

HOSPITAL FINANCES 101

NYS Hospitals in Financial Trouble

Purpose: To understand how hospitals are funded and understand the current financial state of hospitals in NYS.

INSTRUCTIONS: Please read over the following fact sheet and answer these questions.

New Yorkers rely on their hospitals. And hospitals rely on healthcare workers. Across the state, hospitals are the heart of their communities—as well as some of the biggest employers in their regions—committed to giving every patient who comes through their doors the very best care. **But our hospital system is broken.** Despite a rising need for healthcare, many hospitals are struggling to survive, and workers and patients are paying the price.

DISCUSSION QUESTIONS:

- 1) How do hospitals make money? What are their main sources of revenue?
- 2) What are hospitals' main costs?
- 3) How do low reimbursement rates contribute to the financial distress of hospitals?
- 4) How do hospitals' financial situation impact our ability to win on safe staffing?

Hospitals Are in Trouble

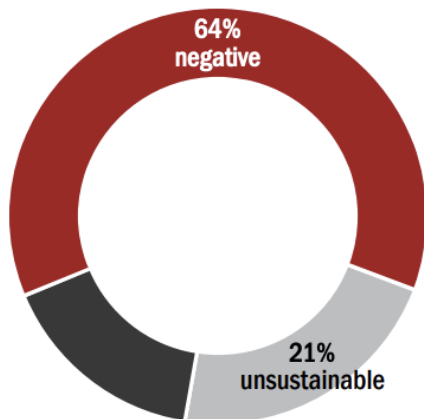
Hospitals and other healthcare employers must address staffing and working conditions in order to recruit and retain the workforce needed to keep our communities healthy. However, hospitals across New York State are struggling financially in the aftermath of the pandemic, thanks also to rising costs and decades of underfunding. Hospitals across the State are on the verge of being shut down or key services being eliminated. **A recent report showed that four out of five hospitals in New York have negative or unsustainable operating margins.**¹

¹ https://www.hanys.org/communications/publications/critical_condition/docs/2022_critical_condition_report.pdf

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Four out of five hospitals in New York have **negative or unsustainable** operating margins

Hospital Finance 101

Hospitals fall into three financial categories:

- 1) **Private hospitals** work like any other business, making a profit to benefit shareholders and investors.
- 2) **Public hospitals** are owned by state or local governments and have obligations to care for underserved populations.
- 3) **Private nonprofit hospitals** are the largest category of hospitals. The nonprofit label comes from the fact that they are exempt from federal and local taxes in exchange for providing a certain amount of "community benefit."

In New York, we only have public and nonprofit hospitals, as NY is one of four states that prohibits for-profit hospitals from operating in the State. All of CWA's healthcare facilities in New York are nonprofit hospitals. In New Jersey, we represent healthcare workers in public hospitals.

Patient revenue is the main source of revenue for hospitals. Patient revenue is divided in 2 categories:

- 1) **Public payers** include federal and state governments—which fund Medicare and Medicaid—and, to a lesser degree, local governments, which often directly subsidize public hospitals with local taxes not tied to a specific patient receiving services.
- 2) **Private payers** are insurance companies.

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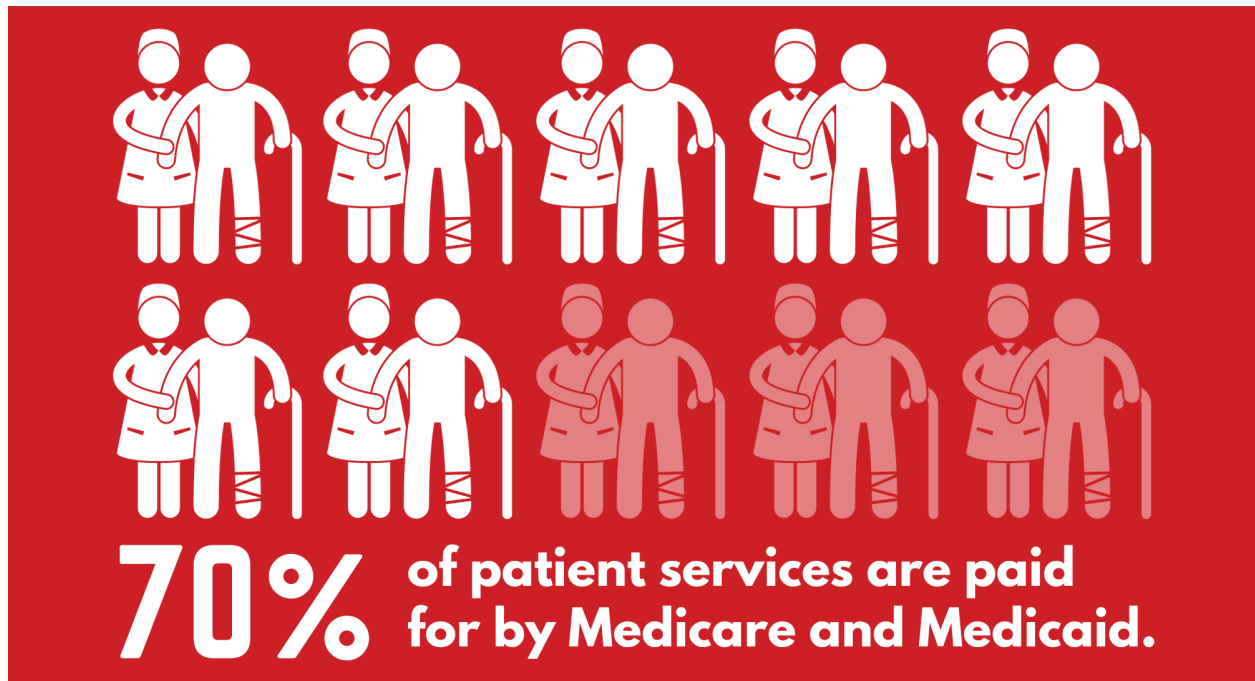


The Medicaid Gap

WHAT IS MEDICAID?

Medicaid is a joint federal-state program to finance medical care for low-income people. It provides access to medical care for 6.3 million residents or nearly one-third of the population; it comprises about one-third of the expenditures of the state's healthcare sector, which employs about 1.2 million people; and it is funded by more than \$60 billion of taxpayer money per year, half from state and local governments.

The Public Payer Problem



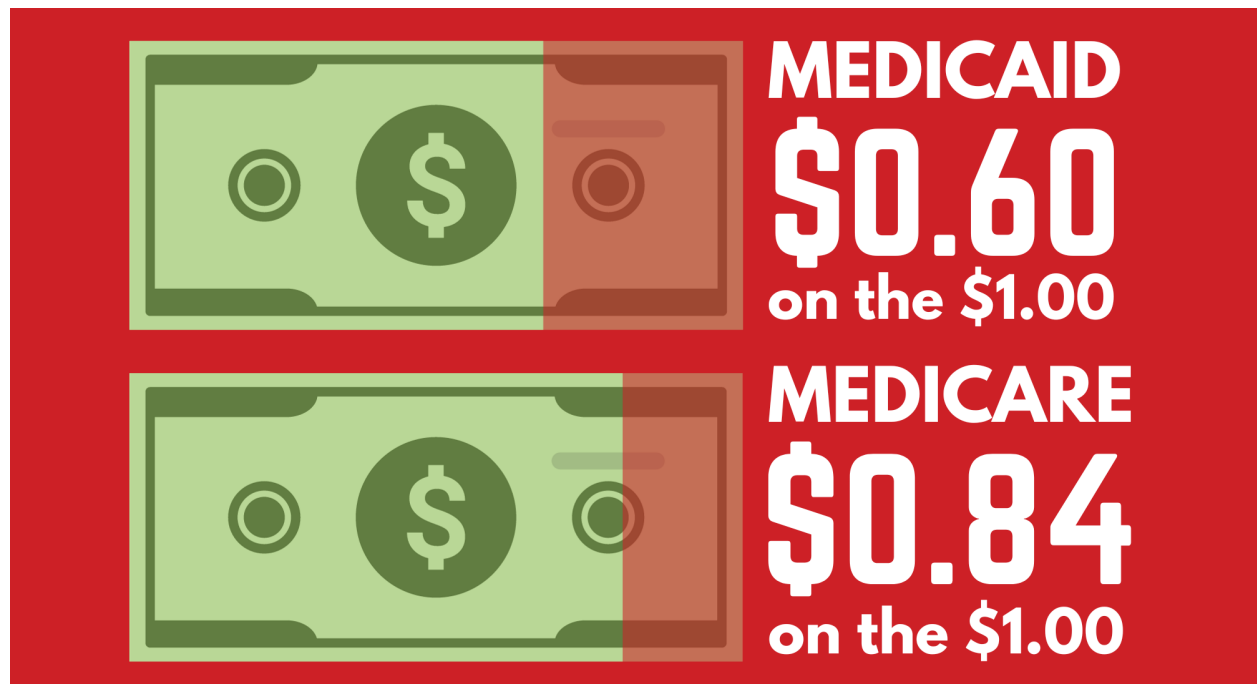
On average, 70% of patient services are paid for by Medicare and Medicaid. **However, due to underpayment by public payers - which is a result of the political decisions by elected officials to underinvest in hospital systems - hospitals often lose money on the care they**

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provide. In fact, Medicaid only pays hospitals about 60 cents for every dollar they spend on care. Medicare only pays 84 cents on the dollar.



Despite nearly $\frac{2}{3}$ of patient services being paid by public payers, because of this significant underpayment, publicly paid patient care represents only 51% of hospital revenue. This disparity is a major contributor to the poor financial condition of New York's hospitals.

The Private Payer Problem

Private insurance, and elective admissions which are paid by private insurance, constitute a significant source of revenue for hospitals. Before the pandemic, private insurers paid, on average, nearly double Medicare rates for all hospital services.²

However, due to the COVID-19 pandemic, many hospitals canceled elective admissions and many New Yorkers went without routine, non-urgent care. This meant a decline in revenue for Hospitals as non-emergency medical care is a significant source of spending by private payers.³⁴

² <https://www.kff.org/medicare/issue-brief/how-much-more-than-medicare-do-private-insurers-pay-a-review-of-the-literature/>

³ <https://www.aha.org/costsofcaring>

⁴ <https://healthjournalism.org/blog/2020/06/time-to-track-how-the-pandemic-is-hurting-health-care-provider-finances/>

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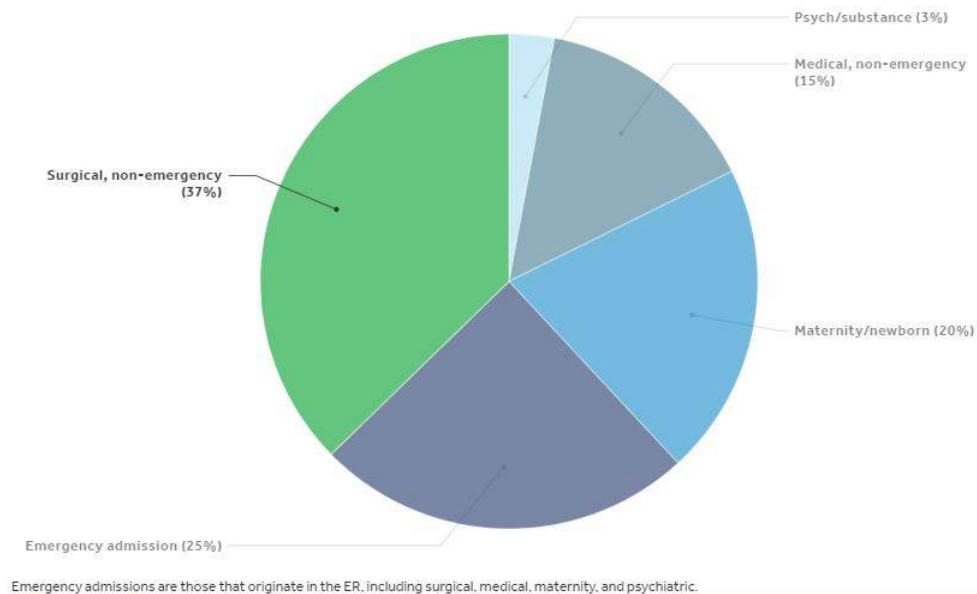
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From 2019 to 2022, inpatient **admissions** dropped statewide by 8.3%, while the total number of inpatient **days** stayed unchanged. This indicates that fewer patients stayed at the hospital, but had longer stays on average because their needs were more complex and thus cost-intensive.

Elective procedures represent a substantial share of spending on hospitals

Share of hospital admission spending, by type of admission, in large employer plans



Source: KFF analysis of IBM MarketScan Commercial Claims and Encounters Database • [Get the data](#) • PNG

Peterson-KFF
Health System Tracker

It's important to understand that Medicaid rates are determined by the State government. In NY, despite rising inflation, there were many years when Medicaid rates were not increased at all. Last year, in partnership with other healthcare unions and employers CWA fought for a 10% Medicaid reimbursement rate increase. While we won a 7.5% Medicaid reimbursement rate increase, that's not nearly enough and we need full parity. The Medicaid reimbursement gap costs New York's hospitals billions each year and is damaging to our efforts to invest in our healthcare workforce and healthcare system as a whole.

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The current system relies on subsidizing underpayment from the State through **private commercial health insurance payment**. However, this increases costs for all of us - without increasing quality. Private health companies spend exorbitant amounts of money on CEO salaries and creating huge amounts of paperwork and administration.



Health insurance companies in the U.S. spend up to 20% of each dollar on **administration**; Medicare, by comparison, spends 2 cents of each dollar. Americans throw away billions on commercial health insurance unrelated to direct patient care. The current system is designed to make profits—which it does very well—not provide health care.

Persistent underpayment from Medicare and Medicaid forces struggling hospitals to try to balance their finances by negotiating more favorable payment rates from powerful private insurers raising costs to working families - and cutting costs. The biggest cost for hospitals to cut is labor.

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Key Takeaways

1. Hospitals and other healthcare employers must address staffing and working conditions in order to recruit and retain the workforce needed to keep our communities healthy.
2. However, hospitals across New York State are struggling financially in the aftermath of the pandemic, thanks also to rising costs and decades of underfunding.
3. In addition, the for-profit healthcare system incentivizes hospitals to cut the workforce and rely on private insurance companies - which in turn, raises costs for communities.
4. In order to ensure adequate funding for hospitals, and to ensure quality care for all, hospitals should receive adequate State and Federal funding. Specifically, Medicaid reimbursement should be fully funded.

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