How COVID has impacted healthcare

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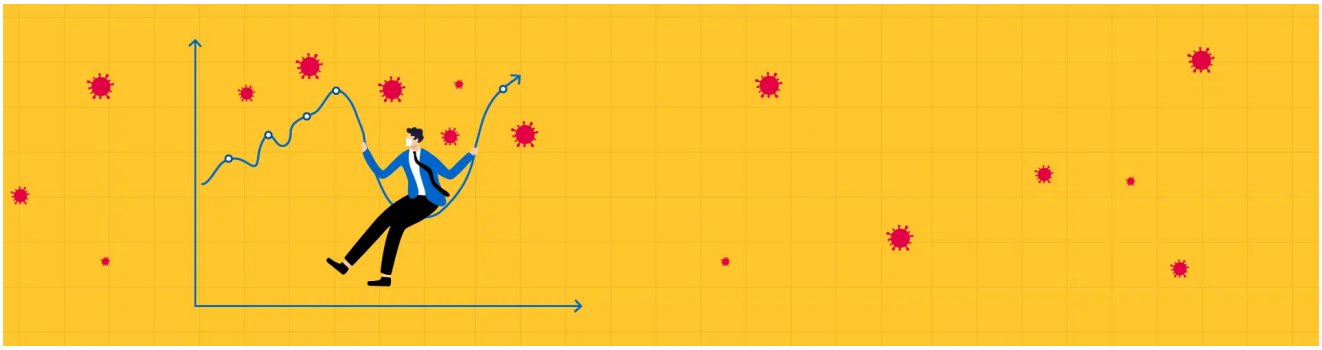

How careful, smart planning helps healthcare facilities mitigate future financial risks

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As we start to see the return of normality, we cannot forget the long-lasting impacts that COVID-19 has had across the world, especially on healthcare facilities. Utilization of services and financial health of hospitals will continue to be affected by the pandemic well into the future. Here's how COVID-19 has impacted the healthcare industry, what it revealed and what it means for Hospitals and staff:

Hospitals have been challenged by profound revenue losses due to forced shutdowns and a slow recovery of patient volumes, particularly for elective and non-emergent care. Hospitals are also seeing an increase in higher acuity inpatient cases compared to pre-pandemic levels, which is increasing the length of stay and consequently cost.[1] The reality is that even as the current pandemic threat diminishes, new variants, viruses, or even new sources of risk will remain.

Monitoring the financial health of hospitals

Considering how COVID-19 has impacted the healthcare industry, it's more critical than ever to regularly review the following key metrics to monitor the financial health of your hospital [2].

- **Volume and utilization trends** – can be big picture indicators of financial distress if patient volume is declining or if space is not fully maximized for operational efficiency
- **Operating ratios** – operating & excess margins
- **Labor costs relative to patient volume**
- **Patient revenue** – watch for shifts in payer mix and bed debt % increases

- **Liquidity ratios** – how cash flow can be improved

Healthcare facilities are now more vulnerable and careless sustainable

The healthcare industry is not seen as resilient and "recession-proof" as it once was – especially in light of a pandemic. We have seen pandemic responses in the following areas:[3]

- **Unemployment** – meaning loss of insurance or reliance on public plans for coverage
- **Fewer individuals participating in employer-based private insurance plans** – hospitals have relied on private payers historically to improve their bottom lines; each year hospital systems are negotiating with commercial payers for higher reimbursement. With unemployment levels where they are, and consequently more individuals having to shift from private pay to Medicaid, the impact of unemployment is felt greater than ever
- **The shift of more employers to high deductible health plans** – thus cost-shifting to the employee, making it less likely for a patient to want to receive care

With increasing job losses (and thus private health insurance loss) patients are being increasingly asked to share more in the cost of care. This in turn may lead patients to put off care until it's more serious, ultimately increasing their out-of-pocket cost as well as the cost to the health care system. It's therefore important to plan with the outlook that current healthcare utilization is not sustainable – especially in light of the pandemic.

Many hospitals are operating at a loss

Hospital margins have always been thin. Pre-COVID, the median hospital margin was 3.5%, with several hospitals operating at a negative margin.[4] In a recent report by Kaufman Hall, the median operating margin for hospitals and health systems was down 42.4% in February 2022 from February 2020 – just before the pandemic started.[5]

Higher acuity patients, increasing expenses (labor, drugs, purchased services, personal protective equipment (PPE), and other medical supplies), and reduced outpatient visits (which typically have lower expenses and higher margins) have all contributed to this decline.[1]

This decreasing trend may continue as overall, it was estimated in 2021 that US hospitals will lose $95 billion in annual revenue because of the shift from private to public insurance and $33 billion owing to cost-aversive behaviors by the privately insured (assuming a 5% decrease in utilization).[3]

Setting the right expectations when it comes to expected margins is important for realistic and useful planning. Proper facility and financial planning can help alleviate financial challenges and help hospitals move towards a sustainable system. Below, 7 key takeaways are outlined to help mitigate financial losses.

7 key takeaways for executives trying to help mitigate future financial risks

1. **Plan facilities to be flexible.** It's important to note that healthcare changes primarily because of regulation, reimbursement/payment/cost, and consumer preferences. Creating inexpensive, flexible/easily adaptable spaces allows facilities to adapt to changes quickly. Similarly, don't commit long term to a location or lease; being nimble in location helps with change adoption.

2. **Plan for how to accommodate possible disruptions and future growth.** Deciding to "figure it out later" is planning for failure. Plan using volumes, operational metrics, and utilization to support space needs with data. This will minimize capital expenses and make the facility more resilient—no matter what the future holds.

3. **Evaluate the "Best" and "Worst" scenarios and know the consequences of each.** Make sure all stakeholders are aware of the realistic solutions for each outcome and what needs to happen in order to execute.

4. **Know your baseline needs.** What does it take to keep the lights on and the air conditioning running? Those who don't plan accordingly end up trying to plan replacement facilities without a comprehensive strategy or the finances to back them.

5 **Know what your overall healthcare strategy is and have it prepared as a deliverable.** A facility is not a strategy but can be a response to one. For example, population health management and minimizing costly acute care interventions happens at a community from a preventive, education, and wellness perspective. The tactics to accomplish better community health and utilization may include a facility solution, and others may not such as strategically placing resources in existing community assets.

6 **Invest in assets to ensure financial sustainability.** What are the market trends suggesting? Should new services be launched? Should new technologies be implemented?

7 **Take the time to perform proper financial due diligence.** It is often helpful to run a financial feasibility study to assess the impact of certain scenarios on the bottom line. Key questions to ask in addition to the ROI: What's the long-term benefit? Does the investment enhance patient care? Does it enhance quality? Does it potentially enhance reimbursement? Try to strategically place capital dollars where long-term benefits will be achieved.

Financial impacts of COVID-19 affects healthcare facilities differently

The way COVID-19 impacted healthcare facilities varies depending on the region and type of facility:[5]

- **Some have increased revenue due to COVID-19 hospitalizations,** but on the flip side, they have increased costs due to additional staffing and resources to accommodate these patients
- **Others are only seeing losses on the revenue side** due to delays in non-essential services

The hospitals that (under pre-pandemic conditions) received a higher share of revenue from outpatient services and had higher surgical volume, were at the highest risk for financial challenges due to COVID-related restrictions. These were generally small, rural, and critical access hospitals.

Teaching hospitals, hospitals operating at high occupancy rates, and those affiliated with health systems are not as dependent on these revenue streams and therefore were not negatively affected to the same extent as these smaller facilities.

Drastic reductions in outpatient and elective care has created unprecedented challenges for the healthcare community that also have a ripple effect. When hospitals operate with positive margins, they are able to make the necessary investments in facilities and technologies, as well as build up reserves to meet unexpected shortfalls.

Not having the capital to address these needs could put some hospital systems behind the innovation that's taking place elsewhere.

What lies ahead for healthcare facilities?

Even after recovery from COVID, patients are likely not to be as eager as they once were to rush back to the hospital. Changes in employment and therefore the lack of or limited insurance coverage are contributing factors to this predicted trend.

Health implications related to the coronavirus will drive elevated health system utilization long after the acute phase of the pandemic has ended, likely leading to increasing costs and higher insurance premiums for years to come. There will be ongoing treatment of chronic conditions related to what may be permanent damage caused by the virus due to delays in care.[6]

All of this uncertainty created by the way COVID-19 impacted the healthcare industry, contributes to how spaces are utilized and what aspects of a facility should be prioritized in planning for the future.

Healthcare facilities that prioritize planning will prosper

How does a healthcare system plan for an uncertain future? Not knowing what the future holds with COVID and if or when there will be another surge, means it will be critical from a planning perspective to prepare for the most likely outcome and then layer in various scenarios of what *could* happen regarding COVID, future disasters, or pandemics and economic downturns.

While initial financial estimates may look bleak, a roadmap to a strong financial recovery is possible—it just may not be immediate. Careful, smart planning can help facilities mitigate future financial risks.

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