



Key Strategies to Manage Escalating Costs

Arkansas HFMA Summer Conference

August 21, 2025

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Agenda

1. Introduction
2. Industry Overview
3. Mitigation Strategies
4. Takeaways



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Key Issues Today Financial Sustainability

50%

Rank margin improvement pressures as one of their top three concerns over the next 3–5 years.

80%

Of the top financial challenges identified are related to cost management

35%

Of organizations missed more than 50% of their strategic goals

68%

Concerned with change fatigue.



- Forvis Mazars Mindsets 2024

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Forward Looking: Impact of the One Big Beautiful Bill Act

• Overall

\$1.3 trillion or more in total Medicaid funding reductions
\$70 billion for hospitals in rural areas

"The Medicaid cuts in the One Big Beautiful Bill Act would devastate rural hospitals across the country" – *AHA.org June 16, 2025*

• Funding Cuts

"Rural hospitals could lose 21 cents out of every dollar they receive in Medicaid funding" – *Ruralhealth.us – June 20, 2025*

• Potential Impact

"Impact many hospitals already at risk for closure" - *Ruralhealth.us – June 20, 2025*

"131,000 Arkansans will lose their health insurance coverage..."

"another 57,000 will be at risk of losing coverage."
Arkansas Advocates for Children & Families

"Arkansas hospitals may face reimbursement reductions" – *Advisory Board – July 2025*

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Forward Looking: Other Increasing Pressures on Margins

- **Inflation**

"Prescription drug spending growth projected to increase again in 2025... key drivers specialty medications, GLP-1s, innovations in chronic care medications and increasing use of behavioral health services." – Health Research Institute

The average effective US tariff rates... are the highest since 1909...raises consumer prices " – *The Budget Lab at Yale April 2, 2025*

- **Funding Cuts**

"\$880 billion in spending cuts over the next 10 years proposed by House Republicans feared to likely to have an impact on Medicaid funding" – *Newsweek, February 12, 2025*

"Congress is considering several proposals that would impose additional Medicare site-neutral payment reductions for services provided in hospital outpatient departments (HOPDs) - AHA

- **340B**

"Drug companies pushing back on 340b drug pricing putting an administrative burden on providers to file for rebates" – *HFMA.org February 5, 2025*

- **Additional Regulatory Requirements**

"Medical bills removed from credit reports by the Consumer Financial Protection Bureau" – *Consumer Finance Protection Bureau Final Rule, January 7, 2025*

"Executive order requiring "radical transparency" in pricing to be met in 90 days" – *White House Executive Order, February 25, 2025*

"Transforming Episode Accountability Model (TEAM) can reward some hospitals but expected require paybacks if cost and quality goals not met." – *CMS.gov August 1, 2024*

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Forward Looking: Pharmacy Benefits Management (PBM)

- **Act 624**

Signed into law April 2025

Prohibits PBMs from holding direct or indirect ownership in retail or mail-order pharmacies

Notification to patients and providers by 11/1/25 that prescriptions will no longer be filled.
The National Law Review – May 6, 2025

- **Legal Action**

Multiple lawsuits including CVS Caremark and Express Scripts claiming violation of the Commerce Clause and Tricare Preemption

Preliminary injunction granted
Med City News – August 7, 2025

- **Potential Impact**

CVS may layoff more than 500 workers and close 23 pharmacies
Access concerns

Med City News – August 7, 2025

Level the playing field – *HealthPoint – August 8, 2025*

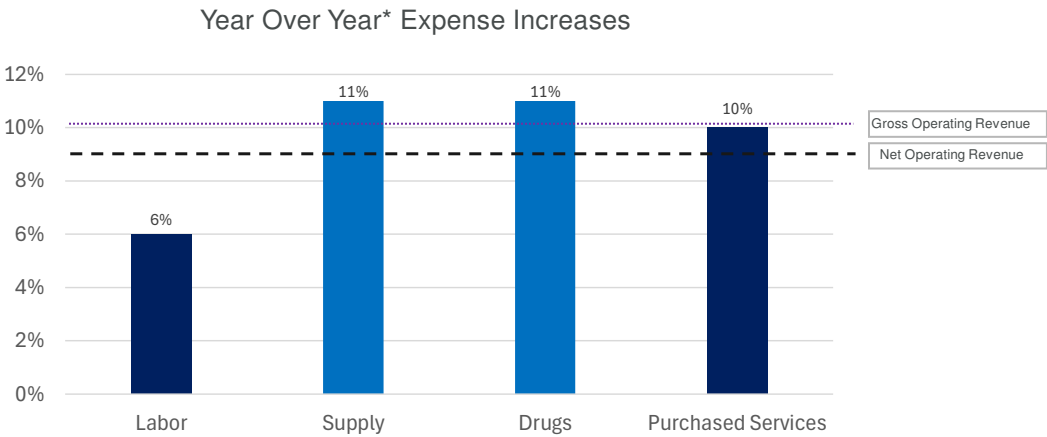
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Financial Trends



Per Calendar Day, May 7, 2025 National Flash Report, KH. Includes growth, mix and inflation

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Tariffs by Products

Tariff Scenario Complexities

Example Scenarios of Medical Product Imported after April 9:

SKU Detail	COO	Possible Tariff Authorities / Drivers						Total Tariff Rate
		MFN Rate (variable)	Reciprocal	IEEPA	Section 301 (variable)	Section 232 Steel/Alum	Venezuela Oil*	
Syringe	China	0%	125%	20%	100%	0%	0%	245%
Face Mask	China	7%	125%	20%	25%	0%	0%	177%
Medical Glove 2025	China	0%	125%	20%	50%	0%	0%	195%
Medical Glove 2026	China	0%	125%	20%	100%	0%	0%	245%
Other Device / Imports	China	0%	125%	20%	0%	0%	0%	145%
Medical Device	Germany	2.5%	10%	0%	0%	0%	0%	12.5%
Steel Medical Device	China	4%	125%	20%	7.5%	25%	0%	57%
Textile	India	2.5%	10%	0%	0%	0%	0%	12.5%
Device (USMCA)	Mexico	2.5%	0%	0%	0%	0%	0%	2.5%
Device (non-USMCA)	Mexico	3%	0%	25%	0%	0%	0%	28%

Hypothetical scenario for selected examples. Not actual calculations from Premier contracted suppliers.
*25% additional tariffs on countries that import oil from Venezuela remains at the discretion of the U.S. Secretary of State
Tariff rates are applied to the import cost of goods, not the manufacturers' sale price.
Information is current as of April 27, 2025 and subject to change.

Source: Premier Supply Chain Special Report on Tariffs

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Tariffs- What are Organizations Doing?

Most health systems are worried about tariffs—few are ready

Health systems and hospitals' level of concern

Very concerned Concerned Neutral Somewhat unconcerned Not concerned



Health systems and hospitals' level of preparedness for tariff-related risks

Mitigation strategy in place Evaluated, but no strategy Starting to evaluate Not actively addressing



Note: Bar totals may not add up to 100% because of rounding
Source: Bain Healthcare Supply Chain Survey, April 2025 (N=47)

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A Plan of Attack

1. Labor Efficiencies
2. Non-Labor Approaches
 1. Overall
 2. Supplies
 3. Purchased Services
 4. Other



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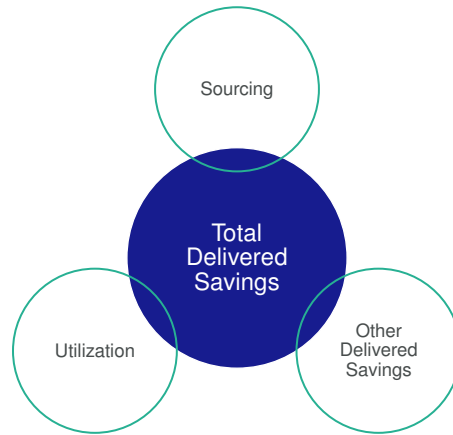
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3 Approaches to Cost Savings

- **Sourcing**
 - Vendor Focused
- **Utilization**
 - Internal Focus
- **Other Delivered Savings**
 - Strategic Alternatives



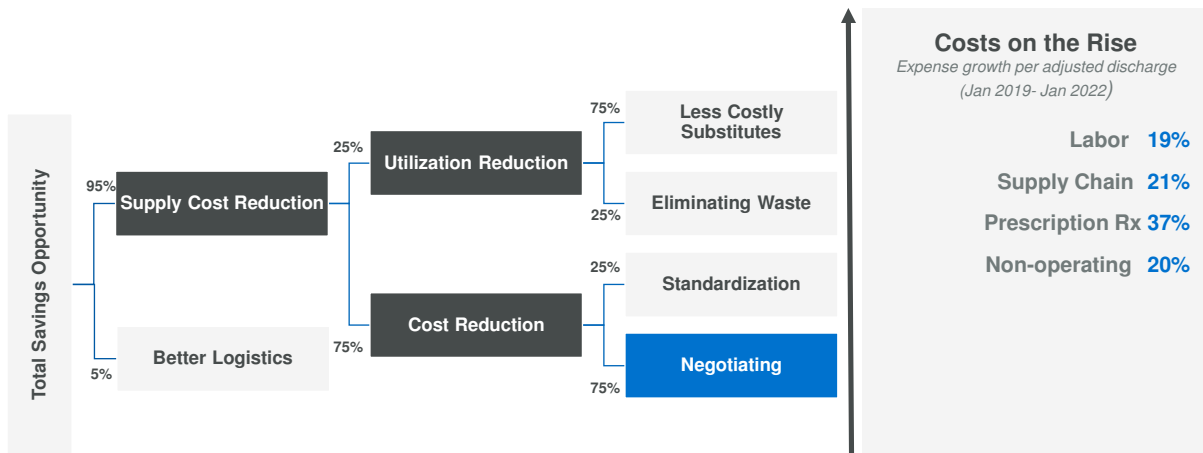
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Sourcing - Savings Not Just Driven By Change



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Negotiations and Beyond Sourcing

- Direct Negotiations
- **Group Purchasing Organization**
 - Tier optimization
 - Supplier diversity
 - Inventory optimization (Demand forecasting)
 - Analytics
 - Strategic Contracting
- Competitive Market Assessments or RFP Processes
- Hold Vendors Accountable
 - Quarterly business reviews
- Vendor Management



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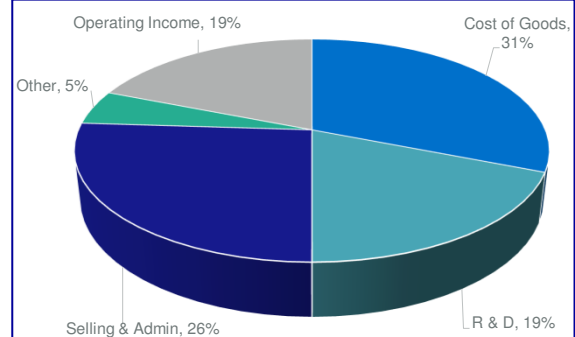
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Direct Negotiations A Look Inside

Vendors' Ability To Lower Price

- Cost to manufacture the products often less than 40% of the manufacturer's sales
- Majority of the selling price goes toward selling and administrative costs and profit margin

Johnson & Johnson Percentage of Sales



Source: Macrotrends.net Johnson & Johnson Financial Statements 12/31/24

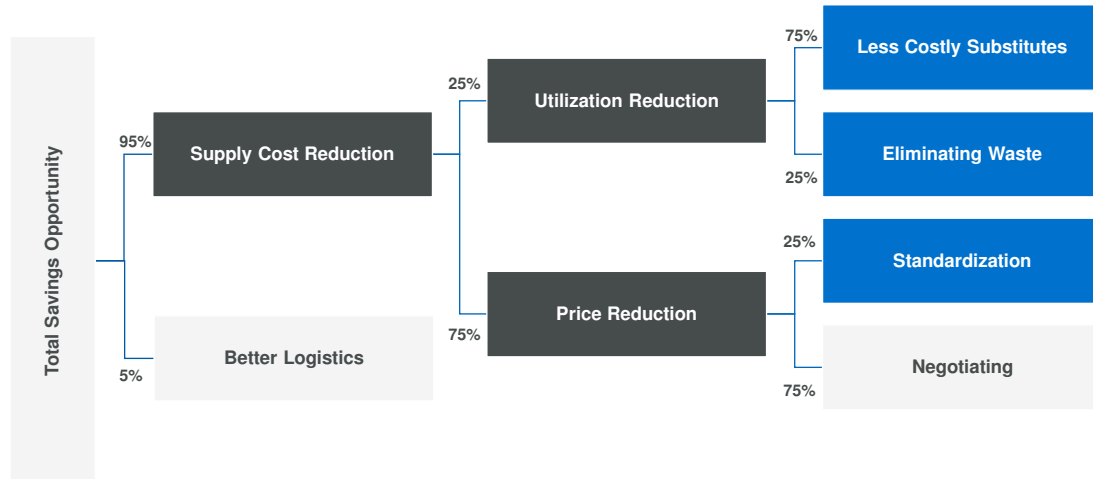
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Savings Beyond Price



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Utilization

- Waste
 - Custom packs
 - Preference cards
- Overstocking/Under utilizing supplies
 - Floor stock
 - Linen
 - Departmental supply rooms
- Clinical Variation



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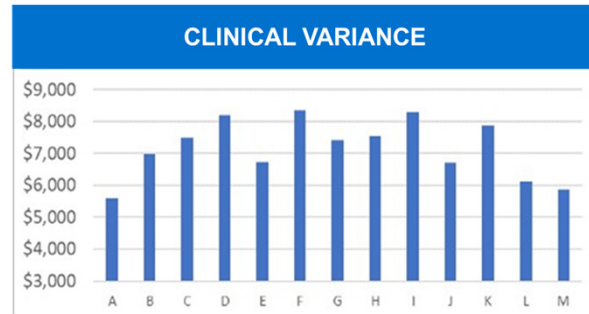
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Looking Within Your Organization Utilization

Savings: 0.4% to 1.2% of operating expenses

- Clinical variance typically highest opportunity
 - Clinician involvement
 - Data driven
- Biosimilars and generic drugs
 - Decisions might be based on reimbursement
- Appropriate setting
 - I/P vs O/P
 - Dialysis



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Image source: Forvis Mazars Intellisource® database, case use experience, 2024

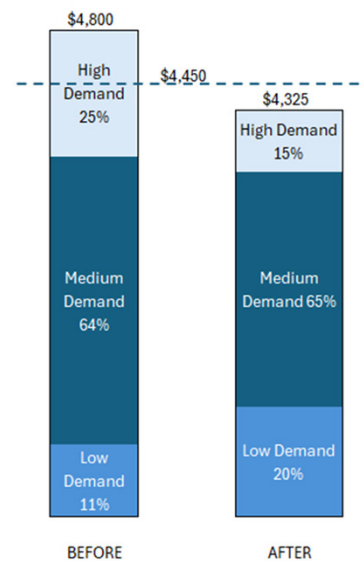
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Supplier Negotiations

- Review contracts for price protections
- Negotiate performance clauses to mitigate disruption
- Align incentives to reduce costs



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3 Approaches to Cost Savings Other Delivered Margin

What	Where to Start	Process
<ul style="list-style-type: none"> • Alternative sources • Service line analytics • Strategy • Logistics • Technology • Patient and co-pay assistance programs • Contract management • Revenue capture 	<ul style="list-style-type: none"> • Identify other delivered margin area of opportunity • Best practice metrics to benchmark • Introduce new ideas through value analysis process • Implement testing/trial process • Discuss with department leaders and set goals of improvement for each area 	<ul style="list-style-type: none"> • Allocate resources to achieve organizational goals • Value analysis • Develop long term strategic plan

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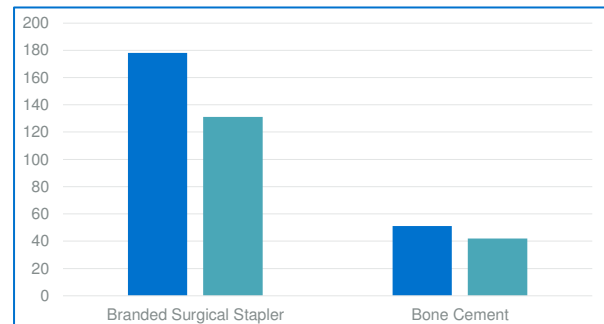
Other Delivered Margin Alternative Sourcing

Can be one of the simplest ways to save!

What is it?

- Same supplies, different vendor
- Low/No change solutions
- Average savings \$10-\$20 per surgery

How does it look?



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Other Delivered Savings Examples

1. Revenue enhancement

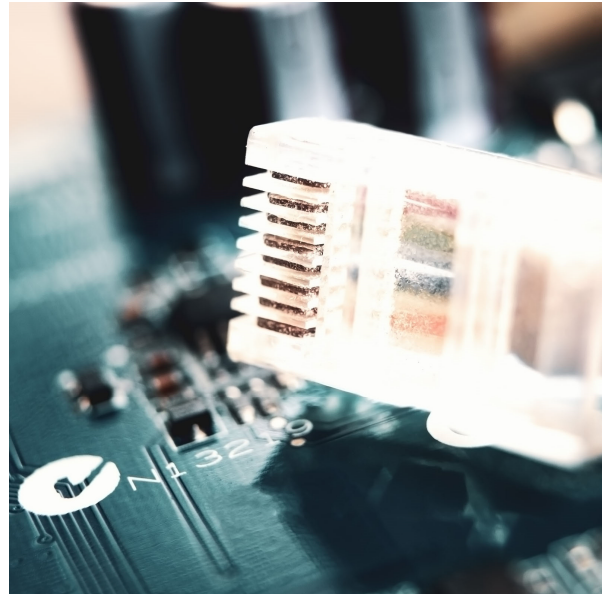
1. Patient assistance programs
2. Pricing formulas

2. Information Technology

1. Application reduction
2. Telecommunication audits
3. Print reduction

3. Finance Programs

1. E-Payables
2. Rebates



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Non-Labor Cost Reduction Value Analysis



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New Solutions: Employee Health Costs

The Situation

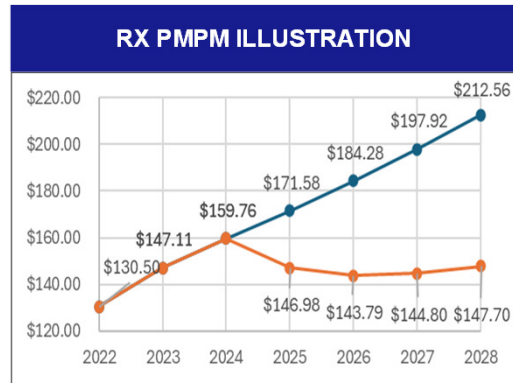
- Current PBM Model Increases Cost

The Solution

- Redefine your PBM model for 10-30% savings
 - Lowest net cost formulary
 - Dedicated clinical resources

The Plan

- Expect resistance, engage Finance in analysis

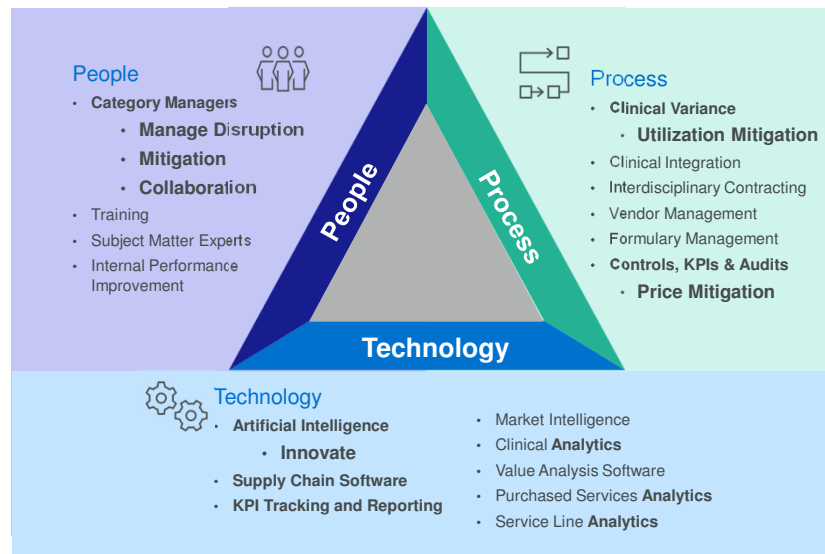


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Next Steps



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Key Strategies to Manage Escalating Costs

Takeaways

- A mitigation plan is necessary
- Sourcing, Utilization and Other Delivered Savings are 3 approaches to cost savings
- Actively managing costs like Pharmacy Benefits Management can produce larger savings

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Presenter



A member of Forvis Mazars' Health Care Performance Improvement Services division, Mark has more than 38 years of health care experience, including more than 30 years with hospitals and health systems.

He has a unique knowledge of finance and operations, which served him as both a chief financial officer and chief operating officer within a multi-hospital system. In addition, Mark has worked for health systems in the acquisition and operation of physician practices and surgery centers. Other areas of practice include strategic planning, operational and service line performance, financial improvement, and cash flow management. Mark currently focuses on non-labor margin improvement opportunities and has assisted numerous clients in achieving savings in areas such as Medical/Surgical Supplies, Implants, Purchased Services, Charge Capture, and Finance Programs.

Mark is a CPA and a member of Healthcare Financial Management Association, Association for Healthcare Resources & Materials Management, and the American Institute of Certified Public Accountants.

He is a graduate of Indiana University South Bend, with a B.S. degree in accounting, and a graduate of Bethel University, Mishawaka, Indiana, with an M.B.A. degree.

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