Committee/Board of Trustees
 - Groups continue to meet to implement and monitor results

PROJECT IMPACT: RESULTS

- Revenue
 - Revenue integrity review - \$0.2 million
 - Annual wellness visits - \$0.3 million
 - Clinical Documentation Improvement – Opportunity \$1.4M-\$2.5M
 - Provider Based Billing – Opportunity \$2.5M
 - 340B Pharmacy Expansion – Opportunity \$1.6M

PROJECT IMPACT: RESULTS

- Salaries Expense:
 - Orientation
 - Covid differentials
 - Entrance screeners
 - Replacement FTEs
 - Agency expense
 - Scheduling changes

PROJECT IMPACT: RESULTS

- Employee Benefit Expense: \$2.8M/7.0% reduction
 - Pension match
 - Paid Days Off
 - Health Insurance plan
 - Plan design
 - Eligibility
 - PBM
 - Cell phone stipends

PROJECT IMPACT: RESULTS

- Supply Expense - \$1.5 million /3.0% savings
 - Restructured value team
 - Product substitutions
 - Renegotiated pricing
 - Credit Cards
- Pharmacy \$1.8 million
 - Use of alternatives/generics
 - Cost/Unit error found in retail pharmacy
 - Renegotiated fees for 3rd party administrator contract specialty pharmacy
 - Renegotiated compounding pharmacy fees for pain pumps

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

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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/bed rentals
 - Looked at items with branding
 - Patient bags: .26 to 0.11 - \$5,000
 - Patient mugs: \$133 per case to \$84 per case - \$8,100
 - 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
 - Single vendor contract for radiology equipment (still in progress)
 - Bed maintenance

PROJECT IMPACT: RESULTS

- Service Line Analysis:
 - Focus on loss leaders
 - Closed 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
 - Focus 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

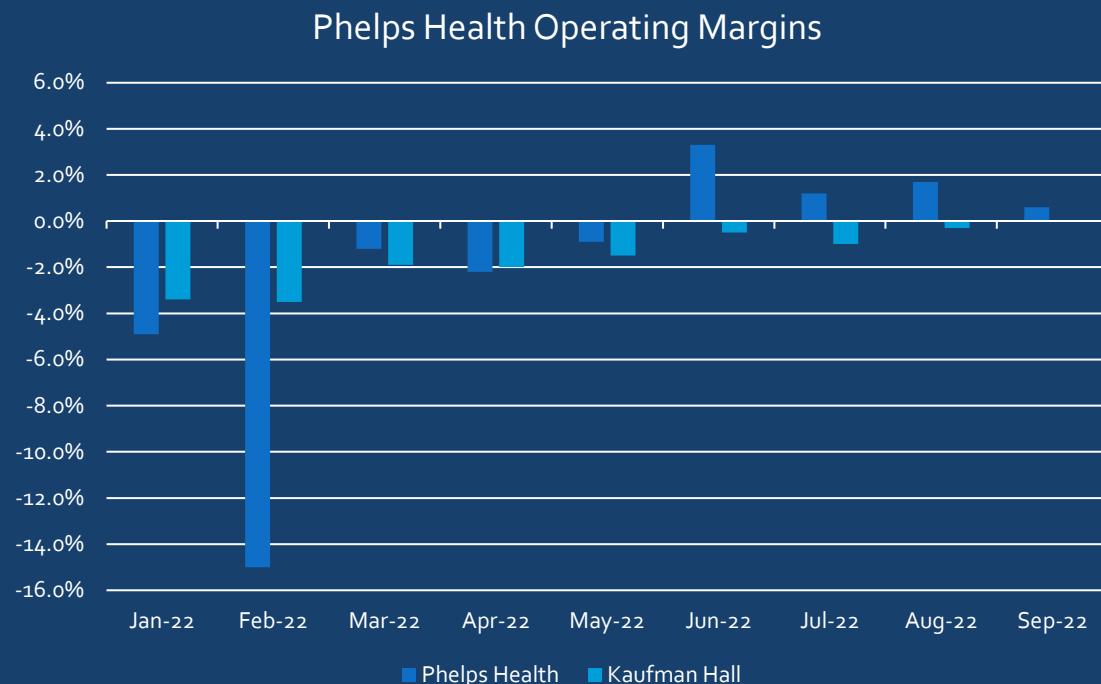
- Government Relations Team:
 - What are our legislative priorities
 - What are our capital projects
 - Process for grant opportunities
 - FEMA reimbursement
- Bright ideas program

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
- 4 months of positive margins



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



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



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



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

- 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

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

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