

KaufmanHall

The Current State of Hospital Finances: Fall 2022 Update

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Since the onset of the COVID-19 pandemic in March 2020, our nation's hospitals and health systems have coped with intense pressure on staff and resources.

As hospital executives, policymakers, and other stakeholders assess the current landscape, key findings about recent and projected future performance through the rest of 2022 include:

- **Margins remain depressed relative to pre-pandemic levels.** After a difficult first half of 2022, optimistic projections for the rest of the year indicate margins will be down 37% relative to pre-pandemic levels.
- **More than half of hospitals are projected to have negative margins through 2022.** Projections for the remainder of the year demonstrate an increase in hospitals with negative margins relative to pre-pandemic levels, to 53%.
- **Expenses are significantly elevated from pre-pandemic levels.** Expenses are projected to increase throughout the rest of 2022, leading to an increase of nearly \$135 billion over 2021

levels. Labor expenses are projected to increase by \$86 billion, while non-labor expenses are projected to increase by \$49 billion.

- **Hospitals have faced a profound financial toll.** Hospitals have incurred serious losses in 2022 relative to pre-pandemic levels—and future federal support is uncertain.

Hospitals also are facing a host of other related challenges, including workforce shortages, supply disruptions, and rising expenses.

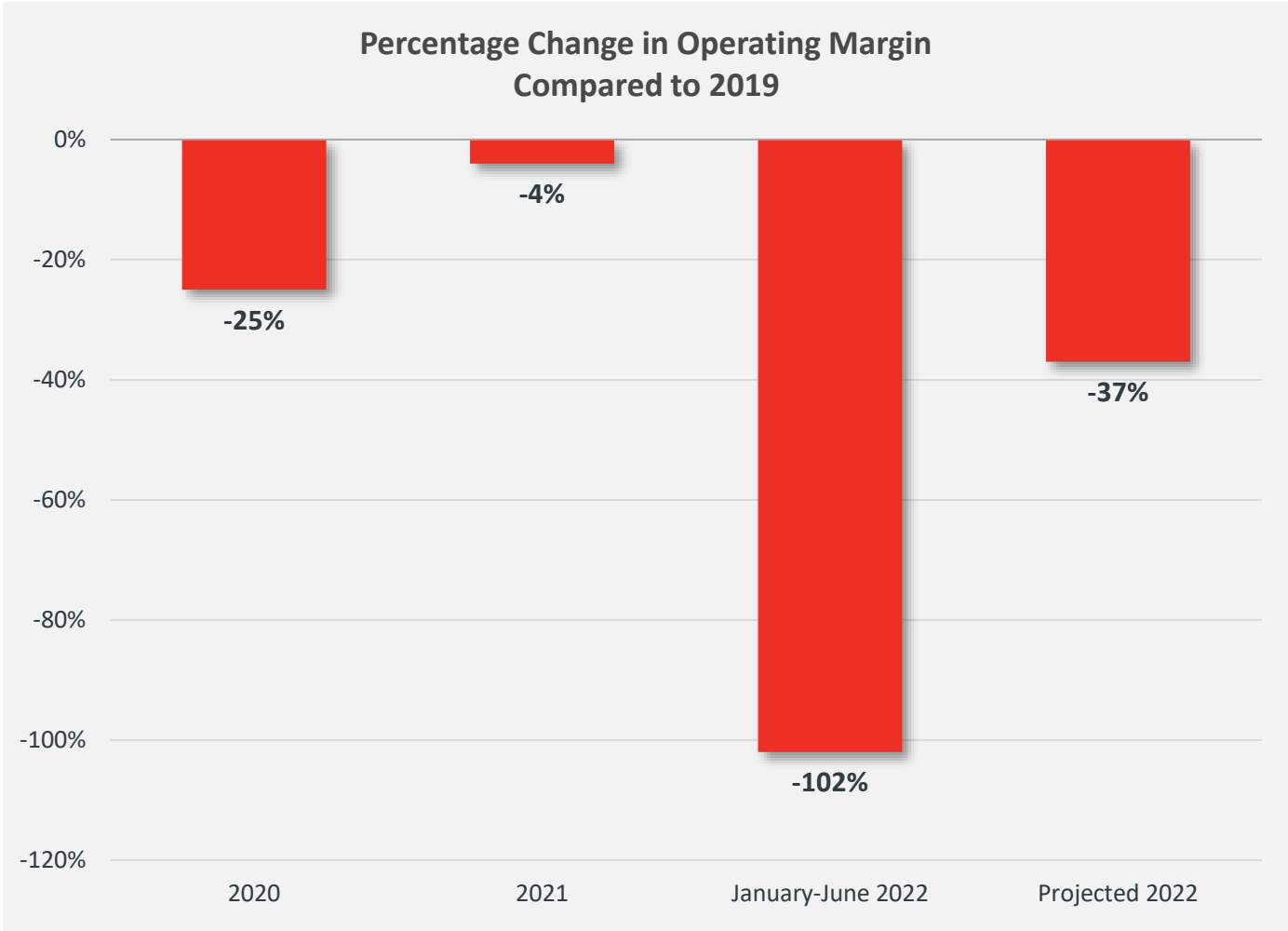
Ultimately, U.S. hospitals are likely to face billions of dollars in losses in 2022 under both optimistic and pessimistic models, which would result in the most difficult year for hospitals and health systems since the beginning of the pandemic with no foreseeable federal support.

These findings underscore the broad and serious threats America's hospitals have faced—and continue to face in 2022—caring for their communities throughout unprecedented challenges.

This report was prepared at the request of the American Hospital Association.

Fall 2022 Outlook

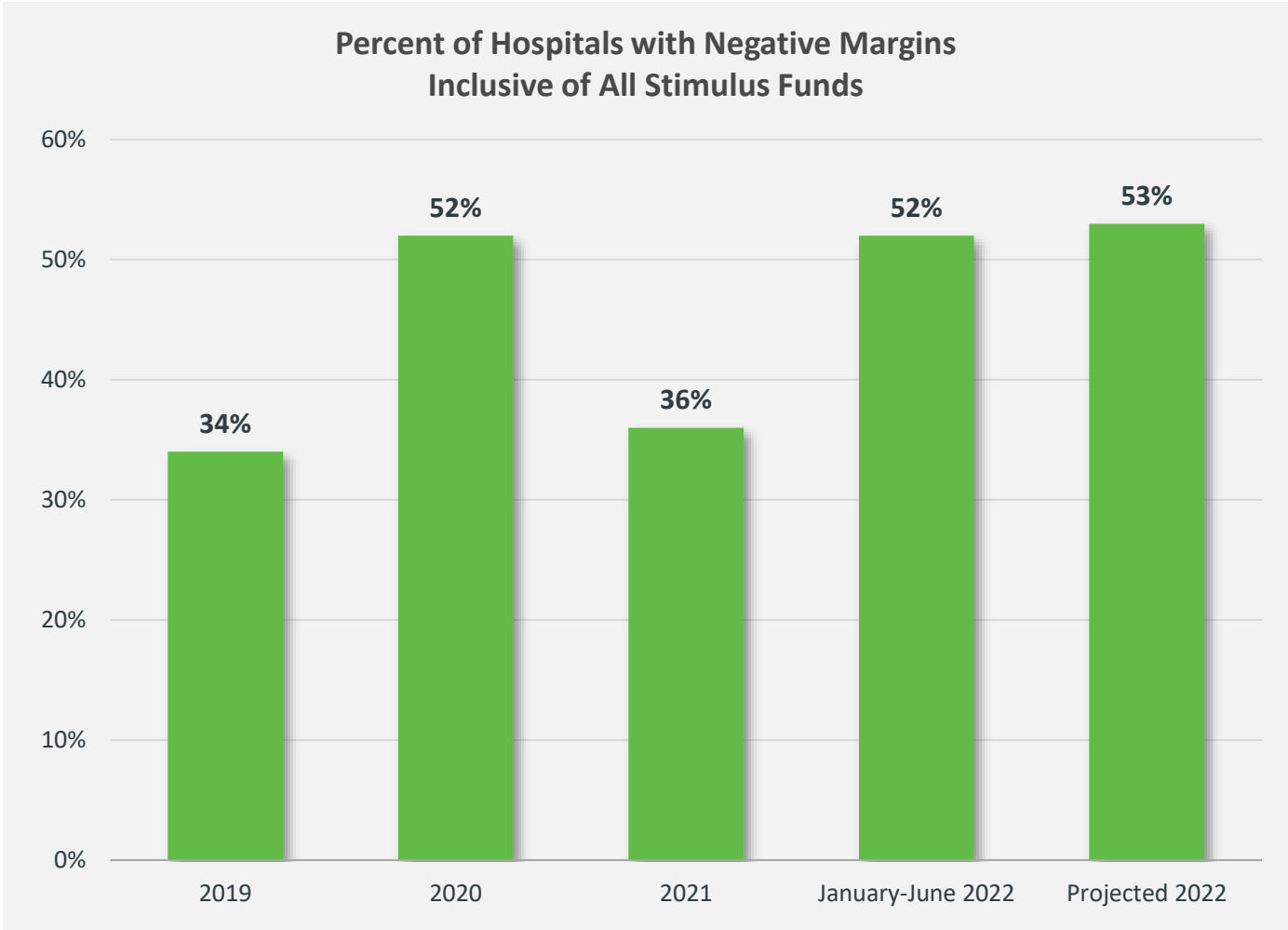
Projected Margins Are on Track to Make 2022 the Worst Year for Hospitals Since the Beginning of the Pandemic



KEY TAKEAWAYS

- The first six months of 2022 have been extremely difficult, with the median margin remaining negative.
- Initial results from the beginning of the second half of 2022 indicate continued challenges, with margins remaining firmly negative.
- Optimistic projections for the entirety of 2022 indicate margins will be down 37% relative to pre-pandemic levels.
- Pessimistic projections for 2022 show a possible 133% decline in margins.

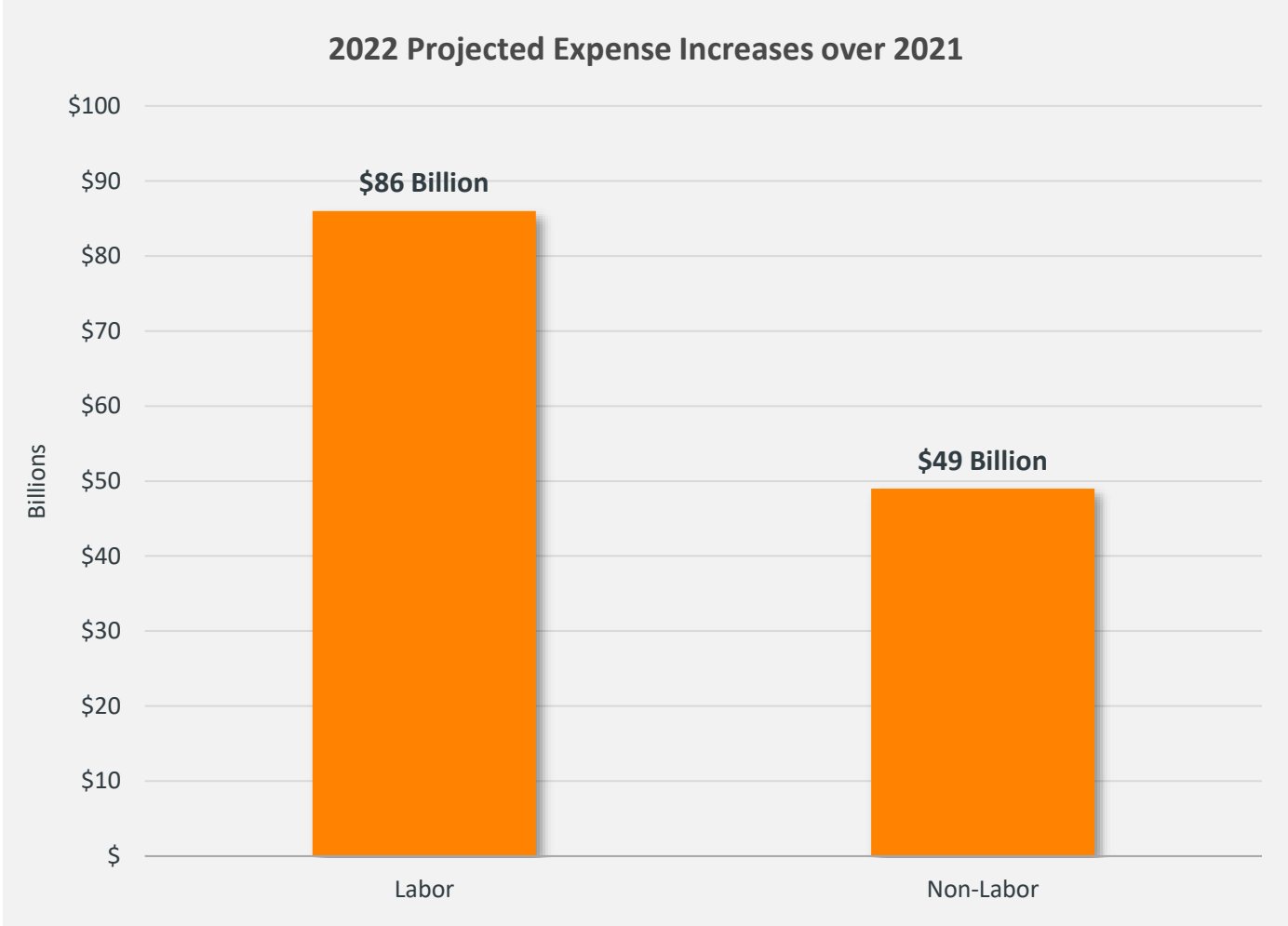
The Number of Hospitals Operating with Negative Margins Will Increase Relative to Pre-Pandemic Levels



KEY TAKEAWAYS

- Through the first half of 2022, the percentage of hospitals with negative margins was higher than the rate in 2021, owing primarily to the impacts of the Omicron COVID-19 surge and lack of further stimulus funding.
- Projections for the entirety of 2022 indicate an increase in hospitals with negative margins, to 53%.
- Under a pessimistic scenario for 2022, 68% of hospitals would have negative margins.

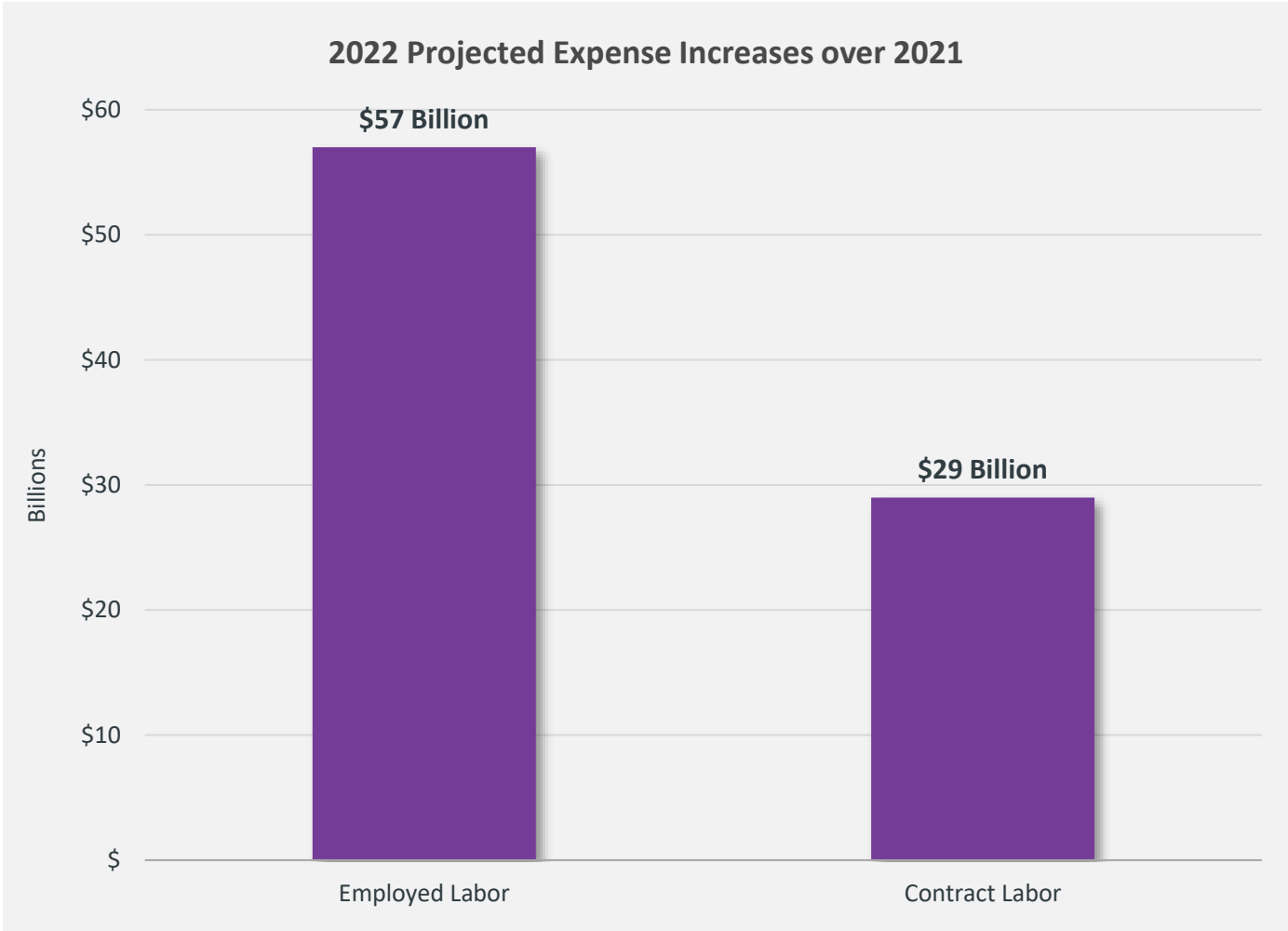
Expenses Are Projected to Continue a Dramatic Increase of \$135 Billion over Last Year



KEY TAKEAWAYS

- Expenses are projected to increase throughout 2022, leading to an increase of nearly \$135 billion over 2021 levels.
- Labor expenses are projected to rise \$86 billion in 2022, while non-labor expenses are projected to increase by \$49 billion.
- No additional federal support is expected following the devastating impacts of the Delta and Omicron surges.

Labor Expense Increases in 2022 Are Driven Primarily by Employed Staff, but Contract Labor Will Continue to Pressure Hospitals



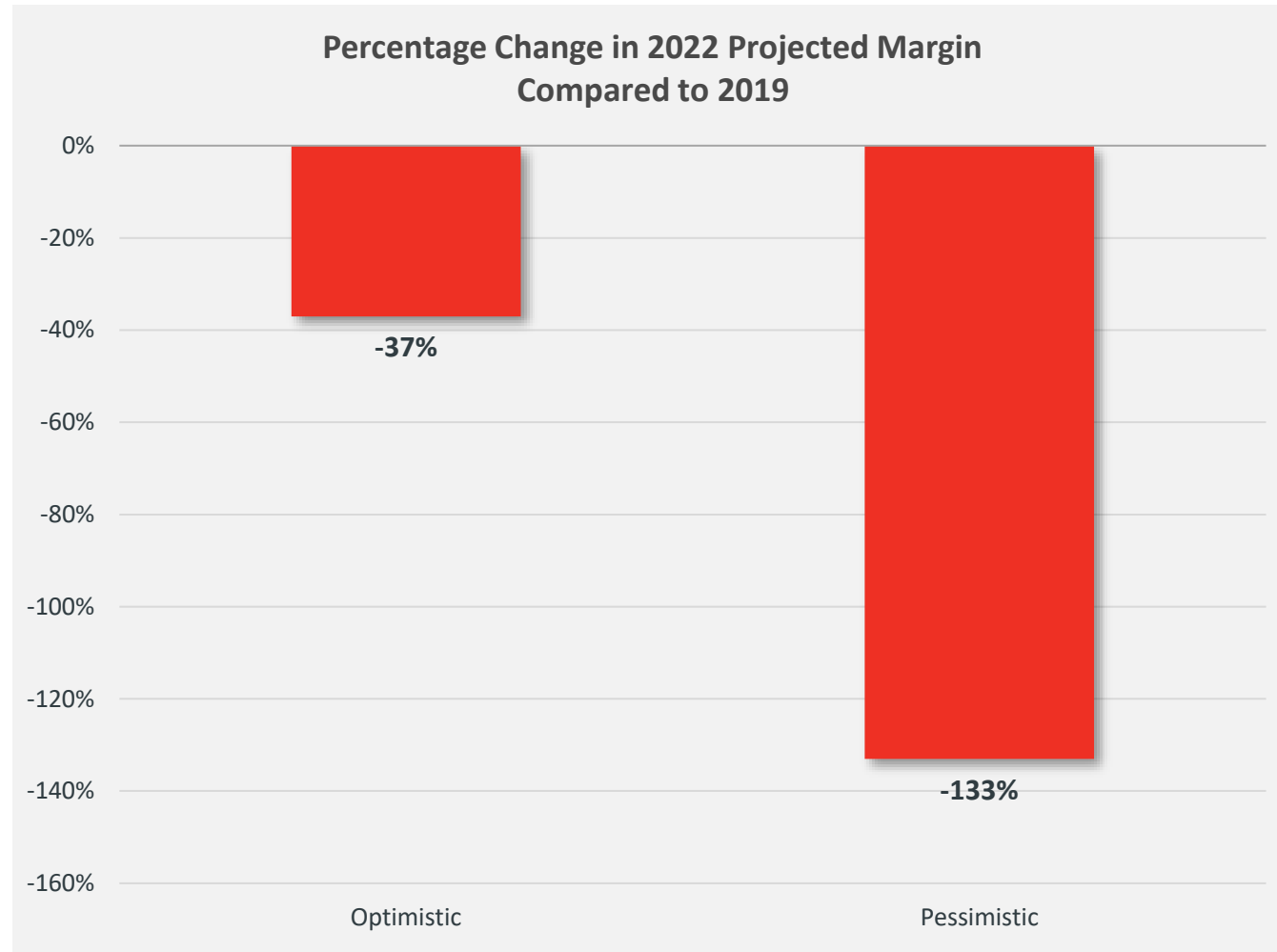
KEY TAKEAWAYS

- Employed labor expenses are projected to exceed 2021 levels by \$57 billion in 2022, with labor costs generally accounting for approximately half of a hospital’s total expenses.
- Contract labor expenses—or expenses for temporary, non-staff workers—will continue to pressure hospitals, although the growth rate over 2021 levels is expected to slow through the remainder of 2022.
- Contract labor expenses remain nearly 500% higher than pre-pandemic levels.

Non-Labor Expenses Will Continue to Rise, Primarily Driven by Supplies and Purchased Services

- Non-labor expenses are projected to rise in 2022, increasing even more substantially over pre-pandemic levels.
- Expenses for supplies are projected to grow by \$11 billion in 2022, primarily due to inflationary pressures.
- Expenses for purchased services—or services contracted to outside vendors—are projected to grow by \$7 billion in 2022.
- Drug expenses are projected to grow by \$1 billion in 2022.
- Other expenses—which include system shared services allocated to hospitals, depreciation, interest, maintenance, utilities, rent and lease, and software—constitute the remaining non-labor expense growth.
- All expense categories are projected to remain approximately 20-25% above pre-pandemic levels, with drug and supplies increasing the most.

Hospitals Will Lose Billions of Dollars in 2022, with Projected Margins Substantially Below Pre-Pandemic Levels



KEY TAKEAWAYS

- Overall, projections suggest cumulative margins will be negative through the remainder of 2022. While the impact of future waves of COVID-19 or policy changes is unknown, **losses will be in the billions of dollars in 2022 for U.S. hospitals with no foreseeable federal support**, which would result in the most difficult year for hospitals and health systems since the beginning of the pandemic.
- Under a pessimistic scenario, which includes the potential for future COVID-19 variant surges, increased rates of expense growth, sicker patients who have delayed care, aggressive payer negotiations, and increased payer mix of non-commercial payers, hospitals will experience incredibly difficult financial challenges.

Methodology

Methodology

- This report includes data representing more than 900 hospitals sampled from Kaufman Hall's proprietary database, which are extrapolated to a national view controlling for hospital type, location, and size.
- Comparison of expenses and margins are not volume adjusted and reflect actual gains or losses relative to prior year levels.
- Projections for 2022 are based on individual hospital performance applied to a seasonally-adjusted predictive model, which includes possible scenarios for future COVID-19 surges.

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