

FORTUNE

The greatest comeback in the history of health care

By Dan Michelson

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U.S. hospitals survived the worst of the pandemic, but they had to face their worst financial crisis to date as elective surgeries were cancelled. JEFFREY BASINGER-NEWSDAY - GETTY IMAGES

Over the last two years, health care has been at the center of our lives due to the COVID-19 pandemic. Our nation's health care providers responded heroically in our time of need, and even as another wave hits, it's clear they have weathered the worst of the storm, at least from a clinical perspective.

Understanding the current financial health of health care is also important. It's the biggest industry in our economy with over \$4 trillion in annual spending. Over half of that spending [flows through our nation's health care providers](#). Their financial health is critical, not only so that they can provide us with the care that we need, but also because most are the

largest employer in the communities they serve.

Behind the scenes, this was the biggest financial crisis in the history of health care, with many hospitals running on life support due to the dramatic drop in patient volume. The good news? As we emerge from the pandemic, the stage has been set for what could be a stunning comeback.

To better understand the current financial condition of our nation's health care providers, the place to go last week was the non-profit provider track at the 40th Annual JP Morgan Healthcare Conference, which featured presentations from CEOs and CFOs of 20 of the nation's most prominent health systems, representing nearly \$250 billion in collective annual spend.

The financial health of health care

Speakers were clear that our nation's top health systems have completed their comeback with essentially a V-shaped recovery. Overall, patient volume [dipped nearly 30% in](#) March of 2020 as elective surgeries were

canceled. Volume is now back closer to where it was pre-pandemic, with a strong recovery in revenue and margins.

However, the experience of large hospitals doesn't necessarily extend to community providers. At Strata, we work with over 400 health care delivery systems and 2,000 hospitals. For many smaller providers, margins are still razor-thin.

While there are still major challenges ahead, many health systems have made a remarkable comeback from a financial perspective. The hospitals that fell below the surface for a long time are finally able to breathe again. They now have the bandwidth to think strategically and look to the future.

Top strategies going forward

Diversifying revenue streams to drive sustainable growth was the primary theme at the conference, with strategies falling into five key areas:

Mergers and acquisitions: M&A continues to be part of the playbook. For example, Intermountain Healthcare in Utah recently [acquired of SCL Health](#) in Colorado, and Prisma Health in South Carolina is evaluating potential opportunities in North Carolina and Tennessee.

Investing in Innovation: Health innovation funding [doubled in 2021 to \\$44B](#), with health systems playing an active role. Advocate Health Care in Illinois, for example, has [17% ownership](#) in a digital health company

and [100% ownership](#) in a homecare and wellness solution for seniors. There are other examples, such as the \$500M VC initiative from [Mass General Brigham](#) in Massachusetts and Northwell Health's for-profit subsidiary called [Northwell Holdings & Ventures](#).

Value and risk-based

contracts: Health care continues to move toward a fee-for-value model. Intermountain's revenue from value-based contracts now exceeds traditional, fee-for-service revenue. About 30% of Pennsylvania-based Jefferson Health's revenue is tied up in full, [risk-based models](#), a form of reimbursement that ties payments for care delivery to both the cost and the quality of care provided.

Creating destination

centers: Building "destination" specialty centers is another strategy large health systems are exploring, both in traditional areas like orthopedics and newer areas like behavioral and mental health. For example, Henry Ford Health in Michigan [is building new facilities](#) and expects to generate an incremental 1.7 million visits and \$2.2 billion in revenue.

Deploying virtual care

platforms: Health systems are looking to extend their market reach and simultaneously address the ongoing labor shortage through a care modality with a less intensive human capital requirement. Children's Hospital of Philadelphia, for example, shared that digital will be the key enabler of their growth,

and Mass General Brigham had over two million virtual visits in 2021.

Our nation's health care providers stepped up and weathered the pandemic from both a clinical and financial perspective. They have been able to manage through a series of overwhelming challenges and most are on solid ground from a financial perspective. They can now start focusing on the many other issues we need to address relative to the health of the nation.

While the last two years have been hard on all of us, we can and should collectively celebrate the greatest comeback in the history of health care.

Dan Michelson is the CEO of Chicago-based Strata Decision Technology, which provides a cloud-based financial planning, analytics and performance platform supporting a customer base of over 2,000 hospitals in 400 health systems, representing over half of the health care providers in the U.S.