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Crowe RCA Benchmarking Analysis

Volumes and net revenue return nationally, but not to previous levels

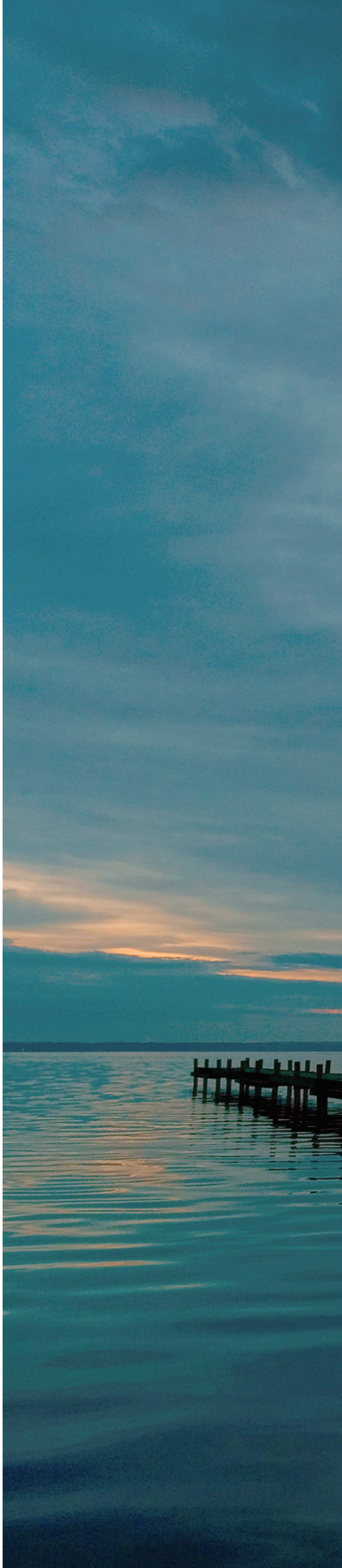
August 2020

The substantial dip in patient volumes during the March-April time period has mostly recovered, but not fully and not enough for most hospitals to achieve sustainable financial performance improvement.

In fact, overall outpatient volumes nationally hit a high recovery point during the week of May 31 (still below previous levels) but then declined slightly and now has plateaued (see Exhibit 1, which shows percentages in relation to average weekly volumes for the year prior to March 15). This represents a significant longer-term challenge to the financial viability of hospitals that derive a majority of their margin from outpatient services (including emergency department visits, surgeries, and ancillaries).

Exhibit 1: The national statistics

Area of service	April 5 volume	June 21 volume
Emergency department	-49.6%	-22.7%
Observation services	-52.0%	-20.0%
Outpatient	-61.4%	-7.2%
Surgery	-75.7%	-8.4%
Inpatient	-29.5%	-6.6%

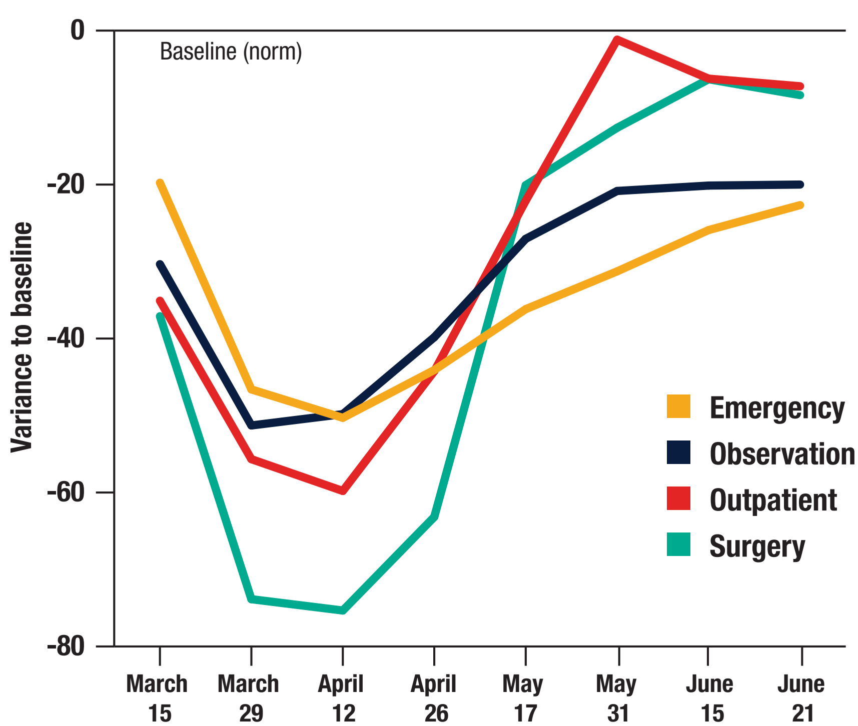


Volumes and net revenue return nationally, but not to previous levels

To further study this topic, Crowe utilized its proprietary Crowe Revenue Cycle Analytics (RCA) solution, which captures every patient transaction for nearly 1,500 hospitals and more than 100,000 physicians nationally for purposes of automating hindsight, accounts receivable valuation, and net revenue analyses. Within its benchmarking database, Crowe analyzed a portfolio including 45 states and comprising 707 hospitals within Medicaid-expansion states and 445 hospitals in nonexpansion states, as of 2019. Crowe combines financial transaction information with 835/837 account-level data to produce comparative metrics.

Taking into account pent-up demand, where services were delayed but then delivered when restrictions were lifted, a "return to normal" scenario would exhibit greater than normal volumes for the late May/early June time period, which would precede a plateau exhibiting results closer to previous baselines. This has not occurred. In fact, only 23% of hospitals studied exceed a previous baseline in any category of service in any week (between May 17 and June 21), with the majority of hospitals never achieving their previous baselines in any of the categories of service (see Exhibit 2).

Exhibit 2: The trending of volume for outpatient services



The results also include a geographic element. Here are some highlights:

- Urban areas have seen lower volumes than rural areas throughout the course of the COVID-19 crisis, ranging from 6.8% lower (than rural) volumes during the week of April 5 to 2.6% lower volumes during the week of June 21.
- For the week of April 5, the Great Lakes region experienced the nation's largest deficit of all outpatient services (including surgeries) of 63.2% below normal volumes, versus the smallest deficit in the Far West of 54.2%. This disparity across regions continued as restrictions were lifted while volumes remained down. For the week of June 21, the Far West had the lowest volumes at 15.5% below baseline. This was followed by Southwest (-13.7%), Mideast (-12.8%), Great Lakes (-12.6%), Rocky Mountains (-9.2%), Southeast (-8.6%), and Plains (-6.8%). New England was not part of this study.
- Inpatient services also exhibited disparity among regions, and none of the regions studied have yet to return to their previous baseline. For the week of June 21, Rocky Mountains (-11.2%), Great Lakes (-9.4%), Far West (-8.4%), Plains (-7.6%), Southeast (-7.4%), Mideast (-4.9%), and Southwest (-1.9%) all remained below previous volumes. New England was not part of this study.

Average hospitals' service mix plateaus below the baseline, as of June 21, representing a financial viability challenge

Emergency department

↓22.7%

Observation services

↓20.0%

Outpatient

↓7.2%

Surgery

↓8.4%

Inpatient

↓6.6%

Lower volumes, particularly on outpatient services where margins tend to be higher, mean lower net revenue and negative margins. For the average 350-bed hospital in the Great Lakes region, if volumes do not return to baseline and remain at June 2020 levels, this represents an annualized decrease in net revenue of $56.3 million. To survive, these hospitals will need to dramatically lower their cost structure and embrace new models of care delivery (such as telehealth and touchless environments) that remove the reticence patients appear to have about returning to large clinical environments.

To aid in this volume crisis, some state government recommendations appear to help hospitals manage their preparedness for future COVID-19 patients without dramatically curtailing other services. For example, reserving 20% of medical-surgical inpatient beds and 30% of intensive care unit beds for COVID-19 patients appears to provide most hospitals with an opportunity to retain volume and serve non-COVID-19 patients. This guidance plus a renewed focus on revenue precision (such as projecting net revenue, improving revenue cycle operations, and instituting new charge capture processes) will enable hospitals to create a bridge to a new operating model in 2021.

Learn more

For more information on the Crowe RCA benchmarking program, please visit crowe.com/benchmarking or contact:

Ken Ruiz
Principal
+1 317 706 2765
ken.ruiz@crowe.com

crowe.com/benchmarking

The Crowe Revenue Cycle Analytics (Crowe RCA) solution was invented by Derek Bang of Crowe LLP. The Crowe RCA solution is covered by U.S. Patent number 8,301,519.

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