

Magnitude of Financial Pressures Demands Fast, Actionable Financial Planning

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Yet again, the latest Omicron surge delivered a financial punch to hospitals and health systems across the country, with many organizations experiencing [one of their worst quarters ever](#) this year. Now, healthcare leaders must take a fresh look at their financial planning process to determine their way forward in a turbulent environment.

When the highly contagious omicron surge hit hard and fast this past December and January, not only did revenue from commercially insured, elective procedures [plunge](#), but operating efficiency plummeted as well. This occurred as nurses and other clinicians became sick and staff from higher-margin areas, such as the OR, were redeployed to the ED and other areas. Although the decrease in revenue wasn't as dramatic and pervasive as during previous surges, it was compounded by the traditional falloff in elective procedure volume that hospitals tend to see each January. Travel nursing expenses—already a growing area of expense—[became a budget buster](#) for hospitals. Employee turnover across positions [reached epic proportions](#). Meanwhile, supply chain woes continue to squeeze hospital finances.

Which of these challenges will last—and which could subside? As healthcare leaders assess their organization's next steps, two things are clear:

- **Elevated labor costs are the new normal.** Higher base wages for clinicians and support staff are here to stay, given record resignation rates and the need to keep existing staff happy while attracting new staff. Although retention bonuses, incentives for shift pickup, and reliance on contract staffing could subside somewhat as COVID-19 pressures ease up, labor expenses likely will remain high, especially for organizations that aren't about to overcome current voids in staffing.



- **A revenue “fix” from the federal government is unlikely in the short term.** There are no plans for financial relief similar to the magnitude of the Cares Act in sight. While the American Hospital Association has asked Congress to [suspend recoupment of advance Medicare payments](#)—the timing of which could not be worse for hospitals—hospitals cannot count on outside forces to relieve their financial burden. Although payers may adjust their rates upward, this, too, is uncertain, and there is no definitive timeline for an action such as this.

It's time for an expedited approach to financial planning—one that is customized to the organization and focuses on quick results.

As healthcare CEOs, CFOs, and board members determine next steps in their organization's trajectory, they need an easy, fast, and actionable financial planning approach. Three considerations stand out.

- 1. Quickly pressure test key variables, from volume to capacity to staffing.** This allows leaders to create response plans in anticipation of the short-term impact. Leaders also should take a three-year view of their quarterly financial outlook, with an immediate focus on actions that could ease financial pressures over the next 16 to 24 months. Year three, then, should be eyed as a normalization period.
- 2. Develop an action-oriented, operations-focused financial plan.** The financial plans must strike a balance between being operationally useful, but not overly granular. Areas of focus will be different for each organization according to their financial situation and their unique needs, but common examples include:
 - Programmatic evaluation (e.g., contribution margins)
 - Service rationalization (What is right for right now? Which services can be paused?)
 - Staff redeployment
 - Revisiting capital plans
 - Telehealth strategy
 - Revenue cycle optimization
- 3. Be realistic in your assumptions.** The right financial plan will produce a data-grounded evaluation of the benefits that will materialize from financial action steps. It will also clearly lay out implementation timeframes so that everyone knows where the organization is headed and when changes will take effect.

By taking a hard look at their organization's financial predicament and focusing on a near-term plan for evaluation and action, leaders can more quickly galvanize staff for the hard work ahead while protecting one of their community's most vital assets. ●