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Poll:

THE PULSE ON HEALTHCARE FINANCE

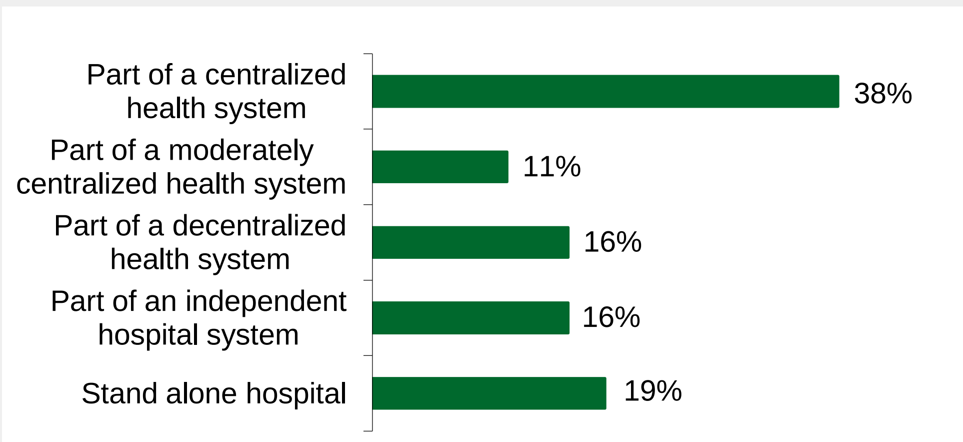
A National Survey on Financial Planning and Priorities

The healthcare industry is in the midst of major transformation. Healthcare finance executives are facing a slew of challenges under new healthcare reform laws and an increasingly complex investment environment directly impacting their organizations' financial objectives and bottom lines. At a time when the healthcare industry represents one of the fastest growing segments of the U.S. economy,[i] healthcare finance executives must also manage the complexities of raising capital and credit to support a growing staff and patient population.

Poll Demographics

The Healthcare Management Research Panel[ii] recently conducted a national quick poll of healthcare finance executives to determine the top spending needs, market challenges, and financial priorities impacting their organizations' portfolios and driving their financial strategies for the remainder of 2012. The poll was conducted in May and June with 50 non-profit and for-profit healthcare organizations participating, none of which are institutional clients of SEI. Percentage points are rounded up and may not always equal 100.

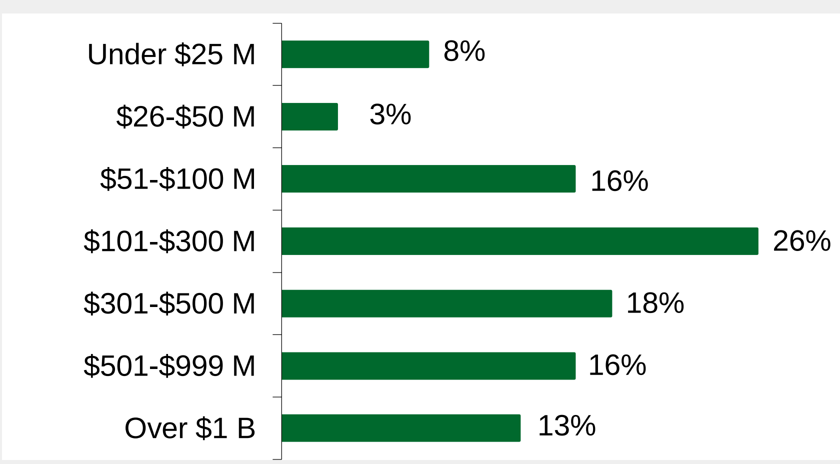
ORGANIZATION TYPE



CURRENT ASSET POOLS

- › *Investment pool – 95%*
- › *Foundation – 71%*
- › *Pension plan – 66%*

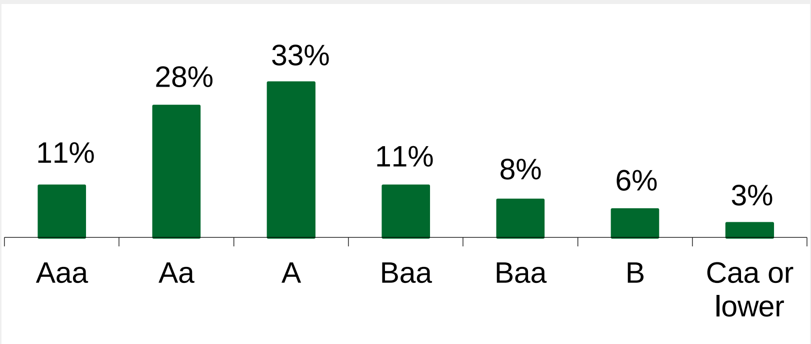
SIZE OF TOTAL COMBINED ASSETS



Finding 1 – Credit Ratings Strong, Despite Moody's Negative Outlook for 2012

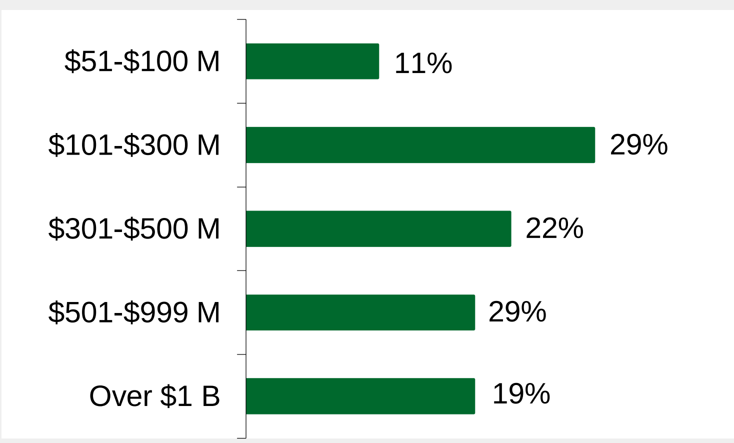
At the start of the year, Moody's predicted a negative outlook for the non-profit healthcare industry due to ongoing national economic softness, financial and operating pressures resulting from regulatory changes, and continued balance sheet challenges.[iii] Despite the negative outlook, almost three-quarters (72%) of poll participants reported that their organizations currently maintain a credit rating of "A" or higher.

CREDIT RATING SCORE



Of those healthcare organizations with a credit rating of "A" or better, more than one-third (38%) have more than $501 million in assets. None of the organizations with less than $51 million in assets had a credit score of "A" or better. Below is an average breakdown by asset size.

CREDIT RATING OF "A" OR BETTER



Finding 2 – Few Making Large Withdrawals from Investment Pools

With credit ratings strong, many healthcare organizations can effectively raise capital through the bond markets. In addition, healthcare organizations may benefit in 2012 from historically low interest rates, as well as growth in state-administered provider fee programs, which may create short-term relief from Medicaid reimbursement pressures.[iv] As a result, only 8% of poll participants said their organizations made significant withdrawals from investment pool assets to support operational shortfalls over the past 12 months.

INVESTMENT POOL WITHDRAWALS

› *No withdrawals – 50%*

› *Minimal withdrawals – 42%*

› *Significant withdrawals to support operations shortfalls – 8%*

Finding 3 – Controlling Negative Impacts on Finances Remains a Top Concern

Despite strong credit ratings and minimal investment pool withdrawals, poll participants identified several key factors that they felt could have a direct impact on their ability to keep operating expenses from increasing as a percentage of revenue over the next 12 months.

1. **Decreased reimbursements**
   According to Moody's, healthcare management teams will feel the financial impact of lower reimbursements and different payment schemes from all sources of revenue in 2012, including Medicare, Medicaid, and commercial payers. This was validated through the poll as the majority (85%) of participants said that decreased reimbursements under healthcare reform are going to have a significant impact on their bottom lines. Finding ways to mitigate the financial impact of decreased reimbursements is top of mind as this could impact decisions around key initiatives, such as expansion projects and technology upgrades.

2. **Staffing and workforce needs**
   Despite the fact that more than half (59%) of poll participants said that staffing and workforce needs will have a high impact on their organizations' finances, many will be expanding their workforces. Two-thirds of poll participants (66%) said they plan to add staff within the next year in the following areas:

   - Physician services
   - Nursing
   - Medical coders
   - Case management
   - Outpatient services
   - Finance and accounting
   - Housekeeping and maintenance
   - Administration

3. **Investments in information technology (IT)**
   In February, the Centers for Medicare and Medicaid Services (CMS) and the Office of the National Coordinator for Health Information Technology (ONC) issued the proposed "stage 2" rules for the meaningful use of electronic health records. Healthcare organizations are feeling the pressure to invest in the necessary technologies to meet these requirements, or will otherwise face penalties and a reduction in Medicare reimbursements beginning in 2015. More than half (54%) of poll participants identified investments in IT as having a high impact on operating expenses this year.

4. **Market volatility**
   Healthcare finance executives continue to face an increasingly complex and volatile economic environment, coupled with the often process-heavy and slow-moving nature of investment committees. More than one-third (38%) of poll participants indicated that market volatility will have a high impact on portfolio returns and overall finances.

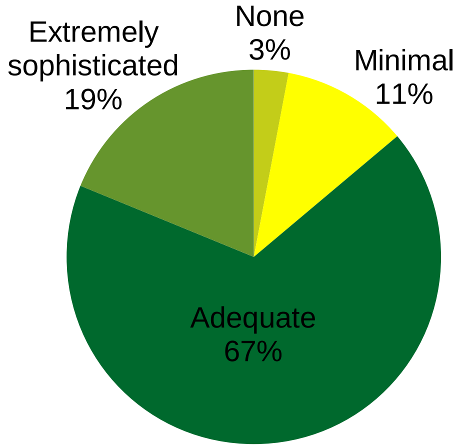
Poll participants also identified factors such as inflation, pension contributions, cost of credit, and cost of mergers and/or acquisitions as concerns.

Finding 4 – Portfolio Construction Does Not Support Concerns Moving Forward

Despite concerns around revenue impacts and market volatility, more than three-quarters (81%) of poll participants felt they had nothing more than an adequate process for identifying how different asset allocations impact each individual investment pool, their organizations' balance sheets, and financials at large. Of that group, 20% said they have no process at all or a minimal process at best. Only 19% of participants surveyed felt their organizations had sophisticated processes.

Additionally, of the 50% of poll participants who indicated their organizations' made minimal to significant withdrawals from investment pools within the past 12 months, none said that they also made changes to their portfolio allocations in response to these shortfalls and withdrawals.

SOPHISTICATION OF INVESTMENT PROCESS

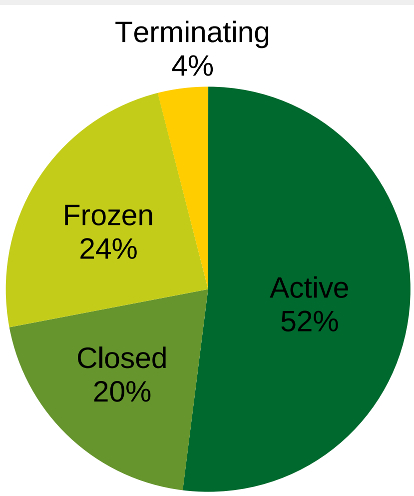


Finding 5 – Half of Pension Plans Remain Open to New Hires

For the two-thirds (66%) of organizations with a pension plan, poll participants were asked to provide the current plan design stage of their pension plans based on the following definitions: “active” in that the plan is active and open to new hires; “closed” in that the plan is closed to new entrants, but participants are still accruing benefits; “frozen” in that the plan is closed to new entrants, participants are no longer accruing benefits, but the termination process has not started; or, “terminating” in that the plan is closed, accruals are frozen, and the termination process is underway.

More than half (52%) of healthcare organizations have pension plans that are open and active to new hires. The remaining 48% are closed to new participants with more than half of that group (58%) taking the additional step of freezing accruals. Whether open or closed, pension plan management adds another complex layer of investment management for healthcare executives. Funded status levels are down due to low interest rates and are directly impacting balance sheets. As a result, many pension plan sponsors are implementing de-risking strategies to help protect future gains in funded status.

CURRENT PENSION DESIGN STAGES



Conclusion

With credit ratings strong at the start of 2012, many healthcare organizations have enjoyed increased debt capacity and decreased withdrawals from investment pool assets.

In order to maintain good credit standing and cash-on-hand resources, healthcare finance executives face several concerns for the remainder of the year that could directly impact revenue, including decreased reimbursements under healthcare reform, staffing and workforce needs, mandated investments in information technology, and continued market volatility. Low interest rates are also impacting those healthcare organizations with pension plans, as low funding levels are demanding increased cash contributions to improve plan health.

These complex factors, coupled with an increasingly challenging investment environment, are forcing many healthcare investment committees and finance executives to re-evaluate their investment processes. The majority of healthcare organizations do not currently have a sophisticated process in place to evaluate asset allocations and their impact on different investment pools and overall finances.

Traditionally, healthcare investment committees mostly focused on risk/return, asset-only strategies when making investment decisions. Today, investment focus is shifting to better align portfolio decisions to support broader financial goals. As a result, many healthcare organizations may be moving towards a more sophisticated and integrated approach that promotes more efficient portfolios, balance sheet protection, improved debt capacity, and strong assessments by credit rating agencies.

*If you have any questions or comments about this information, please feel free to contact SEI via email at SEIRESEARCH@SEIC.COM or by phone at **1-866-680-8027**.*

The Healthcare Management Research Panel, sponsored by SEI's Institutional Group, conducts industry research in an effort to provide members with current best practices and strategies for investment management of various asset pools.

[i] Seelye, Katharine Q. "Health Care's Share of U.S. Economy Rose at Record Rate." New York Times 4 Feb 2010. 20 June 2012 < http://prescriptions.blogs.nytimes.com/2010/02/04/us-health-care-spending-rose-at-record-rate-in-2009/>.

[ii] SEI Healthcare Management Research Panel Survey, May-June 2012. Poll was completed by 50 healthcare executives overseeing assets ranging in size from $25 million to over $1 billion in assets.

[iii] "Moody's: U.S. not-for-profit healthcare outlook remains negative for 2012." Moody's Investors Services. 25 Jan. 2012. <http://www.moodys.com/research/Moodys-US-not-for-profit-healthcare-outlook-remains-negative-for--PR_236074>.

[iv] "Moody's: U.S. not-for-profit healthcare outlook remains negative for 2012." Moody's Investors Services. 25 Jan. 2012. <http://www.moodys.com/research/Moodys-US-not-for-profit-healthcare-outlook-remains-negative-for--PR_236074>.