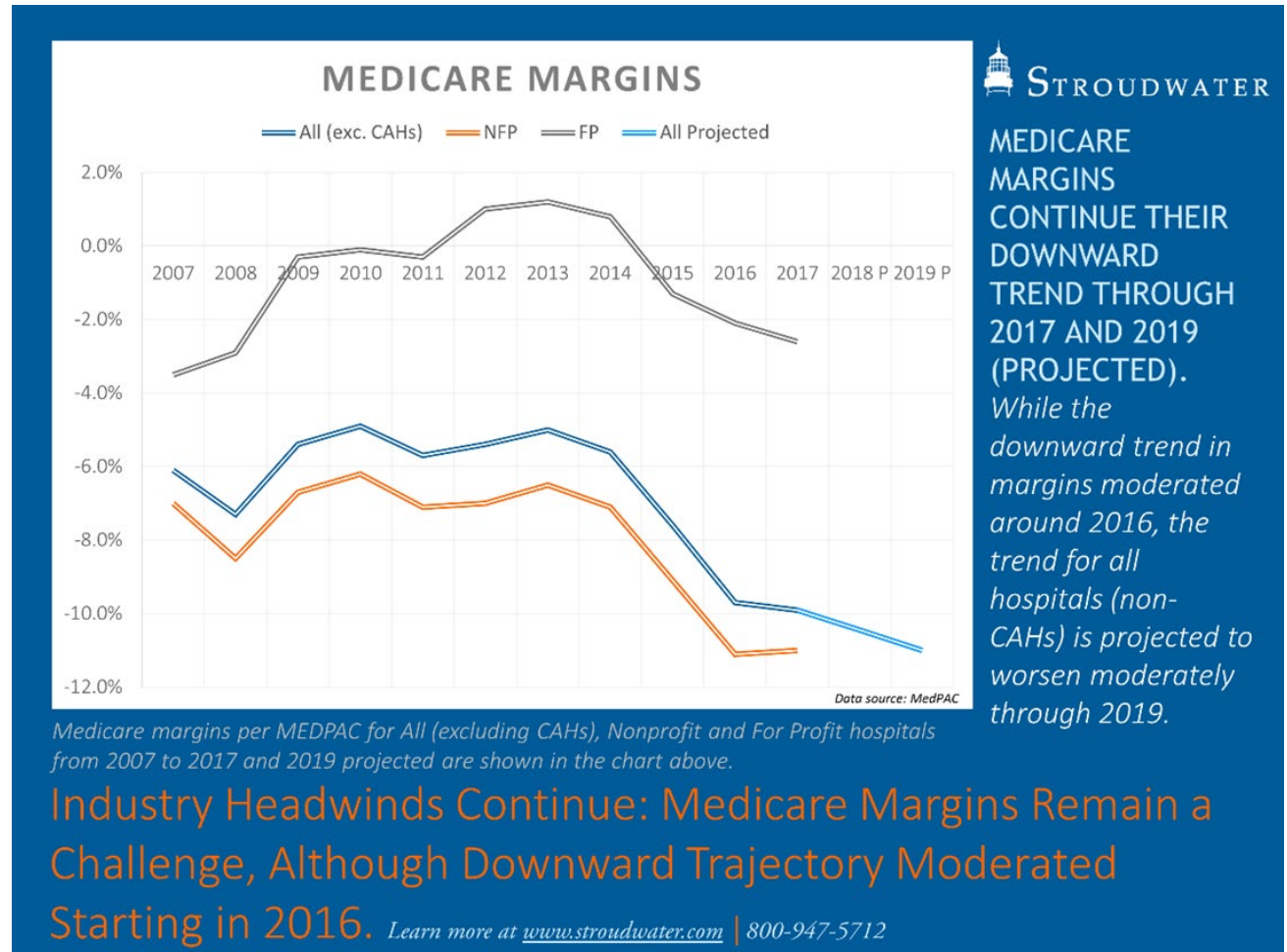


MEDICARE MARGINS CONTINUE TO ERODE AS VALUE-BASED CARE UPENDS TRADITIONAL FFS MODEL

One of the major headwinds confronting hospitals is contracting margins. As Medicare margins continue to erode (see chart), one-time gains many hospitals and health systems experienced as a result of Medicaid expansion or private exchanges have been offset by other adverse developments.

Headwinds facing hospitals include:

- Continuing pressure on Medicare margins (see chart)
- Value-based care upending historic business models and posing significant transition risk for health systems assuming more risk in caring for populations
- Disruption posed by new entrants focusing on niche offerings that decant profitable business
- The hollowing out of employer-sponsored insurance as the growth in high deductible health plans results in more bad debt and deferred care
- Consumerism placing additional demands on health systems regarding cost, convenience and quality
- Continued migration of care from inpatient to an outpatient setting and from outpatient to other less expensive venues (provider office or home for example)



- Fundamental cost inflation factors for key inputs, including medical devices and supplies, pharmaceuticals, technology and wages for key staff and providers
- Demographic challenges¹:
 - In total, 61 million Americans live in counties with stagnant or shrinking populations and 38 million live in the 41% of U.S. counties experiencing rates of demographic decline similar to Japan's.
 - 80% of U.S. counties, home to 149 million Americans, lost prime working-age adults age 25-54 from 2007 to 2017, and 65% will again over the next decade.

It is critical that health system leadership proactively and regularly quantify the organization's dynamic operating and strategic risk profile. Mitigating and addressing strategic risks requires a disciplined focus on crafting and executing strategy and dogged management of operating performance. Timely interventions regarding operational performance are essential to avoid compromising future options.

To learn more about Stroudwater's services, please contact *Managing Director Jeff Sommer* at jsommer@stroudwater.com | 207-221-8255 or *Chairman Eric Shell* at eshell@stroudwater.com | 207-221-8252.

¹ "From Managing Decline to Building the Future", Economic Innovation Group, April 2019.