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TO: Members of the Wisconsin State Legislature

FROM: Eric Borgerding, President/CEO
Brian Potter, Senior Vice President Finance/COO
Kyle O'Brien, Senior Vice President Government Relations

DATE: November 1, 2022

RE: Wisconsin's Hospitals, Health Systems Face Mounting Cost Pressures, Negative Margin in 2022

Earlier today, the Wisconsin Hospital Association released hospital and health system financial data for 2021 and the first six months of 2022. In 2021, due to \$1.5 billion in federal CARES funding and significant rebounds in patient care compared to 2020, hospitals across the state were able to remain financially sound and reserve resources for future investments in health care access.

This all changed in 2022. And it changed drastically.

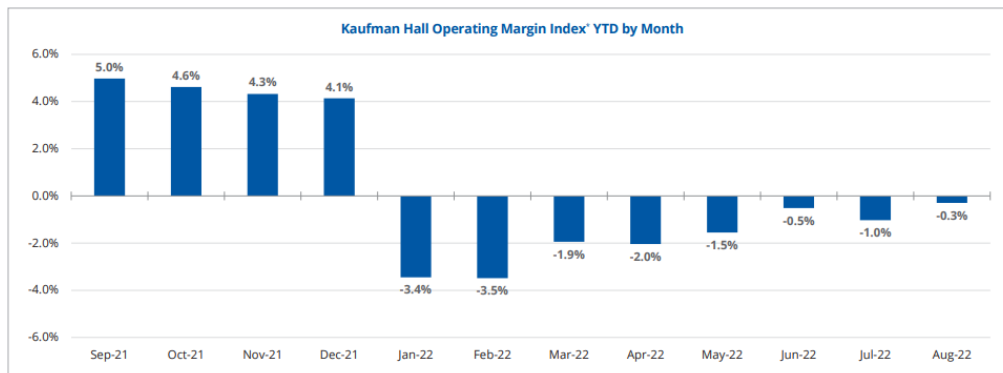
In the first six months of 2022, hospitals in Wisconsin and nationally experienced unprecedented cost increases compared to the previous year. Year-to-date, hospitals nationally have experienced a 9% overall increase in expenses, including a 10.6% increase in labor costs alone over the same period.¹ While hospital costs for delivering care to patients have increased, reimbursement for providing patient care from government and private insurance companies has largely not kept pace with these increases in cost – resulting in negative operating margins.

Bloomberg
US Edition

More Than Half of US Hospitals Expect to Lose Money This Year

- Report predicts 53% of hospitals to lose money in 2022
- Facilities are coping with job vacancies and sicker patients

For the first six months in 2022, survey data from the Wisconsin Hospital Association shows Wisconsin's hospitals have experienced a net operating loss of -0.4%.



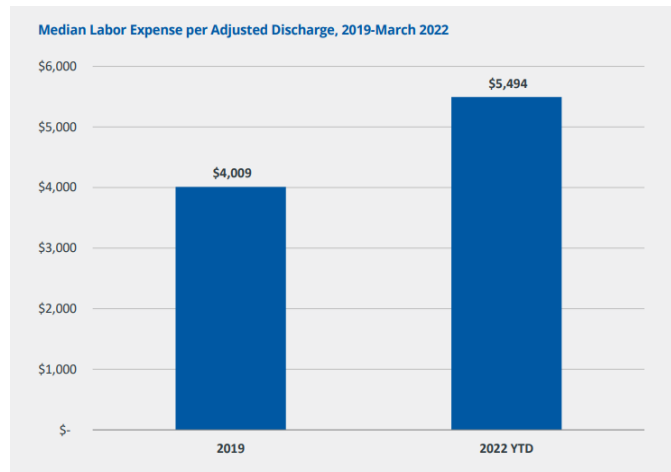
This is not a trend unique to Wisconsin. Kaufmann Hall shows that hospitals nationally experienced a drastic change in finances beginning January 2022. There are no additional CARES dollars available for hospitals.

¹ <https://www.kaufmanhall.com/sites/default/files/2022-09/KH-NHFR-09-2022.pdf>

Wisconsin Hospitals Experience High Increases in Two Largest Expense Areas

The most significant cost areas for hospitals are staffing and supplies/services for patient care. These two buckets alone make up 94% of hospital expenses, yet these two cost areas are largely out of a hospital's control. The labor market continues to demand high costs for both permanent and temporary agency staff.

Since 2019, supply expenses in Wisconsin hospitals increased 14.7%; or \$1.6 billion annually.



Nationally, hospital labor costs associated with each individual patient discharge increased from \$4,009 in 2019 to \$5,494 in 2022 – an increase of 37% in the last two years. According to data released today, Wisconsin hospitals experienced a \$580 million increase in annual labor costs from 2019 to 2021.

Capital costs for repairing or replacing facilities at Wisconsin hospitals have held flat, increasing by only 0.7% from 2019 to 2021. Due to general operating expense pressures and adding cost of construction, many projects were delayed or cancelled altogether, halting new projects intended to reduce long wait times or expand access.

Hospitals Facing Long-Term Financial Pressures

While other industries have tools to offset increased costs more readily at their disposal (i.e. increasing prices, reducing production, etc.), Wisconsin hospitals cannot take actions without impeding access to care. Additionally, hospitals have one significant distinction that no other industry faces – caring for everyone that walks through their doors without consideration for payment.



Non-hospital, for-profit providers have the financial luxury of choosing their patient population, limiting or prohibiting Medicaid patients and selecting less-complicated (i.e. comorbidities, obesity) patients for care. Alternatively, all Wisconsin hospitals accept Medicaid patients at **an annual loss of \$1.1 billion.**²

Due to cost pressures and fixed payments from government and insurance companies, Fitch Ratings has downgraded the nonprofit hospital sector's bond rating to "deteriorating". **Make no mistake, financial challenges causing downgrades in bond markets for the non-profit hospital sector does nothing but make it more difficult to sustain and expand access to health care, at the same time demand for health care will continue to rise.**

"Everything looking backwards is a cautionary tale, deceptively strong...the [non-profit hospital] sector is in a calm before the storm."

– Kevin Holloran, Senior Director NFP Hospitals, Fitch Ratings after downgrading the non-profit hospital industry sector to "deteriorating"
August 18, 2022

Just like lawmakers praise the state's high bond rating as it signals the state's strong financial position, likewise lawmakers should heed the warnings from Fitch's recent actions about the financial challenges ahead for hospitals in Wisconsin and across the country.

² <https://www.wha.org/HealthCareTopics/C/CommunityBenefits>