



**American Hospital  
Association**

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## *NEWS RELEASE*

### **NEW REPORT DETAILS IMPACT OF ECONOMIC DOWNTURN ON PATIENTS AND HOSPITALS**

*Hospitals' role as health care safety net and major employer even more important  
as economic stresses mount*

**WASHINGTON** (November 19, 2008) – With our nation's economic troubles, fewer patients are seeking hospital care while at the same time a growing proportion of patients need help paying for care, according to new report from the American Hospital Association (AHA). The report also noted that hospitals, which employ 5 million people nationwide, could be facing uncertain times as their financial health falters and ability to borrow funds for improving facilities and updating technology is squeezed.

The report is based on survey results from 736 hospitals and information from DATABANK, a web-based reporting system used in 30 states to track key hospital trends.

Many hospitals are beginning to see the effects of the economic downturn with more than 30 percent of survey respondents reporting a moderate to significant decline in patients seeking elective procedures, and nearly 40 percent of respondents reporting a drop in admissions overall. The majority of hospitals surveyed also noted an increase in the proportion of patients unable to pay for care. Uncompensated care was up 8 percent from July to September versus the same period last year, according to the report.

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## Economic Downturn/Page 2

“The economic downturn has meant real pain for families and communities. For many, a pink slip also means losing vital health coverage and represents tough choices about the family budget,” said AHA President and CEO Rich Umbdenstock. “This report underscores those decisions as people put off needed health care, as well as the challenges hospitals face as they work to meet the needs of their community.”

Hospitals have seen the immediate impact of the economic downturn in other ways. According to the report, total margins fell to negative 1.6 percent in the 3<sup>rd</sup> quarter of 2008 versus positive 6.1 percent during the same period last year. Like many institutions, hospitals rely on investment income as one of the ways to help make ends meet, especially since government payors do not cover the costs of care. However, recent turmoil in the stock market has turned investment gains to losses, further worsening hospitals’ financial condition.

At the same time, Medicaid expenditures – the largest and fastest growing portion of many state budgets – increase even faster during economic downturns as enrollment grows and state tax revenues drop. State and federal budget difficulties raise worries about potential cuts to Medicare and Medicaid, which cover half of the patient care provided by the nation’s hospitals. Financial stress is forcing hospitals to make or consider making cutbacks to weather the economic storm including cutting administrative costs (60 percent), reducing staff (53 percent) and reducing services (27), among the hospitals surveyed.

All of these pressures are leading to a decline in hospitals’ financial health, which could ultimately affect local economies.

“Hospitals are a critical part of our nation’s economy as the second largest private sector source of jobs,” noted Umbdenstock. “In addition, every dollar spent by a hospital supports more than \$2 of additional business activity in a community. But cuts to Medicare and Medicaid may stunt hospitals’ ability to help drive economic growth. The economic crisis is taking its toll on patients, communities and hospitals alike.”

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### **Economic Downturn/Page 3**

The report also shows that the credit crunch is increasing the costs of borrowing money, making it more difficult for hospitals to find the financing for facility and technology improvements. Hospitals saw interest payments on borrowed funds increase by an average of 15 percent from July to September versus the same period last year.

As a result, many hospitals are reconsidering or postponing investments in facilities or equipment communities rely on for care. For instance:

- ✓ 56 percent of survey respondents are considering or holding off on renovations or plans to increase capacity,
- ✓ 45 percent are delaying purchase of clinical technology or equipment, and
- ✓ 39 percent are putting off investments in new information technology.

The report was based on data from two major sources. A survey, *The Economic Crisis: Impact on Hospitals*, provides data from 736 hospitals from late October 2008 through November 10, 2008. DATABANK figures represent early results from 557 hospitals reporting data for July through September 2007 and 2008 as of November 11, 2008. DATABANK is a licensed product of the Colorado Hospital Association. Attached is a copy of the report; full survey results can be found at [www.aha.org](http://www.aha.org).

#### About the AHA

The AHA is a not-for-profit association of health care provider organizations that are committed to health improvement in their communities. The AHA is the national advocate for its members, which include nearly 5,000 hospitals, health care systems, networks and other providers of care. Founded in 1898, AHA provides education for health care leaders and is a source of information on health care issues and trends.

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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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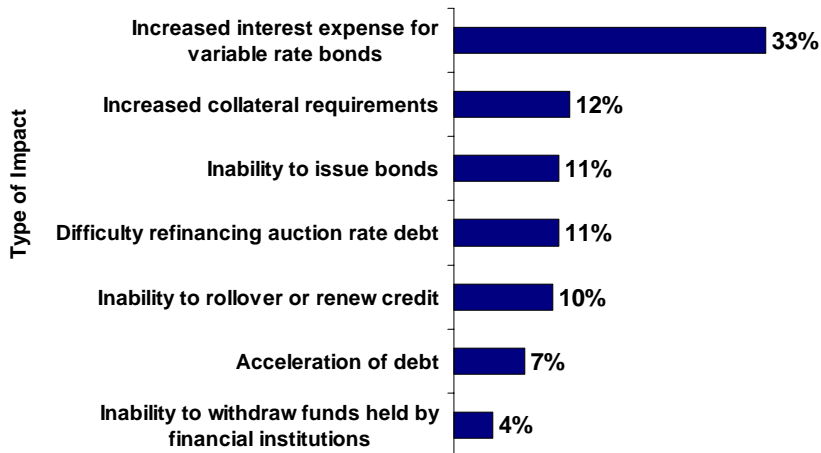
## Data Sources

- 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

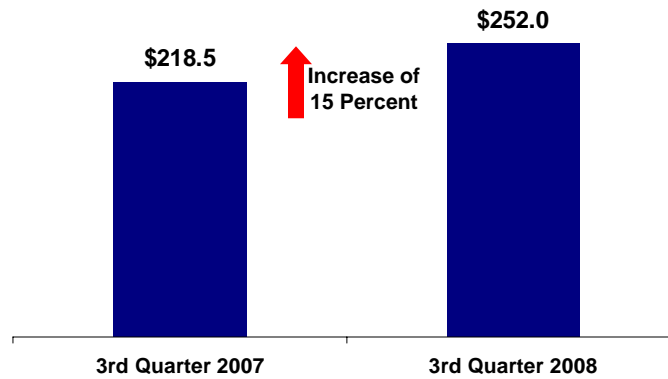


Source: AHA. (November 2008). Rapid Response Survey, *The Economic Crisis: Impact on Hospitals*.

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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)

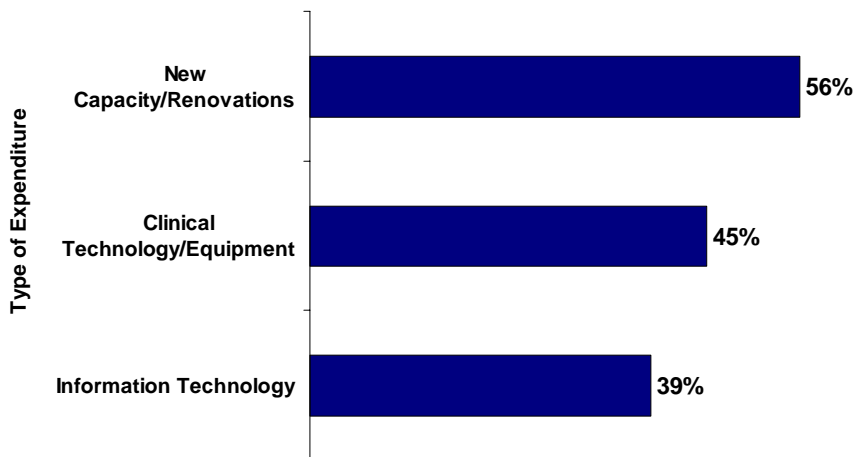


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Source: DATABANK, 557 hospitals reporting data for both 3<sup>rd</sup> Quarter 2007 and 3<sup>rd</sup> Quarter 2008 as of November 11, 2008.

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

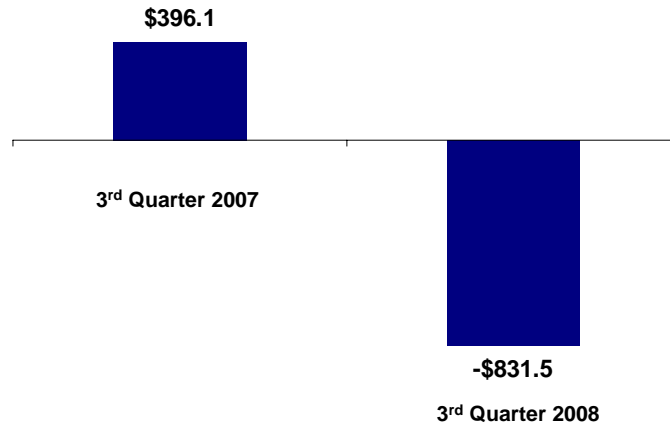


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Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals.

**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)**

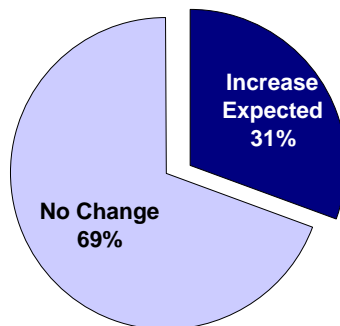


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Source: DATABANK, 557 hospitals reporting data for both 3<sup>rd</sup> Quarter 2007 and 3<sup>rd</sup> Quarter 2008 as of November 11, 2008.

**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**



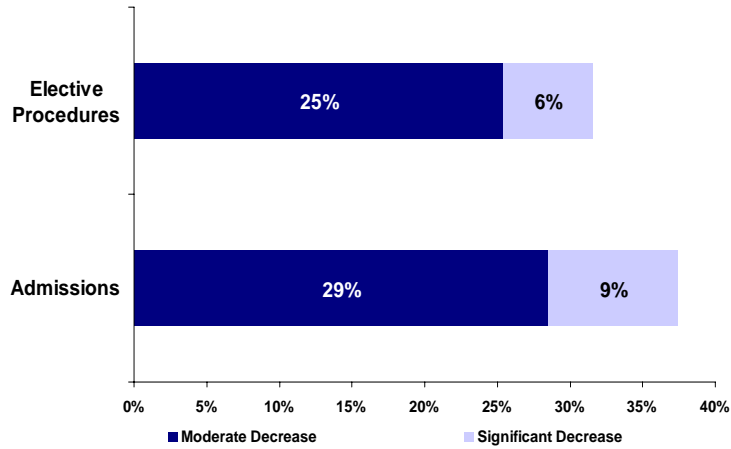
*This represents an estimated 60% of hospitals that have defined benefit plans.\**

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**

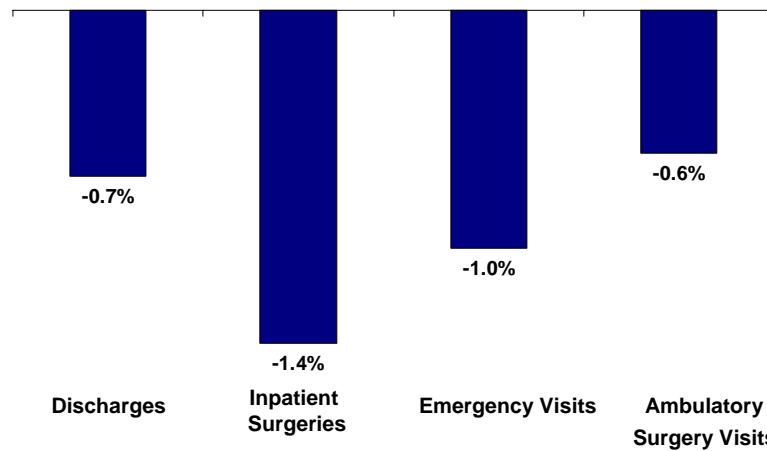


Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals.

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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**

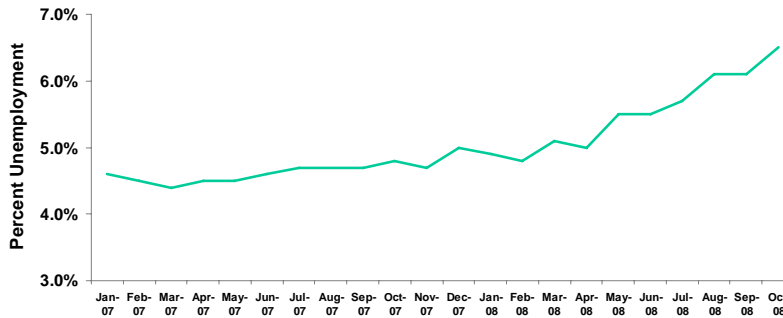


Source: DATABANK, 557 hospitals reporting data for both 3<sup>rd</sup> Quarter 2007 and 3<sup>rd</sup> Quarter 2008 as of November 11, 2008.

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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.**

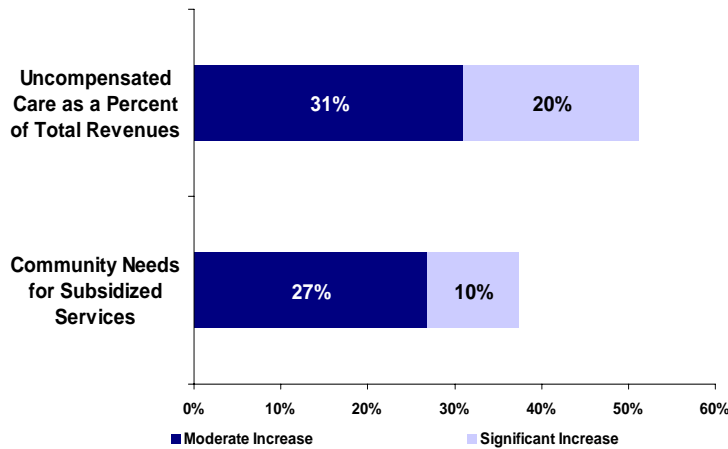
**Unemployment Rate, (Non-farm), January 2007 – October 2008**



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.**

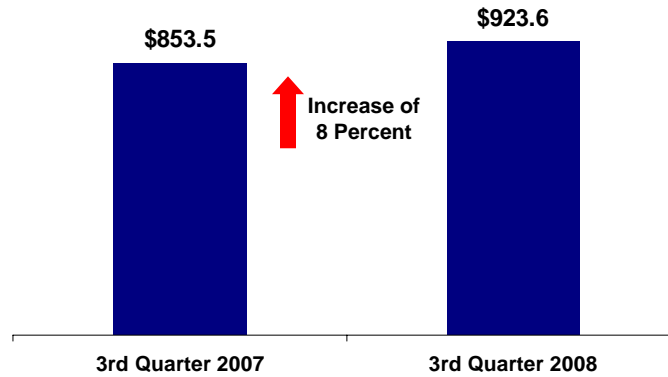
**Percent of Hospitals Reporting a Moderate to Significant Increase in Uncompensated Care and Need for Subsidized Services in Past 3 Months Relative to Projected Levels, November 2008**



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**

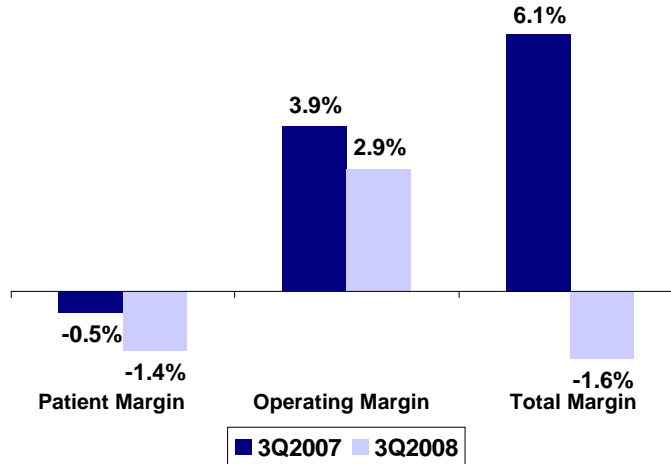


Source: AHA, (November 2008), Rapid Response Survey, The Economic Crisis: Impact on Hospitals. Note: Nationally, the majority of physicians are in private practice and are not employed by hospitals.

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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**

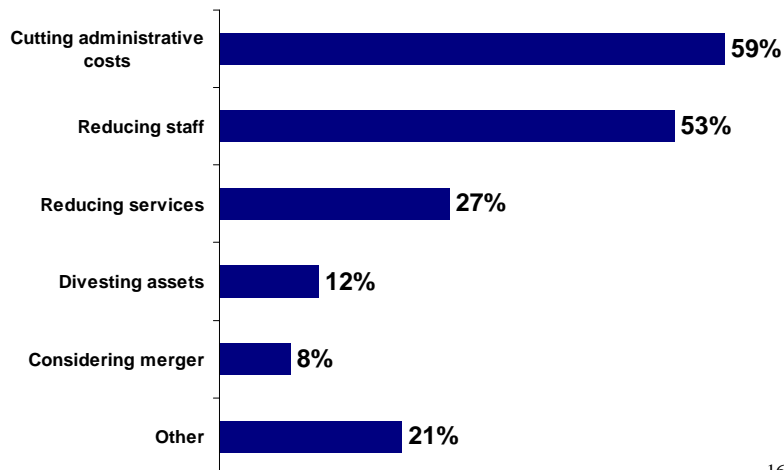


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Source: DATABANK, 557 hospitals reporting data for both 3<sup>rd</sup> Quarter 2007 and 3<sup>rd</sup> Quarter 2008 as of November 11, 2008.

**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**

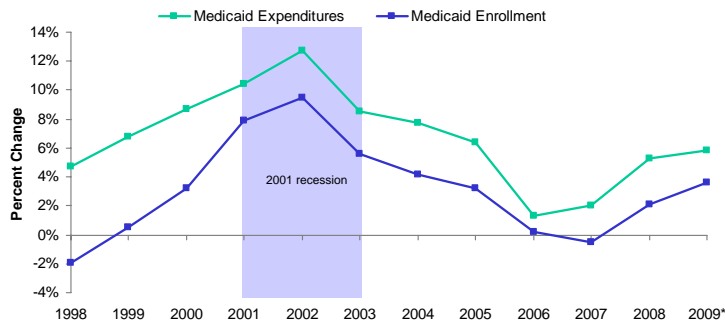


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Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals.

**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**

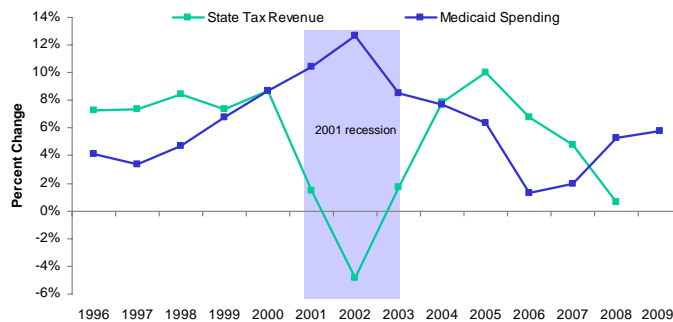


Source: Smith, V., et al. (September 2008). *Headed for a Crunch: An Update on Medicaid Spending, Coverage and Policy Heading into an Economic Downturn*. Kaiser Commission on Medicaid and the Uninsured.  
 \*FY2009 figures are projected in above study.

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

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



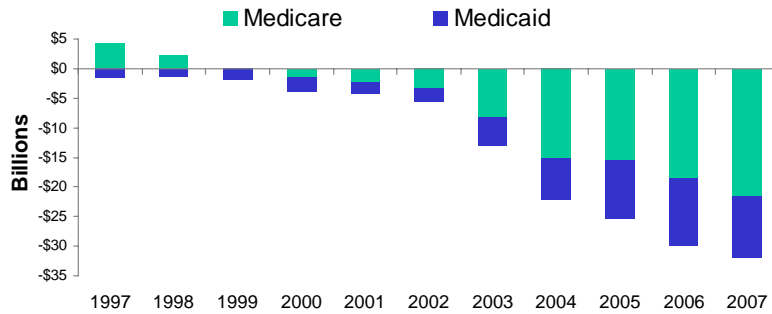
Source: Boyd, D., et al. (November 6, 2008). *State Tax Revenue Now Flat, for the First Time Since 2002 Recession: After Weak Third Quarter, Further Declines Likely Lie Ahead*. The Nelson A. Rockefeller Institute of Government; Smith, V., et al. (September 2008). *Headed for a Crunch: An Update on Medicaid 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

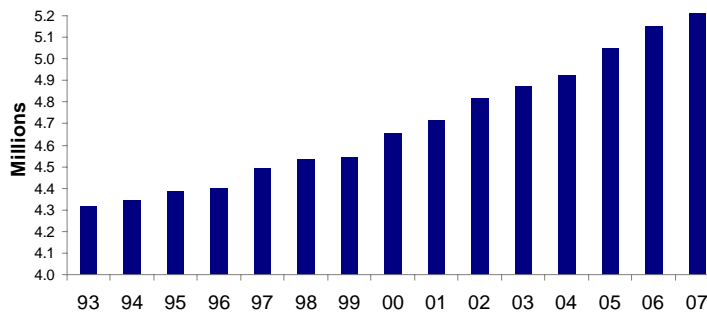


Source: AHA Annual Survey, 1997 - 2007. Data for community hospitals.

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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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