

How Some Health Systems are Keeping Their Investments 'Under Good Watch'

In a post-Patient Protection and Affordable Care Act world, where time and resources are stretched thin, hospital and health system finance teams face a myriad of challenges. Healthcare CFOs are entrenched in daily operations, and finance teams are charged with managing multiple asset pools in a complex investing environment, while also dedicating more time to strategic planning.

The typical health system might have as many as four pools of balance sheet assets: a defined benefit pension plan, an operating pool, a self-insurance trust or captive insurance pool, and potentially a foundation or endowment. Each pool has its own unique return objectives and investment constraints, and therefore each pool requires a customized investment strategy.

To ensure they have time to focus on the most important issues, many healthcare organizations are relying on outside support and expertise in some areas of their business, including investment management.

Changing the conversation

Historically, investment management in the healthcare industry was primarily focused on absolute returns. For instance, if an organization achieved its goal of a seven percent return on its pension plan that was traditionally deemed a success. However, many organizations may not have been taking into account the impact of the pension liability on other financial metrics.

To change the conversation, SEI, an Oaks, Pa.-based investment management firm, started looking at asset pools in a much broader context. The company developed a customized model that considers the unique goals of individual organizations. By using a more holistic approach, SEI is able to develop investment strategies that more closely align a hospital's or health system's risk profile with its financial goals and objectives. For example, if a health system wanted to grow liquidity or provide funding for particular capital expenditures, SEI would use its modeling tools to develop a suggested investment implementation that would strive to help the organization attain those particular goals while also achieving its desired investment return.

"Unquestionably, returns are an important measurement of success, but SEI's healthcare solution goes beyond and focuses on returns in the context of overall organizational risk tolerances and broader financial goals and objectives," says Craig Standen, director of healthcare advice for SEI's Institutional Group. "Once an investment program is implemented, SEI monitors the program's impact on the organization's key financial metrics and credit profile, and makes proactive recommendations based on changes in investment markets or an organization's financial profile."

SEI's healthcare solution has received "Peer Reviewed" designation by the Healthcare Financial Management Association. Part of

SEI's success is attributable to its ability to show healthcare organizations the bigger picture when it comes to their investments. SEI currently works with more than 40 hospitals or healthcare systems and managers over \$12.8 billion in assets for these particular organizations.

Many hospitals and systems rely on a volunteer committee for investment management. While most committees have varying breadth and depth of expertise, the simple truth is an increasingly complex environment and the growing number of options has made investment management a more difficult task for trustees.

Even with regular committee meetings, there are often numerous important strategic issues for the committee to focus on in addition to investment performance. A significant challenge in investment management is the need to make faster decisions and changes in managers or allocation strategies, which is directly impacted by a committee's time availability and resource constraints.

Developing and reaching specific investment goals

Some nonprofit healthcare organizations maintain full-time staff dedicated to managing the investment programs; however, primarily due to cost constraints, the vast majority of hospitals and health systems either rely on external investment management professionals or possibly on internal staff members who may have multiple job responsibilities. Regardless, to ensure the organization is maximizing its returns and also adequately managing risk, it is necessary to have focused, ongoing and proactive oversight.

Baptist Health, a six-hospital faith-based system headquartered in Jacksonville, Fla., initially enlisted SEI in 2008 as a way to help support its investment committee, which was facing time constraints.

"Historically, we've always believed in the importance of making decisions within our investment pools in conjunction with the short- and long-term financial strategies of the system," says Scott Wooten, senior vice president and CFO of Baptist Health.

When Baptist Health began working with SEI, the organizations had strategic conversations about the health system's overall risk tolerance. Baptist Health was able to utilize analysis and information provided by SEI to make informed decisions on how they wanted to manage the long-term and short-term investments within their multiple pools of assets.

In September 2014, with the ACA added into the mix, the system developed a five-year financial plan which includes specific rating category goals. The finance committee worked with SEI to better understand the potential impact that investment decisions could have on those rating goals. Baptist Health currently maintains an "AA-" rating with a positive outlook.

Navigating the complex investment environment

Looking for a new model to help manage the increasingly complicated investment arena, Firelands Regional Medical Center, a 400-bed hospital in located in Sandusky, Ohio, partnered with SEI in 2007. The hospital is a regional care provider with more than 75,000 residents in its service area.

Dan Moncher, executive vice president and CFO of Firelands Regional Medical Center, established an enterprise risk management plan specific to the financial goals for the organization and then worked with SEI to develop and implement an investment management strategy to help attain the system's targets.

One of Firelands Regional Medical Center's largest asset pools is its pension plan so the organization asked SEI to provide significant analysis around investment strategies to help hedge against the pension liability.

"Our goal was to find a way to limit the impact that pension funding volatility would have on our overall financials," says Mr. Moncher.

Firelands has since implemented a liability-hedging strategy to protect gains in funded status and limit the impact on corporate finances.

Outsourcing investment portfolio management

Beyond the comprehensive enterprise risk management analysis, SEI provides clients with an outsourced approach to investment management.

This approach allows for an institution such as a healthcare system or hospital to outsource or delegate money manager research, selection and oversight to an outside fiduciary like SEI. That fiduciary manager will then create either co-mingled or customized funds that invest directly with third party money managers, utilizing all of the firm's assets under management to often provide clients a more cost-effective approach.

SEI is one of the first and largest providers of outsourced investment management services. With more than \$75 billion in institutional assets under management, SEI functions as an extension of an institution's finance team, and that model has served the company well for more than 20 years.

To overcome the time management and expertise issues healthcare organizations are experiencing, investment outsourcing has emerged as a growing trend in the nonprofit healthcare sector. This approach can result in a more diversified investment portfolio and also enable clients to gain access to money managers or asset classes they might not otherwise be able to access due to minimum investment thresholds or the length of a particular manager's track record.

"Outsourcing has allowed an organization of our size to stay cost-competitive in this difficult environment by utilizing economies of scale," says Mr. Moncher.

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"For an organization such as Firelands, outsourcing has provided them with the ability to increase portfolio diversification, create customized allocation strategies for their various asset pools and implement an investment process that is more closely aligned with the important goal of protecting the hospital's assets in the long-term," says Mr. Standen.

SEI's approach is customizable and is able to adapt to an organization's specific needs. For instance, some health systems have money managers they want to retain for certain reasons when they begin working with SEI. In those situations, the organization can retain these particular money managers and SEI provides fiduciary oversight and ongoing monitoring of these money managers, which provides an added layer of fiduciary governance for its clients' finance staffs and trustees.

Many healthcare organizations use a traditional consultant model for investment management, which involves the organization working with an external consultant who helps determine the allocation strategy and recommends money managers across various asset classes. The committee must then evaluate and ultimately select the managers they use. This model tends to require more work from the committee and does not fully consider enterprise risk, resulting in many systems seeking a more holistic, efficient investment solution.

Baptist Health chose to leave a conventional investment program to work with SEI. The switch came after the system realized that its previous investment model was taking the organization's focus away from broader strategy development.

"It was a strategic decision to go with a co-fiduciary partner and let them manage money managers on our behalf to free up our board," says Mr. Wooten. "That extra time allows the investment committee to focus more on where we're going and our overall risk tolerance."

By combining their internal resources and expertise with an outside investment manager focused on the healthcare industry, both organizations feel they have the investment side of things under a good watch. ■

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New answers.®

SEI is one of the first and largest global providers of fiduciary management investment services. SEI combines investment management with proprietary technology and strategic advice to provide healthcare systems and hospitals with an investment solution that aligns defined benefit, nonprofit and investible asset pools with the organization's balance sheet and financial goals.