

3 Nuanced Challenges CFOs Must Face With Innovative Strategies



Ann Duffy from Cottage Hospital

Pressing economic challenges like inflation and the ongoing physician shortage have left healthcare CFOs between a rock and a hard place. With private equity and payers on their heels, now more than ever, CFOs are forced to turn to innovative strategies to compete, manage and carve out success for their health systems while delivering high-quality care.

At the HealthLeaders CFO Exchange in Virginia, hospitals and health system CFOs gathered to tackle the most pressing issues reshaping the financial landscape of healthcare. With consistent challenges, hospital and health system CFOs are always seeking new strategies for cutting costs and improving operational efficiency to push for

the best clinical outcomes. A few top concerns for CFOs are private equity competition in specialty care, the physician shortage, especially within specialty care, and how to create a care model that is community-centric to ensure the best outcomes.

Private Equity Competition in Specialty Care

It's not breaking news that private equity (PE) firms have increasingly turned their attention to healthcare, particularly in the realm of specialty care and physician groups. This surge is driven by the lucrative opportunities within high-margin specialty services, such as dermatology, orthopedics, and cardiology. Often, PE groups come into healthcare to reap the profits and then make their swift exit.

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KEY TAKEAWAYS

- Private equity firms are increasingly targeting high-margin specialty care sectors, posing a significant threat to hospitals.
- CFOs must consider the broader impact of their service line decisions on the community. Decisions to cut or alter services can lead to patient loss and community backlash.
- The shortage of specialty care physicians, exacerbated by long training periods and growing demand, presents a significant challenge. CFOs need to focus on strategies to improve recruitment and retention, and explore innovative solutions to address gaps in specialty care.



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The 2024 HealthLeaders CFO Exchange brought together chief financial officers from more than two dozen top healthcare systems across the country. They gathered in the Washington, D.C., area for a two-day discussion about the current state of the industry and to share ideas about the future.

As we attended presentations and roundtables, and talked to colleagues in the corridors, we heard five big things that were on CFOs' minds.

1. The State of the Payer-Provider Relationship

This ongoing tug-of-war never goes away. Despite everything else they have to manage, CFOs say denial management is their number

one challenge. Reflecting the strained relationship, operators say that it often feels payers use the denial process simply to delay payments. One of operators' recent headaches is technology. When it works well and everyone on both sides is working together to expedite payments, technology can be a great enabler. But new AI systems often seem to bounce claims back more often, requiring multiple submissions, frustrating operators, and slowing down the payment process even more. CFOs we talked with want to make the process more patient-centric and more efficient for everyone—and fair for healthcare systems in every market. Being reimbursed at levels comparable to other local markets was at the center of a recent and public contact renewal standoff between Jacksonville's Baptist Health and Florida Blue Cross & Blue Shield.

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2. Technology—Particularly AI—and How It's Being Integrated Into Operations

The jury is still out on whether AI is useful or not, for what functions and at what cost. New automation systems can be complicated to use, and often make it even more difficult to understand the logic of denial data from payers.

3. Solutions to Deal with the Shortage of Professionals at All Levels

Every hospital and healthcare system is keenly aware of the shortage of both nurses and doctors, a shortage that only accelerated during the pressures of the Covid-19 pandemic. The lack of trained professionals is more serious in some areas of the country; rural areas and other care deserts bear the worst of it. Healthcare executives worry about the workforce shortage leading to a disparity of care over time—that a consumer's ability to get the best care just won't be as favorable in certain parts of the country. But no matter where you are located, it's often a serious battle to recruit the best talent. Executives continue to work on solutions and strategies to attract candidates, including increased remote work options and flexible schedules. But managing employees who work remotely presents its own challenges; executives say it's difficult to measure productivity from a distance, and to identify star performers with less face-to-face contact.

4. Protecting Patient Access to Care

The workforce shortage leads into concerns about access to care. The industry's focus is on ideas that can transform how patients are able to access care—and ways to meet them where they are. The growing telehealth movement has been a positive solution in many situations, allowing professionals to cover far-flung areas remotely, with virtual appointments and new technologies. That's been especially great for patients who might not otherwise have access to top specialists, for

instance. Increased reliance on skilled APPs can help fill in the gaps as well. Instead of pushing patients in smaller communities to a central facility elsewhere, there has been a concerted effort by multi-site hospitals in some geographies to get hospital beds into the communities they serve.

5. Recognizing and Addressing the Gap in Care for Behavioral Health Issues

It's the elephant in the room. The pandemic and its widespread effects on people's well-being put a new focus on caring for the whole patient—their physical, mental and emotional needs. But the healthcare system is lagging behind in caring for those mental and emotional needs. First, the industry simply doesn't have enough trained providers to address the country's existing patient needs. On top of that, the healthcare and insurance system has a huge gap in coverage and support that is an additional stress for patients and for providers. The lack of options often sends patients to the emergency room for an evaluation and release—a system that serves no one. Healthcare providers, local organizations, mental health professionals and other concerned parties are working to fill the gap with innovative ideas. But it remains a challenge; at this point, the compensation and reimbursement structure is not there, so healthcare providers need to also engage with insurers to move the conversation forward and help struggling Americans get the care they need.

After All These Conversations, Our Top Takeaways?

Despite the enormous challenges and the question marks facing the industry, what really struck us was the commitment of healthcare professionals to grapple with these issues, and to continue working for the best interests of their patients and communities. The uncertainty in the sector is a galvanizing force for these executives. The Covid-19 pandemic, which turned things on their head and tested everything in the industry—from supply chains to data systems—also brought professionals together to protect their communities. It created a camaraderie that still exists.

The smart, focused and committed leaders we talked with understand the challenges the industry faces. And given the headwinds, they know organizations that simply keep doing things the same way will be less profitable, less efficient and ultimately less effective for their employees and their patients. That makes us feel optimistic about the future.

What is concerning is that in the face of these challenges, many top healthcare organizations do not seem to have a succession plan to replace the committed leaders who have been at the forefront of this industry for many years. Each organization should take stock now and outline a succession plan that brings in the next generation of leaders. That next generation will need to provide both continuity and new answers for this, the country's most complex and essential industry.

“Once they’ve squeezed the juice from that operation, who’s buying that? “We just try to pick up the pieces after they exit,” said Garrick Stoldt, chief financial officer of Saint Peter’s Healthcare System in New Jersey. “But they don’t get into hospitals, they’re too complex.”

Stoldt’s comment underscores a common pattern amongst PE firms; they buy into only the most profitable sectors.

For hospitals, this competition poses a significant threat, as PE-backed specialty practices often operate with greater flexibility and potentially lower operational costs due to streamlined processes and focused management.

Some CFOs discussed how working with technology companies is the best way to compete with private equity. By partnering and collaborating with tech companies that can add crucial technological services to help boost service lines, health systems can counter private equity moves in healthcare. CFOs also discussed the strategy of



Mike Marquardt, CFO from University of Virginia Medical Center, attends the CFO Exchange.

operating at a minor loss in some services, just enough to scare private equity away.

CFOs at the exchange agreed that physician groups are the number one target for private equity firms and there’s much that CFOs and CMOs can do to improve physician relationships as well as retention. One strategy to attract and keep physicians is loan removal/forgiveness, which can be a huge driver of physicians to a health system.

Much of primary care is being driven by private equity firms that use the offering of GLP-1 drugs, like Wegovy, to draw in patients. CFOs agreed that having a strong strategy around specialty drugs is also crucial for combatting private equity as well as payers.

Evaluating Service Lines and Community Impact

CFOs are taking note of how their health system’s actions affect their surrounding community. They’re realizing that integrating healthcare services with community needs goes beyond just providing care—it involves actively participating in and investing in the local ecosystem. Hospitals are vital to community health and service line decisions can have a huge impact on the local community. CFOs discussed instances where they saw revocation from the community after taking away a particular service; many patients stopped coming to that health system altogether.

CFOs advised one another to take the community into account and don’t be too quick with service line decisions that may have a greater impact than initially thought. Health systems must recognize the evolution of community impact on their services, especially the bottom line.

Another piece of advice for CFOs from the discussion is to be sure their health system is surrounded by strong community relationships that they can lean on for support when challenges emerge.

CFOs should consider partnerships and other options before deciding to cut a service line. If a service is not highly profitable, they should consider having it at one center to drive patients to that location. CFOs also encouraged each other to continually evaluate service lines so any losses are clear before it grows into a larger challenge.

Physician Shortage & Specialty Care

One of the biggest challenges facing a CFO’s clinical enterprise is the gaps in specialty care. The struggles of recruiting for specialty roles in genetics, anesthesia, and the shortage of specialty care physicians have weighed heavily on the CFO’s shoulders. The challenge is it takes a long time to be trained in specialized care, and it’s time that health systems just can’t afford, more specialty care physicians are needed now.



Danielle Willis, CFO of Lakeview Hospital | LCMC Health, attends the Exchange.

“Our forecast is growing so fast we need 100 to 150 primary care physicians in the next five years,” said Allen Butcher, CFO of St Joseph’s / Candler Hospital in Georgia.

Health system’s are not able to replace retiring geneticists or anesthesiologists at the right pace, and there is an increasing shortage of treatment centers. One CFO even mentioned how their health system’s anesthesiology department was over budget by two million dollars.

New and (Un)Improved Payer Struggles

Consistently, CFOs are dealing with payers’ hardball tactics. For health system’s, payers are a multifaceted challenge with revenue and operational implications that pose a constant pain point. Now the struggle has evolved to where CFOs are grappling with shifts from fee-for-service to value-based care models, and payers aren’t playing nice.

CFOs must acquire not only sustainability, but profitability with their care models, and it will call for a realignment of financial strategies.

With reimbursement rate changes and the increase of value-based contracts, CFOs are required to adopt more sophisticated financial models. Value-based care must be accompanied by comprehensive data analytics and performance metrics to track outcomes, but implementing these models with payers is proving to be an all-around struggle.

A second tier to CFO struggles with payers lies in the soaring popularity of specialty care drugs. Drugs for weight loss and diabetes have seen a huge surge and health systems are pressured to cover them, but this requires a strong strategy in order to beat payers to adoption.

CFOs at the exchange discussed using ASP+ plans to help with initial costs for these pricey drugs, along with using a 340B plan to help with margins.

What We Learned

In summary, the current healthcare landscape is proving tough and laden with roadblocks for CFOs: from competition in private equity, to the fight to keep a steady physician workforce, to battling with payers over contracts, care models and specialty drugs, there is a lot to consider for the modern CFO.

However, with innovative strategies and forward thinking, CFOs can find opportunities to implement progressive care, remain profitable and stay one step ahead of competition.

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