

COVID-19: HOSPITAL REVENUE IMPACT ANALYSIS

Michael Pearson Berger, MBA

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GLOBAL SITUATION

The Coronavirus disease (COVID-19) is a viral infection that causes severe acute respiratory syndrome. The World Health Organization (WHO) declared the COVID-19 outbreak a “pandemic” on March 11, 2020. It has since created a global and national healthcare and economic crisis.

FINANCIAL PROBLEM

During the COVID-19 pandemic, hospital systems of all sizes and scalability are adapting to the shifting clinical and financial landscape. Across the U.S. alone, it is estimated that hospitals are missing out on \$1B+ revenue per day. The main driver of this gap comes from delaying elective surgeries advocated by the Centers for Medicare and Medicaid Services (CMS), the American College of Surgeons (ACS), and the U.S. Surgeon General. While necessary to preserve capacity for COVID-19 patients, hospitals are struggling to manage not only a significant decrease in revenue, but also different operating costs and narrowing margins, free cash flow and retained earnings.

GOVERNMENT RELIEF

Recognizing the gravity of the financial situation many hospitals are in, the government recently passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Paycheck Protection Program and Healthcare Enhancement Act which are delivering \$175B in emergency funding. The funding is being distributed to medical practices and hospitals who received Medicare payments last year. It is exciting to see the efforts dedicated towards providing relief, however there is still a lot of ambiguity on every mechanism the government is using to identify who needs the funds the most.

DISCUSSION

As in any rapidly evolving situation, support organizations such as the U.S. government are forced to balance speed and agility vs precision. Right now, the government is focused on speed with an approach that uses high-level characteristics, such as previous Medicare payments to assign funding. In addition, a more robust funding model should be created in parallel to distribute remaining funding from the CARES act to hospitals that need it most.

One key component of a more robust funding model includes the percent of a hospital's revenue obtained from elective surgery. This is important to consider because on average, 30% of a hospital's revenue is from elective surgeries. For hospitals exceeding 30%, their revenue streams are disrupted the most with no reduction in fixed expenses. A second component is related to geographic information. Recent research has demonstrated that small, rural and critical access hospitals have been impacted the most during COVID-19. These hospitals are threatened financially while they hemorrhage cash that is not replaced by reimbursement under COVID-19 care.

In summary, targeted financial support for hospitals should be the result of a more holistic and dynamic approach that changes over time to support local surges in COVID-19 patients vs ongoing operations as this pandemic evolves.

REVENUE CYCLE MODEL & NET INCOME

Figure 1 outlines key financial components for an average hospital experiencing an impact from postponing or canceling elective surgeries during COVID-19. This formula is a macro view of revenue loss as a component of net income.

In the U.S., hospital systems operate at a surprisingly low median 2% operating margin with <2 months cash-on-hand. Pre-COVID-19 surveys reported that 49% of community hospitals have operating margins below 2%. In addition, the variance in these numbers is substantial. Hospitals in the 25th percentile are observing a - 4.4% operating margin with roughly one week cash-on-hand. Putting these figures together with the average 30% loss in revenue due to elective surgery deferrals, the majority of U.S hospitals are losing money each month. As a result, the government is under extreme pressure to quickly identify hospitals that are most in need and mobilize to support with funding from the CARES act.

Sources

1. Becker's Hospital Review, ACS Review, and CFO Report.
2. Khullar D, Bond AM, Schpero WL. COVID-19 and the Financial Health of US Hospitals. JAMA.

FIGURE 1: REVENUE CYCLE & NET INCOME FORMULA

