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Continued challenges for hospital financials require creative and innovative approaches

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<https://www.chartis.com/insights/continued-challenges-hospital-financials-require-creative-and-innovative-approaches>

The Buzz This Week:

The ripple effect of the pandemic continues to inflict damage on hospitals and health systems, threatening their financial stability and viability. Despite federal support to offset the impact of the pandemic, such as the CARES Act, many hospitals and health systems are still experiencing significant financial challenges.

A recent report found that not-for-profit hospital margins have been in the red (on average) for the past 3 months, down over 40% as compared to the same period in 2020. Furthermore, the trend is not moving in the right direction—April revenues are falling below those in March on average.

The financial impact is affecting all types of hospitals and health systems. Some of the largest in the nation, such as CommonSpirit, Providence, Ascension Health, and Trinity Health, have reported substantial losses in the first quarter of 2022, with some posting losses that outpace the modest gains they experienced just a year before in the first quarter of 2021. Small and rural health systems are at high risk as they try to function on a financial foundation that was already strained pre-pandemic, and has now been exacerbated by the effects of the pandemic.

Why It Matters:

While patient volume is returning to some hospitals and physician practices, supporting a revenue boost, other providers are experiencing another major COVID-19 surge, which is contributing to a further delay in completing elective surgeries and an inability to treat non-COVID patients in inpatient units. For most, operating costs have escalated significantly, outweighing any revenue growth and driving negative operating margins.

Key drivers of operating cost growth are labor—mostly due to the nursing and medical professional shortage—as well as supply chain challenges and the higher cost of treating sicker patients, many of whom put off seeking care for years because of the pandemic.

As we have [commented on](#) in recent weeks, many hospitals and health systems may be faced with the challenge of treating an increasing number of COVID-19 patients in the coming weeks, and may experience another round of revenue constraints, leading to limitations of elective procedures and inpatient capacity. Continued operating cost escalation is also of great concern, driven by staffing shortages, supply challenges, and other operating cost inflation.

The lever in this unfortunate financial equation is costs, given most hospitals' mission to treat all comers. It will take a multi-pronged, creative approach to tackle the almost insurmountable nursing shortage, though some [thoughtful approaches](#) are emerging. Supply challenges and other operating costs may be addressed through more traditional means, such as consolidation of sources and economies of scale, or through more innovative means, such as more sophisticated digital inventory and supply ordering systems. In any case, as revenues wax and wane in the throes of the pandemic, health system operating costs cannot simply be managed better. They require creative and innovative approaches.

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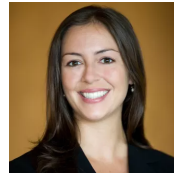
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