

WHEN WILL IT END?

Eight Straight Years of
Losses for New York's Hospitals



Healthcare Association
of New York State

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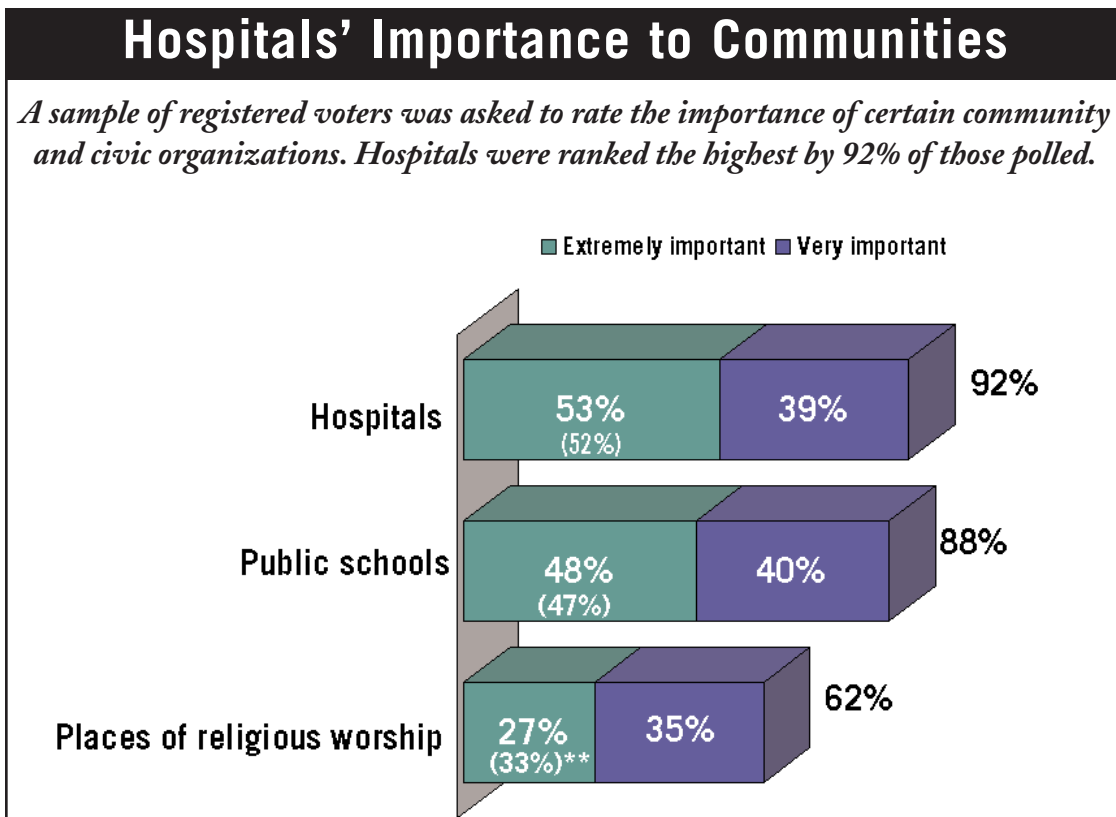
Executive Summary

Hospitals play a unique role in New York's health care system. New Yorkers depend on hospitals to be there in times of need—24 hours a day, 365 days a year. People look to their local hospital for medical care, to respond to a wide range of natural and man-made disasters, as a refuge from chaos, as an emergency shelter, and for counseling and general support.

Each year, the people employed in New York's hospitals care for more than 2.5 million individuals who are admitted as patients, over seven million treated in emergency rooms, and 44 million patients who receive care on an outpatient basis.

New York hospitals also provide invaluable services to their communities and are economic anchors in their regions, employing about 350,000 individuals statewide and serving as a stimulus to new business.

Hospitals are lifelines for their communities and, as such, share a special bond. That bond has been shown in public opinion polling. A 2005 survey by Opinion Dynamics Corporation of 600 New York registered voters showed that New Yorkers recognize the importance of hospitals to their communities.



However, New York's health care system continues to be in serious distress. Increased demand for services, inadequate reimbursement, workforce shortages, and accelerating cost

increases fuel the crisis we face today. This crisis affects patients and providers alike.

Ongoing financial losses have serious implications for patients, staff, and communities when needed improvements cannot be made and patient and community needs go unmet.

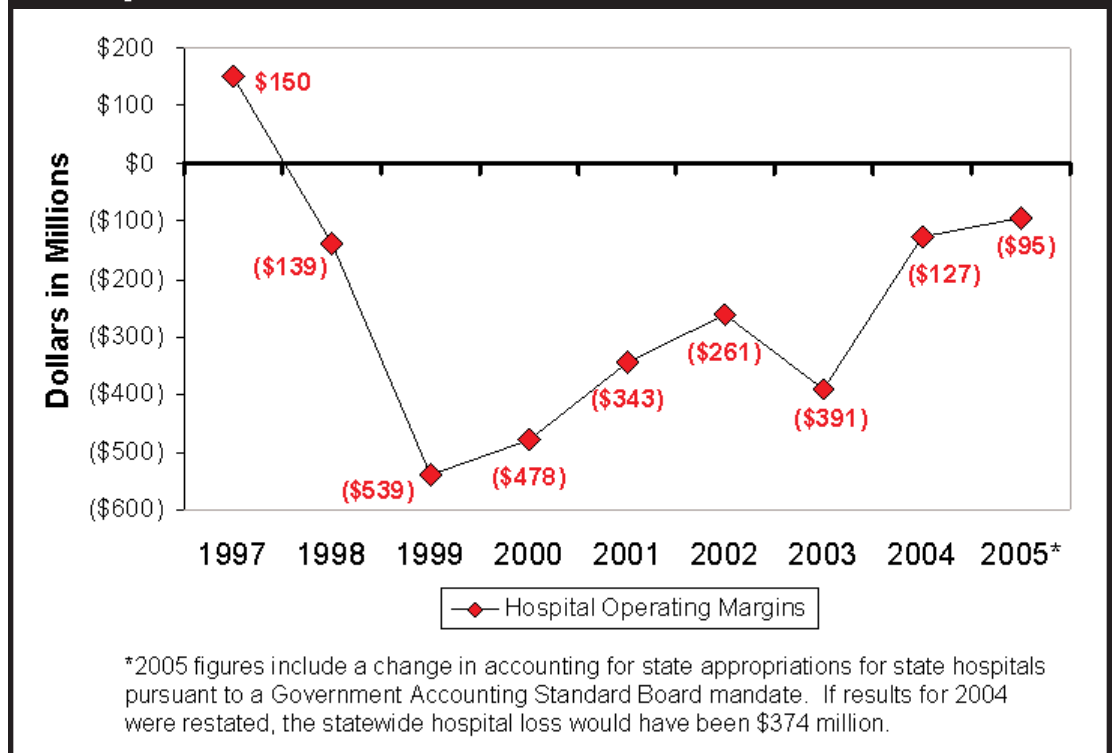
It is a basic principle of finance that the financial health of any entity depends upon income from operations to cover the costs of those operations.

Eight Straight Years of Operating Losses

The Healthcare Association of New York State (HANYS) annually assesses a variety of financial indicators to evaluate the fiscal condition of hospitals in New York State. Unfortunately, HANYS' most recent assessment of hospital financial condition data from 2005, the most recent full-year data available, shows that the financial condition of hospitals in New York continues to be weak—recording operating losses for the eighth straight year.

- The state's 217 hospitals in aggregate lost \$95 million in 2005—an operating margin of minus 0.2%, bringing total hospital losses to \$2.4 billion since 1998.

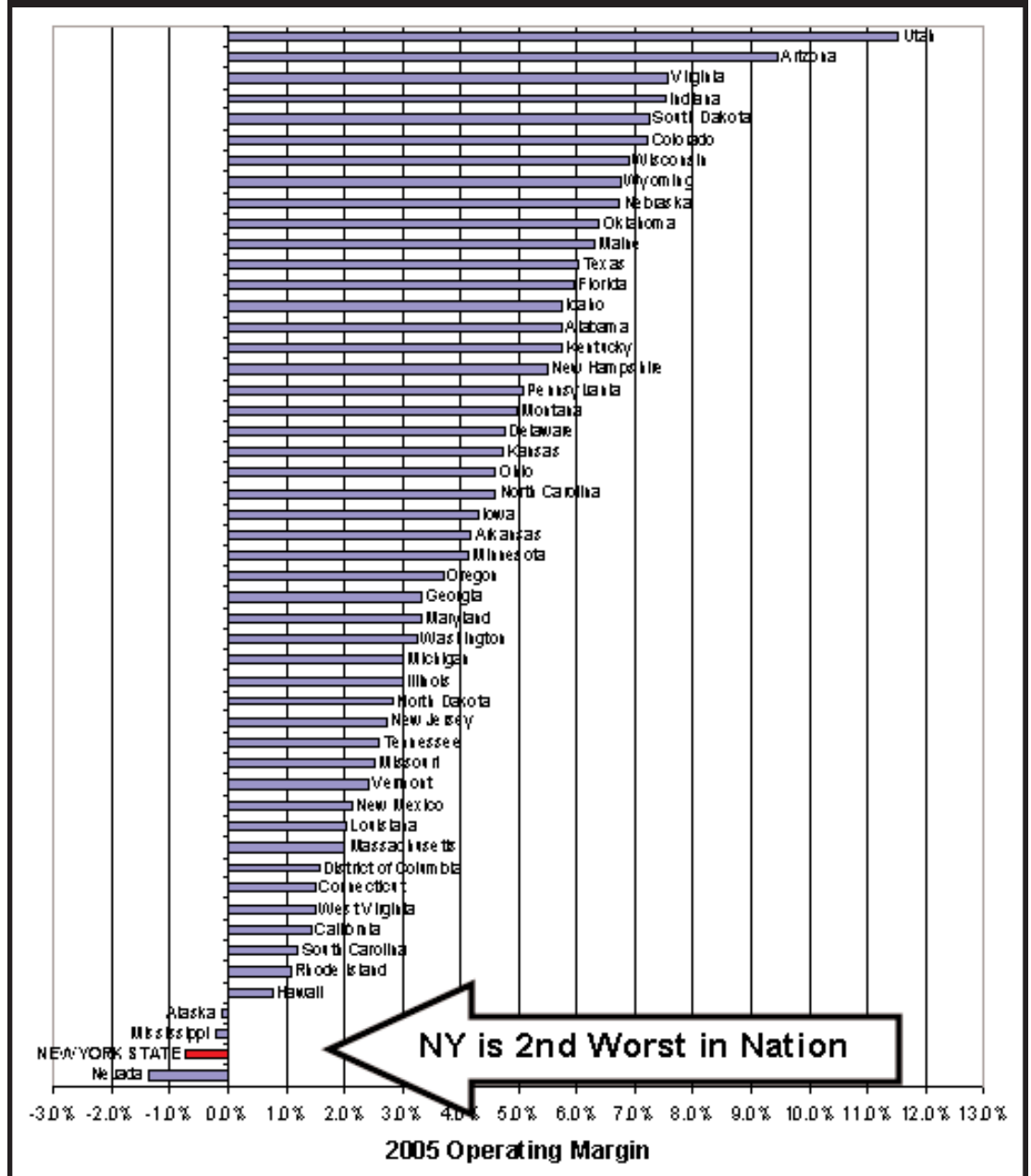
Hospitals Have Lost \$2.4 Billion Since 1998



- 56% of hospitals are losing money, breaking even, or operating in a precarious condition with financial margins of 1% or less, which is well below the 4% that health care economists recommend. In the aggregate, 86% of hospitals in New York State were below the 4% level in 2005.

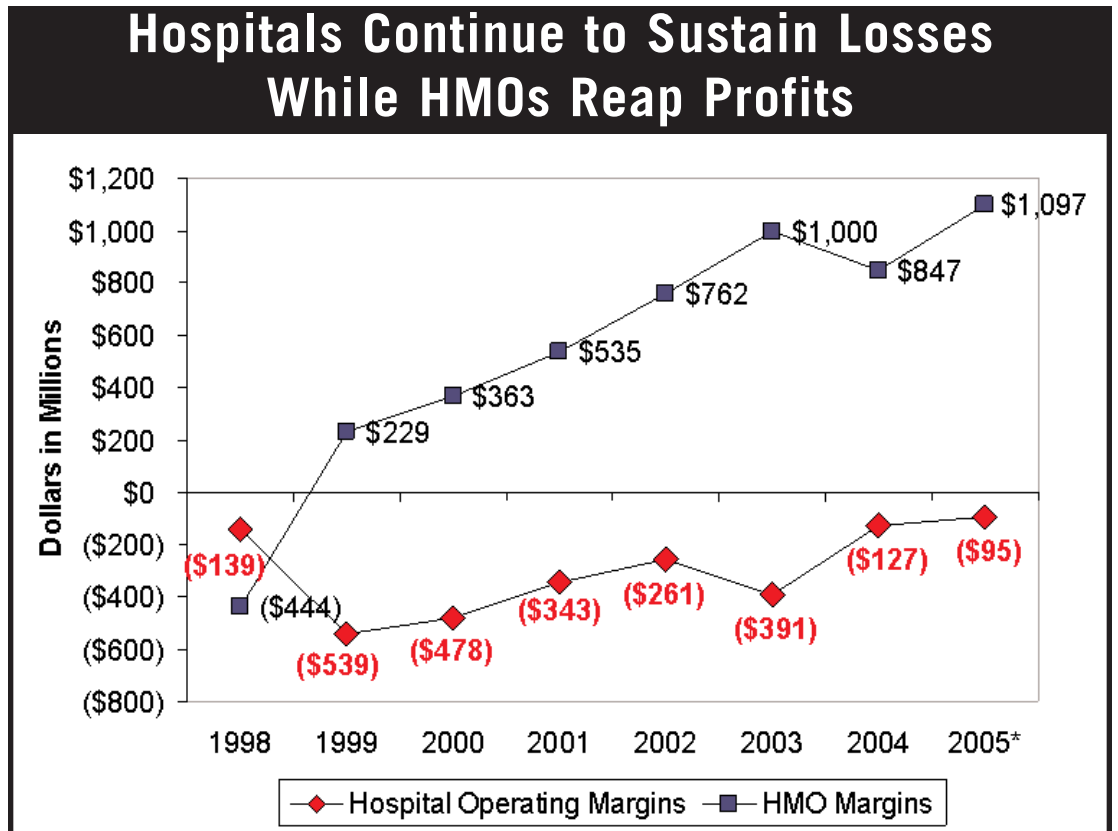
- New York now ranks second worst in the nation when compared to hospital operating margins in all other states, which average a positive 3.7%. The magnitude of New York hospitals' losses is a symptom of how they are acutely affected by inadequate government and insurer reimbursement, workforce shortages, and rising costs for everything from blood products to liability insurance.

New York's Operating Margin is the Second Worst in the U.S.



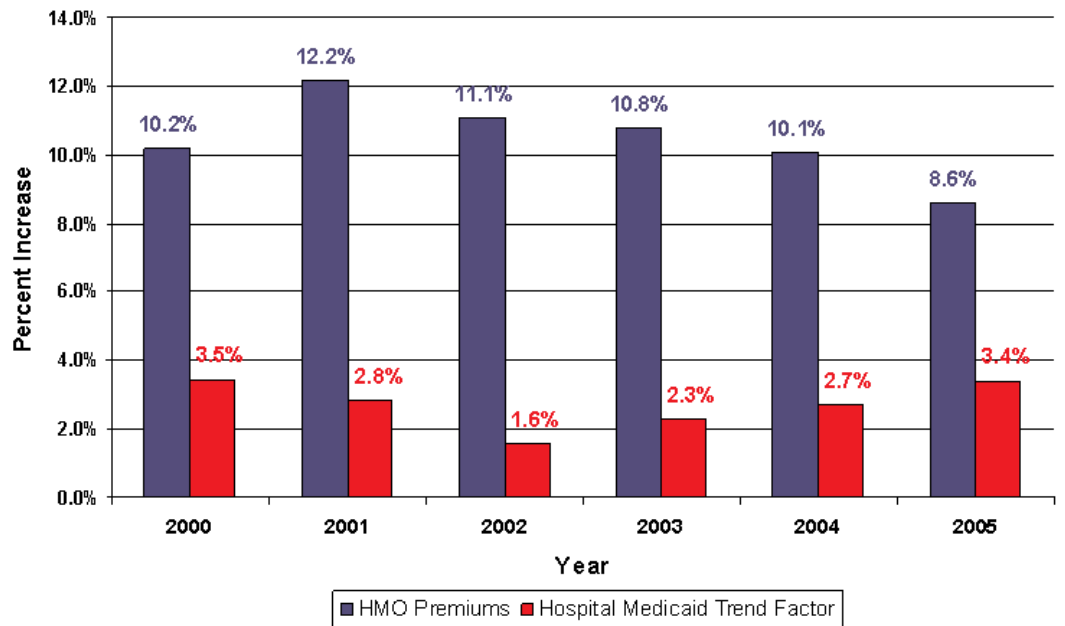
HMOs Reap Record Profits

- In stark contrast, the health insurance sector, particularly health maintenance organizations (HMOs), achieved record profits in 2005, receiving more than \$1 billion in profits. Over the past six years New York HMOs have reaped \$4.8 billion in profits, after meeting reserve requirements.



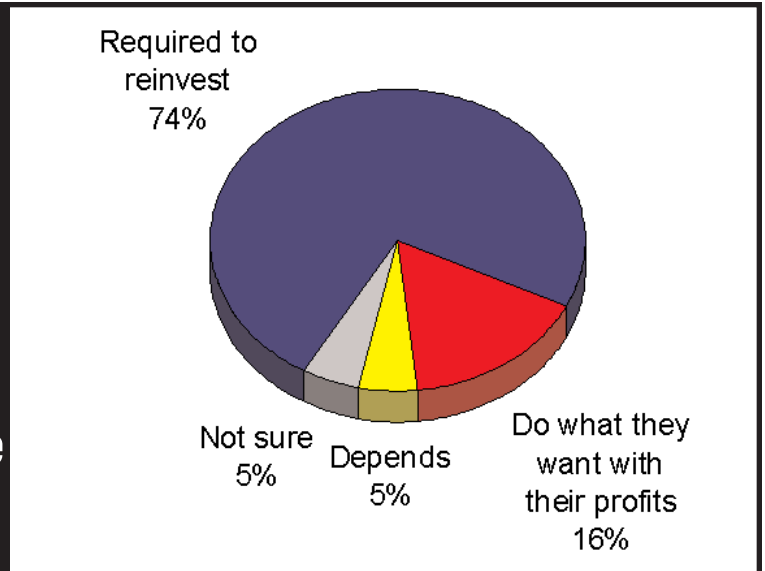
- HMO premiums have grown an average of 10.5% annually since 1999. The Medicaid trend factor—or inflationary price update given to hospitals—has averaged 2.7% per year over that same period.

HMO Premium Growth is More Than Double the Medicaid Trend Factor for Hospitals



- Health insurers should be required to pay provider claims responsibly. Payer accountability must involve adequate financing of the health care delivery system to support existing quality services and keep pace with the evolution of patient care. A 2005 survey by Opinion Dynamics Corporation of 600 New York State registered voters shows that 74% feel insurance companies should reinvest back into the health care system.

74% of Those Polled Think Insurance Companies Should be Required to Reinvest Some Profits



Source: Opinion Dynamics Corporation, December 2005.

MARKET CONDUCT REFORM

Stronger enforcement and meaningful reform in the managed care industry are critical to ensure that New Yorkers are provided access to quality health care. HANYS is pursuing a market conduct reform agenda designed to address inappropriate health insurance practices and payment methods. In addition, there are proposals aimed at the growing number of payer practices that, in effect, discourage consumers from using their health insurance benefits and discourage providers from dropping out of a plan's network despite inadequate reimbursement.

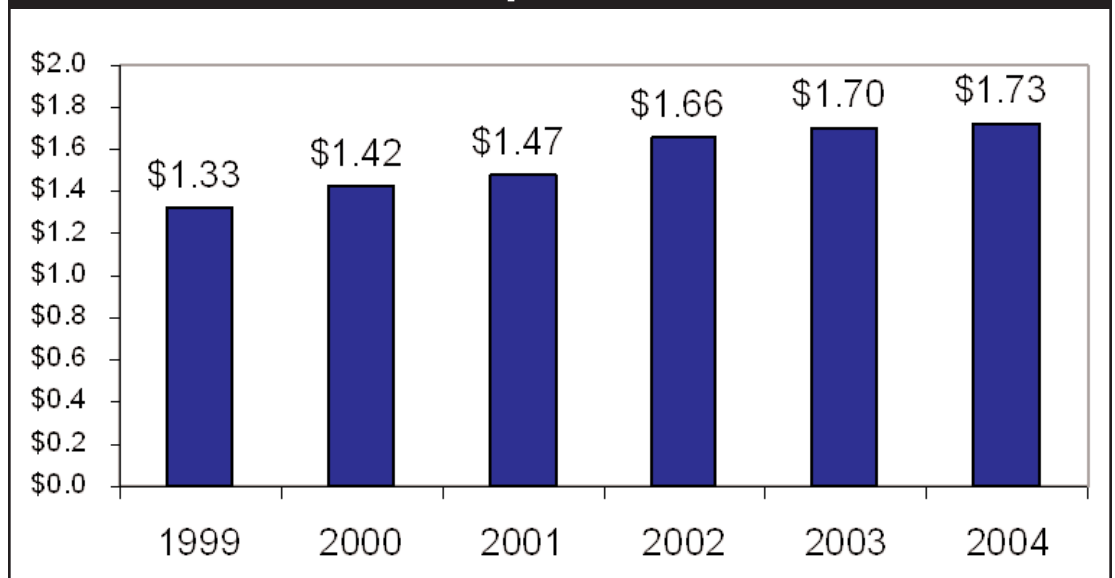
HANYS' reform agenda includes proposals to:

- ensure that pre-authorization of medical services by a health plan means guaranteed payment for those services;
- tighten prompt payment deadlines for electronic claims submissions and enact penalties to address repeat violators;
- prohibit administrative denials when the care provided was an authorized, medically necessary service;
- enhance the External Appeals Law to allow providers a clear right to appeal adverse determinations;
- coordinate benefits to resolve the disagreement over which payer is primarily responsible to pay a claim;
- prohibit payers from changing in-network hospital coverage to out-of-network based on the treating physician status;
- prohibit health plan policies that prevent an insured individual from assigning payment to an out-of-network provider;
- prohibit managed care organizations from steering patients to certain types of facilities, including physician offices, without a disclosure and a clinical basis for such steering; and
- require a utilization review agent to consider the time of day and the day of the week the patient presented to the emergency department, in addition to presenting symptoms, when reviewing a denial for coverage of emergency services.

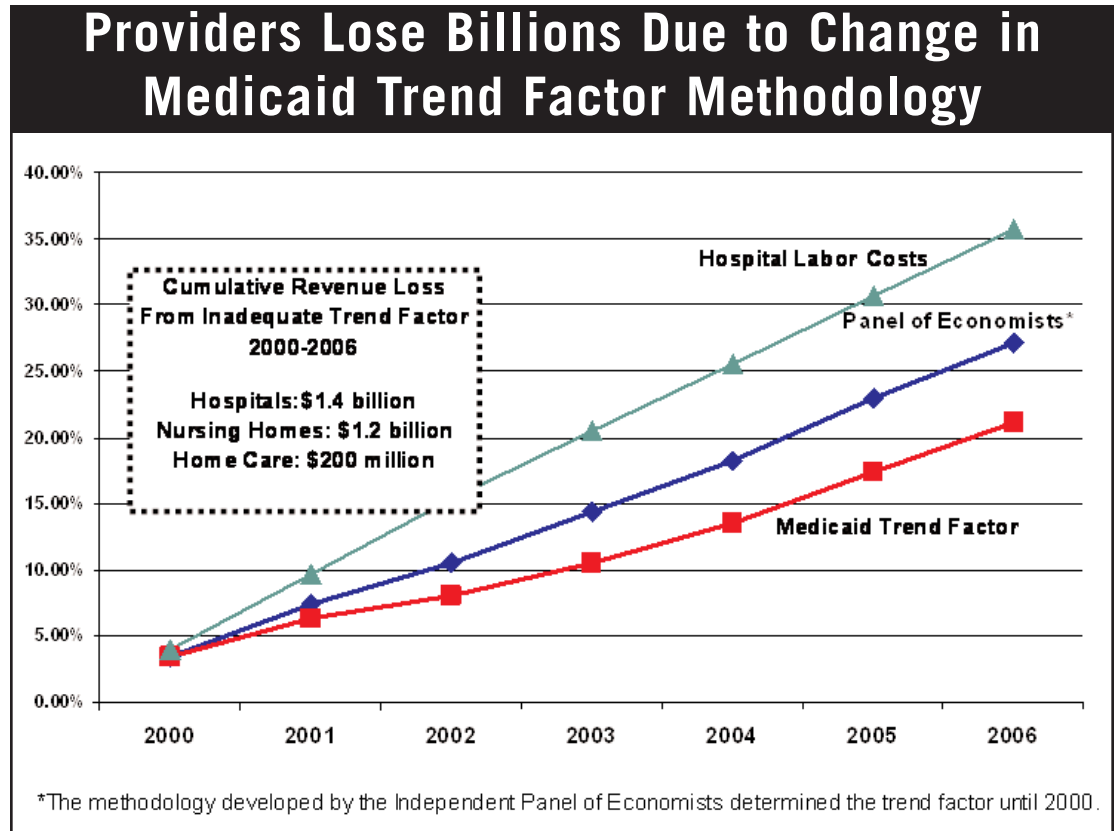
Medicaid Payment Shortfalls Challenge Hospitals' Ability to Fulfill Mission

- Payment shortfalls make it difficult to ensure that patients have access to the services they need. In 2004, New York hospitals lost \$1.7 billion providing emergency and outpatient services to patients whose care is funded by Medicaid.

Emergency Room and Outpatient Payment Shortfalls Drive Hospital Losses in New York

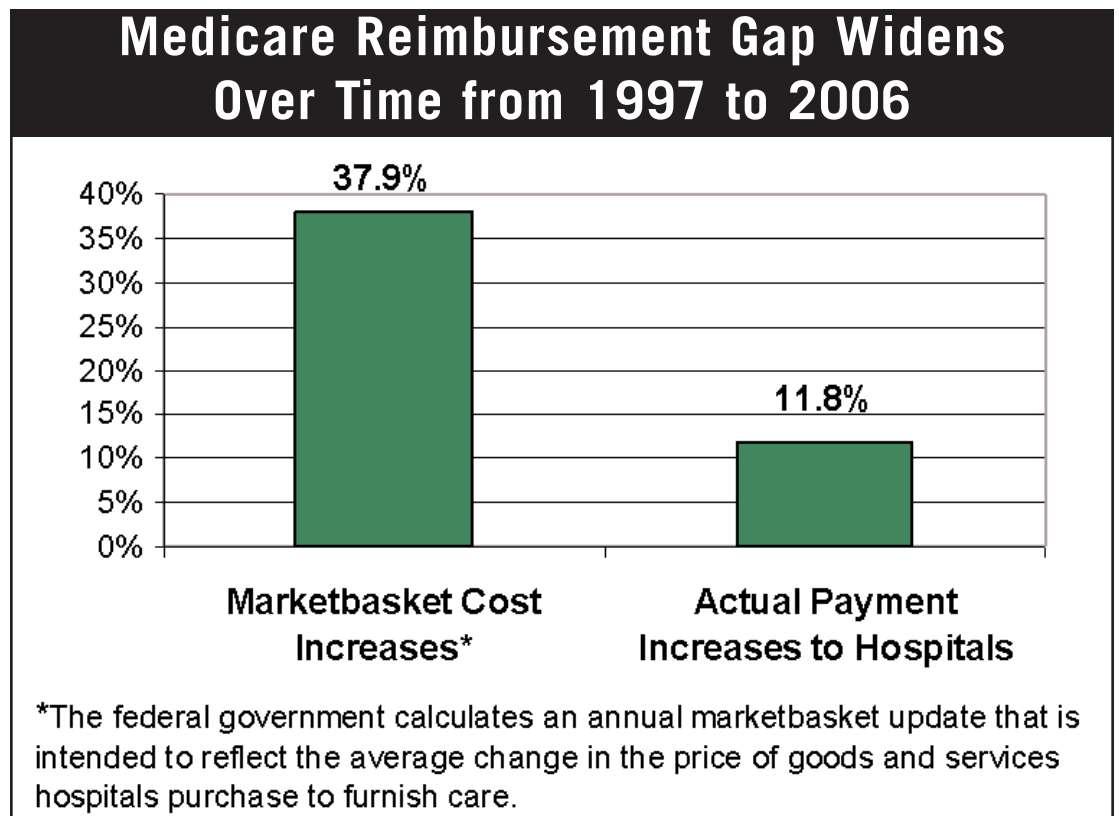


- Hospitals, nursing homes, and home care agencies have provided New York State with “hidden savings” because the Medicaid trend factor, which is linked to the Consumer Price Index, is not a health care-specific index and has shortchanged health care providers by \$2.8 billion since 2000.



Medicare Payment Shortfalls are Increasing

- Since 1997, New York hospitals' inpatient costs have increased by a staggering 37.9%, yet Medicare inpatient payments have lagged far behind, increasing just 11.8%. That is, while the Centers for Medicare and Medicaid Services (CMS) estimates that the average cost of the goods and services that hospitals purchase for inpatient care have increased by 3.9% per year, inpatient payments have increased by 1.6% per year—less than half that amount.

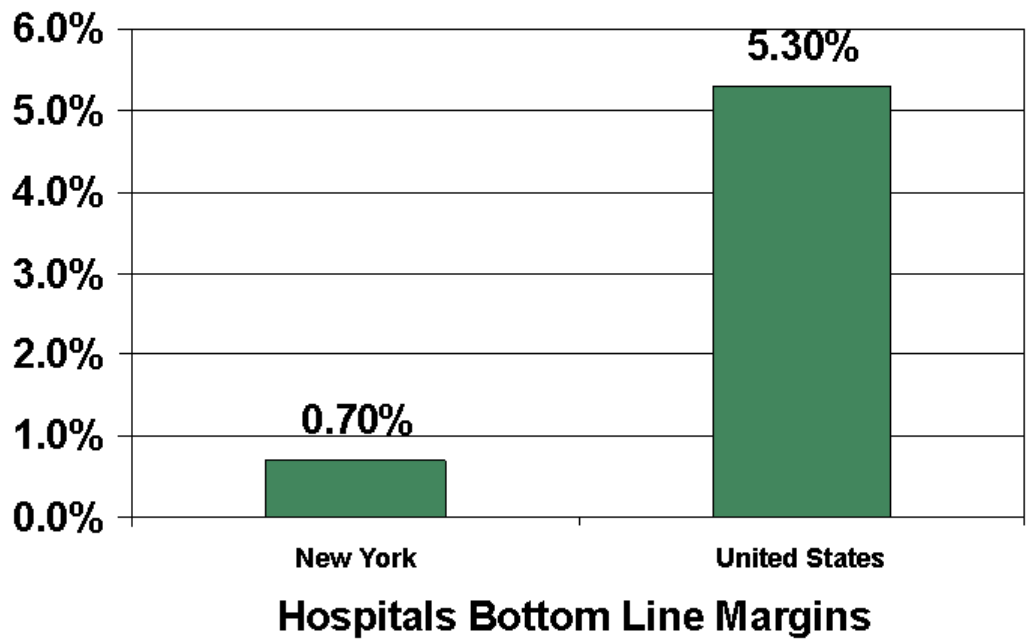


- Hospital care continues to shift from the inpatient to the outpatient setting. Unfortunately, hospitals are losing money on outpatient care because CMS designed the new Medicare outpatient payment system to pay only 87 cents for every dollar of patient care cost.
- The percentage of New York hospitals with negative Medicare margins has doubled in the last eight years.

Bottom Line Margins Continue to be Among the Worst in the Nation

- According to the American Hospital Association, New York hospitals have among the lowest bottom line margins in the nation, ranking 49th out of 50 states.

New York's Bottom Line Lags Far Behind the Nation as a Whole



- Bottom line or total margins reflect all revenue and costs, including non patient-related revenues such as investment income and losses, philanthropy, unrestricted donations, and grants.

Conclusion

The care provided by and the economic impact of hospitals cannot be taken for granted. In this time of tremendous uncertainty and restructuring, payment cuts jeopardize a hospital's ability to continue providing quality, accessible care and to meet community needs. Public and private payers must adequately fund the cost of providing care.

HEALTHCARE ASSOCIATION OF NEW YORK STATE

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