

Kentucky Trustee

For Kentucky Hospital Governing Board Members

Winter 2025

BOARDROOM BASICS

Planning for 2025 and Beyond: What Boards Need to Know to Prepare for Success

Every year the American Hospital Association publishes its Environmental Scan, including wide-ranging data and trends to help leaders understand current issues in health care.

While the impact on each community is unique, the overarching themes included in the 2025 American Hospital Association (AHA) Environmental Scan impact all hospitals and health systems. The topics are categorized into five areas: financial sustainability, workforce, better care and greater value, consumerism and trend snapshots.

Financial Sustainability

The current financial outlook is not as negative as it was last year, but hospitals and health systems are still experiencing significant financial pressures.

Costs Continue to Increase. The AHA attributes increasing hospital costs to persistent workforce shortages, supply chain challenges for drugs and supplies, and high levels of inflation.

Workforce costs are the largest factor, with labor accounting for 60 percent of

hospital expenses. In 2023, wage rates increased by more than ten percent across all hospital jobs. Rising expenses in all areas have resulted in the highest projected cost to treat patients in 13 years.

Supply Chain Shortages Impact Cost and Quality. The supply chain continues to strain hospitals and health systems.

From 2022-2023, drug shortages increased significantly, including an all-time drug shortage high in Q1 of 2024. The AHA estimates that managing drug shortages alone adds as much as 20 percent to hospitals' drug expenses.²

Supply shortages have increased the average cost of providing care for a medium-sized health system by \$3.5 million annually. The future outlook for the supply

chain remains negative—80 percent of health care providers expect these shortages to either worsen or remain the same.

Product shortages have also resulted in cancelling or rescheduling care. One of the most notable challenges last year was the national shortage of IV fluids after the Baxter International manufacturing plant in North Carolina was damaged by Hurricane Helene. One month after the storm made landfall in September 2024, 85 percent of hospitals surveyed reported the shortage had a moderate or critical impact on their operations, which included delays or cancellations of treatments.³

Underpayments and Claim Denials Impact Reimbursement. While inflation growth from 2021-2023 increased by 12.4 percent, inpatient

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PRESIDENT'S NOTEBOOK

The Kentucky General Assembly is meeting in Frankfort, and the 2025 session is as busy as ever! The KHA team has been advocating on your behalf on a myriad of issues.

This year, 340B is the star issue for hospitals. Big pharmaceutical companies are trying to fight against the program by refusing to provide the same prices it charges hospitals in other states to Kentucky's hospitals. Other states have passed legislation to prevent this type of discrimination and Senator Stephen Meredith's SB 14 is attempting to provide the same protection in Kentucky.

Other important legislation includes Senator Danny Carroll's SB 111, dealing with providing care for violent youth; Representative Josh Bray's House Bill 416, taking aim at addressing personal injury protection (PIP) fraud; and Senate Bill 57, the "super speeder" legislation that would help fund the Kentucky Trauma System sponsored by Senator Meredith.

Thank you everyone who has advocated for their hospitals by reaching out to their senators and representatives. Legislators are very interested in hearing your voice and expertise so they can understand how their work in Frankfort impacts your ability to care for patients in their district. You can follow what KHA is doing on your behalf at www.kyha.com/advocacy.

If you ever need help on these or any other issues, please feel free to reach out to me or the rest of the KHA staff. We are here to serve you!

Sincerely,



Nancy Galvagni
President and CEO
Kentucky Hospital Association



Nancy Galvagni
President and CEO

Governance Notebook

Mark Your Calendars: KHA Annual Convention

Mark your calendars now for the 96th Annual KHA Convention – May 20-21 in Lexington. Join your hospital's executive team and your fellow trustees for two days of education on the latest issues facing your hospital and for a chance to network with hospital leaders from across the Commonwealth. See the latest details at <https://www.kyha.com/education-hub/annual-convention/>.

Do you have ideas for future issues of the *Kentucky Trustee*?

Our goal is to provide you with the information and knowledge you need to lead your hospitals forward in today's rapidly changing environment. Tell us what you think, and what you would like to see in future issues of the *Kentucky Trustee*.

Write or call:

Ginger Dreyer
Kentucky Hospital Association
2501 Nelson Miller Parkway
Louisville, KY 40223
502-426-6220 or 800-945-4542
gdreyer@kyha.com

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reimbursement only increased by just over five percent. Medicare and Medicaid continue to underpay hospitals. In 2022, 67 percent of hospitals had negative Medicare margins.

Underpayments are part of the story, but fighting claim denials adds a significant resource burden to hospitals as well. Nearly 15 percent of claims are initially denied, including some claims that were already preapproved using prior authorization. More than half of all denials by private payers are overturned, but that requires multiple rounds of provider appeals.

Artificial Intelligence (AI) is negatively impacting claim denials, using tools that result in automatic denials without review of individual circumstances. Overall, experts estimate the cost for providers to fight denied claims is nearly \$20 billion every year.



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Cybersecurity Implementation and Breaches Add to Expenses. The cost of implementing cybersecurity protocols and responding to attacks is significant. The cost of data breaches is higher for health care than any other sector, with one data breach ranging

between \$9 million and \$10 million. In comparison, the average cost of a data breach in the finance industry—the second most expensive industry for data breaches—is estimated at \$6.1 million.⁴

A strong majority (85 percent) of large health care data breaches involve

third-party providers or non-hospital organizations. These third-party providers may be supply chain vendors, medical device providers or business partners that provide critical support to hospitals and health systems.

The Change Healthcare cyberattack in February 2024 was the most prominent cyberattack last year, impacting 190 million people.⁵ Ninety four percent of hospitals reported a financial impact from the attack, and more than seven in ten hospitals reported a direct impact on patient care.

Care Continues to Increase in Alternative Care Settings.

Health care is expected to continue to shift to alternative settings, including home-based services and hospital outpatient or ambulatory surgical centers. Experts predict that by 2034

Financial Sustainability: Questions to Consider

- **Increasing costs:** Does our board understand the primary sources of rising costs for our organization, and does this information impact strategic thinking?
- **Reimbursement:** What are the biggest reimbursement challenges at our organization, and how does that impact our financial outlook and strategies?
- **Cybersecurity:** Has our board prioritized understanding cybersecurity and taking action to appropriately prepare?
- **Future care delivery:** How is our organization planning for and responding to changes in how care is delivered, and what consumer preferences are?

nearly one-quarter of evaluation and management visits will occur virtually. The aging population means demand will likely increase across all sites of care, and hospitals must continue to adjust how and where care is provided to meet growing demand.

The Future of Hospital Costs and Delivery of Care.

When asked about health care in the future, hospital executives believe it is likely that AI will result in a reduction in administrative costs. Leaders also project that investment in alternative care sites will continue, patients and providers will increasingly share information virtually, and care will further shift toward consumer preferences.

The Health Care Workforce

Hospitals and health systems continue to face challenges around provider burnout, administrative burdens and workforce shortages. The good news is that hospitals are experiencing a decline in hospital staff turnover rates and registered nurse (RN) vacancy rates compared to the last few years, but turnover still remains higher than in 2020.

The Nursing Shortage Continues.

Despite an overall decline in average RN vacancy rates, nearly half of hospitals still report an RN vacancy rate of more than 10 percent. The AHA reports that it takes three months to recruit an experienced RN, with the greatest challenges in medical-surgical nursing.

Filling the pipeline with new nurses remains a problem, as nursing schools continue to turn away qualified applicants due to lack of faculty, clinical sites and clinical preceptors. In 2023, there was little change in baccalaureate nursing program enrollment, and there was a decline in Ph.D. and master’s nursing program enrollment.

Burnout and Workplace Safety are Major Challenges. Provider burnout continues to be a big challenge in health care, but health care workers do report slightly lower levels of burnout in 2023 when compared to 2022. While the numbers are encouraging, burnout rates remain over 50 percent for pharmacy professionals, nurses,

advanced practice providers, physicians and medical students.

Workplace violence is one factor impacting provider burnout, and rates are significantly higher in the health care sector when compared to other industries. Nurses are particularly impacted, experiencing incivility, intimidation, bullying and violence from patients and families.

Physicians Still Face Mental Health Stigma.

Physicians agree that the stigma remains around physicians experiencing mental health challenges or seeking mental health care. In a 2023 survey, four in ten physicians report either being afraid,

or knowing another physician who was afraid to seek mental health care because of questions asked in medical licensure/credentialing/insurance applications.

Virtual Care and Remote Work Offer Flexibility. Health care leaders see the potential for virtual care to reduce shortages by increasing capacity to serve patients and provide more flexible work schedules. Two thirds of medical practices that adopted hybrid or remote models during the pandemic continue to use them.

Future Projections: Behavioral Health Faces the Greatest Shortfall.

In the next ten years, health care employment is expected to grow the most in the following areas:

- Nurse anesthetists, midwives and practitioners

- Physician assistants
- Home health and personal care aides

When the anticipated workforce supply is compared to demand in 2036, the overall health care workforce is expected to be adequate to meet 90 percent of demand. The greatest anticipated shortages include behavioral health, where supply will only meet 53 percent of demand, and primary care, where supply will meet 78% of demand.

The Workforce: Questions to Consider

- **Nursing shortages:** What are our greatest workforce challenges, and how are we partnering to fill the future pipeline?
- **Burnout and safety:** How does our organization’s culture address provider burnout, and what strategies are we using to minimize workplace violence?
- **Physician mental health:** Is there a stigma around physician mental health at our organization?
- **Workplace flexibility:** How can we offer workplace flexibility and creative approaches to care?
- **Future shortfalls:** How are we planning now for future workforce shortages, including behavioral health and primary care?
- **Physicians and AI:** Does our board understand the benefits and shortfalls of AI, and the potential for AI implementation at our organization?



Physicians Anticipate AI Benefits.

Physicians anticipate positive impacts of AI on care, including improving care team interactions with patients, saving time by searching medical literature and summarizing electronic health record data, and assisting in clinical decision-making.

However, ramping up generative AI will take time. More than 9 in 10 physicians agree that they would need to confirm that the source materials are verified and created by doctors and medical experts before using generative AI when making clinical decisions.

Better Care and Greater Value

Improvements in care and value are increasingly tied to payments. In 2022, six in ten hospitals had contracts with commercial payers tied to quality and safety performance.

Hospital Infection and Mortality Rates Are Improving. For the first time since the COVID pandemic in 2020, hospitals experienced a reduction in health care-acquired infections (HAIs). The greatest

reductions were in the areas of ventilator-associated events, followed by MRSA and catheter-associated urinary tract infections (CAUTI). There was no significant change in most surgical-site infection measures.

Hospital mortality rates have also improved.

When compared to 2019 (pre-pandemic), the risk of mortality for hospitalized patients is down more than twenty percent.

Technology will Increasingly be Used to Impact Quality of Care. More than two-thirds of U.S. hospitals already use predictive models that display output or recommendations in electronic health records. In addition, some health care leaders report using AI for clinical decisions in the areas of radiology, in-hospital patient monitoring and preventive care. In the next three years, more than one-third of leaders plan to implement AI in the areas of preventive care, remote patient monitoring and treatment planning.

When asked about the future role of technology, health care leaders believe that:

- AI and emerging innovations in disinfection practices will become more prevalent
- The health care field must continue to embrace the innovation mindset relied upon during the pandemic

Better Care and Value: Questions to Consider

- **Hospital infections:** Does our board use a quality dashboard and discuss progress regularly?
- **Technology:** How can our organization further embrace technology for quality improvement?
- **Hospital-at-Home programs:** What alternative care models are best suited for the community we serve?
- **Health equity:** Do we understand, measure and address social needs impacting health in our community?
- **Maternal mortality:** How is our organization moving the needle in maternal mortality rates?
- More resources are needed for quality improvement to continue to innovate

Hospital-at-Home Programs Show Positive Results. Hospital-at-Home (HaH) programs have been in place since the 1990s, but the CMS Acute Hospital Care at Home waiver program began during the COVID pandemic. The program was extended through the end of 2024, and in December 2024 it received a 90 day extension. While the future of the waiver program is uncertain, a recent CMS report on HaH care reported:

- Lower mortality rates
- Fewer hospital-acquired conditions
- Longer stays, but lower overall Medicare spending

- Positive feedback from patients and caregivers

Health Equity and Social Factors

Impact Quality and Value. Equity ensures that care is catered to individual needs to improve overall health and promote fairness in health outcomes. Some examples include offering transportation assistance to appointments, mobile vaccine clinics, or maternal health programs targeted to a specific need in the community.

Eliminating health inequities can lead to improved patient engagement and better health outcomes, decreased readmissions, and improved performance in value-based contracts.⁶

Part of addressing health equity begins with understanding social determinants of health in the community served.

More than nine in ten hospitals report collecting data on patients’ social needs, and half collect data demonstrating that activities addressing social needs have resulted in better health outcomes for patients.

The AHA reports that top social needs addressed through programs by hospitals and health systems include:

- Health behaviors
- Transportation
- Food insecurity
- Interpersonal violence
- Social isolation
- Housing

Maternal Mortality Must be Addressed. More than two million reproductive-aged women live in maternity care deserts, and

another three million live in counties with limited maternity care access.

The good news is that there was a significant decline (32%) in maternal mortality rates in 2022 compared to 2021. But

the statistics show there is much more that needs to be done, particularly for black women.

Reports estimate that more than 80 percent of pregnancy-related deaths are preventable. The top causes of maternal mortality are mental health, cardiovascular conditions, and infections.

Consumerism

Health care consumerism represents patients’ desire to have an active role in their health care decisions, using a variety of sources and information to make informed decisions about the care they receive.

Access and Ease of Navigation are Top Factors. While clinical expertise is one of the top reasons patients switch or stop seeing a health care



Nearly ninety percent of patients report switching providers because of “ease of navigation,” while only 44 percent switched because of clinical expertise.¹

provider, it is not the primary reason. Nearly ninety percent of patients report switching providers because of “ease of navigation,” while only 44 percent switched because of clinical expertise. Navigation challenges include:

- Difficulty doing business with a provider
- A bad experience with the front desk or administrative staff
- Digital or online services did not meet patients’ needs

Similarly, patients report that access is the top factor when selecting a new

Nearly half of adults report that it is difficult to afford health care costs.¹

provider. Access is more important than the provider being a trusted source, the cost of care, or the provider’s reputation/brand. Access includes convenience, digital interactions, telehealth and customer service.

Rising Costs are an Ongoing Concern for Patients and Families. Health insurance premiums increased by 30 percent from 2018 to 2024, and out of pocket expenses continue to increase

as well. Nearly half of adults report that it is difficult to afford health care costs, and 28% report difficulty in affording prescription drugs. Adults also report skipping or postponing health care because of cost.

Many Retail Clinics are Scaling Back.

Retail clinics grew significantly between 2017 and 2022, and last year experts predicted that there would be a continued shift toward primary care in non-traditional settings like retail clinics. Instead, in 2024 Walmart Health closed all of its health clinics, Walgreens closed 160 VillageMD clinics, and CVS Health announced a new plan to cut \$2 billion in costs.

Amazon continues to invest in retail care, including its purchase of One Medical in 2023 and a new partnership with the Cleveland Clinic.⁷

Consumers are Comfortable with Technology. More than seventy percent of consumers report that they are comfortable with providers using AI when a new, better treatment is available. Consumers are also open to providers using AI to review lab results and provide interpretation, and to interpret test results like EKGs, ultrasounds, MRIs and CT scans.

More than half of Americans expect AI to be fully embedded in health care patient/provider interactions by 2028, but there is some uncertainty. Just over 20 percent of Americans are either “not at all sure” if AI will be fully embedded or believe it will never be embedded in health care.

Patients are increasingly using their mobile devices to interact with health care providers or manage their health care. Some concerns about technology and AI are about reliability. One study found that patients are less concerned about the potential for a lack of human interaction, and are more concerned about data privacy and security, accuracy of information and user friendliness.

Key Health Care Trends

While not an inclusive list, the following highlights some of the trends and forces impacting hospitals and health systems.



The Population Continues to Age.

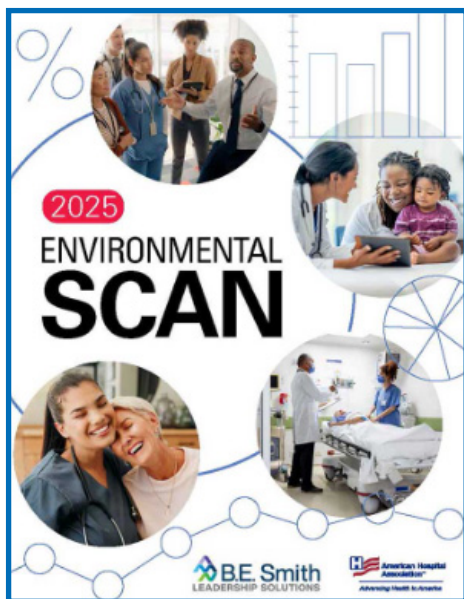
The percentage of Americans over age 65 continues to increase. In 2030 older Americans will comprise 20 percent of the population, increasing to 23 percent by 2050. The Institute for Healthcare Improvement (IHI) and The John A. Hartford Foundation have developed the Age-Friendly Health Systems initiative in partnership with the AHA and the Catholic Health Association of the United States. The initiative defines the “4Ms Framework of an Age-Friendly Health System”:⁸

1. **What Matters:** Know and align care with each older adult’s specific health outcome goals and care preferences
2. **Medication:** Use medication that does not interfere with What Matters to the older adult, Mobility, or Mentation
3. **Mentation:** Prevent, identify, treat and manage dementia, depression and delirium across settings of care
4. **Mobility:** Ensure that older adults move safely to maintain function and do What Matters

Coverage is Uncertain. The uninsured rate is expected to increase in the

Consumerism: Questions to Consider

- **Access and navigation of services:** How would a patient rate “ease of navigation” at our facility? How easy is it for patients to access care at our organization?
- **Rising costs:** Does our board understand the impacts of uninsured and underinsured rates in our community? How can we help patients better navigate the health care system?
- **Retail clinics:** How have shifts in retail-based care impacted our community?
- **Consumer technology use:** How do consumer preferences for technology influence our strategic thinking and long-term planning?



To download the full AHA 2025 Environmental Scan, go to www.aha.org/environmentalscan.

coming years, with the largest increase in adults ages 19-44. For the insured, most will continue to be covered by employer-sponsored insurance plans. The availability of high-deductible health plans for employees is increasing, requiring subscribers to pay more out-of-pocket for care.

While enrollment in the Affordable Care Act (ACA) marketplace has increased, this is in part due to advanced premium tax credits (APTC) that lower the cost of marketplace premiums for those who qualify. These credits have cut premiums by more than 40 percent, and expire at the end of 2025. The Congressional Budget Office expects enrollment in the marketplace to decline by 7-8 million people if the subsidies are not extended.

Mental Health Challenges Remain. In 2024, one-third of adults ages 18-29

reported symptoms of anxiety or depression. While this percentage is lower than in 2023, it remains high. Overall, one in five adults in the U.S. live with a mental illness. Hospitals are increasingly integrating behavioral health care into patient interactions, most notably in emergency services and acute inpatient care.

Gen Z reports the poorest mental health status, including concerns about gun violence in schools.

Rural Hospital Closures Can Limit Access to Care. Between 2010 and 2024, 151 hospitals either closed (85) or converted to other services (66). In addition, 36 hospitals have converted to Rural Emergency Hospital (REH) designation since the option began in January 2023.¹⁰

Rural communities typically have lower insured rates and less access to care while having more complex health needs.

Climate Change Impacts Health and Health Care. The most common impacts of climate change are extreme heat and excessive rain, followed by flooding and wildfires. Significant climate events impact not only the health of those experiencing events, but the entire supply chain of physical and human resources.

Physicians believe it is important for hospitals and health systems to address climate change. Hospital leaders report actions already underway include reducing waste, reducing energy consumption, and setting emissions targets.

Health Care Trends: Questions to Consider

- **Aging population:** Are we adapting for the aging population?
- **Insurance coverage:** How is insurance changing in our community, and how does that impact our strategic thinking?
- **Mental health:** How are we integrating behavioral health care into regular patient interactions?
- **Rural challenges:** Are we engaging with our state association and AHA's Rural Health Services to gather information and solutions to unique rural challenges?
- **Climate change:** What climate change actions do we have already underway? How are we preparing for potential future climate disasters?

Sources and More Information

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