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Tackling Today's Policy and Regulatory Uncertainty: The Case for Financial Scenario Planning

Not-for-profit hospital and health system leaders are currently monitoring a flurry of rapidly evolving potential changes to state and federal policy with significant, long-term financial ramifications for their organizations.

The recent [budget resolution passed by the House of Representatives](#) directed the House Energy and Commerce Committee, which oversees Medicaid, to identify \$880 billion in overall federal spending savings. Work requirements and the lowering of federal rate payment floors for Medicaid, changes to graduate medical education funding and the implementation of site-neutral payments for Medicare [are all under consideration by congressional leaders](#). House leaders are also exploring the elimination of tax-exempt status for interest payments on all municipal bonds, a [topic our colleagues explore in detail here](#).

In addition, the National Institutes of Health (NIH) has imposed caps on indirect costs [for research grants](#), which would jeopardize financing for academic medical centers. A federal judge recently [filed a preliminary injunction blocking the cuts](#)—which NIH officials estimate would save \$4 billion annually in administrative costs—from taking effect while lawsuits against the changes proceed. Providers are also concerned about potential tariffs on critical supplies, a [topic our colleagues cover here](#).

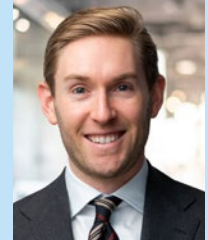
For healthcare finance leaders, the current financial uncertainty is resurfacing memories of the onset of the COVID-19 pandemic in 2020 and the 2008 financial crisis, both instances where providers had to react to massive financial changes in a short period of time. And unlike the short-term financial dislocation of the initial severe impacts of COVID-19—when providers were forced to sideline outpatient operations and other services for



Gavin McDermott
Managing Director
and Financial
Planning and Data
Analytics Practice
Co-Lead



Gordy Sofyanos
Managing Director
and Financial
Planning and Data
Analytics Practice
Co-Lead



Brian Ball
Senior Vice
President

several months—the duration of these proposed policy changes is highly uncertain.

We are currently hearing from many concerned healthcare C-suite leaders and board members who want to better understand what these proposals might mean for their organizations but are also expressing confusion on how to respond, given the uncertainty of any specific measure or policy change.

Our view is that a “wait and see,” reactive approach will prove insufficient. Importantly, finance leaders should evaluate the implications of key proposed policies as they’re being discussed by legislators and regulators—and not wait to act until after major changes have been approved or implemented. Financial scenario planning is specifically intended to address uncertainty. Scenario exercises can help organizations estimate the magnitude of impacts, understand what they might mean for operations, the balance sheet, and capital plans—and adjust strategies and identify improvement efforts accordingly.

Each health system is exposed to changes in policy and legislation to varying degrees, based on factors including payer mix, state and local policies and their operating model—including their relative use of hospital outpatient departments and their academic status.

Policy changes currently under discussion could potentially result in more patients relying on self-pay options or reduce

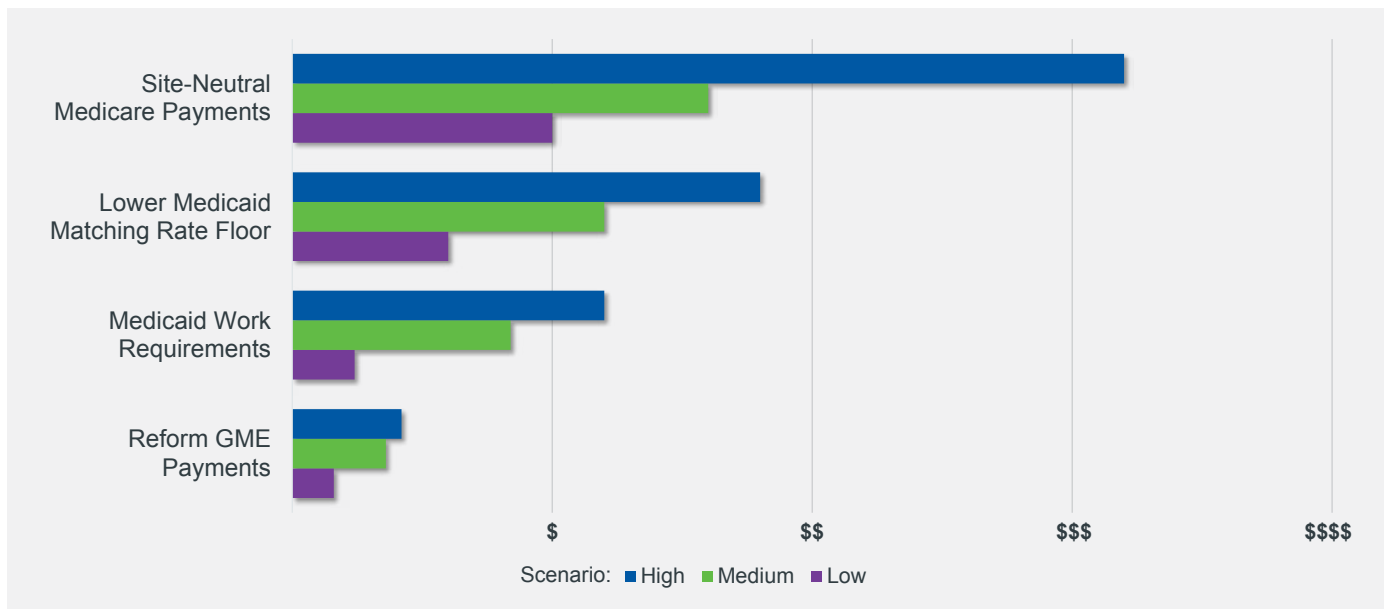
supplemental federal funding programs that will have a direct, dollar for dollar impact on the bottom line. There are a range of potential scenarios for how these policies will play out at the state and federal level (Figure 1).

Health systems should evaluate potential risk across these scenarios within the context of their unique attributes (Figure 2).

Figure 1: A range of financial impact scenarios for key proposed policies

POLICY	FINANCIAL IMPACT OF SCENARIO		
	Low	Medium	High
Site-Neutral Medicare Payments	Only Part B drug administration services	Add facility fees	All HOPD services
Establish Medicaid Work Requirements	No work requirements established	Work requirements established	
Reform GME Payments	Tilts funding from urban to rural settings	Reduces overall funding significantly, states fill in part of gap	Reduces overall funding significantly, states don't fill in
Lower Medicaid Matching Rate Floor	Reduced modestly	Reduced substantially	Reduced significantly
Municipal Bond Taxability	Retain tax-exempt status	Remove tax-exempt status	

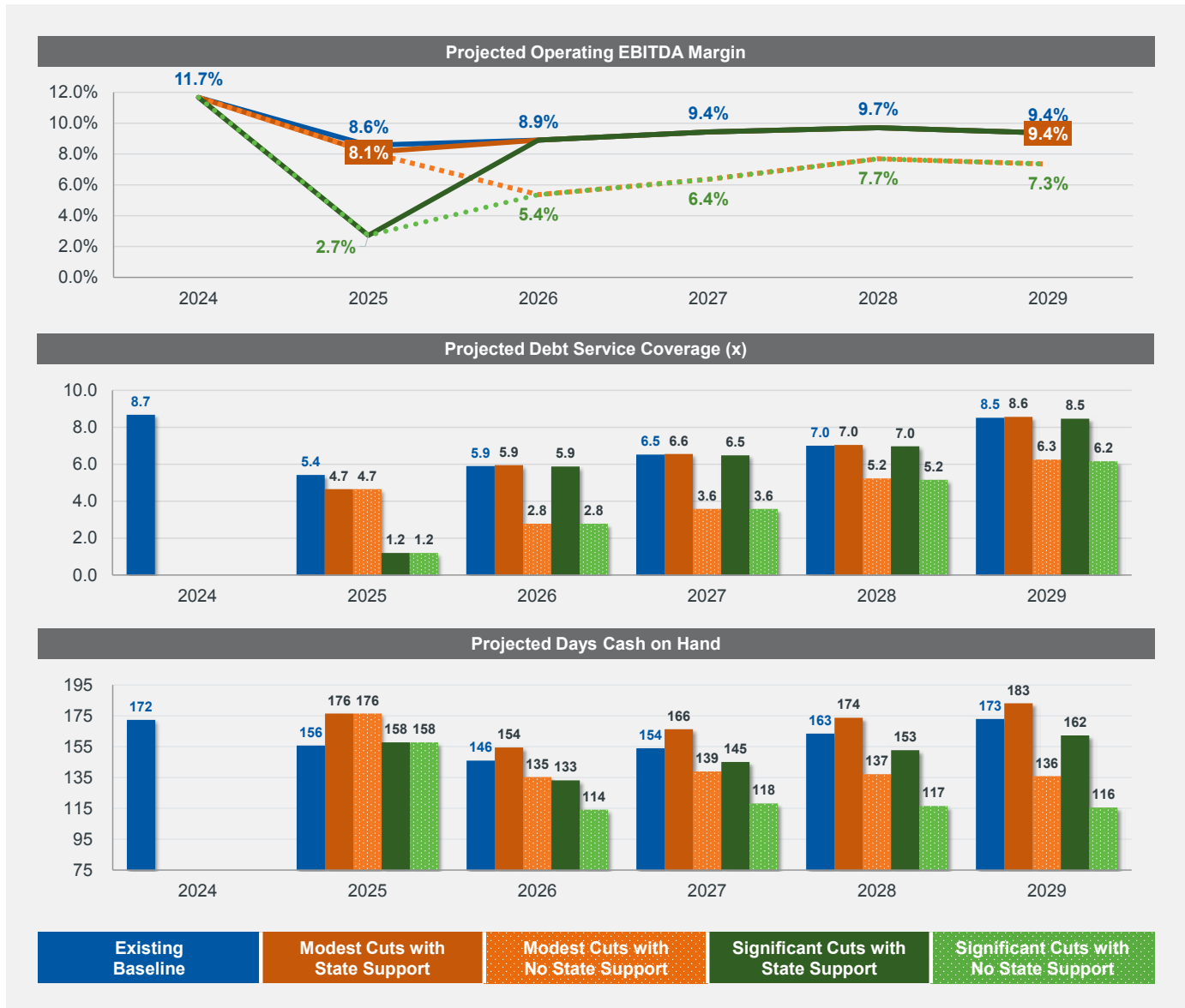
Figure 2: Estimated financial impacts of policy and legislative change for a sample health system



Leaders must also be able to understand potential financial implications over the immediate, medium, and long-term time horizon on their organization’s long-range financial and capital plan (see Figure 3 for an illustrative example of the range of potential long-term impacts on a sample health system).

Leaders should evaluate the implications of proposed policies and not wait to act until after major changes.

Figure 3: Evaluating impacts of potential changes over the long run



Closing thoughts: A proactive playbook for navigating an uncertain policy landscape

The prospect of major shifts in reimbursement, grant funds, other governmental funding sources, and cost inflation can be a daunting one for not-for-profit health system leaders, but inertia is not an option.

Organizations can start preparing for these changes by stress-testing their long-range financial and capital plan:

1. What is required to reach a sustainable operating path for our organization? What are key associated assumptions and factors driving current uncertainty?
2. What are the range of possible political and regulatory outcomes that might impact our financial operations?
3. How will these potential changes affect our operations and balance sheet, in light of organization-specific factors like our payer mix, care model, and state and local policies?
4. How do we ensure the resiliency of our organization by pivoting our decision-making? What mitigation levers are available?

Executive leaders can take immediate actions to prepare their organizations. Inertia is not an option.

From there, executive leaders can take immediate actions to prepare their organizations to weather the storm:

1. Develop mitigation plans that can respond to a wide range of potential policy outcomes, including performance improvement opportunities and capital plan flexibility
2. Help the Board, Finance Committee and other key leaders understand the implications of proposed policies on the organization
3. Inform other key internal and external stakeholders of new developments
4. Identify particularly high-risk proposals negatively impacting the organization and the communities it serves, and consider communicating these risks to local, state, and federal officials

Questions? Contact Gavin McDermott (GMcDermott@kaufmanhall.com); Gordy Sofyanos (GSofyanos@kaufmanhall.com); and Brian Ball (BBall@kaufmanhall.com).