

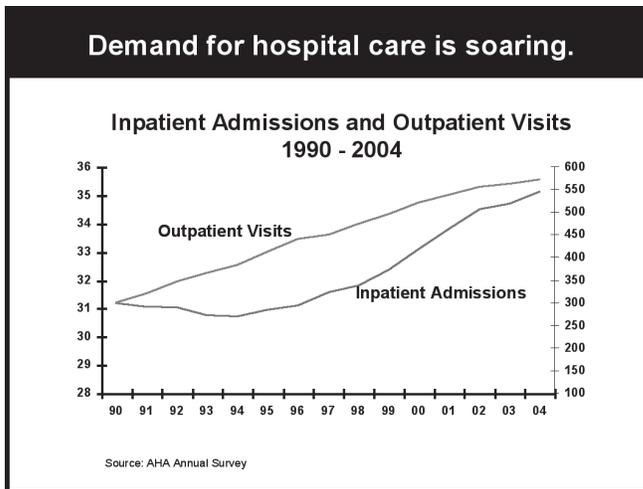
Protecting and Improving Care for Patients and Communities

Keeping Hospitals Prepared to Care – It’s Time for Investment, Not Cutbacks

Issue

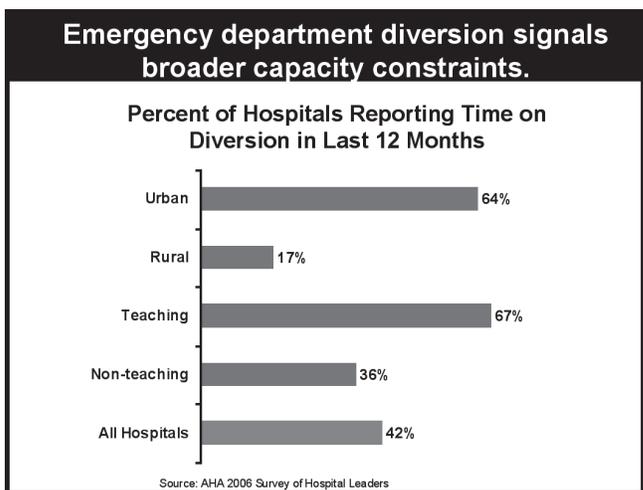
America’s hospitals play a unique role in our health care system. Hospitals stand ready, doors open 24 hours a day, 365 days a year, to provide a full spectrum of high quality, compassionate care, to respond to disaster and pandemic disease, and to care for all regardless of their ability to pay. Being prepared to care takes continual investment. However, Medicare and Medicaid continue to pay less than the cost of caring for their beneficiaries, straining the ability of hospitals to keep pace with the growing needs of their communities. Now is a time for investment, not cutbacks.

Critical areas for investment include:



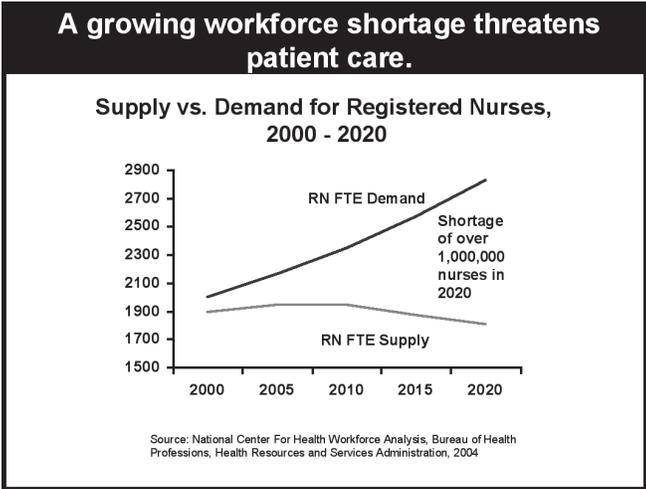
Capacity to meet increasing demand. Demand for hospital care is rising. Advances in medicine are opening new treatment possibilities at the same time our population is aging. With aging and other demographic trends come an increasing burden of costly chronic conditions like diabetes, heart disease, and obesity. Obesity alone accounts for an estimated \$177 billion in annual spending on health care. Since 1990 hospital admissions are up by 13 percent while the number of outpatient visits has nearly doubled.

But increased demand has been met by constrained capacity. America has nearly 500 fewer hospitals than it did in 1990. Nowhere is this trend more evident than in our nation’s emergency departments (EDs). Our EDs are backing up with patients who need acute or intensive care beds that are already full, leading hospitals to divert ambulances to other facilities.



Advances in medicine. Advances in medicine improve the length and quality of life, but keeping pace requires continual investment by hospitals. A recent survey of physicians ranked imaging as the most important medical innovation of the last three decades. But a single piece of equipment such as a computed tomography (CT) functional imaging machine with positron emission tomography (PET) – recently approved for Medicare coverage for the diagnosis of Alzheimer’s disease – costs about \$2.3 million.

Workforce development. Hospitals face an immediate need for caregivers and support staff to meet rising demand. As of December 2005, hospitals had an estimated 118,000 vacant positions for registered nurses (RNs) alone. The health care workforce – particularly the registered



nurse population is aging and retiring. Meanwhile, existing education programs currently don't have sufficient capacity to train the number of RNs needed. Without action, the shortage of RNs is expected to hit 1 million by 2020. While federal investment targeted to workforce development is critical, individual hospitals need funds to invest in their own efforts including hospital-based education programs, tuition reimbursement, scholarships, faculty support and other initiatives to support recruitment and retention.

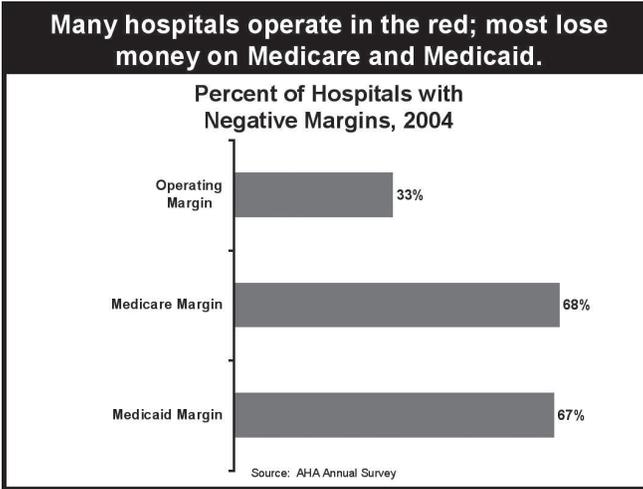
Information technology. Advances in clinical information technology provide opportunities to improve quality and patient safety, but the investment requirements are staggering. A new study published in the Annals of Internal Medicine estimates 5-year capital investment requirements of over \$50 billion nationally for hospitals to achieve a model health information network including electronic health records, computerized physician order entry, results viewing and other key functions.

Disaster readiness. While hospitals have always stood ready to respond to disease and disaster, events like September 11, Hurricane Katrina and pandemic flu have transformed how we think about preparedness needs. What was considered "possible" before now has moved to the realm of "probable," raising the bar for what is considered to be an adequate level of preparedness. Hospital investment requirements include: communication systems; drills and training; specialized equipment like personalized protective gear and decontamination units; and medical supplies such as pharmaceuticals and vaccines.

AHA View

The ability to meet these investment challenges is compromised by the significant financial pressures facing hospitals. Adequate reimbursement is essential. Payments for patient care services must not only cover costs – if the facility is to keep its doors open at all – but also provide a margin to fund investment and demonstrate the financial stability necessary to get bond and other financing. Lenders cannot responsibly provide funding to facilities that are not financially stable.

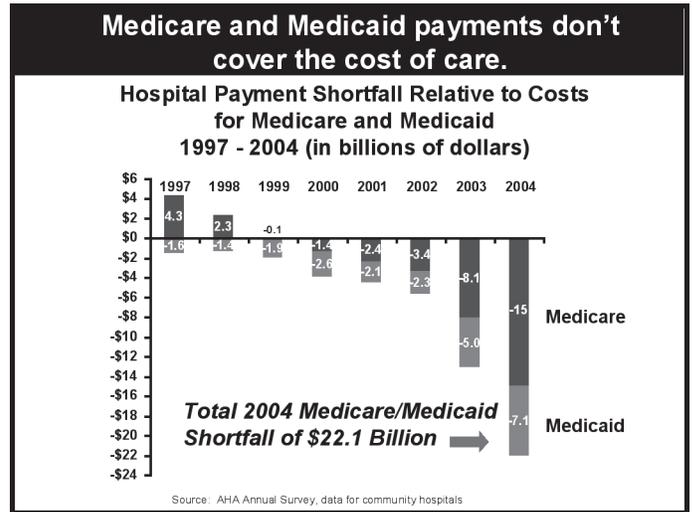
But today, a third of hospitals lose money on operations – with Medicare and Medicaid underfunding a key driver. These programs account for half of care provided but pay less than the cost of care for their beneficiaries.





Two-thirds of hospitals lose money treating Medicare and Medicaid patients. In aggregate Medicare pays an estimated 92 cents for each dollar spent providing care to Medicare beneficiaries while Medicaid pays 90 cents.

The Medicare and Medicaid shortfall has grown to over \$22 billion threatening hospital financial performance and putting pressure on private payers to make up the difference. Hospital total margins are down 22 percent from where they were in 1997.



On top of underfunding by government, hospitals face other financial pressures: labor costs are rising as hospitals increase wages to attract scarce workers; the growing number of uninsured patients is contributing to greater levels of uncompensated care; and hospitals face skyrocketing costs for medical liability insurance, pharmaceuticals, and clinical information systems.

Given what Americans need from our nation's hospitals – care with skill and compassion 24/7 – today is a time for investment not cutbacks. Critical investments are needed to ensure that hospitals can meet rising demand for care; bring communities the advances in medicine that improve the length and quality of life; rebuild the health care workforce; support information technology to improve quality and patient safety; and maintain a level of preparedness to meet today's potential threats.

Keeping hospitals prepared to care is a national priority.