

As hospitals rise to meet the challenges of COVID-19 head on, the virus and its effect on the nation have created historic financial pressures for America's hospitals and health systems. Hospitals have canceled non-emergency procedures, and many Americans are postponing care as they shelter in place to stop the spread of the virus. Treatment for COVID-19 has created incredible demand for certain medical equipment and supplies as the virus has disrupted supply chains, increasing the costs that hospitals face to treat COVID-19 patients. At the same time, COVID-19 has caused unprecedented job losses, leading to a rise in the number of uninsured. Hospitals and health systems, particularly those in rural areas, face catastrophic financial challenges in light of the COVID-19 pandemic.

Financial Projections

The three major credit reporting agencies have revised their financial outlooks from stable to negative because of the effects of COVID-19.

- As late as December 2019, Fitch reported a stable outlook for hospitals and health systems. As of April, S&P, Moody's and Fitch have revised their outlooks to negative.^{1,2,3}
- All three agencies cite increased costs, along with a reduction in admissions and outpatient visits as creating new financial pressure on hospitals, on top of existing concerns around low reimbursement from government payers and coverage shifts from employer-sponsored insurance to Medicare.
- For March, operating margins decreased 150% over the previous year, according to a survey by Kaufman Hall.⁴

These outlooks could have implications for hospitals' ability to borrow money, an important source of funds in light of declining revenue.

Hospital Revenues Have Declined Sharply as a Result of the COVID-19 Pandemic

To increase personal and public safety across the country, as well as conserve personal protective equipment, hospitals moved to cancel non-emergency procedures. At the same time, many Americans are delaying care, including forgoing primary care and other specialty visits.

- Hospitals and health systems have canceled non-emergency procedures.
 - o On March 18, the Centers for Medicare & Medicaid Services recommended that elective surgeries and non-essential medical, surgical and dental procedures be delayed during the COVID-19 outbreak.⁵
 - o Governors in a number of states further mandated that these procedures be canceled during the COVID-19 outbreak.
- There are examples from all across the country of patients delaying or forgoing care during the COVID-19 crisis:

- o In Chattanooga, Tenn., emergency department visits decreased 45% for adults and 71% for children, compared to this time last year.⁶
- o In Buffalo, N.Y., one hospital estimated in March that emergency department use was down 36%.⁷
- Adjusted discharges decreased 4% from February to March, and were down 13% from the previous year.⁸
- Health care providers have raised concerns that patients are forgoing care that is important to their personal health, such as chronic disease management.
- These factors have significantly reduced revenue for all hospitals and health systems across the country.
 - o The Illinois Hospital Association estimated that COVID-19 related cancelations and delays were causing hospitals to lose \$1.4 billion a month.⁹
 - o The Ohio Hospital Association estimated hospital losses to be \$1.27 billion per month.¹⁰
 - o The Virginia Hospital & Healthcare Association estimated that hospitals and health systems would lose \$600 million for the period from late-March to late-April 2020.¹¹
 - o The Montana Hospital Association estimated that hospitals lost \$100 million in the first three weeks of the pandemic.¹²
- So-called elective procedures are not considered optional surgeries, but non-emergent. These procedures can alleviate pain, improve quality of life and be otherwise life-changing for patients.
- For some, delaying care could create additional complications later. It remains to be seen what the long-term effects are of delaying care as a result of COVID-19, both in terms of costs for individuals and hospitals, and in terms of health outcomes.

Hospitals and Health Systems Face Increased Costs

Costs have increased sharply for hospitals since the beginning of the pandemic.

- Overall, the cost of treating COVID-19 patients could exceed \$139 - \$558 billion, depending on how many people are hospitalized because of the virus.¹³
 - o The Kaiser Family Foundation estimates that the cost of treating a patient with COVID-19 could be more than \$20,000 and over \$88,000 for patients who require ventilator support.¹⁴
 - o A study by FAIR Health estimated the average cost of treating patients with commercial coverage to be \$38,221.
 - o Expenses have increased by 18.2% for all procedures over the previous year, according to a recent survey from Kaufman Hall.¹⁵
- These estimates don't include additional costs of medical supplies and equipment; such prices have spiked upward since the beginning of the pandemic.

- o The demand for medical equipment and supplies has resulted in sharp price increases as hospitals began to treat and prepare for COVID-19 patients.¹⁶
- o For example, hospitals in New York City reported paying four times the usual price for medical gloves, and 15 times the usual price for masks.¹⁷

Hospitals Could Experience Increased Uncompensated Care Costs as Job Losses Mount

- More than 22 million Americans have filed for unemployment insurance since the end of February.¹⁸ The St. Louis Federal Reserve estimated that this number could rise as high as 47 million by the end of the second quarter of 2020.¹⁹
- Experts expect that this will dramatically change the coverage landscape in America. Employer-sponsored coverage is expected to decrease by 12 - 35 million, while Medicaid enrollment could increase by 11 - 23 million. The number of people without insurance could increase to over 40 million.²⁰
- The Kaiser Family Foundation estimated the cost of treatment for uninsured COVID-19 patients to be up to \$41.8 billion.²¹ That is roughly 40% of the \$100 billion in emergency relief set aside for health care providers under the CARES Act.
- Bad debt increased 13% over the previous year in March, according to a recent study from Kaufman Hall.²²

These Trends are Particularly Problematic for Rural Hospitals

- Rural hospitals face persistent, recent and emergent challenges, and were in financial distress prior to the COVID-19 pandemic.²³ Approximately 128 rural hospitals have closed since 2010.²⁴
- While all hospitals face declining revenues and increased costs, these problems are particularly troubling for rural hospitals, given their payer mix and access to capital. In other words, while some large systems may borrow or draw down cash from reserves to weather the COVID-19 pandemic, rural hospitals have less access to these funding sources.
- A recent report by Guidehouse found that one in every four rural hospitals are at risk of closing unless their financial situation improves.²⁵

Hospitals and health systems face unprecedented challenges as a result of COVID-19. The immediate and devastating financial impacts will have far-reaching consequences on hospitals and health systems and the communities they serve.

Sources

1. spglobal.com/ratings/en/research/articles/200325-not-for-profit-acute-care-sector-outlook-revised-to-negative-reflecting-possible-prolonged-covid-19-impact-11404986
2. moodys.com/research/Moodys-Outlook-for-US-for-profit-hospitals-changed-to-negative--PBC_1220272
3. fitchratings.com/research/us-public-finance/beyond-one-year-outlook-ample-reasons-for-optimism-26-03-2019
4. Kaufman Hall (2020). "National Hospital Flash Report, April 2020.
5. cms.gov/newsroom/press-releases/cms-releases-recommendations-adult-elective-surgeries-non-essential-medical-surgical-and-dental
6. timesfreepress.com/news/local/story/2020/apr/19/hospitals-say-covid-19-fears-keep-patients-se/521050/
7. buffalonews.com/2020/03/27/as-they-prepare-for-a-surge-of-covid-19-cases-fewer-patients-showing-at-hospital-emergency-departmentsdepartments/
8. Kaufman Hall (2020). "National Hospital Flash Report, April 2020.
9. [team-iha.org/news/busy,-yet-struggling-illinois-hospitals-lose-\\$1-4](https://team-iha.org/news/busy,-yet-struggling-illinois-hospitals-lose-$1-4)
10. journal-news.com/business/ohio-hospitals-pandemic-leads-27b-monthly-hit-from-delayed-procedures/X7Lifw09YhbUmtCHRIWzLP/
11. washingtonpost.com/health/starved-for-cash-hospitals-and-doctor-groups-cut-staff-amid-pandemic/2020/04/09/d3593f54-79a7-11ea-a130-df573469f094_story.html
12. tribune.com/northwest/revenue-loss-triggers-furloughs-at-montana-hospitals/article_580ed882-7aa4-5739-bd4f-9bd5db7d3a5d.html
13. s3.amazonaws.com/media2.fairhealth.org/brief/asset/COVID-19%20-%20The%20Projected%20Economic%20Impact%20of%20the%20COVID-19%20Pandemic%20on%20the%20US%20Healthcare%20System.pdf
14. healthsystemtracker.org/brief/potential-costs-of-coronavirus-treatment-for-people-with-employer-coverage/
15. Kaufman Hall (2020). "National Hospital Flash Report, April 2020.
16. washingtonpost.com/business/2020/03/24/scramble-medical-equipment-descends-into-chaos-us-states-hospitals-compete-rare-supplies/
17. propublica.org/article/in-desperation-new-york-state-pays-up-to-15-times-the-normal-price-for-medical-quipment
18. dol.gov/ui/data.pdf
19. stlouisfed.org/on-the-economy/2020/march/back-envelope-estimates-next-quarters-unemployment-rate
20. healthmanagement.com/wp-content/uploads/HMA-Estimates-of-COVID-Impact-on-Coverage-public-version-for-April-3-830-CT.pdf
21. kff.org/uninsured/issue-brief/estimated-cost-of-treating-the-uninsured-hospitalized-with-covid-19/
22. Kaufman Hall (2020). "National Hospital Flash Report, April 2020.
23. aha.org/guidesreports/2019-02-04-rural-report-2019
24. shepscenter.unc.edu/programs-projects/rural-health/rural-hospital-closures/
25. guidehouse.com/insights/healthcare/2020/rural-hospital-sustainability-index