Washington University in St. Louis
School of Medicine

June 29, 2020

Today I am writing to address some of the economic issues we confront in the School of Medicine because of COVID and our approach to doing so in the new fiscal year.

On Friday, the Board of Trustees took the last step in finalizing plans for the fiscal year starting this coming week by approving the suspension of the University's retirement contributions, beginning July 1. That action enables our departments and business units to move forward with the budget plans they have been describing to you over the past weeks. Many of our peers have already announced this strategy as a part of their responses to the overwhelming financial challenges of the pandemic.

The leadership of our departments and the school's officers have been meeting since early April to consider how we take prudent actions in response to the institutional economic hardship created by the pandemic in a way that does the best for our medical school community, our missions and our future. When we began these discussions, we estimated revenue losses of $120 million to $150 million in April, May and June and $500 million in FY21, including the recognition that we would be unlikely to receive our usual share in the financial success of BJH and SLCH because of their financial losses from the crisis.

All of us began to realize the magnitude of our vulnerability. The most important principle that emanated from the collective Executive Faculty leadership in confronting this new reality was that of shared sacrifice. In good times or bad, we need to act as a team that is "all in it together."

Several other important principles were urgently adopted by the Executive Faculty. All departments would make 10% reductions in their expense budgets. Because 70% to 80% of our expenses are personnel, this target would obligate reductions in compensation for faculty and staff, but there was a consensus to try to protect as many and as much as we could in achieving the expense reductions. This approach also meant that we would only address half of the revenue loss by expense reduction and that we would have to use our reserves to address the remainder of the shortfall.

One idea that quickly surfaced was the thought to borrow from our collective futures to soften the impact today by asking the university to suspend its contribution to the 403b retirement plan for FY 21. Doing so would preserve current compensation and jobs for faculty and staff as much as possible in exchange for schoolwide sacrifice of future income. Doing that would save the medical school more than $63 million and limit the magnitude of salary reductions and/or layoffs that would otherwise be required. It was an alternative way to achieve some of the compensation reductions. All of the departments and business units made their budget plans recognizing this potential retirement contribution savings and have been conveying that to all of you over the past weeks.

Our retirement plan covers the entire university, so the decision was not something the medical school could do on its own. It had to be a university decision, and on Friday, the Board of Trustees took the required action.

I now want to take you back over what we have done along the timeline of the last several months. In my message to you on April 20, I did speak more briefly of the financial challenge and some of the initial steps that would enable the departments to initiate the financial response as soon as possible: We instituted a hiring freeze; variable payments to many of our best faculty were withheld; the Executive Faculty and school leadership agreed to take pay reductions of 15% to 20% effective May 1; and we organized to pursue whatever funds Congress makes available in relief.

We made the difficult choice to furlough 1,500 employees for ~13 weeks, saving ~$15 million preserving their benefits and doing our best to minimize the economic harm to the individuals. We appreciate the work of the University's Human Resources team to help navigate the challenges of the state unemployment system, which itself was overwhelmed by the massive increase in unemployment in Missouri and across the country.

Since April, both the school and the hospitals have received CARES Act funds to partly offset some of the clinical revenue losses and the added expenses of mobilizing safety practices, procedures, protocols and equipment.

As we consolidated the department's budgets in early May, we projected that in the 15 months from April 1, 2020, through June 30, 2021, our budgeted revenues, would be reduced by $545 million. On the positive side we considered funds from the CARES Act, and on the negative side we considered the impact of a second surge and reductions from our share of the hospital funds that were being hit hard by the needs of the crisis. We also considered the likelihood that we would only be able to operate at 80% to 90% of our clinical capacity for most of FY 21. Through May, all units in the school and the central administration developed their individual 10% expense reduction plans to meet the new COVID economic imperative. Each department developed a plan unique to its needs consistent with the more general principles established by the Executive Faculty.

Over the last six weeks, as soon as we could feel secure about handling the COVID+ population, we worked together with all of you and our BJC partners to ramp up procedures and clinics. This was so important for the health of the community but also to stop the financial losses we were suffering. And we have also increased the volume of work in our laboratories, as well as started planning to re-engage clinical research.

Your progress to date has been nothing short of spectacular. In particular, over the last two weeks, we and the hospitals are ramping up faster than we had anticipated. We continue to strive for the very real opportunities do to better:

- If St. Louis can avoid a second surge.
- If we can be smarter and manage to maintain more productive activity even if there is a second surge.
- If the pace of the recovery of clinical activity we have seen in the last two weeks can continue to outperform our predictions.
- If the hospitals also return to profitability faster than we anticipated.
- If there may be more CARES/HEROES Act federal financial support.
- If we achieve some FEMA reimbursement for our COVID expenditures.
- If Congress enhances the NIH budget in support of the science that is essential to America's health.

On the other side of the equation, and despite the great work over the past two weeks:

- We may have significantly higher operating expenses to manage safely in a post COVID environment.
- There may be a reluctance of patients to seek needed care.
- There may be a reduction in the reimbursements for virtual care that have been so important to our recovery.
- There may be fewer patients with commercial insurance to reimburse us for our services.
- Federal budget pressure might constrain federal discretionary spending that cuts support for the NIH.

With your help, there will be more opportunity to do better than to fall short. But if we have learned anything from the experience of the last four months, it is that we are in very uncertain times. If there are future shortfalls, our plan would be to call more deeply on our institutional reserves.

We intend to do our best to minimize the disruptions in your lives, but we will make no false promises. We want to do better, but be prepared if not. As we continue to reopen clinics and labs, we will do so in the face of new operational imperatives. Flexibility and accommodation will balance with protocols and safety. If COVID comes in waves, we will need to learn to flex to take advantage of the calm between the storms. Watching what you have accomplished — mobilizing for patient care, emptying out the campus, working from home, restarting clinics and labs — is the foundation for the hope, in fact, the foundation for the expectation that the School of Medicine will rise to the challenge.

As we do better in this recovery, we fully intend to get back to that growth and investment strategy that means restoring those things that had to be reduced for FY 20 and 21 to respond to COVID. We have already recalled more than 550 of the 1,500 people who were furloughed with the expectation they wouldn't be recalled until July 27.

As your departments move to implement the new budgets, with the constraints and reductions, many of you will understand. But others may be angry. You are all working as hard or harder than you have ever worked. The dangers of the moment are always on our minds. The personal and professional challenges are enormous.

This is the most bitter of pills — we sacrifice financially while giving our heart and soul to taking care of the community at considerable risk. I know it is a lot to ask, but these last few weeks show me that we can get back to the unbelievable accomplishments that have made our academic medical center a national and international leader.

We wish we knew for sure that there would be no second wave and another shutdown of clinical activity.

We wish we knew for sure that the tremendous recovery underway could continue unabated in the months ahead.

But then we see in the news Houston. And Austin. And Phoenix. And Miami. And the fears of COVID combined with the flu season.

So we plan. And we monitor. And we seize every opportunity to recover our finances, preserve our core missions so that we can restore and share the better outcomes with you from whom we have asked so much.

We are going through this difficult time together. The commitment of the Executive Faculty, from the beginning, has been to face these enormous challenges together and to emerge as an even stronger medical school.

The individual leadership each of you demonstrates in expressions of optimism, effort, collaboration, innovation, and can-do-attitude on every level has been breathtaking. Thank you. Thank you. Thank you.

David H. Perlmutter, MD
Executive Vice Chancellor for Medical Affairs and Dean

NOTE: While the University contribution to your retirement will be suspended as we start FY 21 this Wednesday, you can continue to make your own scheduled pretax contributions as planned. We understand that this is a significant change and sacrifice affecting your long term personal finances. You may schedule a virtual appointment to discuss your personal retirement plans by contacting TIAA at (800) 732-8353. Your retirement account information can also be viewed at tiaa.org/wustl or calling the Service Center at (888) 488 3419.