

Leading Health System Budget and Finance Outlook

Q2 2024 Market Pulse

Overview of Budget Forecast and Investment Market Outlook Survey

Summary

In May 2024, The Health Management Academy conducted a quantitative survey of 25 Leading Health System (LHS) Chief Finance Officers regarding the budget and investment strategies at their organizations.

This piece is an overview of the current financial outlook of LHS based on CFOs' survey responses, financial projections from industry experts, and additional insights from our spring and fall in-person forums and virtual events.

Key Takeaways

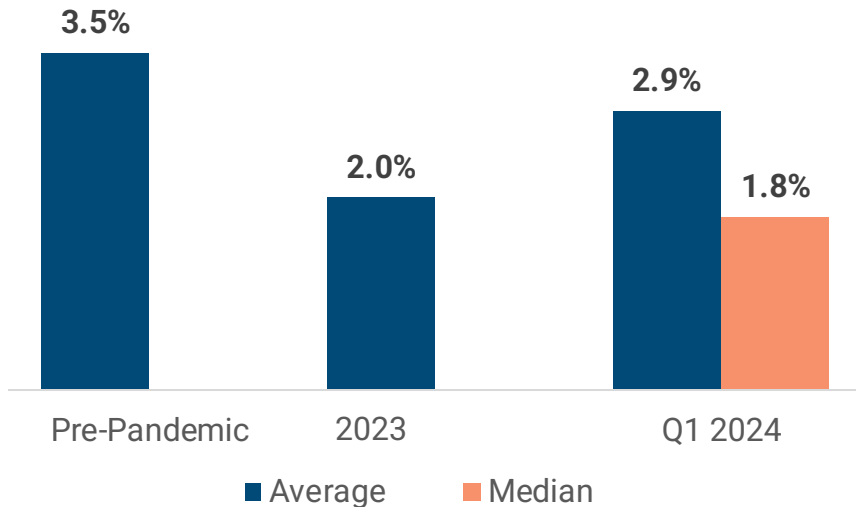
- **The financial outlook for health systems is trending positively:** Compared to 2023's average operating margins (2%), we largely see that the average operating margins in 2024 (2.9%) are continuing to improve. This is due to growth in ED volumes, outpatient revenue, and operating room capacity.
- **Budgets grew by 23%:** In 2023, the LHS we surveyed reported a 4.3% average increase in overall budgets. But for 2024, we saw an even more robust (5.3%) average budget increase. Rebound in demand for services and better reimbursement rates are increasing confidence in the ability to grow budgets.
- **Budget relief with travel nurses continues:** However, contract labor costs are continuing to decline. As the percent of systems relying on travel or locums staff falls, 44% report decreasing spend on travel nurses. Other areas for spending declines are less obvious. Interestingly, 37% and 30% of CFOs are decreasing spending on outsourced rev cycle and supply chain operations, respectively.

Financial Outlook for Health Systems Trending Positively

Negative trends are stabilizing, with recovery slow but encouraging

Leading Health System Operating Margins 2023-2024

Academy LHS database



Margin Recovery on Track

- Compared to 2023's average operating margins (2%), we largely see that the average operating margins in 2024 (2.9%) are continuing to improve. The biggest drivers for margin growth include:
 - Increasing outpatient revenue and operating room capacity.
 - Average length of stay going back to normal levels.
 - Increasing ED volumes.
- Notably, **median** operating margins in 2024 were lower than the **average**, indicating the role regional dynamics play. Generally, larger systems with strong market share, good payer mix, and a well-established acute and outpatient/specialty footprint are financially stronger.
- Leading Health System's margins are still below the pre-pandemic average (3.5%). This is reflective of the new reality for health systems, where revenues are largely fixed, but costs (e.g., labor) have become highly variable.

Health System Budgets Are Ramping Up

Improved reimbursement and demand help mitigate perennial areas of cost pressure

Budgets Continue Positive Trend

- In 2023 the LHS we surveyed reported a 4.3% average increase in overall budgets. But for 2024, we saw an even more robust (5.3%) average budget increase.

On the right are the biggest factors driving positive and negative impacts on LHS budgets, according to CFOs.

- CFOs overwhelmingly (78%) agreed that improvements in demand, likely driven by increased ambulatory diversification, helped improve their financial performance.
- Better reimbursement rates are another big factor boosting financial performance. This could stem from a combination of better denials management and prevention, service line optimization, and systems getting tougher with health plans, which is something COO and finance leaders have discussed.
- Unsurprisingly, CFOs agreed that labor, drug, and supply costs continue to present significant challenges, and there is little reason to expect to see these shift appreciably in the near future.

Key Areas Affecting LHS Financial Performance in 2024

*Percentage of CFOs agreeing
Academy 2024 Finance and Budgeting Survey*

Positive Effects

78% Demand

74% Reimbursement Rates

Negative Effects

89% Labor

89% Drugs

82% Supplies

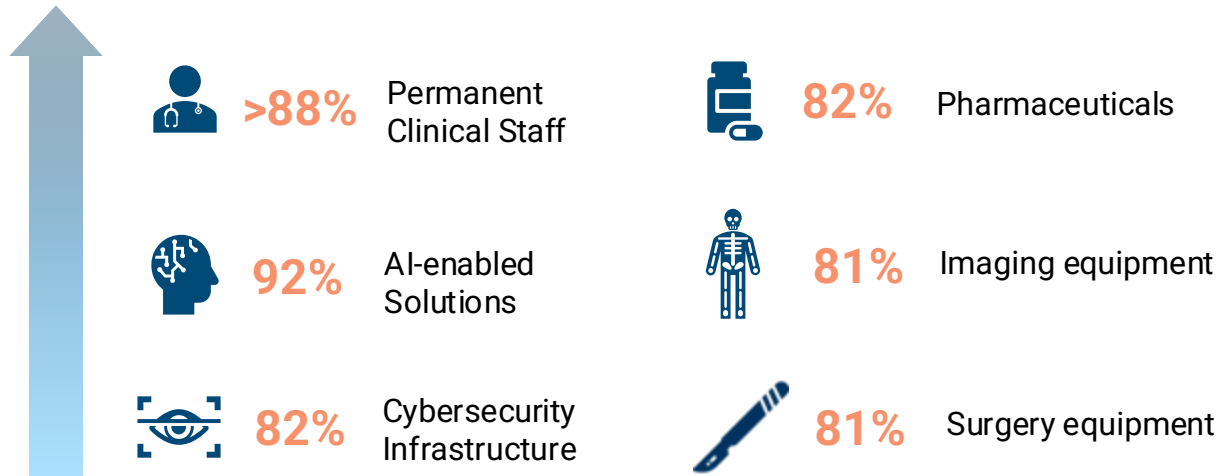
Spending Driven by Tech, Sites of Growth, and Stabilizing Workforce Costs

Meanwhile, LHS are cutting back on contract clinical staff and outsourcing in administration and operations

Top Areas LHS Plan To Increase Spending

Percentage of CFOs Reporting

Academy 2024 Finance and Budgeting Survey



Budget Increases Focus On Long Term Savings And Growth

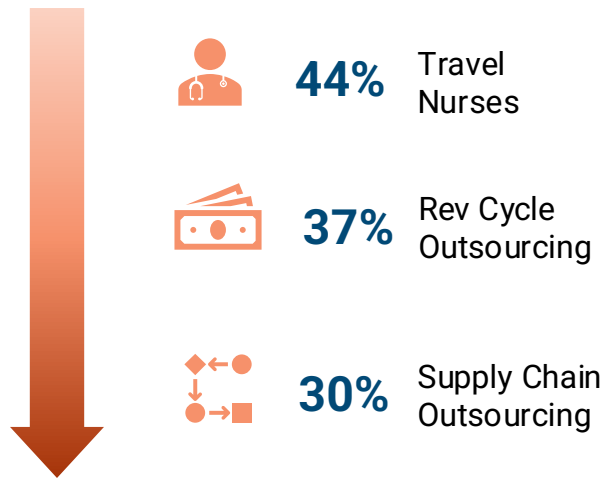
- Health systems are growing their spending strategically by focusing on areas that will generate savings on operating costs and ensure long term growth.
- **Workforce solutions:** Health systems are continuing to invest in permanent clinical staff and AI-enabled solutions to stabilize turnover and alleviate administrative burden for care teams. By investing in these areas, health systems will be able to streamline workflows and invest in professional development opportunities that keep clinical staff engaged.
- **Service line growth:** With many health systems focused on growing their cardiology, neurology, and oncology service lines, there is a clear business case for investing in imaging, surgical equipment and pharmaceuticals.
- **Cybersecurity:** The rising frequency of cyberattacks on health systems has CFOs working proactively investing in infrastructure that would mitigate the likelihood or financial impact of a cyber event.

Labor Remains Top Cost Center, But Attention Shifts to Permanent Staff

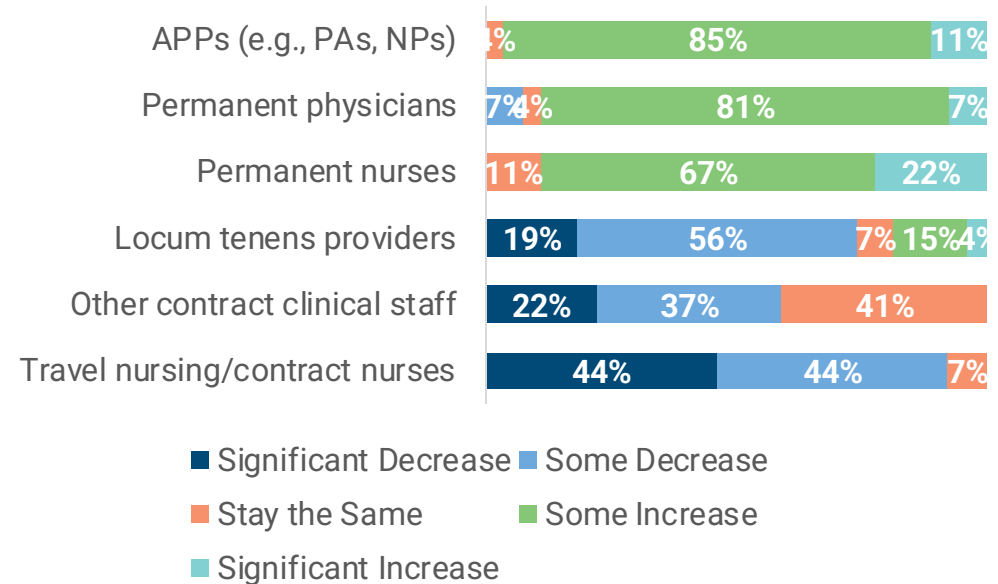
While staffing strategies orient around efforts to attract, retain, and upskill staff

Only A Few Areas Have Notable Spending Decreases

Percentage of CFOs Reporting
Academy 2024 Finance and Budgeting Survey



Anticipated Spending Changes Across Workforce



Health Systems are Pivoting to Long-Term Labor Strategies

Contract labor costs are continuing to decline as health systems focus more resources on retaining permanent staff. As the percent of systems relying on travel or locums staff falls, 44% report decreasing spend on travel nurses. Instead, most CFOs reported some increase in spending for APPs (85%) permanent physicians (81%) and permanent nurses (67%).



We Power our Community to Drive Health Forward

Who We Power

Leading Health Systems

The approximately 150 innovative integrated delivery systems with over \$2B in total operating revenue

Industry Partners

Industry innovators, from early stage to Fortune 50 organizations, that are working alongside health systems to drive health forward

1,600+

LHS Executive Relationships

450+

LHS C-suite Members

150+

Innovative Industry Members

How We Serve Health System Members



Convene exceptional peer groups that facilitate meaningful relationships and knowledge exchange



Create world-class leadership development programs designed to prepare next generation healthcare leaders



Produce original research leveraging member insights on healthcare's greatest challenges and opportunities



Deliver innovation surveillance and strategic roadmaps to help health systems navigate strategic transformation



Facilitate novel partnerships to address critical industry issues that demand collective action