

Course 300: Leading Health System Economics

Module 301: Overview of Leading Health System Budgets

What You Will Learn

In this video, we will:

- Explain how health system margins work—and why they matter
- Identify key revenue sources and cost drivers across the health system budget
- Examine how policy, demographics, and ownership models influence financial dynamics
- Translate these insights into practical strategies for greater engagement in health system partnerships



The Foundation of Health System Budgeting

A Simple Equation - Big Implications

$$\text{Revenue} - \text{Cost} = \text{Margin}$$

Largely from: Patient care

Largely from: Labor expenses

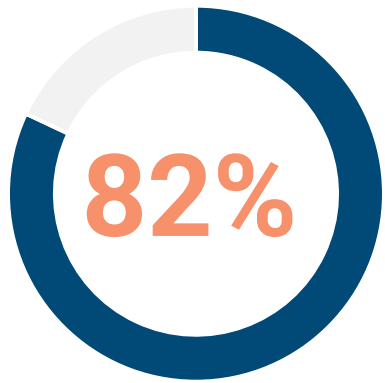


Margin Empowers Mission

- Funds long-term strategic priorities
- Enables investment in people, technology, and infrastructure
- Supports mission-driven care (e.g., access, quality, equity)
- Acts as a buffer against financial shocks

¹ Does not include capital expenses such as facilities or major clinical equipment

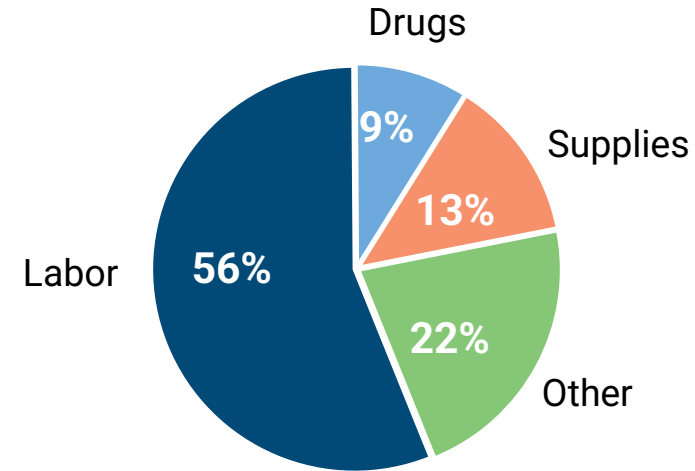
Where Does the Money Come From... and Where Does It Go?



of total LHS revenue comes from patient care

Revenue is Unstable

- Paid slowly and partially
- Set by payers and policy
- Vulnerable to denials, payer mix, and volume drops



Costs are Largely Fixed

- Labor is the largest expense—and it's not flexible
- Drug and supply prices continue to rise with inflation
- Systems can't cut costs without risking access, workforce, or care quality



80% of LHS budget isn't flexible. That means your pitch needs to be.

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How Ownership Shapes Strategy: For Profit vs. Nonprofit

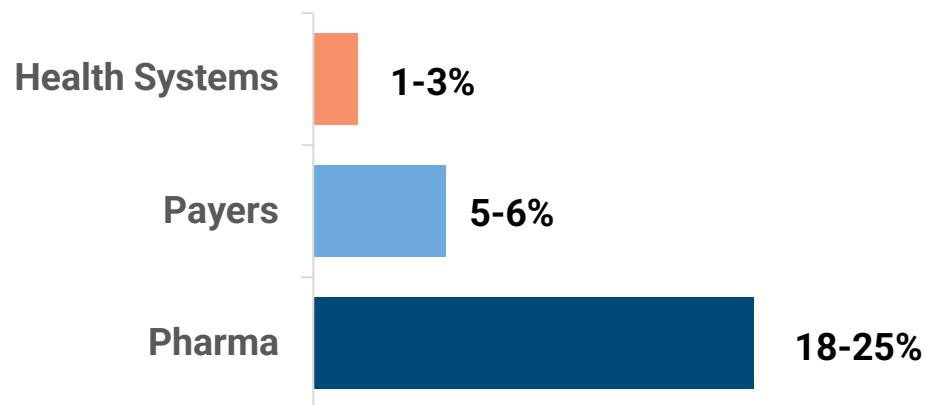
For profit systems focus more on returns; nonprofits more on community and mission.

	For profit Growth-Oriented, Margin-Focused	Nonprofit Mission-Oriented, Margin-Constrained
Ownership	Privately owned	Owned by academic institutions, religious groups, or charitable orgs
Tax status	Must pay taxes	Exempt from income and property tax
Financial objectives	Profits distributed to owners or shareholders	Profits distributed to community or reinvested in system
Funding sources	<ul style="list-style-type: none">• Investments• Patient fees• Insurance reimbursements	<ul style="list-style-type: none">• Tax exemptions• Philanthropic donations• Government grants
Priorities	<ul style="list-style-type: none">• High revenue services (e.g., orthopedics)• Often more selective with payer contracts	<ul style="list-style-type: none">• Services to benefit the community (e.g., trauma wards)• May pursue equity and access goals even at cost to margin

Margins are thinner than you think...and unpredictable

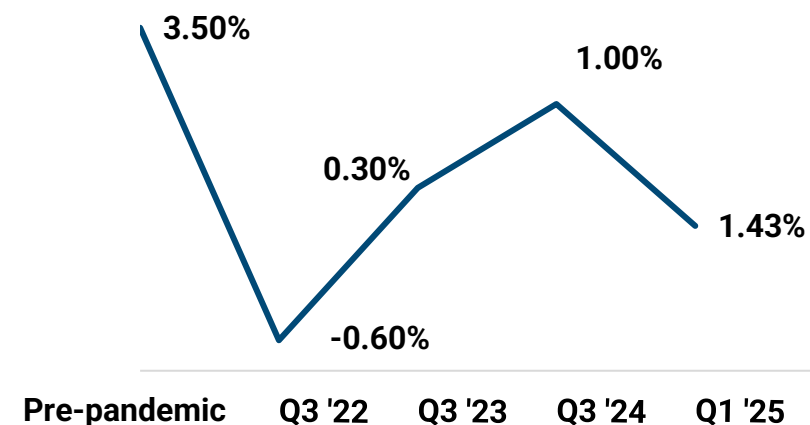
Leading Health Systems do a lot with a little

Average Operating Margins Across Healthcare



Leading Health System (LHS) Median Operating Margins

Quarterly results from LHS sample (n=50)



Thin Margins Impact Health System Behavior

- Margins that fluctuate quarter to quarter leave little room for error
- Financial decisions require clear, defensible ROI
- Even high-potential investments face scrutiny if timing or fit isn't right



Thin margins = High bar for partnerships”.

New Cost Pressures and Demographic Shifts Add Strain

Slim Margins Have Long Been the Norm, and New Cost Pressures Add Fuel to the Fire

New Cost Pressures



Staff shortages=higher labor spending



Inflation driving up supply chain and purchased services (e.g., PPE, testing equipment) costs

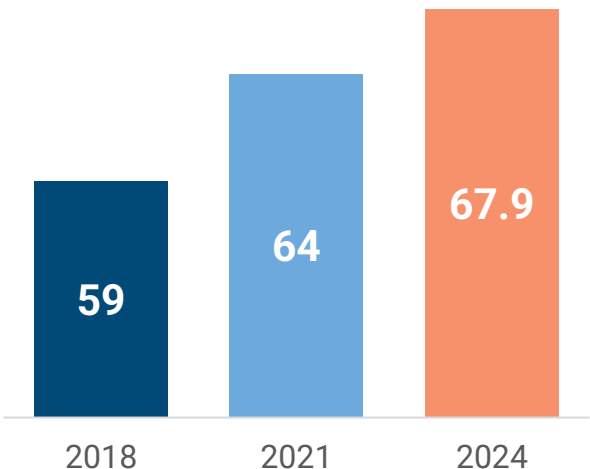


Insufficient reimbursement from public payers and growing cost scrutiny from commercial payers



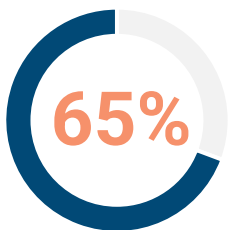
Increase in uncompensated care

New Demographic Pressures: Medicare Enrollment Increasing Steadily

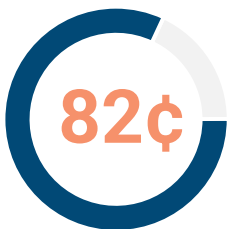


21% of population Medicare-eligible by 2030

Older, Sicker Patients = More Cost, Less Revenue



Percent of Medicare beneficiaries with 2+ chronic conditions



Amount Medicare reimburses for every \$1 of care provided

Source: CMS Chronic Conditions Chartbook, 2023

Key Takeaways for Industry on LHS Finances and Strategic Priorities

1

Know the financial pressure: Health systems operate with thin, volatile margins, fixed costs, and complex constraints. Be prepared to speak their financial language and explain how your solution pays off. Partners who understand the budget realities and tradeoffs are more likely to earn executive trust.

2

Lead with ROI, not just outcomes: While patient impact matters, systems prioritize solutions that show cost savings, efficiency, and ease of implementation. Investments must deliver measurable ROI and operational simplicity—especially at scale.

3

Meet them where they're going- align with top concerns: Focus on areas like labor relief, operational efficiency, analytics, and care delivery shifts—where investment is most likely