WEBINAR RECAP

Rising Rates and High Inflation: **3 Actions Doctors Should Consider**

ABOUT THE WEBINAR

TOPIC: Rising Rates and High Inflation: 3 Actions Doctors Should Consider

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MODERATED BY:

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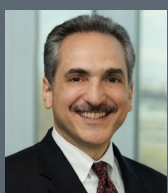

SPEAKERS

Gus Faucher

Senior Vice President, Chief Economist, The PNC Financial Services Group

Kevin T. Wills, *CPA, CMPE*

Senior Vice President, Healthcare Territory Sales Manager, WI, Northern IL, Northern IN and MI, PNC Bank

Marc Dizard, *CFA, CFP*

Senior Vice President, Investment Regional Manager, PNC Private Bank℠

Kaley Keeley, *CPA, CMPE*

Senior Vice President, Territory Manager, PNC Organizational Financial Wellness

The word "unprecedented" may get thrown around often, but it certainly has merit in the current economy. With strong financial activity, inflation and rising rates, today's mix of positive and negative dynamics have complicated the picture for business owners everywhere.

These trends are more nuanced in healthcare, however. Confronting a tight labor market, practice managers know they need to be more intentional about labor retention. At the same time, healthcare is not experiencing inflationary revenue the same way that the broader economy is — and, in turn, practice costs are going up without commensurate cash coming in.

In response, practices must focus on building a solid financial and labor management foundation in this volatile environment, which may require a few changes to how clinics and practitioners have previously done business.

A recent PNC Bank webinar explored these trends and discussed what's new across practice management, personal finance and talent retention, as well as how healthcare professionals can navigate the challenges ahead. Moderated by PNC's Nick Spanakis and with special presentations by leaders from PNC, the session discussed the following:

- Financial best practices that healthcare organizations should consider to adjust their balance sheet — such as reevaluating fee schedules
- Personal finance strategies that practitioners should embrace to give their own books a leg up — such as rethinking low-interest debt payoff
- Labor management tips to help address critical stressors among employees while competing for talent — such as offering financial health benefits

Inside, we provide an overview of the webinar's topics and takeaways. Read on to learn the challenges, opportunities and best practices for surviving and thriving in this nuanced healthcare economy.

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INFLATION, INTEREST RATES AND HEALTHCARE

Current and Projected Trends:
As the Federal Reserve responds aggressively to the inflationary environment with higher interest rates — driving short- and long-term interest rates back up after historic lows — healthcare practices are contending with many of the same concerns as other businesses, plus a few unique ones specific to their industry.

Notably, employment has almost fully recovered from the pandemic, but the labor force participation rate is roughly half what it was before 2020. There are many reasons for this, including the planned retirement of baby boomers, unplanned early retirements amid COVID-19, parents of young children having childcare issues and the burnout of healthcare workers.

As Gus Faucher indicated in his presentation, these factors drive the need to pay attention to labor issues. Employees are a valuable asset now more than ever.

At the same time, however, healthcare spending hasn't recovered to what it was pre-pandemic, with personal expenditures on healthcare rebounding but still slightly below early 2020 levels. In addition, healthcare inflation has been weaker than overall inflation, creating a troublesome effect where costs are accelerating but revenue is not.

Given these trends within and outside of healthcare, here's the big question:
Are we heading toward a recession? Experts like Gus suggest it's possible but not guaranteed. PNC Bank estimates recession odds to be 45%* by 2023–2024, dependent on several factors, including the ongoing response of the Federal Reserve.

These uncertainties aside, one thing's for sure: The economy's current pressures will let up eventually and the job market will cool down over the next year or so. In the meantime, the current realities of this economy require action and response from practice leaders.

SAVVY PRACTICE MANAGEMENT ACTIONS TO TAKE NOW

Healthcare practices will need to adjust their business finances to prepare for the future, whatever that future holds. In his presentation, Kevin T. Wills discussed his recommendations for doing just that by shoring up cash flow and revenue and by using other prudent strategies.

Practices should review and update fee schedules and reconsider arrangements entirely if they're not delivering a sufficient profit margin. This may mean reevaluating the importance of certain contracts or using this unprecedented moment as an opportunity to renegotiate terms with payers.

Cash flow matters too, he said. Practices should aim to get a better handle on their accounts through some tactical changes, such as capturing payments sooner at the point of care and putting in controls to reduce fraud so that the money collected actually makes it to the bank.

Another tip Kevin recommends is to prioritize labor and staffing, not just because of the current labor shortages but also more generally because happy employees make for a happy practice. Some clinics may want to consider outsourcing relationships to ensure that internal staff focus on high-value responsibilities that more closely align with their pay grade and job description.

As practices further adjust their everyday balance sheets, they should also consider other factors, such as short- and long-term debt. Importantly, interest rates may be going up, but they're still at historic lows, so refinancing arrangements that lock down fixed long-term rates may be worth exploring.

And lastly, if renovations, expansions or other capital expenditures are planned in the next 18 months, it's smart to consider those projects in the context of rising interest rates and other market forces, such as increased staffing costs. These and other factors can have a limiting or enabling effect that could make such improvement projects more or less feasible in the current economic climate.

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6 Best Practices to Consider

1. Review and update fee schedules.
2. Capture payments sooner at the point of care.
3. Implement fraud controls to account for cash assets.
4. Outsource some duties to free up staff for high-value tasks.
5. Review short- and long-term debt options.
6. Anticipate high-cost projects.

PERSONAL FINANCE TIPS FOR HEALTHCARE PROFESSIONALS

Similar to the special considerations practice owners should take with their business books, practitioners should also consider a few recommendations and actions to make their personal finances more resilient. In his presentation, Marc Dizard discussed many such opportunities for healthcare professionals to improve their financial picture amid economic volatility.

As Marc notes, a mix of "good, bad and ugly" factors have created a head-scratching economy for consumers worldwide — from economic growth (good) to supply chain imbalances (bad) and the Russia–Ukraine conflict (ugly).

These trends are materializing into the uncertainty ahead, but there are many things that practitioners can do now to stave off their risk. Notably, Marc ticked off a "punch list" of actions worth taking, including the following:

- **Review your investment goals and risk tolerance.** Nobody can predict what the market will do, but having a diversified portfolio will help keep finances more resilient against the unknowns.
- **Budget, plan and save.** Everyone needs a financial plan, healthcare professionals included. As part of that broader plan, practitioners should assess their monthly budget with an ongoing savings program that "pays yourself first."
- **Approach debt strategically.** You might think the easiest debt mitigation solution is to pay loans off, but when evaluating a fixed low interest term in a high-inflation environment, that's not always the best move. As Marc emphasizes, if you borrow in yesterday's dollars but pay back in today's, inflation can eat a sizable bite of those repayment efforts. Instead, consider specific cost implications of variable vs. fixed loans and approach debt planning from there.
- **Stay even keeled.** This market can't be timed or controlled, but you can predict and control your reaction to it: Avoid emotional, impulsive or wholesale investment decisions that take an "all or nothing" approach — instead, make logical choices based on when your financial portfolio is ready.
- **Consider the timeline.** Ups and downs are a natural cycle of any economy. As a result, longer-term investments operate from a different ethos than those where instant gains or losses are more acutely felt. Importantly, align your portfolio to match whatever time frame you have for your personal goals and adjust expectations accordingly.

EMPOWERING HEALTHCARE EMPLOYEES WITH FINANCIAL WELL-BEING

As the labor market tightens — especially in healthcare — employers have an opportunity to attract and retain employees with better benefits, and financial empowerment is one strategy that is gaining traction in this area. In her portion of the webinar, PNC's Kaley Keeley walked through recommendations to support workforce engagement with targeted programs to address the financial stressors that are most palpable today.

And to be sure, there are many. Roughly two-thirds of adults say that money causes stress in their lives,[1] and 38% of people have less than $1,000 in liquid savings for unplanned expenses.[2] Perhaps most troubling is the opportunity cost of financial illiteracy, quantified at around $1,600 each year for each person.[3]

As these stressors hit a breaking point, employees are turning to their employers to help them become more financially well. In turn, new opportunities have emerged for businesses to support their workforce by building specialized financial programs into benefits packages.

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Before rushing to these solutions, however, Kaley recommends that practice leaders assess employees' current financial well-being. Surveys and other feedback mechanisms can help employers understand what their workforce needs and wants in financial wellness benefits.

After assessing workers' needs, employers can work toward investing in and implementing solutions. They'll have no shortage of options because the market for HR financial wellness products has soared in response to the many financial pressures of today. As practice leaders compare and assess vendors, Kaley recommends looking for these three components of a successful employee financial well-being program:

- **Financial education** — Ensure that programs are accessible, engaging and educational and that they include various topics and tools designed to help remove financial literacy barriers.
- **Financial advice** — Pair education with actionable, consistent, data-informed and individualized guidance for real-life people.
- **Commitment** — Treat financial well-being not as a one-off perk but as an integrated and integral part of workforce benefits. Create a culture of financial wellness with incentives, communication and a commitment to improving over time.

Once that plan has been implemented, the work shouldn't stop there. Kaley suggests that organizations continually assess and improve their financial wellness offerings. In fact, a common concern of these initiatives is underutilization.

Monitor insights and regularly solicit feedback to ensure that the program evolves to the best it can be, no matter what happens in the broader economy.

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PARTNERSHIP AS AN ESSENTIAL PATH FORWARD

There's no mincing words: The economy is in a volatile state right now. With recession odds around 45%,* nobody knows what will happen moving forward, or how healthcare — which has experienced inflationary costs but not inflationary revenue — will respond.

But this is not a watch-and-wait moment. Practice owners should be proactive and act now to be more resilient ahead of whatever comes next.

From optimizing their personal and business balance sheets to empowering financial well-being workforce-wide, now's the time to seize the opportunities and address uncertainties and challenges head-on.

Remember: You don't have to do it alone. Partnering with a team of experts like PNC will be an essential part of the path forward. After all, advisors are there to help you navigate the current realities and future possibilities of this unprecedented moment — both in good times and in more challenging ones, too.

For more insights designed just for healthcare professionals, visit **pnc.com/hcprofessionals**.

To speak with a PNC Healthcare Banker, contact us at 1-877-566-1355.

*As of publication time.

1 https://www.apa.org/news/press/releases/stress/2020/report-october

2 https://www.pwc.com/us/en/industries/private-company-services/images/pwc-9th-annual-employee-financial-wellness-survey-2020.pdf

3 https://www.financialeducatorscouncil.org/financial-illiteracy-costs/

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