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# **The Financial Impact of The Pandemic on Alabama Hospitals**

Winter 2023

# Alabama Hospital Finances: The Financial Impact of the Pandemic

Since the onset of the COVID-19 pandemic in March 2020, Alabama hospitals and health systems have taken unprecedented steps to care for their communities amid significant pressure on staff and resources.

The financial impact of the pandemic has been staggering. As hospital executives, policymakers, and other healthcare leaders assess the current landscape, key findings about the financial state of Alabama hospitals from the beginning of the pandemic through 2022 include:

- **Margins remain depressed relative to pre-pandemic levels.**

In 2022, the median cumulative margin for Alabama hospitals—including funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and other stimulus programs—**declined 79%** from pre-pandemic levels, making 2022 the worst-performing year since the pandemic began.

- **Expenses are significantly elevated from pre-pandemic levels.** Total expenses in 2022 for Alabama hospitals were nearly **\$2.6 billion higher** than pre-pandemic levels, and this **20% growth** in expenses has outpaced a **15% increase** in revenue over the same time period. Rising expenses for both labor and medical supplies have contributed to the increase—and total expenses are cumulatively well above pre-pandemic levels.

- **Hospital volumes remain below pre-pandemic levels.** Alabama hospital discharges, patient days, surgical cases and emergency department (ED) visits in Alabama hospitals are lower than pre-pandemic levels. An increase in length of stay relative to 2019 suggests that patients that are visiting hospitals have more severe health needs than prior to the pandemic. In addition, labor shortages in post-acute settings are preventing timely discharge of patients from hospitals, leading to increased expense without a commensurate increase in revenue.
- **Hospitals have faced a profound financial toll, with no further relief in sight.** Hospitals have incurred serious losses relative to pre-pandemic levels—including approximately **\$740 million** in operating income losses in 2022 alone (a **106% drop** in income relative to 2019). Total lost income for Alabama hospitals over the last three years amounts to **\$1.5 billion**.

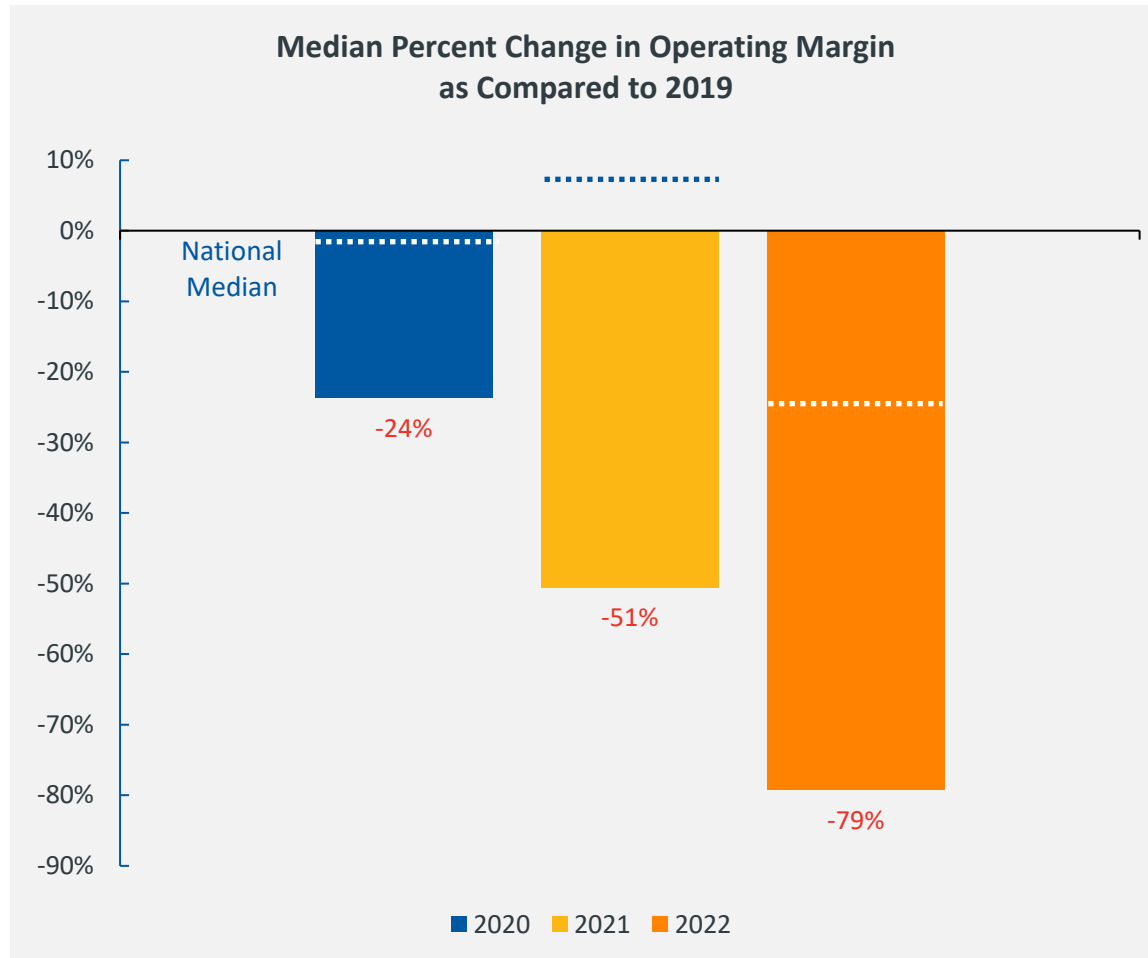
Hospitals also are facing a host of other related challenges, including workforce shortages and supply disruptions.

These findings underscore the existential financial and operational threats Alabama hospitals continue to face nearly three years after the beginning of the pandemic.

*Unless noted, figures in this report are inclusive of federal and state stimulus funds (unlike CMS Cost Reports). This report was prepared at the request of the Alabama Hospital Association.*

# Profitability

# Even When Including Stimulus Funds, Hospital Operating Margins Are Significantly Below Pre-Pandemic Levels



## KEY TAKEAWAYS

- Operating margins for Alabama hospitals have been under intense pressure since the outset of the COVID-19 pandemic.
- 2022 was a difficult year for Alabama hospitals, with margins 79% below pre-pandemic levels in 2019.
- Alabama has seen a greater decline in operating margins than the national median.
- Nationally, states that have expanded Medicaid enrollment have seen lower declines in operating margins than states without expansion programs.

Chart values represent percent change in each year relative to 2019 and are not cumulative

# Excluding Stimulus Funding, Hospital Operating Margins Have Dropped More Than 100%

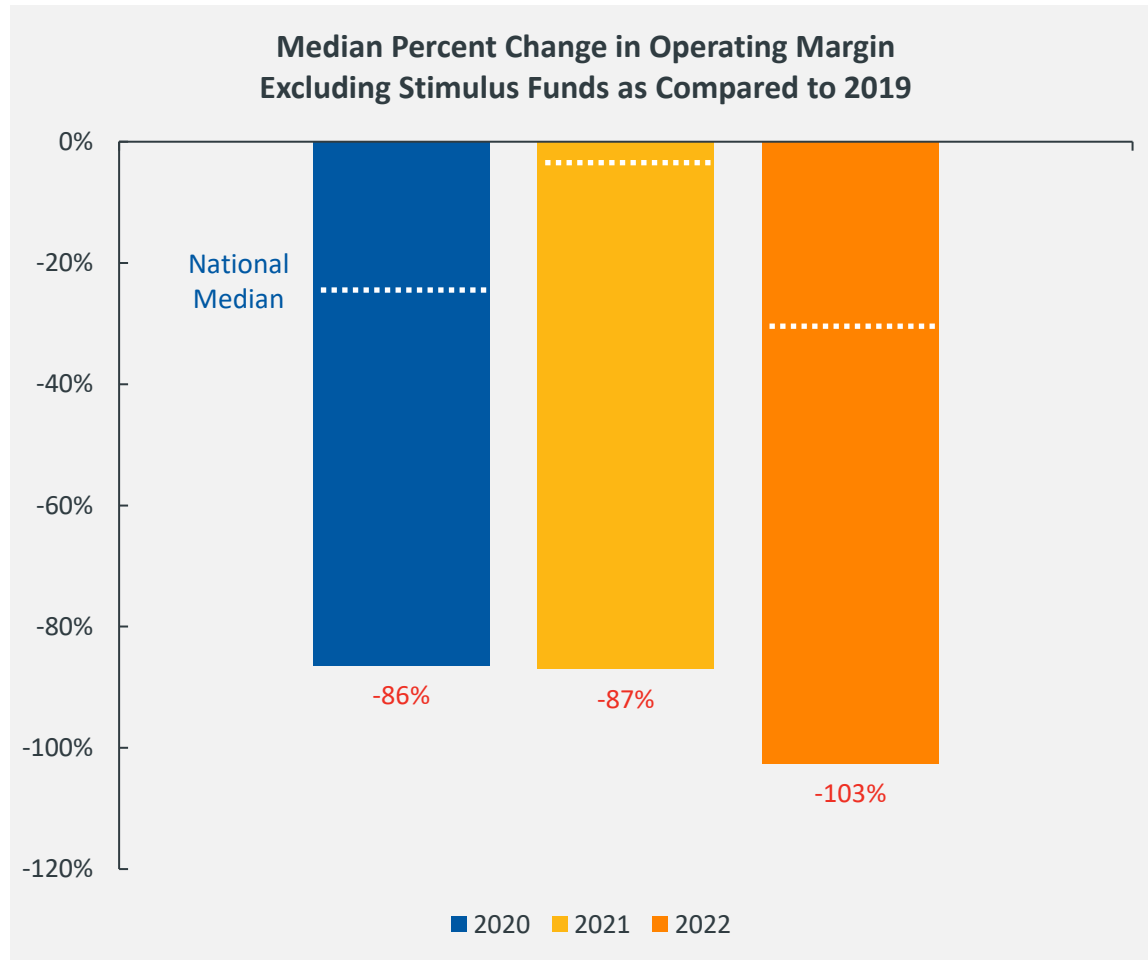
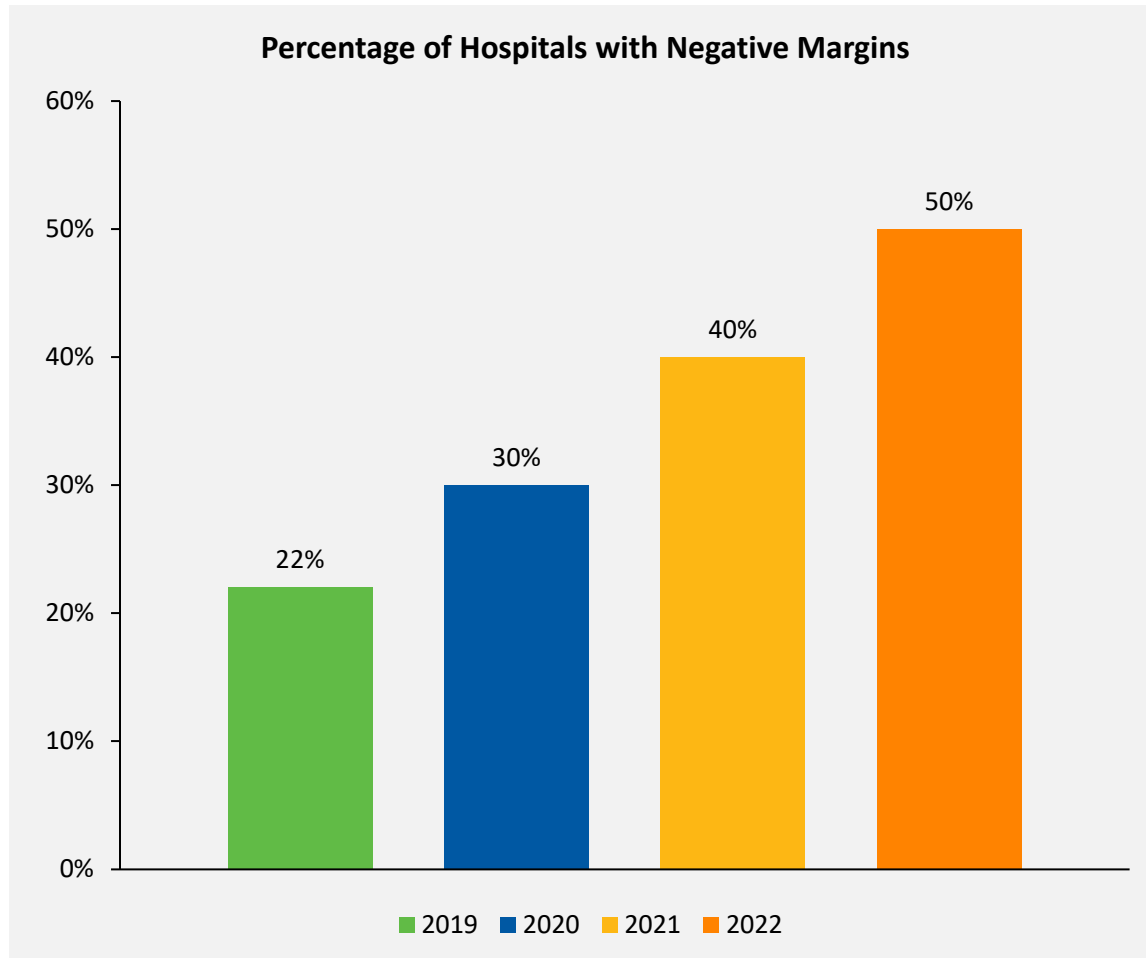


Chart values represent percent change in each year relative to 2019 and are not cumulative

## KEY TAKEAWAYS

- Exclusive of stimulus funds, the median operating margin for Alabama hospitals in 2022 was 103% below pre-pandemic levels.
- Exclusive of stimulus funds, Alabama operating margins have been at least 86% below 2019 levels for every year of the pandemic.

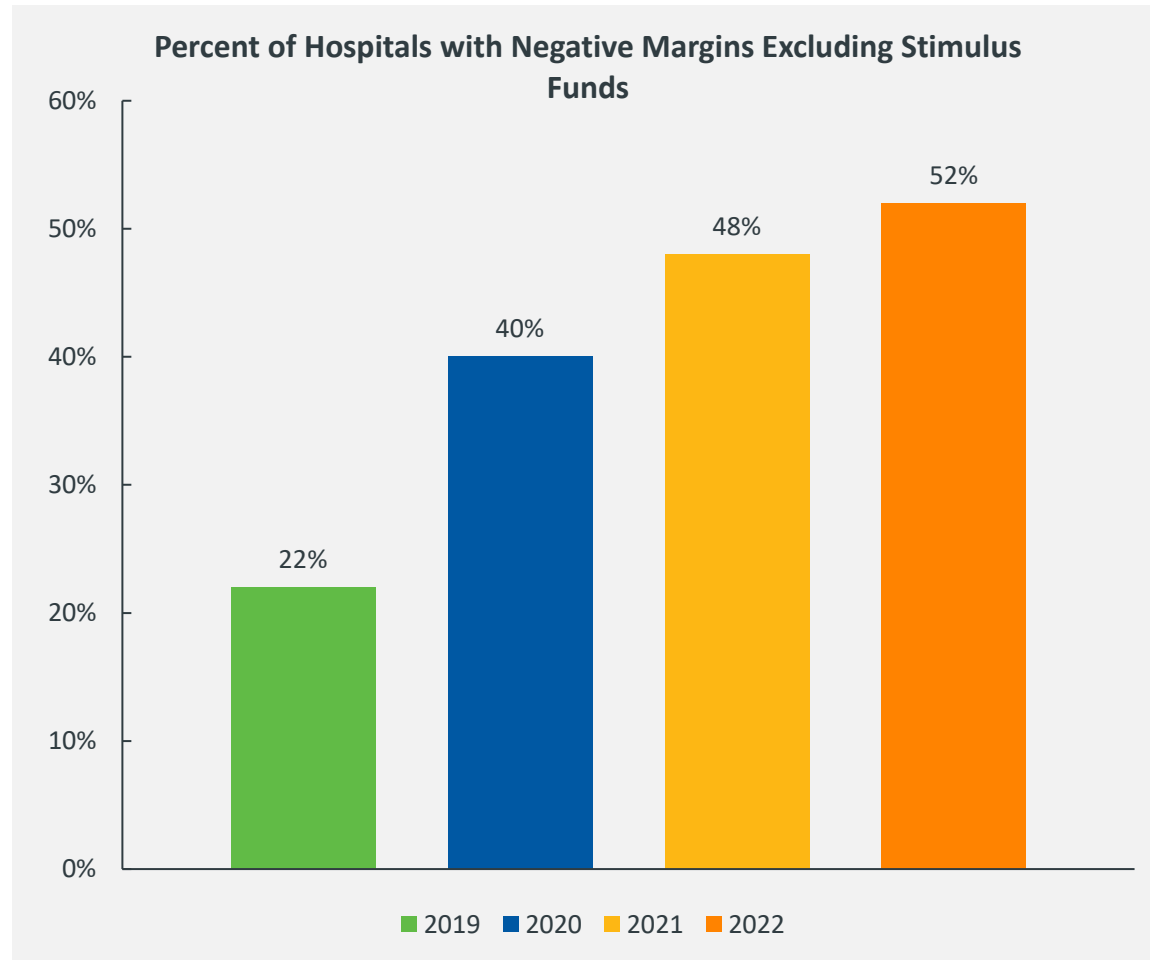
# Including Stimulus Funding, Half of Alabama Hospitals Had Negative Operating Margins Through 2022



## KEY TAKEAWAYS

- In 2022, 50% of Alabama hospitals had a negative operating margin, an increase of more than 125% from pre-pandemic levels.
- Even under pre-pandemic conditions, 22% of hospitals operated with negative margins, highlighting the tenuous nature of hospital finances.

# Excluding Stimulus Funding, More than Half of Alabama Hospitals Had Negative Operating Margins Through 2022



## KEY TAKEAWAYS

- In 2022, 52% of Alabama hospitals had a negative operating margin when excluding stimulus funds, an increase of more than 135% above pre-pandemic levels.
- Even under pre-pandemic conditions, 22% of Alabama hospitals operated with negative margins, highlighting the tenuous nature of hospital finances.

# Alabama Hospital Operating Income in 2022 Was 106% Lower Than 2019 Levels When Including Stimulus Funding

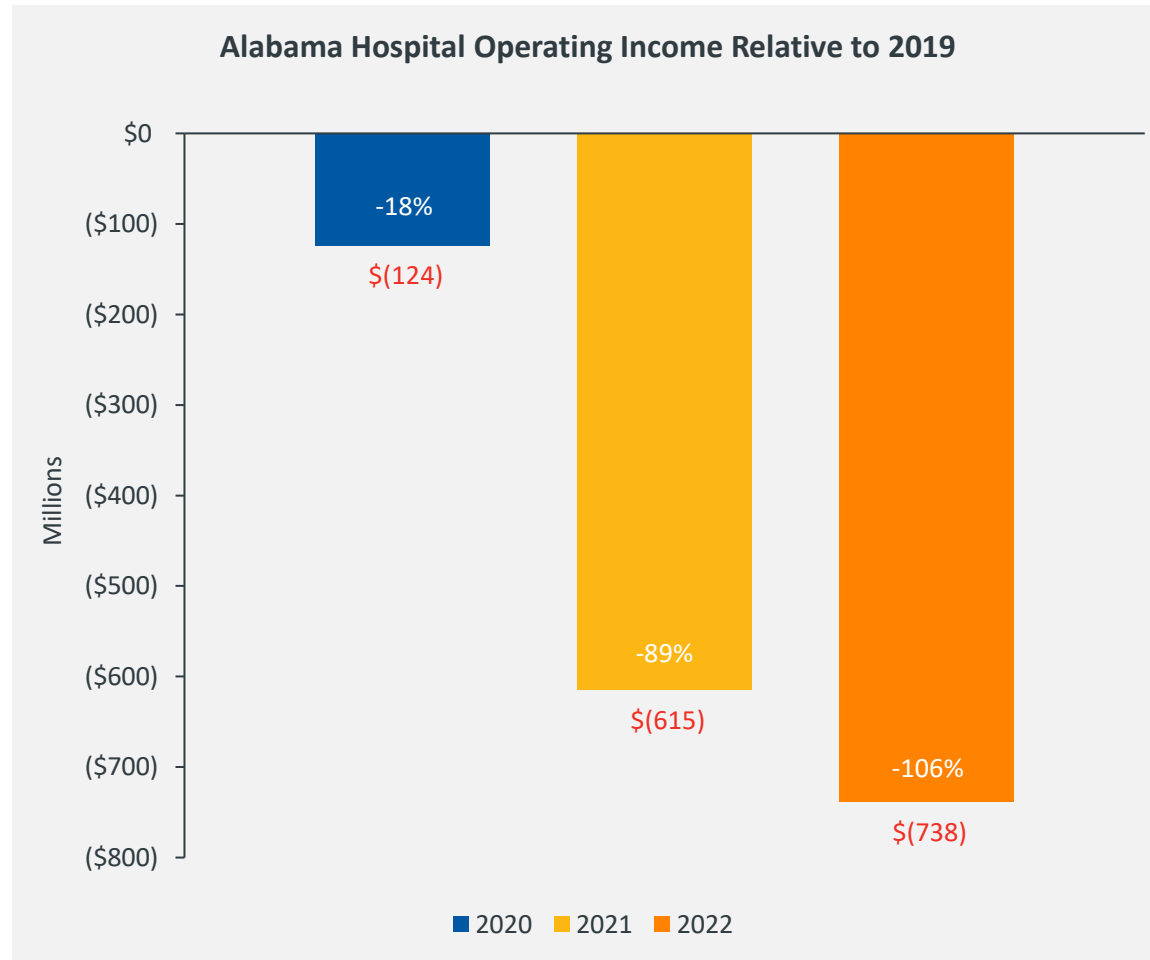


Chart values represent change in each year relative to 2019 and are not cumulative

## KEY TAKEAWAYS

- Lost income for Alabama hospitals in 2022 relative to 2019 has accumulated to more than \$738 million.
- Losses in income have continuously increased since 2019.
- Even with stimulus funds, Alabama hospitals have cumulatively lost nearly \$1.5 billion in income over the course of the pandemic.
- Challenges for Alabama hospitals include the lowest Medicare reimbursement rate in the nation and low rates from commercial insurers.



# Excluding Stimulus Funding, Hospital Operating Income is Far Lower Than 2019 Levels

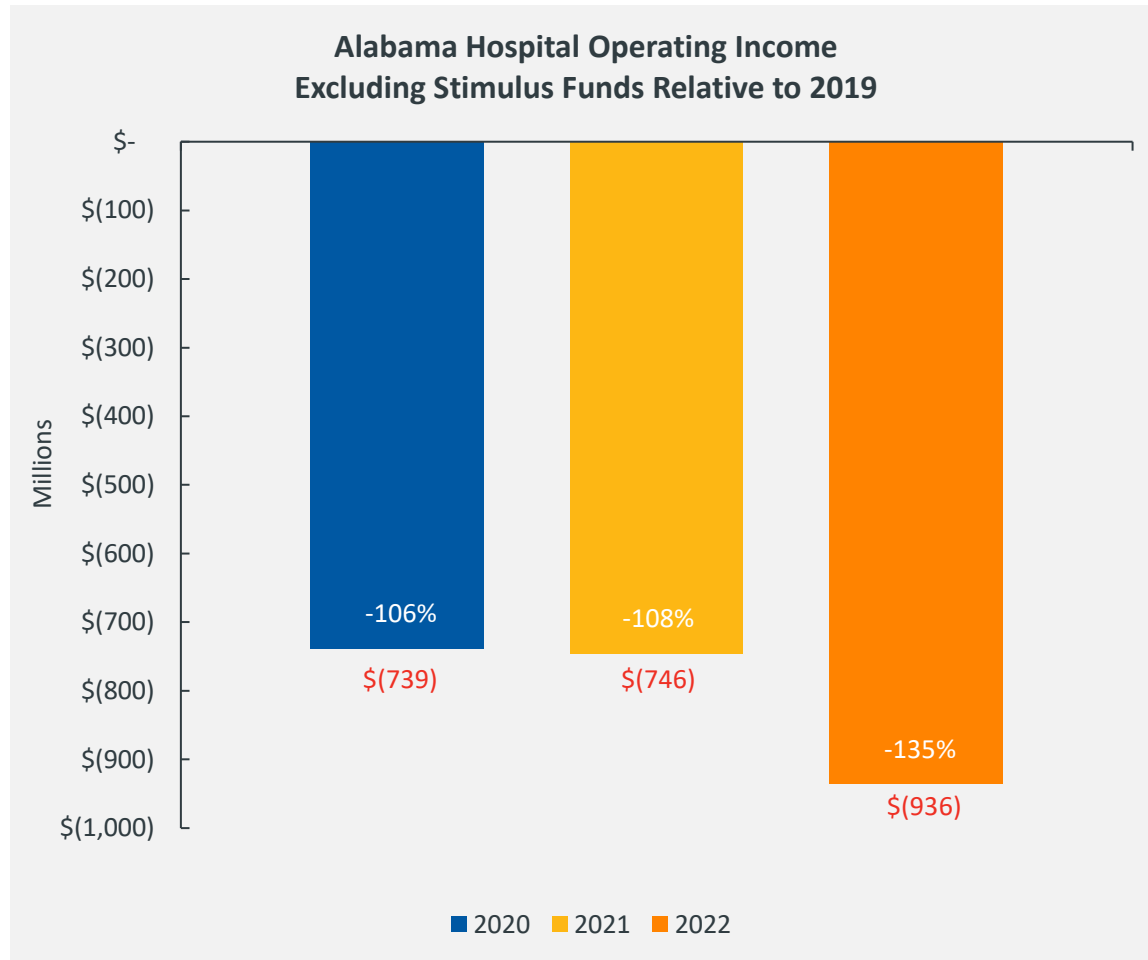


Chart values represent change in each year relative to 2019 and are not cumulative

## KEY TAKEAWAYS

- Without stimulus funds, Alabama hospital operating income in 2022 was nearly 135% lower than in 2019, representing a \$936 million loss.
- Alabama hospitals have cumulatively lost more than \$2.4 billion in income over the course of the pandemic when excluding stimulus funds.

# Expenses

# Total Expenses Have Increased 20% Over Pre-Pandemic Levels

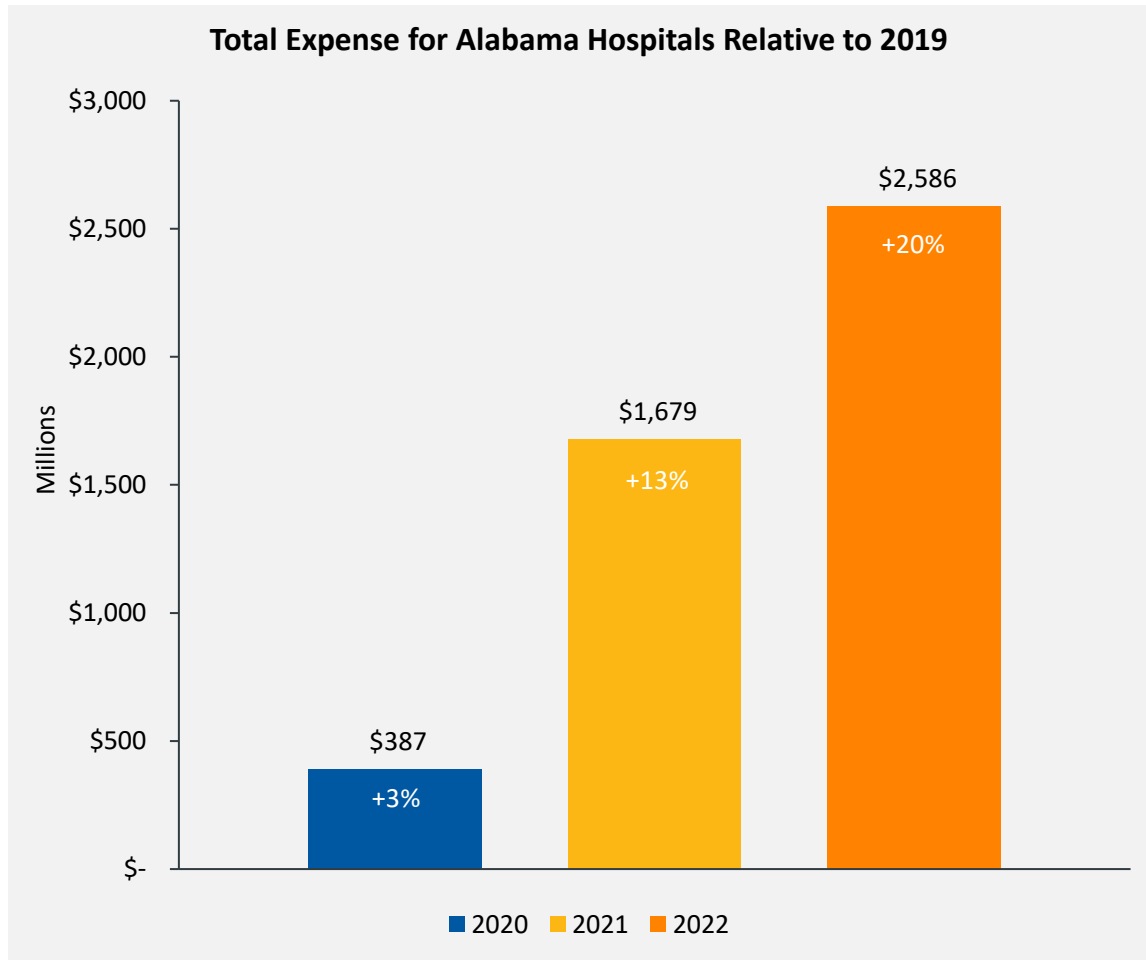


Chart values represent change in each year relative to 2019 and are not cumulative

## KEY TAKEAWAYS

- Total hospital expenses in Alabama have skyrocketed since 2019, reaching nearly \$2.6 billion above pre-pandemic levels in 2022.
- Key factors include rising labor costs, including contract labor expenses, drug expenses and non-labor expenses.

# Labor Expenses Have Increased 30% Relative to 2019

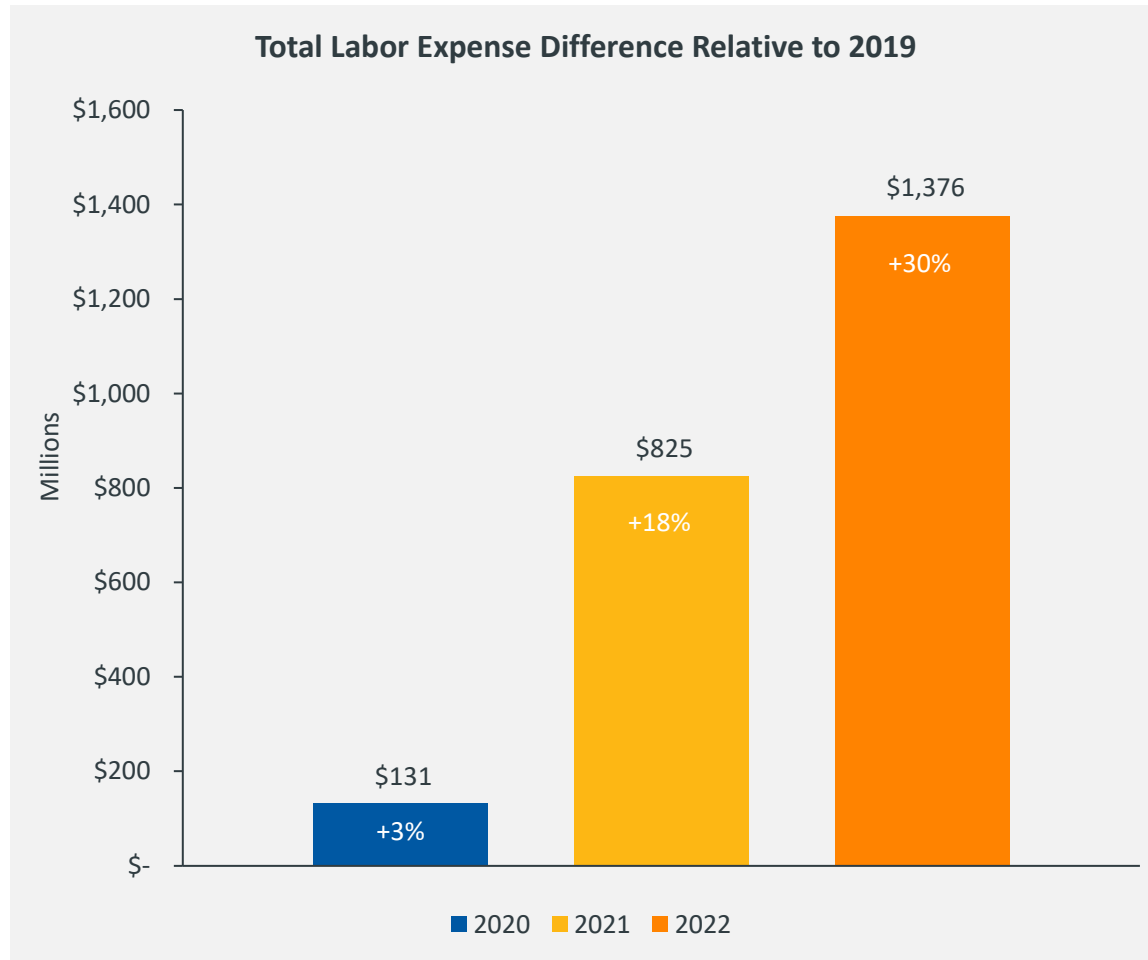


Chart values represent change in each year relative to 2019 and are not cumulative

## KEY TAKEAWAYS

- Alabama hospitals spent 30% more on labor in 2022 than in 2019.
- The extra \$1.4 billion in labor costs in 2022 relative to 2019 is due to both higher staffing and contract labor expenses.
- Significant growth occurred in both 2021 and 2022.

# Wage and Salary Expense Growth Has Outpaced Growth in Benefit Expenses

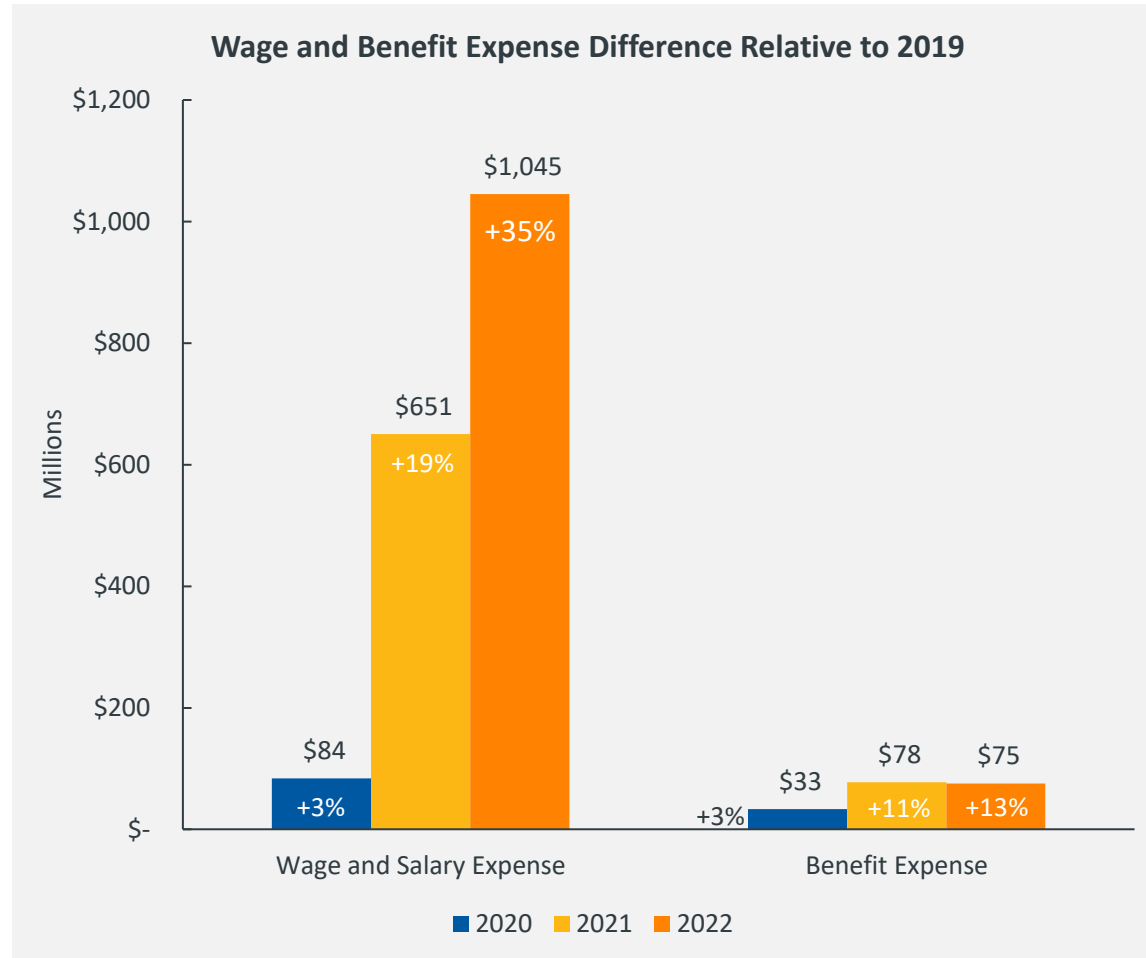


Chart values represent change in each year relative to 2019 and are not cumulative

## KEY TAKEAWAYS

- Wage and salary expenses in 2022 for Alabama hospitals were more than \$1 billion above 2019 levels.
- While wage and salary expenses were 35% higher in 2022 compared to 2019, benefit expenses have only grown 13%.
- The increase in wage and salary expenses represents 75% of the total increase in labor expenses.
- Benefit expenses for Alabama hospitals in 2022 were \$75 million above pre-pandemic levels.

# Contract Labor Expenses Have Grown 447% and Are a Major Contributing Factor to Higher Labor Expenses

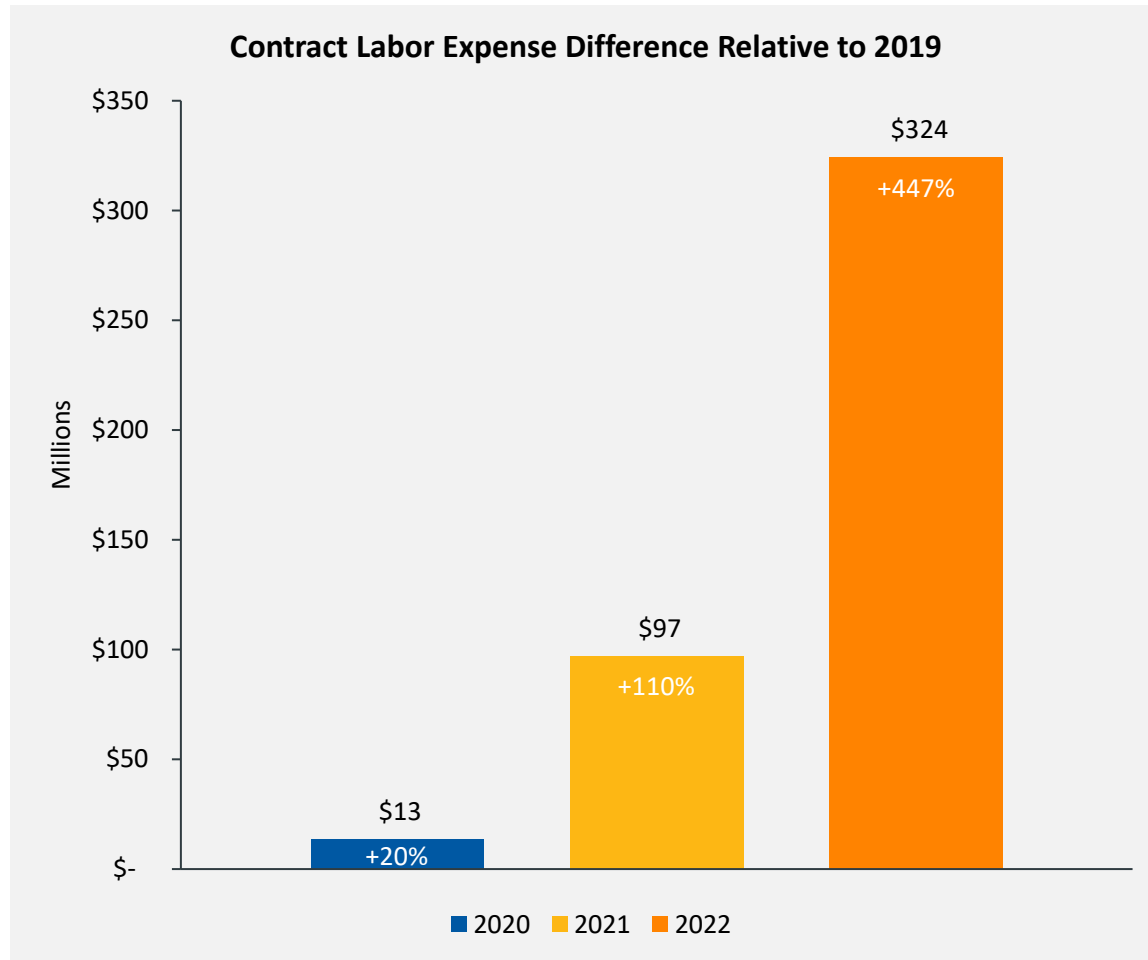


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## KEY TAKEAWAYS

- Contract labor expenses have played a significant factor in rising labor expenses, comprising approximately 24% of the labor expense increase for Alabama hospitals in 2022 relative to 2019.
- Nationally, contract labor expenses were nearly 450% higher in 2022 than in 2019.
- Contract labor expenses for Alabama hospitals were roughly \$324 million higher in 2022 compared to pre-pandemic levels.

# Medical Supply Expenses Also Remain Elevated

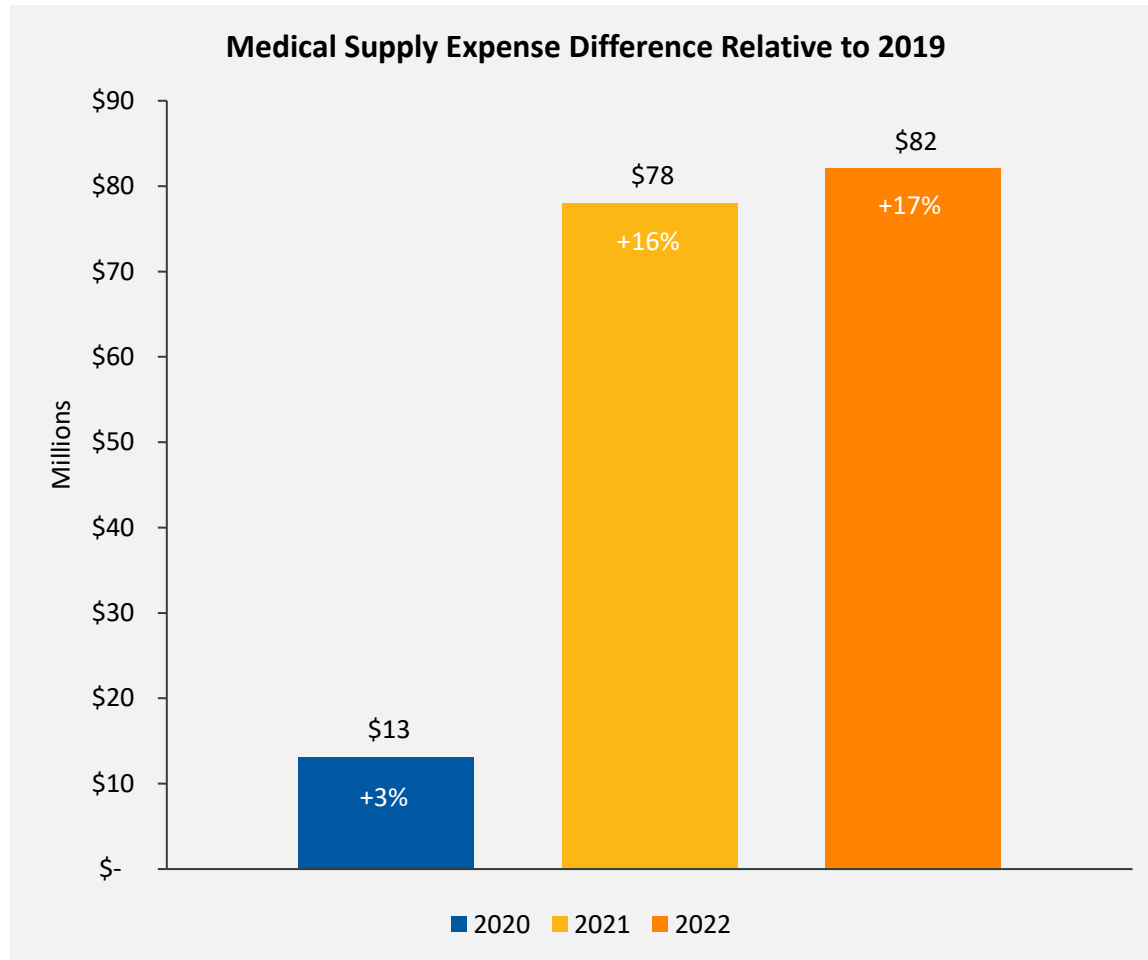


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## KEY TAKEAWAYS

- Medical supply expenses for Alabama hospitals grew by 16% in 2021 relative to 2019, remaining stable during 2022.
- The cost of medical supplies has been impacted by supply chain disruptions, increased personal protective equipment (PPE) requirements, increases in the severity of patient cases and general inflation in the larger economy.

# Drug Expenses Remained Elevated in 2022, But Improved Compared to 2021

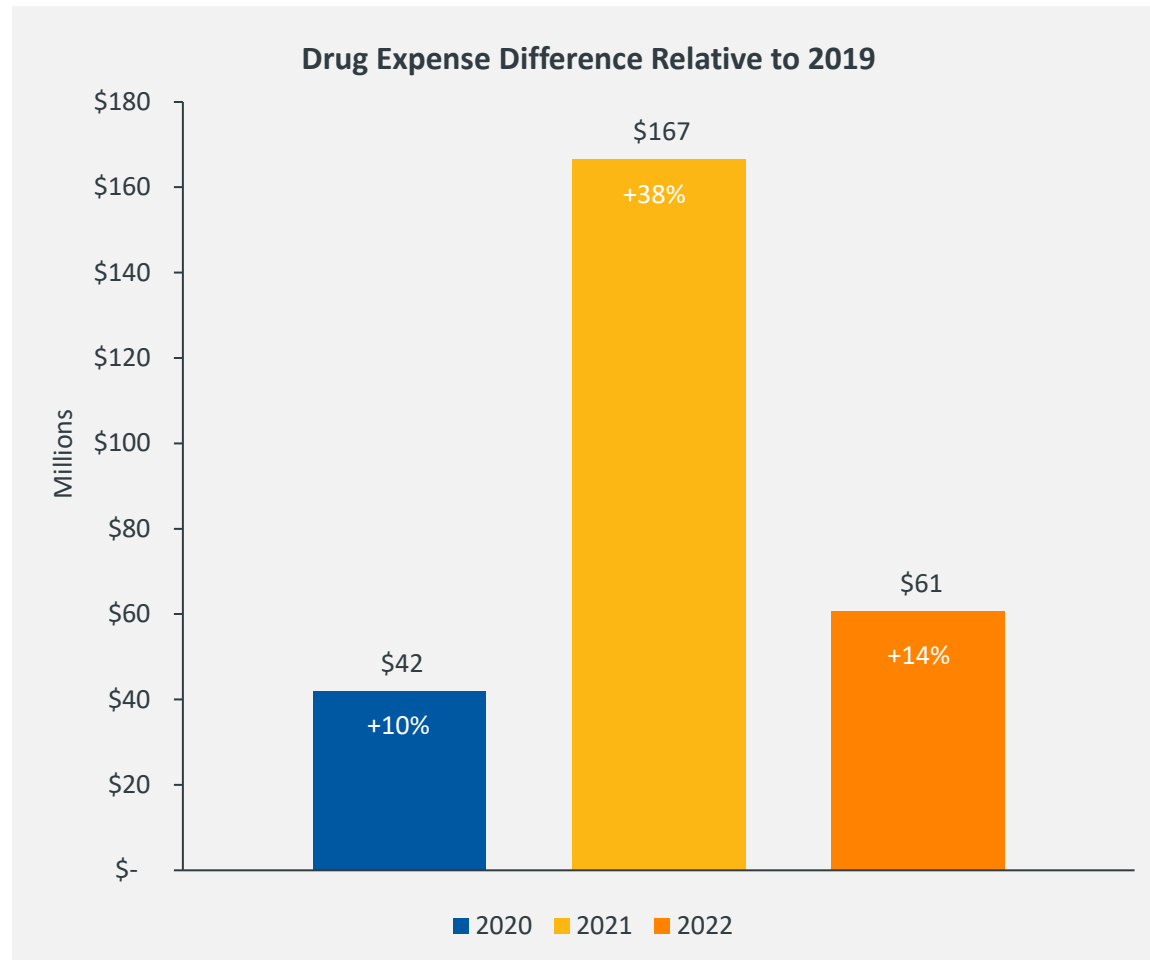


Chart values represent change in each year relative to 2019 and are not cumulative

## KEY TAKEAWAYS

- Drug expenses significantly accelerated for Alabama hospitals in 2021 and remain above 2019 levels.
- Drug expenses in 2022 were 14% higher than they were in 2019.
- In 2022, drug expenses amounted to \$61 million more than 2019 levels.



# Volumes

# Hospital Volumes Have Declined Overall, While The Average Length of Stay Has Increased

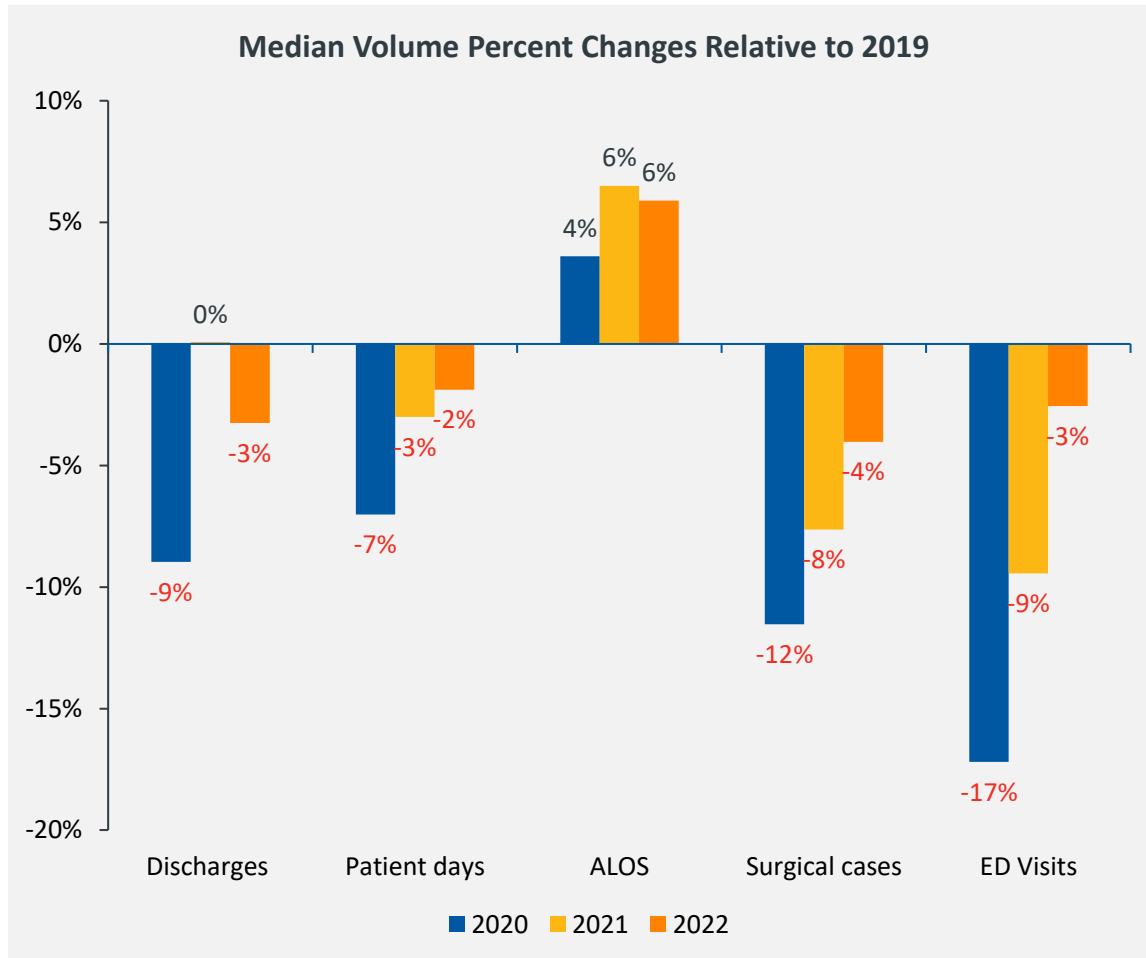
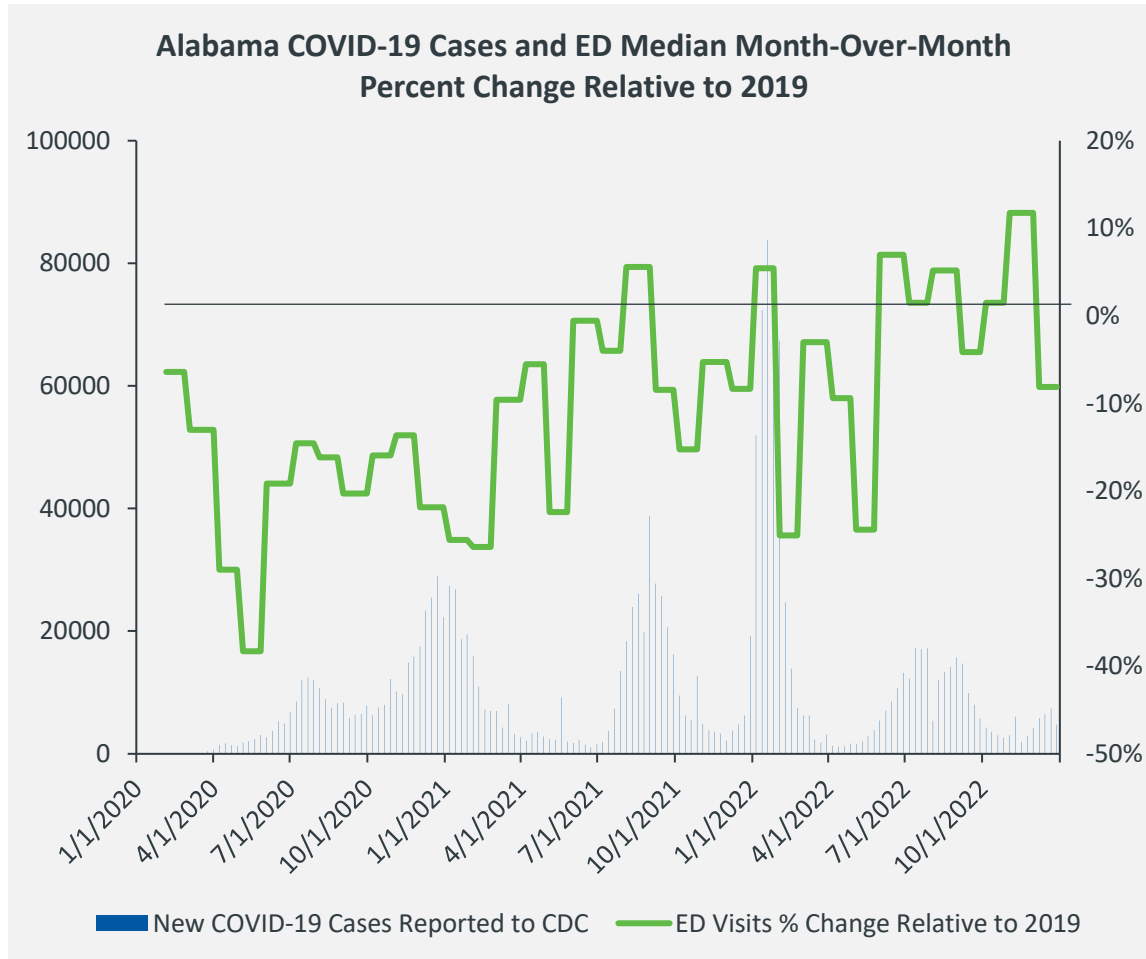


Chart values represent percent change in each year relative to 2019 and are not cumulative

## KEY TAKEAWAYS

- Overall, hospital discharges, patient days, surgical cases and ED visits in Alabama hospitals were lower in 2022 compared to 2019, as care continues to shift out of the hospital.
- Patient days decreased less than discharges in 2022, leading to increases in average length of stay, or ALOS.
- An increase in length of stay translates to higher expenses for hospitals without a corresponding increase in revenue.

# The Decrease in ED Visits Was Accompanied By a Shift in Patient Care Needs



COVID-19 case numbers from HealthData.gov

## KEY TAKEAWAYS

- Changes in ED volumes for Alabama hospitals have tracked closely with COVID-19 outbreaks, especially during 2020.
- During COVID-19 surges, ED beds were utilized to care for admitted COVID patients.
- The cumulative declines in ED visits do not represent a lessening of pressure on ED resources, but instead a shift to longer-term patients.

# Financial Toll

# Hospital Expenses Have Risen Faster Than Revenue When Including Stimulus Funding

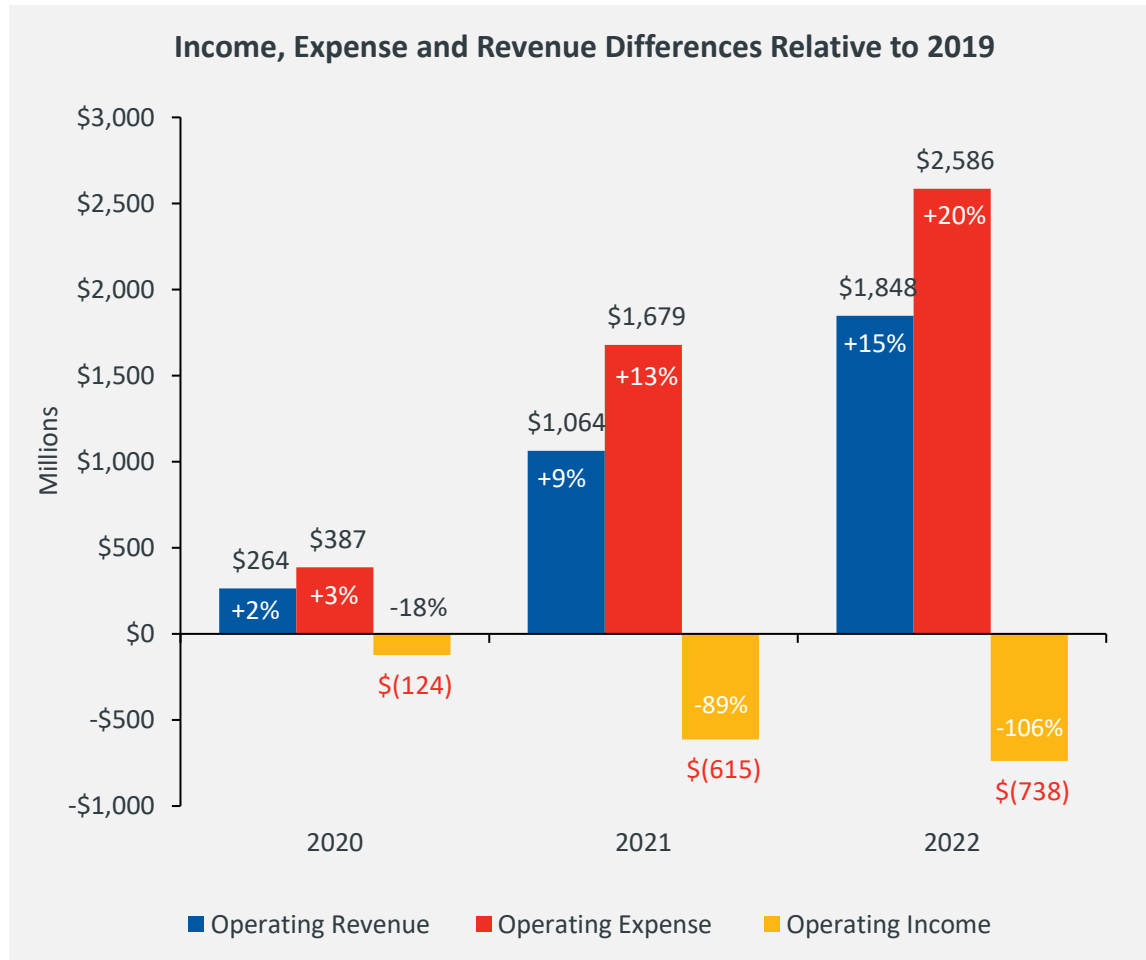
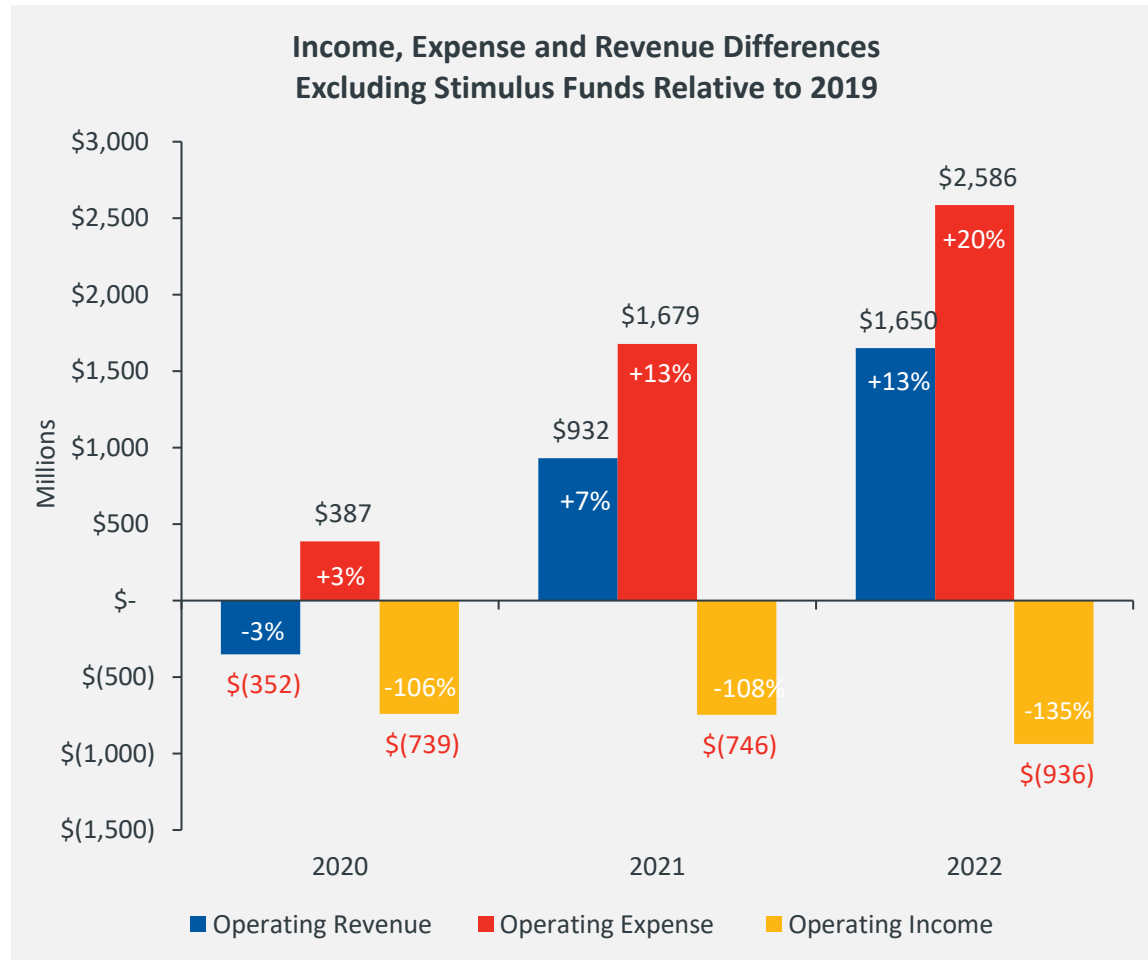


Chart values represent change in each year relative to 2019 and are not cumulative

## KEY TAKEAWAYS

- Alabama hospital income in 2022 relative to 2019 decreased by \$738 million.
- Total hospital expenses in Alabama have skyrocketed since 2019, reaching nearly \$2.6 billion above pre-pandemic levels in 2022.
- Expense growth has exceeded revenue growth every year of the pandemic.
- In 2022, Alabama hospital expenses were 20% higher than 2019. Hospital revenues increased by only 15%.

# Excluding Stimulus Funding, Hospital Expense Growth Has Greatly Outpaced the Growth in Revenue



## KEY TAKEAWAYS

- Alabama hospital income in 2022 relative to 2019 fell by \$936 million (exclusive of stimulus funds).
- Without stimulus funds, Alabama hospital revenue grew only 13% in 2022 relative to 2019, while expenses grew 20%.

Chart values represent change in each year relative to 2019 and are not cumulative

# Methodology

- This report includes a representative set of Alabama hospitals sampled from Syntellis Performance Solutions datasets to determine median values and year-over-year percent changes. This sample represents the full range of hospital types and sizes found in the state, from small rural hospitals to large urban facilities and ensures statistical similarity to all hospitals state-wide.
- Total revenue and expense differences in dollars were determined by applying these median year-over-year percent changes to the total 2019 revenue and expense values from Definitive Health for the state.
- As the figures for this report were pulled directly from internal accounting systems, these figures may differ substantially from Medicare Cost Report data. The revenues and expenses for hospitals in this report are inclusive of all operating activities and often fund-flow between entities within a system. As such, the margins presented in the report will likely be higher than those reported on the cost report, and reflect the true operating performance for the hospitals as based on internal accounting systems.

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