



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.



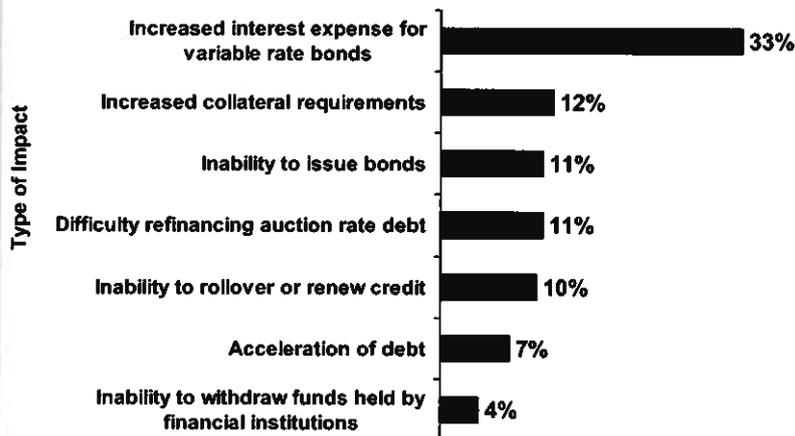
Data Sources

- **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 3rd 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 3rd quarter 2007 and 3rd 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



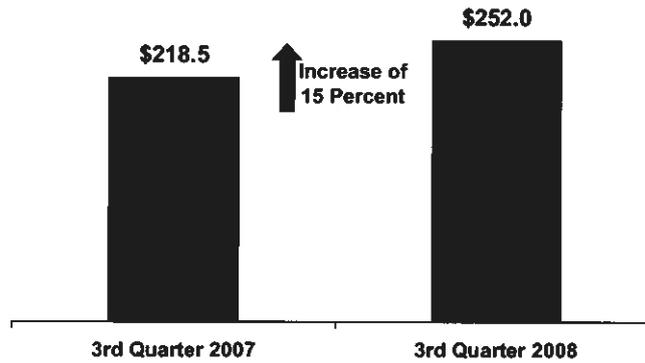
Source: AHA (November 2008) Rapid Response Survey, *The Economic Crisis: Impact on Hospitals*.

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

Interest Expense, 3rd Quarter 2007 vs. 3rd Quarter 2008 (millions)

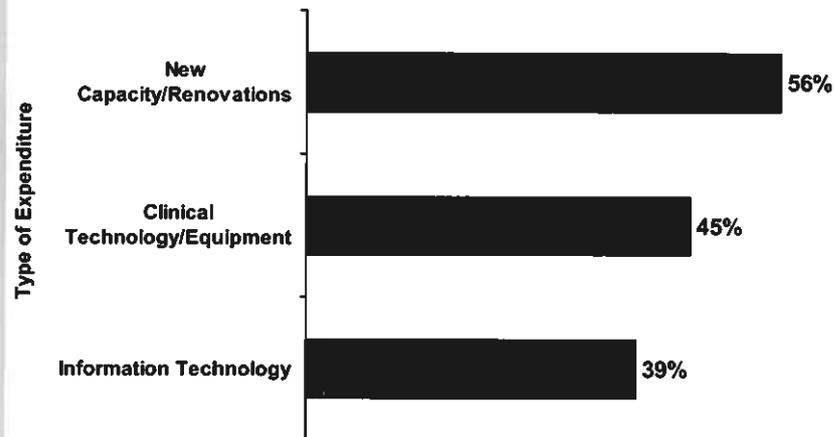


Source: DATABANK, 557 hospitals reporting data for both 3rd Quarter 2007 and 3rd Quarter 2008 as of November 11, 2008.

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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



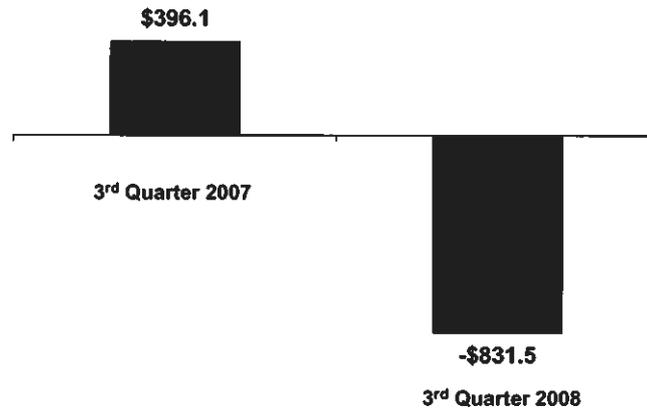
Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals.

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

Non-operating Revenue, 3rd Quarter 2007 vs. 3rd Quarter 2008 (millions)



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

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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.

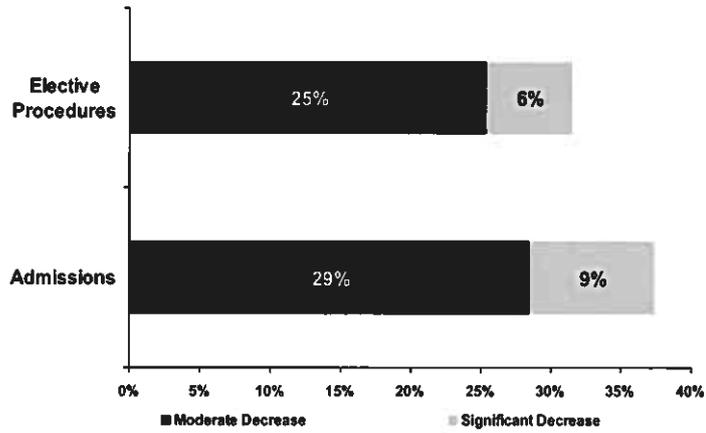
*Data indicate that about half of hospitals have defined benefit pension plans for at least some workers.

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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

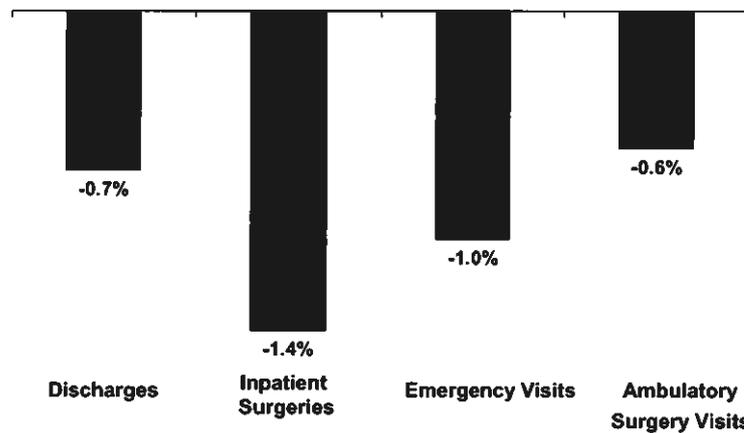


Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals.

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

Percent Change in Volume, 3rd Quarter 2007 to 3rd Quarter 2008



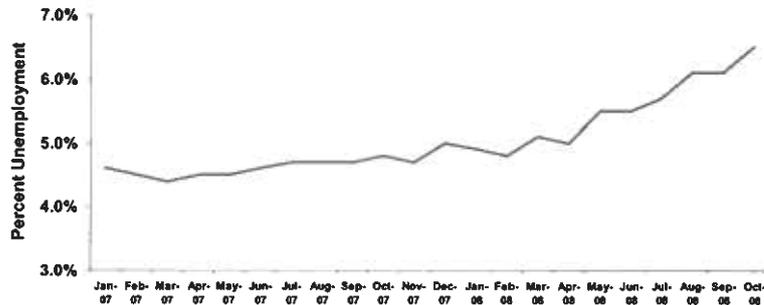
Source: DATABANK, 557 hospitals reporting data for both 3rd Quarter 2007 and 3rd Quarter 2008 as of November 11, 2008.

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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.

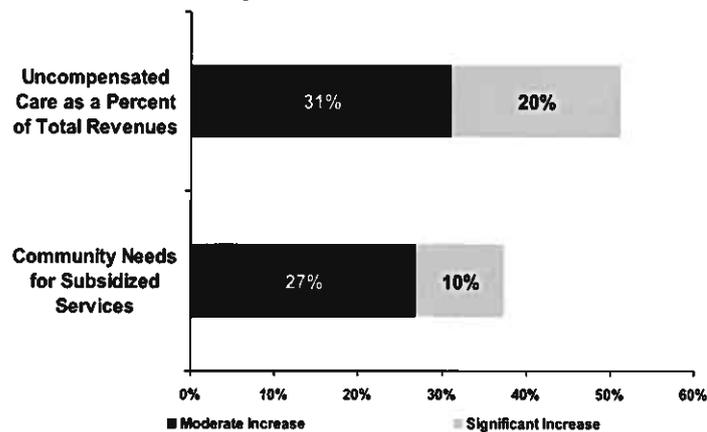
Unemployment Rate, (Non-farm), January 2007 – October 2008



Source: Department of Labor, Bureau of Labor Statistics, Labor Force Statistics. (2008). Access at: <http://www.bls.gov/oc/oclog/s035.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

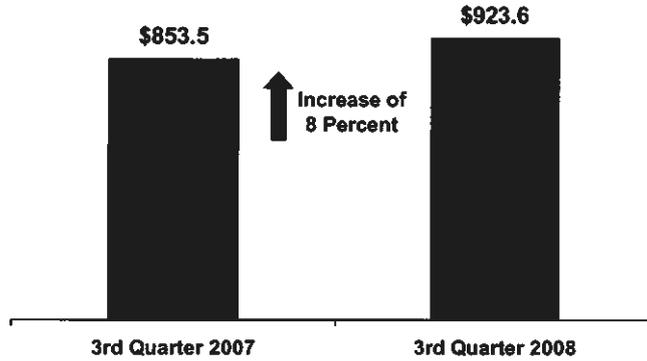


Source: AHA. (November 2008) Rapid Response Survey, The Economic Crisis: Impact on Hospitals.



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

Uncompensated Care, 3rd Quarter 2007 vs. 3rd Quarter 2008 (millions)

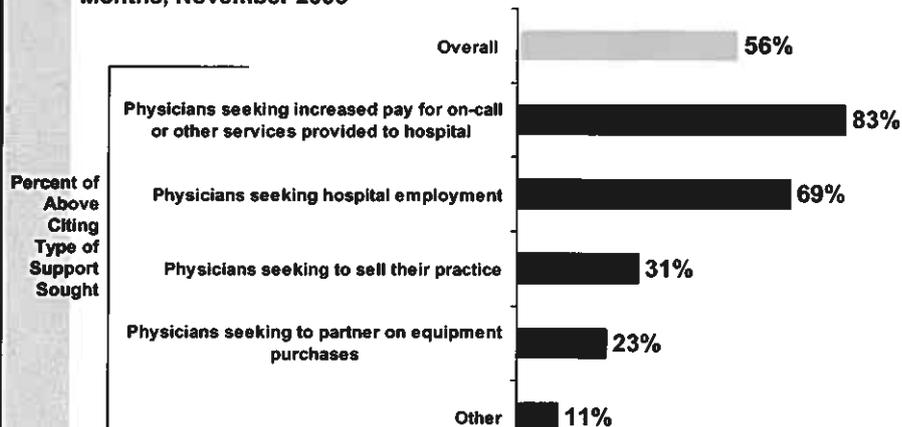


Source: DATABANK, 557 hospitals reporting data for both 3rd Quarter 2007 and 3rd Quarter 2008 as of November 11, 2008. Uncompensated care includes bad debt and charity care.

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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



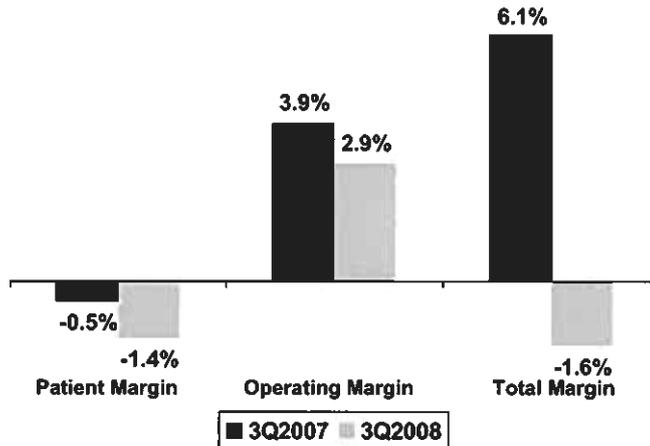
Source: AHA, (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals. Note: Nationally, the majority of physicians are in private practice and are not employed by hospitals.

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

Total, Operating and Patient Margins, 3rd Quarter 2007 vs. 3rd Quarter 2008

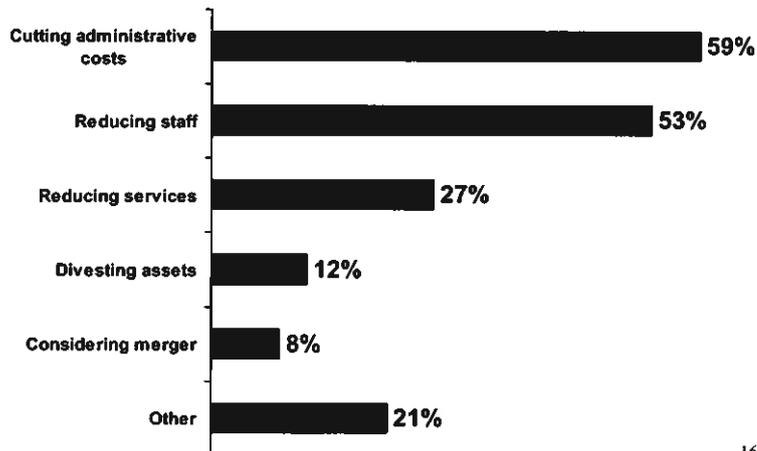


Source: DATABANK, 557 hospitals reporting data for both 3rd Quarter 2007 and 3rd Quarter 2008 as of November 11, 2008.

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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



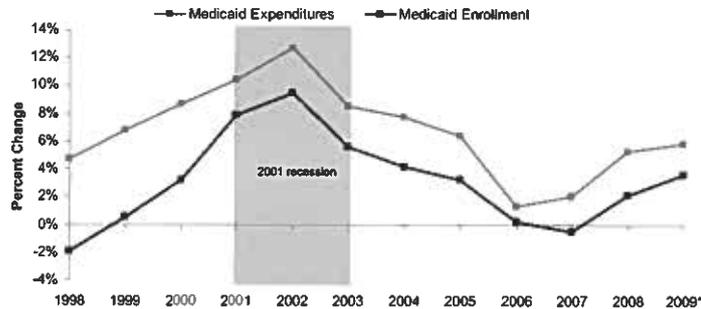
Source: AHA. (November 2008). Rapid Response Survey, The Economic Crisis: Impact on Hospitals.

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

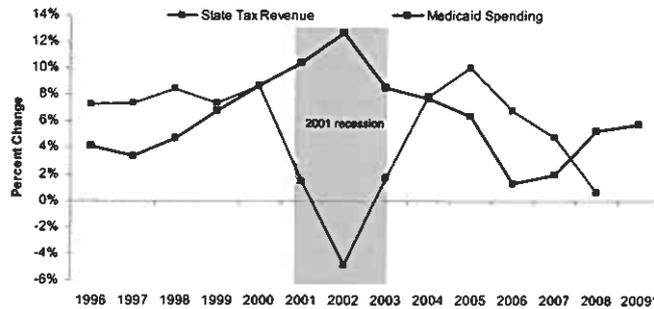
Percentage Change in Medicaid Expenditures and Enrollment, FY1998 – FY2009



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

...even as state tax revenues drop.

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

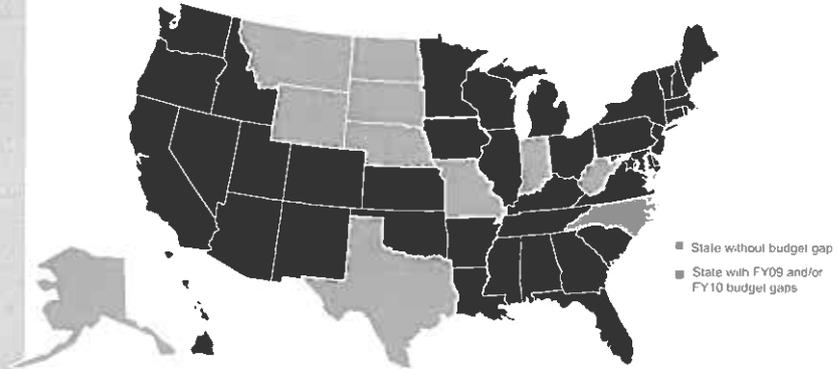


Source: Boyd, D., et al (November 6, 2008) *State Tax Revenue Now Flat, for the First Time Since 2002 Recession: After Weak Third Quarter, Further Declines Likely Lie Ahead*. The Nelson A. Rockefeller Institute of Government, Smith, V., et al (September 2008) *Headed for a Crunch: An Update on Medicaid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



As these trends play out, many states are facing budget shortfalls.

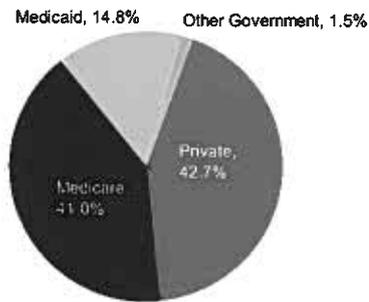
States with Budget Gaps in FY2009 or Projected for FY2010 as of October 2008



Source: McNichol, E. et al. (October 24, 2008). *State Budget Troubles Worsen*. Center on Budget Policy and Priorities

State and federal budget deficits raise worries about potential cuts to Medicare and Medicaid. These programs cover about half of the patient care provided by hospitals...

Hospital Percent of Gross Revenue by Payer, 2007

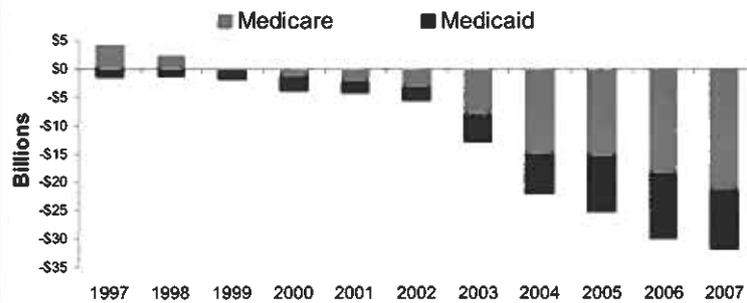


Source: AHA. (2007). Annual Survey. Data for community hospitals



...and are already significantly underfunded.

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

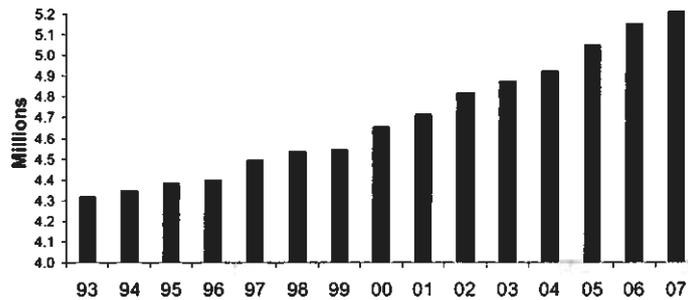


Source: AHA Annual Survey, 1997 - 2007. Data for community hospitals.

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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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