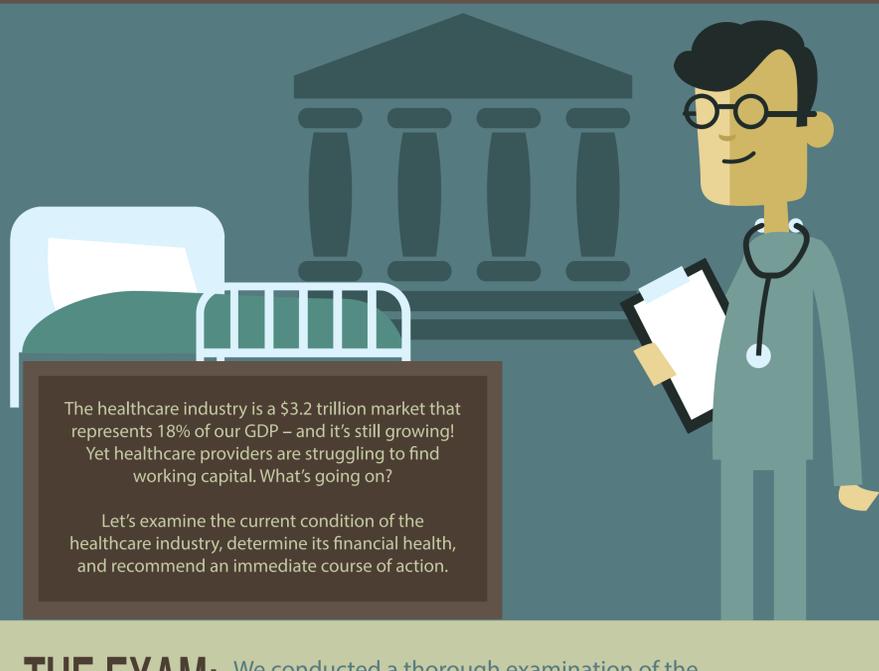


# the CASE for HEALTHCARE LENDING



The healthcare industry is a \$3.2 trillion market that represents 18% of our GDP – and it's still growing! Yet healthcare providers are struggling to find working capital. What's going on?

Let's examine the current condition of the healthcare industry, determine its financial health, and recommend an immediate course of action.

**THE EXAM:** We conducted a thorough examination of the healthcare industry and observed ...

**Market Pressures** Several factors are putting pressure on healthcare providers:

### Regulatory Changes

With the fate of the Affordable Care Act still uncertain, so too are reimbursement rates and cycle process. Providers will seek short-term flexibility to accommodate any payment interruptions.



### Demographic Shifts

The segment of the population over the age of 65 will increase by 38% between now and 2025. Their healthcare costs are three times greater than the rest of the population's.



### Health Trends

Of the major industrialized nations, the U.S. ranks the highest in obesity and infant mortality and lowest in life expectancy. Increased healthcare usage is expected.



### Physician Shortages

The U.S. currently has about 2.6 practicing physicians per 1,000 residents. Increased demand is expected to stretch providers' ability to accommodate need, especially in rural areas.



### Technological Advancement

Requirements for new equipment and advanced data integration will result in rising technology costs.



### Rising Cost of Human Resources

The biggest expense physicians cite in running their practices is the cost of support staff salaries and benefits.



## CASH FLOW DYNAMICS

While healthcare A/R appears to turn quickly as a category, it actually represents more than 50 different medical industry segments (NAICS Codes), with some turning in fewer than 15 days and others in over 100 days.

A/R Percentage of Total Assets

**16%**

A/R Average Turn Time

**27 Days**

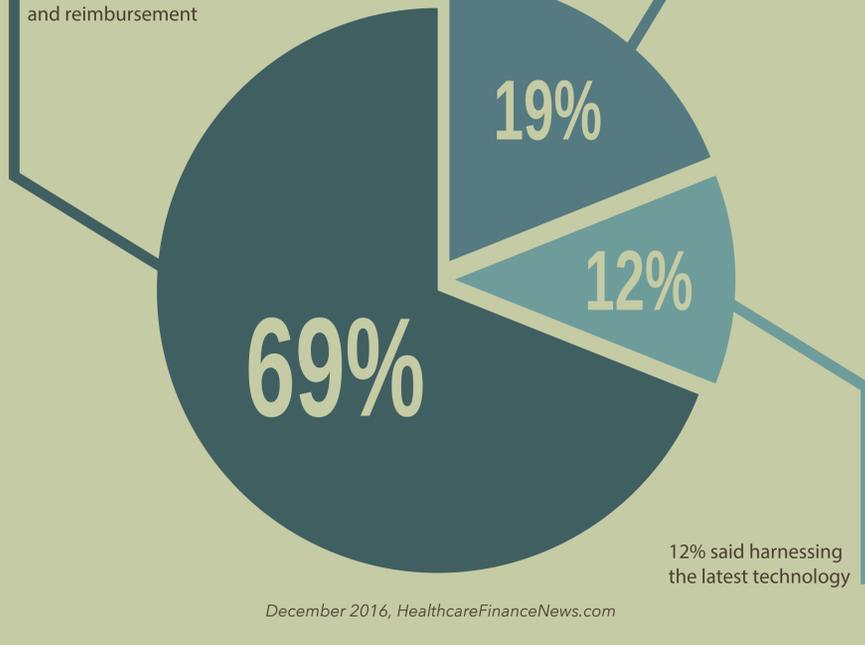
Net Income Operating Margin

**<1%**

A/R turn is just one dynamic metric involved with cash demand. Others include growth rate, predictability of payments, net income margins, and A/R as a percentage of total assets.

## SIGNIFICANT OBSERVATIONS

When asked what their biggest challenge in 2017 is, here's how healthcare providers responded...



Rx

### Diagnosis:

*Healthcare Providers Need Cash Flow Relief*

Given all of these challenges, we anticipate a significant increase in the demand for financing within the healthcare sector.

### Prescription:

*Healthcare Lines of Credit*

The clear course of treatment for cash-constrained healthcare providers is financing based on billed-but-not-yet-paid insurance claims.

Rx

WARNING!

## WARNING:

Financial Institutions are strongly advised not to go it alone. Finding a strong partner with the proper technology and expertise for handling the regulatory and logistical challenges of healthcare finance is vital to your success.

Three complications that must be strictly dealt with when administering healthcare lending are:

### 1. Reimbursement Rates

Rates of reimbursement for any given claim can differ dramatically based on:

- Payer of that claim
- Type of service rendered
- Time of year (has the deductible been met for example)

Accuracy in reimbursement rates directly impacts accuracy of advance rates for working capital lines of credit. That's why getting it right is critical.

### 2. Advance Rates

Considerations when determining the advance rate:

- Diversity of claims
- Concentrations (by claim type or payer)
- Historical reimbursement rate by payer class
- Likelihood of future changes to reimbursement rates

### 3. HIPAA Compliance

Financial institutions must comply with HIPAA when providing financing to healthcare entities. This includes internal and external protection of private healthcare data.

## Long-Term Prognosis:

The healthcare lending segment is predicted to experience steady growth through 2025.

Approximate number of healthcare service establishments in the U.S.:

**840,000**

Approximate number of hospitals in the U.S.:

**7,100**

Current size of healthcare industry:

**\$3.2 trillion**

Expected growth rate annually from 2017 -2020:

**6%**

## Healthcare Lending from ProfitStars®

ProfitStars offers a turn-key Healthcare Lending program that arms your financial institution with the software and support services (such as Marketing, Risk Management, and Business Development Managers) needed to provide sound financing options to healthcare providers. We understand the nuances of the industry, its regulations, and its logistics. With access to our state-of-the-art reimbursement rate analysis and near-real-time digital borrowing base, you'll be able to effectively manage the risk of advancing against medical receivables while reaping the benefits of a new source of income.

**Request a demo to learn more >>**

<http://www.healthcarefinancenews.com/news/cash-flow-reimbursement-are-biggest-challenges-facing-physicians-2017-survey-shows>  
<https://dupress.deloitte.com/dup-us-en/industry/health-care.html>  
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[http://data.worldbank.org/indicator/SH.XPD.TOTL.ZS?end=2014&start=1995&view=chart&year\\_high\\_desc=false](http://data.worldbank.org/indicator/SH.XPD.TOTL.ZS?end=2014&start=1995&view=chart&year_high_desc=false)