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First quarter 2023 a mixed bag for health systems amid economic uncertainties

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The Buzz This Week

The overall financial outlook for U.S. health systems in 2023 is marked by stark contrast. While some health systems experienced a financial rebound in the first quarter of the year, others continue to grapple with the financial repercussions of the pandemic. This disparity underscores the tumult of recent years, including a particularly painful 2022, that resulted in one of the worst financial years in decades, according to Fitch Ratings.

But as for-profit systems like HCA Healthcare and Tenet Healthcare have performed relatively well recently and have optimistic forecasts for 2023, many not-for-profit healthcare providers are still contending with the issues from 2022. A recent S&P report suggests that the outlook for the not-for-profit health sector is mixed, with ongoing pressures and challenges affecting their financial performance. Labor expenses remain elevated, with staffing challenges persisting, despite efforts to build stronger talent pipelines and reduce reliance on contract workers.

Initial earnings results suggest that some health systems have managed to turn around their margins in the first quarter of 2023 through several targeted efforts. These include dedicated initiatives to increase revenues. Among these initiatives are improving patient access for elective procedures and finding ways to reach into target growth markets, including via partnerships. However, the pace of patient volume recovery and the success of new volume generation activities vary depending on geography, population migration, and demographics.

The other side of efforts to improve margin include containing and/or reducing operating costs. Efforts include implementing new and creative approaches to tackle workforce shortages and reduce costly contract staffing and making back-office functions, such as billing and revenue cycle activities, more efficient.

Investment returns have improved, but economic conditions and market performance are still unclear. For instance, Cleveland Clinic reported a substantial increase in investment returns, attributing it to improved market conditions. Similarly, Mass General Brigham reported significant investment gains, contributing to a healthy net income.

On a broader scale, the recently signed debt ceiling deal will have significant implications. The deal includes clawing back billions of unspent coronavirus relief funds, while maintaining dollars to accelerate new vaccines and treatments. The deal does not impose work requirements for Medicaid enrollees, which may help sustain current Medicaid enrollment and prevent an increase in the uninsured population.

Why It Matters

The recent signing of the debt ceiling deal and the financial rebound experienced by some health systems in the first quarter of 2023 mark significant developments in the healthcare sector. However, these developments should not overshadow the ongoing financial challenges, particularly for not-for-profit healthcare providers. Here's why these developments matter:

- **The Debt Ceiling Bill's Impact on Healthcare:** The recent bill to suspend the debt ceiling, which was passed to avoid a potential economic disaster, has had a modest impact on healthcare. The bill includes some trims and caps on health spending for the next 2 years, but it spares major health programs like Medicaid from deep cuts and has avoided the worst-case scenarios for healthcare funding. However, it does highlight the need for health systems, particularly nonprofit ones, to be prepared for potential financial instability.
- **Uneven Financial Performance:** The financial performance of health systems in the first quarter of 2023 has been uneven. For-profit healthcare systems have shown signs of rebounding, while nonprofit systems are still struggling to recover. This uneven performance underscores the financial vulnerability of nonprofit health systems and the need for them to shore up their ongoing financial performance.
- **Embracing Change and Innovation:** Health systems need to be prepared for broader financial events. It is crucial for nonprofit health systems to continue implementing strategies to improve their financial performance. This includes focusing on revenue cycle management, improving patient access, and other operational efficiencies. Moreover, embracing change and innovation is key. As a new healthcare ecosystem emerges, health systems should adapt to the changing environment. This could include providing tailored care experiences, enhancing digital engagement, and considering the home as a potential care setting.

Additionally, health systems should be proactive in leveraging digital technologies and data analytics to improve care delivery and patient outcomes. The adoption of telehealth services, remote patient monitoring, and digital health platforms can enhance patient access to care and improve the efficiency of healthcare delivery. Furthermore, partnerships and collaborations with tech companies and other healthcare stakeholders can help health systems innovate and stay ahead of the curve. These strategies can help health systems improve their financial resilience and ensure their sustainability in the evolving

healthcare landscape.

In light of the signed debt ceiling deal, the financial rebound experienced by some health systems, and the ongoing recovery efforts of others, it's clear that the healthcare sector is navigating a complex financial landscape. This should serve as a reminder of the importance of sound fiscal management, operational performance improvement, strategic planning, and adaptability in the face of financial uncertainties. Health systems must remain vigilant and prepared for the potential challenges that lie ahead.

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