

HAP

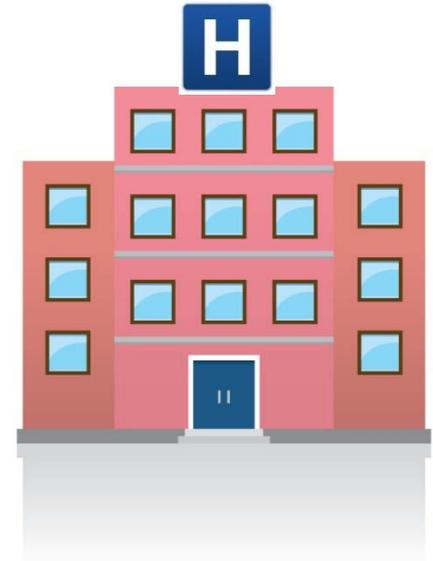


Pennsylvania Hospitals Critical to State Economy

Hospitals Play Vital Role

**According to the 2010 Fitch Ratings report, 2010
Nonprofit Hospitals and Health Systems Outlook:**

- ▶ Most hospitals and health systems are major economic drivers within their communities.
- ▶ Often, the hospital ranks as one of the largest employers in the region, buoying local economies through their sizeable payrolls and purchasing platforms, combining to create substantial downstream economic activity.
- ▶ Moreover, recent government data shows that health care payrolls as a share of total nonfarm payrolls continues to grow, now accounting for more than 10 percent of all domestic jobs.
- ▶ Although not wholly subject to income or property taxation, the economic stability and viability of nonprofit hospitals does lend a great deal of support to a stable tax base.



Outlook for Pennsylvania Hospitals



- ▶ **A hospital is an irreplaceable community asset that provides access to a broad range of essential health care services.**
- Each year, Pennsylvania hospitals and health systems provide care to nearly 1.94 million inpatients, serve patients through 38.5 million outpatient visits, and evaluate 5.8 million people in their emergency departments.

Hospitals' Economic Contribution to Pennsylvania



Hospitals also are essential in another way—as economic engines. **The economic contributions made by Pennsylvania’s hospitals to local communities and the state have continued to increase, rising to \$98.9 billion during 2010, up from \$89.8 billion during 2008.**

- ▶ Pennsylvania hospitals and health systems provide a total of \$40.1 billion in direct spending to the state’s economy and make a total direct and secondary contribution of \$98.9 billion to the state’s economy.
- ▶ In 55 of the 67 Pennsylvania counties, hospitals remain among the top five employers, providing family-sustaining jobs and solid benefits.

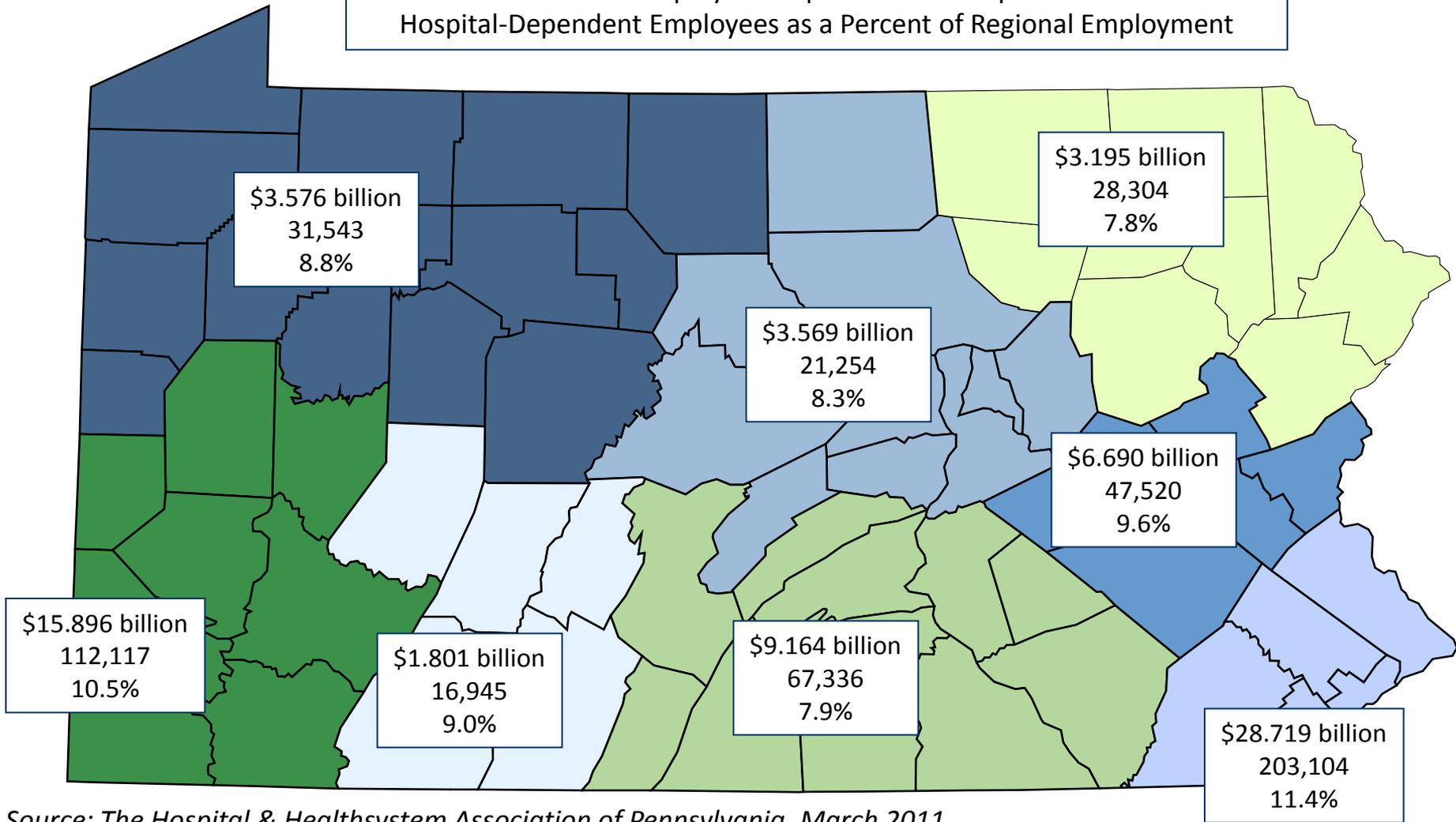
Impacting Employment in Pennsylvania

- ▶ More than 584,000 Pennsylvanians depend on hospitals for their jobs through direct employment and the ripple effect of hospital employment—representing one in every ten working Pennsylvanians.
- ▶ During 2010, hospital employment was nearly 268,000. Every additional dollar in employee compensation in the hospital sector results in 92 cents of wages to other Pennsylvania industries.
- ▶ For every hospital job, 1.2 additional jobs are supported within the state.
- ▶ When 268,000 hospital employees spend money on products and services, it translates to more than 317,000 additional hospital service-related jobs and more than \$13 billion in employee compensation.
- ▶ More than \$27.2 billion in total labor income is generated directly and indirectly by Pennsylvania hospitals.



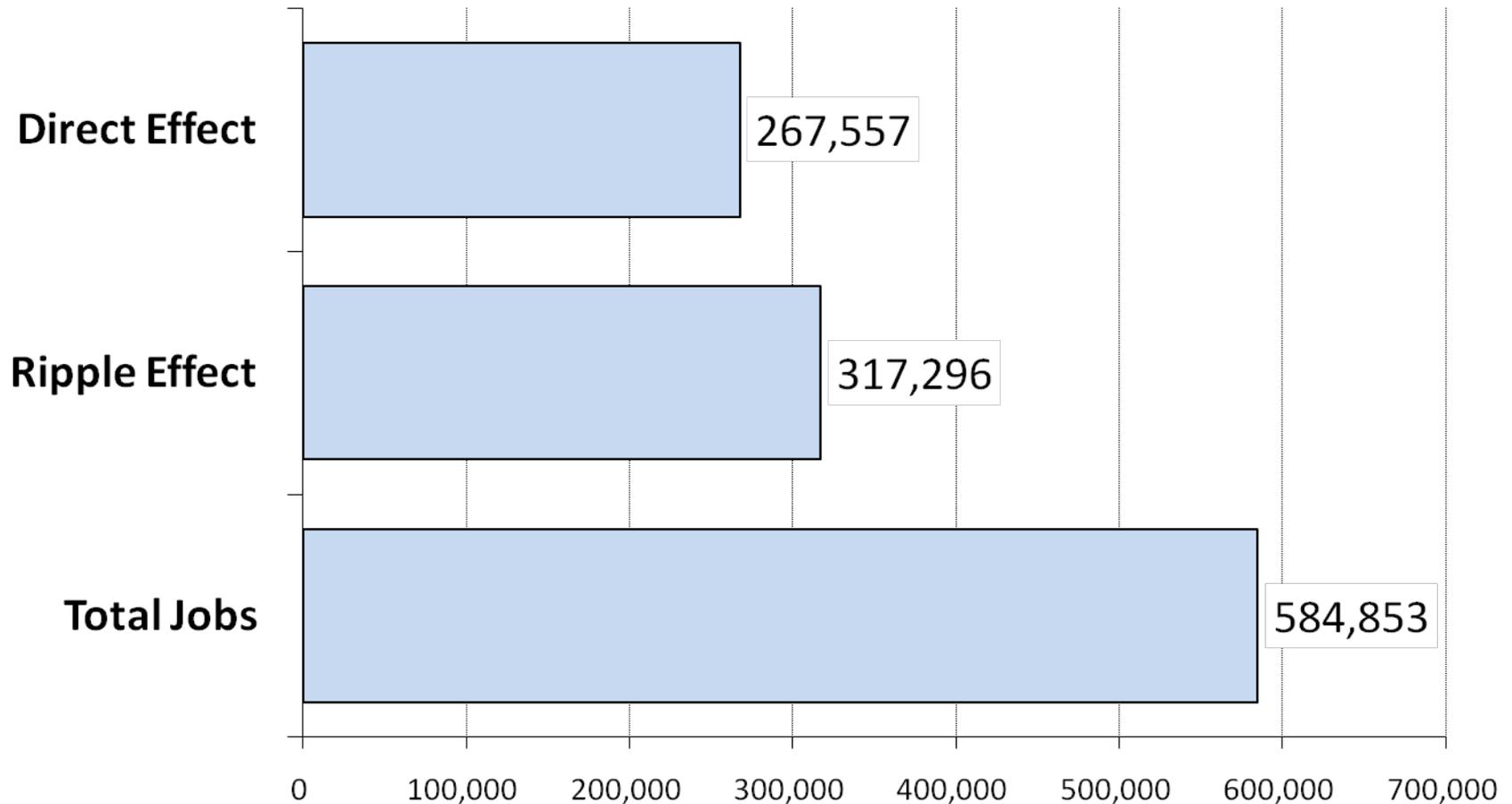
Regional Economic Impact of Pennsylvania Hospitals & Health Systems

Total Impact of Hospital and Health System Spending
 Total Employees Dependent on Hospitals
 Hospital-Dependent Employees as a Percent of Regional Employment



Source: The Hospital & Healthsystem Association of Pennsylvania, March 2011

Pennsylvania hospitals support more than half a million jobs in the commonwealth.

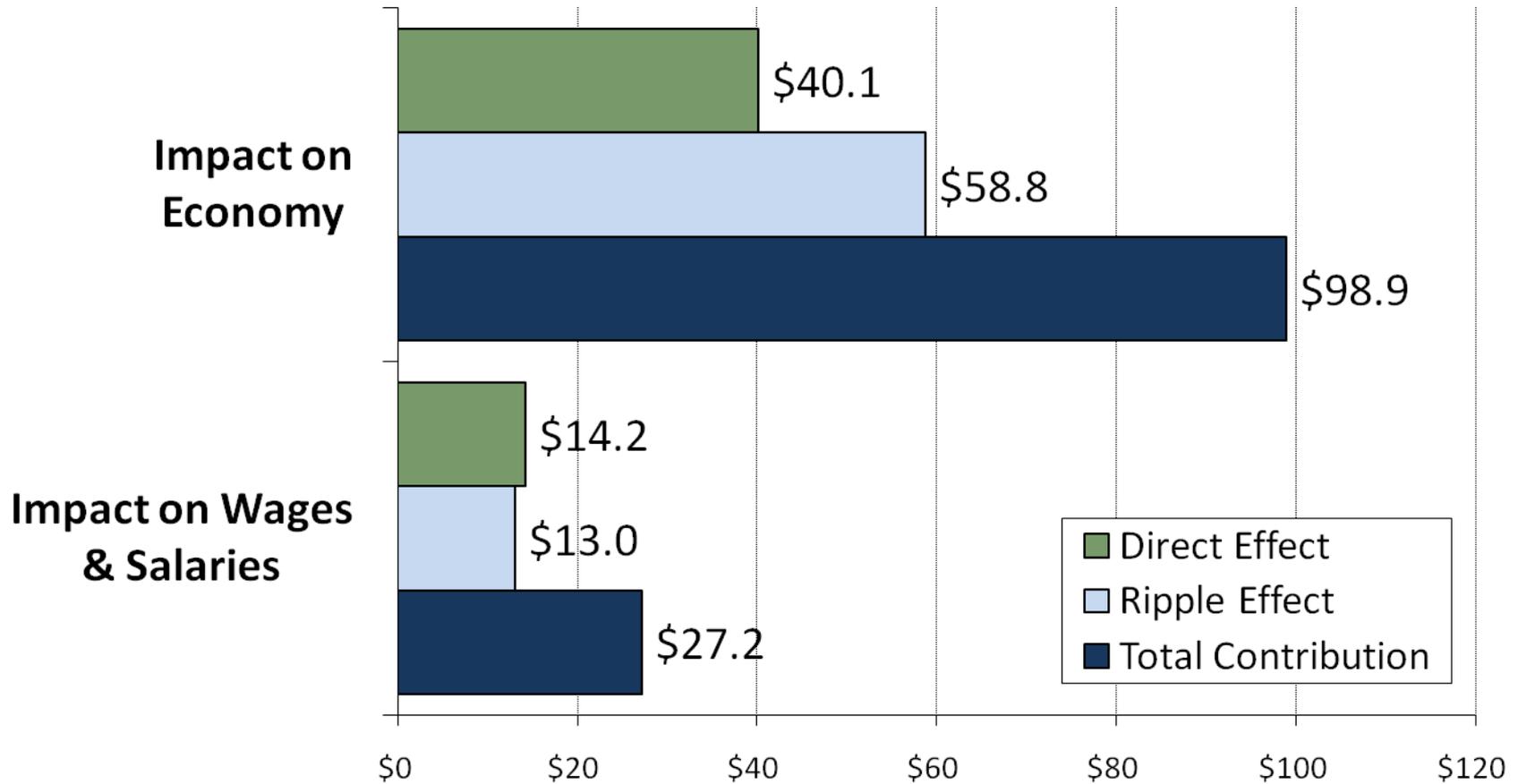


Source: Based on analysis of Bureau of Economic Analysis, U.S. Department of Commerce and 4th Quarter 2009 Census of Employment and Wages



Pennsylvania hospitals and health systems support other businesses and jobs in the commonwealth.

(billions)

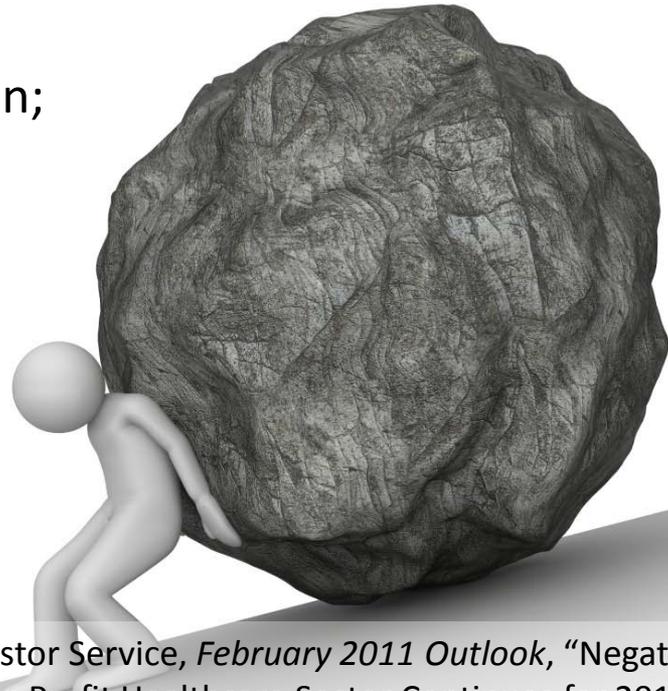


Source: Based on analysis of Bureau of Economic Analysis, U.S. Department of Commerce, and 4th Quarter 2009 Census of Employment and Wages, Medicare Cost Report Data, and health systems reports to HAP.



Hospital Challenges 2011 and Beyond

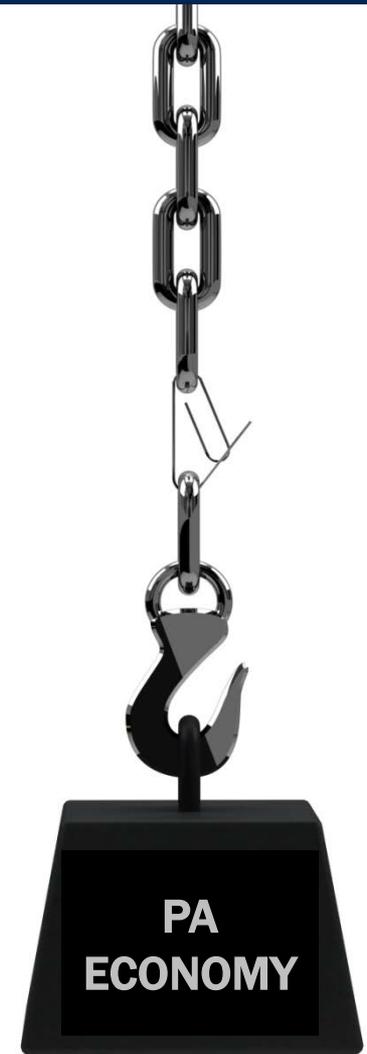
- Anemic national and state economic growth, continuing high rates of unemployment, lower rates of health care utilization, and increased exposure to governmental payers and self-pay.
- Pressure on all hospital revenue streams including Medicare, Medicaid, commercial payers, and philanthropy.
- Increased difficulty containing costs, following two years of expense reduction; areas of particular difficulty include pension, interest expense, bad debt, information technology, as well as costs for strategies related to physician alignment and health care integration.



Source: Moody's Investor Service, *February 2011 Outlook*, "Negative Outlook for U.S. Not-For-Profit Healthcare Sector Continues for 2011."

Effects of a Weaker Economy on Hospitals

- Rising charity care and bad debt expense due to a high level of unemployment and the loss of—or reduction in—health insurance.
- Budget pressure on federal and state levels forcing intensifying reviews of Medicare and Medicaid reimbursement rates.
- Unfavorable changes in payer mix away from commercial payers due to rising unemployment and the expiration of COBRA benefits.
- Financial pressures and decreasing membership at health care insurers, contributing to lower commercial rates not keeping pace with obligated hospital expenses.
- Lower patient volumes as patients defer elective health care services.



Source: Moody's Investor Service, *February 2011 Outlook*, "Negative Outlook for U.S. Not-For-Profit Healthcare Sector Continues for 2011."

Areas of Higher Expense Growth for Hospitals

- Bad debt expense, driven by the effects of the economy.
- IT expense relating to rapid adoption of new IT systems to satisfy Medicare and Medicaid “meaningful use” requirements.
- Pension expense due to the increase in the unfunded pension liability following earlier losses in asset values and a reduction in the discount rate.
- Interest expense, reflecting the generally higher cost of fixed-rate bonds.
- Physician-related costs resulting from investment in physician alignment strategies.



Source: Moody's Investor Service, *February 2011 Outlook*, “Negative Outlook for U.S. Not-For-Profit Healthcare Sector Continues for 2011.”



In his 2011-2012 proposed state budget, Governor Corbett calls for \$333.3 million (state/federal funds) in hospital payment cuts.

There are difficult decisions to be made, but cutting payments to hospitals should not be a consideration.

Why?



Hospitals continue to be part of the solution to improve economic conditions.

- Hospitals developed a Medical Assistance modernization hospital payment program in 2010, with legislative support, which does not use state dollars, but relies on a provider assessment and increased federal funding.
- As part of the program, hospitals are contributing \$246.5 million to state revenues over three years.
- The Governor's proposed hospital cuts breach the three-year agreement hospitals reached with the state.
- Hospital payments were reduced in fiscal years 2009 and 2010.
- Hospital payments for Medicare and Medicaid will be reduced as a result of the Affordable Care Act (\$8.5 billion for Pennsylvania over ten years).



Hospitals continue to make changes to help lower health care costs and improve quality and patient safety.

- ▶ Hospitals are working with the state to improve the cost-effectiveness of care to Medical Assistance patients.
- ▶ Pennsylvania hospitals have demonstrated leadership in achieving better outcomes such as:
 - ✓ Having lower infection rates than nationally.
 - ✓ Leading the nation on infection reporting initiatives.
 - ✓ Being the first state to set payment policy related to preventable serious events.



Caring for the state's elderly, persons with disabilities, and children in low-income families is a core state function.

- ▶ Most Medicaid funding is for the elderly, persons with disabilities, and children who cannot work.
- ▶ Medicaid covers nearly half of all births and provides necessary care for very sick infants.
- ▶ Medicaid is as important to rural communities hit hard by the recession as it is to the state's cities.
- ▶ If Medicaid payments are reduced, covering the cost of care will be shifted to employers and individuals with health coverage in the form of higher insurance premiums.

What Needs to Be Done: STATE

- ▶ **Maintain** Medical Assistance funding for health care for Pennsylvania's most vulnerable populations of people.
- ▶ **Maintain** current hospital funding, including funding in Act 49 of 2010, Medical Assistance Modernization, to fulfill the three-year legislative commitment.
- ▶ **Maintain** important hospital supplemental funding for hospitals that serve large numbers of uninsured persons, and hospitals that provide critical access, trauma, obstetrics, and burn services, so that hospitals are fairly compensated for providing services to Medicaid recipients.



What Needs to Be Done: STATE

- ▶ **Support** financial incentives to sustain Pennsylvania's medical, nursing, and allied health education capacity.
- ▶ **Oppose** legislation, regulation, or policies that would cause or exacerbate workforce shortages or impose undue administrative burdens on hospitals.
- ▶ **Support** scope of practice legislation, regulation, and policy that enables the use of health professionals to the full extent of their education and training.



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Healing.
Health.
Hope.