

**UN
LOCK**

Illinois Health and Hospital Association



Hello

State of providers and payors

Rural hospitals face significant financial challenges

418

rural hospitals are at risk of closing based on vulnerability indicators including the number of years operating with negative margins. 21%-25% of Illinois rural hospitals are at risk of closure.

Market share is concentrated with the largest & most aggressive payors

91%

of markets have a single payor with more than 30% market share and 46% have a payor with more than 50% of market share. Pricing pressures have increased, making it harder for provider organizations to negotiate reasonable and sustainable rates for their services.

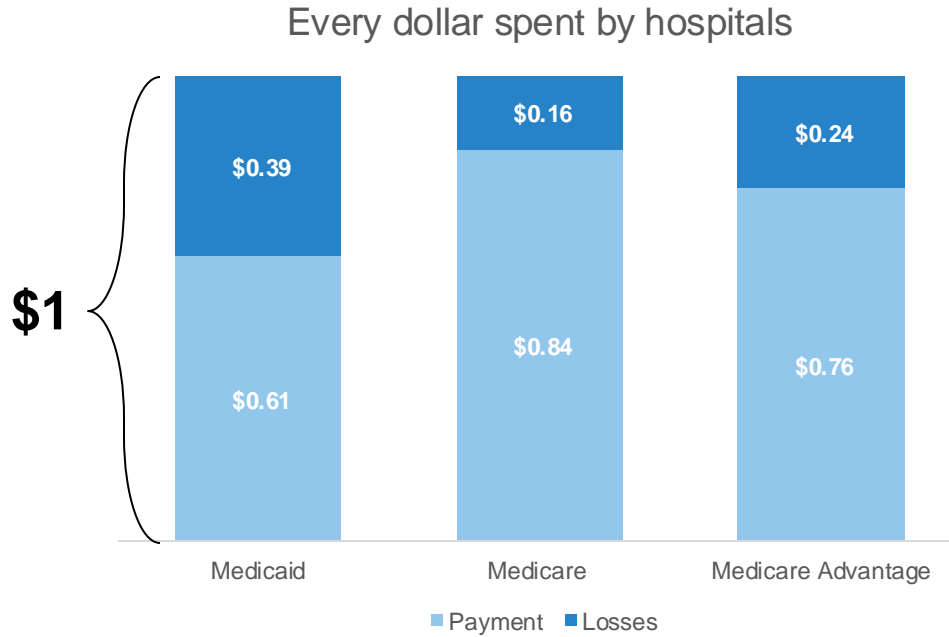
The most significant period of inflation in over 50 years

21%

increase in total expenses per patient from 2019 to 2021 including a 37% increase in drug costs and an overall staffing increase of 19% (139% increase in contracted labor). An additional \$98B increase between 2022 and 2023 is expected.

Sources: <https://www.beckershospitalreview.com/finance/418-rural-hospitals-at-risk-of-closure-breakdown-by-state.html>, <https://www.modernhealthcare.com/insurance/medicare-advantage-market-2022-ama>, <https://www.aha.org/guidesreports/2023-04-20-2022-costs-caring>

Period of systemic and intense conflict between payors and providers



145% increase in the number of public disputes in 2023 between providers/payors compared to 2022.

19 of the 49 public disputes in 2023 were out-of-network (211% increase compared to 2022).

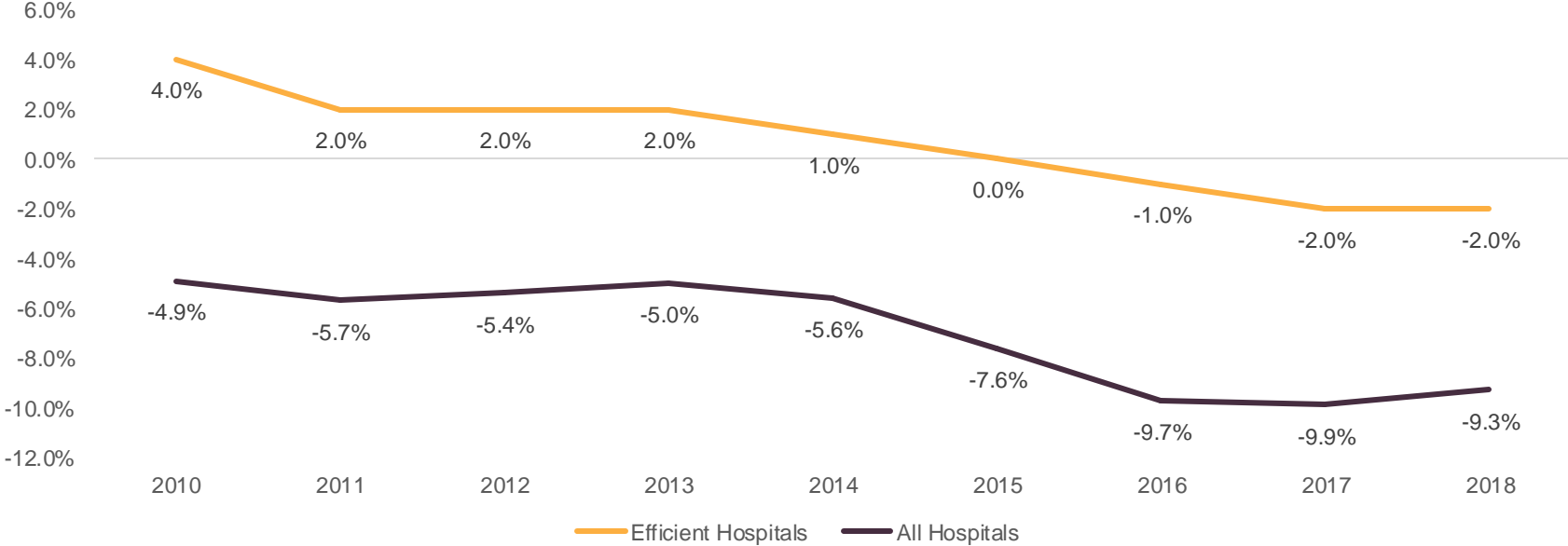
50% of hospitals ended 2022 with a negative operating margin.

700 rural hospitals lost money in 2022, and over 400 had losses greater than 5%.

¹Healthcare Association of New York State, Inc. | January 2023

Medicare losses

Medicare Margins



SOURCE: KFF analysis of the Medicare Payment Advisory Commission (MedPAC) *Report to the Congress: Medicare Payment Policy*, 2012-2019 annual reports, and the 2019 MedPAC report *Assessing Payment Adequacy and Updating Payments: Hospital Inpatient and Outpatient Services*. Reported values for "All Hospitals" and "Relatively Efficient Hospitals" are from MedPAC analysis of Centers for Medicare & Medicaid Services (CMS) data from 2010-2018.

Medicaid redetermination: Illinois

The unwinding period began in March 2023 after Medicaid disenrollments were halted due to the pandemic, and continued until May 2024.

22.8M people nationally have been disenrolled from Medicaid/CHIP.

In Illinois, 650K or 22% have been disenrolled since the start of the unwinding process.















































69% of the population disenrolled nationally were due to procedural reasons.

In Illinois, 66% were disenrolled due to procedural reasons.

KFF: [Medicaid Enrollment and Unwinding Tracker](#)

Payor landscape

Seismic shift in the underlying design of the healthcare system

	Insurer	PBMs & GPOs	Specialty Pharmacies	Provider Services	Other
UNITEDHEALTH GROUP®		 		  	 
			 	 	 
		 		 	 
				  	
		 	 	  	 

Medicare Advantage

TOP 10 MA PAYORS	ACCUSED OF FRAUD BY WHISTLE-BLOWER	ACCUSED OF FRAUD BY U.S. GOVERNMENT	OVERBILLED, ACCORDING TO INSPECTOR GENERAL
UNITEDHEALTH GROUP	✓	✓	✓
HUMANA	✓		✓
CVS HEALTH			✓
ELEVANCE HEALTH		✓	✓
KAISER PERMANENTE	✓	✓	
CENTENE			
BCBS MICHIGAN			✓
CIGNA	✓	✓	✓
HIGHMARK			✓
SCAN GROUP	✓	✓	✓

	United	Elevance (Anthem)	Ind. Blues (34 States)	Aetna	Cigna	Humana	New Entrants (Bright, Oscar, Clover)
Payment Rates	<p>Uber aggressive, seeking rate cuts</p> <p>Commonly start with demand for 15-20% cut</p>	<p>Uber aggressive, seeking rate cuts</p> <p>Commonly start with demand for 10-15% cut</p>	<p>Moderate to mildly aggressive</p> <p>Commonly start with demand for flat or 5% cut</p>	<p>Generally not aggressive</p> <p>Commonly start with offer of low single digit increase</p>	<p>Localized aggression in certain markets</p> <p>Commonly start with offer of low single digit increase</p>	<p>Generally not aggressive</p> <p>Commonly start with offer of low single digit increase</p>	<p>Generally cooperative, not aggressive</p> <p>Commonly start with offer of mid single digit increases</p>
Communication (1-10)	8-9	8	6-7	3-4	3-4	2-3	1
Third Parties	Self-insured employers, RAND, other think tanks	Self-insured employers, RAND, other think tanks	Elected officials, self-insured employers	Not common, occasional local government officials (self-insured customers)	Not common, occasional local government officials (self-insured customers)	Not common	Rarely/never

Critical issues

Financial difficulty for providers

Staffing shortages

More than 30 states have more than two hospitals with a “critical” designation, meaning the facility has exhausted all options to address staffing needs.¹ Widespread shortages mean hospitals are spending more on contract labor, to add insult to injury on an already fragile financial situation.

Health plan pressure

As markets have become more concentrated with the largest and most aggressive payors, pricing pressures have increased, making it harder for provider organizations to negotiate reasonable and sustainable rates for their services.

Down market

Hospitals and health systems rely on investment portfolios for financial stability. With the market downturn, these portfolios are under-performing, affecting smaller and major players and resulting in negative yields.²

COVID-19 aftermath

Estimated to cause hospital losses of \$53B to \$122B in 2021³, COVID-19’s impact on hospital finances persisted to make 2022 the worst financial year since the pandemic’s onset.⁴

Inflation

Between 2022 and 2023, healthcare costs are projected to increase \$96B due to inflation, accounting for labor costs and non-labor costs.⁵

Resistance to consolidation

Recent Congressional hearings on consolidation are the latest sign of formal regulatory (and possibly legislative) resistance to further hospital consolidation and physician employment by health systems.

¹ [“Addressing the Healthcare Staffing Shortage.”](#) *Definitive Healthcare*, Oct. 2022.

² [“How the Current Economic Downturn Impacts Healthcare Funding and Investor Strategy.”](#) *Fierce Healthcare*, 10 Feb. 2023

³ [“Hospitals Could Lose between \\$53B and \\$122B This Year Due to Pandemic.”](#) *Fierce Healthcare*, 24 Feb. 2021

⁴ [“National Hospital Flash Report: January 2023.”](#) *Kaufman Hall*, 30 Jan. 2023

⁵ [“The Gathering Storm: The Transformative Impact of Inflation on the Healthcare Sector.”](#) *McKinsey & Company*, 19 Sept. 2022.

Hospital consolidation

Keeps rural, vulnerable hospitals from closing

There are 418 rural hospitals at risk of closure due to financial issues, comprising around 30 percent of all rural hospitals in the U.S.

Nearly 20 percent of Americans live in rural areas and depend on their hospitals.

Combat the growing market share and power of payors

A single insurance company held at least half the market share in 46% of metropolitan areas, up from 40% in 2014, the AMA reports.

Fourteen states had one health insurer that controlled at least half of their markets. Alabama had the least competitive market, followed by Michigan and Louisiana, according to the study.

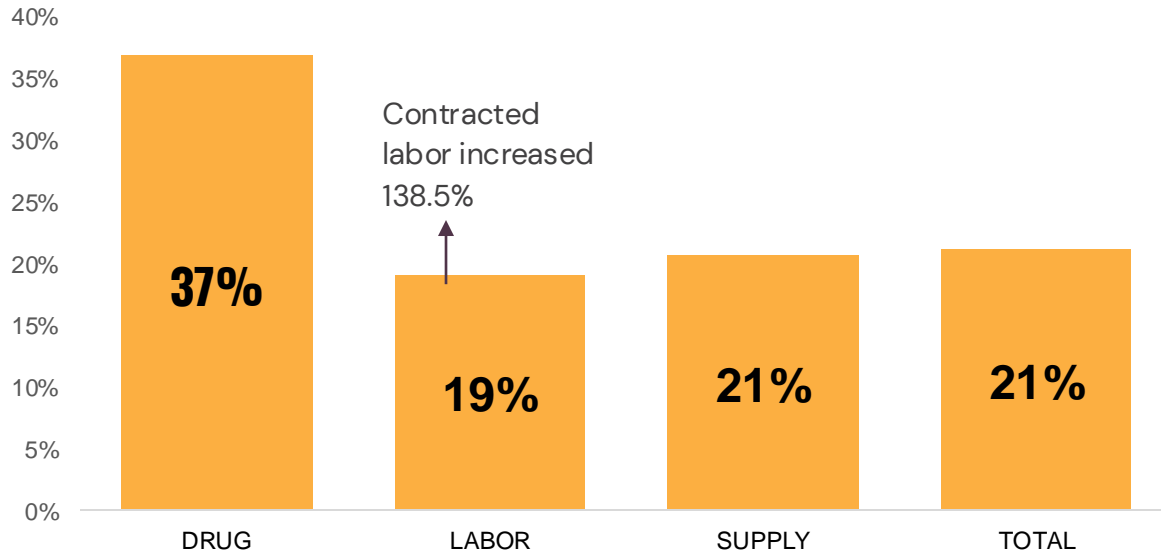
Source: <https://www.modernhealthcare.com/insurance/health-insurance-markets-lack-competition-ama-reports>

Insurer-dominated markets

State	Top insurer	Market share
Alabama	BCBS Ala.	87%
Michigan	BCBS Mich.	68%
Louisiana	LA Health Service & Indemnity	67%
Kentucky	Anthem	65%
South Carolina	BCBS S.C.	65%
Hawaii	HMSA (BCBS Hawaii)	64%
Illinois	Health Care Service Corp.	61%
Oklahoma	Health Care Service Corp.	57%
Indiana	Anthem	56%
Mississippi	BCBS Miss.	55%
Tennessee	BCBS Tenn.	43%

Expense increases

Hospital expenses per patient increase from 2019 to 2021¹



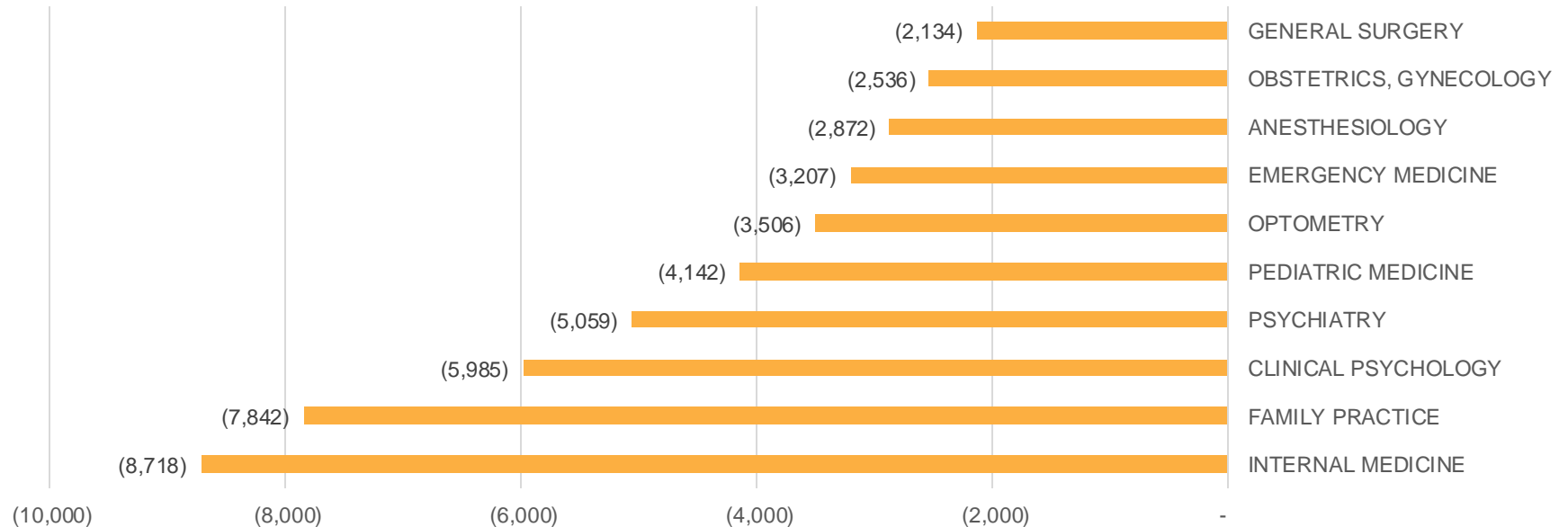
Expected to be an additional \$98 billion in costs between 2022 and 2023¹.

\$248 billion increase in costs relative to 2019¹.

¹[American Hospital Association](#)

Access will eventually surpass price as the primary concern

MORE THAN 145K PROFESSIONALS LEFT THE HEALTHCARE INDUSTRY FROM 2021 THROUGH 2022



SOURCES: KAUFMAN STRATEGIC ADVISORS

Medicaid MCO denial rates

	LOWEST MCO DENIAL RATE	HIGHEST MCO DENIAL RATE	OVERALL DENIAL RATE	NUMBER OF MCOS	NUMBER OF MCOS >25%
AETNA	5%	29%	12.1%	14	1
AMERIHEALTH	2%	20%	6.1%	11	
ANTHEM	6%	34%	12.9%	19	3
CARESOURCE	8%	16%	15.4%	3	
CENTENE	3%	23%	12.2%	33	
MOLINA	7%	41%	17.7%	12	7
UNITED	7%	27%	13.6%	23	1

SOURCES: KAUFMAN STRATEGIC ADVISORS & 2019 OIG ANALYSIS

Optimal commercial rates needed for survival of providers

	Patient Mix	Percent of Facility Costs	Medical Group Allocation	System Overhead	Denials/Bad Debt	Contribution Margin
Medicare	40%	85%	7%	15%	5%	23%
Medicaid	23%	80%	7%	15%	5%	13%
Commercial	31%	230%	7%	15%	5%	64%
Self Pay & Copay	6%	10%	7%	15%	5%	-1%

} 100%

COMMERCIAL REIMBURSEMENT AS A PERCENT OF MEDICARE: 271%

SOURCES: KAUFMAN STRATEGIC ADVISORS

Optimal commercial rates needed for survival of providers

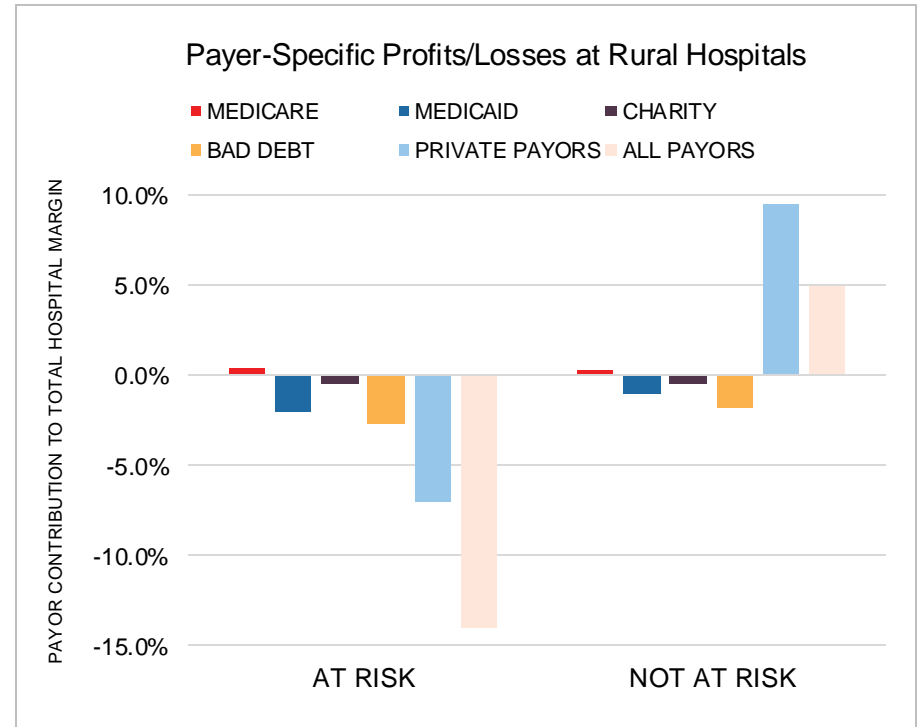
Revenue philosophy?

- Volume-based Pricer: Don't get pickled
- Value-based Pricer: Value to who?
- Price Taker
- Risk Seeker
- Survival-based Pricer

Medicare advantage plans are crippling rural hospitals

“Our critical-access hospital has no leverage to demand that the for-profit MA plans pay claims appropriately... the claims-payment practices of the commercial [MA] payers in reality yield 20% to 35% less money [than traditional Medicare] for the same service.” Scott Taylor, administrator of Ozarks Community Hospital in Gravette, Arkansas MHC 12/28/2023

SOURCES: CMS COST REPORT DATA & KAUFMAN STRATEGIC ADVISORS,
[HEALTHCARE QUALITY & PAYMENT REFORM](#)



**Closing
thoughts**

Keys to success in 2024 & beyond

01

You should not be in the business of everything – focus and invest in what you are good at or known for.

02

Leverage demand to obtain rates needed by each service line.

03

Invest in current infrastructure if in the right location.

04

Expenses should have an ROI, including marketing.

05

Administrative and clinical partnerships are key.

06

Invest in influence – market/brand/government affairs/policy.

Establish a revenue strategy

- 01 Where is demand going in the market?
- 02 What share of the market do you have a right to win?
Identify capacity constraints and resolve for new volumes.
- 03 Decide the balance of electronic vs in-person services.
Pick your partners based on the decisions made.
- 04 Invest in infrastructure based on the decisions above (large overall strategy ties to tactical and operational plans).
- 05 Establish payor report card to drive data-driven decisions on who your contracted payers will be in the future.
- 06 Renegotiate with those payers selected for the services and rates that are the most important for the financial viability of your organization.
- 07 Leverage appropriate resources in negotiations to obtain rates for financial stability

Leverageable resources





Thank you.

Let's chat.

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