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Reflecting on 2022's challenges and opportunities in healthcare

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The Buzz This Week

As 2022 comes to an end, healthcare providers are closing out one of the most challenging years in decades. The year began with the surge of the Omicron variant of COVID-19, which resulted in fewer deaths and less severe symptoms than other variants but nonetheless overwhelmed hospitals and caused many people to delay non-emergent surgeries and treatments yet again. Hospitals experienced one of the most financially challenging years on record—with up to two-thirds of hospitals in the U.S. operating at a financial loss by the end of the year, per a report put out by the American Hospital Association (AHA), and with 30% of rural hospitals at risk of closing. As more hospitals become financially distressed, they may seek a suitor or partner, though other health systems may not have the capital to finance a deal. Alternative deal forms like joint ventures may result, as was discussed in last week's edition of Top Reads.

The unfortunate phrase of the year has undoubtedly been “workforce shortage.” For the first time in 17 years, hospital CEOs cited “Personnel shortages of all types, including physicians” as their No. 1 concern in a survey released by the American College of Healthcare Executives in February. Workforce challenges edged out “financial challenges,” which had been ranked as No. 1 since 2004. Total hospital expense projections through the end of 2022 include an overall increase of \$57 billion for employed labor and an average projected drop of between 37% and 133% in margins as compared to 2019 levels, per the AHA report. The average nurse (RN) vacancy rate grew from 9.9% in 2021 to 17% in 2022, and the percentage of RN paid dollars (median) going to contract and travel nurses grew from 4.7% in 2019 to 38.6% in 2022.

To add to the challenges hospitals are experiencing, overall health in the country has taken a hit in the past few years. Life expectancy decreased in all racial and ethnic categories. Adults reporting anxiety or depression disorder symptoms rose from 11% in 2019 to 32% this past July. Patients delayed medical care because of pandemic restrictions and fear, and nearly 7 in 10 adults reported avoiding medical care due to the high cost—resulting in sicker patients when they finally do seek care, challenging providers with more

complex cases and driving up the cost of care. Childhood vaccination rates decreased worldwide as distrust of vaccines grew more prevalent.

Thankfully, the year hasn't been entirely doom and gloom for the healthcare industry. Health equity has moved front and center for health systems and across communities. Venture funding for digital health start-ups focused on social determinants of health grew to record levels, and Amazon Web Services decided to dedicate this year's Healthcare Accelerator fund to start-ups focused on reducing health disparities and improving health outcomes for underserved communities.

Employers are adapting health plan design to respond to the changing needs and preferences of their employees and to focus more on health and wellness, with 65% of employers viewing health and well-being as an integral part of their workforce strategy, up from 27% 5 years ago, per a survey by the Business Group on Health. Harris Poll found that one-quarter of employees surveyed reported that their employer recently began offering new mental health benefits.

Healthcare providers have implemented diversity, equity, and inclusion programs; rolled out additional mental health support services for their workforce; adopted new technologies to improve outcomes and operate more efficiently; and renewed their focus on being high-reliability organizations.

Just this past week Congress rolled out the omnibus bill, which has several positive items for healthcare organizations, including an extension of Medicare telehealth flexibilities and hospital-at-home waivers and flexibilities for 2 years, a narrowing of Medicare Physician Fee Schedule cuts, an extension of payments to providers who participate in an Approved Alternative Payment Model (to offset losses when physicians move from fee-for-service to value-based reimbursement), an extension of the low-volume hospital payment adjustment that supports rural hospitals, and funding for the Centers for Disease Control and Prevention (CDC), as well as a 75% increase in its "flexible fund" for public health initiatives.

Why It Matters

The nation's healthcare system has weathered a perfect storm of challenges since the start of the pandemic and will likely continue to face many of these challenges in 2023. Workforce shortages and expense increases that outweigh revenue increases will have to be creatively addressed, or hospitals and health systems risk becoming too financially distressed to continue operating. As more hospitals move into that territory, they may seek a suitor or partner, though other health systems may not have the capital to finance a deal. Alternative deal forms like joint ventures may result, as was discussed in last week's edition of Top Reads. Other, well-capitalized, and more financially stable entities (such as Optum, Amazon, Walgreens, Walmart, and private equity firms) may continue to play a growing role in healthcare through acquisitions and new ventures, though recent activity suggests they will focus on ambulatory and digital health over inpatient acute care.

As healthcare executives and healthcare professionals look to 2023, strategic plans will need to be adjusted to enable creative growth without tremendous capital investment. New operating models and care models will need to be explored to increase efficiency and relieve staffing challenges while also maintaining quality

and outcomes. Partnerships and relationships with other providers, employers, payers, and community organizations, when structured optimally, will help providers stay financially afloat, better serve their patients, and improve health outcomes for the populations they serve.

Policymakers can also help right the ship. As AHA President and CEO Rick Pollack stated on Tuesday in reaction to the omnibus bill, "In the new year, we will continue to advocate for Congress and the administration to take action to address patient discharge backlogs, support our current workforce and increase the pipeline into the future, hold commercial health insurers accountable for policies that compromise patient safety and add burden to care providers, and strengthen hospitals that care for a disproportionate number of patients covered by government programs or are uninsured, to name a few of our priorities." Jack Resneck, MD, President of the American Medical Association (AMA), was more negative in response to the reduction but not elimination of Medicare payment cuts for physicians: "The AMA is extremely disappointed and dismayed that Congress failed to prevent Medicare cuts next year, threatening the financial viability of physician practices and endangering access to care for Medicare beneficiaries."

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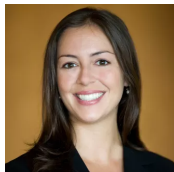
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