



American Hospital  
Association

## Report on the Economic Crisis: Initial Impact on Hospitals

November 2008

### Executive Summary

- **The capital crunch is making it difficult and expensive for hospitals to finance facility and technology needs.**
  - Increased costs of borrowing.
  - Decreased access to financing.
- **Many hospitals are seeing the impact of the economic downturn on the number and mix of patients seeking care.**
  - Lower admissions and elective procedures.
  - Rising unemployment leading to increased uncompensated care.
- **More physicians are seeking financial support from hospitals.**
- **Financial health is worsening as patients seek less care and investment gains turn to losses.**
  - Many hospitals making or considering cutbacks.
- **Stresses on state and federal budgets raise worries about cuts to Medicaid and Medicare provider payments.**
  - Programs support half of patient care provided but are already severely underfunded.
- **Hospitals and health care are a critical part of the economy.**
  - In 2007, 45 percent of new private sector jobs were created in the health sector.
  - Hospitals alone employ more than 5 million people.

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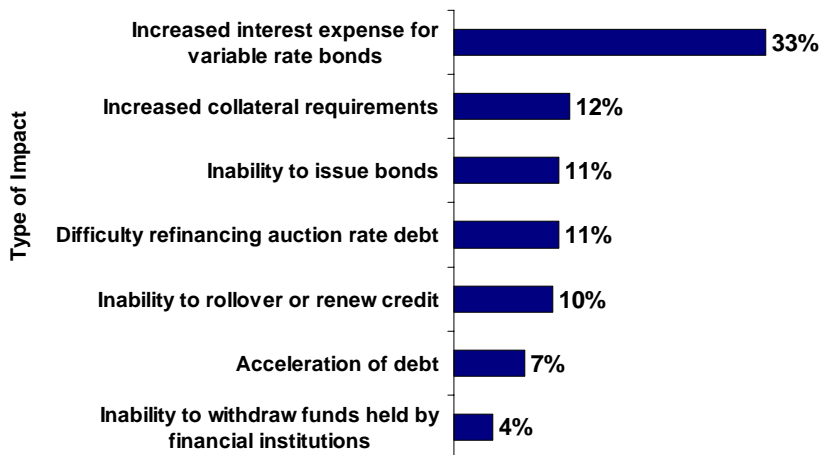
## Data Sources

- AHA Survey, *The Economic Crisis: Impact on Hospitals*
  - Survey was sent to all non-federal hospital CEOs in late October 2008 via fax and e-mail.
  - Data was collected through November 10, 2008.
  - A total of 736 responses were received.
  - Sample is broadly representative of hospital universe.
- DATABANK Preliminary 3<sup>rd</sup> quarter 2008 data
  - Financial data reported by 557 hospitals participating in DATABANK, a web-based reporting system used in 30 states.
  - Includes hospitals submitting both 3<sup>rd</sup> quarter 2007 and 3<sup>rd</sup> quarter 2008 data as of November 11, 2008.
- Various secondary data sources

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**The credit crunch is increasing the costs of borrowing money and making it more difficult to find the financing for necessary facility and technology improvements.**

### Percent of Hospitals Reporting Various Effects of Credit Crisis, November 2008

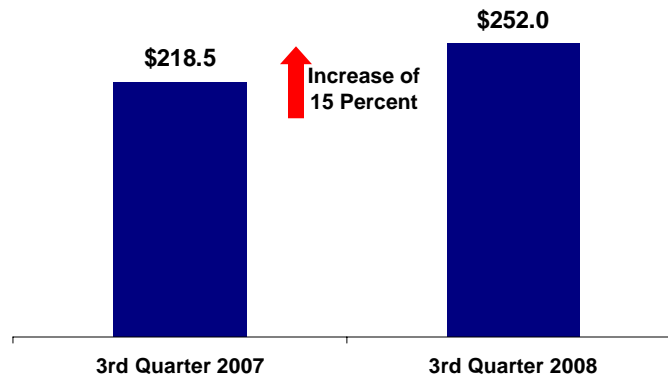


Source: AHA. (November 2008). Rapid Response Survey, *The Economic Crisis: Impact on Hospitals*.

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Preliminary 3<sup>rd</sup> quarter 2008 data show that interest paid on borrowed funds is up 15% relative to the same period last year.

Interest Expense, 3<sup>rd</sup> Quarter 2007 vs. 3<sup>rd</sup> Quarter 2008 (millions)

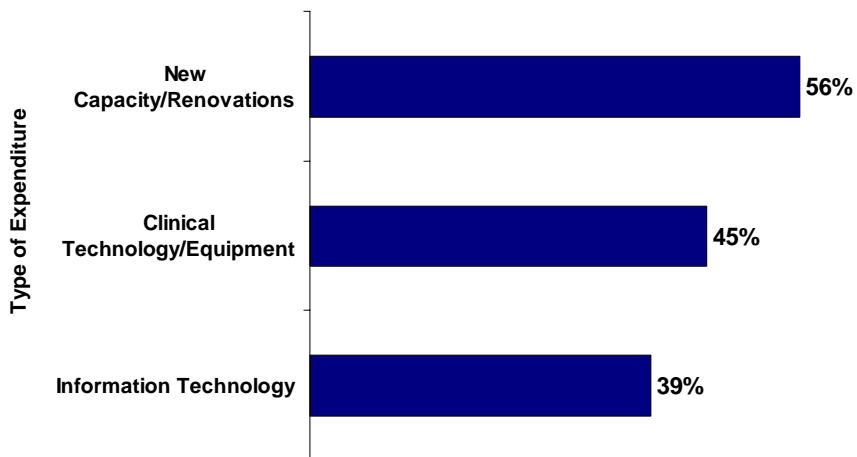


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Source: DATABANK, 557 hospitals reporting data for both 3<sup>rd</sup> Quarter 2007 and 3<sup>rd</sup> Quarter 2008 as of November 11, 2008.

As a result, more than half of hospitals are reconsidering or postponing investments in facilities and equipment.

Percent of Hospitals Reconsidering or Postponing Capital Expenditures, November 2008

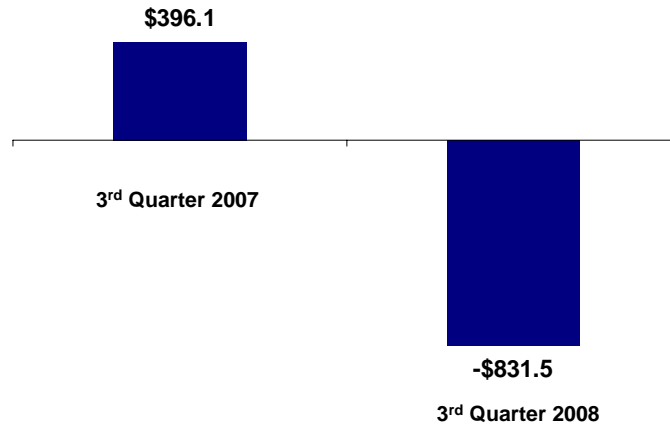


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Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals.

**Turmoil in the stock market has turned investment gains to losses.**

**Non-operating Revenue, 3<sup>rd</sup> Quarter 2007 vs. 3<sup>rd</sup> Quarter 2008 (millions)**

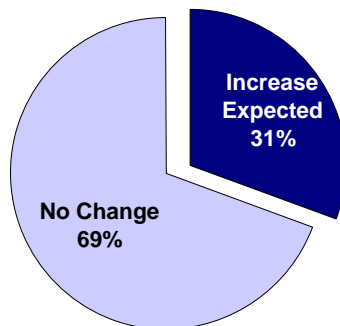


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Source: DATABANK, 557 hospitals reporting data for both 3<sup>rd</sup> Quarter 2007 and 3<sup>rd</sup> Quarter 2008 as of November 11, 2008.

**Investment losses mean that hospitals with defined benefit pension plans need to increase funding levels.**

**Percent of Hospitals Anticipating Need to Increase Pension Funding, November 2008**



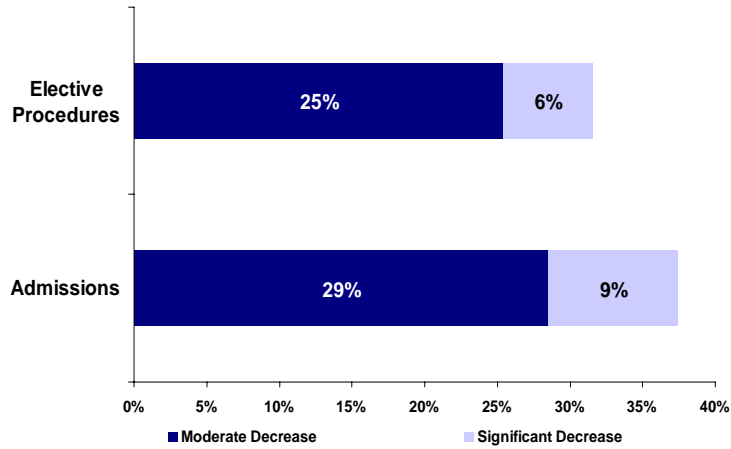
*This represents an estimated 60% of hospitals that have defined benefit plans.\**

Source: Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals. Diversified Investment Advisors. (2008). Retirement Plan Trends in Today's Health Care Market.  
\*Data indicate that about half of hospitals have defined benefit pension plans for at least some workers.

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**Many hospitals are beginning to see the effects of the downturn in lower patient demand.**

**Percent of Hospitals Reporting a Moderate to Significant Decline in Admissions and Elective Procedures in Past 3 Months Relative to Projected Levels, November 2008**

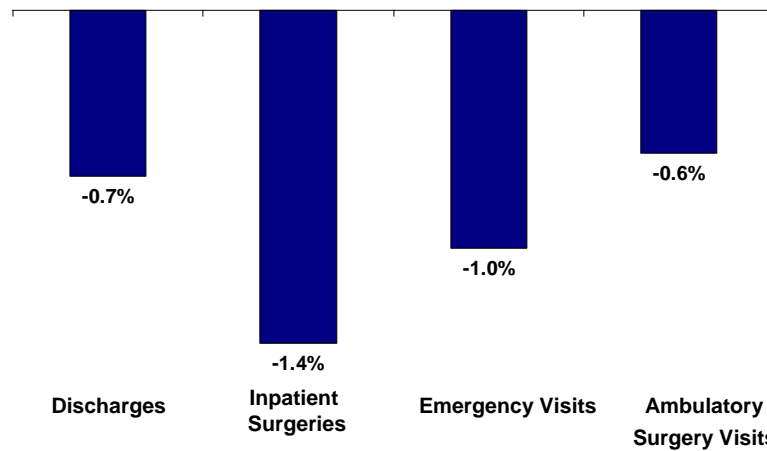


Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals.

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**Preliminary data show that 3<sup>rd</sup> quarter patient visits are flat or declining relative to the same quarter last year.**

**Percent Change in Volume, 3<sup>rd</sup> Quarter 2007 to 3<sup>rd</sup> Quarter 2008**

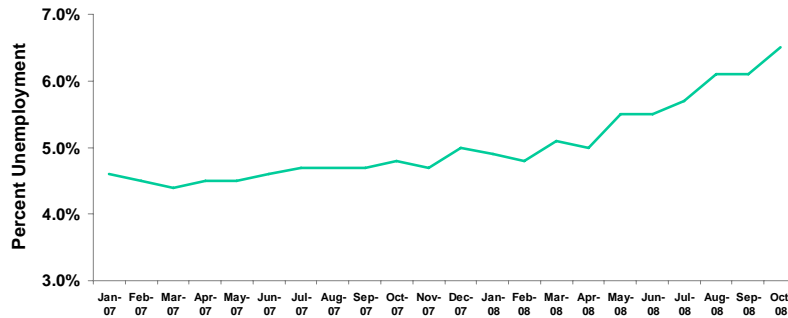


Source: DATABANK, 557 hospitals reporting data for both 3<sup>rd</sup> Quarter 2007 and 3<sup>rd</sup> Quarter 2008 as of November 11, 2008.

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**Unemployment is rising. Every one percent increase in unemployment leads to a loss of employer sponsored coverage for an estimated 2.5 million employees and dependents.**

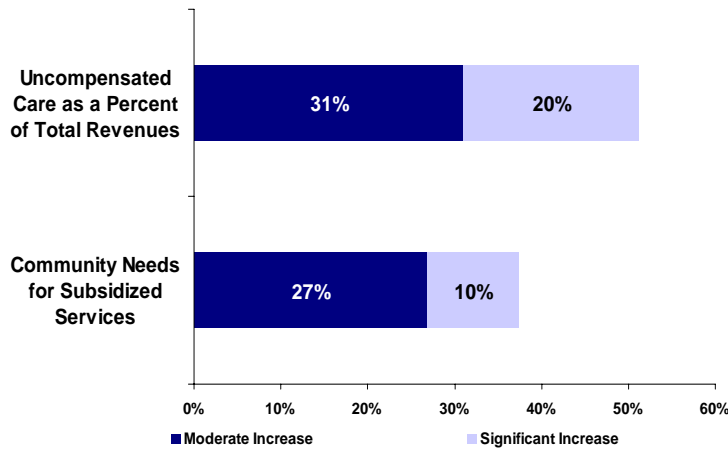
**Unemployment Rate, (Non-farm), January 2007 – October 2008**



Source: Department of Labor, Bureau of Labor Statistics, Labor Force Statistics. (2008). Access at: <http://www.bls.gov/oco/cg/cgs035.htm>.

**The majority of hospitals are seeing an increase in the proportion of patients unable to pay for care, and the need for subsidized services is increasing.**

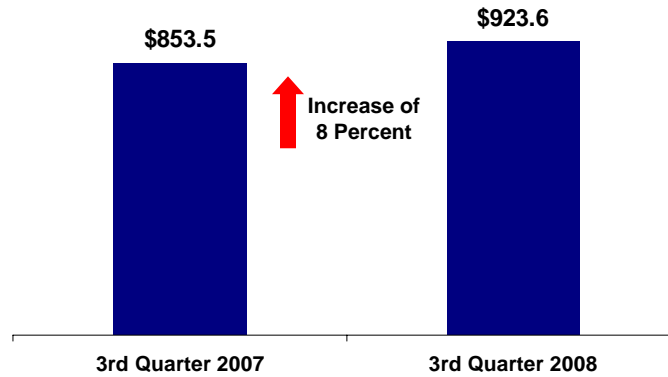
**Percent of Hospitals Reporting a Moderate to Significant Increase in Uncompensated Care and Need for Subsidized Services in Past 3 Months Relative to Projected Levels, November 2008**



Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals.

**Preliminary data show care for which no payment is received is up by 8% versus the same period last year.**

**Uncompensated Care, 3<sup>rd</sup> Quarter 2007 vs. 3<sup>rd</sup> Quarter 2008 (millions)**

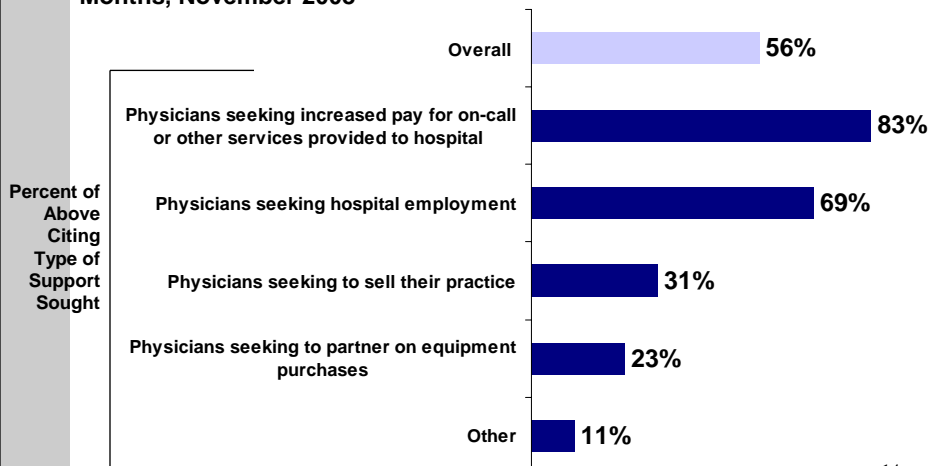


Source: DATABANK, 557 hospitals reporting data for both 3<sup>rd</sup> Quarter 2007 and 3<sup>rd</sup> Quarter 2008 as of November 11, 2008. Uncompensated care includes bad debt and charity care.

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**Stress on physicians is evident as more physicians seek financial support from hospitals.**

**Percent of Hospitals Reporting an Increase in the Degree to Which Physicians are Seeking Financial Support from Hospitals in Past 3 Months, November 2008**

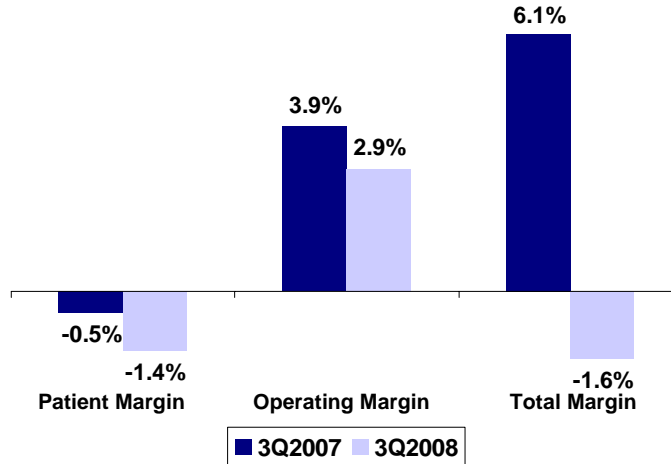


Source: AHA, (November 2008), Rapid Response Survey, The Economic Crisis: Impact on Hospitals. Note: Nationally, the majority of physicians are in private practice and are not employed by hospitals.

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**These pressures are leading to a decline in hospital financial health.**

**Total, Operating and Patient Margins, 3<sup>rd</sup> Quarter 2007 vs. 3<sup>rd</sup> Quarter 2008**

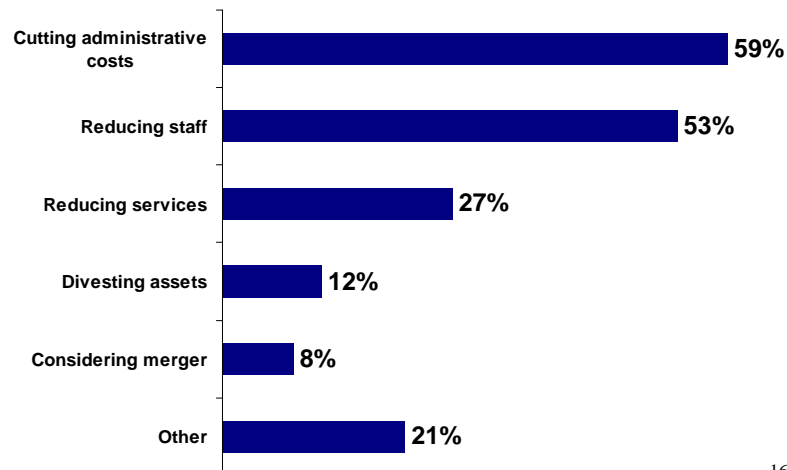


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Source: DATABANK, 557 hospitals reporting data for both 3<sup>rd</sup> Quarter 2007 and 3<sup>rd</sup> Quarter 2008 as of November 11, 2008.

**Financial stress is forcing hospitals to make or consider making cutbacks and/or other changes to weather the economic storm.**

**Percent of Hospitals Making or Considering Changes to Weather the Economic Storm, November 2008**



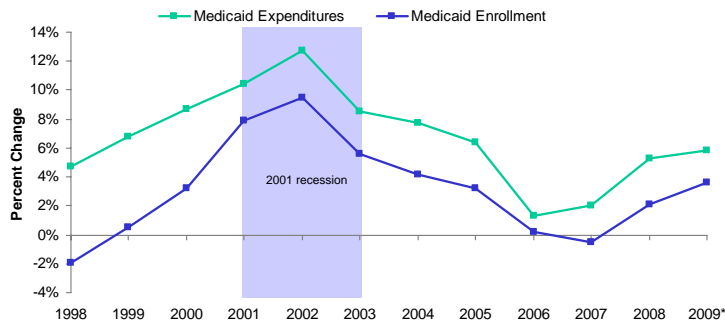
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Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals.



**Meanwhile, Medicaid expenditures – the largest and fastest growing portion of many state budgets – increase even faster during economic downturns as enrollment grows...**

**Percentage Change in Medicaid Expenditures and Enrollment, FY1998 – FY2009**

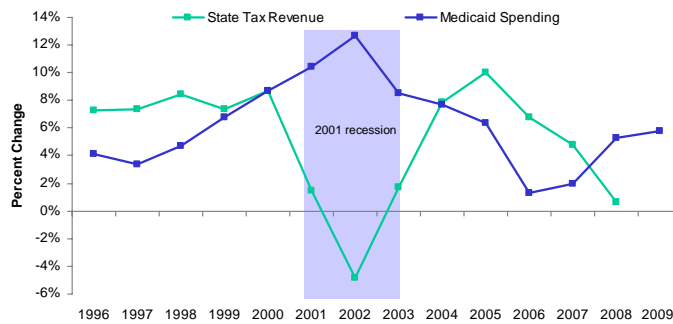


Source: Smith, V., et al. (September 2008). *Headed for a Crunch: An Update on Medicaid Spending, Coverage and Policy Heading into an Economic Downturn*. Kaiser Commission on Medicaid and the Uninsured.  
 \*FY2009 figures are projected in above study.

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**...even as state tax revenues drop.**

**Percent Change in State Tax Revenue and Medicaid Spending Growth, FY1996 – 2009**



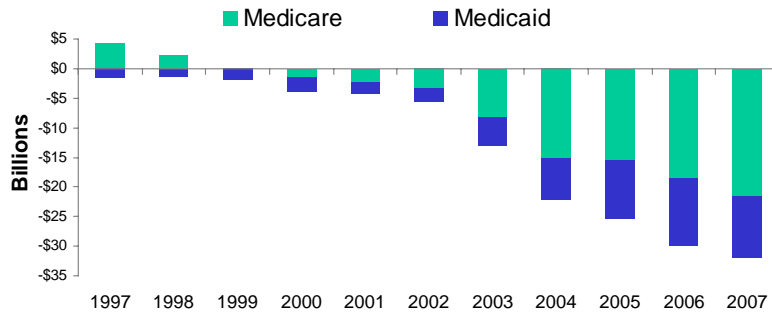
Source: Boyd, D., et al. (November 6, 2008). *State Tax Revenue Now Flat, for the First Time Since 2002 Recession: After Weak Third Quarter, Further Declines Likely Lie Ahead*. The Nelson A. Rockefeller Institute of Government; Smith, V., et al. (September 2008). *Headed for a Crunch: An Update on Medicaid Spending, Coverage and Policy Heading into an Economic Downturn*. Kaiser Commission on Medicaid and the Uninsured.  
 \*FY2009 Medicaid figure is projected; FY2008 revenue figure only includes the first quarter.

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...and are already significantly underfunded.

Hospital Payment Shortfall Relative to Costs for Medicare and Medicaid, 1997 – 2007

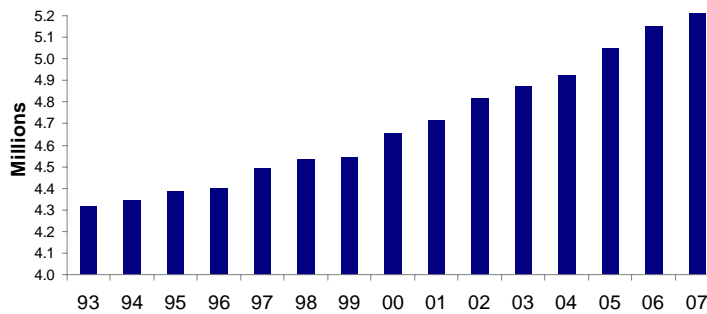


Source: AHA Annual Survey, 1997 - 2007. Data for community hospitals.

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Nationwide, hospitals employ over 5 million people and the number is growing. Overall, healthcare was responsible for 45 percent of all new private sector jobs in 2007.

Number of Full-time and Part-time Hospital Employees, 1993 – 2007



Source: AHA Annual Survey, 1993 - 2007. Data for community hospitals.

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