



American Hospital
Association

Beyond Health Care

THE ECONOMIC CONTRIBUTION OF HOSPITALS

In 2004, America's hospitals treated 113 million people in their emergency departments, provided care for 572 million outpatients, performed 27 million surgeries and delivered 4 million babies. Every year, hospitals provide vital health care services like these to millions of people in thousands of communities.

The importance of hospitals to their communities, however, extends far beyond health care.

Overview

Hospital care is the largest component of the health services and supplies sector, which itself is a growing segment of the U.S. economy. In 2004, this sector represented about 15 percent of Gross Domestic Product (GDP)—a measure of economic output—or approximately \$1.8 trillion.¹ Hospitals accounted for \$571 billion of that total (Chart 1).² The health care sector is an economic mainstay providing stability and even growth during times of recession.³

Hospitals also support nearly **ONE OUT OF EVERY 10 JOBS** in the U.S., either directly or indirectly. In 2004, community hospitals employed nearly 5 million people (Chart 2) and spent about \$246 billion on goods and services in addition to employee wages. Hospitals provide jobs for local residents and purchase goods and services from other businesses in their own and other communities. Hospitals also contribute to the tax base of communities through payroll and other taxes.

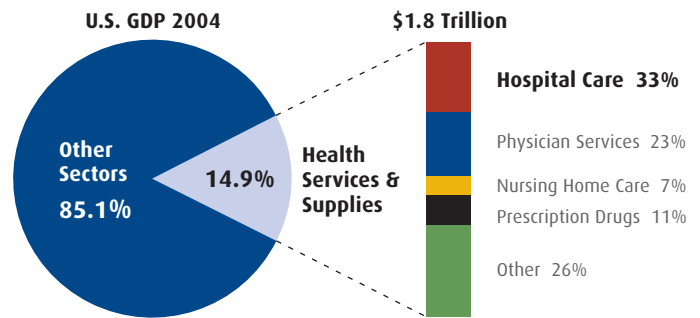
But the direct impact of hospitals as employers and purchasers is only part of the story. When hospitals buy food or linens, for example, or hospital employees spend their paychecks on groceries or clothing, these purchases support other businesses and create jobs within the community. This “ripple effect” is modeled by economic multipliers and shows how spending in one sector affects spending in the economy as a whole. Nationally, each hospital job supports about 1.6 additional jobs, and every dollar spent by a hospital supports more than \$2 of additional business activity.⁴ This translates into \$1.6 trillion dollars of economic activity directly or indirectly supported by hospitals (Chart 3).

A strong health care network, in which hospitals play a key role, also adds to the attractiveness of a community as a place to settle, locate a business or retire.

This report highlights the importance of hospitals to the national economy and hospitals’ contributions to their communities through expenditures and job creation.

Health care is a major contributor to the U.S. economy.

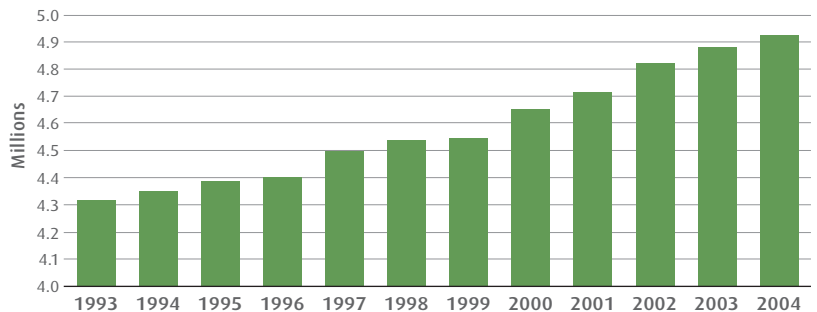
CHART 1: National Expenditures on Health Services and Supplies as a Percentage of Gross Domestic Product, 2004



Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group

Nationwide, hospitals employ nearly 5 million people...

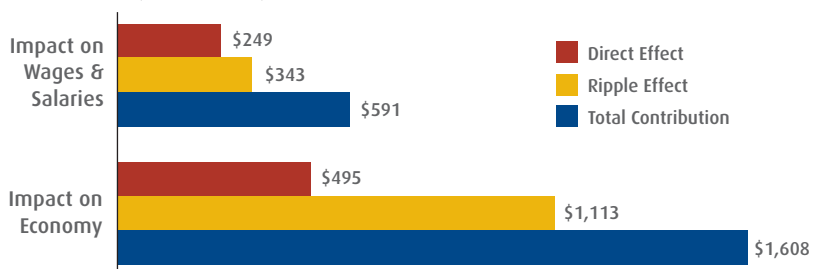
CHART 2: Number of Full-time and Part-time Hospital Employees, 1993–2004



Source: The Lewin Group analysis of American Hospital Association Annual Survey data, 1993 – 2004, for community hospitals

...and support other businesses and jobs in communities across the United States.

CHART 3: Impact of Community Hospitals on U.S. Economy (in \$ billions), 2004



Source: The Lewin Group, using BEA RIMS-II multipliers applied to 2004 American Hospital Association Annual Survey data

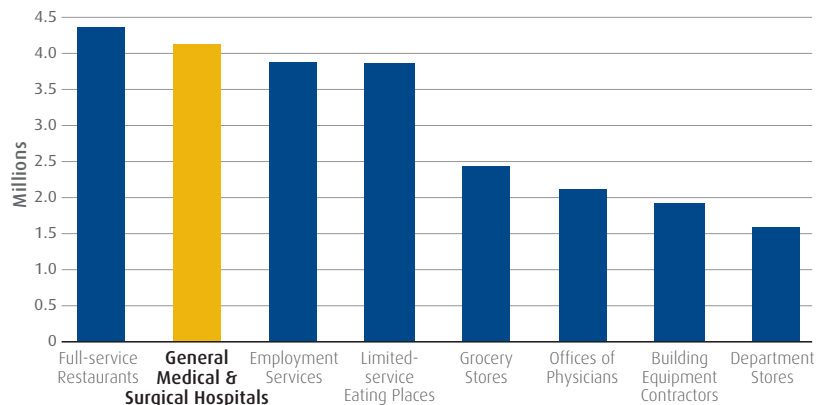
Hospitals are among the largest employers in many communities.

More than half of hospital expenses are salaries, wages and benefits. In 2004, U.S. hospitals paid about **\$249 BILLION IN EMPLOYEE COMPENSATION**. Hospitals rank second as a source of private sector jobs, behind only full-service restaurants (Chart 4).

Hospitals regularly rank among the top 10 employers in large urban areas such as Boston, New York and Detroit. In Cleveland, the two largest hospital systems are the top two employers and together employ more than 43,000 workers.⁵ In Washington State, hospitals employ more workers than Microsoft or Boeing.⁶ Regionally, hospitals can account for more than 4 percent of employment (Chart 5).

Hospitals are the second-largest employer in the private sector...

CHART 4: Hospital Employment vs. Employment in Other Industries, 2005⁽¹⁾



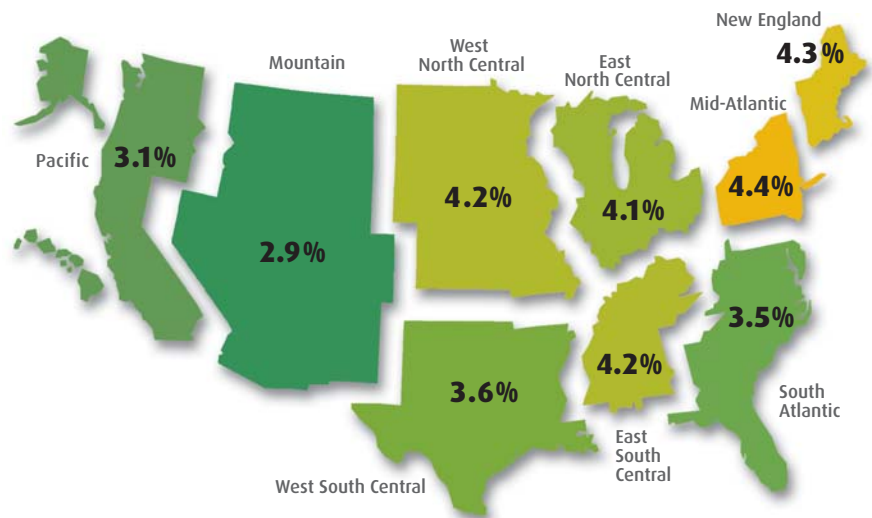
Source: Department of Labor, Bureau of Labor Statistics, Current Employment Statistics Survey, custom data request
(1) Data are as of September 2005

IMPACT OF RURAL HOSPITALS

In rural areas, hospitals are often either the largest or the second-largest employer, behind the school system.⁷ In these communities, which often struggle to attract and retain college graduates, rural hospitals provide a source of high-tech jobs for young people who might otherwise leave communities heavily dependent upon agriculture. Rural hospitals also provide an anchor for other health care jobs, such as physicians and pharmacists which, in the absence of the hospital, may not be available. Total direct and indirect employment generated by health care is often 10 to 15 percent of a rural community's employment.⁸

...accounting for as much as four percent of a region's employment.

CHART 5: Percent of Total Regional Employment⁽¹⁾ by Hospitals, 2004



Source: The Lewin Group analysis of American Hospital Association 2004 Annual Survey data and 2004 total nonfarm employment data from the Bureau of Labor Statistics
(1) Does not include farm employment.

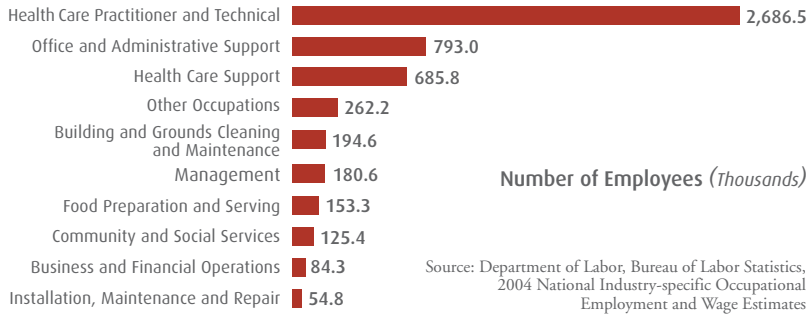
“The closure of a rural hospital can represent a serious threat not only to the health but also to the economic well-being of the community. Loss of local jobs and income are an immediate result of closure of a rural hospital.”

— Suzanne Berry, Mississippi State University

Hospitals offer high-quality jobs and consistent job growth, even in times of economic stress.

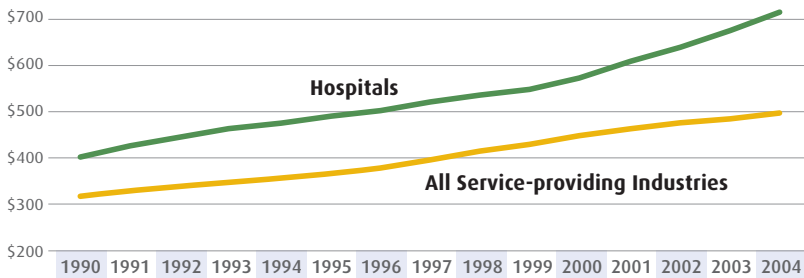
Hospitals support a range of positions for workers with varying skill levels...

CHART 6: Hospital Employment by Occupation Type, 2004



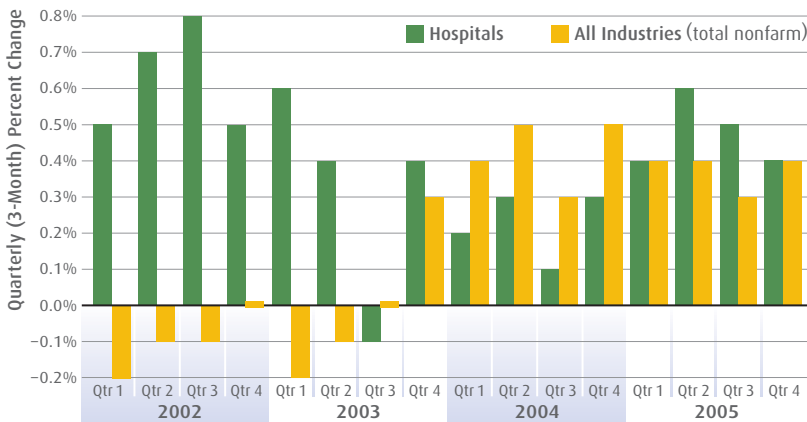
...offering higher pay than other service-sector jobs.

CHART 7: Average Weekly Earnings of Workers, Hospitals⁽¹⁾ vs. All Service-providing Industries, 1990 - 2004



Hospitals provide a consistent source of jobs, even during recessions.

CHART 8: Percent Change in Employment, Seasonally-adjusted: Hospital vs. All Industries (Total Nonfarm), 2002 - 2005



Hospitals are a large, established source of employment, providing jobs for a wide range of skill levels (Chart 6). Hospitals employ highly skilled doctors, nurses and therapists, as well as low-skilled workers in environmental and food services. Earnings of hospital workers, on average, are higher than those of workers in service-providing industries as a whole (Chart 7). Hospitals also furnish benefits, such as health insurance. These benefits are often lacking in other jobs available to lower-skilled workers, such as retail or other service jobs.

Hospitals offer a stable source of employment growth, even in times of economic stress (Chart 8). While the economy as a whole lost 1.6 million jobs during the last recession in 2001, hospital employment grew by 2 percent, even though hospitals continued to report shortages in job classes such as nursing and pharmacy.^{9,10}

Facing a shortage of skilled workers, **HOSPITALS ARE INVESTING IN WORKFORCE DEVELOPMENT** and retention activities—another way hospitals contribute to the economic base of communities. Some hospitals offer tuition-reimbursement programs, partner with local colleges to provide access to training programs for employees to update or develop their skills, or have implemented mentoring programs for less experienced staff.

“...hospitals are also economic catalysts, providing a constant source of stable, well-paying jobs; stimulating multiple business opportunities in other fields; buying local goods and services; and contributing to the tax base at the state and local levels.”

— Carolyn Scanlan, President and CEO, The Hospital & Healthsystem Association of Pennsylvania

Hospital expenditures stimulate economies in the form of jobs and income for other businesses.

The economic contribution of hospitals extends beyond the people they directly employ, hospital purchases of goods and services, and taxes.

Hospitals also support other businesses through so-called “ripple effects” that are generated in three ways:

- **Hospitals purchase goods and services**, such as drugs, information technology, food, bed linens and “bricks and mortar” from other businesses in their communities (Chart 9). Those purchases create revenue for local businesses, and jobs and income for their employees. The construction of a new heart center by the Cleveland Clinic in Ohio, for example, is projected to generate more than \$1.2 billion dollars in economic activity.¹¹
- **Hospitals provide income for employees.** Hospital employees purchase goods and services, such as cars, household appliances and groceries. These purchases generate income and create jobs for other businesses in the community.
- **Wages and salaries paid by hospitals are subject to federal, state, and local taxes** (e.g., payroll taxes, sales taxes). Baptist Memorial Health Care System in Memphis, Tennessee, generated almost \$191 million in local, state and federal tax revenues.¹²

These ripple effects result in jobs and income for other businesses. In 2004, with ripple effects included, hospitals supported a total of **12.9 MILLION JOBS AND \$1.6 BILLION OF ECONOMIC ACTIVITY** (Charts 10 and 11).

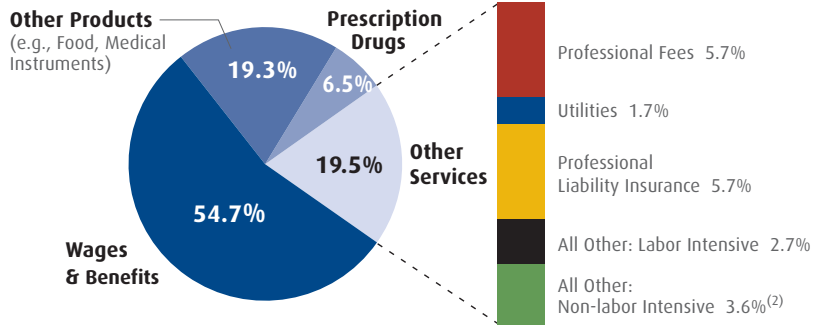
The economic impact of hospitals by state can be found in Table A.

“If the health sector increases or decreases in size, the medical health of the county, as well as its economic health, will be greatly affected.”

—Gerald A. Doeksen, Regents Professor, Oklahoma State University

Hospitals purchase a variety of goods and services...

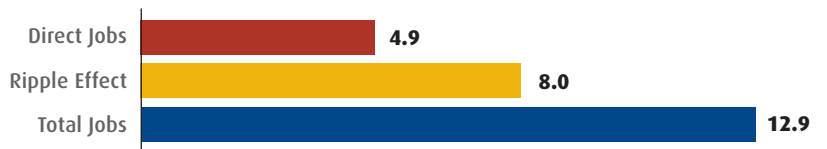
CHART 9: Percent of Hospital Costs⁽¹⁾ by Type of Expense, 2005



Source: Centers for Medicare & Medicaid Services, September 2005, using base year 2002 weights
 (1) Does not include capital (2) Includes postage and telephone expenses

...generating jobs throughout the economy...

CHART 10: Impact of Community Hospitals on U.S. Jobs (in millions), 2004



Source: The Lewin Group, using BEA RIMS-II multipliers applied to 2004 American Hospital Association Annual Survey data

...and supporting other industries.

CHART 11: Hospital Impact on Sectors of the U.S. Economy (in \$ billions), 2004

Industry	Economic Impact
Health Care and Social Assistance	\$570.6
Manufacturing	240.0
Real Estate and Rental & Leasing	151.5
Finance and Insurance	102.0
Professional, Scientific and Technical Services	66.8
Retail Trade	65.0
Wholesale Trade	52.3
Information	52.2
Administrative and Waste Management Services	49.9
Transportation and Warehousing	49.9
Accommodation and Food Services	40.9
Other Services	40.0
Management of Companies and Enterprises	32.3
Utilities	28.4
Agriculture, Forestry, Fishing and Hunting	23.5
Educational Services	12.8
Arts, Entertainment and Recreation	11.4
Mining	10.1
Construction	8.0
Total	\$1,607.6

Source: The Lewin Group analysis of American Hospital Association 2004 Annual Survey data using BEA industry multipliers for the hospital sector

Table A

Impact of Community Hospitals on U.S. Economy, All States and Total U.S., 2004

State Name	Number of Hospital Jobs (FT and PT)	Multiplier for Employment	Effect of Hospital Jobs on Total Jobs in State Economy	Percent of Total (Nonfarm) Employment Supported by Hospital Employment	Hospital Payroll and Benefits (\$ millions)	Multiplier for Earnings	Effect of Hospital Payroll and Benefits on Total Labor Income (\$ millions)	Hospital Expenditures* (\$ millions)	Multiplier for Output	Effect of Hospital Expenditures on Total Output in State Economy (\$ millions)
Alabama	78,073	1.8994	148,292	7.80%	\$3,274	1.7050	\$5,582	\$6,851	2.1267	\$14,571
Alaska	7,723	1.8234	14,082	4.63%	\$540	1.5235	\$823	\$1,042	1.8316	\$1,909
Arizona	66,896	2.0494	137,097	5.78%	\$3,308	1.7691	\$5,852	\$7,365	2.1848	\$16,090
Arkansas	48,537	1.8623	90,390	7.80%	\$1,995	1.6380	\$3,267	\$4,139	2.0109	\$8,322
California	437,611	2.2052	965,020	6.64%	\$25,972	1.9744	\$51,279	\$49,794	2.5267	\$125,814
Colorado	58,472	2.1226	124,113	5.70%	\$3,319	1.9068	\$6,328	\$6,981	2.4141	\$16,853
Connecticut	61,613	1.8655	114,939	6.96%	\$3,473	1.7335	\$6,020	\$6,213	2.1597	\$13,419
Delaware	18,156	1.8317	33,256	7.84%	\$904	1.6068	\$1,452	\$1,644	1.9626	\$3,226
District of Columbia	21,822	1.4987	32,705	4.86%	\$1,398	1.3618	\$1,904	\$2,640	1.3871	\$3,661
Florida	247,223	2.0206	499,539	6.66%	\$13,092	1.8118	\$23,720	\$27,411	2.2432	\$61,489
Georgia	132,742	2.0579	273,170	7.02%	\$6,183	1.9262	\$11,909	\$12,575	2.4618	\$30,958
Hawaii	17,136	2.0441	35,028	6.02%	\$936	1.6991	\$1,591	\$1,704	2.0740	\$3,533
Idaho	20,339	2.0178	41,040	6.99%	\$904	1.6632	\$1,503	\$1,818	1.9981	\$3,632
Illinois	231,632	2.1032	487,168	8.39%	\$11,338	1.9774	\$22,420	\$22,048	2.5643	\$56,539
Indiana	119,797	1.9545	234,143	7.99%	\$5,613	1.7396	\$9,764	\$11,815	2.2005	\$25,999
Iowa	66,630	1.8687	124,511	8.55%	\$2,710	1.6426	\$4,452	\$5,182	2.0263	\$10,500
Kansas	47,920	1.8847	90,315	6.83%	\$2,129	1.6734	\$3,562	\$4,197	2.1112	\$8,860
Kentucky	76,225	1.8717	142,670	7.94%	\$3,352	1.6832	\$5,641	\$7,272	2.1012	\$15,281
Louisiana	88,024	1.8862	166,031	8.65%	\$3,699	1.6779	\$6,206	\$7,653	2.0294	\$15,532
Maine	29,928	1.9860	59,437	9.68%	\$1,370	1.6696	\$2,287	\$2,648	2.0327	\$5,382
Maryland	83,992	1.9800	166,304	6.60%	\$4,254	1.7774	\$7,561	\$8,672	2.2171	\$19,227
Massachusetts	149,704	1.9850	297,162	9.34%	\$7,755	1.8262	\$14,162	\$15,466	2.2857	\$35,350
Michigan	189,455	1.9343	366,463	8.35%	\$9,381	1.7672	\$16,578	\$18,005	2.1963	\$39,544
Minnesota	98,226	2.0680	203,131	7.59%	\$5,104	1.8617	\$9,502	\$9,637	2.3531	\$22,677
Mississippi	54,291	1.8389	99,836	8.87%	\$2,281	1.6160	\$3,687	\$4,782	1.9849	\$9,492
Missouri	125,150	2.0032	250,700	9.31%	\$5,758	1.7955	\$10,338	\$11,897	2.2643	\$26,937
Montana	18,984	1.9040	36,146	8.77%	\$830	1.6088	\$1,336	\$1,598	1.9317	\$3,088
Nebraska	39,801	1.9611	78,054	8.46%	\$1,699	1.7043	\$2,895	\$3,503	2.1046	\$7,372
Nevada	21,550	1.9066	41,087	3.57%	\$1,362	1.6394	\$2,233	\$2,979	1.9874	\$5,921
New Hampshire	23,874	1.9197	45,831	7.31%	\$1,195	1.7422	\$2,082	\$2,313	2.0944	\$4,843
New Jersey	134,299	2.0434	274,427	6.86%	\$7,699	1.8816	\$14,486	\$14,203	2.4207	\$34,380
New Mexico	26,623	2.0407	54,330	6.87%	\$1,266	1.6462	\$2,084	\$2,358	1.9724	\$4,650
New York	389,209	1.8557	722,255	8.55%	\$23,322	1.7111	\$39,906	\$41,744	2.1696	\$90,568
North Carolina	150,549	2.0752	312,419	8.16%	\$7,180	1.8291	\$13,133	\$14,324	2.3182	\$33,206
North Dakota	18,520	1.8039	33,408	9.91%	\$783	1.5706	\$1,230	\$1,449	1.8749	\$2,716
Ohio	239,043	2.0569	491,688	9.09%	\$11,649	1.8352	\$21,378	\$23,170	2.3273	\$53,922
Oklahoma	51,782	2.0476	106,029	7.21%	\$2,245	1.7619	\$3,955	\$5,008	2.1994	\$11,014
Oregon	54,439	2.0924	113,908	7.15%	\$2,759	1.7515	\$4,833	\$5,425	2.1783	\$11,818
Pennsylvania	265,820	2.0852	554,288	9.83%	\$11,949	1.8993	\$22,696	\$24,737	2.4403	\$60,366
Rhode Island	20,398	1.8985	38,726	7.93%	\$1,162	1.6803	\$1,953	\$2,095	2.0446	\$4,283
South Carolina	64,855	1.9850	128,737	7.04%	\$3,234	1.7294	\$5,593	\$7,003	2.1947	\$15,369
South Dakota	19,628	1.8082	35,491	9.27%	\$811	1.5734	\$1,276	\$1,529	1.8954	\$2,899
Tennessee	103,704	2.0740	215,082	7.96%	\$4,916	1.8415	\$9,053	\$10,253	2.3648	\$24,247
Texas	312,993	2.2244	696,222	7.35%	\$15,691	1.9398	\$30,438	\$32,590	2.5229	\$82,222
Utah	33,606	2.1438	72,045	6.53%	\$1,512	1.8730	\$2,831	\$3,352	2.3825	\$7,986
Vermont	12,011	1.8855	22,647	7.47%	\$679	1.5817	\$1,074	\$1,133	1.8710	\$2,120
Virginia	103,401	1.8930	195,738	5.46%	\$4,915	1.7685	\$8,693	\$10,747	2.2613	\$24,301
Washington	87,902	2.0943	184,093	6.82%	\$4,845	1.7878	\$8,662	\$9,418	2.2545	\$21,232
West Virginia	40,172	1.7932	72,036	9.78%	\$1,794	1.5437	\$2,770	\$3,579	1.8219	\$6,520
Wisconsin	104,150	1.9650	204,655	7.30%	\$4,713	1.7502	\$8,249	\$10,059	2.1807	\$21,935
Wyoming	8,299	1.7378	14,422	5.65%	\$369	1.4679	\$542	\$720	1.7260	\$1,242
U.S.	4,922,929	2.6294	12,944,350	9.87%	\$248,619	2.3788	\$591,416	\$494,737	3.2496	\$1,607,697

*Expenditures are defined as net patient revenue + other operating revenue

Source: The Lewin Group using BEA RIMS-II multipliers for hospital NAICS Code 622, released October 2005, applied to American Hospital Association Annual Survey data for 2004. Hospital jobs are total part-time and full time jobs. Hospital labor income is defined as payroll plus benefits. The percent of total employment supported by direct and indirect hospital employment is based on 2004 BLS data.

Hospitals support their communities in many additional ways.

In addition to providing traditional health care services and supporting their local economies, hospitals offer an array of special programs and activities to help meet communities' broader health and social needs.

Hospitals offer services that aid in disease prevention, promote health awareness, contribute to advances in medicine, and address other societal needs (Chart 12). Examples of the types of community programs hospitals offer include:

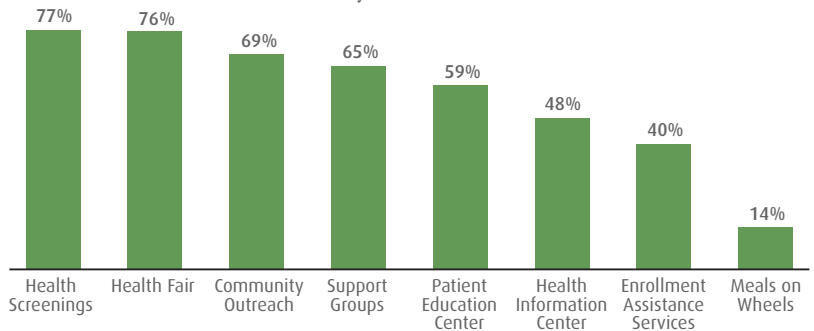
- Health programs such as educational outreach, health screenings and support groups;
- Subsidized health services (e.g., free clinics, vaccinations);
- Programs to address the social needs of communities (e.g., Meals on Wheels, various shelters);
- Health professions training programs for physicians, nurses and technical staff;
- Continuing education for health professionals; and
- Clinical research.

Hospital charity care programs provide care free or on a sliding scale for patients with limited financial means. Hospitals have specific criteria to identify patients eligible for this care. In 2004, hospitals provided nearly **\$27 BILLION IN UNCOMPENSATED CARE** on a cost basis—a mixture of charity care and other care for which payment was expected but not received (Chart 13).

Hospitals also offer services to needy patients through Medicaid, a federal-state program that does not fully reimburse community hospitals for the services provided to these patients. In 2004, Medicaid payments—including disproportionate share payments intended to subsidize the costs of caring for other low-income populations—fell short of the actual costs of care by \$7.1 billion (Chart 14).

Hospitals offer an array of community services...

CHART 12: Percentage of Community Hospitals Offering Selected Community Outreach Services, 2004



Source: Health Forum, Hospital Statistics, 2006

...provide charity care and other care for which no payment is received...

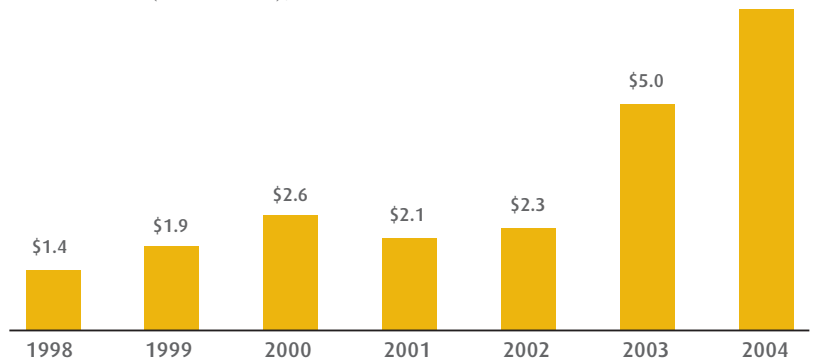
CHART 13: Total Uncompensated Care Costs (in \$ billions), 1998 – 2004



Source: AHA Annual Survey

...and subsidize the care of Medicaid patients.

CHART 14: Shortfall in Hospital Medicaid Payment Relative to Costs (in \$ billions), 1998 – 2004



Source: AHA Annual Survey

Summary and Conclusions

Hospitals contribute to the economic vitality of local and regional communities by serving as the anchors of local health care networks and stimulating demand for goods and services produced by local businesses. Hospitals continue to provide jobs and job growth during recessions. However, when investors, policymakers and the public think about sectors that promote economic stability and growth, most do not think about hospitals. Indeed, increases in expenditures on manufacturing or technology inspire optimism about the nation's fiscal health, while increases in expenditures on health care are typically viewed with concern. But, the fact remains that hospitals are strong contributors to the U.S. economy.

- **Hospitals create a steady source of employment even in economic downturns:**
 - ▶ High pay relative to other service sectors
 - ▶ Jobs across a wide spectrum of skill levels
 - ▶ Jobs not easily “outsourced” abroad
- **Hospital—and hospital employee—purchases of goods and services support other community businesses.**
- **With “ripple effects” included, hospitals:**
 - ▶ support nearly one of 10 jobs in the U.S.
 - ▶ support more than \$1.6 trillion in economic activity.

ENDNOTES

¹ Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

² Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

³ Department of Labor, Bureau of Labor Statistics, Current Employment Statistics Survey.

⁴ Department of Commerce, Bureau of Economic Analysis.

⁵ Delos M. Cosgrove, *The Value of Healthcare: Changing the Debate*, Presentation at the American Hospital Association Annual Meeting, May 2006.

⁶ Washington State Hospital Association, Health Information Program analysis of Washington State Employment Security Department data, June–August 2003.

⁷ Doeksen GA, Schott V, *The Economic Importance of the Health Care Sector on a Rural Economy*, presentation at 5th Wonca World Conference on Rural Health, Melbourne, Australia, April 30–May 3, 2003.

⁸ Doeksen GA, Johnson T, Willoughby C, *Measuring the Economic Importance of the Health Sector on a Local Economy: A Brief Literature Review and Procedures to Measure Local Impacts*, The Southern Rural Development Center, January 1997.

⁹ Department of Labor, Bureau of Labor Statistics, Current Employment Statistics Survey, seasonally-adjusted monthly employment data for March 2001 and November 2001.

¹⁰ *The Healthcare Workforce Shortage and Its Implications for America's Hospitals*, First Consulting Group, Fall 2001.

¹¹ The Cleveland Clinic, *Community Compass*, Spring 2005.

¹² Bureau of Business and Economic Research, *Economic Impact of Baptist Memorial Health Care Corporation*, Memphis, TN, 2005.



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