

CHADWICK ANNUAL SYNTHESIS

A LOOK INSIDE

Sunrise After the Storm

Summary of the June 2021
Citi/AHA/HFMA Virtual
Not-For-Profit Health Care
Investor Conference



Edward Chadwick

The following is a summary of the recent national tax-exempt healthcare investor conference that provides a glimpse into how the healthcare industry is accelerating transformation after the worst of the pandemic. In 2021, this perennial, long-standing conference took place in a modified virtual format on June 23rd-25th. Eighteen national and regional health systems presented, representing a diverse set of organizations of varying size, geographies, structures, challenges, and innovative approaches.

While many core strategies remain consistent with articulated prior to the pandemic (e.g., at the January 2020 JPM Healthcare Investor Conference), COVID-19 forced the industry to pause and pivot rapidly. While the pandemic accelerated virtual care and other innovation, other events such as the murder of George Floyd resulted in expanded and widespread commitment to Equity and Social Justice. Appropriately, 2021 Citi/AHA/HFMA event organizers asked presenting systems to “not just describe who you are, but what you believe.”

It's impossible to capture the energy, passion or creativity of the actual presentations, but the following observations highlight common themes. Following the summary is a more detailed discussion of each topic and a list of presenting systems.

ABOUT THE AUTHOR



Edward Chadwick, Founder of Integrated Healthcare Financial Strategies, LLC. wrote this report. He has historically drafted a summary of both the annual JPM and Citi/AHA/HFMA Healthcare Investor Conferences, and routinely presented at both. Mr. Chadwick has been system CFO of a national Catholic System (Trinity Health), a top-20 academic health system (Wake Forest), and a fully integrated plan/provider (Henry Ford Health System), and has served as a senior consultant and thought leader. He holds an MBA from the University of Chicago Booth School of Business. If you have any questions or comments about this write-up, please contact him at edward.chadwick@ihfstrategies.com or [linkedin.com/in/edward-chadwick](https://www.linkedin.com/in/edward-chadwick).

Read Edward Chadwick's summary of key themes from the 2020 JPMorgan conference and his full report of that conference [here](#).

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SUMMARY

Key Themes

Pandemic Impact and Learnings — Presenters described how their systems responded to the pandemic, and how that experience is accelerating the velocity of their efforts to transform further. There was much appreciation for front-line “healthcare heroes,” demonstrated value of scale in responding to COVID, and recognition that the pandemic will have profound long-term impacts on healthcare. Continued vaccination remains a priority.

Expanded Focus on Diversity, Equity, Inclusion and Social Justice — In previous conferences many systems discussed their increased efforts to address Social Determinants of Health and care inequalities in their communities. At the June 2021 Citi/AHA/HFMA Conference there was an exponential increase in focus on these areas, and all systems celebrated their expanded commitments to Diversity, Inclusion, Equity and Social Justice.

Volumes and Financial Performance – All health systems had negative impacts to volumes, revenues and financial performance in 2020 due to the pandemic, with those in COVID-19 hot spots most severely impacted. All have seen substantial rebounds, with some now above pre-pandemic levels. Balance sheets have also recovered due to strong investment performance.

Virtual Care Growth – All health systems pivoted very rapidly to virtual visits and remote monitoring to improve safety for employees and patients while increasing access during the pandemic. Virtual visits have lessened some since then but are expected to remain way above pre-pandemic levels. There is consensus that this shift to virtual care in 2020 will accelerate the long-term trend toward digital healthcare delivery.

Consumerism, Innovation, Analytics and Transformation – In recent years most health systems have expressed their commitment to consumerism, innovation and transformation. Care continues to be shifted from inpatient to other settings, and to modes that are more affordable and more convenient to the consumer. More organizations are becoming “consumer obsessed.” Most are trying to acquire new competencies, often through partnerships, to transform the patient experience and improve health and care. Analytics, AI and big data are now more commonplace in healthcare, but results still lag many other industries. Discovery, such as new gene and cell therapies, will radically change healthcare in the future.

Affordability and Value-Based Care – Although fee-for-service payment remains a dominant reimbursement model, most health systems reiterated their objective to successfully shift to value-based-care. All said the cost of care is too high. Those with health plans or substantial capitated risk fared better during the pandemic than traditional fee-for-service providers due to decline in non-COVID utilization. Interest in and success with Medicare Advantage and Medicaid managed care continues to increase. Focus on cost reduction and making care more affordable while improving outcomes remains a key priority for all systems.

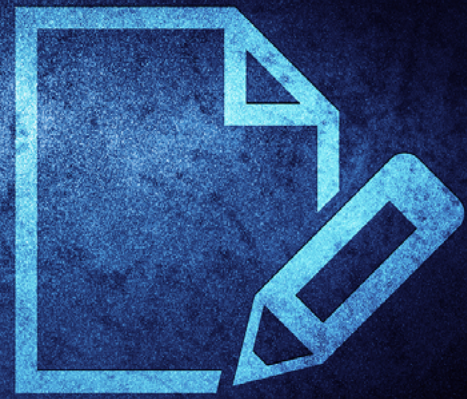
Growth and Scale – Many presenters described substantial growth driven by market demographics, mergers and acquisitions, organic growth initiatives and diversification. Most believe scale is important, but say they are not “pursuing growth for growth’s sake.” Leveraging capabilities supported by size and partnerships is now common. Some systems are leapfrogging geographical boundaries to create national care, research and administrative shared-services platforms.

Workforce and Culture – Many systems emphasized that they view their employees/associates as their most important asset. More systems have moved from the “triple aim” to the “quadruple aim” by emphasizing caregiver well-being through many specific strategies. New strategies are necessary to address expected workforce shortages and the changing nature of work from shifts to virtual care and the implementation of technology. Multiple presenters emphasized the importance of culture.

Quality and Safety – As in prior years, quality and safety continue to be priorities across all health systems.

The general consensus of presenters was that health systems successfully weathered the storm of the pandemic and are returning to a new normal. That new normal includes accelerated shift in how care is delivered, and deeper commitment to serving communities and addressing health disparities and social justice. There is much optimism and passion to drive transformation across healthcare. At the same time, while the pandemic has subsided, there is still enormous need to truly reinvent healthcare, and prepare for future payment reductions, labor shortages, technology change, and disintermediation. While the sun is rising now, we all need to run fast before the next storm system inevitably arrives.

The following provides a more robust discussion of each of these topics based on the conference presentations. See a list of presenting health systems at the end of the piece.



DISCUSSION

Deeper Review of the Key Themes

Pandemic Impact and Learnings

- There was universal appreciation for all the “healthcare heroes,” particularly the front-line clinicians and support staff that selflessly worked to save lives and address illness during the pandemic.
- Many noted the need to learn from this experience, not just prepare better for the next health crisis. Specifically, insights must accelerate transformation and revamp the role of a health system in supporting every person in the communities it serves.
- Multiple systems articulated how existing scale and prior transformational strategies allowed them to respond rapidly to the pandemic. Regional and national health systems moved staff, supplies, equipment and patients between inpatient and ambulatory facilities and across geographies to respond to surges occurring in different areas at different times. Scale also facilitated speed of response, including using system-wide EMRs to immediately spread new COVID-related alerts, quickly share evolving learnings/best practices, address supply chain challenges, and access to financial resources.
- Many leaders expressed pride in the resilience of their organizations and teams, and felt that the pandemic actually made them stronger and more focused for future success. Many referenced the desire to “not waste a crisis” and drive necessary change (“COVID Carpe Diem”), and noted that the pandemic forced them to become more nimble.
- Partnerships with government, other community organizations and business partners were essential. However the public often saw health systems as THE trusted source. In some cases health systems served as the de facto public health department.
- All organizations pivoted hard to respond to the pandemic, particularly those in COVID hot spots that saw 40%+ declines in revenue for a period of time. Some began planning for “After COVID” even as they braced for early surges. The majority of organizations had to temporarily pause major initiatives, although some were able to dual track their strategic efforts, including M&A. Most organizations have begun to pivot back, often on an accelerated basis.
- Prior investments in telehealth and remote care monitoring proved invaluable in the immediate shift to virtual care.
- Similarly, advanced analytics improved the ability to better identify hot spots for targeted intervention, manage under uncertainty, etc.
- Many systems drove their decisions during the pandemic from a guiding principle of keeping employees, patients and the community safe, regardless of the cost.
- In the face of pressing economics, a number of systems highlighted their early decision and commitment to avoid furloughs and disruption of take home pay. This appears to have improved employee engagement and support staffing as COVID recedes.
- CARES Act funding and other governmental support such as Medicare Accelerated Payment were instrumental in maintaining economic viability of many healthcare providers. Systems with health plans or substantial capitated revenues had more stable cash flows.
- Vaccination of staff and the community remains a top priority to end the pandemic and save lives.

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Expanded Focus on Diversity, Equity, Inclusion and Social Justice

18 months ago, at the January 2020 JPM Conference, many systems discussed their increased efforts to address Social Determinants of Health and care inequalities, and many organizations have always had a stated mission to serve at-risk populations. At the June 2021 Citi/AHA/HFMA Conference there was an exponential increase in focus on these areas, with all systems discussing their expanded commitments to Diversity, Inclusion, Equity and Social Justice.

Here are some of the key strategies.

- Re-challenging core mission to meet the needs of and improve the health of every individual in their community, and ensuring “the walk is the same as the talk.”
- Hiring/appointing Chief Diversity/Equity Officers.
- Leveraging the organization’s role as the largest employer in the community by: establishing and measuring targets/strategies for internal metrics such as recruitment; workforce mix and promotion; minority supplier purchasing; and employee engagement scores of employee cohorts.
- Internal initiatives include: implementing unconscious bias training; establishing associate resource groups; holding system-wide diversity conferences; creating mentorship and pipelines to increase the number of clinicians/leaders/caregivers of color; and creating a \$15 minimum wage for all employees.
- Building on large historical Community Benefit expenditures, such as materially expanding focus on and financial commitment to affordable housing, gun violence, access to primary and specialty care, access to mental health, education, food security, and other health disparity and social determinants of health.
- Partnering more deeply with other community organizations with the recognition that “we know we don’t have all the answers.”
- Re-evaluating Community Health Needs Assessments to ensure appropriate priorities, resources and approaches to maximize impact.
- Joining broader industry groups making regional/national social justice commitments.
- Creating new Board committees and changing Board processes to strengthen governance oversight of and engagement relative to DEI.
- Tying 25-33% of leader at-risk compensation to DEI.
- Expanding and redefining participation in Medicaid Managed Care coverage.
- Publicly celebrating the organization’s commitment to ending racial injustice.
- COVID illness, mortality, testing and vaccination rates have generally been materially worse for populations of color. Multiple systems have been trying to address this with targeted efforts to get COVID vaccination rates consistent across zip codes and racial groups, leveraging analytics, messaging, pop-up and mobile van sites.
- Corporate America has traditionally referred to Environment, Social, and Governance (ESG) when addressing sustainability and ethical impact. One presenting system noted that they have begun including an ESG update in their quarterly financial market disclosures. Multiple organizations spoke to the importance of good governance, and a number referenced their organizational commitments to reducing climate change, including targeted strategies and dates to move to a carbon neutral or negative footprint.

Volumes and Financial Performance Have Substantially Rebounded

- While impact of COVID on volumes varied by geography, all organizations saw a material decline in activity and revenues in 2020 because of cancelled elective procedures and redeployed capacity in response to surges.
- Most organizations saw a decline in income and/or experienced operating losses in 2020 as a result of the pandemic, with substantial recovery more recently. Many organizations have now largely returned to or are exceeding pre-COVID volumes.
- Aggressive intervention and substantial CARES Act funding substantially blunted the negative financial hit. Rating Agencies generally provided a ratings “pass” at the time.
- Balance sheets have strengthened substantially, in some cases beyond pre-COVID levels, in part due to robust investment income from the strong stock market.
- On balance, speakers were very optimistic about the return to normal, although a number acknowledged that the massive fiscal and Federal Reserve support for the economy will likely create more long-run pressure on Federal and State payment rates for healthcare.
- Some organizations discussed current and anticipated catch-up on elective care deferred during the pandemic, with limited discussion of the impact of “long COVID” on future volumes, programmatic focus and PMPM costs.

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Virtual Care Growth Has Accelerated

- Many presenters suggested that “care delivery is forever changed” by the COVID pandemic.
- All health systems pivoted very rapidly to virtual visits and remote monitoring to improve safety for employees and patients while increasing access during the pandemic. Virtual visits have lessened some since then but are expected to remain way above pre-pandemic levels.
- There is widespread belief that this experience, coupled with regulatory change and technology, will accelerate transformation and growth in virtual and remote care going forward. As an example, many organizations used remote monitoring to “hospitalize” and remotely monitor COVID patients at home during the pandemic. Post-pandemic, this will likely be applied to many other situations.

Consumerism, Innovation, Analytics and Transformation

- Companies like Apple, Airbnb, Amazon, DoorDash, Facebook, Google, Netflix, Peloton, Robinhood, Tesla, Uber have completely transformed many industries. While healthcare has evolved, progressive health systems are trying to identify paradigm shifts, not just pursuing incremental change.
- As in the past, all presenters noted the substantial and ongoing shift from inpatient care to ambulatory, home-based and virtual settings, and digital formats. These alternate care-delivery methods can materially improve the patient experience while lowering total cost of care. All presenters felt that this trend will continue and accelerated by changing technology, analytics, process redesign, and clinician/patient adoption.
- Many healthcare systems have focused strategies to become more “consumer obsessed,” and drive innovation and transformation to more radically meet the health and healthcare needs of people in their community (and beyond).
- Systems are designing this transition to include diversification of revenues as healthcare dollars move away from traditional Provider services. More fundamentally, it is the recognition that people are not healthy enough, care is too costly, outcomes could be better, and the current healthcare model is not designed to optimally meet the diverse needs or raising expectations of consumers.
- The result has been the development of new care models and leverage of digital capabilities, data, analytics and other technology to meet the customer where they are most comfortable (“Healthcare with no address”).
- To be successful in transforming care delivery, health systems need new capabilities. Given the cost, scalability and development time, many more health systems are now securing capabilities through partnerships with others. Both large and small systems have turned to partnerships with equity-backed niche entities or large tech, but increasingly with other health systems. This includes care service lines such as urgent care and rehab, more sophisticated care and population health management capabilities, analytics, digital and virtual health.
- Although healthcare has used data and analytics for decades, there is now significantly more focus on leveraging informatics, big data and Artificial Intelligence to redesign and improve care, identify and focus on at-risk segments of the community, and improve operations.
- A number of speakers noted that it is critical to listen carefully to the customer, and recognize that individuals have different needs and desires. For example, one system noted they had much higher consumer engagement scores for those patients who could schedule a doctor appointment on a patient portal without human intervention. In other cases, patients strongly desire a personal connection. In the future, health systems must use analytics and AI to segment the market in unique ways and customize the experience for each consumer.
- Innovation and transformation are impacting and feeling the effects of discovery of new ways to diagnose and treat disease. For example, gene editing and cell therapies will have a tremendous impact on the future of health and healthcare. Most academic health systems are involved in incubation and commercialization of discovery.
- Expanded leverage of Artificial Intelligence tied to massive data sets will help drive discovery and improve early detection. To accelerate this process, a number of presenting systems are part of Truveta, a consortium of 14 health systems established to create enormous de-identified data sets for research, caregivers and ultimately patients. Mayo’s research platform is another example, “a sandbox where we can all play, not just Mayo researchers.”

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Affordability and Value-Based Care

- All conference presenters said that the cost of care is too high and improving affordability is very important.
- Health systems remain focused on improving operations and clinical care. Common priority areas include managing labor and non-labor costs; redesigning care; refining operating models; adopting/replicating evidence-based best practices; modifying legal/board structures; leveraging shared services; implementing common EMR and ERP systems; growing/optimizing sponsored physician enterprises; and asset utilization/optimization.
- While Fee-for-Service continues to be a large part of provider revenues, almost all health systems said they are committed to shifting to value-based-care (VBC) over time. Many celebrated positive performances on VBC initiatives. To be successful in VBC, they have focused on reducing total cost of care, Medical Loss Ratio, in-network vs. out-of-network utilization, care redesign, implementation of care management tools, risk documentation, etc.
- Integrated healthcare systems with large health plans or substantial capitated risk believe the intersection of coverage and care creates the best opportunity to maintain financial viability while transforming care to have better outcomes at lower cost. These organizations also experienced less economic stress during the pandemic than traditional provider systems, as PMPM premiums continued despite the drop in clinical volumes. Interest in and success with Medicare Advantage and Medicaid managed care continues to increase.
- In addition to focusing on affordability and migration to value-based-care, some presenters acknowledged the future potential for much more challenging financial pressure. It is likely that the massive, growing budget deficits will ultimately result in Federal and State budget crises that will put pressure on future healthcare payments. Interestingly, no presenters commented on significant business risk if inflation really does heat up materially over the next several years. Typically, providers are “price takers” and therefore will be further squeezed by raising costs vs. largely capped payment rates. Similarly, there was only limited discussion of other financial dislocation that could be caused by challenges to Medicaid waivers, cuts to provider-based payments and provider assessment programs, changes to 340B discounts, etc. These issues could drive the need for even faster transformation and redesign.

Growth and Scale

- Many presenters described substantial growth driven by market demographics, successful mergers and acquisitions, organic growth initiatives and diversification. What used to be \$5 billion systems are now, in many cases, \$8-12 billion systems.
- Most believe scale is important, although the value equation is more nuanced than in the past. Most believe scale is important, but say they are not “pursuing growth for growth’s sake,” but rather to achieve specific goals. Market relevance still important, and size can create synergies and opportunities to reduce cost. As noted above, size and scale allowed many organizations to respond more effectively to the COVID crisis.
- Many health systems continue to focus on growth in their existing or contiguous geographies. Some systems are leapfrogging geographical boundaries to create national care, research and administrative shared-services platforms. Growth of sponsored physician practice has continued.
- Many systems are trying to create substantial horizontal scale in order to better facilitate handoffs/handshakes in the care continuum and to grow through diversification. Incubation and commercialization have also continued to expand as a growth strategies.
- More organizations than in the past discussed the importance of acquiring key competencies as part of creating and leveraging scale. Both large and smaller systems have increasingly turned to acquiring those competencies through partnerships.
- Many health systems believe that they have been successful in leveraging scale by more rapidly sharing/adopting best practices across markets and business units. A large number of systems have either already or are planning to successfully commercialize their perfected share services or clinical capabilities.
- It should be noted that even with all these aggressive efforts to build scale, the healthcare provider industry remains massively sub-scale vs. pharma, healthcare insurance companies, and for that matter, most US industries.

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Workforce and Culture

- Many organizations celebrated what they believe to be their most valuable asset – their associates, with deliberate strategies to show appreciation, support development and address burnout.
- Multiple health systems have moved from commitment to the “triple aim” to commitment the “quadruple aim” by addressing caregiver well-being through employee safety and other support structures.
- There is widespread sensitivity to growing workforce shortages, exacerbated by the pandemic. Several organizations emphasized expanded medical education programs, in part to create pipeline.
- Multiple health systems discussed their decision early in the pandemic to support their employees by avoiding layoffs/furloughs, protect take home pay, increase PTO or compensation, provide daycare/food/lodging support, increase transparency/engagement, provide mental health support, etc. While this increased financial burden for the organization, it generated goodwill and alignment with their employees that will have long-term benefits.
- Many presenters referenced the change in the nature of work, including challenges to maintaining culture as operations

become virtual. Most organizations changed back-office functions to home-based, with mixed plans for the future. Mayo Clinic noted that the new virtual world is allowing them to recruit faculty on both coasts instead of expecting relocation to Rochester, MN. It was noted that AI, BOTs, digital care monitoring, etc. will all be essential to reduce burnout and support more limited caregiver resources.

- Multiple systems discussed approaches to increasing COVID vaccination rates for their employees, although none referenced mandating vaccines to reduce the risk of the organization being an infection vector.
- Multiple speakers celebrated the culture at their organizations and its importance. A number of organizations described successful leadership transitions and highlighted the importance of creative, flexible and passionate leaders.

Quality and Safety

- All presenters referenced ongoing commitment to quality of care and safety of patients, the community, and employees.
- Targeting zero preventative harm has continue to grow.
- Many presenters emphasized the importance of vaccines to improve safety.

FINAL OBSERVATIONS

First, the structure of roundtables and more informal presentations at this virtual conference was a welcome change from PowerPoint-driven slides typical at investor conferences. This somewhat compensated for the disruption to networking since it was a virtual format. Second, there continues to be great passion and commitment across the industry to really make a difference in the health of communities served. Third, while many strategies from the past have continued, there does appear to be an increased pace of transformation, and deeper

commitment to at-risk populations. Finally, there remains enormous untapped opportunity to truly reinvent healthcare.

Hopefully this write-up provides useful perspective as we collectively work to “change the face of healthcare” to better serve our communities and nation. If you’d like to discuss your impressions of the common themes and how they’re affecting the health systems you work with, please reach out to the author by email.

PRESENTING TAX-EXEMPT HEALTHCARE SYSTEMS

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