



Current State of Indiana Hospital Finances

Winter 2023

Agenda

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Executive Summary

Indiana Hospital Margins Negative in 2022

Since the onset of the COVID-19 pandemic in March 2020, Indiana hospitals and health systems have taken unprecedented steps to care for their communities amid significant pressure on staff and resources.

The financial impact of the pandemic has been staggering. As hospital executives, policymakers, and other healthcare leaders assess the current landscape, key findings about the financial state of Indiana hospitals from the beginning of the pandemic through December 2022 include:

- **Margins remained depressed relative to pre-pandemic levels.** Throughout 2022, the hospital operating margin for Indiana remained negative, nearing the worst financial performance since the start of the pandemic.
- **Expenses were significantly elevated from pre-pandemic levels.** Total expenses in 2022 for Indiana hospitals were \$3.2 billion higher than pre-pandemic levels, outpacing increases in revenue. Rising expenses for labor, medical supplies, drugs, and purchased services have contributed to the increase.

- **Hospital volumes remained below pre-pandemic levels.** Hospital discharges, patient days, emergency department visits, and operating room minutes in Indiana hospitals were all lower than pre-pandemic levels. However, a significant rise in length of stay suggests that patients who visited hospitals had more severe health needs than prior to the pandemic. Furthermore, labor shortages in post-acute settings likely prevented timely discharge of patients from the hospitals, leading to an increase in expense without a commensurate increase in revenue.
- **Hospitals experienced a profound financial toll, with no further relief in sight.** Hospitals incurred serious losses relative to pre-pandemic levels—including approximately \$72 million in 2022—increasing strain on Indiana hospitals.

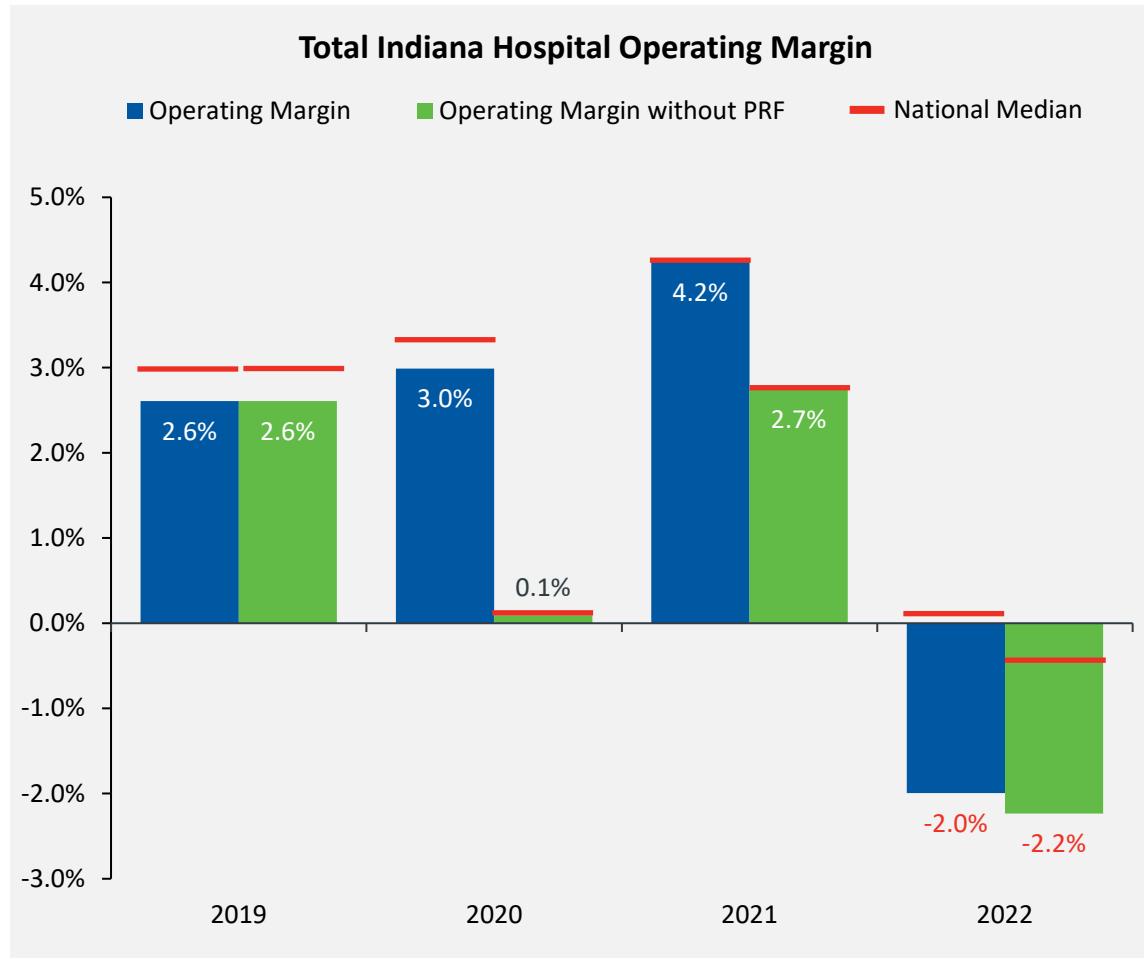
Hospitals faced a host of other related challenges, including workforce shortages and supply disruptions.

These findings underscore the existential financial and operational threats Indiana hospitals continue to face nearly three years after the beginning of the pandemic.

This report was prepared at the request of the Indiana Hospital Association.

Hospital Margins

Hospital Operating Margins in 2022 Were Significantly Below Pre-Pandemic Levels

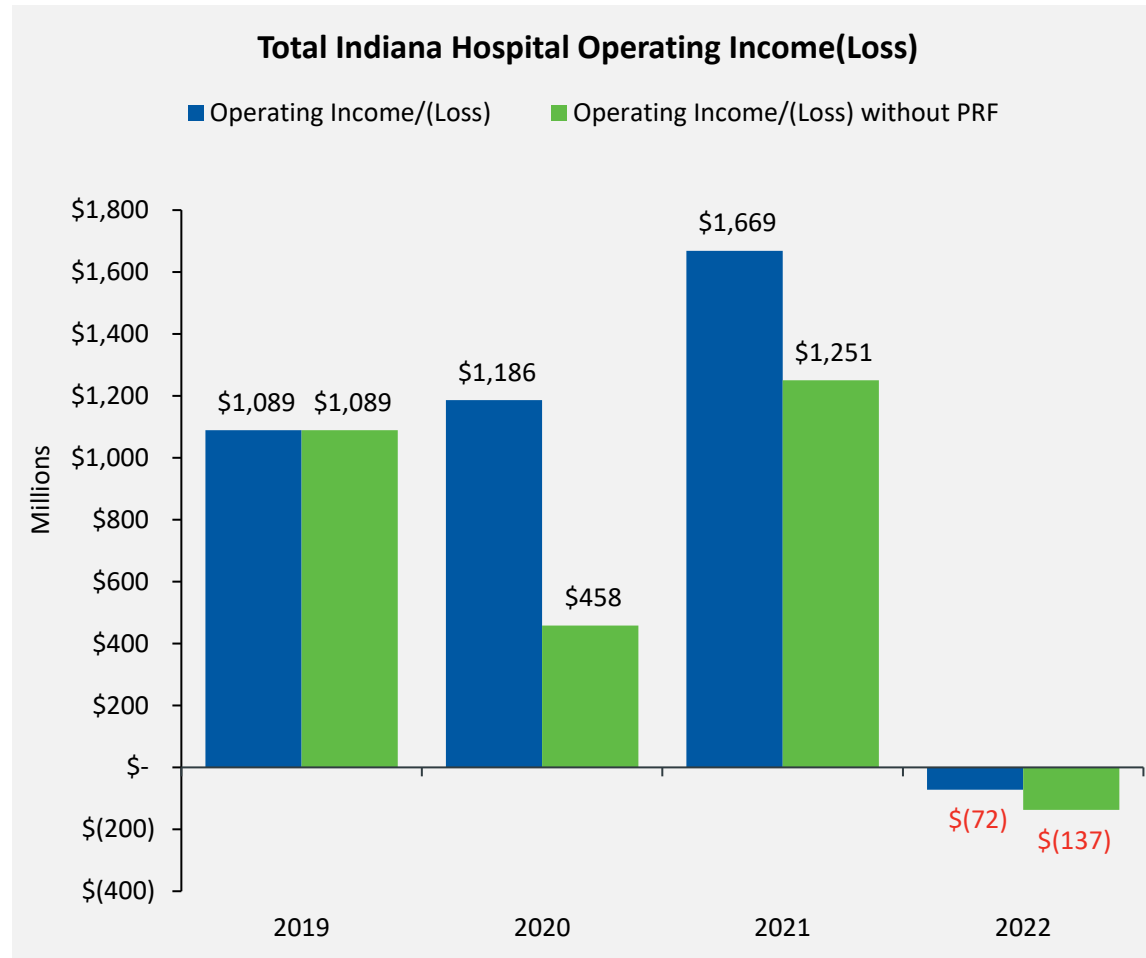


KEY TAKEAWAYS

- Total hospital operating margins for Indiana in 2022 were significantly below pre-pandemic levels.
- Without payments from the provider relief fund (PRF), Indiana operating margins were even more depressed, falling to 0.1% in 2020 and -2.2% in 2022.
- **The hospital operating margin for the state of Indiana was at or below the national median each year.**
- At the median, hospital operating margins in 2022 were 22% lower compared to pre-pandemic levels.

Source(s): 1) Indiana hospital adjusted operating margins were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Indiana Experienced Negative Hospital Operating Income for the First Time in 2022 Since the Beginning of the Pandemic

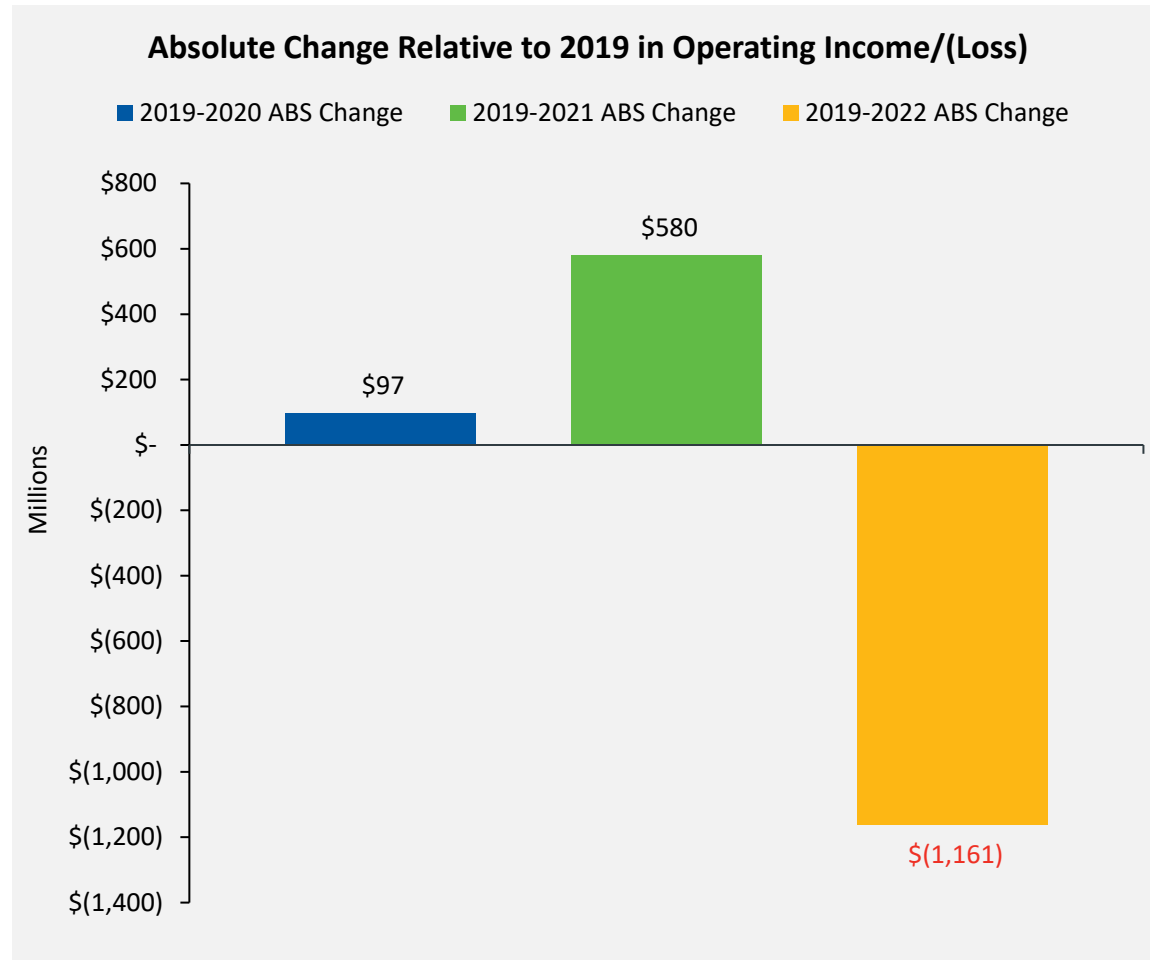


KEY TAKEAWAYS

- In 2022, Indiana hospitals lost \$72 million and \$137 without provider relief fund (PRF) payments.
- Compared to 2020 and 2021, Indiana hospitals received less funding from the PRF in 2022, resulting in negative hospital operating income for the state.

Source(s): 1) Indiana hospital operating income/(loss) was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Total Indiana Hospital Operating Income in 2022 Was \$1.2 Billion Below Pre-Pandemic Levels



KEY TAKEAWAYS

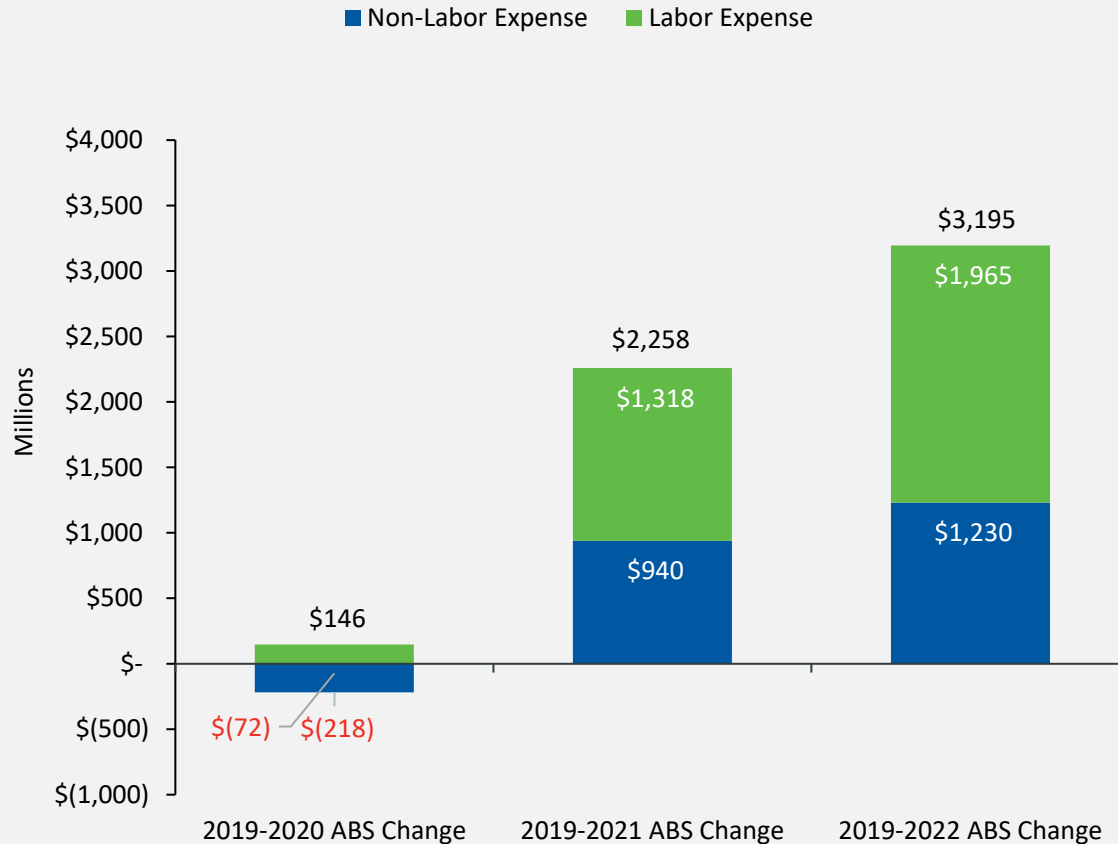
- Indiana hospital operating income/(loss) has still not recovered to pre-pandemic levels.
- In the three years combined following the start of the pandemic, Indiana hospitals have lost a collective \$484 million compared to 2019 levels.

Source(s): 1) Absolute change in Indiana hospital operating income/(loss) was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Hospital Operating Expenses

Total Indiana Hospital Operating Expense Increased \$3.2 Billion Above Pre-Pandemic Levels in 2022

Absolute Change Relative to 2019 in Hospital Operating Expense

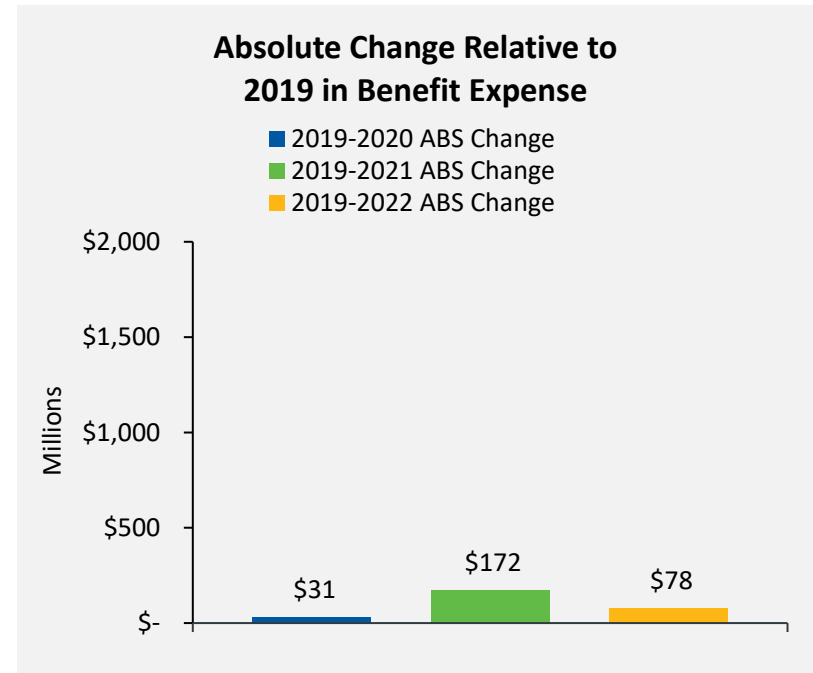
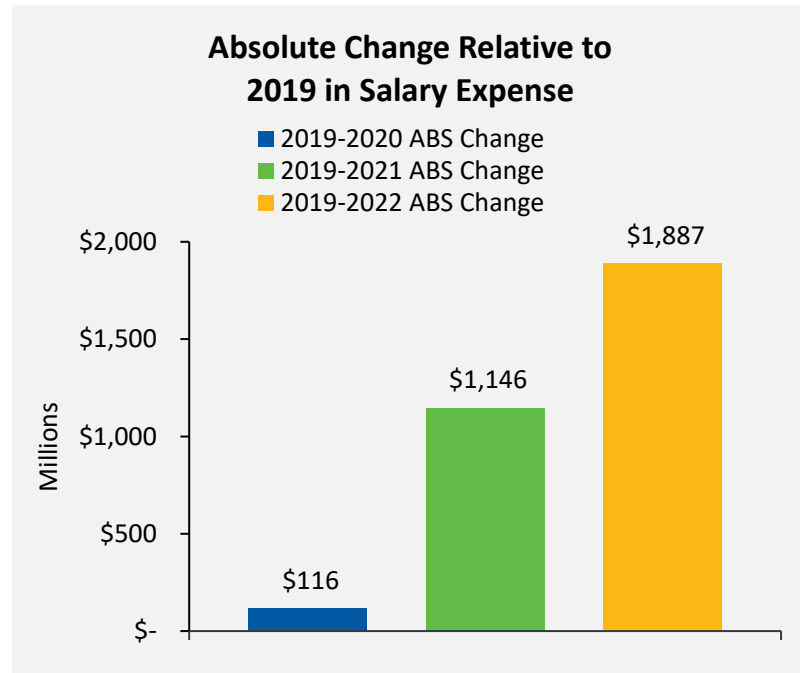


KEY TAKEAWAYS

- Total hospital operating expenses slightly decreased in 2020, but then rapidly increased in 2021 and 2022.
- Indiana hospital labor expense increased more than non-labor expense in each year since 2019.
- In the three years combined following the start of the pandemic, Indiana hospitals combined operating expense increased approximately \$5.4 billion.
- The rise in operating expenses are generally not within a hospital's control and many outside factors directly impacted the increase.

Source(s): 1) Absolute change in Indiana hospital operating expense was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Rising Labor Costs: \$1.9 Billion Increase in Salary Expense in 2022 Compared to 2019

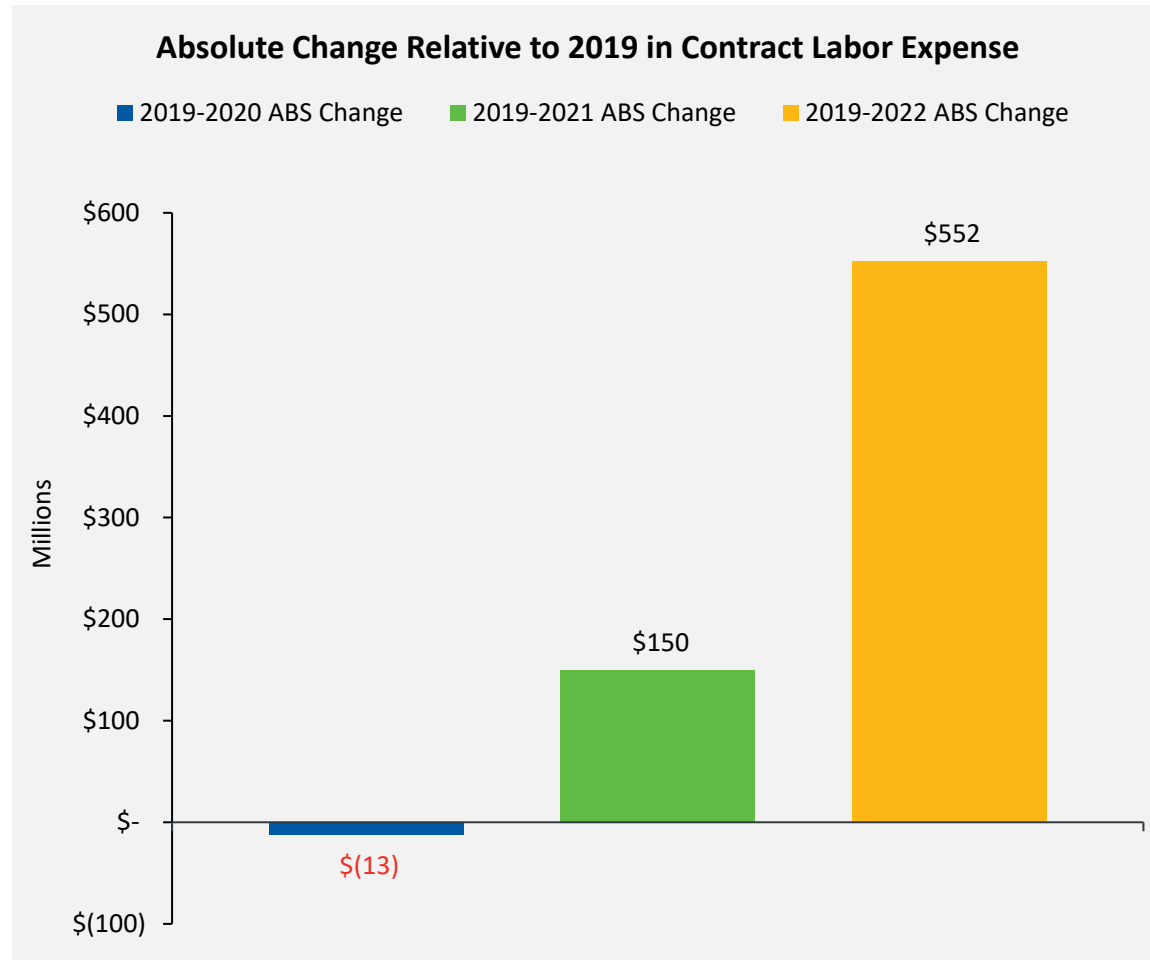


KEY TAKEAWAYS

- Salaries accounted for roughly 96% of the increase in labor expense in 2022 compared to pre-pandemic levels.
- Benefit expenses increased by \$172 million 2021, but then decreased by \$94 million in 2022.
- In the three years combined following the start of the pandemic, salary expense increased approximately \$3.1 billion, while benefit expense increased \$281 million.

Source(s): 1) Absolute change in Indiana hospital salary and benefit expense was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Growing Dependence on Contract Labor: \$552 Million Increase in 2022 Compared to 2019

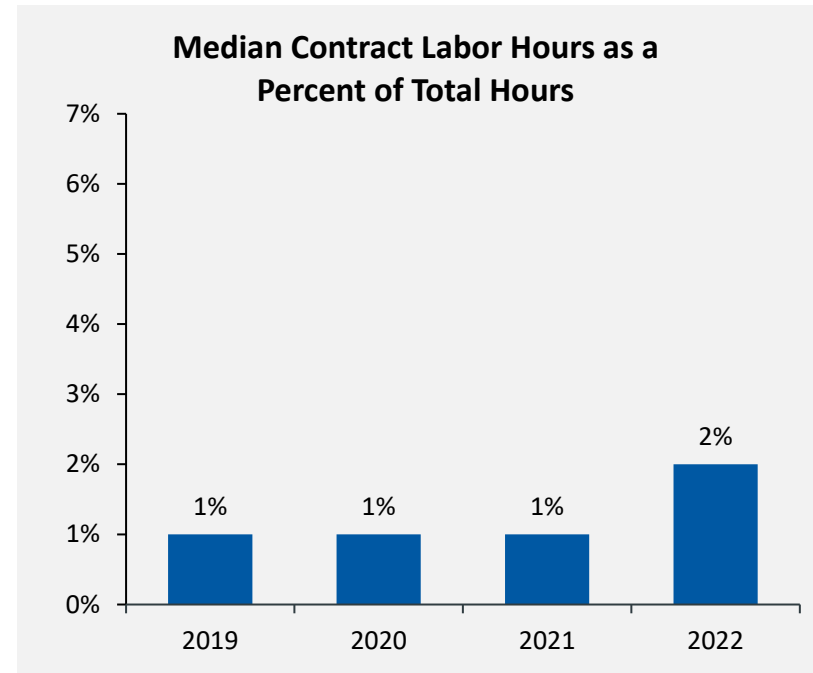
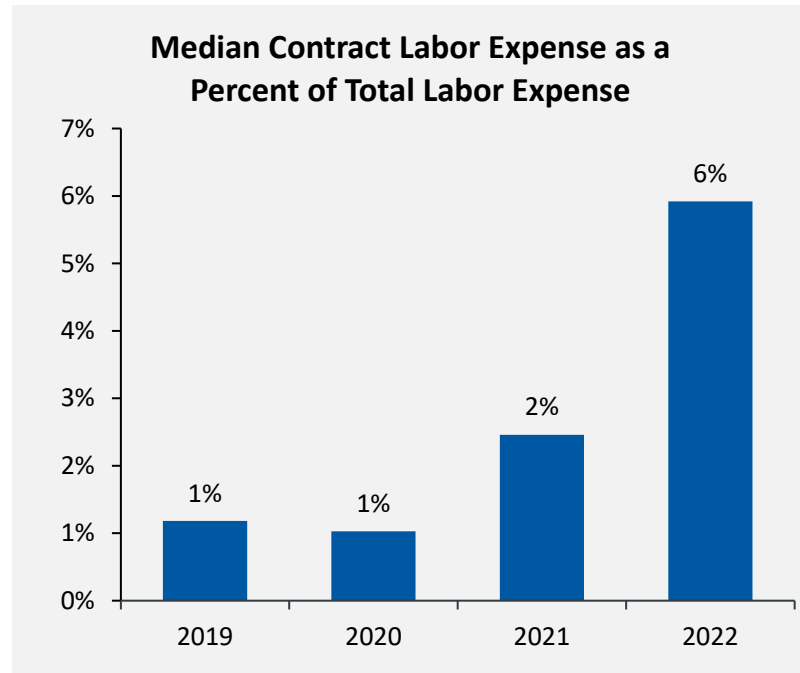


KEY TAKEAWAYS

- Compared to pre-pandemic levels, contract labor expenses for Indiana rose dramatically due to increased reliance on more expensive contract labor.
- In the three years combined following the start of the pandemic, Indiana hospitals have collectively spent \$689 million more in contract labor compared to 2019 levels.

Source(s): 1) Absolute change in Indiana hospital contract labor expense was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Indiana Hospital Contract Labor Expense Makes up a Growing Percent of Total Labor Expense

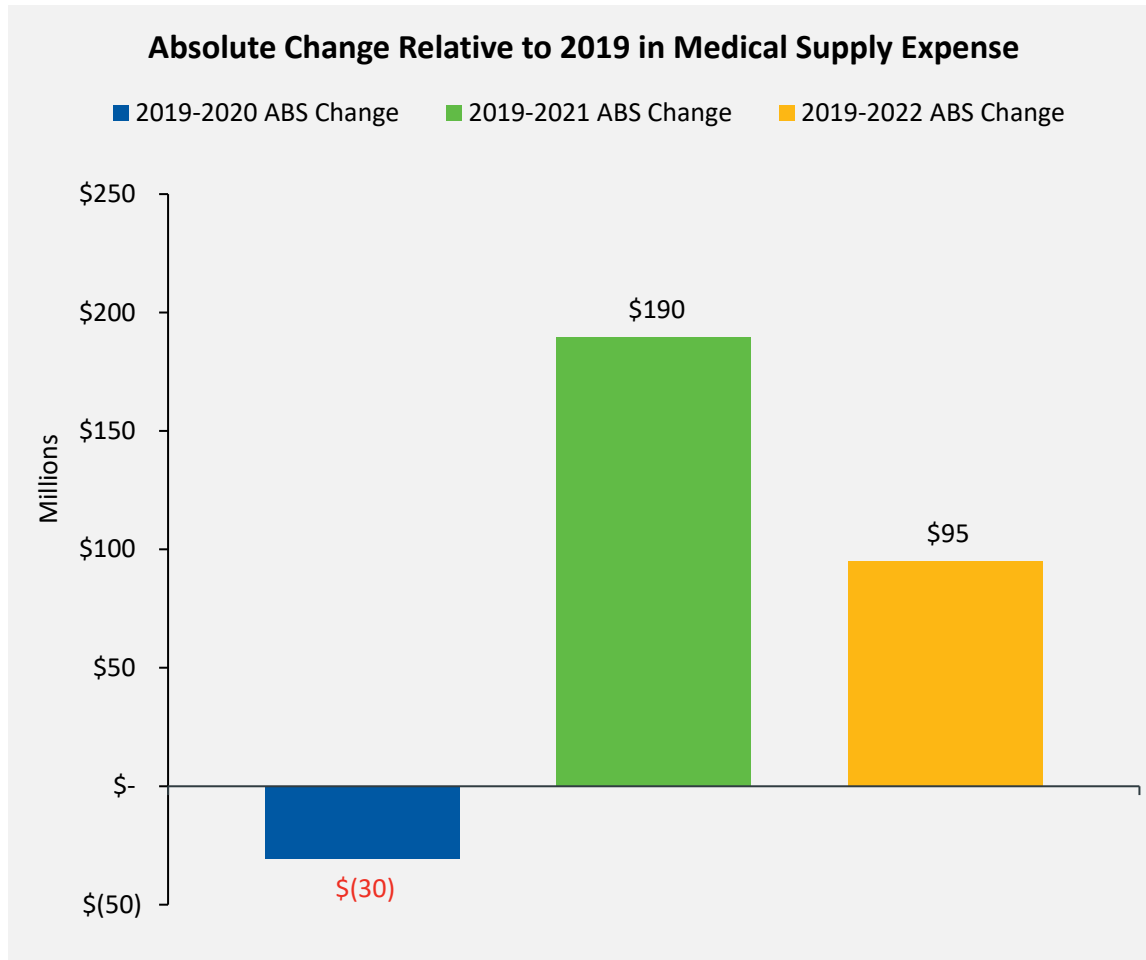


KEY TAKEAWAYS

- Median contract labor expense as a percent of total labor expense increased to 6% in 2022, while median contract labor hours as a percent of total hours only increased to ~2%.
- The larger increase in contract labor expense as a percent of total expense can be attributed to an increase in the median contract labor wage rate, which exceeded \$150 per hour in 2022.

Source(s): 1) Median percent changes were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics.

Medical Supply Expenses Were \$95 Million Higher Than Pre-Pandemic Levels in 2022

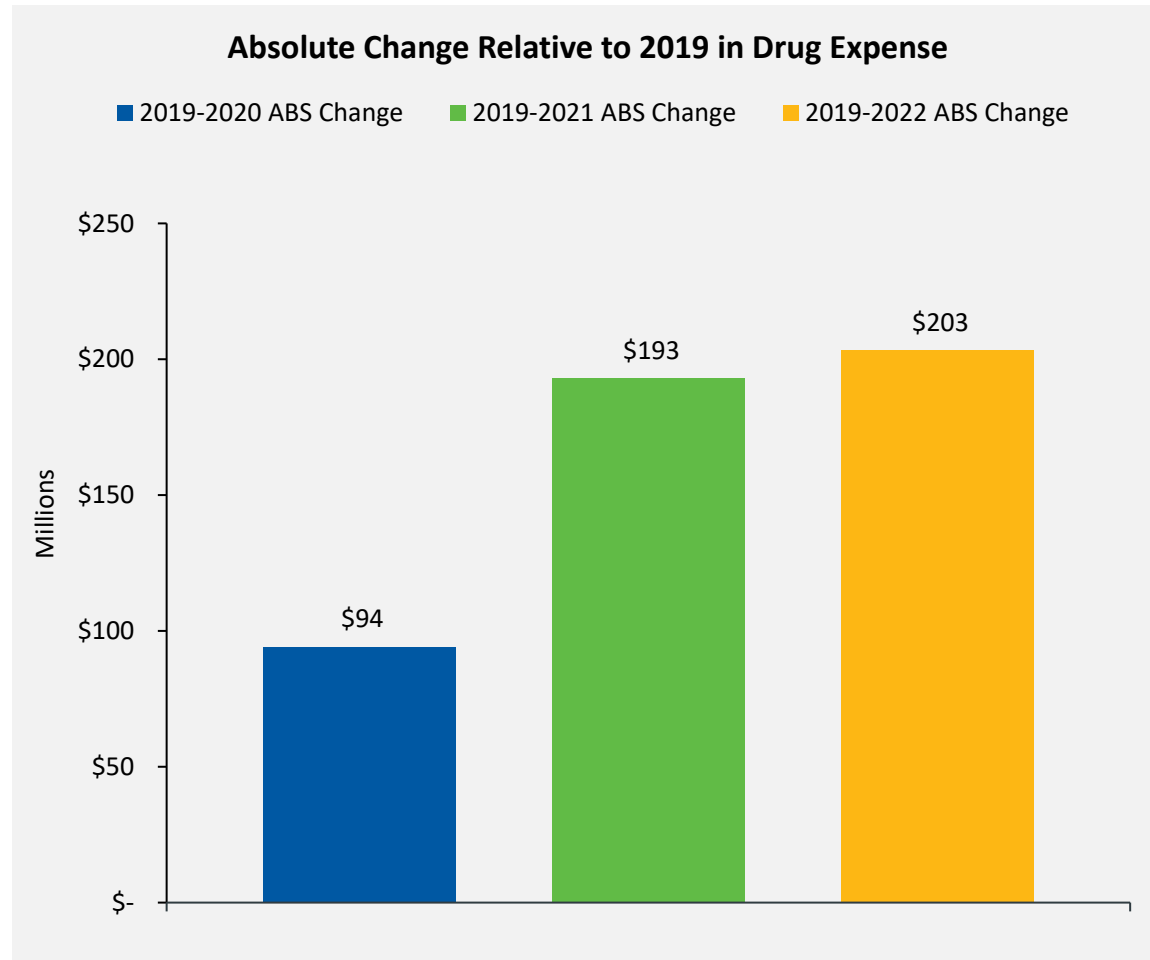


KEY TAKEAWAYS

- Indiana hospital medical supply expenses decreased slightly by \$30 million in 2020, but then increased by \$190 million in 2021 compared to pre-pandemic levels.
- In the three years combined following the start of the pandemic, Indiana hospitals have collectively spent \$255 million more on medical supplies.

Source(s): 1) Absolute change in Indiana hospital medical supply expense was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Drug Expenses Surge: \$203 Million Increase in 2022 Compared to Pre-Pandemic Levels

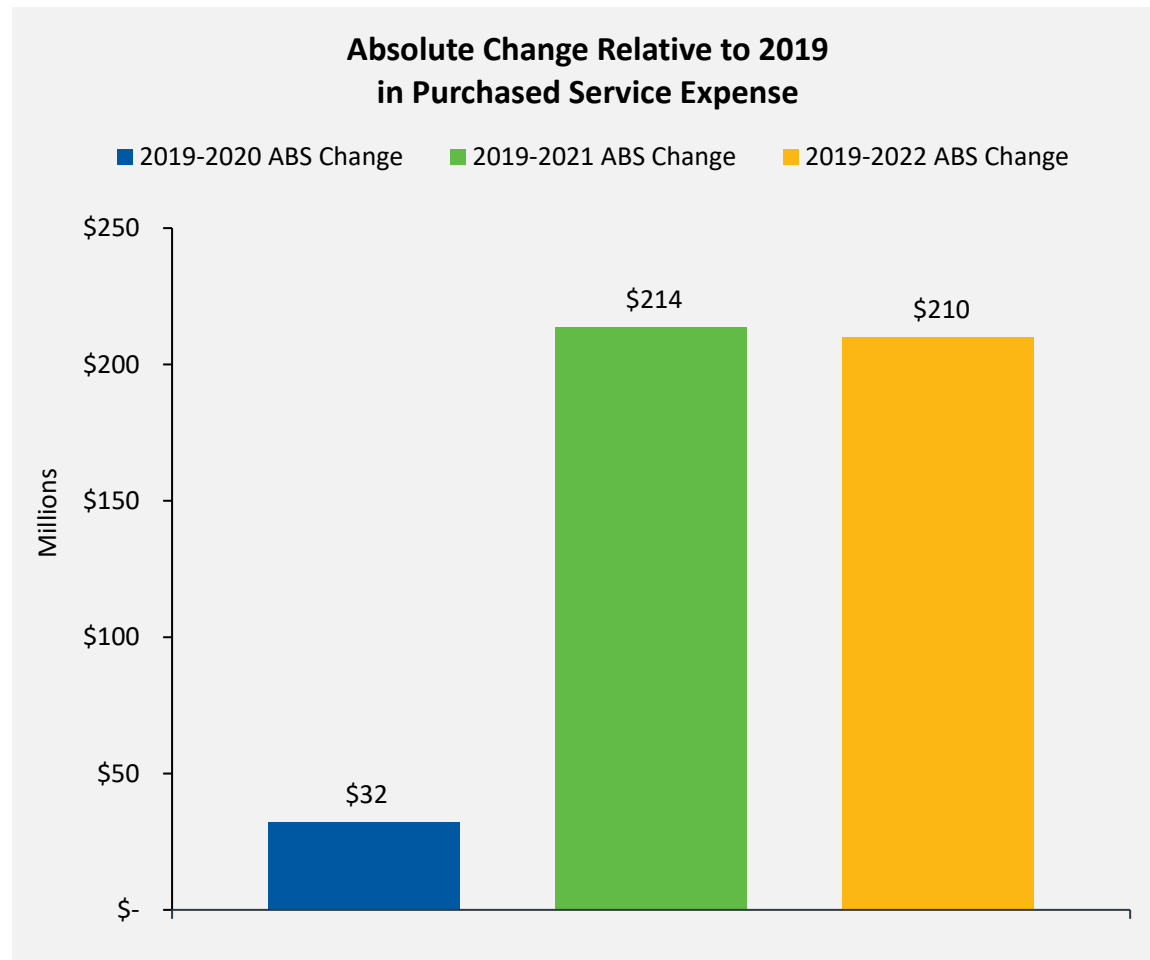


KEY TAKEAWAYS

- Drug expenses have grown significantly for Indiana hospitals since the start of the pandemic.
- In the three years combined following the start of the pandemic, Indiana hospitals have collectively spent \$490 million more on drugs.

Source(s): 1) Absolute change in Indiana hospital drug expense was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Indiana Hospitals Increased Spend on Purchased Services by \$210 Million in 2022 Compared to Pre-Pandemic Levels



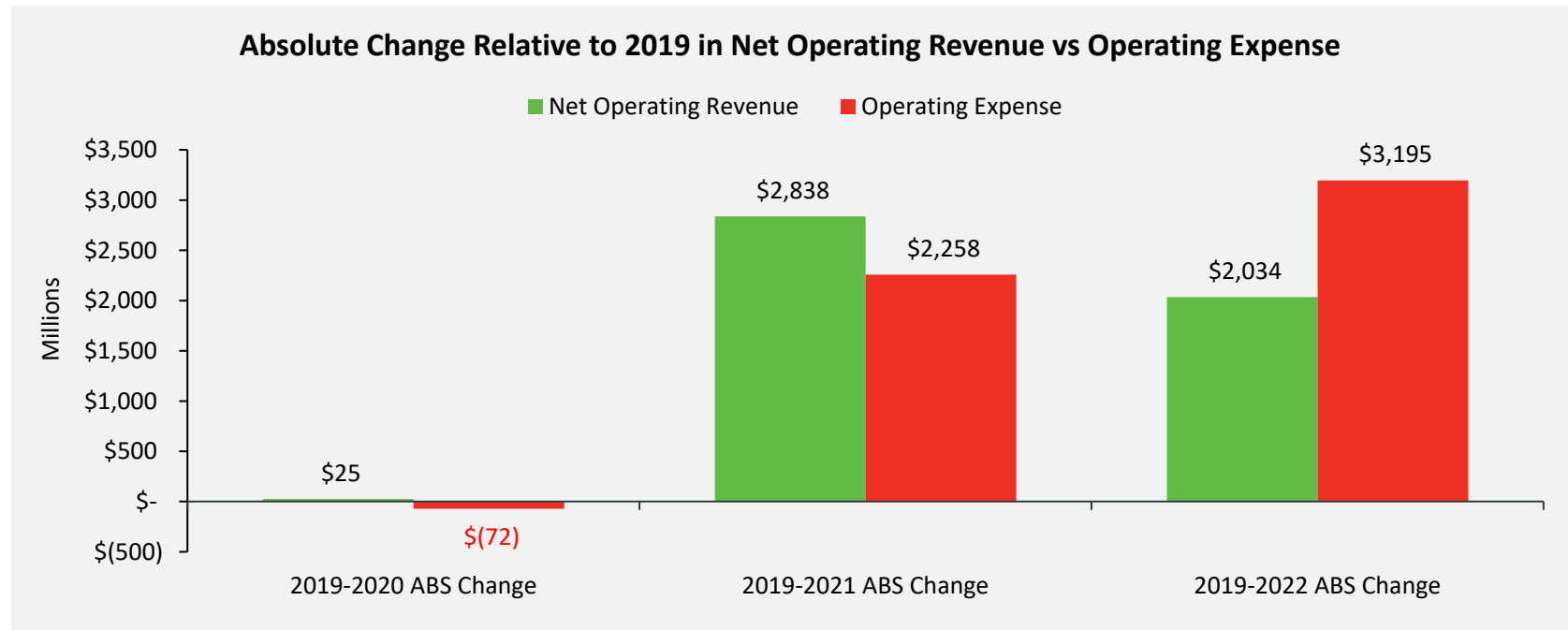
KEY TAKEAWAYS

- Indiana hospitals significantly increased their spend on purchased services in both 2021 and 2022 compared to pre-pandemic levels.
- Purchased services include items like cleaning and janitorial services, which hospitals have significantly increased their spending on since the beginning of the pandemic.
- In the three years combined following the start of the pandemic, Indiana hospitals have collectively spent \$456 million more on purchased services.

Source(s): 1) Absolute change in Indiana hospital drug expense was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Hospital Operating Revenue

Total Indiana Hospital Net Operating Revenue Growth Has Been Outpaced By Expense Growth



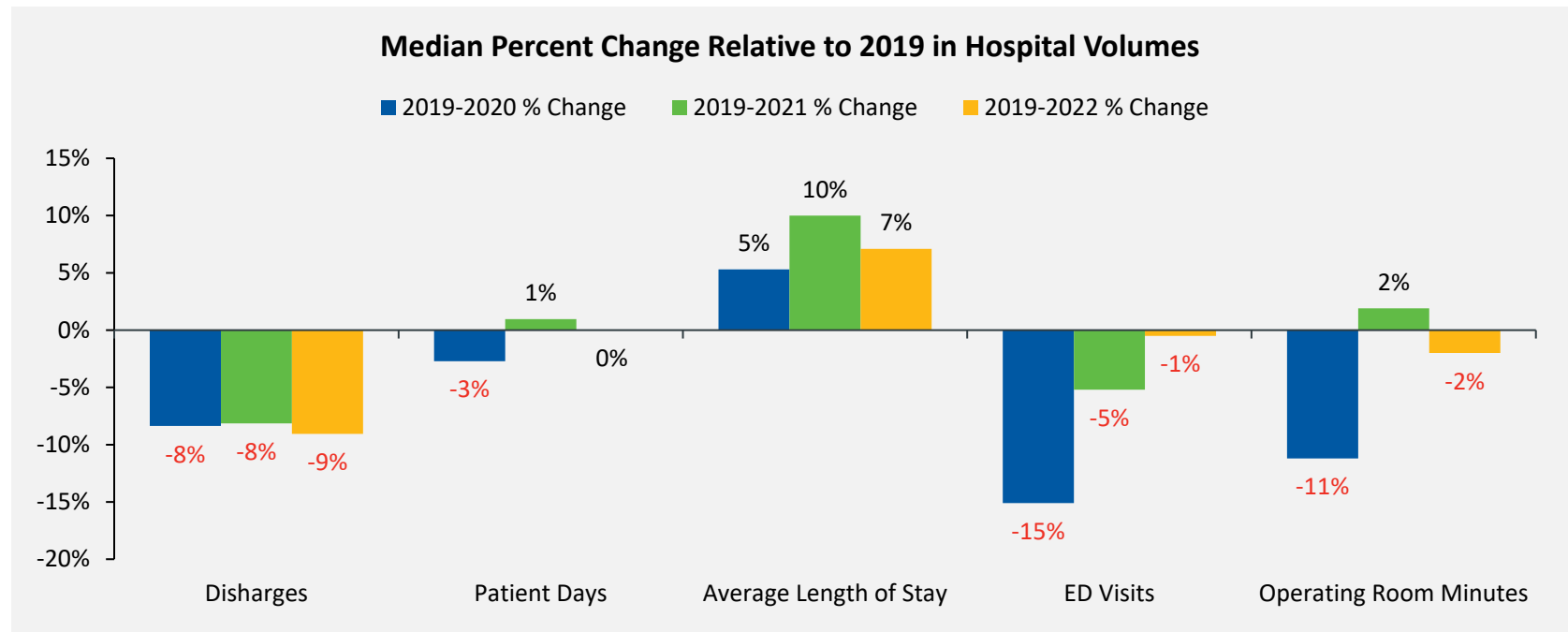
KEY TAKEAWAYS

- While Indiana hospital net operating revenues have grown since the start of the pandemic, the rate of growth has significantly lagged the rate of growth in expenses.
- Payments made to Indiana hospitals in 2020 and 2021 from the provider relief fund (PRF) contributed to the increase in hospital net operating revenues and helped hospitals cover their increasing operating expenses.

Source(s): 1) Absolute change in Indiana hospital net operating revenue and expense were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health. Note(s): Net operating revenue is calculated by taking the gross operating revenue less any deductions.

Hospital Volumes

Hospital Volumes Have Not Fully Recovered to Pre-Pandemic Levels, While Average Length of Stay Has Increased



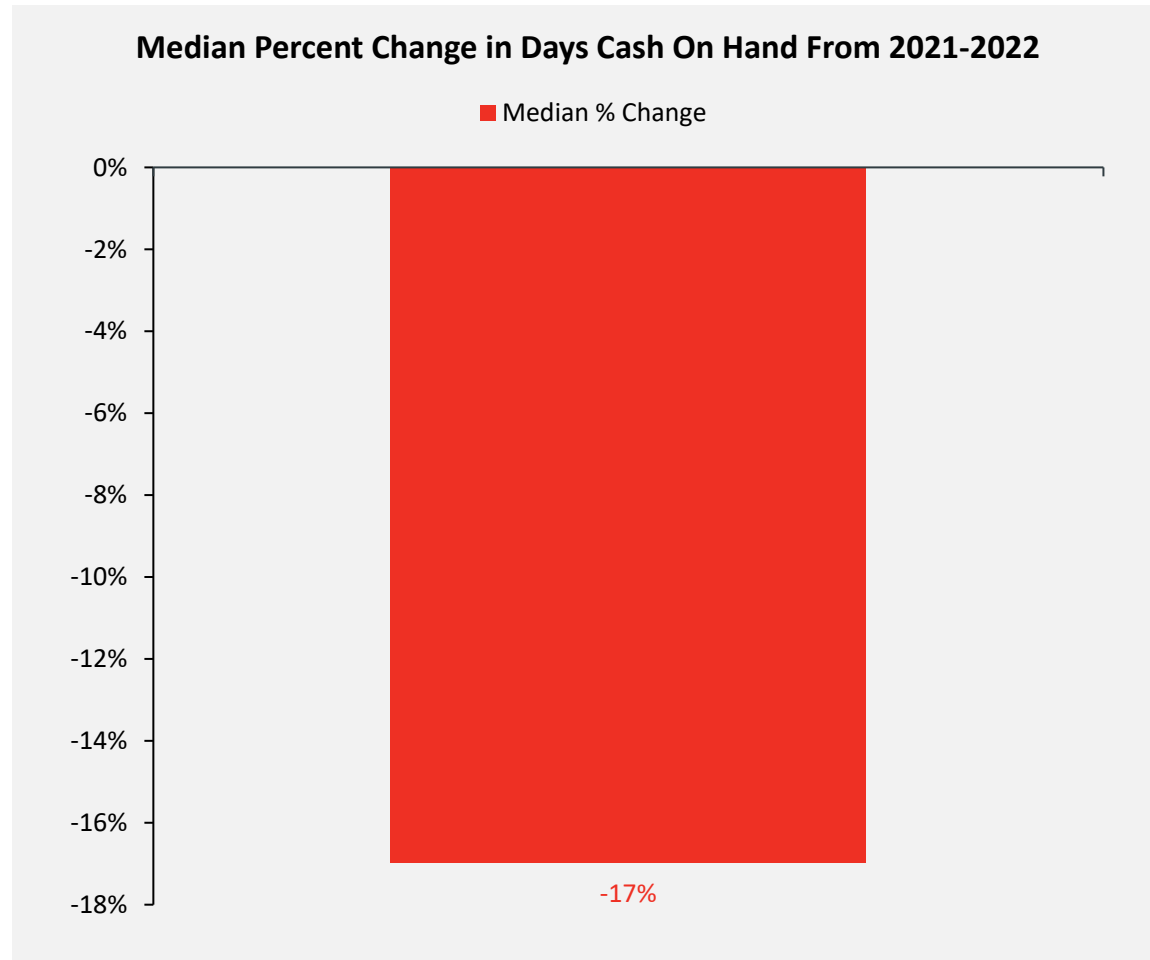
KEY TAKEAWAYS

- As care continues to shift out of the hospital, discharges, patient days, ED visits, and operating room minutes were lower than pre-pandemic levels in 2022.
- Growth in patient days continued to outpace the growth in discharges, leading in an increase in average length of stay and further stressing hospital finances.

Source(s): 1) Median change in Indiana hospital volumes were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics.

Hospital Balance Sheet

Median Health System Days Cash on Hand Fell Sharply in 2022



KEY TAKEAWAYS

- Days cash on hand increased significantly in 2020 as hospitals/health systems received payments from the provider relief fund (PRF).
- Cash balances fell sharply in 2022 as expenses outpaced revenues and many hospitals/health systems experienced negative operating margins.
- Rapid increases in expenses threaten to further decrease days of cash on hand in 2023 and beyond.

Source(s): 1) Median percent change in health system days cash on hand was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics.

Methodology

Methodology

- This report includes data based on a representative sample of acute care and critical access hospitals in the state of Indiana, leveraging data provided by Syntellis Performance Solutions.
- Data points calculated in terms of dollars (\$) reflect actual gains or losses relative to 2019 levels. The base 2019 revenue and expense values were sourced from Definitive Health and the extrapolated (2020-2022) figures were computed by applying the median year-over-year percent changes to those base values.
- Adjusted operating margins were calculated by applying an adjustment factor to the operating margin to account for the non-hospital impact on the hospital (for example, the impact of corporate allocations, physician pro fees, pharmacy, etc.).

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