

Adapting for the Age of COVID-19

Six Essentials for Children's Hospitals



Initially, it appeared that one of the few saving graces of COVID-19 was a lessened impact on children, with significantly lower fatality rates for pediatric versus adult populations. Now, new evidence is emerging of very serious, potentially fatal, effects on children — though much remains unknown. In addition, the effects of COVID-19 on immediate and long-term child health and well-being are now becoming apparent, such as: increased poverty, food insecurity, interrupted education, trauma and declining mental health, underreported child abuse, and delayed vaccinations or other care deferrals.

For children's hospitals, COVID-19 has been materially disruptive. Hospitals have deferred procedures and elective care, resulting in reduced volumes and significant margin impacts. Now, as they emerge from the first phase of this pandemic, children's hospital leadership teams are stretched to plan for and implement actions to support recovery while adjusting to a rapidly evolving and highly uncertain landscape.

Children's hospitals must continue to lead throughout this crisis, focusing on the health of children and the long-term sustainability of the child health ecosystem while at the same time taking immediate action to reopen services and close the budget gap created by the pandemic.

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The Outlook for Children's Hospitals

Fortunately, most children's hospitals have not had to manage huge numbers of COVID-19 cases to date, and following this initial phase of the pandemic, we expect non-COVID-19 volume will eventually return to previous levels. The market for higher-complexity pediatric care is unlikely to remain depressed for a variety of reasons, including low, but consistent incidence rates for most pediatric health conditions. Further, families are less likely to delay care for their children than they are for themselves. Given the role children's hospitals play in their communities as often the only providers of highly specialized pediatric care, there is a high likelihood of maintaining longstanding, strong positions with payors and margins driven by highly specialized and complex care.

Yet, the financial situation for children's hospitals has never been as challenged. Medicaid exposure will increase given the growing need and state budget shortfalls, resulting in the likely degradation of payor mix. Reductions in pediatric primary care visits and the destabilization of the pediatric primary care business model may limit how quickly referrals return or create new challenges for pediatric health. Further straining the financial position will be demands for increasing subsidization of the academic arms of children's hospitals' tripartite mission, research and education, which will accelerate in the face of declining funding sources. Children's hospitals should focus on cost reduction and balancing increasing and competing demands for capital, including many community services for which a direct economic return on investment is unlikely. Philanthropy, also impacted by the economic downturn, will face increased stress — and yet is critical to finance the increasing mission-based initiatives.

This is all occurring while the competitor landscape is likely to evolve. In some cases, there could be new opportunities as adult health systems' own positions are being reshaped. Yet, there may also be increases in regional and national competition, accelerated by the adoption of virtual care, given it lessens geography as a competitive barrier.

Children's hospitals should consider six key areas of focus in their recovery:

Figure 1: Six Essentials for Children's Hospitals



01

Engage with Patients and Families to Enhance Children's Health Needs

Effective reactivation of the health system requires maximizing the speed of returning demand. Our recent [white paper](#) spells out how healthcare providers can effectively accelerate the return to "normal" operations; many children's hospitals are already undertaking these activities. It is critical for children's hospitals to elevate the patient experience during this time of crisis to ensure patients and families feel safe and that they can access necessary services. Further, given the distinct patient cohorts children's hospitals serve, there is the opportunity to plan around the specific needs and perspectives of each cohort and tailor outreach and communication with thoughtful execution.

Patient Cohort	COVID-19-Related Challenge	Potential Children's Hospital Action
Well-child	Reduced routine well-child visits, immunizations	Partner with pediatricians and schools to connect with families to schedule visits, plan for immunization clinics (including mobile and drive-through) to support demand post-surge
Children with medical complexity	Reduced care interactions, deteriorating health	Prioritize outreach and scheduling, ensure safety and availability, expand hours
Episodic/emergent	Missed diagnoses, lack of follow-up care	Expand virtual visits, waive co-pays for virtual visits, expand hours for specialty clinics
Expectant/aspiring parents	Reduced IVF treatments, reduced prenatal care; fear of delivery	Partner with OBs and IVF clinics to ensure safety and availability of services

Children's hospitals' plans to serve those who avoided care over the past few months must account for limitations, such as the constraints of the specialized pediatric workforce. The ability to re-scale clinical care will need to be clarified against the capacity limitations across many subspecialties and specialized child health support services. Planning should acknowledge this and calibrate accordingly so as not to overestimate the ability to serve patient needs too quickly.

02 Pursue a Deliberate Cost Reduction Effort

Almost every children's hospital has achieved strong financial performance over the past decade and can attribute much of this favorable performance to strong revenue growth. Yet while most children's hospitals entered this crisis in a stronger financial position than their adult hospital counterparts, the financial impact for children's hospitals still remains staggering — with estimates of patient care monthly revenues decreasing by 40 to 50 percent.¹ Children's hospitals need to take unprecedented actions to fundamentally reduce costs to offset revenue losses from volume reductions and anticipated enduring economic pressures. Even after reactivating services, children's hospitals can expect prolonged payor mix deterioration; increased costs to ensure patient, family and provider safety; and threats to supplemental funding from cash-strapped state and federal governments.

The pandemic will require children's hospitals to more aggressively evaluate their cost position; providers won't be able to achieve the needed results by modestly tweaking their cost structure around the edges. Children's hospitals should aggressively focus on right-sizing operating costs to volume and restructuring the fixed cost base, such as reimagining the provider enterprise (e.g., leveraged care models, integration of virtual care and restructuring compensation models). In addition, these organizations should focus on redesigning operating processes and functions to optimize performance across the organization, while simultaneously improving access and throughput, leading to the optimal utilization of the highly specialized pediatric workforce. For most children's hospitals, the scale of the financial improvement will be unlike any prior endeavors.



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03 Stabilize General Pediatricians as Part of a Larger Community Physician Strategy

An economic crisis is emerging among the remaining independent physician practices, and pediatricians in particular.² Children's hospitals need to quickly take the lead in coordinating a response that sustains the pediatric primary care practice ecosystem in their communities. There is both a mission and economic imperative to support pediatricians and the remaining independent subspecialists. This does not imply children's hospitals need to become the employer of all pediatricians; however, leaders should work quickly with the pediatric physician community to assess the extent of the economic crisis and develop a "playbook" for the region, with a menu of options to rapidly and effectively support pediatric practices. Approaches could include small loans or grants to practices, accelerating efforts of a clinically integrated network (CIN) or managed service organizations (MSOs) to support both contracting and back office functions. In some cases, children's hospitals may also pursue employment of select practices.

04

Leverage Current Virtual Health Acceleration to Re-envision the Pediatric Network



Many children's hospitals report providing as many virtual visits in a week as they did in the prior 12 months, and telehealth represented nearly 42% of pediatric physician visits by late April, up from less than 1% at the outset of 2020.

Virtual health adoption has skyrocketed in the past two months, as reported in our [Telehealth Adoption Tracker](#). Many children's hospitals report providing as many virtual visits in a week as they did in the prior 12 months, and telehealth represented nearly 42 percent of pediatric physician visits by late April, up from less than 1 percent at the outset of 2020.³ Telehealth has filled a critical need during the pandemic, yet gaps remain between the current virtual offerings and the full continuum of patient and provider needs. A new care delivery paradigm needs to emerge from this crisis requiring each children's hospital to clarify how it will shape their pediatric network of the future, inclusive of traditional and new sites of care — including virtual delivery and healthcare-at-home. In addition, the network will need to account for the challenges patients and families may encounter such as limited access to the internet and technologies that will be required to enable these new care models.

Telehealth also presents an important opportunity for children's hospitals as strained economic conditions will require pediatric ambulatory networks to evolve substantially. Pediatric networks built over the past decade have justified operating losses because they have been vital to attract patients to more specialized and higher-margin clinical programs. Going forward, ambulatory networks will be under intense pressure to serve more patients, but at a much lower cost. Virtual health can redefine the structure and workflows for ambulatory networks by designing digitally enabled centers, balancing the location and scale of sites, and implementing operating models that enable high-quality, low-cost care.

Conversely, virtual health creates a competitive opening for other children's providers. Historically, many children's hospitals have had limited competitive threats for highly specialized services as the next closest provider could be hours away. The adoption of virtual care could provide an opportunity for out-of-market players to now meet the needs of complex children, only requiring those families to travel for a procedure with all of the pre- and post-care being managed virtually, through home monitoring and by providing hospital-at-home services contracted through local providers.

For many children's hospitals, redesigning the human capital component of network operations will require revisiting their historic arrangements with academic partners to scale more cost-effective ambulatory offerings. Several children's hospitals have developed alternative physician models for ambulatory environments, and others need to explore alternative structures, but all should push for an even more financially sustainable model going forward.

05

Evaluate Current and New Strategic Partnerships

Strategic partnerships will likely accelerate and take on an even more important role in the future for many children's hospitals, but also need to evolve. These partnerships can take different forms, but a few critical activities include:

- **Revisiting adult health systems/hospitals partnerships.** Going forward, children's hospitals must prospectively define a pre-set menu of options they are willing to consider when engaging with a partner. For additional insights on this topic, see more information in our [paper on strategic partnership opportunities for children's hospitals.](#)
- **Building critical community partnerships.** The child health community's need will increase in the aftermath of the current crisis. Children's hospitals should actively seek to coordinate with other community stakeholders to assess how to support child health. This could include expanding mental health services, partnering with pediatricians to provide drive-through vaccinations, supporting schools and managing future COVID-19 "flare-ups."
- **Evaluating the need to seek a partner for financial support.** A few children's hospitals will need to seek a partner for financial support. This decision entails significant strategic, political and emotional complexity, but may be the only path to ensuring continued availability and provision of high-quality pediatric care in a region. For these institutions, developing a set of principles and non-negotiables, as well as a perspective on the most appropriate time to seek a partner, will be critical activities over the coming months.

06

Revisit Enterprise Strategic Plans

As children's hospitals are developing immediate plans to respond and adjust to their current COVID-19 environment, they should also revisit their existing enterprise strategic plan. These plans were based on a set of external and internal assumptions that are now called into question given the pandemic. Leaders should ask two key questions to inform potential adjustments that may be needed in their near- and long-term strategy:

- How should prior assumptions be modified (e.g., growth/demand, payor mix/ reimbursement, consumer expectations, competition and how this has changed given the adoption of virtual health)?
- What adjustments need to be made to plans/strategies to account for the changing environment?

Additionally, children's hospitals should engage in a structured exercise to assess and anticipate the areas of greatest need within the local/regional child health ecosystem to determine where the biggest gaps will be (e.g., delayed vaccinations, increased food insecurity, interrupted education, declining mental health, underreported child abuse, etc.). For example, declining measles inoculations as a result of the current pandemic have the potential to ravage communities in the near future⁴, and increased food insecurity can result in developmental delays, learning difficulties and increasing susceptibility to illness⁵, which could have long-term implications for the community. Also, the mental health needs of children are more critical than ever given the implications of the pandemic.

The outputs of this effort can help the organization set mission-based priorities, identify needed investments and philanthropic opportunities, and prioritize resources. Examples include:

- Supporting pediatric primary care activities in the community (see #3)
- Partnering with schools to augment school-based health programs
- Actively engaging stakeholders to advocate for additional needs for children
- Engaging with payors and employers to ensure the health of children
- Encouraging state health authorities to protect child health coverage and funding (beyond Medicaid — e.g., county health clinics)

Children's hospitals need to recognize the immediate and longer-term health needs of pediatric populations arising from the COVID-19 crisis and incorporate them as a foundational component of their strategic plans. Now more than ever, children's hospitals need to elevate their role as the child health convener and leverage their knowledge, capacity and resources to aid their communities as they "rebuild" from the COVID-19 crisis.

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