



EDUCATION
by SCALE healthcare

SCALE EDUCATION WEBINAR

Healthcare CEO Toolkit: Mitigating the Effects of Rampant Inflation on Your Business

Tuesday, May 31, 2022

Meet Our Speakers

Moderator

SCALE+



Roy Bejarano

Co-Founder & CEO of SCALE Physician Group

- Roy has interacted with several hundred multi-site provider based organizations across the majority of U.S. and is particularly focused on MSO and practice level operations as well as broad strategic and competitive dynamics across the country's healthcare services landscape.
- Prior to SCALE, Roy served as Physicians Endoscopy's Chief Strategy Officer & Co-President of Physicians Endoscopy's PE Gastro MSO initiative.
- Roy was Co-Founder and President of Frontier Healthcare, which was the largest ASC management company in New York at the time of its sale.
- Prior to entering healthcare, Roy had 12 years of investment banking, private equity, corporate development, strategic consulting, and asset management experience.

Meet Our Speakers



Panelists



Jason Schifman

Co-Founder and President, SCALE Healthcare

- Jason has advised an extensive range of provider organizations and healthcare investors across strategic, growth & development and operational objectives.
- Prior to SCALE, Jason most recently served as Physicians Endoscopy's Executive Vice President of Strategy across the Company's ASC and MSO platforms.
- Previously, Jason was a Partner & Vice President of Finance at Frontier Healthcare.



David Blaszcak

Head of SCALE Market Research and Payer Strategy

- David has 25 years of unique experience in the healthcare field working for state and federal governments; reimbursement, market strategy, regulatory consultant, growth strategist to healthcare companies; and advisor to investment firms, banks, and lenders in the U.S.
- He is a recognized leading expert of healthcare regulatory policy, the reimbursement process, and the effect on the healthcare delivery system.

Inflation Emergency

Mitigating Steps Every Management Team Should Consider

Introduction

- Historically high inflation
 - The highest we've seen in 40 years
 - 9-10% in the United States
- How did we get here?
 - Turned off supply to only “essential businesses”
 - Flooded the market with fiscal stimulus
- What is happening?
 - Measures taken during COVID are highly debatable from a medical perspective
 - Now witnessing the true cost of wage losses
 - More disruptions to supply
- However, existing market trends will continue, and this doesn't mean the end of the world for most businesses

Annual Inflation Rate, 1970-2022



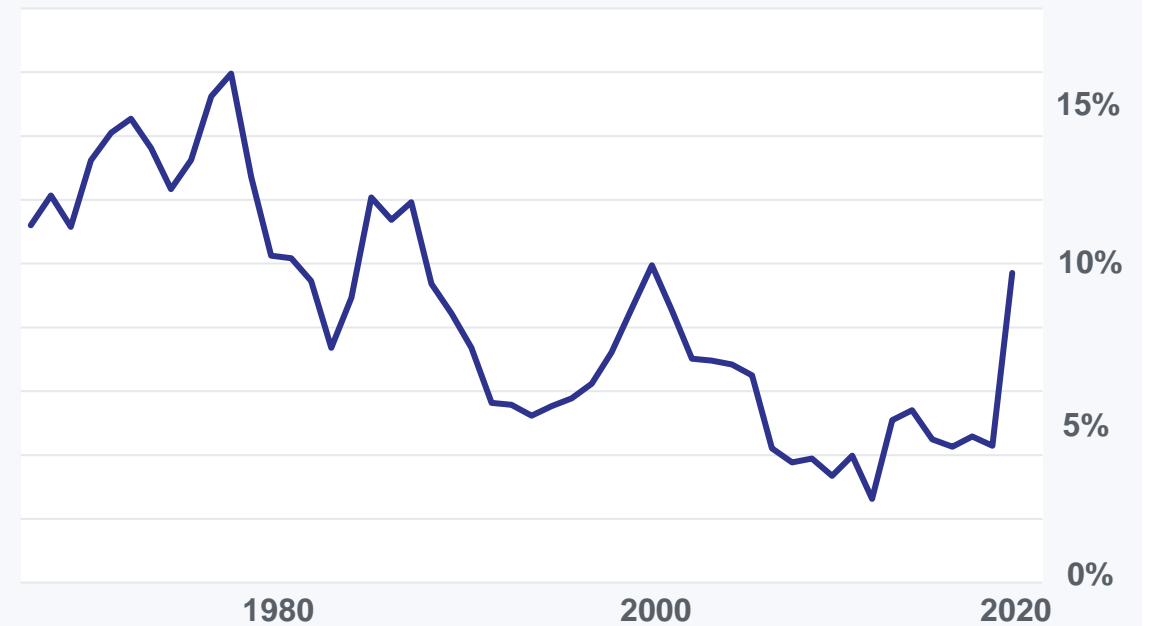
Inflation Emergency

Mitigating Steps Every Management Team Should Consider

Healthcare Costs

- The underlying trends in population demographics, employment, and healthcare are creating lots of noise in the economic
 - For example, short-lived high unemployment rates and an aging population with fewer hospitals
 - Short term economics will eventually resolve
- Healthcare expenditures in the US have historically followed national GDP increases

Year Over Year Increases in National Health Expenditures, 1970-2020



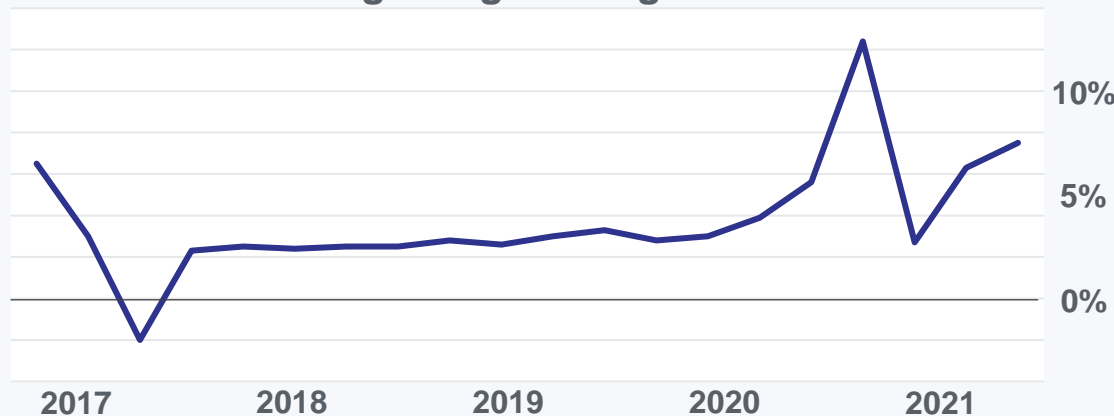
Inflation Emergency

Mitigating Steps Every Management Team Should Consider

Healthcare Labor Costs

- Wages and compensation in the healthcare sector jumped at the beginning of 2021 and is now accelerating again
 - The most recent data shows that the year over year, average healthcare labor costs rose 7.5% in the 3rd quarter of 2021, and are likely to increase even faster in 2022

Annual Average Wage Changes in Healthcare



Healthcare Labor Participation

- Trends in labor participation rates have fluctuated over time from highs of 67% to lows of 60% during the pandemic and Great Resignation
- Workforce numbers are now trending upwards in the ongoing economic rebound

Labor Force Participation Rate, 2002-2022








Sources:

- US Bureau of Labor Statistics. Quarterly Census of Employment and Wages – Healthcare and Social Support Services. Available [here](#).
- US Bureau of Labor Statistics. Civilian Labor Force Participation Rate. Available [here](#).








What Do We Do Now?

What to do when providers, nurses, and administrator costs go up by 50% in 1 year?

Traditional Strategies

-  Cut costs wherever possible other than staff
 - Risk starving business/under-investing
-  Move away from further investment/cash spends on growth
 - Take away from your future
-  Avoid additional hires
 - Over-work loyal existing team
-  Ignore payers and assume government won't help
-  Complain loudly about loss of margin/income and deteriorating business environment

Overlooked Healthier Strategies

-  Outsource more departments than you previously did to cheaper alternatives
-  Automate, Automate, Automate
-  Focus heavily on internal training / HR / retention / culture / best practice
-  Think carefully about every position utilized, clinical and managerial – and consider cheaper alternative staffing solutions
-  Find other areas of weakness in your business that are costing you money either in lost revenue opportunities or expenses
-  Understand the timeline involved in reimbursement increases across the payor community
-  Approach payers for immediate relief

Getting into the Weeds with Payers

How are payers trying to adjust reimbursement for inflation?

- Every year, the Centers for Medicare and Medicaid Services (CMS) publishes proposed and final rules for physicians, hospitals, home, health, dialysis, hospice, etc. The rates published in Medicare regulations go into effect either November 1st or January 1st pending the physician group or facility.
- In the annual published regulations, Medicare attempts to account for inflation costs.
- For healthcare facilities, such as hospitals, - part of the overall annual update to Medicare rates is an adjustment for inflation. For example, labor costs make up a significant portion of the hospital Medicare update - about 67%.
- For physicians, the consumer pricing index (CPI) set by the Bureau of Labor Statistics and the Medical Economic Index (MEI) plays a very big role in adjusting reimbursement for inflation costs.
- Legislation has largely offset and/or hindered Medicare adjustments for inflation, especially physician payment. In 2015, The Medicare Access and CHIP Reauthorization Act (MACRA) eliminated automatic increases for physician payments (including MEI) and instead relies on value-based updates. Other legislation, such as PAYGO and Sequestration have further complicated payment increased with threats of future cuts.
- The federal government is lagging in its attempt to keep up reimbursement with inflation costs, especially physician payment.
- Commercial payors will not make adjustments to account for inflation unless a provider requests an increase. However, some payers will reimburse a percentage of Medicare rates – but that payment is not keeping up with inflations costs.

Understanding the Payer Landscape

How should a management team approach payers for assistance on the inflation they are facing?

Timeline involved in reimbursement increases across the payer community

- For Medicare Advantage – Start around June; 3 to 6 months for any adjustment in rates to be approved/negotiated.
- For commercial payers – ASAP, especially if contracts have not been discussed with payers in several years.
- Federal or State Government – Adjusting for inflation in traditional fee for service Medicare, but there is some negotiating wiggle room around the government not being able to adequately keep up with inflation costs.

Approach payors for immediate relief

- Overall increase in costs YOY – including labor – should be calculated and added to a larger strategy to approach payers for payment increases. The increased costs should be accumulated to the last time a contract was negotiated and updated by a payer.

Thank You

Stay in touch.

SCALE+



roy@scale-healthcare.com



(917) 428-0377



[@scale-pg](https://www.linkedin.com/company/scale-pg)



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