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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"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 3rd 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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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.

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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