The U.S. spends about a third of its health care dollar on hospital care.

Distribution of U.S. Health Care Expenditures by Category 2003

- Hospital Care: 30.7%
- Physician Services: 22.0%
- Other Professional: 10.3%
- Prescription Drugs: 10.7%
- Nursing Home: 6.6%
- Other: 19.7%

Total = $1.7 Trillion

Source: Centers for Medicare and Medicaid
Health care spending represents about 15 percent of GDP.

Source: Centers for Medicare & Medicaid Services, Office of the Actuary
Policy-makers are concerned about growth in health care spending.

Percent Growth in National Health Care Spending
1990-2003

Source: Centers for Medicare & Medicaid Services, Office of the Actuary
Growth in hospital spending is not the driving factor, but has been gaining attention.

Percent Change in National Expenditures for Health Services and Supplies\(^{(1)}\) by Category
2002 - 2003

Source: Centers for Medicare & Medicaid Services, Office of the Actuary

\(^{(1)}\)Excludes medical research and medical facilities construction

\(^{(2)}\) “Other” includes government public health activities and other personal health care

\(^{(3)}\) “Other professional” includes dental and other non-physician professional services
Overall private payers fund about a third of health care spending.

Distribution of U.S. Health Care Expenditures by Payer Source
2003

Total = $1.7 Trillion

- Consumer Out of Pocket: 13.7%
- Private Insurance: 35.8%
- Medicare: 17.0%
- Medicaid: 16.0%
- Other Government: 12.7%
- Other Private: 4.8%

Source: Centers for Medicare and Medicaid
Private sector coverage is predominantly in managed care plans.

Distribution of Employer-sponsored Health Insurance Enrollment by Type of Plan
1988 - 2004

Source: The Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits 2002 Annual Survey

(1) Point-of-service plans not separately identified
Premium growth is in the double-digits for U.S. employers.

Annual Percent Change in Health Insurance Premiums
1988 - 2004

For hospitals, government accounts for about half of costs.

Acute Care Hospital Costs by Payer 2003

- Private Insurance: 37.5%
- Medicare: 38.5%
- Medicaid: 14.3%
- Other Government: 1.6%
- Uncompensated Care: 5.5%
- Non-Patient Care: 2.6%

Total = $450.1 Billion

Source: AHA Annual Survey, 2001
American Hospital Association

CHALLENGES FACING HOSPITALS
The hospital field faces many challenges.

• Payment shortfalls for Medicare and Medicaid
• Worker shortages
• Rising demand and constrained capacity
• Regulatory burden
• Rapidly rising costs
• Decreased access to capital
The majority of hospitals lose money on Medicare and Medicaid.

- Hospitals with Negative Total Medicare Margins In 2003: 59%
- Hospitals with Negative Medicaid Margins in 2003: 61%
- Hospitals with Negative Total Margins In 2003: 30%

Source: MedPAC and AHA Annual Survey Data
When the public sector doesn’t pay its share, the private sector makes up the difference.

Aggregate Hospital Payment-to-cost Ratios for Private Payers, Medicare and Medicaid 1980 - 2003

American Hospital Association

LARGE NUMBERS OF UNINSURED
The economic slowdown reversed recent progress in coverage.

Number and Percent Uninsured
1985 - 2003

Source: US Census Bureau
U.S. hospitals provide about $25 billion in uncompensated care.

Aggregate Hospital Uncompensated Care Costs (in billions) 1997-2003

1997: $18.5
1998: $19.0
1999: $20.7
2000: $21.6
2001: $21.5
2002: $22.3
2003: $24.9

Source: AHA Annual Survey
American Hospital Association

WORKER SHORTAGES
Hospitals face severe workforce shortages.

Vacancy Rates for Selected Hospital Personnel
2003

- Registered Nurses: 8.4%
- LPNs: 7.0%
- Pharmacists: 6.8%
- Imaging Technicians: 6.6%
- Nursing Assistants: 6.5%
- Laboratory Technicians: 4.3%

Source: 2004 AHA Survey of Hospital Leaders
These workforce shortages are impacting patient care.

Percent of Hospitals Reporting Service Impacts of Workforce Shortage
2003

<table>
<thead>
<tr>
<th>Type of Impact</th>
<th>Percent of Hospitals Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>ED Overcrowding</td>
<td>40%</td>
</tr>
<tr>
<td>Decreased Patient Satisfaction</td>
<td>34%</td>
</tr>
<tr>
<td>Diverted ED Patients</td>
<td>28%</td>
</tr>
<tr>
<td>Reduced Number of Staffed Beds</td>
<td>23%</td>
</tr>
<tr>
<td>Delayed Discharge/ Increased Length of Stay</td>
<td>18%</td>
</tr>
<tr>
<td>Increased Wait Times to Surgery</td>
<td>17%</td>
</tr>
<tr>
<td>Discontinued Programs/ Reduced Service Hours</td>
<td>17%</td>
</tr>
<tr>
<td>Cancelled Surgeries</td>
<td>11%</td>
</tr>
<tr>
<td>Curtailed Acquisition of New Technology</td>
<td>8%</td>
</tr>
<tr>
<td>Curtailed Plans for Facility Expansion</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: 2004 AHA Survey of Hospital Leaders
The labor shortage will reach crisis proportions unless action is taken.

Forecast of Total RN FTEs vs. Requirements
2001-2020

The graph shows a significant shortage of 800,000 nurses in 2020.

Source: Bureau of Health Professions, National Center for Health Workforce Analysis, Projected Supply, Demand, and Shortages of Registered Nurses: 2000-2020, July 2002
Demand for inpatient hospital services is increasing...
...as is demand for outpatient care.

Total Hospital Outpatient Visits in Community Hospitals 1980 - 2003

Rising ED volume has been a special concern.

Number of ED Visits
All Community Hospitals, All Payers
1990 - 2003

Source: 1990-2001 from AHA Annual Survey
Most EDs report that they are “at” or “over” capacity.

Percent of Hospitals Reporting ED Capacity Issues by Type of Hospital

2004

Urban Hospitals
- ED is "At" Capacity: 29%
- ED is "Over" Capacity: 35%
- Total: 64%

Rural Hospitals
- ED is "At" Capacity: 18%
- ED is "Over" Capacity: 12%
- Total: 30%

Teaching Hospitals
- ED is "At" Capacity: 34%
- ED is "Over" Capacity: 43%
- Total: 77%

Non-teaching Hospitals
- ED is "At" Capacity: 23%
- ED is "Over" Capacity: 21%
- Total: 44%

All Hospitals
- ED is "At" Capacity: 24%
- ED is "Over" Capacity: 24%
- Total: 48%

Source: AHA 2004 Survey of Hospital Leaders
A majority of urban and teaching hospitals experience time on ED diversion.

Percent of Hospitals Reporting Time on Diversion in Last 12 Months

- Urban: 69%
- Rural: 20%
- Teaching: 68%
- Non-teaching: 43%
- All Hospitals: 46%

Note: diversion is not an option for most rural hospitals which are their communities’ only provider

Source: AHA 2004 Survey of Hospital Leaders
Lack of staffed critical care beds is the #1 reason for ED diversion.

Percent of Hospitals Citing Factor as Number One Reason for Ambulance Diversion
January 2004

- Lack of Critical Care Beds: 39%
- Lack of General Acute Care Beds: 20%
- ED Overcrowded: 19%
- Staff Shortages: 9%
- Lack of Specialty Physician Coverage: 5%

Source: AHA 2004 Survey of Hospital Leaders
Government regulation of health care is cumbersome and confusing…

WHO REGULATES HOSPITALS

March 13, 2001
...creating a paperwork burden that takes caregivers away from the bedside.

Study Results: The Paperwork Burden

<table>
<thead>
<tr>
<th>Care Setting</th>
<th>Ratio of Patient Care to Paperwork</th>
<th>Every Hour of Patient Care Requires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency Department Care</td>
<td>1.0:1.0</td>
<td>1 Hour of Paperwork</td>
</tr>
<tr>
<td>Surgery and Inpatient Acute Care</td>
<td>1.0:0.6</td>
<td>36 Minutes of Paperwork</td>
</tr>
<tr>
<td>Skilled Nursing Care</td>
<td>1.0:0.5</td>
<td>30 Minutes of Paperwork</td>
</tr>
<tr>
<td>Home Health Care</td>
<td>1.0:0.8</td>
<td>48 Minutes of Paperwork</td>
</tr>
</tbody>
</table>

What Does It Mean?

Key: Patient Care | Paperwork

Source: PricewaterhouseCoopers survey of hospitals and health systems (see appendix for more information).

American Hospital Association
American Hospital Association

INCREASING COSTS
Hospitals face labor cost increases over 25% higher than service industries as a whole.

Percent Change in Employment Cost Index for Private Service Industries
September 2004

Advances in medicine offer new possibilities, but add billions to the nation’s cost of caring.

U.S. Sales of Taxus Drug Eluting Stents
(in billions of dollars)

Source: Boston Scientific. Note Taxus represents an estimated 65% of U.S. drug eluting stent sales.
The cost to keep up with advanced technology is staggering.

<table>
<thead>
<tr>
<th>&quot;Traditional&quot; Technology</th>
<th>Contemporary Technology</th>
<th>Next Round Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>X-Ray Machine</td>
<td>CAT Scanner</td>
<td>CT Functional Imaging with PET</td>
</tr>
<tr>
<td>$175,000</td>
<td>$1,000,000</td>
<td>$2,300,000</td>
</tr>
<tr>
<td>Open Surgery Instrument Set</td>
<td>Laparoscopic Surgery Set</td>
<td>Robotic Surgical Device</td>
</tr>
<tr>
<td>$10,000</td>
<td>$15,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Cardiac Balloon Catheter</td>
<td>Stent</td>
<td>Treated Stent</td>
</tr>
<tr>
<td>$500</td>
<td>$2,300</td>
<td>$5,000</td>
</tr>
<tr>
<td>Scalpel</td>
<td>Electrocautery</td>
<td>Harmonic Scalpel</td>
</tr>
<tr>
<td>$20</td>
<td>$12,000</td>
<td>$30,000</td>
</tr>
</tbody>
</table>

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Hospitals face skyrocketing costs for medical liability coverage.

Percent of Hospitals in Crisis States* by Rate of Growth in Professional Liability Expense over Past Two Years

- Increase of Double or More 20.3%
- 50 to 99.9% Increase 25.6%
- 10-49.9% Increase 30.1%
- Less than 10% Increase 24.0%

Source: AHA 2004 Survey of Hospital Leaders

*Crisis states as identified by the American Medical Association as of March of 2004 include: PA, WV, NV, MS, WA, OR, TX, AR, MO, GA, FL, IL, NC, KY, OH, NY, CT, NJ, WY. Some of these states recently have passed legislative reforms that have not been tested in the courts.
American Hospital Association

CONSTRAINED CAPITAL
The average age of plant for hospitals is increasing.

Median Average Age of Plant
1990 - 2003

More downgrades than upgrades mean hospitals are finding access to capital difficult.

Number of Bond Rating Upgrades and Downgrades of Non-profit Hospitals 1993 - 2004

Source: Standard & Poor’s, 2005