

Executive Summary and Actions Needed from Congress

To achieve their mission of keeping people healthy and provide lifesaving care and essential public health services, hospitals and health systems must remain financially viable.

For many hospitals and health systems that's becoming increasingly difficult as they manage the aftermath and aftershocks of the most significant public health crisis in a century. All of this has occurred against the backdrop of deepening workforce shortages, broken supply chains, and historic levels of inflation that have increased the costs of caring for patients.

Congress should take a number of actions to ensure that hospitals and health systems can provide the care and services that their patients and communities depend on.

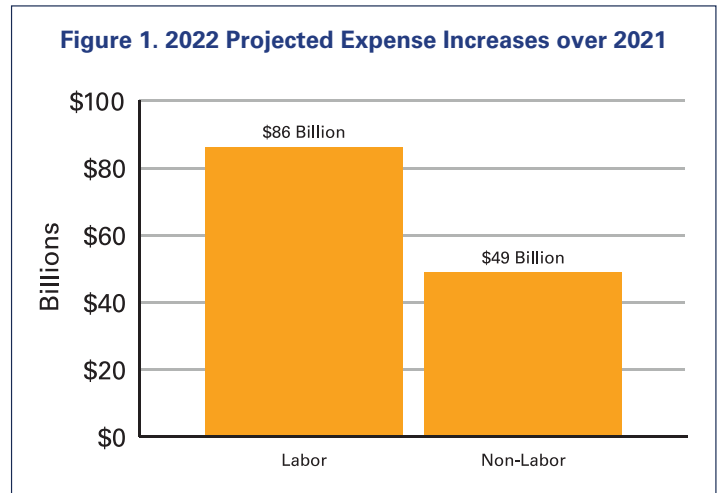
Among other actions, Congress should:

- Prevent any further damaging cuts to health programs, including stopping the 4% the Statutory Pay-As-You-Go (PAYGO) sequester from kicking in.
- Establish a temporary per diem payment targeted to hospitals to address the issue of hospitals not being able to discharge patients to post-acute care or behavioral facilities because of staffing shortages.
- Increase the number of Medicare-funded graduate medical education positions to address the need for additional physicians in the U.S.
- Extend or make permanent certain rural programs expiring on Dec. 16, which are critical for rural communities such as the low-volume adjustment and the Medicare dependent hospital program.
- Make permanent the regulatory relief provided through waivers under the Public Health Emergency that eliminated red tape and sparked innovation, such as the hospital at home program and the expansion of telehealth services.
- Pass the Improving Seniors Timely Access to Care Act, which streamlines prior authorization requirements under Medicare Advantage plans. The House passed the bill in September.
- Create a special statutory designation for certain hospitals that serve marginalized urban communities.

Background

Challenging economic conditions, persistent workforce pressures and repeated COVID-19 surges, continue to place severe strain on hospital and health system finances that could jeopardize access to care for patients. In fact, 2022 is on track to be the most financially difficult year for hospitals and health systems since the start of the pandemic. Two and half years since the onset of the pandemic, hospital volumes and revenues have shown some signs of recovery from pandemic lows.

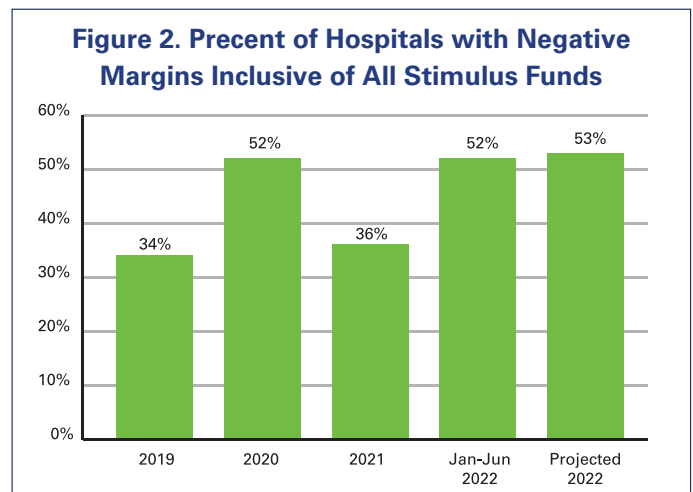
However, this slow resurgence has been overtaken by skyrocketing expenses¹, especially for labor, supplies and prescription drugs. These cost increases are due to many factors including both mounting inflationary pressures and an increase in acuity for hospitalized patients requiring more staff and resources. Total expenses are projected to increase by \$135 billion² in 2022 compared to 2021, according to an analysis conducted for the AHA by Kaufman Hall³, a health care consulting firm that analyzes hospital data (see Figure 1). Additionally, commercial health plan practices, such as prior authorization and step therapy, continue to drive up administrative costs and create dangerous delays in care.⁴



"We have always assumed that hospitals will be there – I don't think we have that luxury anymore. Something must be done to have a more equitable ratio between reimbursements and the cost of operating a hospital."

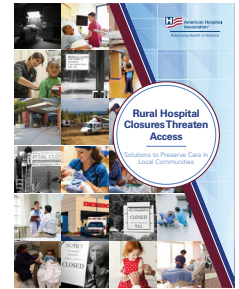
– Peggy Abbott, President & CEO, Ouachita County Medical Center, Arkansas

As the growth in costs have outpaced growth in revenues and volumes, hospital operating margins continue to be negative. In fact, the Kaufman Hall Operating Margin Index has shown consistent negative margins through August 2022. Projections for the remainder of 2022 show more than half of hospitals⁵ will close the year with negative operating margins under an optimistic scenario (see Figure 2). A more pessimistic scenario forecasts 68% of hospitals ending the year with negative margins. This negative outlook has resulted in credit ratings agency Fitch Ratings to recently revise its mid-year 2022 outlook⁶ to "deteriorating" for the U.S. nonprofit hospital sector due to "more severe-than-expected macro headwinds."



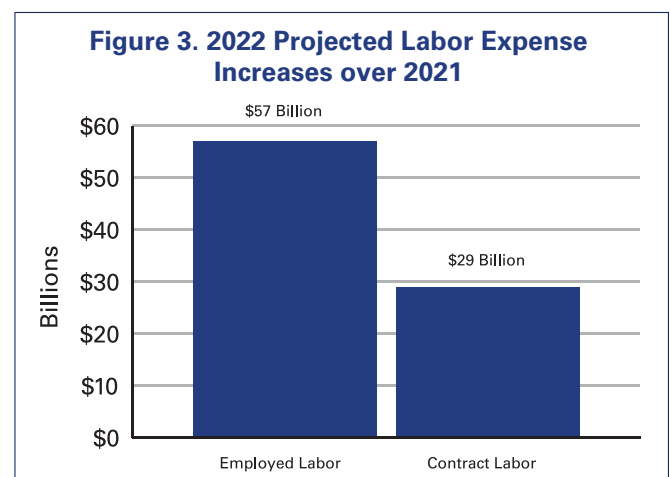
The trends described above — further compounded by repayment of Medicare advanced and accelerated payments, exhaustion of the Provider Relief Fund and commercial insurer payment delays — have all contributed to reductions in cash flow⁷ for many hospitals and health systems. Several health systems have reported record losses.

Between 2010 and 2021, 136 rural hospitals closed. Nineteen of these closures occurred in 2020, the most of any year in the past decade.⁸ Many rural hospitals were in precarious financial positions even before the COVID-19 pandemic, and the pandemic has exacerbated the challenges they were already experiencing, including workforce shortages, limited access to critical supplies and aging infrastructure.



Hospitals and Health Systems Face Persistent Workforce Pressures

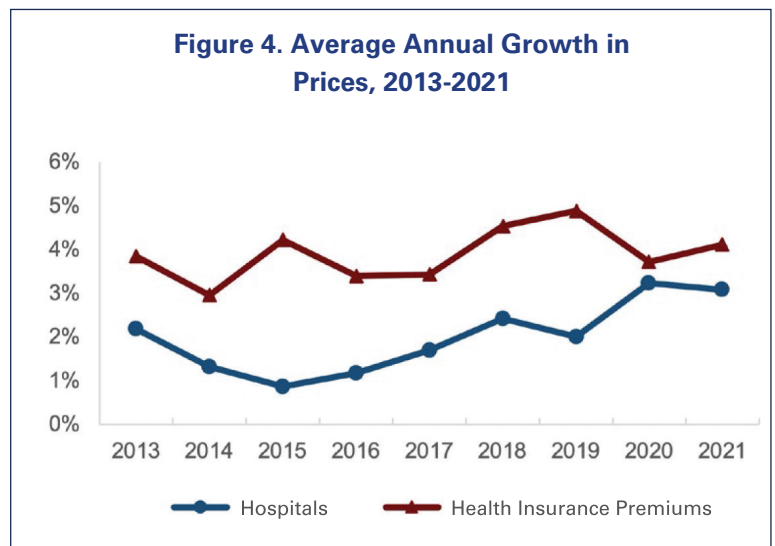
- Even prior to the pandemic, hospitals faced mounting workforce challenges. In 2017, more than half of the nurse workforce were age 50 and older,⁹ with nearly 30% age 60 and older. Yet even with growing demand for new nurses, nursing schools had to turn away more than 80,000 qualified applicants¹⁰ because of faculty shortages, limited classroom space and clinical training sites in 2019. As COVID-19 spread across the nation, pandemic surges placed incredible demands on hospital staff, leading a growing number to leave the field altogether.¹¹
- Workforce shortages aggravated by the pandemic have left many hospitals with critical staffing shortages¹² and with little recourse to avoid skyrocketing labor costs.¹³ Labor expenses, which historically make up more than half of hospitals' total costs are projected to grow by \$86 billion¹⁴ in 2022 alone — representing 64% of total projected expense increases.
- Increased demand and limited labor supply during the pandemic dramatically increased the cost of labor¹⁵ by more than one-third of pre-pandemic levels. However, even as the pandemic surges have waned, the cost of labor has remained elevated over pre-pandemic levels. Employed labor expenses are projected to increase by \$57 billion in 2022 over 2021 levels (see Figure 3).
- Contract labor expenses, including for travel nurses, as a percentage of total labor expenses also have increased a staggering 500%¹⁶ from pre-pandemic levels. Contract labor is projected to account for a third of total labor expense increases in 2022.



“We are doing all we can, including innovating how we deliver patient care, but it isn’t enough. Hospitals, long-term care facilities, home care and physician practices lack the resources needed to solve the health care workforce crisis ourselves.”
– Michael Slubowski, President & CEO of Trinity Health based in Michigan

Hospitals Are Especially Susceptible to Rising Prices Economy Wide

- Drug companies continue to raise the prices of their products, many of which are critical to patient care for conditions like cancer, resulting in higher costs for hospitals and their patients. In fact, a recent study by the Health and Human Services Assistant Secretary for Planning and Evaluation (ASPE) found that over 1,200 drugs had price increases that exceeded inflation between July 2021 and July 2022, with an average price increase of 31.6%. Further, several drugs had their list prices increase by more than \$20,000 or 500% in that same time span.¹⁷
- Inflationary pressures have only ratcheted up the financial impacts of the pandemic, stretching thin resource-strained hospitals and sending expenses soaring.¹⁸ The Consumer Price Index (CPI-U), a commonly used measure of economy-wide inflation, has seen record growth in recent months, with the rate at 8.3% in August 2022.¹⁹ The growth in inflation also has been met with health care supply chain fragmentation and labor shortages, which have compounded the financial challenges for hospitals.
- Hospitals prices, as measured by the Producer Price Index (PPI), have averaged just 2% growth between 2013 and 2021 — just half the rate of growth in health insurance premiums over the same time period (see Figure 4).
- On the government payer side, rates also have not kept pace with rising costs.²⁰ In 2020, Medicare paid only 84 cents for every dollar spent by hospitals on patient care, and just 88 cents on the dollar for Medicaid patients. These underpayments from Medicare and Medicaid totaled more than \$100 billion in 2020.²¹



Elevated Patient Acuity Continues to Increase the Cost of Care

- The pandemic continues to have an outsized impact on the patients coming through the doors of hospitals. As highlighted by a recent AHA report on increased patient acuity,²² treatment of COVID-19 patients is highly complex and resource-intensive — often requiring longer hospitalizations and more intensive treatments.
- Additionally, one in five U.S. adults reported delaying medical care during the pandemic.²³ Delayed care for non-COVID-19 patients throughout the pandemic contributed to increasing patient acuity in hospitals. Moreover, hospitals are often unable to discharge patients to the next level of appropriate care. Overall, average length of stay (ALOS) was up 10% in 2021 compared to pre-pandemic levels.²⁴
- The case mix index (CMI), which measures the severity of inpatient cases, increased by 7%²⁵ in the Medicare fee-for-service population compared to pre-pandemic levels.

“The increased length of stay is caused by a number of factors, including patient acuity, delays in discharge due to insurance approvals required for post-acute inpatient care and bed availability in the post-acute facilities due to staffing shortages.”

– AHA Board Member Jack Lynch, President & CEO Main Line Health, Pennsylvania

Commercial Health Insurance Practices

- Inflation is particularly challenging for hospitals²⁶ as they negotiate commercial contracts on a multi-year basis. Hospitals typically don't have the opportunity to seek rate increases whenever costs rise until contracts are renegotiated. Even when contracts are renegotiated, the rate increases often fall well short of the expense increases hospitals are facing.
- Some commercial insurers, including those serving patients enrolled in Medicare Advantage and Medicaid managed care plans, are driving up costs for hospitals and health systems. Through inappropriate use of prior authorization, step therapy or “fail first” policies, medical necessity denials, and site of service exclusions, including for specialty pharmacy therapies, insurers can delay, reduce or eliminate payment for care provided to patients.
- In addition, complying with these policies increases administrative costs, including by requiring hospitals and health systems to hire additional staff, license software and otherwise invest in technological solutions, some of which are sold by companies affiliated with or owned by the insurers.
- Commercial insurers also are financially incentivized to delay or deny patient transfers to the appropriate post-acute or behavioral health settings to avoid paying for a separate and additional institutional site of care. The result is patients being stuck in inpatient beds longer than medically necessary and hospitals incurring the costs of caring for patients for excess days that are not reimbursed while waiting for plan approval.

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