

DATA Brief

Florida Hospitals' Severe Financial Challenges Impact Community Health Improvement Mission

The nation is in the midst of the longest recession since the Second World War. While healthcare has historically been less vulnerable to economic downturns than other industries, Florida hospitals are feeling the financial pain of today's struggling economy.

Today's Economic Times Challenge Florida Hospitals' Ability to Meet Community Needs

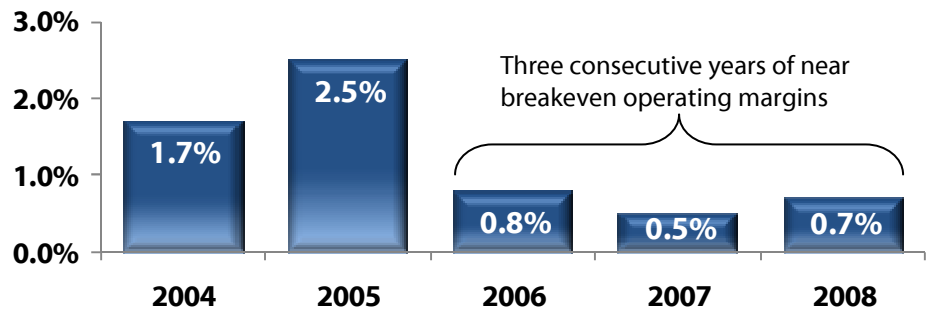
Florida's hospitals must be financially healthy in order to meet their mission and vision to provide for their local communities and to offer the broad range of community benefit they have historically provided. Unfortunately, the combination of declining reimbursement, rising costs, and increasing bad debt are not only limiting hospitals' ability to meet their communities' needs, they are also threatening some hospitals' ability to provide service.

Hospital Margins are at Historic Lows.

A hospital's operating margin represents revenues and expenses associated with patient care services. Florida hospitals' operating margins have been steadily declining in recent years, and for the past three years have been less than one percent. While Florida hospitals experienced a growth in operating revenue of 4.3 percent between 2004 and 2008, the growth in operating expenses during the same period averaged 4.4 percent.³

Florida Hospitals are Barely Breaking Even on Operations

Illustration 1: In the past three years Florida hospitals have barely broken even on hospital operations, averaging less than one percent each year.



Source: ACHA FHURS Data, FY02 – FY08.

The challenges associated with declining operating margins are compounded by a significant decline in hospitals' total margin, which includes earnings from investments and other sources of non-operating income. Florida hospitals experienced a dramatic drop in their overall earnings in 2008, with total margins falling from above five percent in 2007 to a combined 2.6 percent in 2008.³ This is the lowest total margin Florida hospitals have experienced in the past decade.

Hospitals historically have closed operating margin shortfalls with income from investments and other forms of non-operating income. However, like most businesses, hospital investments were a victim of the recent recession, and as a result their bottom lines have been severely impacted. Total overall earnings for Florida hospitals in 2008 were down 51 percent from 2007.³

In 2008, 40 percent of all Florida hospitals reported losses in their total margin (72

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total hospitals). This is the largest number of hospitals reporting a loss in over two decades. Another 12 percent barely broke even, reporting a total margin of less than two percent.³

Only one-fourth of Florida hospitals were able to meet a six percent total margin, a target that is widely accepted as the level required to help hospitals prepare for future service needs, including technology updates, increases in staffing and future infrastructure needs. With total margins shrinking and in the red for many Florida hospitals, their future ability to not only continue to provide basic community care but also stay up-to-date with new technology and other emerging community healthcare needs will be severely hindered, if not threatened all together.

Hospital Payments Are Declining. One of the primary contributors to hospitals' declining operating margins is reimbursement inadequacies in covering the cost of care. Both Medicare and Medicaid reimburse hospitals at a rate lower than it costs to deliver the care they provide to patients. As a result of government underpayments, some of the unreimbursed costs are shifted to private payers. A recent study conducted by Milliman Inc. found in 2006 the annual cost shift due to government underpayments nationally was \$51 billion for hospitals and \$37.8 billion for physicians. According to their analysis, government underpayments added 10 percent (or \$1,152) to the average premiums for a family plan.¹¹

Although costs passed on to private insurers (and ultimately to consumers) compensated in part for the government

underpayments, hospitals and health systems still struggle to cover the reimbursement shortfalls. In Florida, underpayments from Medicare are growing. In 2002 Medicare reimbursed at 96.5 percent of cost, meaning that hospitals received 96 cents for every dollar of care provided. In 2008 Medicare reimbursement as a percent of cost declined to 91.1 percent.³

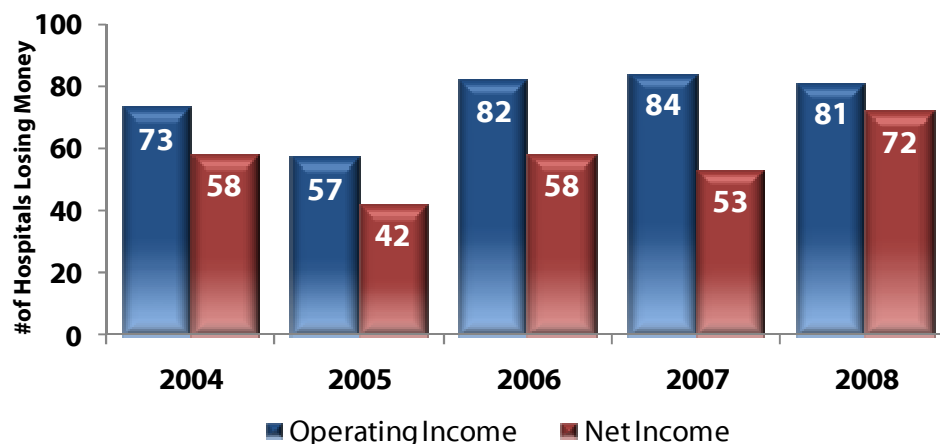
Medicaid reimburses at an even lower rate, but the rates vary significantly in Florida depending on whether the hospital is exempt from rate controls. In 2008, Florida hospitals received 86 cents for every dollar of care provided to Medicaid patients. Florida hospitals that are not exempt from Medicaid rate controls received only 56 cents for every dollar of care provided.³

Statewide, over half of the care provided in

Florida hospitals is delivered to Medicare patients; there was a slight decline from 53.2 percent of all patient days in 2002 to 51.2 percent of patient days in 2008. At the same time, the percent of Medicaid patients cared for at Florida hospitals has increased, from 13.9 percent in 2002 to 16.6 percent in 2008. The increase in Medicaid patients places and added financial burden on hospitals that have not experienced a corresponding increase in reimbursement. In fact, in 2008 while 16.6 percent of all Florida hospital patient days were for Medicaid patients, only 11.5 percent of all payments came from Medicaid. This means that Medicaid patients accounted for over 16 percent of hospital resources, but only 11.5 percent of the payments received. Similarly, Medicare patient care accounted for 51 percent of total care, but only for 40 percent of payments received.³

The Number of Florida Hospitals Losing Money Reached the Highest Level in Two Decades

Illustration 2: In 2008, 40 percent of all acute care hospitals in Florida (72 hospitals) reported losses, the largest number of hospitals reporting a loss in over two decades.



Source: ACHA FHURS Data, FY02 – FY08.

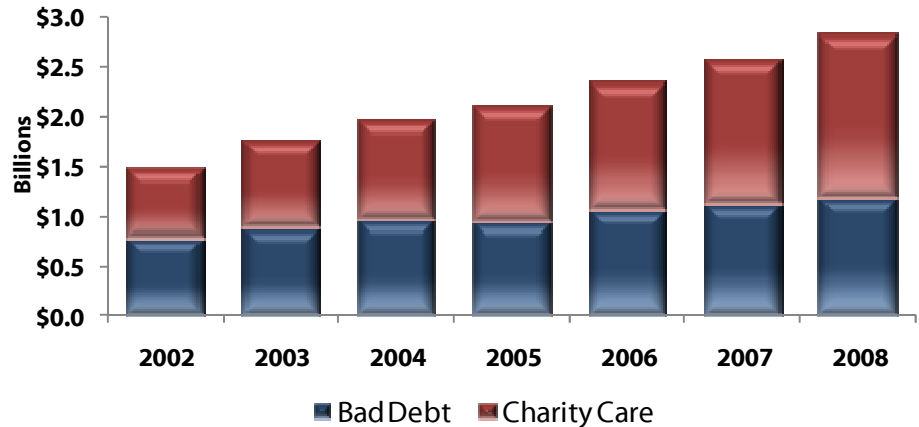
Uncompensated Care is Increasing. In addition to declining reimbursement, the other primary contributor to Florida hospitals' declining operating margins is an increase in uncompensated care. Close to four million Floridians have no health insurance coverage, and millions more have inadequate coverage, including high out-of-pocket costs and deductibles, and coverage limits. For these individuals, hospitals are one of the few places that can provide care regardless of patient's ability to pay.

The costs associated with providing care for uninsured and underinsured populations are characterized in two ways: charity care and bad debt. The combination of Florida hospitals' charity care and bad debt exceeded \$2.8 billion in 2008, an increase of almost 10 percent from 2007. Since 2002, the cost of caring for those who cannot pay hospital bills has increased at an average annual rate of 13.1 percent in Florida. Nationally, hospitals absorbed over \$36 billion in costs associated with caring for those who could not pay hospital bills.³

Hospitals account for the costs of caring for uninsured patients as "charity care" if they meet the state's definition of charity care. In Florida, a person qualifies for charity care if his or her income is below 200 percent of the Federal Poverty Level, or if the medical costs exceed 25 percent of his or her total income. For patients that cannot or do not pay their bill and do not qualify for charity care, the cost of the care provided is written off as "bad debt." In 2008, the costs associated with charity care patients accounted for almost sixty percent of total uncompensated care costs.

Florida Hospitals' Uncompensated Care Costs are Increasing

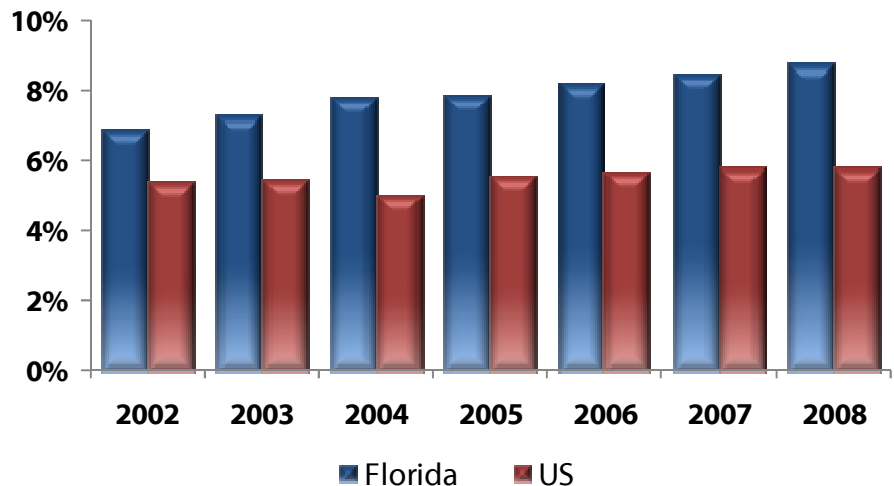
Illustration 3: The cost of caring for Florida's uninsured and underinsured population exceeded \$2.8 billion in 2008, growing at an annual rate of 13.1 percent since 2002.



Source: ACHA FHURS Data, FY02 – FY08.

Uncompensated Care as a Percent of Total Cost is Higher in Florida than in the U.S.

Illustration 4: While uncompensated care as a percentage of total costs has remained between 5 percent and 6 percent nationally for the past six years, Florida has experienced a steady increase, with uncompensated care as a percentage of total costs reaching nearly 9 percent in 2008.



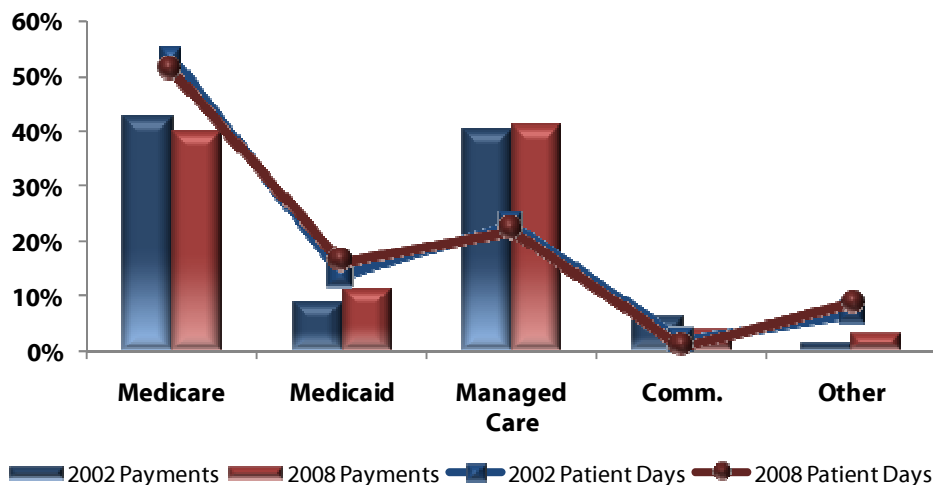
Source: AHA Report on Uncompensated Care, November 2009; and ACHA FHURS Data, FY02 – FY08.

Meeting the needs of the uninsured was a key issue for Florida's hospitals before the recession, and the problems are now further compounded.

Total overall earnings for Florida’s hospitals in 2008 were down 51 percent from 2007.

Medicaid Payment Shortfalls Continue to Rise

Illustration 5: The percentage of total hospital payments received from treating Medicaid patients is on the rise, while the percentage of Medicare and managed care payments are declining. This creates a difficult challenge for hospitals, as both Medicaid and Medicare pay hospitals below costs. The lines on the graph below show that in 2008 Medicaid patients accounted for 16 percent of patient days, but only 11.5 percent of total hospitals payments. Similarly, Medicare patients accounted for 51 percent of patient days but only 40 percent of total hospital payments. Medicare and Medicaid reimbursements are not proportional to the amount of resources they require.



Source: ACHA FHURS Data, FY02 – FY08.

It is important to note that uncompensated care as a percentage of total costs has remained relatively steady nationally, hovering at about 5 percent for the past six years. In contrast, Florida’s hospitals have experienced a steady increase in uncompensated care, with nearly 7 percent of total costs going toward treating those unable to pay in 2002, and nearly 9 percent of total costs going toward treating those unable to pay in 2008.

Florida Hospitals: More Than Healthcare

In many communities hospitals are an economic mainstay, providing steady, reliable and well-paid employment even during difficult economic times.²

In 2007, Florida hospitals employed one-quarter of a million Floridians, making hospitals one of the largest single employers in Florida’s economy. In addition to the direct jobs created by hospitals,

another 410,000 jobs are attributable to Florida hospitals due to demand for goods and services created by the hospitals and their employees. The combination results in more than 659,000 direct and indirect jobs attributable to Florida hospitals.¹

The impact on income from jobs created by hospitals is significant, over \$32 billion in wages and salaries in 2007. In addition, salaries for hospital employees are higher than most other industries, with wages averaging \$51,401 per FTE in 2008.¹

In addition to wages and salaries, Florida’s hospitals in 2007 directly provided a total of \$32.2 billion in direct services, and another \$47.6 billion in indirect services, resulting in a total economic impact of nearly \$80 billion. For every dollar spent on hospital care, \$2.65 is added to the state’s economy due to other economic sectors’ activities.¹

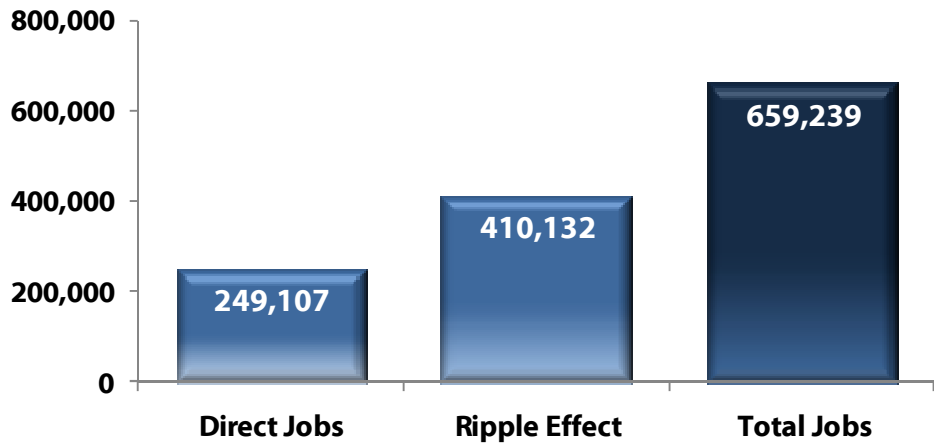
Like most other Florida businesses, recent financial challenges have impacted hospital employment as well. A May 2009 survey of Florida hospitals found that 64 percent had eliminated positions. In the study published by the University of Florida on the Economic Impact of Florida hospitals, the researchers stated that “Given the significant role of hospitals in the local economy, reductions in hospital funding would have far reaching effects on the state and its communities. For example, a (hypothetical) \$100 million reduction in Medicaid funding to Florida hospitals is estimated to result in the elimination of 2,187 jobs, reduce output by \$258 million and reduce value added by \$157 million.”¹

While hospitals contribute significantly to the economy by providing jobs and stimulating economic activity throughout the state, Florida hospitals also impact their local communities through community benefit activities, such as:

- Community health education on specific disease conditions, health promotion and wellness programs, and prenatal classes serving at-risk populations.
- Community-based clinical services and subsidized services, including free or low-cost care to the uninsured, vans and mobile units used to deliver primary care services, hospice and home care, charity care and bad debt, and free or discounted immunizations at a health fairs and presentations.
- Financial contributions, such as in-kind services donated by staff during working and non-working hours, donated space to community groups for meetings, and fund-raising costs for community programs.
- Community-building activities, including financial support for community health programs and partnerships, participation in economic development councils, and community forums and reports.
- Health professions education, including internships, residencies, scholarships, tuition reimbursement as an employee benefit, subsidized on-site training for nurses, nursing students and technicians, and training for medical translators.

650,000 Jobs are Dependent on Florida's Hospitals

Illustration 6: In 2007, Florida hospitals employed one-quarter of a million Floridians, making hospitals one of the largest and fastest-growing single employment sectors in Florida's economy. Direct jobs created by Florida hospitals, combined with indirect jobs, resulted in over 650,000 jobs attributable to Florida hospitals in 2007.



Source: Florida Hospital Association. *Economic Contributions of Hospitals in Florida.*

In 2008, Florida hospitals spent \$431 million on education and research for physicians, nurses and allied health professionals.³

Florida's Hospitals: Committed to Patients and Communities

Florida's communities depend on their hospitals to provide high quality and affordable healthcare, and to be economic contributors to their communities. In the face of inadequate federal and state reimbursement, and the growing burden associated with providing needed care to rising numbers of uninsured and underinsured patients, many hospitals are uncertain about their future ability to provide the quality of care needed by their communities, which includes the need to

fund information and medical technology improvements, facility renovations, and ongoing research and education to ensure that Floridians receive top-notch medical care. Although increasingly limited by their eroding financial positions, Florida's hospitals are committed to overcoming these obstacles and meeting community health needs.

Florida hospitals are working diligently to improve their efficiency and effectiveness, and transform the way their organizations deliver care.

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In 2007, Florida hospitals employed one-quarter of a million Floridians, making hospitals one of the largest single employment sectors in Florida's economy.

Financial Fact File

11.9% of Floridians were unemployed in January 2010, up from 8.7 percent in January 2009.⁹

20.2% of Floridians lack health insurance, compared to the national rate of 15.4 percent.⁹

9 in 10 U.S. hospitals have made cuts because of the recent economic downturn, with nearly half cutting staff, eight in ten cutting administrative services, and one in five cutting community services.⁵

One quarter of a million Floridians are employed by Florida hospitals, making hospitals one of the largest single employment sectors in Florida's economy.¹

\$32 billion in wages and salaries were attributable to Florida hospitals in 2007.¹

\$80 billion is the estimated total economic impact Florida hospitals have on the state's economy.¹

Florida hospitals' operating margins have been **less than 1%** for the past three years.³

Total overall earnings for Florida hospitals in 2008 were **down 51%** from 2007.³

40% of Florida hospitals reported losses in their total margin in 2008—the largest number of hospitals reporting a loss in Florida in over two decades.³

10% is added to the average health insurance premium for a family plan because of government underpayments through Medicare and Medicaid.¹¹

In 2008 Florida hospitals received **91 cents** for every dollar of care provided to a Medicare patient.³

In 2008 Florida hospitals received **85 cents** for every dollar of care provided to a Medicaid patient.³

Florida hospitals' charity care and bad debt exceeded **\$2.8 billion** in 2008, an increase of almost 10 percent from

13.1% is the annual rate of increase for the cost of caring for those who cannot pay their hospital bill in Florida.³

60% of Florida hospitals' uncompensated care in 2008 was charity care.³

Nearly 9% of Florida hospitals' total costs went toward treating those unable to pay in 2008, compared to the U.S. average of 5.8 percent.³

In 2007, Florida's hospitals provided \$32.2 billion in direct services, and another \$47.6 billion in indirect services, resulting in a total economic impact of nearly \$80 billion on Florida's economy.

(Continued from page 5)

In recent months Florida hospitals have made difficult decisions about how to do this, which has included eliminating some valuable services and making staffing changes in order to remain financially viable. But Florida's hospitals can't do it alone. Action is also needed at the federal

and state level to improve hospitals' reimbursement to levels that will ensure Florida hospitals' ability to consistently deliver the right care, in the right way, at the right time. The combined efforts of providers, insurers, the state of Florida and the federal government is vital to restoring Florida hospitals' health and vitality.

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An Association of Hospitals & Health Systems

DATA*Brief*, published by the Florida Hospital Association, highlights information and data about important healthcare issues and trends affecting Florida's hospitals and the patients and communities they serve.

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