



**American Hospital
Association**

The Fragile State of Hospital Finances

March 2005

For America's hospitals, the bottom line supports our top priority: providing patients the right care, at the right time, in the right place, and doing it on demand, 24 hours a day, seven days a week.

But that bottom line is increasingly threatened – at a time when the challenges facing hospitals call for investments not cutbacks.

These challenges include:

- **Opportunities to improve quality and patient safety** through investments in information technology.
- **Continual advances in medicine** that open new possibilities for America's growing and aging population even as they push up demand for care and the costs of providing that care.
- **Worker shortages** that will reach crisis proportions in the coming decades unless we invest in our future workforce now.
- **Lack of staff and space to meet growing demand** leading to emergency department overcrowding and ambulance diversion.
- **The need to be prepared for mass casualty events** with staff, equipment and training.
- **An increasing burden of chronic disease in our population**, including diabetes, heart disease and cancer that will require new approaches to manage care delivery.

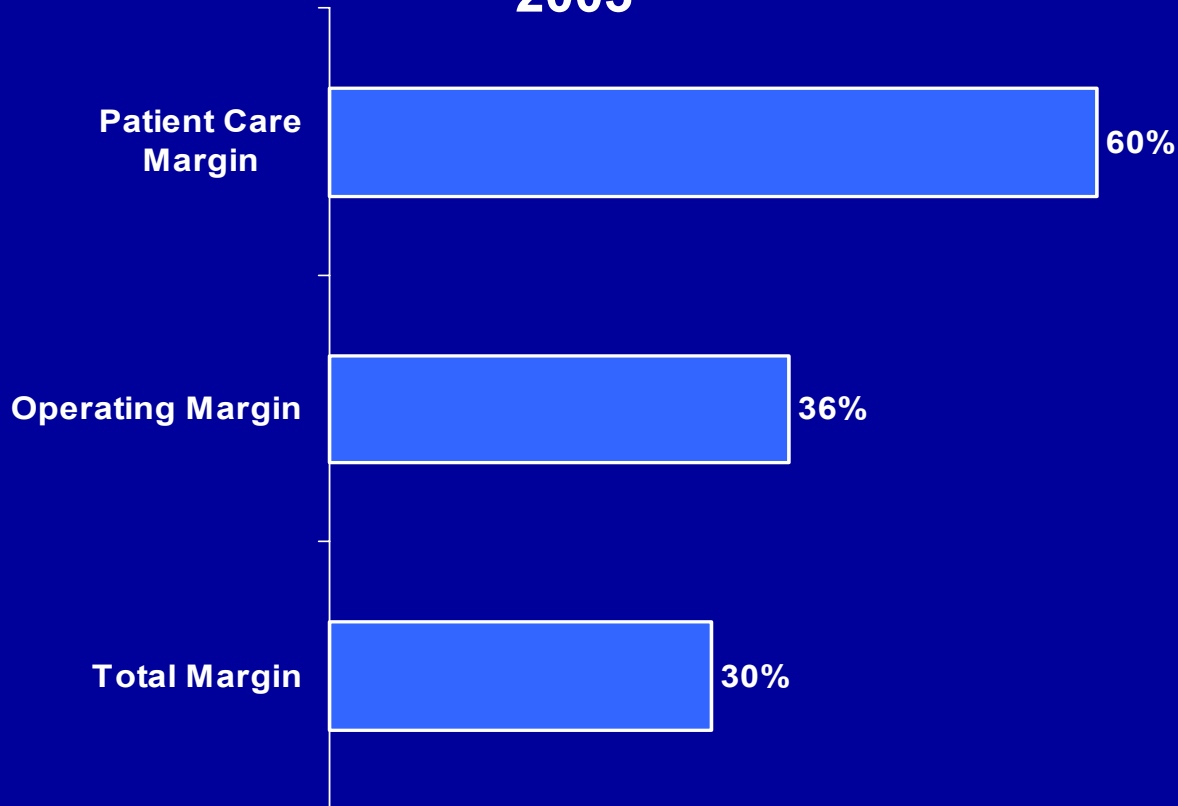
But the ability to meet these challenges is compromised by the significant financial pressures facing hospitals.



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Sixty percent of hospitals lose money providing patient care; one-third lose money overall.

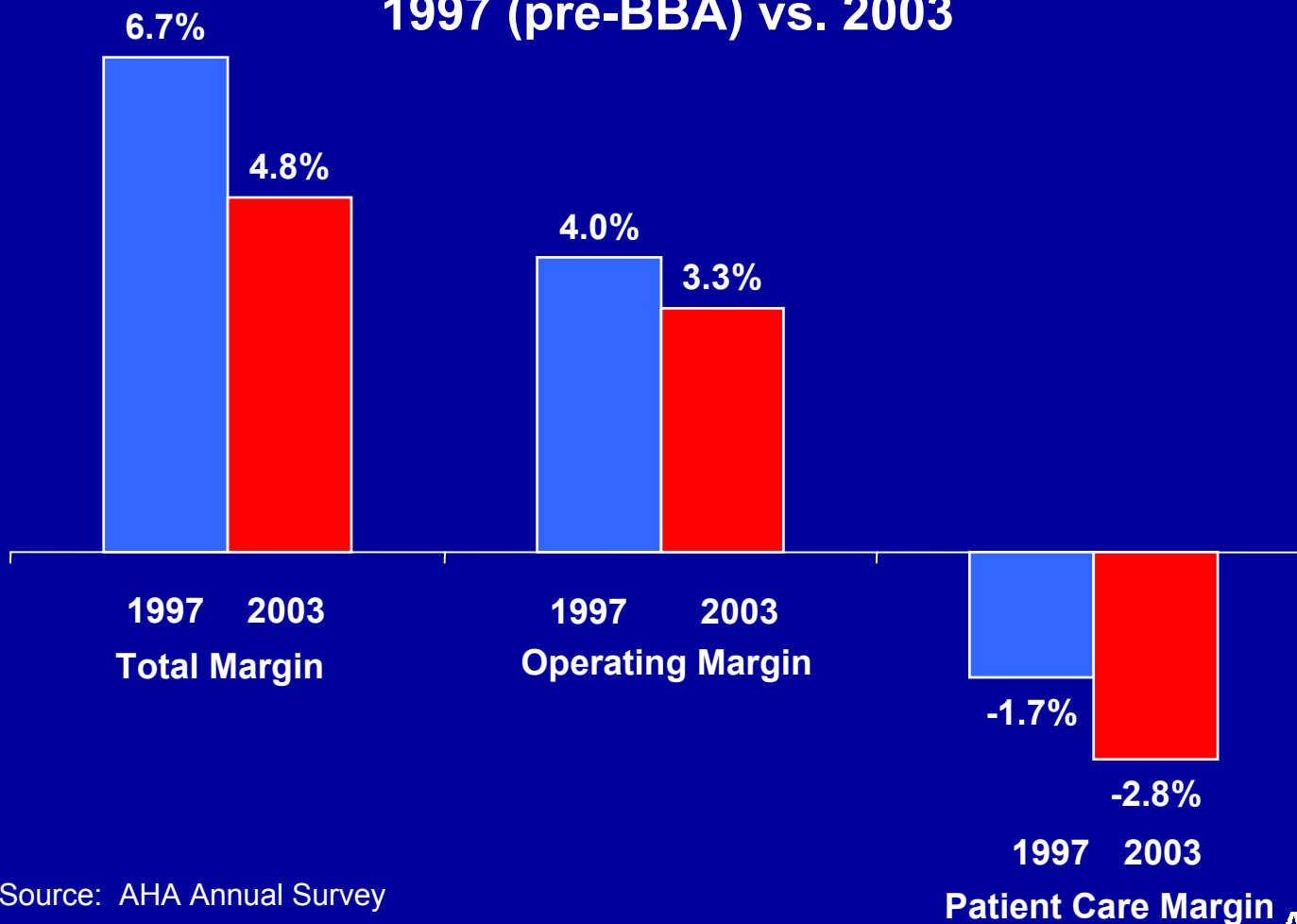
Percent of Hospitals with Negative Margins 2003



Source: AHA Annual Survey

Hospital total margins are down 34 percent from pre-Balanced Budget Act levels.

Total, Operating and Patient Care Margins
1997 (pre-BBA) vs. 2003



Source: AHA Annual Survey

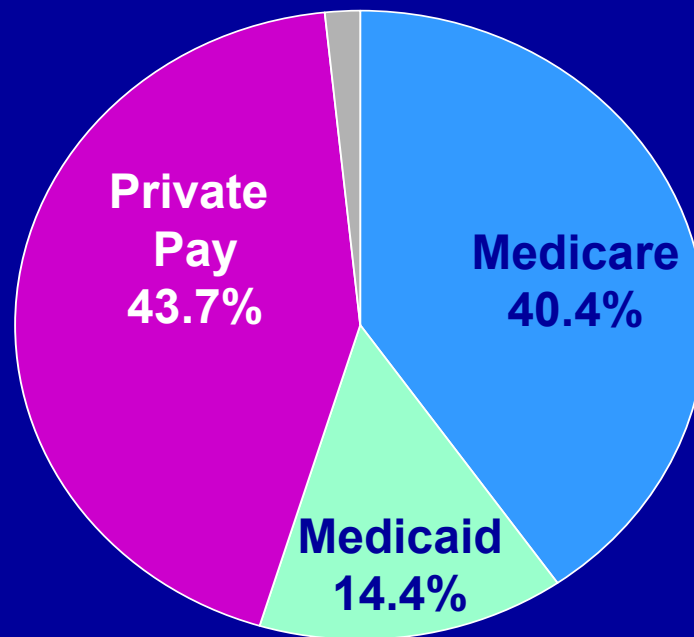


Since they cover more than half of care provided, Medicare and Medicaid drive hospital financial performance.

Percent of Gross Revenues by Payer

2003

Other
1.6%



Source: AHA Annual Survey



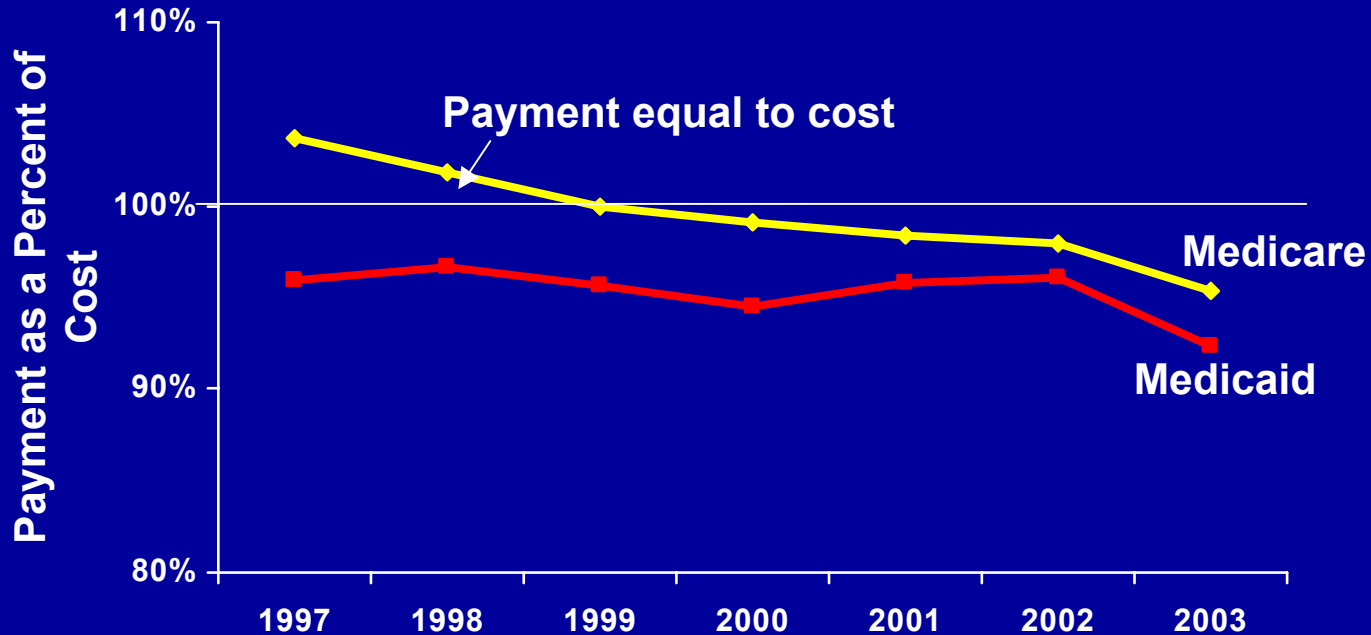
The majority of hospitals lose money treating Medicare and Medicaid patients.



Source: AHA Annual Survey

Overall, Medicare and Medicaid pay less than the cost of care provided to their beneficiaries.

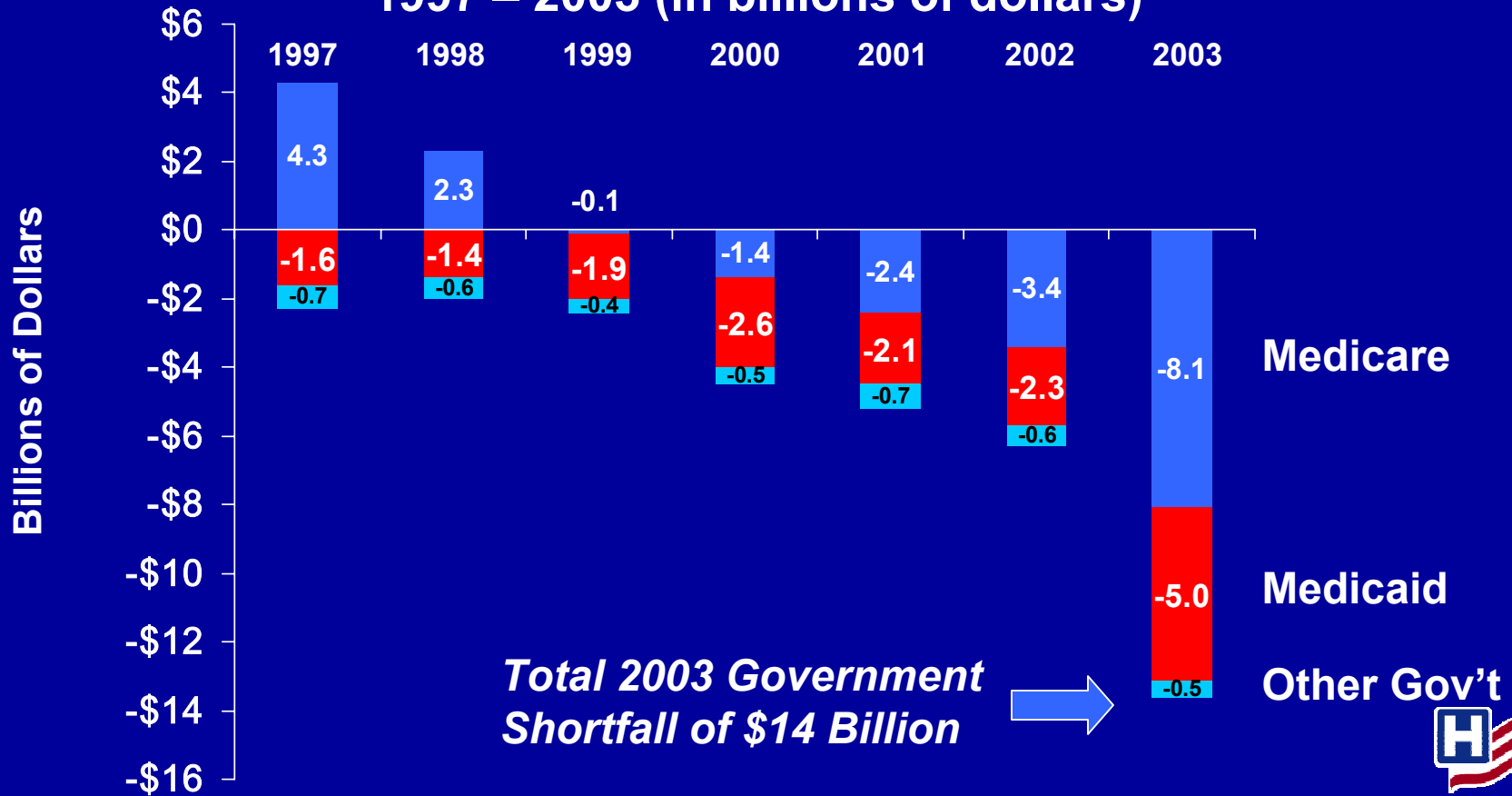
Payment Relative to Cost for Medicare and Medicaid 1997 - 2003



Source: AHA Annual Survey

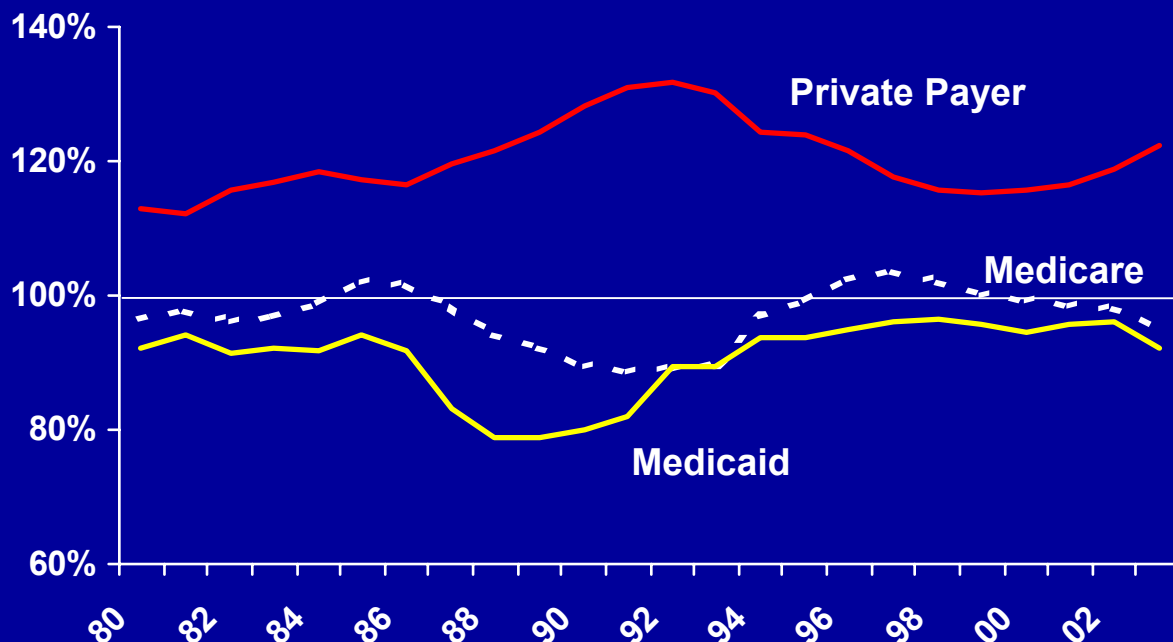
Growing government shortfalls are staggering and jeopardize the financial health of hospitals...

Hospital Payment Shortfall Relative to Costs Medicare, Medicaid and Other Government 1997 – 2003 (in billions of dollars)



...putting pressure on the private sector to make up the difference.

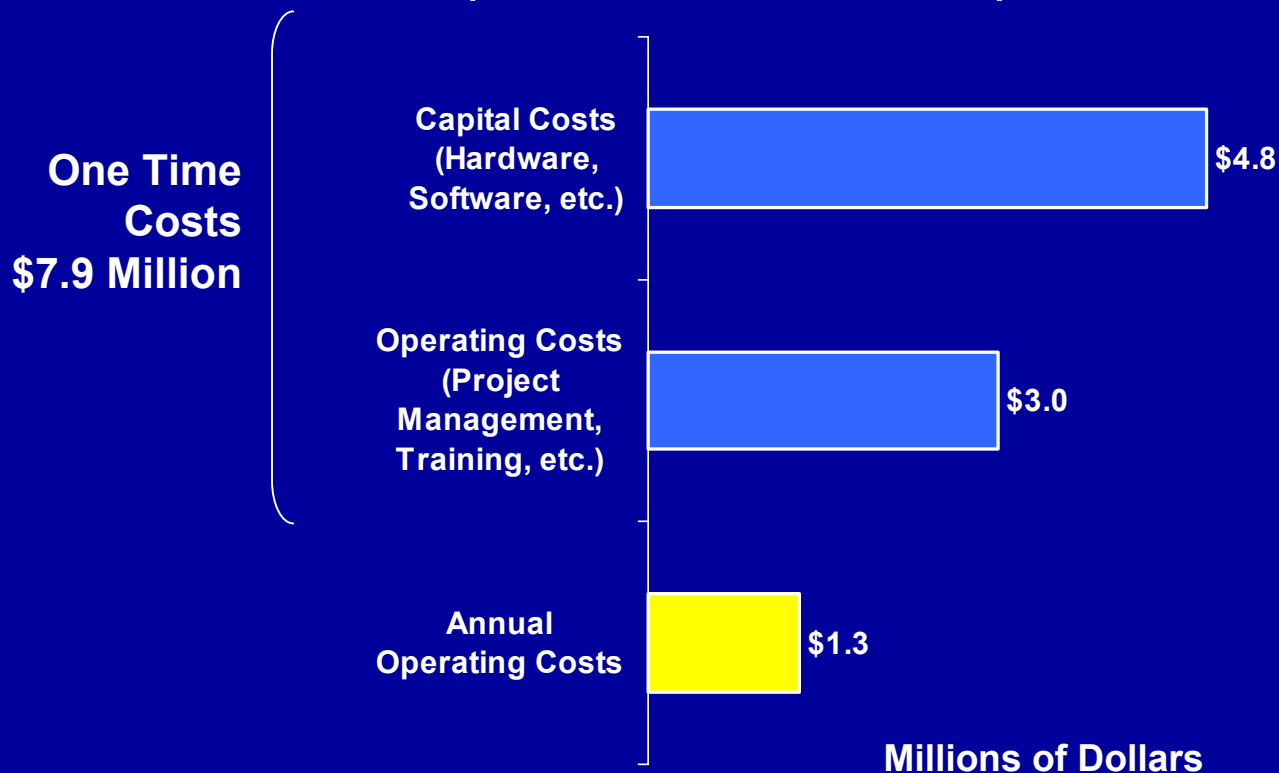
Aggregate Hospital Payment-to-cost Ratios for Private Payers, Medicare and Medicaid 1980 - 2003



These financial pressures make it difficult for hospitals to make critical investments and keep up with the cost of caring.

The information technology to promote quality and patient safety costs millions of dollars.

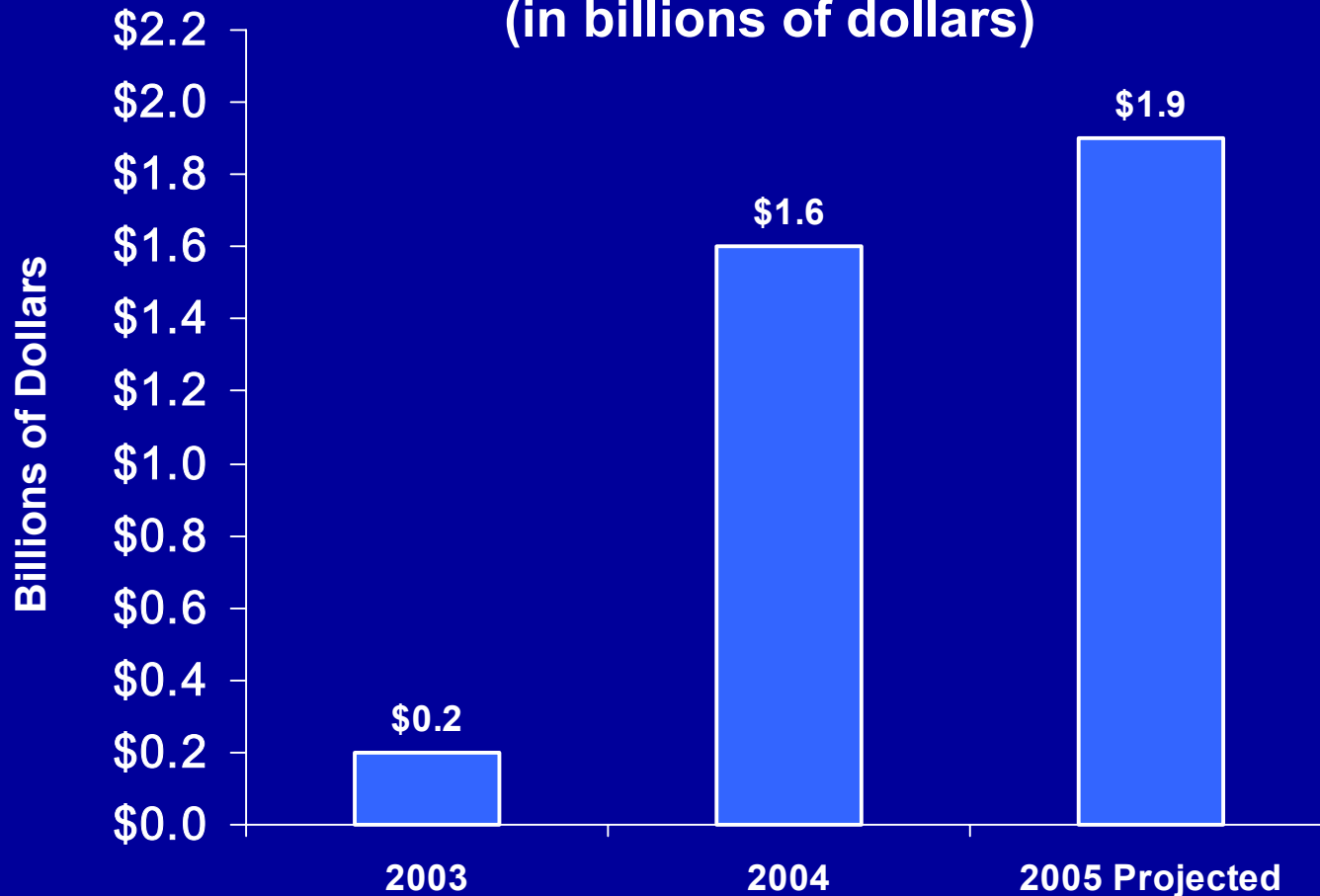
Estimated Cost of Computerized Physician Order Entry for a 500-Bed Hospital (in millions of dollars)



Source: First Consulting Group

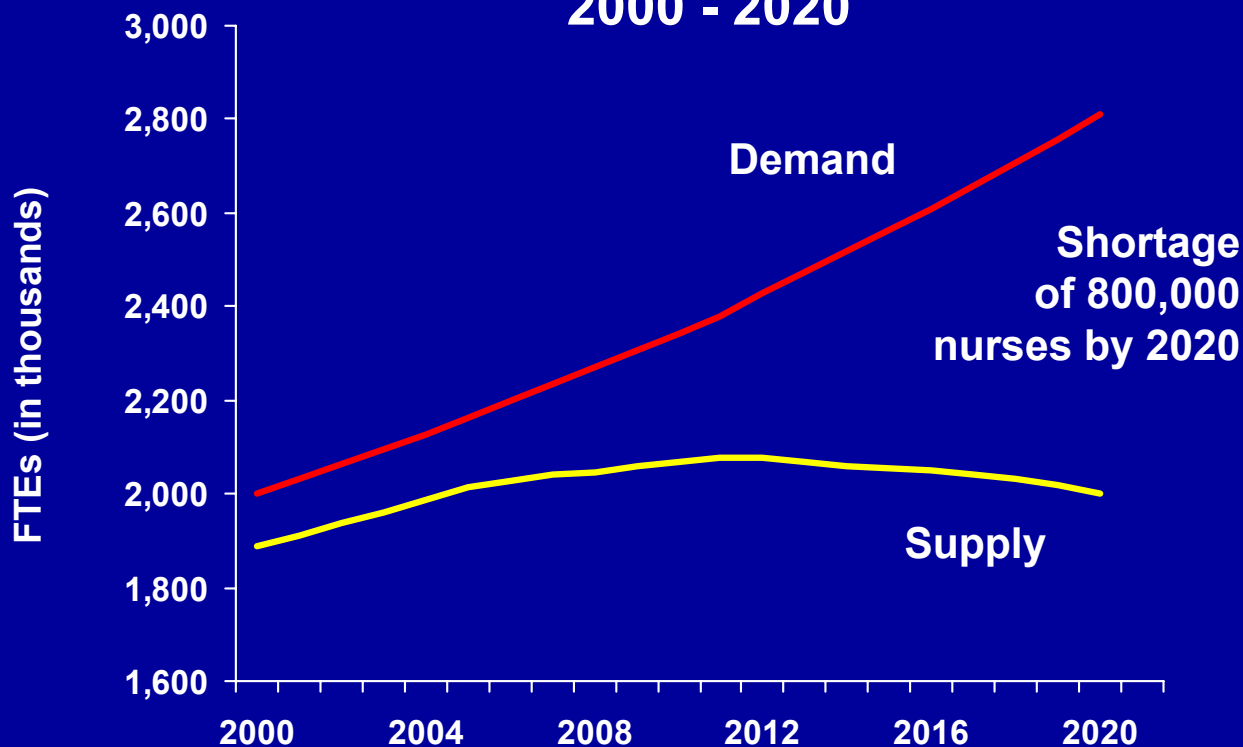
Advances in medicine offer new possibilities, but add billions to the nation's cost of caring.

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



Hospitals need to invest in workforce development to ensure we have enough caregivers to meet the future needs of patients.

Supply vs. Demand for Registered Nurses 2000 - 2020



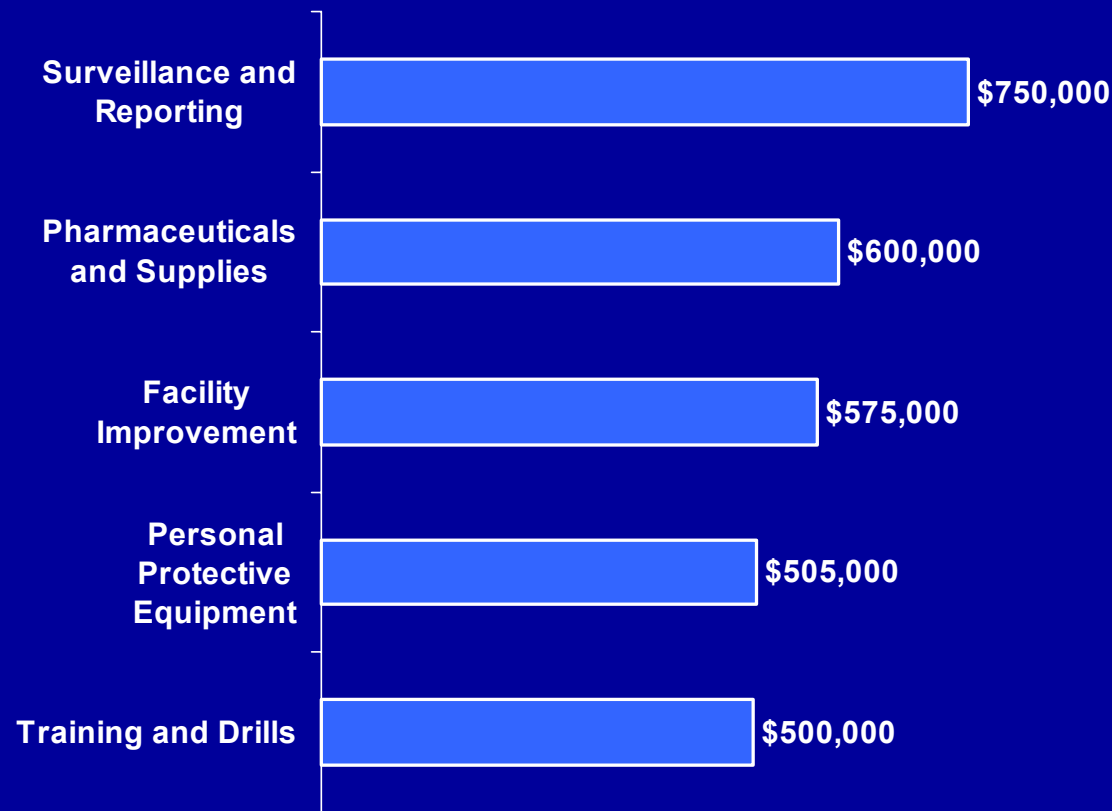
Source: Bureau of Health Professions, National Center for Health Workforce Analysis, *Projected Supply, Demand, and Shortages of Registered Nurses: 2000 - 2020*, released July 2002



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Disaster readiness requires staff, equipment and training.

Cost per Metropolitan Hospital of Selected Upgrades for Disaster Readiness



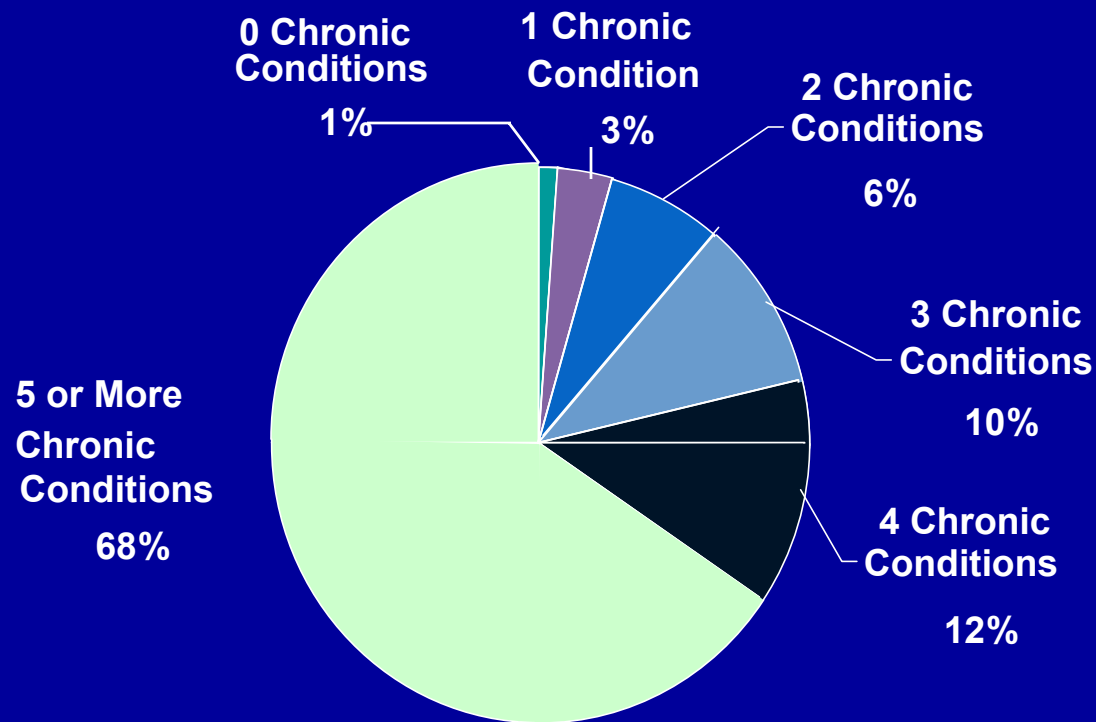
Source: "Hospital Resources for Disaster Readiness," AHA, 2001



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Investment in chronic care management will be the key to controlling future health care costs.

Percent of Medicare Expenditures by Number of Chronic Conditions

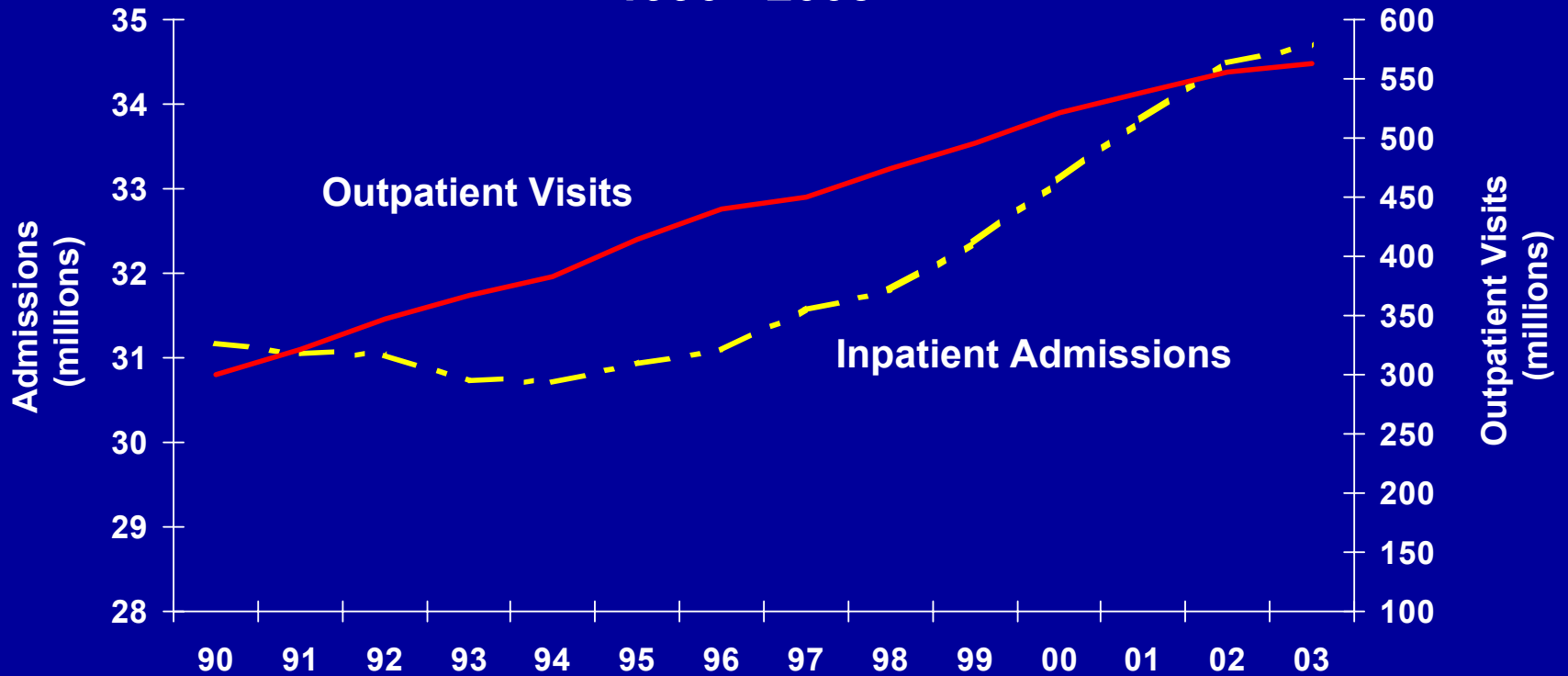


Source: Partnership for Solutions, Medicare Expenditure Panel Survey, 2001, *Chronic Conditions: Making the Case for Ongoing Care*, September 2004.



Meanwhile the demand for care – and the staff and facilities to provide that care – continue to grow.

**Inpatient Admissions and Outpatient Visits
1990 - 2003**



For hospitals, today is a time for investment – not cutbacks.

Critical investments are needed to support:

- **Information technology**
- **Advances in medicine**
- **Disaster readiness**
- **Workforce development**
- **Chronic care management**
- **Rising demand for care**

