
HEALTH CARE CABINET CONNECTICUT'S HOSPITALS TODAY

FEBRUARY 9, 2021





PRESENTATION OVERVIEW

- Response to COVID-19
- Community and Economic Benefit
- Financial Performance - Keeping Pace in a Demanding Environment
- Affordability



RESPONSE TO COVID-19

- As the COVID-19 pandemic has persisted and again surged across the country, the nation's hospitals and health systems continue to face unprecedented challenges
- At the beginning of February 2021, there were well over 25 million confirmed COVID-19 cases and more than 450,000 reported deaths from COVID-19 in the United States alone
- Hospitals have never before experienced such a widespread, national health crisis



CONNECTICUT HOSPITALS' RESPONSE

- COVID-19's arrival in Connecticut was swift and fierce
- Peak census was reached 45 days after diagnosis of first patient
- Hospitals demonstrated exceptional speed to action:
 - opening dedicated COVID-19 care units
 - increasing intensive care capacity and acquiring life-saving equipment
 - investing in personal protective equipment (PPE) to keep care givers safe, and
 - staffing to care for unprecedented surge in patients with acute care needs
- Hospitals' strength and flexibility have been tested – they have proven up to the task

COVID-19 RESPONSE – KEY MILESTONES

- Mar 8 First Connecticut resident is diagnosed with COVID-19
- Mar 10 Governor Lamont issues declaration of Public Health Emergency
- Apr 15 Connecticut hospitals expand ICU capacity by 65%
- Apr 22 Connecticut hospitals reach peak census of 1,972
- Jun 19 Connecticut reports lowest COVID-19 transmission rate in the U.S.
- Dec 14 Vaccines arrive; Connecticut hospitals begin vaccinating workforce
- Dec 31 Connecticut hospitals have admitted 21,329 COVID-19 patients



COVID-19 FINANCIAL IMPACT

- The surging number of cases and hospitalization rates put severe financial pressure on hospitals:
 - the astronomical costs of preparing for a surge of COVID-19 patients
 - added expenses due to supply chain and labor market disruptions
 - months of essential hospital revenue erased due to the combination of a forced shutdown and slowdown of regular operations for non-emergent care
 - the high cost of treating COVID-19 cases, which tend to be incredibly resource intensive

DIRECT EXPENSES

Expense Category	Costs as of June/July 2020*
Capital Costs	\$44,657,900
Staffing	\$169,192,429
Supply Costs	\$84,456,769
Other Costs	\$21,815,682
	\$320,122,780

*Substantial COVID-19 costs continue through the second surge



COMMUNITY AND ECONOMIC BENEFIT



CONNECTICUT HOSPITAL TAXES

- While most hospitals in Connecticut are not-for-profit and tax exempt, they are one of the largest sources of tax revenue for the state of Connecticut – they were the 5th highest source of tax revenue in 2019
- Hospitals pay more than all other corporations after considering corporate tax credits
- On a per entity basis, hospitals are among the highest taxpayers in Connecticut
- Hospitals also pay property tax (outside of exempt footprint), sales tax, and UBIT (unrelated business income tax)



HOSPITAL TAX SETTLEMENT

- In 2019, Governor Ned Lamont and the hospitals announced an historic settlement of a longstanding dispute around the hospital tax
- In accordance with the settlement, hospitals received the first year of tax burden reduction in 2020, while providing more than \$600 million in revenue for the state
- Hospitals have provided nearly \$3.3 billion in revenue from 2012 through 2019
- The settlement extends the tax seven years – 2020 thru 2026 – further reducing the tax burden on hospitals while providing an additional \$4 billion in revenue to the state

HOSPITALS AND HEALTH SYSTEMS ECONOMIC IMPACT:

- 109,268 employed - payroll of \$8.1 billion
- 121,047 "ripple effect" jobs created - payroll of \$7.9 billion

Total jobs:

230,315

Total payroll:

\$16 billion



- \$682 million spent on buildings and equipment
- \$663 million additional economic activity generated

Total impact of
spending on capital
improvements:

\$1.3 billion



Total economic impact =

\$29.8 billion



- \$6.3 billion spent on goods and services
- \$6.2 billion created in "ripple effect" spending

Total impact of
hospital spending:

\$12.5 billion



FY2019 COMMUNITY BENEFIT BY THE NUMBERS

\$8.4 MILLION
Community building to create stronger, healthier communities



\$794.7 MILLION
Unpaid government-sponsored healthcare - Medicaid

\$233.9 MILLION
Uncompensated care: Charity care/bad debt to provide services for those who cannot pay

\$899.2 MILLION
Unpaid government-sponsored healthcare - Medicare

\$26.1 MILLION
Services to improve the health of the community



\$8.9 MILLION
Research and other programs to advance healthcare for patients and the community

\$16.2 MILLION
Donations to help support community organizations



\$243.7 MILLION
Health professions education

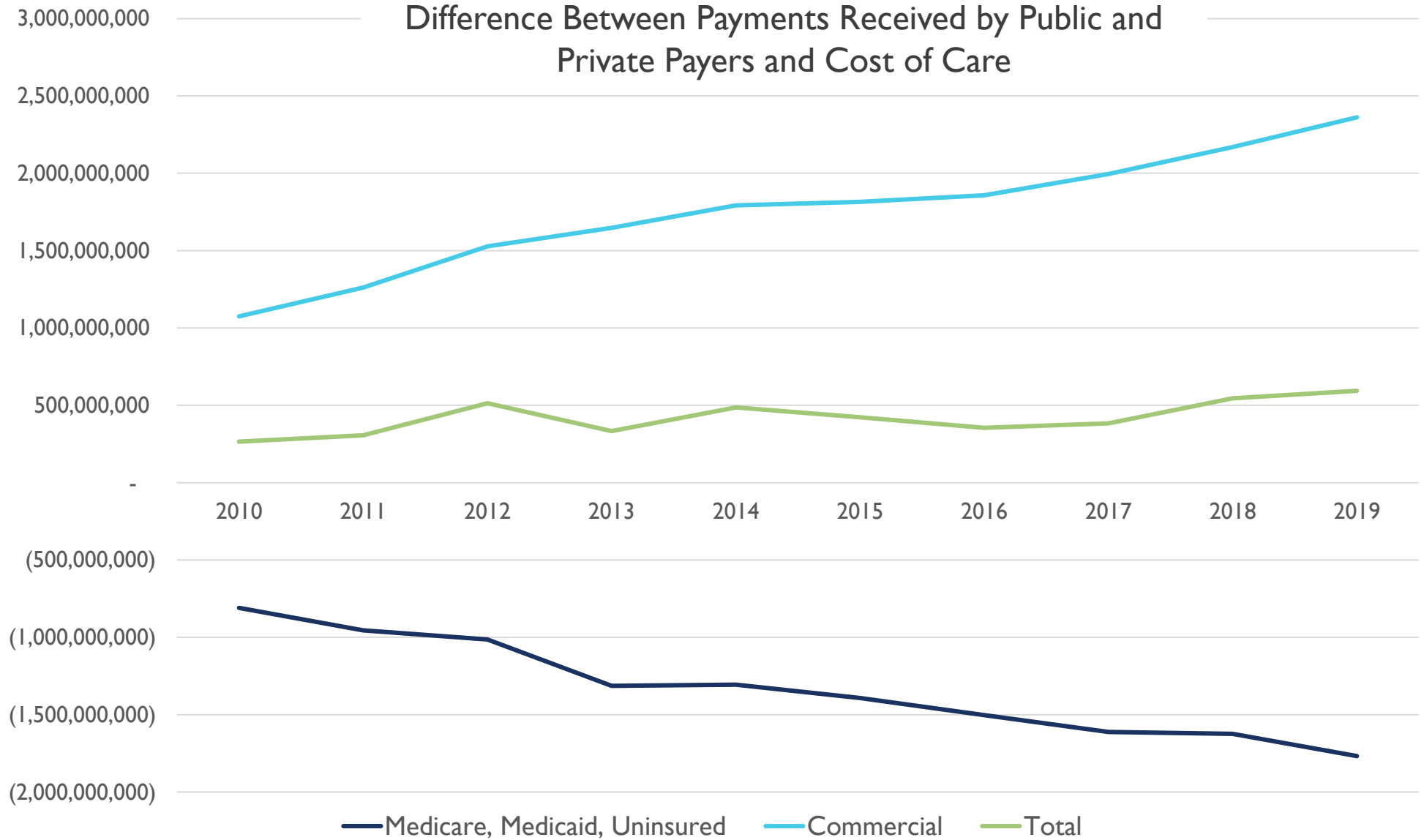


\$5.3 MILLION
Subsidized health services* to provide care needed by the community

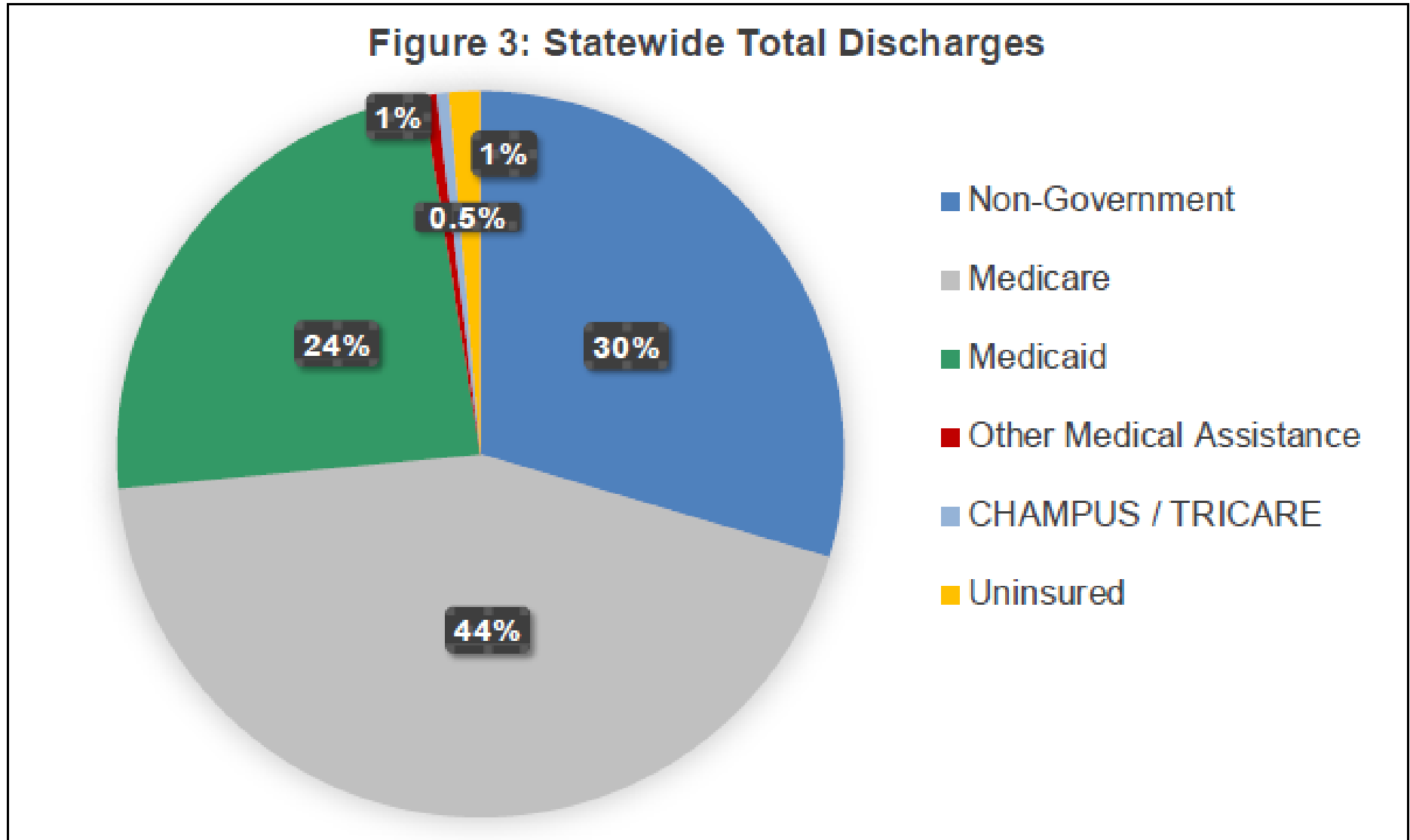
These data represent the most recently audited fiscal year, 2019, as reported to CHA by members.

<https://documents.cthosp.org/9/2021LegislativeToolkit/CommunityBenefitReportTP.pdf>

Public and Private Payer Payments and Cost



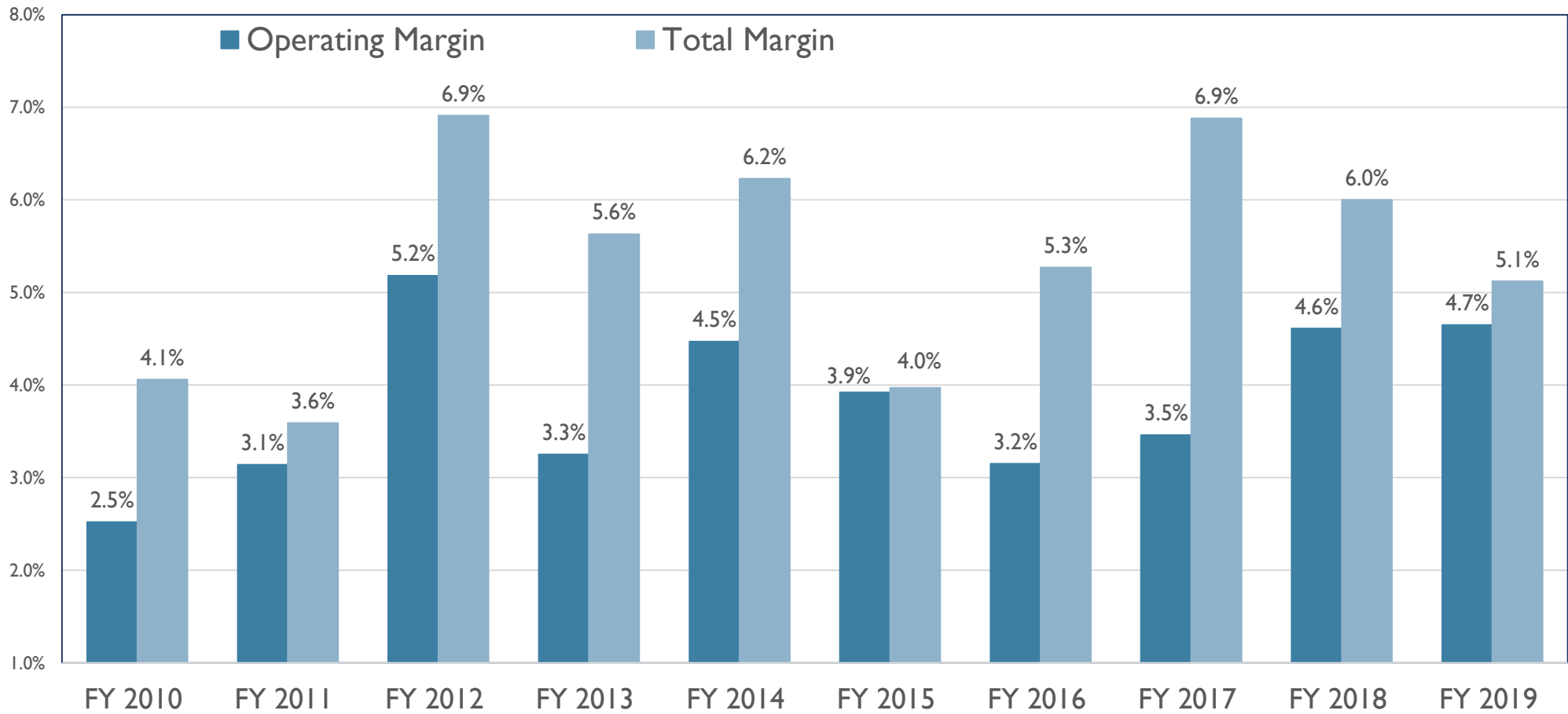
Public and Private Payer Share of Inpatient Discharges



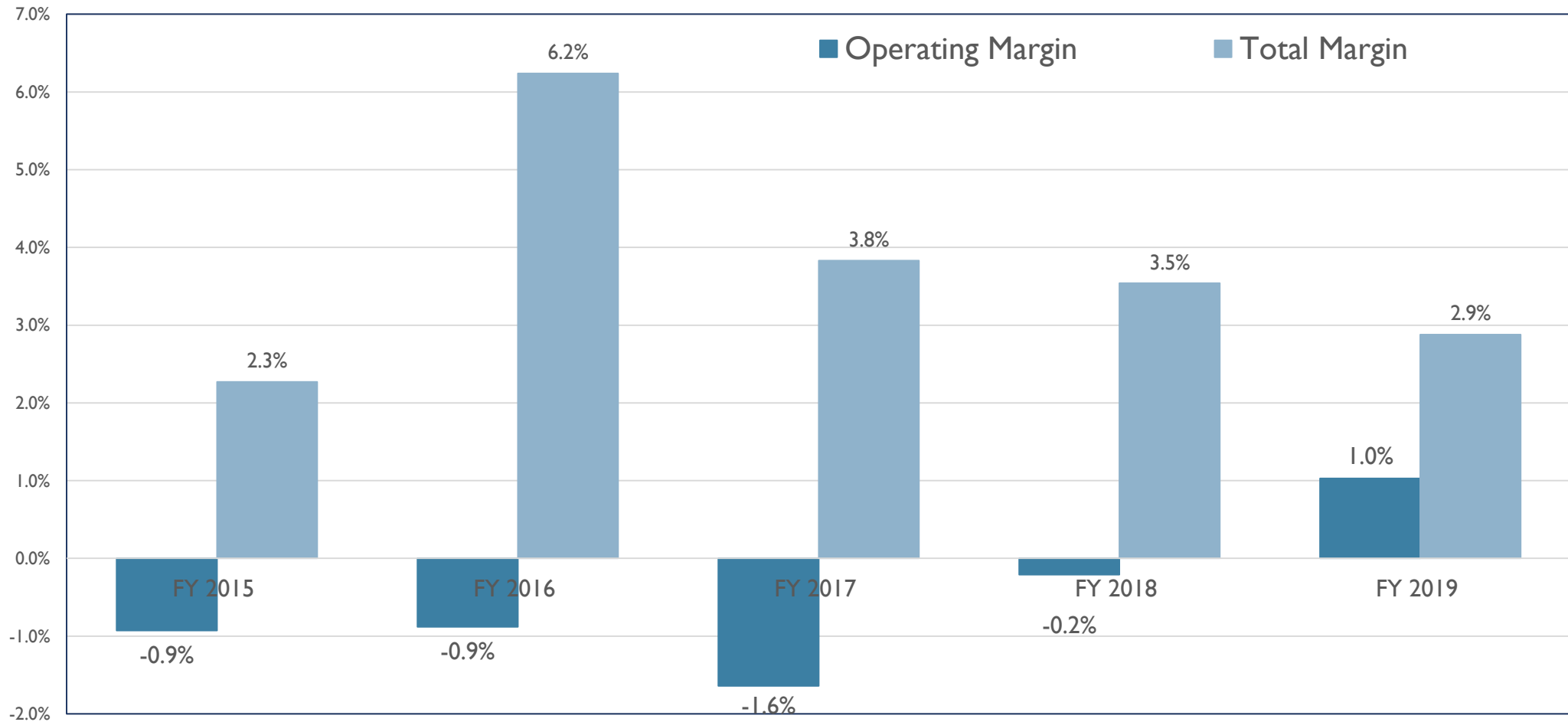


FINANCIAL PERFORMANCE

HOSPITAL OPERATING AND TOTAL MARGINS



HEALTH SYSTEM OPERATING AND TOTAL MARGINS



KEEPING PACE IN A DEMANDING ENVIRONMENT

- Overall, hospital operating performance was strong in 2019
- Health system performance was weak and would have been weaker still if not for non-operating income
- Hospitals are only as strong as the health systems of which they are a part; e.g.,
 - the cost of borrowing is based on the financial strength of the hospital(s) and related entities
 - liquidity and solvency can be adversely impacted by the performance of related entities
- Non-operating income is in part based on investment returns, which is volatile, as the last several years have shown



KEEPING PACE IN A DEMANDING MARKET

- The mission of hospitals and health systems is to care for their communities
- To fulfill that mission, hospitals reinvest their income in innovations in care and new technologies that result in improved outcomes, longer life expectancy, and a better quality of life for patients and communities
- These investments ripple throughout the state's economy and ensure that our hospitals remain competitive within the region

KEEPING PACE IN A DEMANDING ENVIRONMENT

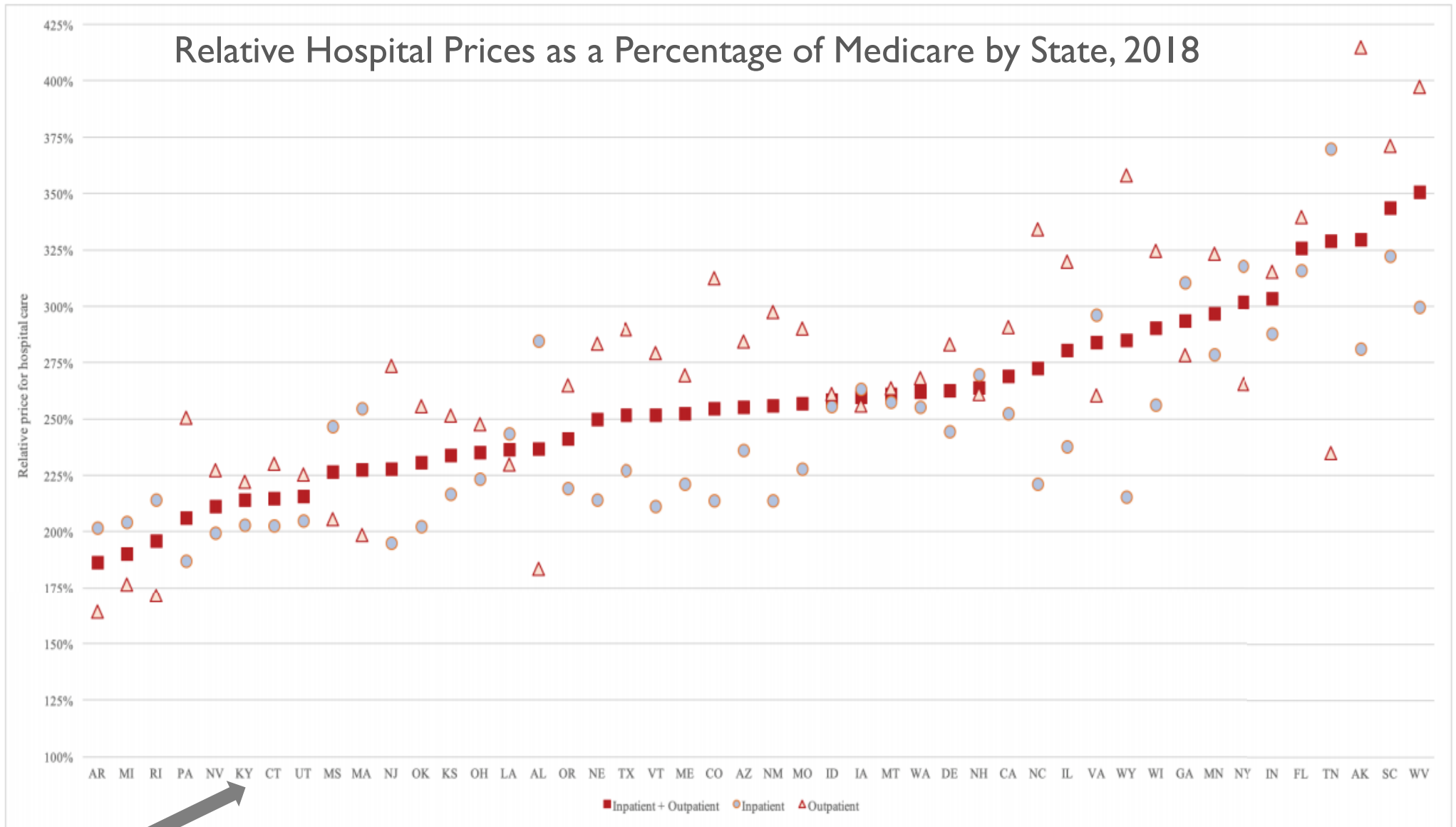
- 2020 presented American hospitals and health systems with truly historic financial challenges, which also threatened access to care for the communities they serve
- Those challenges are still very much present as 2021 begins
- The level of uncompensated care will likely increase significantly in 2021 and 2022 as the economic effects of the pandemic continue



AFFORDABILITY

Prices for Hospital Services in Connecticut

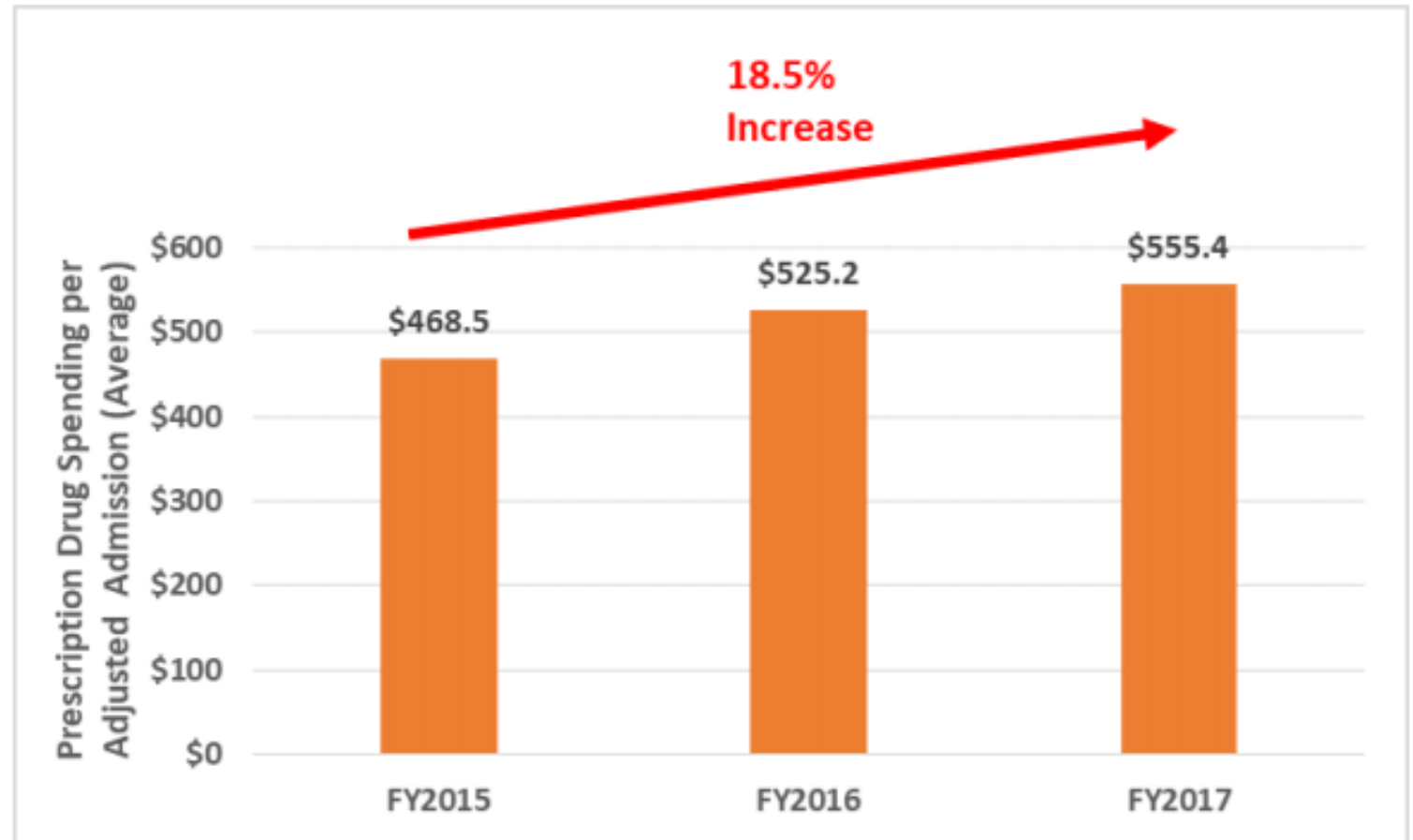
- Bottom quartile
- Seventh lowest in the nation



HOSPITALS AS COST AGGREGATORS

- Hospitals and health systems continue to experience high annual growth in drug spending that far exceeds medical inflation and Medicare payment updates
- Outpatient drug spending per adjusted admission increased 28.7 percent between FY 2015 and 2017 while inpatient drug spending per admission increased 9.6 percent during the same period

Prescription Drug Spending per Adjusted Admission at U.S. Community Hospitals (FYs 2015 – 2017)



Source: 2018 AHA-FAH-ASHP Drug Survey

THE HIDDEN COST OF UTILIZATION MANAGEMENT

- A number of health plans have abused the prior authorization process, which impacts patient care and results in significant added costs and burden to the health care system:
 - *Variation Across Plans in Submission Processes* - Highly inefficient and burdensome; each plan uses a different process for providers to submit prior authorization requests
 - *Inappropriate Application of Prior Authorization* - Requiring prior authorization even for services where there is no evidence of abuse and there are well established standards of care
 - *Inappropriate Denials* - Frequent occasions where service is clearly medically necessary, but plan denies anyway, resulting in significant burden to resolve the dispute

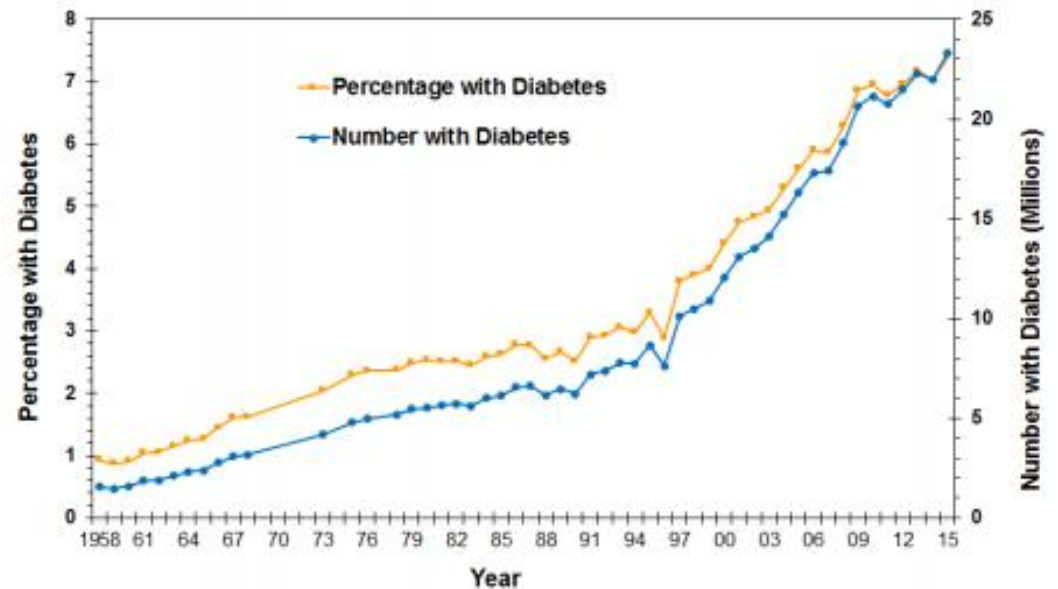
THE HIDDEN COST OF UTILIZATION MANAGEMENT (CONT)

- *Unreasonable Requests for Documentation* - Health plans use different requirements for what information a provider must include in a prior authorization request, and health plans often change those requirements unilaterally throughout a contract term
- *Inappropriate Delays in Decisions* - Health plans frequently delay prior authorization decisions, returning requests multiple times claiming insufficient information or simply not responding outside of traditional office hours
- These practices put patient access to care at risk: The HHS Office of the Inspector General (OIG) warned that high rates of Medicare Advantage (MA) health plan payment denials and prior authorization delays could negatively impact patient access to care

COST DRIVERS: WHERE TO FOCUS?



Number and Percentage of U.S. Population with Diagnosed Diabetes, 1958-2015



CDC's Division of Diabetes Translation, United States Diabetes Surveillance System available at <http://www.cdc.gov/diabetes/data>



KEY TAKEAWAYS

- Hospitals have played a critical role in the state's response to COVID-19, a role that was possible because of the overall strength of Connecticut's hospitals and health systems
- Hospitals contribute to the public good – providing essential healthcare services, contributing to the state budget, serving as economic engines that drive jobs and business in the state and their communities, bearing the burden of uncompensated care, and making substantial community investments
- Hospitals do all of this with relatively slim margins, most of which are reinvested to advance their mission
- As we consider the question of affordability, we need to look at all the factors that contribute to the cost of healthcare, and the delicate balance of economic factors that make it possible for hospitals to be trusted partners with and servants to their communities