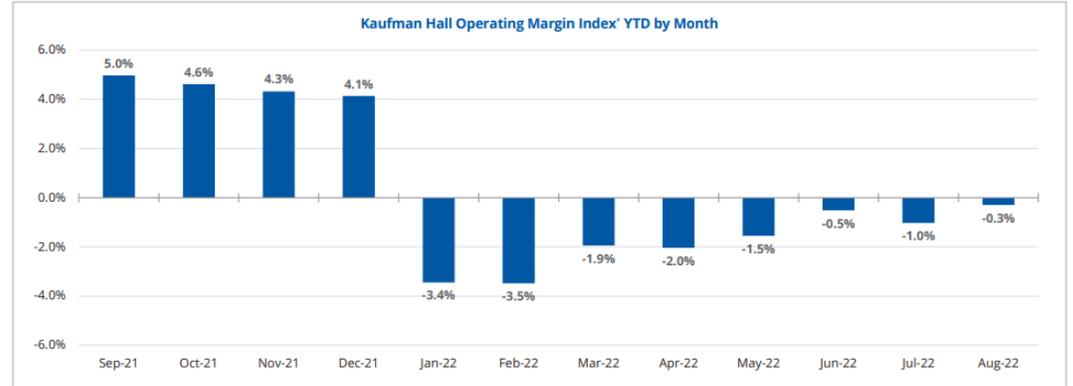


Hospitals Face Challenging Fiscal Outlook

2022 Was a Challenging Year for Most Hospitals

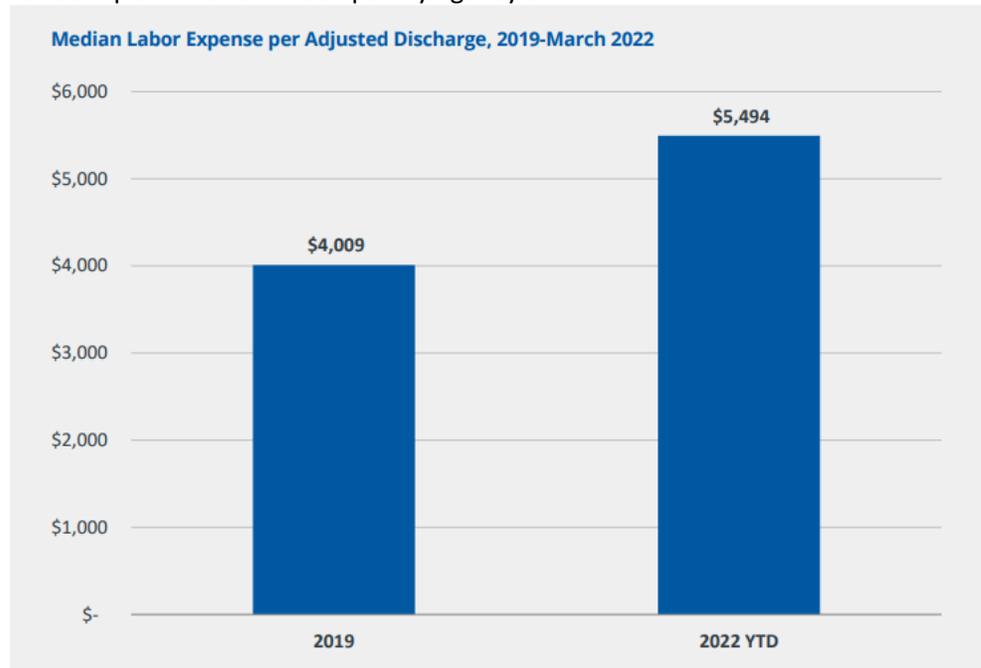
Wisconsin hospitals are extremely grateful for the support Congress showed in the midst of the COVID-19 pandemic, creating a Provider Relief Fund via the CARES Act that helped keep hospitals financially sound in 2021. Unfortunately, with those dollars dried up, hospitals have faced a drastically different financial picture in 2022.



As the chart above shows, nationally, hospitals saw monthly operating margins move from positive in 2021 to negative every month of 2022. A report from Kaufman Hall predicts 53% of hospitals are likely to lose money in 2022.¹ Unfortunately, Wisconsin is facing the same challenges; survey data from the Wisconsin Hospital Association shows Wisconsin's hospitals have experienced a net operating loss of -0.4% through the first six months of 2022, the most recent fiscal data available.

Rising Expenses are Driving Fiscal Challenges

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.



Hospitals Need Relief in Year-End Congressional Package

- Hospitals are facing immense pressures from stagnant government revenues, provider reimbursement cuts, and rising expenses.
- 340B hospitals continue to see 340B savings dwindle, with drug companies continuing to deny discounts at contract pharmacies.
- Annual Medicare underpayments for WI hospitals grew from \$1.77B in 2016 to \$2.53B in 2021 – a 42% increase.
- Scheduled 4% PAYGO cuts would have a devastating impact if allowed to take effect.

WHA Ask:
As Congress negotiates a year-end package, please make support for hospitals a priority.

WHA Staff Contact
Jon Hoelter
VP Federal & State Relations
jhoelter@wha.org

December 2022

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

As the previous chart shows, 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. Wisconsin hospitals experienced a \$580 million increase in annual labor costs from 2019 to 2021. Additionally, since 2019, supply expenses in Wisconsin hospitals increased 14.7%; or \$1.6 billion annually.

Drug Costs Have Continued to Rise, Particularly for 340B Hospitals

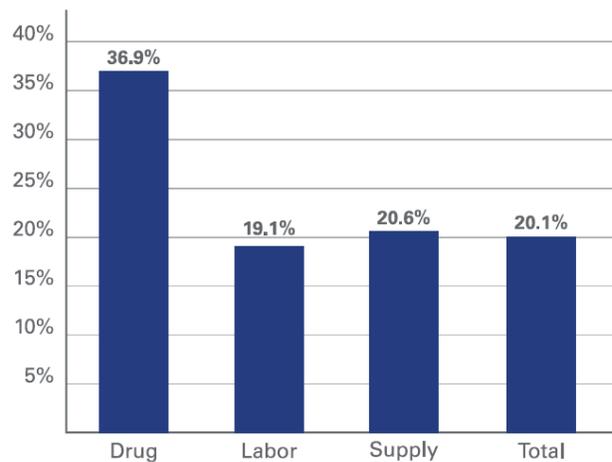
An earlier Kaufman Hall report noted that drug costs increased nearly 37% for hospitals from 2019 to 2021 – representing an even larger percentage increase than either labor or other supplies. This impact was felt most significantly among 340B hospitals that contract with community pharmacies, as drug companies have halted discounts for drugs dispensed at such pharmacies. While HRSA has tried to stop these illegal practices by drug companies, the issue has been tied up in litigation. A recent [report by the American Hospital Association](#) has shown the impact of these policies has been particularly difficult for 340B Critical Access Hospitals (CAHs). The report shows the average CAH has lost more than a half-a-million dollars annually due to drug companies denying these discounts. Additionally, the average disproportionate share hospital lost nearly \$3 million annually due to these illegal policies.

Figure #1: Reported Average Annualized Losses Resulting from Drug Company Restrictions on 340B Pricing

↓ \$507K
for critical
access hospitals

↓ \$2.96M
for disproportionate
share hospitals

Figure #1: Increase in Hospital Expenses Per Patient from 2019 to 2021



Source: January 2022 Kaufman Hall National Hospital Flash Report

Hospitals Need Support from Congress

Hospitals continue to face stagnant revenues from government payors like Medicare and Medicaid, which on average, account for more than 60% of a hospital's payor mix. In Wisconsin, Annual Medicare underpayments for WI hospitals grew from \$1.77B in 2016 to \$2.53B in 2021 – a 42% increase. This trend is projected to only increase given that Wisconsin is an aging state. In fact, as of 2018, Wisconsin was tied for 16th among states with the highest percent of their population covered by Medicare, at 20%.² If hospitals are unable to grow revenue from other sources, they must make cuts to service lines just like any other business in order to remain financially viable.

Given all these challenges, hospitals need support from Congress. Please work to prevent cuts like the scheduled 4% PAYGO from taking effect and work to include the following hospital priorities in a year-end or early 2023 package:

- **An extension of the Medicare Dependent and Low Volume Adjustment Designation**
- **An extension of the 5% MACRA bonus payments for advanced ACOs**
- **Permanent extensions of telehealth, hospital at home, CAH 96-hour, and nursing home 3-day rule flexibilities.**
- **Pass the Seniors Access to Timely Care to streamline wasteful prior authorization in Medicare Advantage.**
- **Fund offsets to scheduled physician and home health reimbursement cuts.**

² Wisconsin Department of Administration. Percent of Projected Population Ages 60 and Older. [Online] 2017. <https://www.dhs.wisconsin.gov/publications/p01803.pdf>