

# 4 Ways to Reduce the Impact of High Administrative Expenses

Financial excellence comes from creative solutions by competitive companies.

Providers nationwide are greatly impacted by the nursing shortage. Administrative expenses for staffing — such as benefits, insurance, retention bonuses, hiring bonuses and headhunter fees — are soaring. At the same time, many nurses are leaving the profession as burnout reaches new heights. As a result, **81% of healthcare CFOs** say the talent shortage poses a risk to their business in 2022. With reimbursement rates remaining static, providers need a way to manage the increasing administrative expenses.

**Fortunately, providers have options for reducing the financial burden of these increasing costs, including:**

1

## Switch to defined-contribution plans.

In the past, many healthcare providers offered a defined-benefit plan, which is a type of pension plan that offers a pension payment or lump sum upon an employee's retirement. By contrast, in a defined-contribution plan, the employee and the employer both regularly contribute to the employee's retirement fund over time. Many providers have already switched to a defined-contribution plan, but those who have not should consider doing so now, as these plans can rein in the upfront administrative costs associated with employment.



2

## Re-evaluate discretionary investments.

Recently, we've seen significant investment in innovation and research and development, particularly in larger health systems. While these investments are crucial to the development of more durable medical equipment, new pharmaceuticals and more, it may be necessary to temporarily reduce such investments to make up for increased administrative costs. Once hiring and staffing returns to a more stable state, these investments can be increased once again.



3

## Evaluate your M&A opportunities.

For smaller independent providers, like standalone hospitals in rural areas, high administrative costs can be debilitating and threaten the organization's future. The best solution to this problem may be to join a larger system that can afford to take on the administrative burden. For providers that are seeking to acquire organizations this year, it's important that they try to keep the overall number of vendors they work with low so they can access group purchasing discounts and possibly negotiate better acquisition terms.



4

## Review your insurance coverage strategy.

While it often feels daunting to providers, now is the time to review insurance plans. One possible consideration is self-insurance. By offering employees self-insurance plans, providers can save money on premiums. To determine whether this is the right move, providers need to use an actuarial calculation of covered lives to determine what their collective costs will be. From there, providers can determine if they have the funding to offer self-insurance. Self-insurance isn't the right move for every organization, but it's worth exploring, especially for providers whose insurance premiums are a significant financial burden right now.



**Nearly all providers are struggling under the weight of high administrative costs. Finding creative solutions to mitigate their impact on the financial viability of your organization will set you apart from the competition and allow you to maintain continuity of care.**

**For more insights into financial management for your organization in the year ahead, read the [2022 BDO Healthcare CFO Outlook Survey](#).**

Insights are based on the *2022 BDO Healthcare CFO Outlook Survey*, which polled 100 healthcare industry CFOs with revenues ranging from \$250 million to \$3 billion. The survey was conducted in October 2021 by Rabin Research Company, an independent marketing research firm, using Op4G's panel of executives.

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