

The Year Behind & the Road Ahead

For Children's Hospitals



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GROUP

While the spotlight on the COVID-19 pandemic's impact on the U.S. health system has largely focused on adult populations, children's health systems also have seen tremendous challenges and opportunities.

Although many of these issues are similar to those of comprehensive integrated delivery networks (IDNs), they have manifested themselves in different ways and to different degrees among children's hospitals — particularly given the more limited clinical impact of COVID-19 on children. The impact on individual pediatric organizations varies depending on ongoing financial position, organizational structure, level of relief funding, local disease prevalence, state/county pandemic response, and expediency and consistency of volume recovery.

To better assess the unique experiences of children's health systems and how they compare to those of comprehensive IDNs, The Chartis Group conducted a series of interviews, completed earlier this year. We spoke with C-suite leaders from more than 20 children's hospitals about the current state of their organizations, their experiences resulting from the pandemic, and their focus and concerns going forward.¹

KEY FINDINGS

The pandemic's impact on children's hospitals has varied, but we identified five underlying themes:



Financial Performance Improvement Is an Immediate Goal.

Children's health systems are in a better financial position than originally anticipated at the start of the pandemic. Nevertheless, they are facing never-before-seen financial challenges, making financial performance improvement a core requirement.



Patient Volumes Remain Below Pre-Pandemic Levels.

Volumes are down in nearly every area, with the emergency department having experienced the biggest drop. Many believe that these volumes won't fully return — requiring adjustments to the asset base and care delivery model.



Integrating Virtual Care as a Lasting Part of Care Delivery Is a Priority.

The early days of the pandemic brought an incredibly rapid, seismic shift toward virtual care. As more normalized care patterns begin to take hold, many are seeking to develop an intentional and sustainable virtual care model.



New Solutions for Skyrocketing Behavioral Health Issues Are Desperately Needed.

The circumstances of the last year have brought about a surge in children and adolescents with behavioral and mental health challenges, which is expected to remain even as our lives begin to normalize. However, most children's hospitals do not have the capacity or services required to address these behavioral health needs. Organizations are exploring a variety of strategies, including working more closely with schools and community organizations, in a desire to address this gap.



The Multitude of Complex Workforce Issues Requires Deliberate Planning and Management.

The pandemic has put a spotlight on exacerbated workforce challenges and the need to balance sometimes conflicting forces, including: (1) commitment to retaining and supporting staff; (2) difficult recruiting made worse by increased competition for talent; (3) need for improved financial performance, with labor and benefit costs constituting the majority of expenses; (4) rapid transition to remote work; and (5) high employee stress, anxiety, burnout, and trauma — along with the related expectation of increased attrition.

U.S. Children's Hospital Survey: COVID Performance Impact

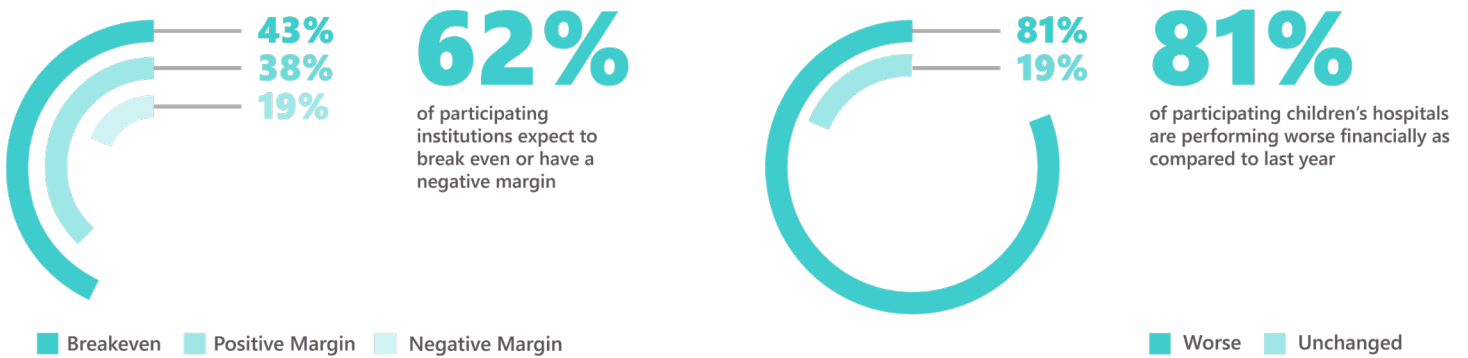
We recently surveyed Chief Executive Officers, Chief Financial Officers, Chief Operating Officers, and Chief Strategy Officers at 21 children's hospitals across the U.S. Approximately half of respondents were from stand-alone hospitals and half from hospitals aligned with a health system. Questions covered volume, current financial performance, and financial performance improvement efforts, among other priority topics.

Financial Performance Improvement Is an Immediate Goal.

Children's health systems are largely in a better financial position than originally anticipated in the spring of 2020. Volumes have returned faster than expected, at a higher percentage, with a more favorable payor mix, and at a higher acuity and associated revenue. Financial support via the CARES Act, parent organizations, philanthropy, investment returns, and other channels offset some of the loss resulting from shutdowns and subsequent depressed volumes.

However, there is no doubt that the **financial situation is worse than before the pandemic.**

Figure 1: Current Financial Performance vs. Pre-Pandemic Performance

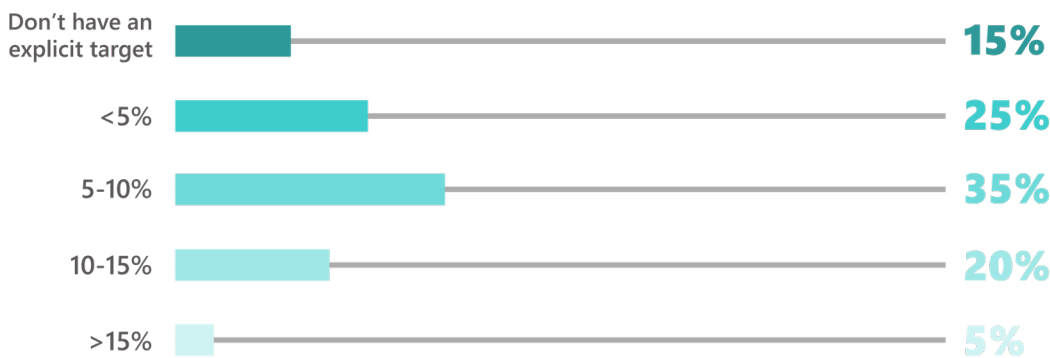


Many are concerned that the financial situation will get worse due to an anticipated degradation of the payor mix and state Medicaid cuts — as well as ongoing, depressed volumes. As such, **improving financial performance is a top priority for children's health systems.**

Figure 2: Financial Performance Improvement Prioritization



Figure 3: Cost of Care Reduction Target



60%

of respondents stated that they need to reduce their cost of care/expense base by 5% or more.

Financial Improvement Actions


Despite the experience of the past year — including the impact on volumes and the resulting strain on children's hospitals' finances — few organizations have taken drastic action thus far, given their culture, commitment to staff and community, and generally strong financial position going into the pandemic. Children's health systems did implement a number of largely temporary expense reduction initiatives early in the pandemic to preserve resources in the face of uncertainty. The most common were:

- Executive pay cuts
- Elimination of "extra" services
- Reduced contracted services
- Suspended merit increases
- Voluntary leave
- Hiring freezes/limited hiring
- Benefit adjustments
- Reduced discretionary spending
- Reduced hours and furloughs for staff
- Jettisoned real estate
- Reduced operating hours
- Delayed/eliminated capital projects
- Focused on flow
- Vendor renegotiations
- Closed programs/locations (e.g., urgent care)

However, despite the clear recognition of the need to improve financial performance coming out of the last year, **many are still in the early stages of their efforts.** Highlighted areas of opportunity going forward include:

- Right-sizing
- Supply chain
- Overhead
- New programs/offerings
- Adherence with quality and value-based care programs
- Revenue cycle
- Care & coverage models
- Care management/utilization review
- Program growth
- Capacity, productivity, and utilization
- Service rationalization
- Workforce/labor management
- Outsourcing
- Unfunded research
- Span of control

While many children’s hospitals are feeling increased urgency, variability exists in the presence and strength of infrastructure (e.g., benchmarking, measurement and monitoring tools, performance improvement and project management skill sets/resources) and cultural readiness required to successfully take on such an endeavor.



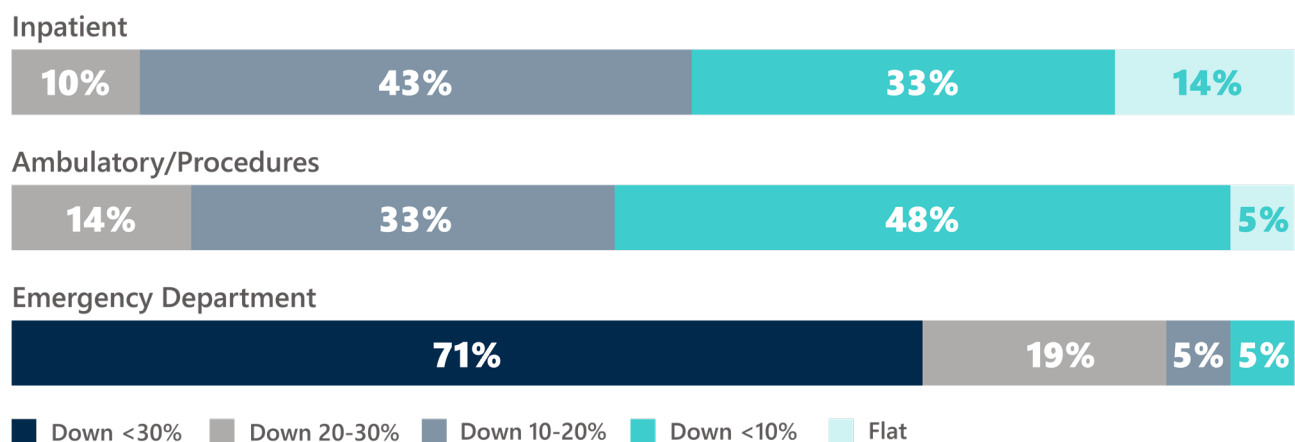
Going forward, children’s health systems must deliberately focus on improving financial performance — continuing to build and strengthen these capabilities and associated culture so they become ingrained in the organization.

This includes the development of performance improvement expertise and skill sets, such as project and program management, financial management, performance improvement, and analytics, as well as the development of associated tools to benchmark and monitor progress.

Patient Volumes Remain Below Pre-Pandemic Levels.

Reduced volume levels are largely consistent by setting across children’s health systems.

Figure 4: Impact of COVID-19 on Children’s Hospital Volumes



The emergency department (ED) and urgent care have seen the most significant and prolonged declines. Many EDs are still 50 percent or more below historical levels.² Volumes in other settings are rebounding but remain below pre-pandemic levels. As with the ED, these lower volumes are most pronounced in ENT and orthopedics (while cardiac and cancer programs have remained on solid footing). However, the reduction in overall volume is balanced by increased acuity — resulting in longer lengths of stay, more minutes per case, and higher reimbursement, as well as an increase in days for behavioral health.

Many question whether volumes will return to pre-pandemic levels or whether changes in behaviors and mindset (regarding what can be handled at home, virtually, or in the office/clinic setting) will result in a permanent shift. Some organizations are betting on the latter and have already closed urgent care locations, right-sized EDs, and are actively evaluating changes to their physical sites/locations and networks.



Going forward, children's hospitals must reimagine sites of care and delivery models to align with changes in consumption.

As in-person volumes have decreased, virtual care volumes have increased, and demand for some services has changed, organizations are re-evaluating their facilities and sites of care. Potential considerations include determining what the reimaged urgent care network will need to be to accommodate changes in care needs and preferences, as well as what site and service modifications are needed to more appropriately care for children with mental and behavioral health needs. In our brief, we discuss [four ways sites of care are changing](#) and how to make your network match.

Integrating Virtual Care as a Lasting Part of Care Delivery Is a Priority.

As is already well known, virtual visits skyrocketed in the spring of 2020, which was critical to engaging patients and providing care, but virtual-visit volume has declined from that initial spike as in-person care resumed. While many organizations had initiated (or were planning for) a ramp up of virtual care, the pandemic caused a seismic shift and expedited the transition for both ambulatory visits and hospital at home, with some organizations experiencing growth in mere weeks that was originally planned to occur over several years.

- Across the industry, overall telehealth utilization jumped from less than 1 percent of all visits at the end of February 2020 to more than 50 percent just five weeks later, according to Chartis' [Telehealth Adoption Tracker](#). The representation of telehealth visits among total visits has since balanced out at 15-20 percent of all outpatient visits.
- In general pediatrics, the latest data shows that approximately 19 percent of all visits occurred via telehealth in early 2021, down from a height of nearly 49 percent in early April 2020.

While not without challenges, organizations demonstrated a remarkable ability to quickly activate, scale, and adapt to virtual care in light of the urgency associated with the pandemic.

Despite historic reluctance, healthcare providers learned that virtual care can be a viable, valuable part of the care delivery continuum. They also learned about the infrastructure (e.g., technology, workflows, staffing/roles) necessary to be successful. While volumes have come down from their height, there is significant interest on the part of patients and providers to continue this mode of care delivery.

Many are now considering the necessary steps and changes to [formalize virtual visits](#) and other forms of virtual care as a significant care channel and [integrate this into clinical operations](#). This includes:

- Identifying the conditions, visits, and situations (by specialty) that best lend themselves to this care modality — and which don't.
- Redesigning processes and staffing to be better suited for virtual care, including digitizing intake, standardizing/streamlining workflows, and reducing the number of staff for upfront tasks.
- Implementing additional (or improved) technologies and services (e.g., remote monitoring, at-home testing) to enable virtual care in the most patient and provider-friendly manner.



Going forward, children's health systems must seize this unique opportunity to build upon the recent momentum and experiences to develop a more intentional and sustainable virtual care model.

As noted above, to integrate virtual care, pediatric providers will need to identify the clinical conditions and situations for which this care modality is appropriate, as well as the services on which they will focus (at least initially); redesign processes and care team roles; and ensure that the technical platform(s) in place is appropriately robust. [Read more](#) about how to achieve lasting adoption of virtual care.

New Solutions For Skyrocketing Mental and Behavioral Health Issues Are Desperately Needed.

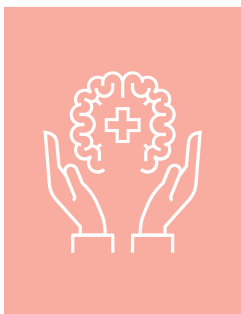
Mental and behavioral health volumes have risen significantly — with increases in anxiety, depression, suicidal ideation, violence, and other issues.³ Many organizations have not had the capacity or needed services to accommodate these patients, and ED boarders have increased significantly while they wait for the appropriate care setting.

As an example, mental health ED visits grew almost 25 percent among children ages 5 to 11 and by more than 30 percent among youth ages 12 to 17 percent from mid-March to mid-October of 2020, as compared to the same time period in 2019. At the same time, ED visits overall fell.⁴ The increased number of visits is putting additional strain on staff who are often not trained to care for children with mental and behavioral health issues.

The growing need for and lack of available resources has brought to the forefront longstanding challenges of addressing care needs across the mental and behavioral healthcare continuum for children, including where care is distributed (e.g., approximately 70 percent of those receiving mental services get them through school) and a need for stronger coordination (which is often challenging, given historic funding).⁵

Pediatric mental and behavioral health services are ripe for disruption, and innovative approaches to care are expected to become increasingly important. In addition to the rising prevalence, acuity, and complexity of needs among children and adolescents, there is a growing desire and ability to digitally access traditional services and incorporate patient- and family-directed apps into care. These advances are made possible by a low "barrier to entry" for development of new solutions and increasing private equity investments in these solutions.

Over the last year, organizations have adopted a variety of strategies, including advancement of partnerships, rollout of [digital health](#), investments in startups, implementation of coverage agreements, and increases of in-house mental health professionals and services. However, there is a long way to go before the gap is closed.



Going forward, children's hospitals need to develop a mental and behavioral health strategy that defines their appropriate role in addressing the needs of the communities they serve.

This strategy should include which services they will own, grow, and manage; which services they will outsource to an external vendor; which community service providers they will partner with; and what their role is, if any, as a community-wide convener of a comprehensive, community-based integrated care system.

The Multitude of Complex Workforce Issues Requires Deliberate Planning and Management.

Multiple — and sometimes conflicting — forces are at play with respect to the workforce, such as a commitment to and support of staff in a time of high stress and anxiety, a highly competitive recruiting environment, financial pressures requiring attention to expenses, a rapid transition to remote work, and high degrees of staff burnout and trauma.

Consistent with the culture and values of many children's hospitals, most worked hard to retain staff throughout the pandemic, providing a sense of emotional and financial security. Children's hospital leadership also recognizes that the pediatric experience base and skill set is difficult (and expensive) to recruit, which further incentivizes organizations to retain existing staff, despite reduced volumes and financial constraints. At the same time, attrition has increased as staff reconsider the direction of their careers, have had children at home requiring care and school, and other factors. A recent survey indicated that only three out of five healthcare workers are certain they will remain in the field after living through the pandemic.⁶

At the start of the pandemic, organizations moved a significant number of staff to a remote work model within a matter of days. While many leaders were skeptical, the arrangement has proven to be an overwhelming success — including increased productivity, high staff satisfaction, and the potential for lower real estate costs. It is expected that many will stay remote (at least partially) even when it is safe to physically return to work.

Further, given the emotionally intense experiences of the last year — inclusive of the pandemic, racism, and the political divide — staff are weary, tired, stressed, and scared. They are now experiencing significant burnout and morale issues. The leadership of children's hospitals have recognized the concerning situation and have moved forward with a variety of interventions, such as virtual leadership rounding with staff and other forms of checking in, more open and frequent communications, enhanced EAP programs, elimination of co-pays for mental health services, creation of respite locations and dedicated time for staff, investment in PPE to demonstrate concern for staff safety, and programs to provide better and more predictable shift coverage.

The commitment to job retention, combined with open communication from leadership, focused interventions to address morale, and the flexibility for many to work from home, has resulted in improved satisfaction among some staff at many children's hospitals during the pandemic. However, one cannot escape the fact that children's hospitals are faced with prolonged volume/revenue reductions and significant financial pressures, which suggests a growing need for intentional workforce management and optimization strategies.



Going forward, a thoughtful and robust workforce management plan that seeks to develop, support, and maintain highly capable teams at a financially sustainable level is required.

Such a plan must consider both onsite and remote staff and incorporate employee engagement and communications, staff resiliency and appreciation, staffing solutions, workforce management infrastructure development, and governance/leadership. [Read more](#) about seven competencies for optimizing the workforce.

Accelerating Forward

As children's hospitals seek to reposition themselves in this new healthcare reality, they must take a multifaceted approach considering financial realities, clinical needs and requirements, competitive positioning, and workforce challenges. Each organization should tailor their specific strategies and initiatives to their unique market, finances, and community needs, but one fact is true for all — doing nothing is not an option.

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