TRENDS:
Even as Health Reform Takes Center Stage, Economic Challenges Remain

Hospital Statistics is a comprehensive compilation of data on trends in the hospital field through 2008 based on the results of the American Hospital Association’s (AHA) Annual Survey of Hospitals. Overall, Hospital Statistics identifies both long-standing and emerging trends and offers insights into what the future may hold for hospitals.
With the national spotlight squarely focused on health care reform, the impact of the economy on the country’s health care system has moved into the background but still bears watching closely. While economists point to signs of recovery, most still believe that improvement will be slow especially with respect to employment and state budget deficits; some expect setbacks along the way. Data from the 2008 AHA Annual Survey – which would have only picked up the very beginnings of the economic crisis – show a marked deterioration in the financial health of hospitals. Data from subsequent AHA surveys in 2009 indicate challenges continue.

**Access to Capital Constrained**

The collapse of the housing market had ramifications for hospitals in the early part of 2008 as capital markets were rattled. Hospitals saw variable interest rates skyrocket and sources of borrowing evaporate. By December, nine out of 10 hospitals reported that their ability to access tax-exempt bonds – the most important source of external capital for most hospitals – was severely constrained or non-existent.¹ Hospitals also rely on borrowing to meet day-to-day obligations because payment often lags care delivery. This type of capital became more expensive and more difficult to obtain as well.

By December 2008, nearly half of all hospitals surveyed had delayed capital improvements or even stopped some projects already in progress.² While the 2009 *American Recovery and Reinvestment Act* had some provisions beneficial to hospitals, few hospitals reported

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² Source: CHART 1: Percent of Hospitals Reporting Change in Ability to Access Capital Since December 2008 (as of August 2009).
an improvement in the capital situation by the end of the first quarter of 2009 and only slightly more reported improvement as of August (Chart 1).

In response, the majority of hospitals cut capital spending for facility upgrades, clinical technology and/or information technology (Chart 2). These projects include renovating and updating aging facilities, expanding clinical technology available to the communities served or expanding access to existing services. The continued difficulties in borrowing are particularly worrisome as hospitals scramble to invest in information technology to qualify as “meaningful users” to obtain the add-on Medicare and Medicaid payments for information technology authorized under the American Recovery and Reinvestment Act.

Hospitals Face Loss of Non-operating Income and Shrunken Reserves
Access to outside capital was only part of the reason hospitals were reluctant to make investments. The precipitous decline in the stock market drove down the value of reserves and turned non-operating gains to losses for the year. Also, many hospitals saw a drop in charitable donations. The 2008 aggregate total margin for community hospitals plummeted to its lowest level in more than 25 years (Chart 3). Hospitals traditionally rely on reserves to fund capital projects and income from investments to help cover underfunding from
Historically, non-operating income represents a third or more of overall margin.

**Broader Economic Woes Put Pressure on Operations**

The broader economic woes also have taken a toll on hospitals and the communities they serve. From January to December 2008, the unemployment rate rose by 47 percent (Chart 4). Research indicates that for every one percentage point increase in unemployment, 2.5 million people lose their employer-sponsored insurance. By late 2008 many hospitals were seeing moderate or significant declines in elective procedures while a greater proportion of patients seeking care were unable to pay. Hospitals also were reporting an increase in the need for subsidized services such as clinics, screening and outreach. These trends were evident in operating margins for 2008, which were down nearly 25 percent from 2007.

Going into 2009, unemployment continued to rise sharply. As of August, unemployment was at 9.7 percent (Chart 4). Not surprisingly, for the first half of 2009, nearly half of all hospitals reported a moderate to significant increase in the percentage of patients covered by Medicaid, Children’s Health Insurance Program and/or other programs for low-income populations, and uncompensated care continues to increase (Chart 5).

The stimulus package provided necessary relief to state Medicaid programs, forestalling what could have translated into significant

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**CHART 3: Aggregate Total Hospital Margins, 1980 – 2008**

![Chart showing hospital margins from 1980 to 2008.](chart3.png)

CHART 4: Unemployment Rate (Non-Farm), 2007-2009


CHART 5: Change in Uncompensated Care and Patients Covered by Medicaid and Other Programs for Low Income Populations, YTD June 2009 versus Same Period Last Year

cuts to provider payments. However, fiscal recovery at the state level is slow – property, sales and income taxes have not yet begun to rebound. The majority of states still face large future budget deficits and future cuts to provider payments are likely.

**Cutbacks in Expenses Help Stabilize Financial Performance**

Nearly nine in 10 hospitals report making changes in response to economic concerns since the fall of 2008. More than 80 percent of hospitals have cut administrative expenses and just over half have reduced staff. A smaller but still significant percentage (20 percent) of hospitals have reduced services that their communities depend on (Chart 6). Services most often targeted include those that tend to be poorly reimbursed such as behavioral health, post-acute care, clinics and patient education.

The combination of challenges to hospitals’ financial performance – increased borrowing costs, sharp drops in investment income and the value of reserves, and pressures on operations – has caused financial indicators important to creditors to slip. In addition to declining margins, many hospitals saw their days cash on hand and debt service coverage ratios decline. Nearly one in 10 hospitals was
Eight in 10 hospitals have seen an increase in the number of physicians seeking compensation for services such as on-call coverage. Nearly three-quarters of hospitals report an increase in physicians seeking hospital employment and over one-third report an increase in the number of physicians seeking to sell their practices to the hospital (Chart 8).

Physicians Turn to Hospitals for Financial Support
Hospitals have seen a marked increase in the number of physicians seeking the financial support of hospitals since the fall of 2008.

In 2008, 32 percent of hospitals reported losing money overall, up from 22 percent in 2007. In surveys conducted in 2009, 43 percent of hospitals reported expected losses for the first quarter and 34 percent reported losses for the first half of 2009 (Chart 7). The rebound since the first quarter indicates that the actions hospitals have taken to bolster financial performance have helped, but it may be years before hospitals rebound to 2007 levels.

Hospitals Remain Critical to Economic Health of Communities
Traditionally, hospitals are the economic mainstays of their communities, offering a steady source of employment even during times of economic stress. In 2008, hospitals employed more than 5.3 million people. Though many hospitals made cutbacks, the hospital field as a whole added jobs through

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August 2009, despite declining employment in the economy as a whole (Chart 9). In 2008, hospitals spent approximately $322 billion on employee compensation and $268 billion on other goods and services. Hospital wages, purchases from other businesses and taxes support jobs and other economic activity throughout the community.
CHART 9: Percent Change in Employment, Seasonally Adjusted: Hospital vs. All Industries (Total Non-farm), 2008 - 2009

*July and August 2009 data are preliminary.

References
2 Ibid.
8 Analysis of AHA Annual Survey data for 2008.
9 Ibid.