



# TREATMENT PLAN

## HOSPITALS RESPOND TO THE ECONOMIC CRISIS

**CSC**

There is an on-going discussion regarding how the next administration will impact healthcare, and a growing realization that addressing the economic issues in the United States will be a key prerequisite for many elements of healthcare reform. Individual hospitals are already feeling the results of the economic downturn and anticipating that the worst is not over.

We interviewed 54 hospital and health system executives to understand what plans they have to respond to the crisis, and where they stand in implementing those plans.

## THE CURRENT SITUATION

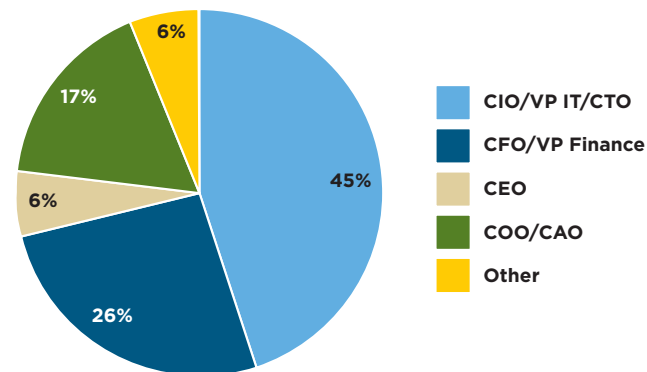
The financial situation of hospitals has deteriorated dramatically in the last year. According to 728 hospital CEOs who responded to a survey conducted by the AHA, and financial data from 557 hospitals<sup>1</sup>:

- Total margins declined from +6.1 percent for the third quarter of 2007 to -1.6 percent for the third quarter of 2008
- Thirty-three percent saw an increase in interest expense for variable rate bonds and 11 percent experienced an inability to issue bonds
- Non-operating income fell from + \$396 million in the third quarter of 2007 to -\$832 million for the third quarter of 2008
- Thirty-one percent of all hospitals (60 percent of all hospitals with defined benefit pension plans) will need to increase funding levels
- Thirty-one percent of hospitals report at least a moderate decrease in elective procedures, and 38 percent have already experienced at least a moderate drop in admissions
- Uncompensated care is up 8 percent in the third quarter of 2008 as compared with the same quarter last year

### Responses to the Crisis

To learn more about how hospitals are responding to this crisis, we conducted interviews during November of 2008 with 54 hospital and health system executives. The respondents included CEO's, CFO's, COO's and CIO's.

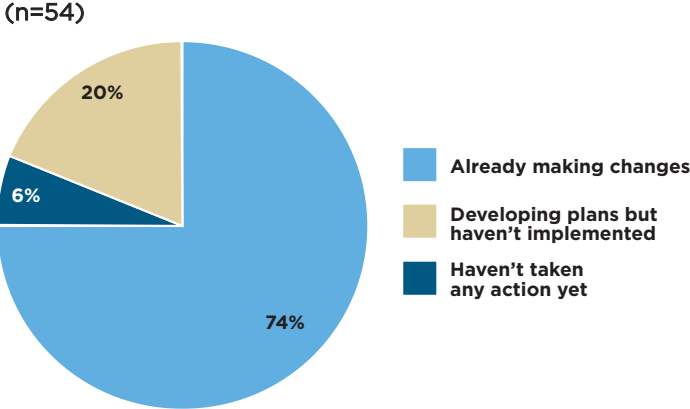
Respondent type (n=54)



Eighty-five percent of the executives included in our interviews felt that the current financial crisis would have a bigger impact on their operations than the last major economic downturn in 2001 - 2002, and only two respondents felt the current impact would be less than in 2001 - 2002. Most organizations have already made changes to respond to the downturn.

# QUESTION: WHAT IS YOUR ORGANIZATION'S STATUS IN RESPONDING TO THE ECONOMIC DOWNTURN?

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Funding for clinical equipment, information technology and new construction comes from operating income, investments and philanthropy. All these sources will be affected by the economic situation. One hospital was experiencing the lowest capital budget in IT since 1996. Our survey showed that both IT projects and construction projects are already being delayed or deferred. More than one-third of projects that are underway have been affected, and the impact is even greater for planned projects. The overall theme was “everything is being scrutinized, but critical projects are moving forward”. The most common projects that were being implemented were those related to patient safety or Electronic Medical Records (EMR). Some IT projects were even being accelerated, mainly EMR projects or those related to improving revenue.

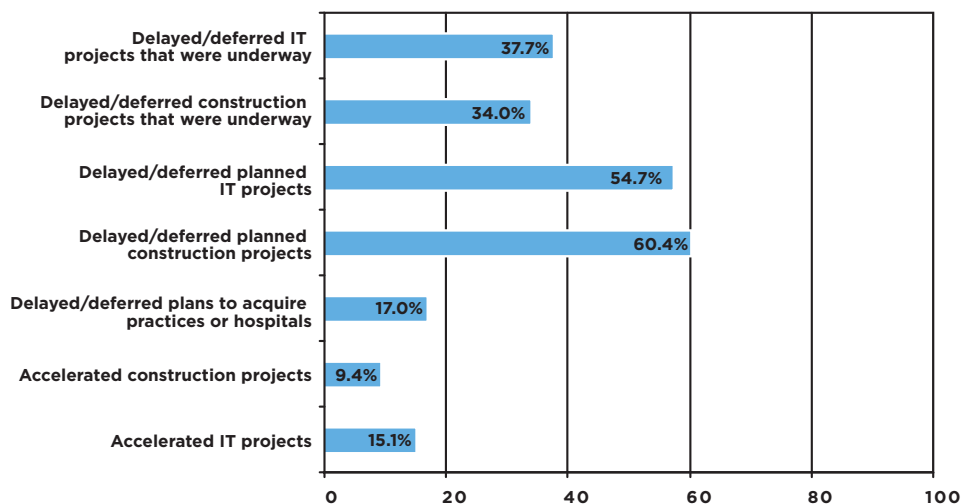
“At Broward Health, we are evaluating both cost reduction and revenue enhancement initiatives, but we are proceeding to implement the major components of our IT strategic plan.

Spending on IT will actually increase in 2009 as numerous projects are in the process of being implemented.”

*Dawn Javersack, CFO, Broward Health*

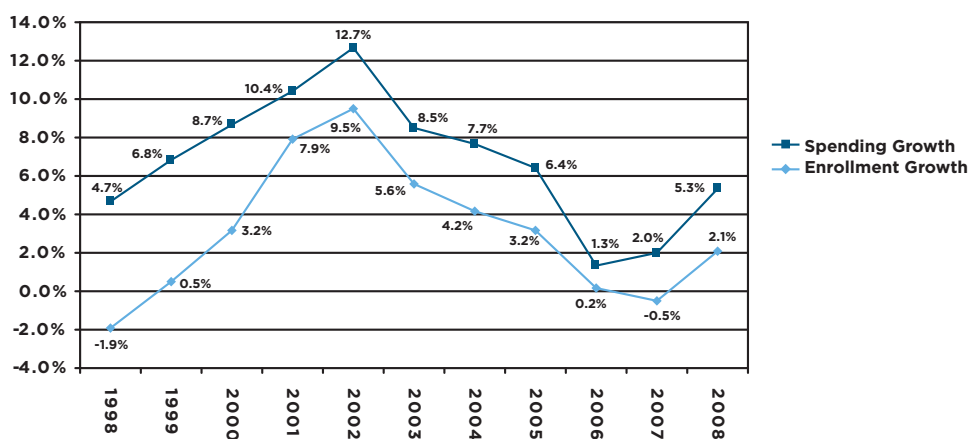
# QUESTION: WHAT TYPES OF CHANGES HAVE YOU MADE (OR DO YOU PLAN TO MAKE) IN YOUR CAPITAL INVESTMENTS?

(Check all that apply) (n=53)



Unemployment has a big impact on hospitals, since about 43 percent of hospital revenue comes from private insurance. Since April of 2008, unemployment has risen steadily and it is estimated that for every 1 percent increase in unemployment, 2.4 million employees and dependents lose employer-sponsored coverage.<sup>2</sup> Some of the gap is covered by an increase in Medicaid payments. In 2002, during the last economic crisis, Medicaid enrollment rose by over 9 percent and expenditures by over 12 percent — both were the highest growth rates for the last decade.<sup>3</sup> For hospitals, increasing unemployment means lower reimbursement for those patients who become covered by Medicaid and no coverage for those who don't qualify. About 55 percent of the hospitals we talked with were already facing cuts in Medicaid reimbursement, and many were preparing for an increase in uncompensated care.

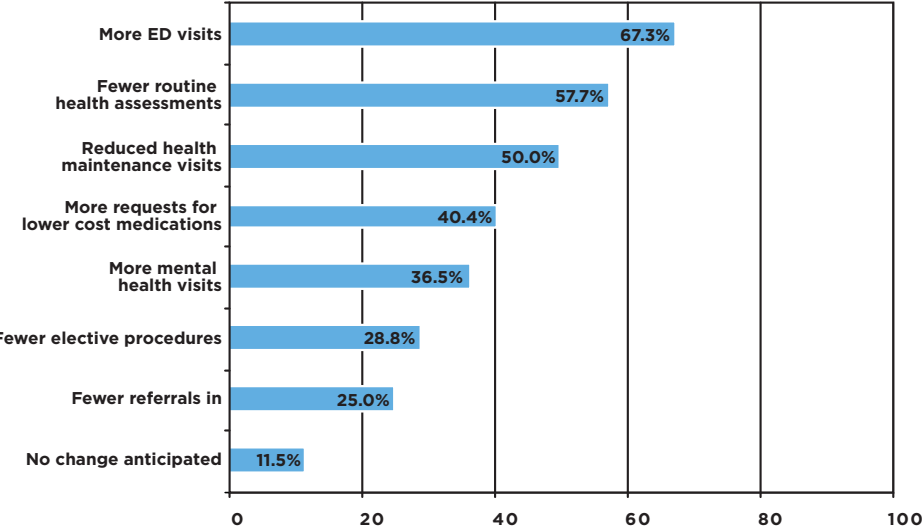
Percentage Change in Medicaid Spending and Enrollment, 1998 - 2008<sup>4</sup>



The types of services that will be in demand will also change. The executives we interviewed were anticipating that preventive care and elective admission would decline, while use of the ED and demand for mental health services would increase. Patients are expected to be more aware of medication costs and more receptive to using generic drugs.

# QUESTION: HOW DO YOU ANTICIPATE CONSUMER UTILIZATION WILL CHANGE?

(Check all that apply) (n=52)



“I believe that Emergency Departments will likely see an increase in visits and a decrease in paying patients as a result of the economic downturn. I also predict that community hospitals, which rely on surgeries for their margins, will see a significant reduction in elective surgical volume.”

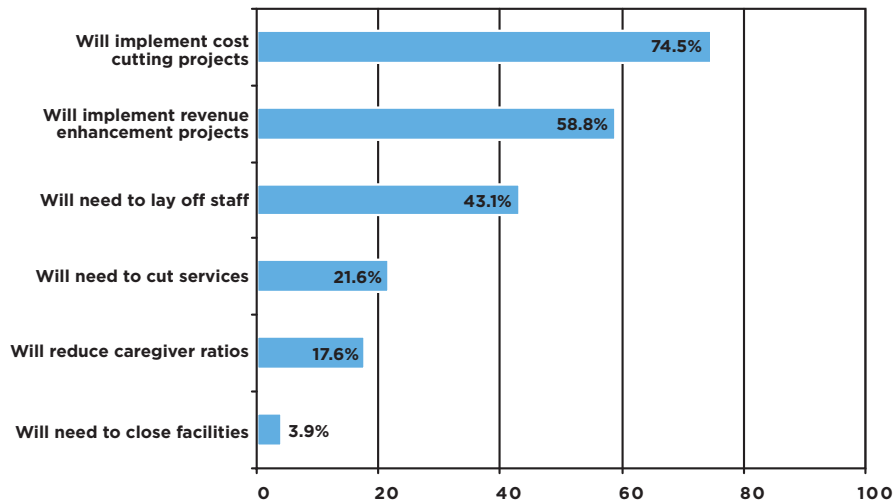
*John D. Halamka,  
MD, CIO, Beth Israel  
Deaconess Medical  
Center*

There was no doubt among the executives we spoke with that the economic downturn would have a profound impact on operations. Many are focusing on changes they can make to reduce costs and improve revenue. Improved supply chain management is one common focus for improvement, since those savings go directly to the bottom line. There will be an increased focus on revenue — making sure that eligibility is verified, ensuring complete and accurate bills are issued promptly and that revenue recovery is accelerated. Many of the respondents mentioned a freeze on hiring for open positions. Some expect that unprofitable services will be consolidated or closed, and about 25 percent are expecting that fewer patients will be referred to their hospital for care.

# QUESTION: WHAT DO YOU ANTICIPATE WILL BE THE BIGGEST IMPACTS ON OPERATIONS OF YOUR HEALTH SYSTEM?

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(Check all that apply) (n=51)



However, several executives indicated that the downturn also offers new possibilities. They are planning to expand their provider networks (physicians are looking to the hospital for help) and enhance their focus on productivity improvements. Executives also expect changes from their IT suppliers. More than half of the executives expect that as the downturn affects the IT vendor industry, competition will increase and prices will come down. More than half also expect that less stable vendors will exit or be acquired resulting in some industry consolidation.

“We will take this as an opportunity to retool to make the business more profitable, and I believe we will emerge in a stronger position.”

*Pat Taffe, CIO, North Memorial Health Care*



## THE BOTTOM LINE

“We believe this economic downturn is more drastic than any other we have experienced since the Great Depression. The economic slowdown coupled with the significant credit crisis has placed the healthcare industry in an unparalleled situation. We are advising our clients to focus on projects that are driven by regulatory mandate, improved reimbursement, or have a clear return on investment.”

*David Hampshire,  
Managing Director, CSC  
Health Delivery Business Unit*

Hospitals are at the unfortunate confluence of multiple impacts of the current economic downturn:

- Fewer patients will be seeking scheduled elective procedures (which most hospitals depend upon for revenue and volume)
- More patients will neglect routine outpatient care and then seek care in the hospital emergency department when they are in crisis
- Patients who lose their employer-based insurance will either be unable to pay for services, or will be covered by much less generous — and declining — Medicaid payments
- It will be more expensive to borrow money to finance capital investments

However, there is also good news. Executives have already begun to take action. Expenditures are being scrutinized, but many see opportunities to save money in supplies and improve the accurate capture and timely collection of revenue — changes that will help in both the short- and long-term. Critical projects to optimize patient safety and computerize patient records are moving forward, and some hospitals see the downturn as an opportunity to expand their services and their provider network.

### References

- 1 “Report on the Economic Crisis: Initial Impact on Hospitals.” American Hospital Association. November 2008.
- 2 Dorn et al. “Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses.” Kaiser Commission on Medicaid and the Uninsured, April 2008.
- 3 Smith V et al. “Headed for a Crunch: An Update on Medicaid Spending, Coverage and Policy Heading into an Economic Downturn.” Kaiser Commission on Medicaid and the Uninsured. September 2008.
- 4 Ibid.

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