
USA Hospitals Face Rising Operational Costs Pressure



Hospitals and health systems, despite grappling with significant challenges, are demonstrating remarkable resilience in this period of transformation. They face rising demand for high-acuity care and financial instability due to workforce shortages, supply chain disruptions, and inflation. Yet, despite these hurdles, many hospitals are operating with narrow margins, with over half operating at a loss in 2022. Inflation has outpaced reimbursement rates, eroding cash reserves and hindering investments in infrastructure and technology. Ongoing reimbursement issues, cyberattacks, regulatory changes, and potential Medicare payment cuts exacerbate these financial constraints. Hospitals are indeed struggling to meet patient care demands and invest in necessary improvements amidst a precarious financial environment, but their determination to provide quality care remains unwavering.

Financial Challenges of Hospitals in Providing Specialised Healthcare Services

Hospitals play a pivotal role in providing essential healthcare services, especially in emergency care and behavioural health, which are often unavailable elsewhere. However, delivering these services is resource-intensive and costly, compounded by factors like an ageing population and higher patient acuity. Despite the increasing demand, payments from Medicare and Medicaid consistently fall short of covering costs, resulting in significant underpayments totalling nearly \$130 billion in 2022 alone. This reimbursement shortfall extends to other services like inpatient behavioural health and outpatient burn and wound care, with payments consistently lagging behind costs across all payer types. These challenges are particularly acute for hospitals in rural areas, where financial strains are intensified, underscoring the critical need for support and solutions.

Hospitals' Struggle with Escalating Administrative Costs and Cybersecurity Investments

Hospitals are grappling with escalating administrative costs primarily driven by certain practices of commercial health insurers, particularly Medicare Advantage (MA) and Medicaid managed care plans. These insurers impose time-consuming procedures like automatic claims denials and stringent prior authorisation requirements, significantly inflating hospital expenditures. For instance, hospitals annually spend around \$10 billion dealing with insurer prior authorisations and nearly \$20 billion appealing denials, a considerable portion of which is wasted on claims that should have been reimbursed initially. Despite the majority of denials being overturned upon appeal, hospitals are not compensated for the resources and efforts expended in this labour-intensive process.

Of particular concern are the denials for medically necessary care, which can directly impact patient well-being. Alarming, a substantial portion of these denials (nearly one in five) are found to meet Medicare coverage rules upon review, indicating potential direct harm to patients due to delayed or denied care. Despite the significant administrative burden imposed by MA plans, hospitals receive less than 90% of Medicare rates for services, even though MA plans cost taxpayers more than traditional Medicare.

These challenges extend beyond Medicare Advantage to other commercial payers, where claims denials increased by over 20% in 2023. Moreover, the time taken by commercial payers to process and pay hospital claims has risen by nearly 20% in the same period, further straining hospital finances and diverting resources from patient care.

In addition to administrative burdens, hospitals are facing mounting costs associated with implementing and maintaining information management systems and technology infrastructure. With patient data becoming increasingly targeted by cyberattacks, hospitals are investing heavily in cybersecurity measures to protect sensitive information. However, these measures come at a substantial cost, with hospitals spending nearly \$30 billion on property and medical liability insurance in 2022.

Overall, the rising administrative expenses and cybersecurity costs are placing significant financial strain on hospitals, diverting resources away

from patient care and impeding their ability to invest in essential services and infrastructure improvements.

The Dual Challenges of Escalating Drug Costs and Shortages in Hospitals

Hospitals and health systems are facing escalating drug expenses, reaching \$115 billion in 2023. This surge is driven by both significant price increases on existing drugs and the introduction of new drugs at record prices. The median annual list price for a new drug soared to \$300,000 in 2023, marking a 35% increase from the previous year. Nearly 2,000 drugs experienced price hikes exceeding the rate of general inflation between 2022 and 2023.

Compounding the issue, drug shortages have reached their highest levels in over a decade, with an average of 301 drugs in shortage per quarter in 2023. These shortages, which can increase hospital drug budgets by up to 20%, are attributed to factors like fractured global supply chains and lack of incentives for producing low-margin generic medications. Hospital pharmacists, faced with limited options, often resort to purchasing drugs outside traditional suppliers or using substitute drugs, both of which incur higher costs.

The costs associated with drug shortages extend beyond procurement expenses, encompassing staff overtime, adjustments to medication dispensing systems and electronic health records, and additional training to ensure medication safety. These challenges strain hospital resources and compromise patient care.

Hospitals' Struggle with Medical Supplies, Equipment, and Labour Expenses

Hospitals rely on adequate and up-to-date medical supplies, devices, and equipment to ensure quality patient care. These items, including artificial joints, robotic surgery machines, and complex imaging machinery, are costly to acquire and maintain and often sourced from volatile global supply chains. In 2023, medical supply expenses totalled \$146.9 billion, comprising about 10.5% of the average hospital's budget, a \$6.6 billion increase from the previous year. Hospitals continually invest in new supplies and equipment to meet evolving clinical care standards. For instance, cardiac magnetic resonance imaging (cMRI) machines, crucial for diagnosing cardiac pathologies, cost around \$3.2 million each. Beyond initial procurement, hospitals also incur ongoing costs for maintenance, upgrades, and staff training to ensure quality care delivery.

Hospitals have seen significant increases in labour costs, rising by over \$42.5 billion between 2021 and 2023, totalling \$839 billion and constituting nearly 60% of average hospital expenses. Despite moderating from pandemic peaks, expenditures on contract labour remain elevated, particularly impacting smaller rural hospitals facing recruitment challenges. Wages and benefits for hospital employees have outpaced economy-wide inflation, exacerbating critical labour shortages exacerbated by clinician burnout and increased violence against healthcare workers. The healthcare sector has witnessed an unprecedented exodus of professionals, with resignations growing by 50% between 2020 and 2023. High turnover rates have forced hospitals to invest more in attracting and retaining talent, with advertised wage rates increasing by 10.1% in 2023. The growing disparity between supply and demand for healthcare workers suggests that labour costs will continue to be a significant challenge for hospitals in the coming years.

Navigating Turbulent Waters: Challenges Facing Hospitals in 2024 and Beyond

Despite entering 2024 beyond the most recent public health emergency, hospitals and health systems remain entrenched in a challenging landscape. Credit ratings agencies have delivered sombre assessments for the sector, with S&P noting negative outlooks affecting 24% of not-for-profit hospitals, the highest proportion in over a decade. Fitch's credit downgrade-to-upgrade ratio stands at 3:1, reminiscent of figures observed during the 2008 financial crisis, particularly concerning for smaller hospitals with annual revenues under \$500 million.

Additional obstacles loom while ongoing cost pressures from labour, drugs, and medical supplies persist. Medicaid disenrollments, totalling over 19 million through 2023, contribute to rising uncompensated care costs, exacerbated in states without Medicaid expansion. Proposed legislative actions threatening Medicare payments for hospital outpatient services, termed "site-neutral" payment cuts, pose further financial strains and jeopardise patient care access.

The cybersecurity landscape presents another area of concern, highlighted by the Change Healthcare cyberattack in February 2024. This incident's repercussions underscore the vulnerability of hospital operations and patient care to cyber threats, disrupting revenue cycle management, pharmacy services, and healthcare technologies across multiple health systems. Ongoing investments in cybersecurity become imperative to safeguard patient data and maintain operational continuity.

Violence against healthcare workers is also on the rise, necessitating significant investments in violence prevention and preparedness efforts. Hospitals are increasingly prioritising measures to protect their employees amidst escalating incidents of violence in healthcare settings.

These multifaceted challenges collectively threaten hospital financial stability and patient care access, demanding strategic interventions to navigate the complex healthcare landscape in 2024 and beyond.

American Hospital Association's Call to Address Challenges and Ensure Quality Care

America's hospitals and health systems are steadfast in their commitment to delivering high-quality care around the clock to every patient in every community. Despite this unwavering dedication, hospitals face formidable challenges that hinder their ability to provide care consistently. The American Hospital Association (AHA) advocates for policies to ensure hospitals have the necessary resources to fulfil their mission, including:

- Rejecting Medicare and Medicaid cuts to hospital care, such as harmful site-neutral proposals and impending reductions to Medicaid Disproportionate Share hospitals.
- Supporting and strengthening the healthcare workforce to address critical labour shortages and ensure adequate staffing levels.
- Safeguarding the 340B Drug Pricing Program from adverse changes and addressing the rising costs of drugs.
- Holding commercial insurers accountable for practices that impede patient care through delays, denials, and disruptions.
- Enhancing cybersecurity measures for hospitals and the broader healthcare system to mitigate the growing threat of cyberattacks.

These policy initiatives are crucial for sustaining hospitals' ability to provide essential care to patients and communities nationwide.

Source: [American Hospital Association](#)

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