

CRITICAL CONDITION:

New Yorkers are losing access to care as a fiscal crisis hammers hospitals statewide



December 2022 | Joint hospital association survey results



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Executive summary

The COVID-19 pandemic placed extraordinary stress on the nation's and New York's healthcare system. Today, New York's hospitals remain in crisis. They face a national healthcare worker shortage, uncontrollable expense increases, fewer places to safely discharge patients, concurrent public health crises, stagnant infrastructure and market changes that leave hospitals increasingly serving only the sickest and most vulnerable patients.

As a result of circumstances beyond their control, **hospitals statewide need urgent help to sustain their services.** According to a fall 2022 survey by New York's state and allied regional hospital associations, New Yorkers are losing access to healthcare services amid escalating care delivery costs and persistent workforce shortages — and providers expect access to medical services to further deteriorate.

The survey's findings are alarming:

1. Severe fiscal and workforce challenges are forcing hospitals to cut patient services and halt modernization projects that advance patient care.
2. National healthcare workforce shortages continue to force hospitals to use costly contract labor, driving up expenses alongside substantial increases in drug, supply and energy costs.
3. **Four out of five hospitals in New York report negative or unsustainable operating margins.**
4. With pandemic-related government support ending and expenses continuing to escalate, hospitals' dire fiscal crisis is likely to only get worse.

Already-strained hospitals cannot absorb their escalating expenses. New York's hospitals cannot simply increase their prices. Most hospital care is paid for based on prices set by Medicare and Medicaid, and negotiations with commercial insurers leave little room for hospitals to address escalating expenses in a timely or meaningful way, particularly when healthcare prices are under heavy public scrutiny.

Action is needed now.

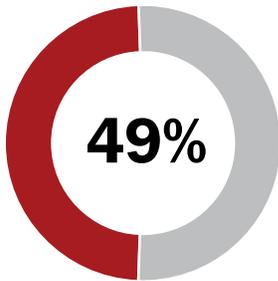
“Three out of five hospitals are underwater, and the fourth is on thin ice. We face a very real danger of hospitals closing, patients losing care, healthcare workers losing their jobs and communities losing their lifeblood.

The state and federal governments must immediately provide new funding, enact common sense policy changes and make no cuts to existing vital healthcare funding.”

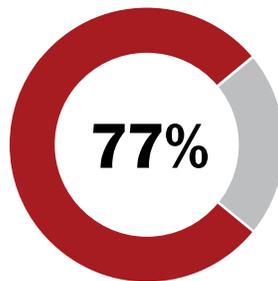
— Bea Grause, RN, JD, president, Healthcare Association of New York State

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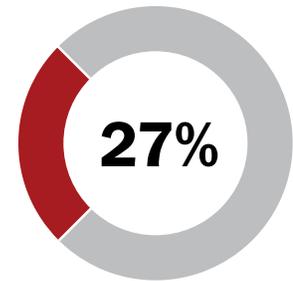
Severe fiscal and workforce challenges are forcing hospitals to cut patient services and halt modernization projects that advance patient care.



49% of New York's hospitals report reducing and/or eliminating services to mitigate staffing challenges while ensuring their most critical services remain available.



77% report delaying or canceling building and improvement projects as a result of fiscal challenges — actions that erode the accessibility of healthcare services.



27% report being at risk of defaulting on existing loans, which can decrease financial resources available for patient care.

Cutting patient services is always the last resort; hospitals are taking significant measures to keep services online. For instance:

- **96%** have offered financial incentives to retain/attract employees.
- **64%** have up-trained and/or retrained staff to accommodate higher-level care needs.
- **47%** have requested staff postpone elective time off.

MISSION CRITICAL: New York's not-for-profit hospitals are driven by their mission of providing quality care to patients 24/7/365, regardless of ability to pay. Our hospitals and health systems' stability is often assumed. Whether for routine care, an urgent medical issue or a response to an emerging public health crisis, New Yorkers expect their local hospitals to always be there when they need them.

“Our hospitals continue to face relentless financial pressures, including a pandemic in its third year. Without a financial margin, hospitals cannot invest in the necessary services and facilities to modernize our healthcare delivery system. The hospital community looks forward to working with New York’s policymakers to address this crisis.”

— *Kenneth E. Raske, president, Greater New York Hospital Association*

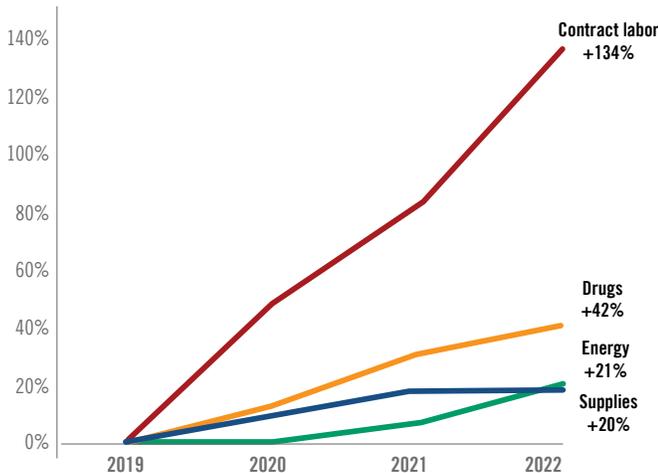
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National healthcare workforce shortages continue to force hospitals to use costly contract labor, driving up expenses alongside substantial increases in drug, supply and energy costs.

New York hospital expenses (2019 – 2022)



- **100%** of the state’s hospitals report nursing shortages they cannot fill; **Over 75%** commented that other key positions cannot be filled, highlighting radiology/medical imaging roles, lab staff, respiratory therapists, physicians, environmental services staff, and patient registration and revenue cycle roles.
- From 2019 to 2022, overall labor costs increased by **17%**, driven by a **134%** increase in hospitals’ contract staffing costs (an average annual increase of 33%).
This increase was driven by the need to appropriately staff for patient care with the only nursing resources available. As a result of this paradigm shift, contract nurses, who made up 50% of New York hospitals’ total contract labor expenses in 2019, now make up 65%.
- Labor costs aren’t the only challenge. From 2019 to 2022, New York hospitals report drug costs are up **42%**, supply and equipment costs are up **20%** and energy costs are up **21%**. Hospitals expect these difficult trends to continue in 2023.

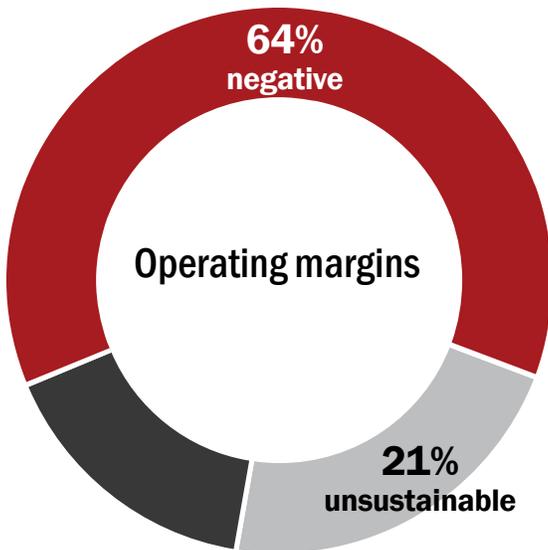
THE CONTRACTING WORKFORCE: Labor accounts for about 60% of a hospital’s operating expenses, so when labor costs increase it is a meaningful and permanent change. As healthcare workers have retired, changed careers or, in many cases, become contract employees themselves, hospitals have been increasingly forced to hire temporary/contingent healthcare workers to maintain services. **Contract nurses can cost over two times more than a hospital-employed nurse.** While essential to keeping services available, their temporary status presents challenges such as constant onboarding, lack of cohesion with full-time staff and less familiarity with the local facility and community. Hospitals prefer to hire qualified, local full-time staff who can support day-to-day care needs and partner on long-term quality and patient experience initiatives.

“Workforce shortages are causing vacant positions to go unfilled and services to be cut. Policymakers must immediately invest in the healthcare workforce and our hospitals to ensure they can serve their communities for years to come. Hospitals’ labor costs are forever changed. Without help they face hard choices with dire consequences.”

— Gary J. Fitzgerald, president and CEO, Iroquois Healthcare Association

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Four out of five hospitals in New York report negative or unsustainable operating margins.



- In 2022, **64%** of New York’s hospitals and health systems report negative operating margins (those losing money when comparing care-related revenue and expenses).
- **85%** report negative or unsustainable operating margins (margins of less than 3%).
- The number of New York hospitals and health systems reporting negative or unsustainable operating margins increased by **23%** from 2019 to 2022.
- From 2019 to 2022, inpatient admissions dropped statewide by **8.3%**. As fewer patients receive care in the inpatient setting, hospitals are seeing less revenue.

While this decline in admissions follows a pre-pandemic trend, the total number of inpatient days did not change for this same time period. This indicates patients are staying at the hospital longer because their needs are more complex and/or a diminishing number of post-acute and other appropriate settings are preventing hospitals from discharging patients. Hospitals are serving as nursing homes with payment that fails to keep pace with the cost of caring for these patients for weeks and sometimes months.

MARGIN MATTERS: Low and negative margins preclude hospitals from the financial security needed to preserve access to vital healthcare services, re-invest in needed medical technology and research, recruit and retain a robust workforce, access capital markets and modernize healthcare facilities for all patients. A hospital’s fiscal health has a significant ripple effect at the local level. Beyond care delivery, hospitals and health systems are often the largest employers in their communities and generate many more community jobs and hundreds of billions of dollars in economic activity each year.

“Hospital margins are absolutely going in the wrong direction, and everyone should be alarmed. The pandemic and recent natural disasters have proven we need strong, well-resourced hospitals that are ready for anything. New Yorkers are better off when their hospitals are thriving.”

— Wendy Darwell, president and CEO, Suburban Hospital Alliance of New York State

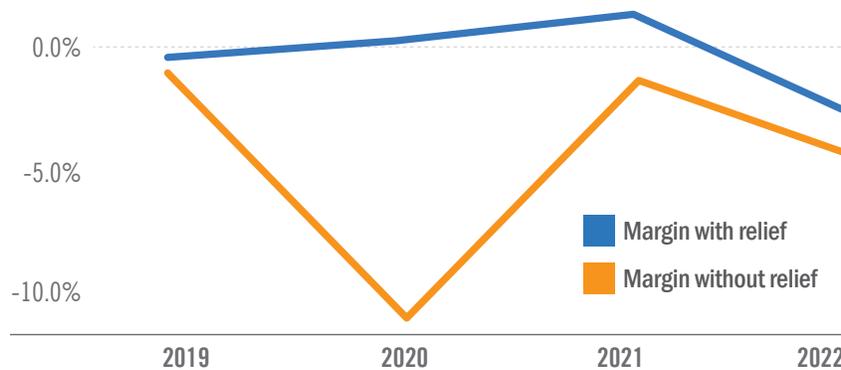
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With pandemic-related government support ending and expenses continuing to escalate, hospitals' dire fiscal crisis is likely to only get worse.

New York hospital median operating margin with and without one-time pandemic relief (2019 - 2022)



Including one-time pandemic relief, the median operating margin reported by New York hospitals hovered around break even in 2020 and 2021 but has deteriorated to **negative 3.7%** in 2022. While relief funding helped stabilize the healthcare system in the first two years of the pandemic, there is no new support on the horizon.

CRISIS ON TOP OF CRISIS: New York's hospitals have no breathing room to absorb escalating expenses as their reimbursement from Medicare and Medicaid — hospitals' highest-volume payers and the insurers for more than half of all New Yorkers — continues to be far below the cost of care and completely inadequate.

For each dollar of care provided by New York's hospitals, **Medicaid pays just 61 cents; Medicare pays 84 cents.** On average, 70% of inpatient hospital discharges and almost 60% of outpatient visits are paid for by Medicare or Medicaid. However, due to significant underpayment, these government-paid services represent only 51% of hospital revenue. This disconnect contributes significantly to the critical financial condition of New York's hospitals.

New York's hospitals cannot simply increase prices like other businesses to manage extreme cost growth. Persistent underpayment from Medicare and Medicaid forces struggling hospitals to try to balance their finances by negotiating more favorable payment rates from powerful commercial insurers, many of which are experiencing record profits. However, even if a hospital has meaningful commercial volume to offset losses from government payers, commercial insurer contracts lock providers into multi-year agreements that do not address unpredictable and untimely expense growth.

"The help hospitals need is nowhere on the horizon. Inadequate reimbursement and soaring expenses are pushing hospitals to the brink, begging for emergency relief just to keep the doors open, make payroll and repeat the situation all over again in a few months. It's an incredibly stressful cycle for everyone involved and it's absolutely unsustainable."

— Ken Schoetz, vice president, Healthcare Association of Western and Central New York

Action is needed now to protect patient access to care.

Preserving access to safe, high-quality patient care is the mission of New York's nonprofit and public hospitals and health systems. Today, that mission is threatened by fiscal forces outside of their control.

Hospitals and health systems have emerged from the worst of the pandemic into a changed world marked by severe and persistent workforce shortages and an untenable, structural revenue/cost imbalance, with no end in sight.

Government help is needed right now to sustain the current workforce, bolster the pipeline of new healthcare workers and fix longstanding reimbursement shortcomings that threaten patient access to care in communities across the state.

New Yorkers rely on their hospitals. Hospitals across the state are the heart of their communities, committed to giving every patient who comes through their doors the very best care. But right now, the majority of those facilities are struggling to survive.

The state and federal governments must immediately provide new funding, enact common sense policy changes and make no cuts to existing vital healthcare funding.

About the survey

Conducted in fall 2022, the survey asked New York hospitals fiscal, nursing workforce and patient volume questions for the period 2019 through projected 2022. Responses are from hospitals and health systems in all regions of the state with a participation rate that reflects over 90% of the annual revenue that New York hospitals and health systems generate. Data points on Medicaid and Medicare volume and payment are from hospital cost reports. "Unsustainable" margin levels reflect a standard from [Kaufman Hall](#). This survey was a joint effort of the Healthcare Association of New York State, Greater New York Hospital Association, Healthcare Association of Western and Central New York, Iroquois Healthcare Association and Suburban Hospital Alliance of New York State.

