

Finance Diversification Strategies for Health Systems to Consider

Ohio Hospital Association Conference May 2025

Authored by: Michael Haas



RSM Introductions



Matt Wolf

Director and Health Care Senior Analyst

Michael has over 15 years of health care revenue cycle experience and system implementations. He has lead process improvement engagements in revenue cycle successfully growing the bottom line and has built educational materials used to train coders and physicians on compliant billing coding practices.

As one of RSM's health care analysts, Michael contributes thought leadership articles and content on industry trends affecting middle market businesses

Michael.Haas@rsmus.com

Topics To Cover

- *Trends Shaping the Need to Consider A Revenue Diversification Strategy*
- *Regulatory issues for health care organizations to consider*
- *Revenue Diversification Strategies from Joint Ventures to Alternative Investments*

Course Objectives

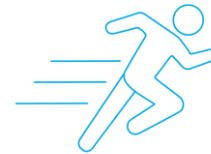
By the end of this course, you will be able to:

- *Identify the economic and industry pressures driving health systems to diversify their revenue streams, such as declining operating margins, rising costs, and increased competition from non-traditional health care players.*
- *Understand the key C-suite considerations and steps to identify financial diversification strategies*
- *Identify the organizational capabilities, planning approaches, and risk management practices necessary for effective diversification.*

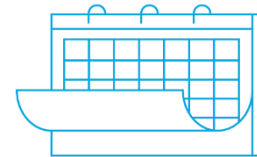
Trends shaping the need to consider revenue diversification strategies

State of the union – the post-pandemic world

- Workforce challenges
 - Labor shortage
 - Mental health
 - Training deficit for RN's that graduated during the pandemic
- Payor challenges
 - Increased denials
 - Downgrading DRG's
 - Observation versus inpatient
- Automation in health care
 - Leveraging new technology
- Supply cost increases
- Volatile patient volumes
- Patient experience & consumerism



During the pandemic nearly 20% of health care workers quit their jobs (HFMA)

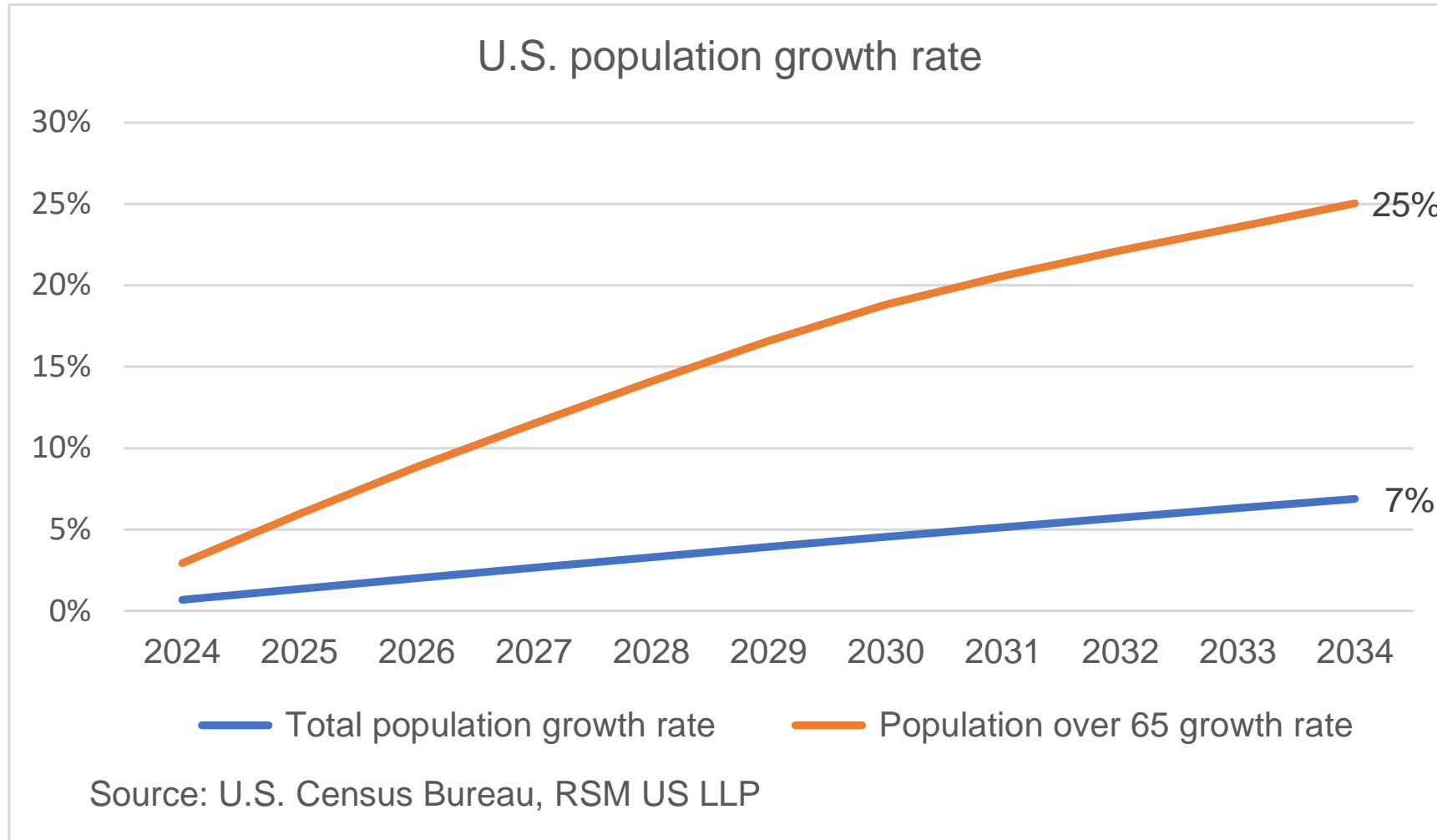


Up to 40% of health care workers plan to quit their job by 2025 (HFMA)

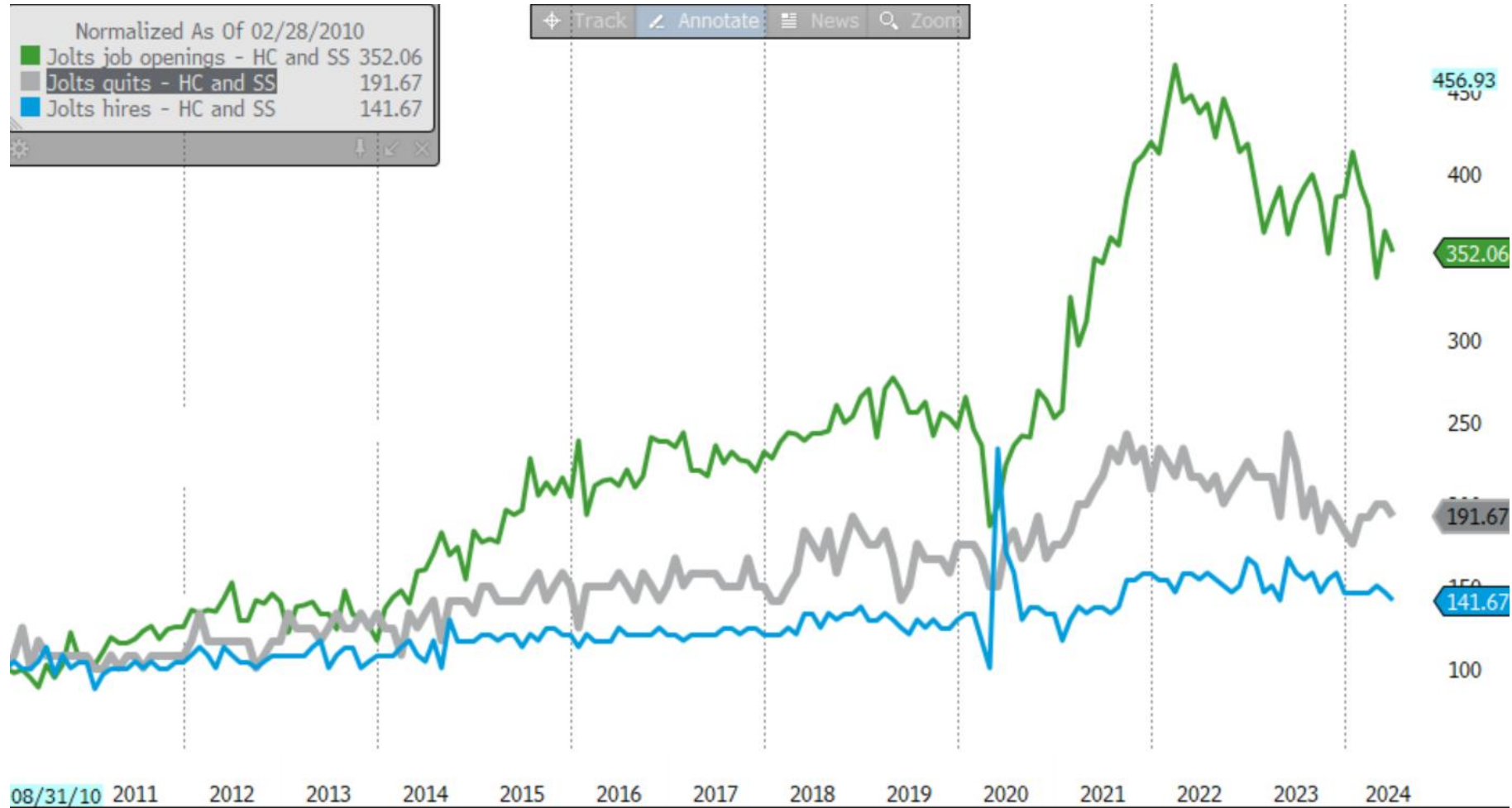


Outlook for RN's in 2030 is a projected shortfall of 275,000 nurses from 2020-2030 (Haddad)

Age demographic shifts, care delivery must shift



Tight labor market – plenty of jobs to choose from



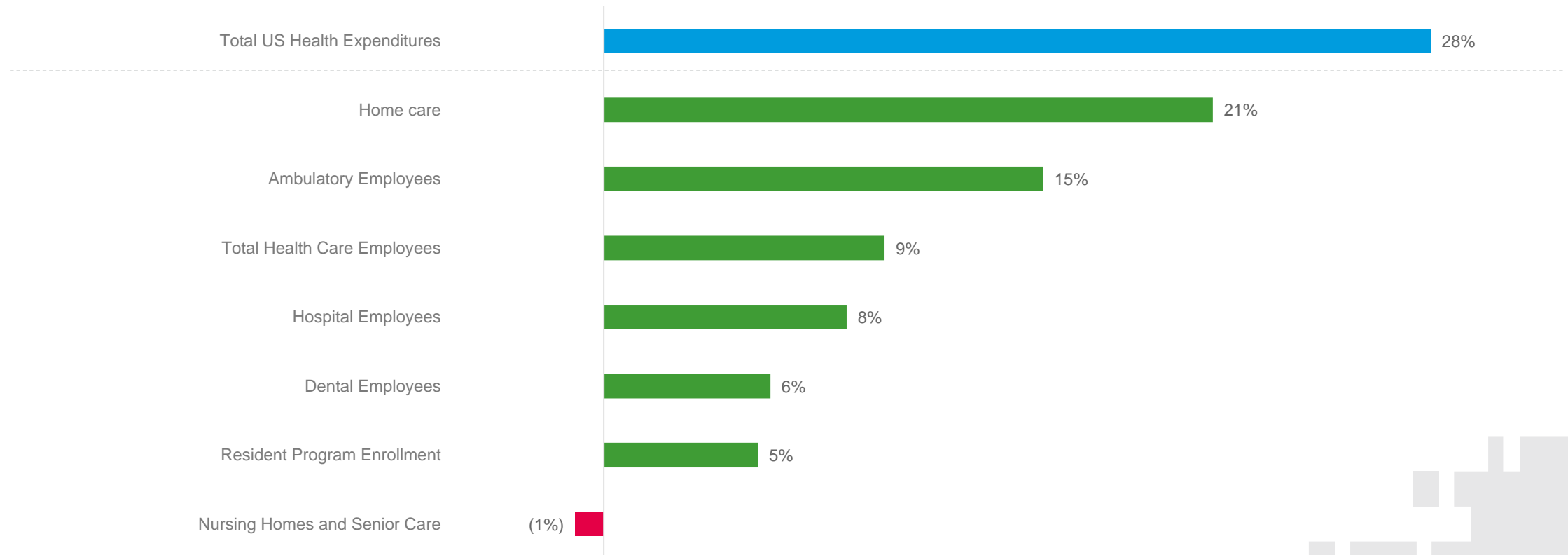
Source: BLS, RSM US LLP

Source: Bloomberg, RSM

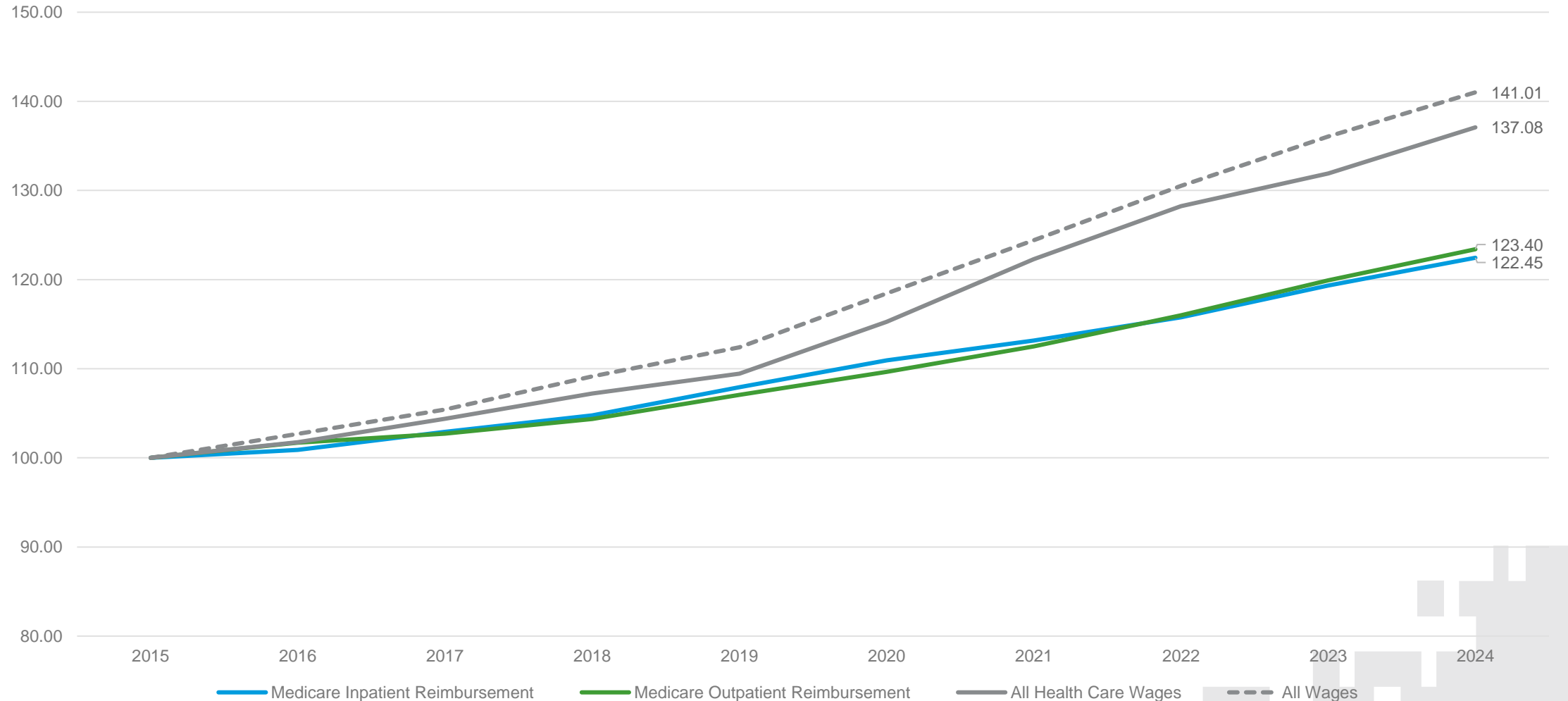
Labor supply has not fully recovered from COVID

Post-pandemic change in **US health expenditure dollars** vs. employment headcount by sector

Post-Pandemic Change in Expenditures vs Employment

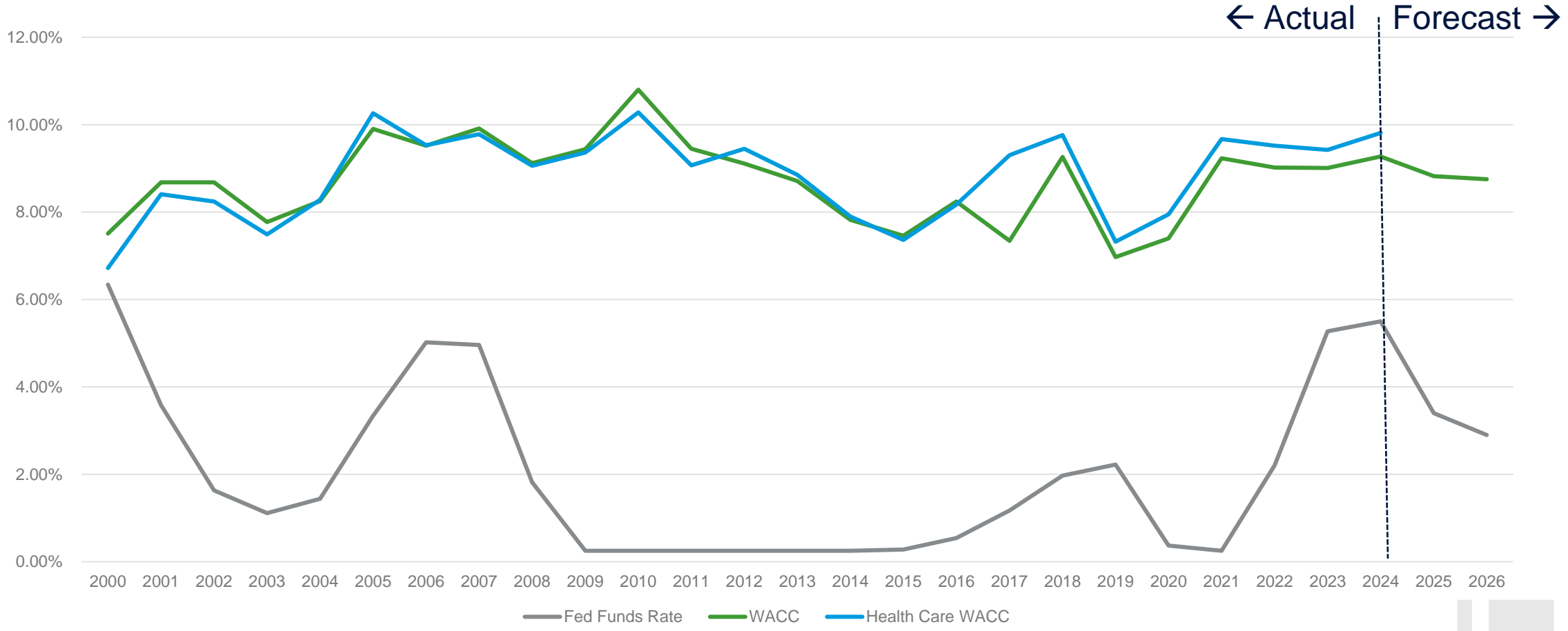


Reimbursement lags wage increases



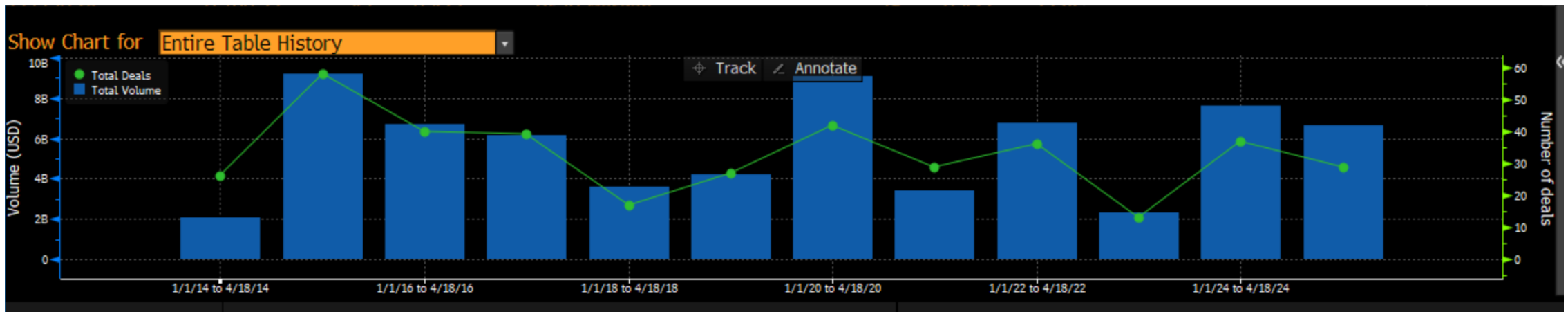
2015 = 100
 Source: BLS, CMS, RSM

The cost of capital will remain elevated



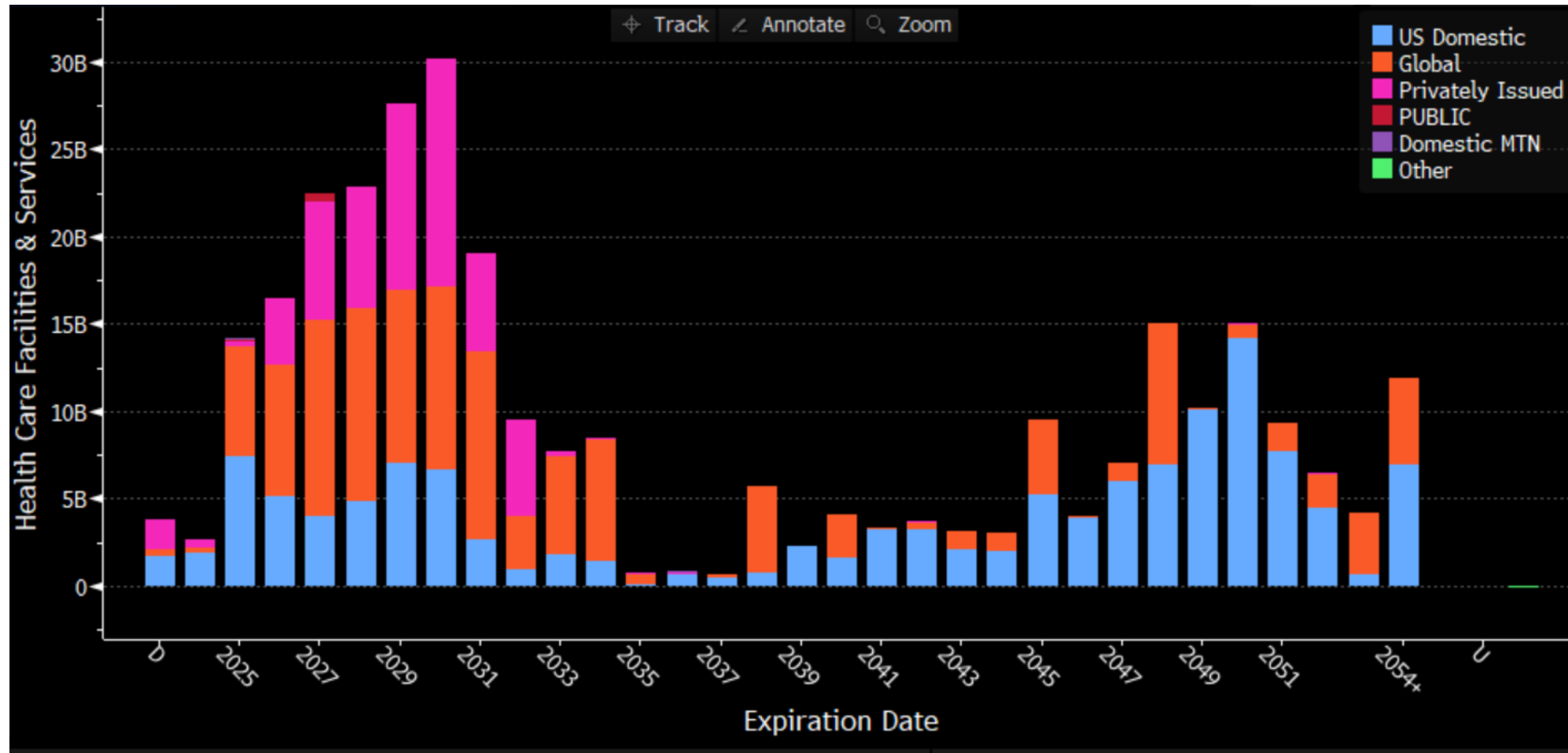
Source: Bloomberg, RSM

Long term municipal health care financing remains elevated



Source: Bloomberg

Expect future financing to increase with the looming debt maturity wall



Source: Bloomberg

Regulatory issues for health care organizations to consider

2025 reimbursement update

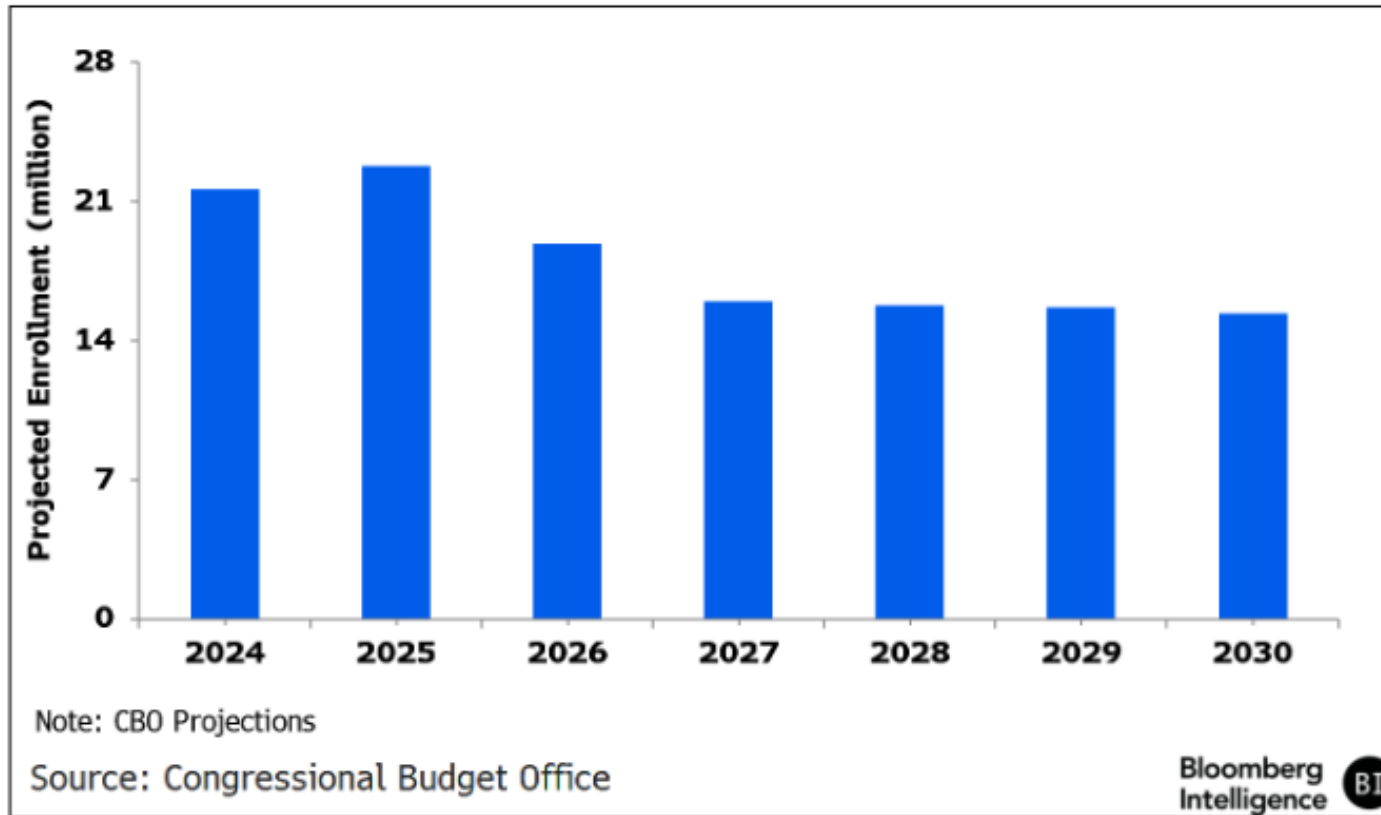
- **Medicare conversion factor decreased 2.83% to \$32.35 in 2025**

- Directly affects services billed under Medicare Physician Fee Schedule
- Indirectly affects direction of reimbursement for other services
- Trump Admin expected to mitigate reductions for 2026
- Medicare Advantage growth has slowed, and Congress is concerned with cost. Still, the program remains popular and there is talk of making MA the default option for retired seniors.
- AMA released **new telemedicine codes** for synchronous audio/video meetings and synchronous audio-only meetings
 - Affect on reimbursement will vary by provider. Some providers will see a boost because it expands patient base, others may see reduction if patients opt for telehealth compared to in-person
 - Will vary by specialty and geography

Selected specialty-specific changes

- **Dermatology:** 88305 (Surgical pathology codes) 2% global decrease and 1% and 3% for tech/prof components. High volume code for most practices.
- **Substance abuse:** expansion of audio-only telehealth visits for opioid treatment programs, including initiating methadone treatment. CMS expects to extend coverage to new FDA-approved opioid treatment medication Opvee and Brixadi
 - Providers limited to diagnosing and treating mental illness will be able to bill for interprofessional consultations, which may open new revenue streams for some clients
- **Fertility:** Significant expansion of IVF coverage, including to Federal government employees and retirees. Private plans continue to expand coverage.
- **Dental:** some Medicare Advantage plans are reducing dental benefits to offset rising costs in other areas of care
- **Home care:** Net increase of 0.5% Medicare reimbursement increase in 2025. Expansion of home health value-based care purchasing models will likely benefit most providers.

Marketplace subsidies likely to expire in 2026



- 2.2 million people expected to lose coverage in '26
- 3.7 million in '27
- GOP particularly critical of subsidies to individuals making over \$60k
- Potential \$15b hit to insurers
- ACA in general is expected to remain unchanged

Health care funding may be cut to pay for tax extensions

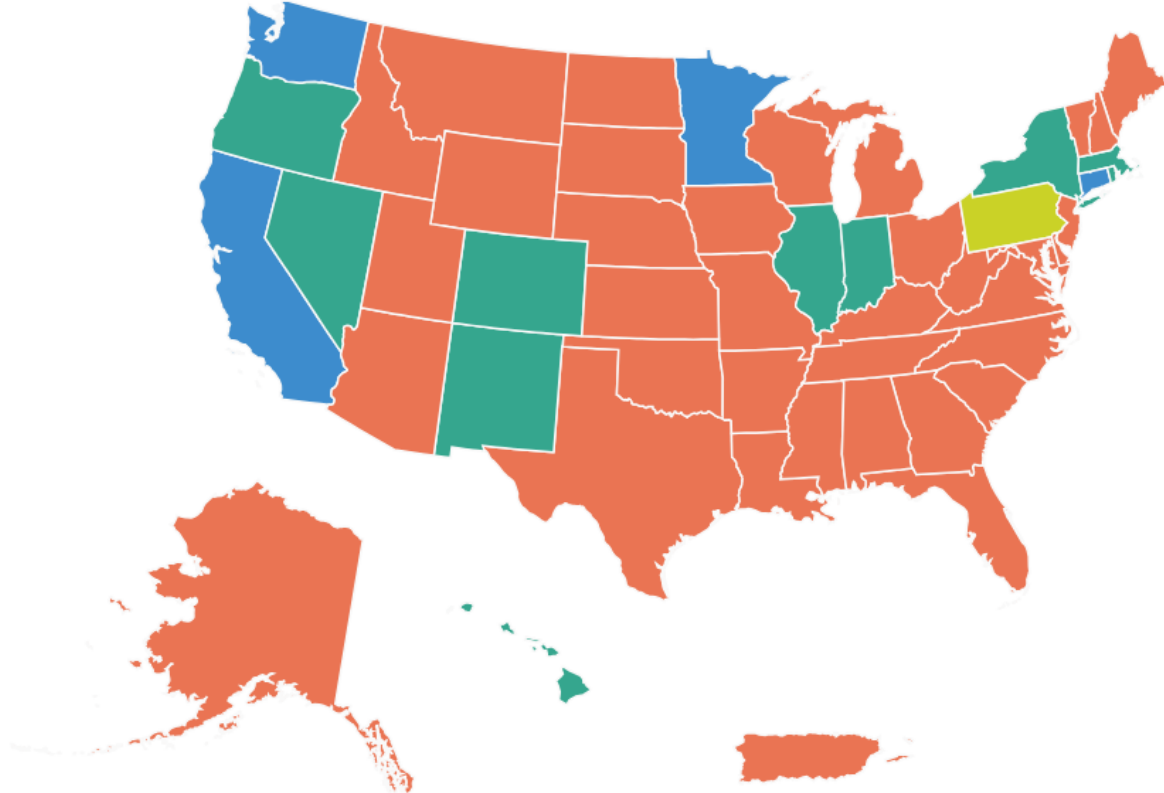
Policy area*	Estimated 10-year budget savings (\$ billions)
Hospital site-neutral payment	\$156
Medicaid Work Requirements	\$135
Reduce Medicaid Expansion Rate	\$596
Caps on Federal Medicaid Spending	\$907

Policy areas are sorted by most to least likely affected, according to Bloomberg Intelligence

Source: Bloomberg Intelligence, Congressional Budget Office

Regulatory scrutiny heats up for private equity health care transactions

Requirements in Effect: ■ Yes ■ Yes + Pending Legislation ■ Pending Legislation ■ No



Source: McDermott Will & Emery

What are these Regulatory Issues?

Regulator issues continue to take shape and change the way private equity groups strategically position themselves in the marketplace.



Increased Federal Scrutiny

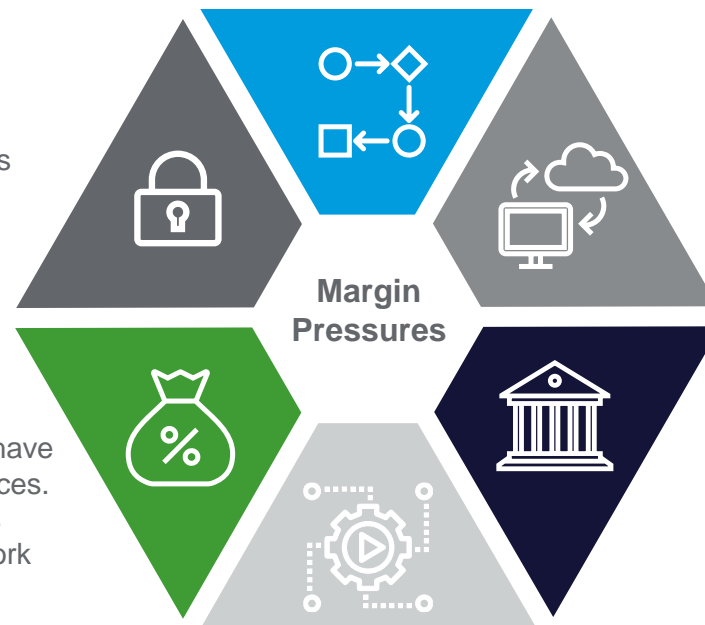
The FTC, DOJ, and HHS have launched a cross-government inquiry into private equity's influence on health care.

Antitrust Concerns

There is heightened attention on potential anticompetitive practices, particularly in emergency rooms, where private equity firms oversee a significant portion.

Debt and Financial Stability

Private equity firms often use significant amounts of debt to finance acquisitions. This can lead to financial instability for the acquired health care providers, potentially affecting their ability to operate effectively.



Billing Practices

Private equity-owned health care providers have been scrutinized for aggressive billing practices. This includes surprise billing, where patients receive unexpected charges for out-of-network services.

State Level Regulations

Various states are implementing new laws requiring regulatory approval for health care transactions involving private equity, aiming to ensure transparency and protect patient interests.

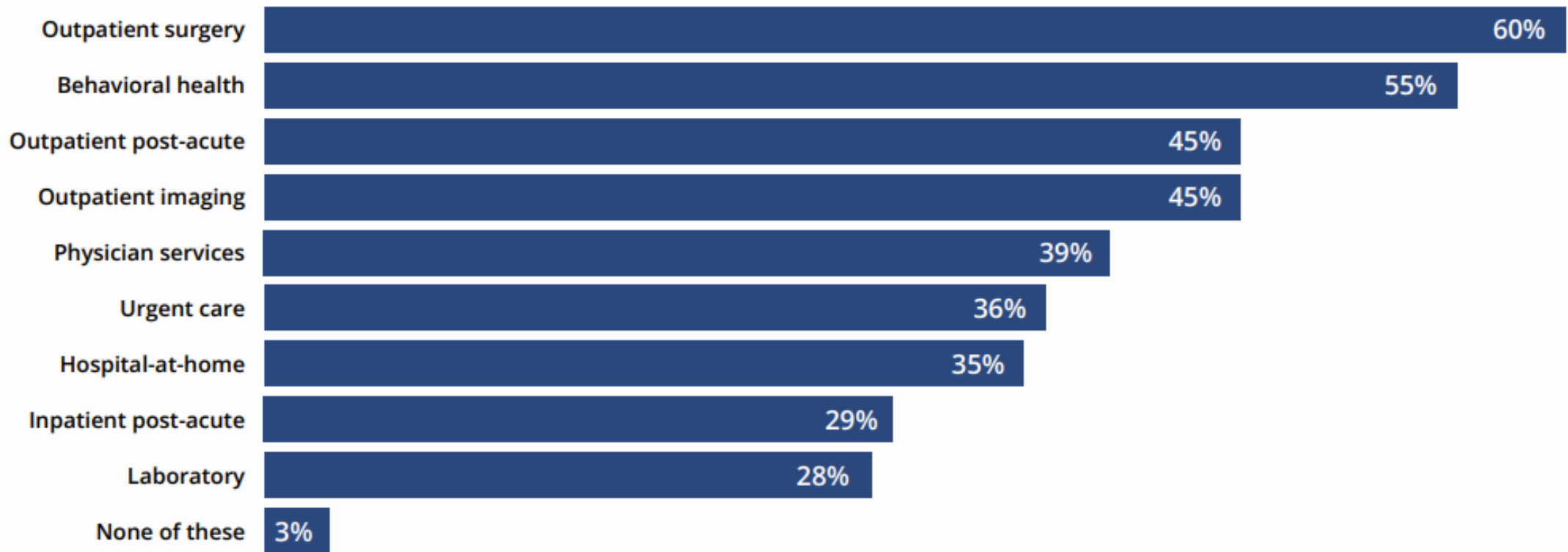
Ethical & Clinical Implications

The ethical and clinical impacts of private equity in health care are under scrutiny, with concerns about how profit motives might influence medical decisions.

Revenue Diversification Strategies from Joint Ventures to Alternative Investments

Joint Venture focus areas for health systems

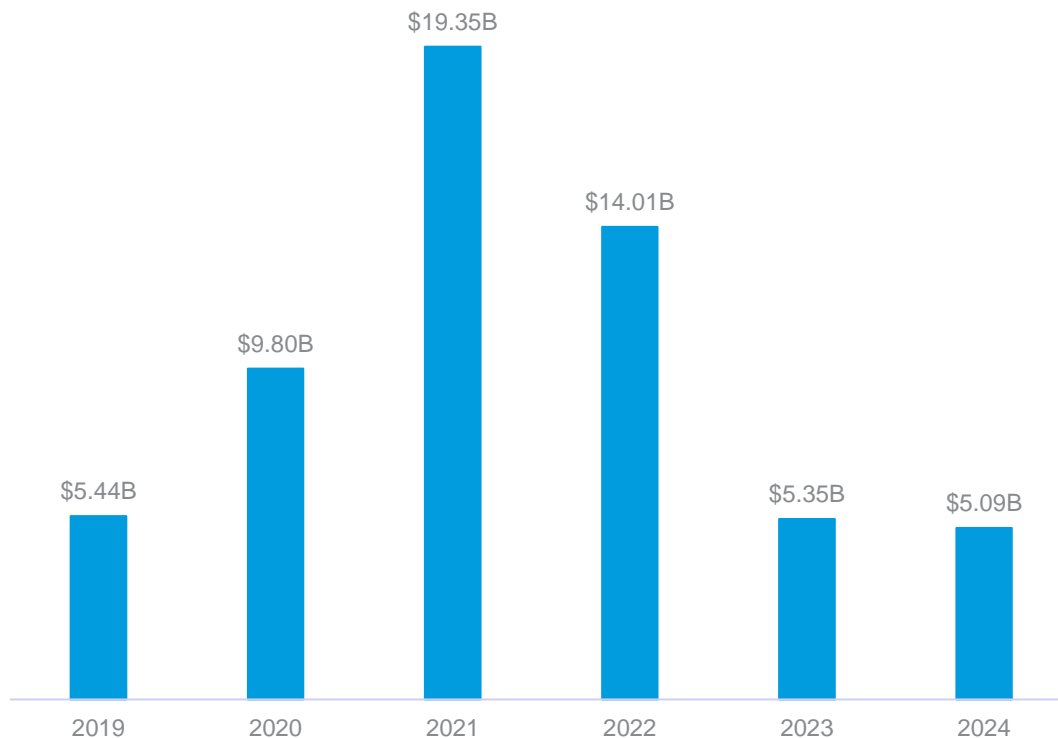
Respondents indicated they would consider a joint venture partnership in the following service line areas:



Source: VMG Health

Investment in technology will increase

Health care technology VC investment from strategic investors



Source: Pitchbook, RSM

IDC expects health care technology spend in 2025 to increase 8% to \$231.2 billion

IDC further predicts that 10% of clinical time will be freed up by generative AI in 2025

The global artificial intelligence in health care market is expected to grow 40% per year through 2029 to \$174 billion

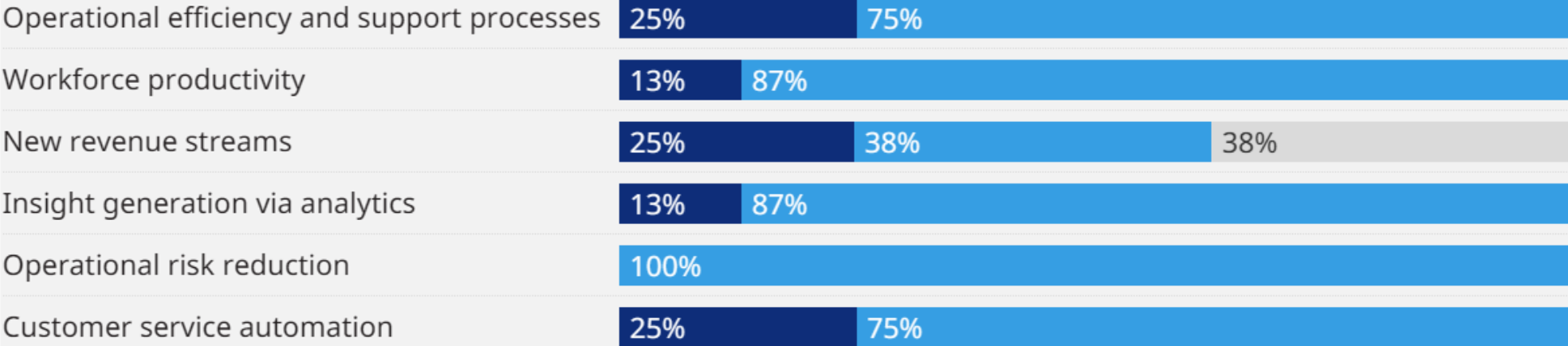
McKinsey estimates broad adoption of AI in the US health care system could save \$360 billion

Surveys show executive are using technology to diversify revenue streams

Exhibit 1: CEOs identify their AI investment priorities

Percentage share of respondents

Healthcare and Life Sciences



■ Invest heavily to be a market leader
 ■ Invest incrementally to build capabilities
 ■ Not investing in this area yet

Source: Oliver Wyman

Generative AI Use Cases (Hospitals & Physician Groups)




Continuity of Care

- Summarize discharge information and follow-up needs for post-acute care
- Generate care summaries for referrals
- Synthesize specialist notes for primary-care physician teams



Quality and Safety

- Synthesize and recommend tailored risk considerations for patients based on their medical history and existing medical literature




Value-Based Care

- Improve documentation accuracy
- Create patient education videos, images, and summaries
- Autogenerate provider segmentation summaries by specialty




Market & Clinical Insights

- Summarize market performance and comparisons based on external resources and data
- Leverage conversational language to obtain analytics insights
- Use AI-assisted coding to automate repetitive tasks or generate new code




Reimbursement

- Develop prior authorization documentation for payers
- Generate a list of current conditions and potential codes based on voice, electronic medical records (EMRs), text, and other data
- Automate coding and checks based on physician notes



Clinical Operations

- Generate post-visit summaries and instructions
- Generate care coordination notes, changes in EMRs, dictations, and messages
- Create educational materials on disease identification and management



Corporate Operations

- Draft contracts and vendor communications
- Create purchase orders based on supply levels
- Create customized standard operating procedures and education for new hires
- Develop chatbots to address IT and HR questions



Patient Satisfaction

- Analyze patient feedback by extracting online text/images
- Create personalized care instructions, videos, visuals, and communications
- Improve chatbots for patient servicing of nonclinical topics
- Autogenerate notifications and outbound communications

When done right, improved patient outcomes guided by data insights can occur!

Congenital Heart Defects (CHD) case study



To Recap

- *Diversification enables health systems to strengthen financial resilience by generating new revenue streams, reducing reliance on traditional hospital operations, and better positioning themselves against industry disruptions and shifting patient preferences.*
- *Leading strategies include monetizing existing capabilities (such as transforming internal services into profit centers), expanding into ambulatory and outpatient care, and investing in innovation through partnerships, acquisitions, or direct investment in health care startups.*
- *Successful diversification requires aligning new ventures with organizational goals, ensuring operational readiness, and building capabilities that support both short-term cash flow and long-term value for core hospital operations.*

Q&A



Thank you!



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RSM US LLP

30 South Wacker Dr
STE 3300
Chicago, IL 60606

T 312.634.3400
rsmus.com

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