Healthcare Stability Outlook Report: 2022 and 2023

What to expect as the U.S. heads into an economic downturn

BDO

The same statement resurfaces whenever we face an economic downturn: **healthcare is recession proof.**

Unfortunately, that's more fiction than fact.

Just like other large organizations with workforce, supply chain and other fiscal concerns healthcare organizations are impacted by economic conditions. However, it is true that the industry responds to economic downturns in unique ways.

The downturn we are experiencing in 2022 is different in many ways than those that came before, especially because it's happening concurrently with an ongoing global pandemic that continues to destabilize the healthcare industry.

Healthcare leaders need to understand how the downturn could exacerbate issues brought forth by the pandemic and introduce new challenges.

In this piece, we'll discuss both the challenges and opportunities that could lie ahead, categorized by healthcare providers' top fiscal priorities.

Patient Access & Experience

CHALLENGES

- **Patients may start to defer care** or continue to defer care if they are already doing so. This may be due to high insurance deductibles, loss of health insurance due to unemployment or less disposable income to pay for care. Deferred care could cause demand to drop, especially for elective services, and lead to worse long-term outcomes for patients with chronic conditions. Additionally, these worse long-term outcomes may lead to negative performance for a provider's risk-based contracts, resulting in lower reimbursement and/or penalties for the care of those patients.
- **Quality of care may drop** as providers are pushed to do more with less and staffing issues persist at all levels, including nursing, allied health professionals, technologists and more.
- **Older patients may have fewer care options.** Many of these patients are dependent on pensions or fixed incomes and will struggle to afford assisted living and memory care. Over time, inability to fill these facilities could lead to cutbacks in services and ultimately permanent closures.

OPPORTUNITIES

Prioritize patient-centric innovation.

You may need to reprioritize investments. Think about what innovation projects will bring the greatest benefits to your patients right now. Longer-term ROI projects may need to be deferred to preserve precious capital. This can help address potential access challenges.

Streamline your referral system.

It's important that you streamline the referral process to reduce hurdles and improve patient care coordination. Consider exploring how maximizing the value of your EHR system can facilitate a cleaner referral process.

Optimize your digital front door.

Your digital front door should make it easier for patients to schedule appointments, manage their health and understand the cost of their care.

Proactively monitor patient acuity and outcome measures.

Work with the applicable payers to negotiate potential modifications to reimbursement and penalties of risk-based contracts to address the negative trend.

Financial Health

CHALLENGES

- **Demand decreases could lead to reduced revenue.** This is especially true for discretionary services. Providers may have to cut certain services, due to both concerns with financial sustainability and staffing shortages.
- **Insurance coverage gaps** could lead to lower reimbursement rates for providers, particularly as more patients find insurance through the marketplace or Medicaid.
- **Bad debt will likely increase**, making it more difficult to collect payment for services rendered.
- **Days of cash on hand will likely decrease**, leaving less liquidity for healthcare providers to work with and potentially triggering debt covenants..
- Bond ratings may go down as debt covenant violations increase, resulting in higher interest rates.
- **Costs are likely to increase**, especially labor and supply costs. In addition, due to pandemic pressures, there will likely be fewer options to reduce expenses compared to previous recessions.
- **Providers may struggle to make contractual payments** such as lease payments. This is especially true for providers in the elder care space, such as skilled nursing facilities.
- **Private funding is likely to decrease.** In particular, we could see reductions in private grant awards in the coming months.

OPPORTUNITIES

Assess your key financial metrics.

Make sure you aren't too heavily debt financed with variable rate debt.

Prioritize investments and funding.

Ensure you're committing funding to critical projects related to business continuity. At the same time, look for projects that can be delayed. It's a good idea to re-engage with investment advisors to re-evaluate your investment allocations.

Re-examine your revenue cycle.

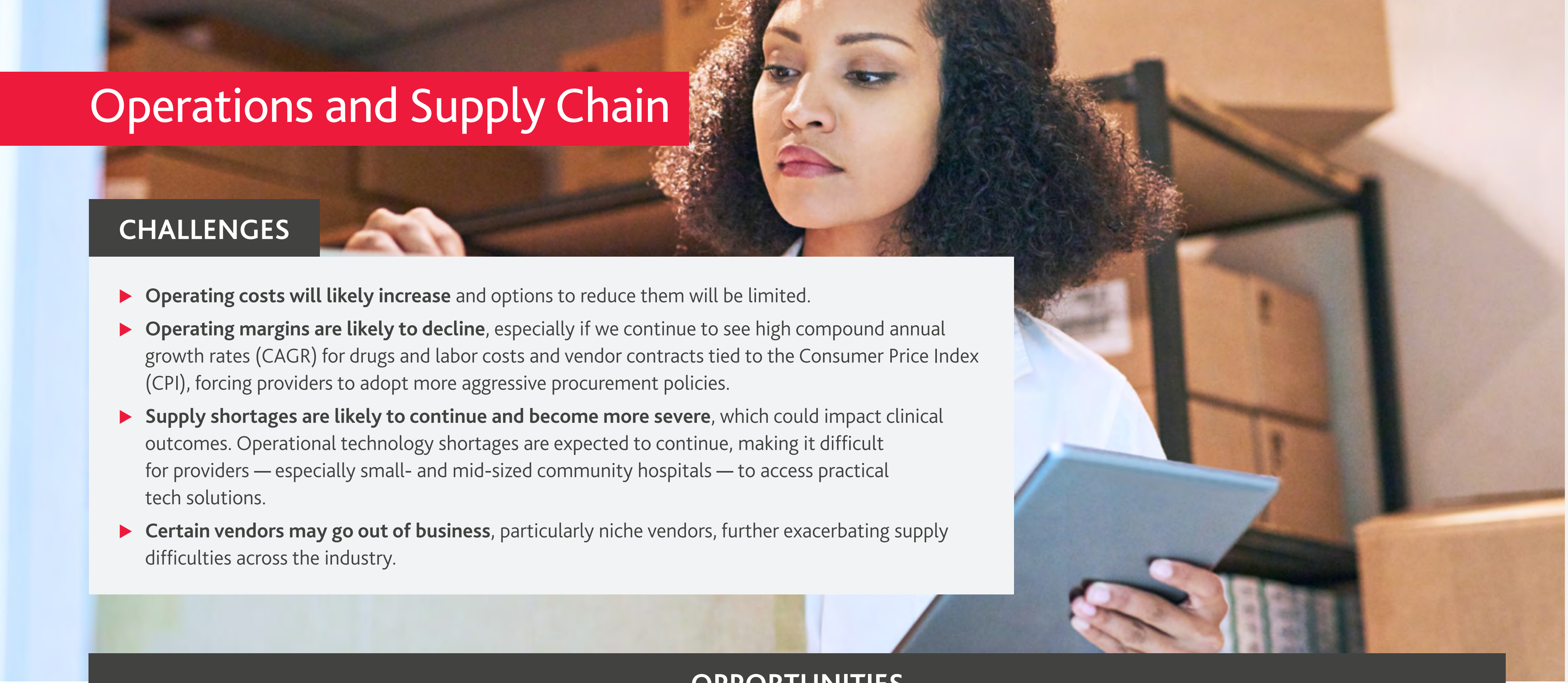
Consider optimizing or investing in Clinical Document Integrity (CDI), Coding, and Revenue Integrity programs. Managing denials, streamlining business office functions and analyzing third party payer contract performance are important strategies to improve revenue performance.

Focus on strategic cost optimization rather than on cost cutting.

While there may be opportunities to identify and reduce certain high expenses, in the long-term you are likely to have more success with an optimization-focused approach.

Consider whether consolidation could help you achieve long-term financial stability.

Explore options like M&A or consolidating real estate to see if there are opportunities to improve stability and performance.



Operations and Supply Chain

CHALLENGES

- **Operating costs will likely increase** and options to reduce them will be limited.
- **Operating margins are likely to decline**, especially if we continue to see high compound annual growth rates (CAGR) for drugs and labor costs and vendor contracts tied to the Consumer Price Index (CPI), forcing providers to adopt more aggressive procurement policies.
- **Supply shortages are likely to continue and become more severe**, which could impact clinical outcomes. Operational technology shortages are expected to continue, making it difficult for providers — especially small- and mid-sized community hospitals — to access practical tech solutions.
- **Certain vendors may go out of business**, particularly niche vendors, further exacerbating supply difficulties across the industry.

OPPORTUNITIES

Explore how EHR optimization can reduce operating costs.

You may be able to [simplify workflows](), reduce the amount of duplicative work that's required by both clinicians and support staff, and reduce the need for other software solutions, leading to an overall reduction in operating costs.

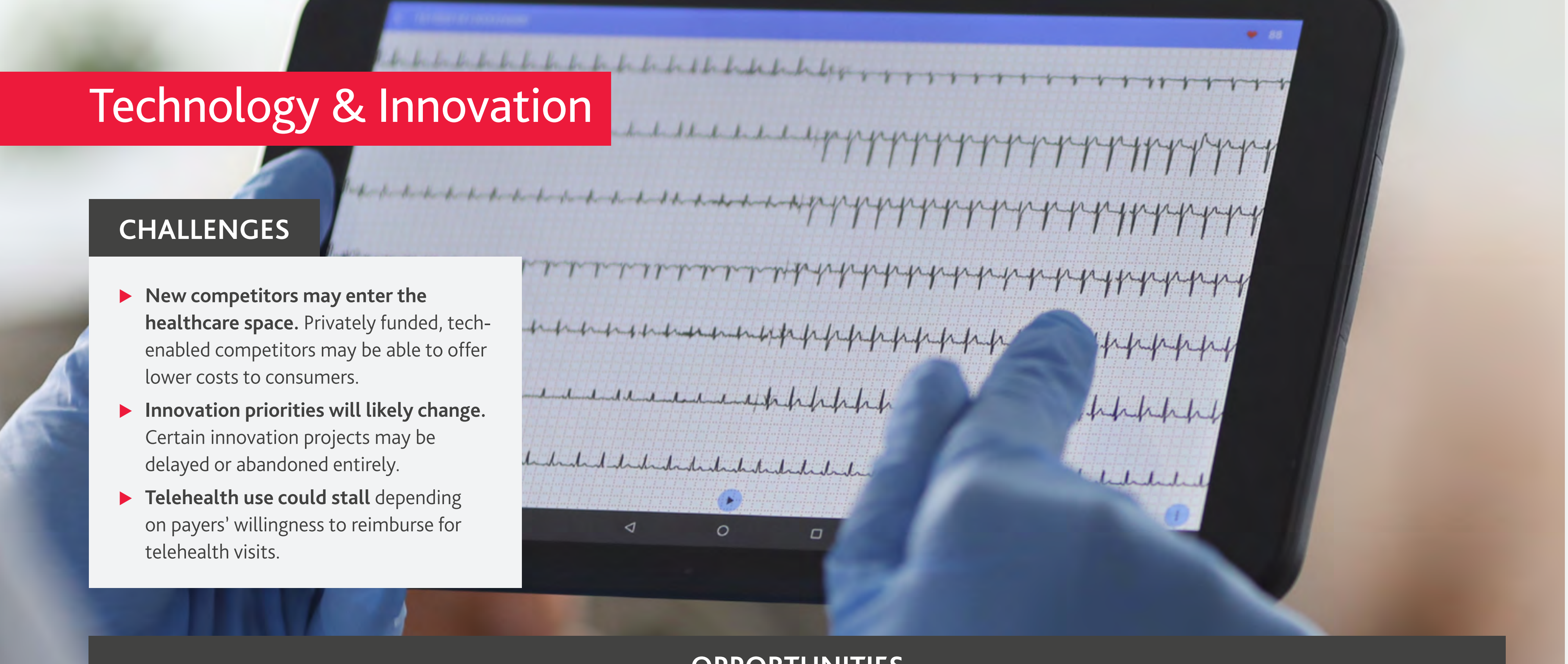
Consider working with a group purchasing organization (GPO).

Working with these organizations can support your supply chain management and help expand access to hard-to-find supplies.

Explore lower-cost supplies.

This may entail moving away from physician preferred supplies. Work with physicians to standardize supply, device and implant choices and optimize volume pricing.

Technology & Innovation



CHALLENGES

- **New competitors may enter the healthcare space.** Privately funded, tech-enabled competitors may be able to offer lower costs to consumers.
- **Innovation priorities will likely change.** Certain innovation projects may be delayed or abandoned entirely.
- **Telehealth use could stall** depending on payers' willingness to reimburse for telehealth visits.

OPPORTUNITIES

Calculate the ROI of your current innovation investments.

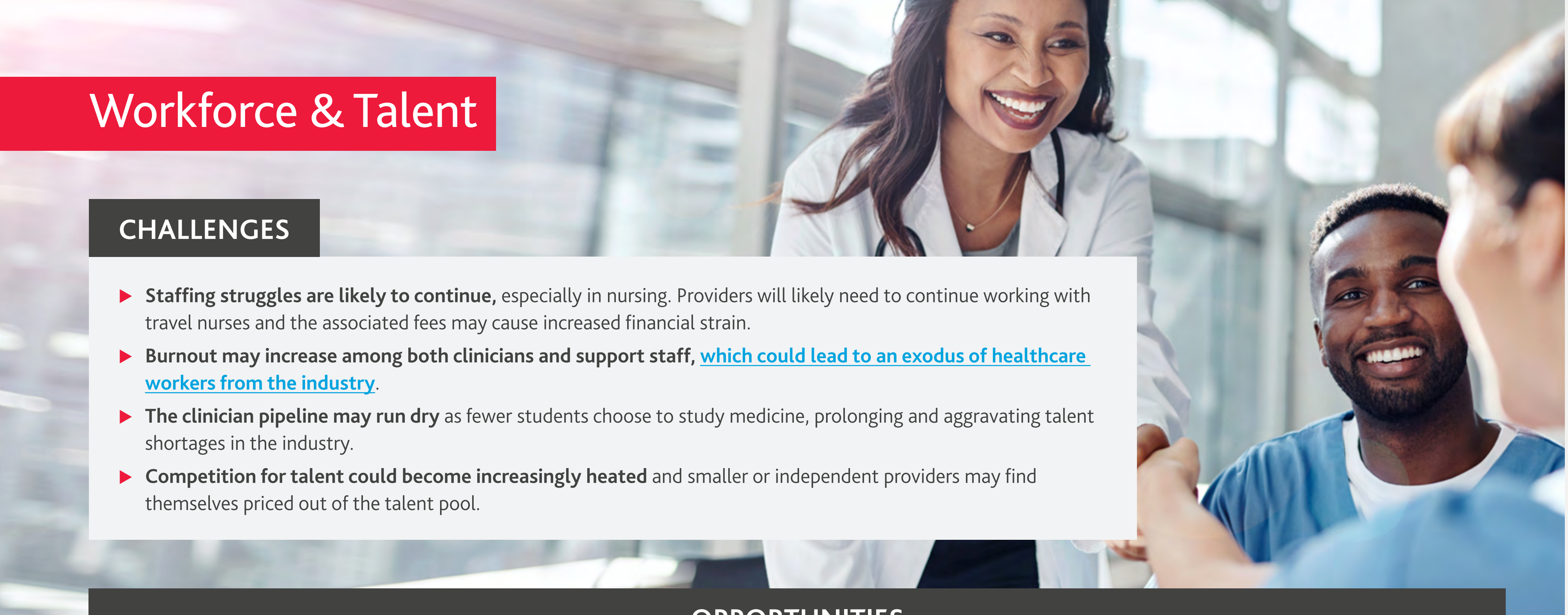
Which ones will drive the most value in the immediate future? Are there any that could be particularly helpful in supporting your organization through the downturn? Shift your dollars in that direction.

Consider service line and care model innovation.

For example, you could explore remote care monitoring and hospital-at-home solutions to expand patient access opportunities.

Focus on practical technology innovations rather than on what's shiny and new.

Adopt these solutions early so you aren't stymied by potential technology shortages in the coming months. Minor or small-scale automations can make a big difference in creating efficiencies and reducing costs.



Workforce & Talent

CHALLENGES

- **Staffing struggles are likely to continue,** especially in nursing. Providers will likely need to continue working with travel nurses and the associated fees may cause increased financial strain.
- **Burnout may increase among both clinicians and support staff,** which could lead to an exodus of healthcare workers from the industry.
- **The clinician pipeline may run dry** as fewer students choose to study medicine, prolonging and aggravating talent shortages in the industry.
- **Competition for talent could become increasingly heated** and smaller or independent providers may find themselves priced out of the talent pool.

OPPORTUNITIES

Optimize tech solutions to reduce the burden on clinicians and support staff.

Optimizing your EHR system can help reduce the amount of documentation your staff needs to handle, potentially leading to lower levels of burnout.

Explore outsourcing options to compensate for staffing gaps.

For example, there could be opportunities to outsource for certain support roles if necessary.

Implement predictive staffing solutions.

This technology can help create a more efficient staffing system to further reduce burnout.

Invest in automation.

Automated solutions can help compensate for staffing shortages and the high cost of labor.

Regulation & Reporting

CHALLENGES

- **Pricing scrutiny is likely to increase.** The public awareness and skepticism of both pricing policies and executive compensation levels will probably increase. Congress is also likely to continue focusing attention on enforcement of federal pricing mandates.
- **Government funding may dry up.** It's possible that the government will cease to provide funding, which some providers have come to rely on in the past several years.
- **Providers may face new reporting requirements.** Some requirements could be industry-wide, such as ESG reporting requirements. Additional requirements could also be created for specific institutions. Skilled nursing facilities, for example, are likely to face new reporting requirements in the coming years.
- **Medicare will be able to negotiate lower drug prices.** As part of the Inflation Reduction Act, Medicare will be able to negotiate drug prices for 10 high-cost (yet to be determined) drugs starting in 2026. Other provisions of the act include free vaccines for Medicare recipients and three-year extensions for subsidies from the Affordable Care Act (ACA).

OPPORTUNITIES

Enhance your cost-estimate capabilities.

Explore tech solutions that can make your cost estimates more accurate and attainable. This will make it easier to comply with existing and potential future pricing mandates.

Look to Europe for reporting trends.

The U.S. often follows Europe in certain reporting trends, especially those around ESG. Stay up to date on what's happening across the ocean to better predict the future we might face in the states.

Your window of opportunity to prepare for these challenges is **shrinking.**

As a healthcare provider, you're likely to face substantial additional strain in the coming months. The impact of these challenges can reverberate for years if you're not properly prepared.

Fortunately, providers can protect themselves by capitalizing on the opportunities we've identified over the coming months.

WANT TO MAKE YOUR ORGANIZATION AS RESILIENT AS POSSIBLE?
Check out six more ways you can combat distress in your healthcare organization.

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