

KaufmanHall



Current State of Connecticut Hospital Finances

December 2024

Agenda

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4. Connecticut Hospital Revenue Overview
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Executive Summary

Connecticut Hospital Performance Continues to Be Challenged

In recent years, Connecticut hospitals and health systems have taken unprecedented steps to care for their communities amid significant pressure on staff and resources.

As hospital executives, policymakers, and other healthcare leaders assess the current landscape, key findings about the financial state of Connecticut hospitals from the beginning of the pandemic through 2023 include:

- **Hospital finances remain at risk.** Connecticut hospitals produced a total operating margin of -0.5% in 2023, marking an improvement of performance relative to the -1.0% total operating margin in 2022 but significantly lagging the nation and the Northeast and Mid-Atlantic.
- In total, hospitals continued their losses in 2023 producing a \$76 million loss in operating income.
- **Expenses are persistently high.** Connecticut hospitals' operating expenses increased 6.5% in 2023—a higher rate of growth than the national and Northeast and Mid-Atlantic levels. The expense increases totaled \$1 billion over 2022. Nearly all categories of costs rose higher than

Northeast and Mid-Atlantic and national medians in 2023.

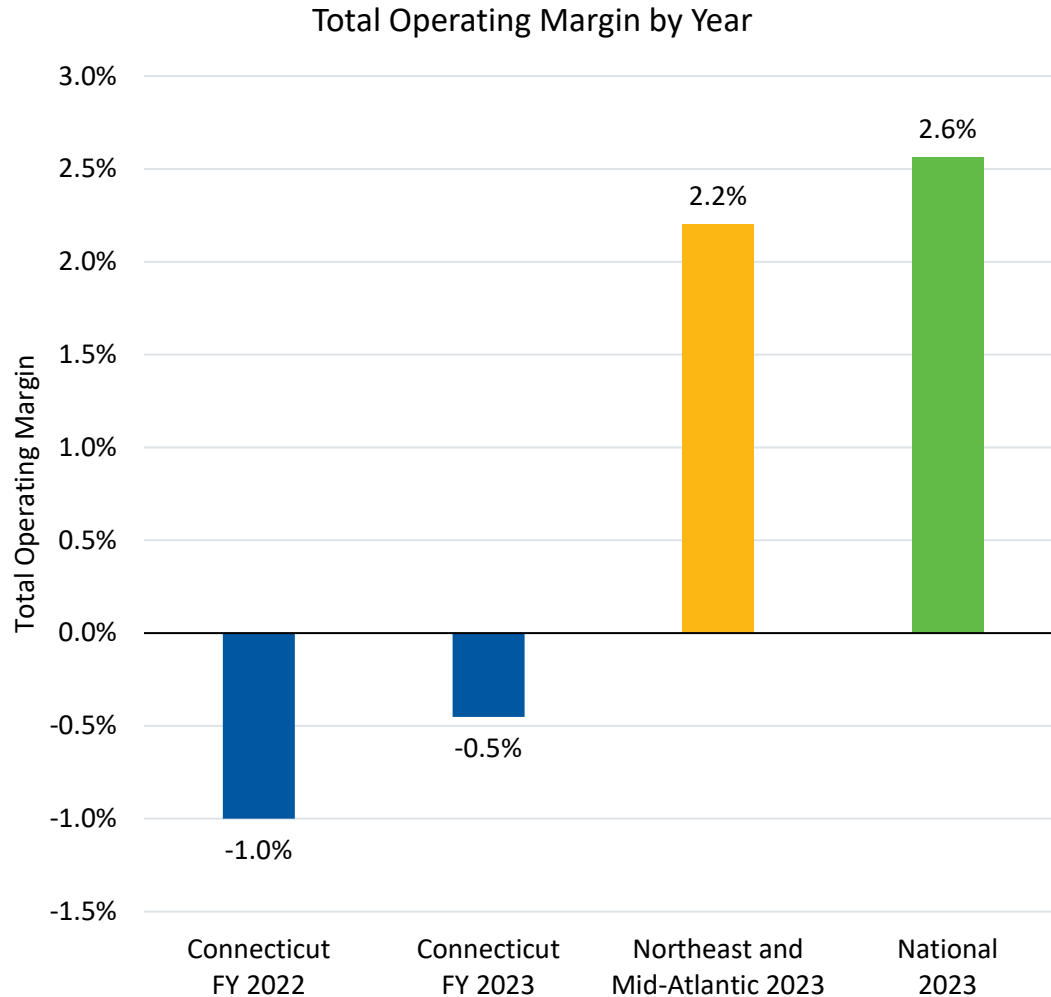
- Connecticut hospitals were slightly less dependent on contract labor in 2023 but still had higher contract labor utilization compared to hospitals nationally, due in part to significant, persistent state workforce shortages.
- **Hospital revenues are lagging national levels.** Connecticut hospitals' net operating revenue increased by 7.3% in 2023 in aggregate, but only by 3% at the median, which greatly lags the nation putting increased strain on providers grappling with rising expenses.

These findings underscore the significant financial and operational threats Connecticut hospitals continue to face.

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

Hospital Margins

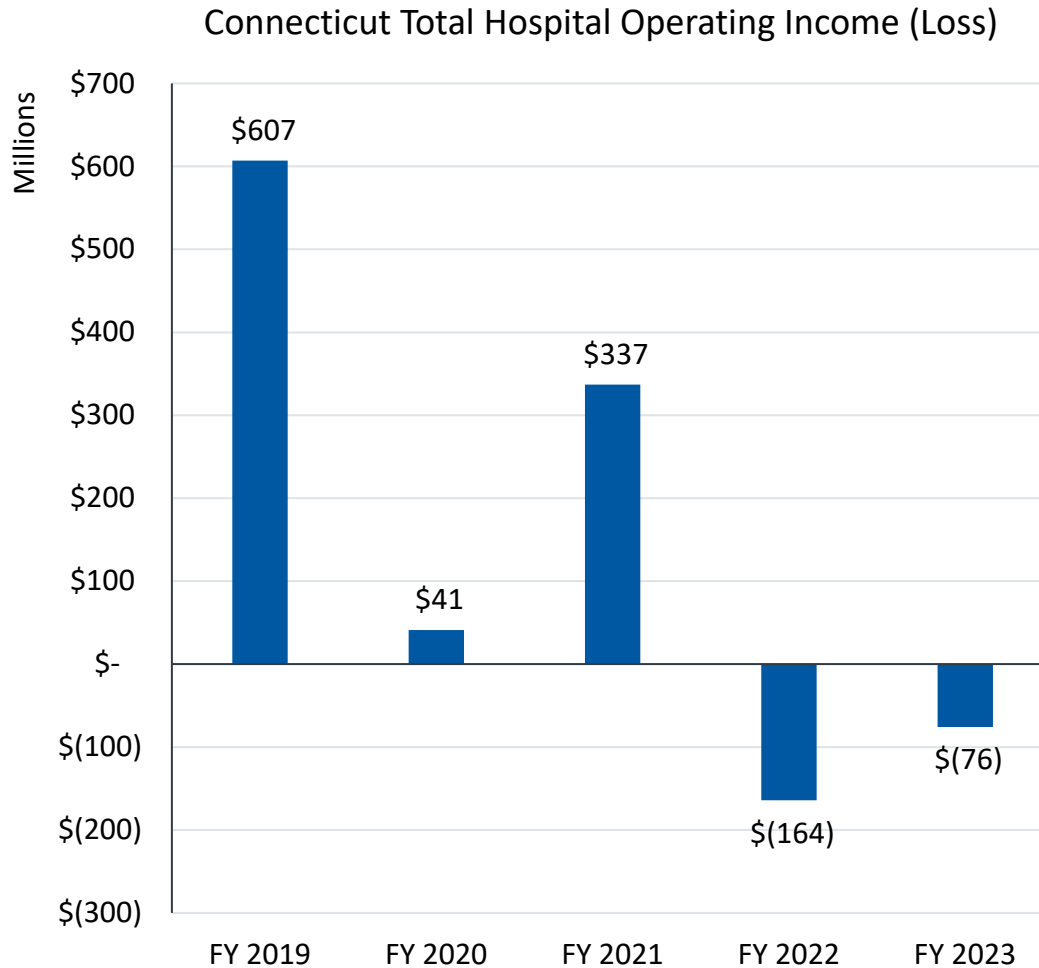
Connecticut Total Hospital Operating Margins Remained Negative in 2023 at -0.5% and Were Highly Depressed Relative to the Nation



KEY TAKEAWAYS

- **Worsening Connecticut Hospital Performance:** Total hospital operating margins for Connecticut remained negative at -0.5% in 2023, lagging the Northeast and Mid-Atlantic margins of 2.2% and National margins of 2.6%
- **Historically Low National Margins:** While U.S. total hospital operating margins reached 2.6% in 2023, margins have historically hovered between 4%-6% and are not sustainable at current levels.

The Total Connecticut Hospital Loss From Operations Was \$76 Million in FY 2023



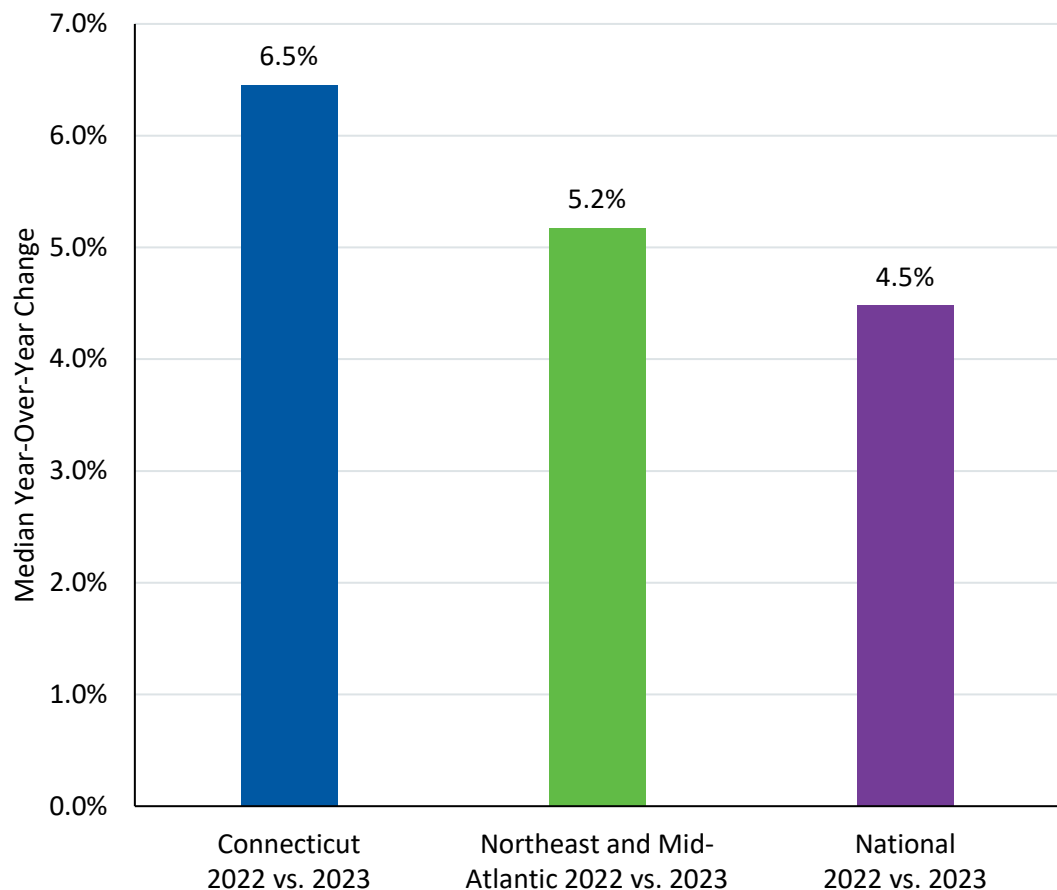
KEY TAKEAWAYS

- The total loss from operations for all hospitals in Connecticut was **\$76 million in FY 2023**.
- This follows losses in 2022 of **\$164 million** and contributes to a total loss of **\$2.3 billion** from FY 2020 through FY 2023 relative to the level of income in FY 2019.

Operating Expenses

Connecticut Median Hospital Operating Expense Increased 6.5% in 2023, or a Total Increase of \$1 Billion, Exceeding Northeast and Mid-Atlantic and National Trends

Year-over-Year Relative Change in Total Operating Expenses

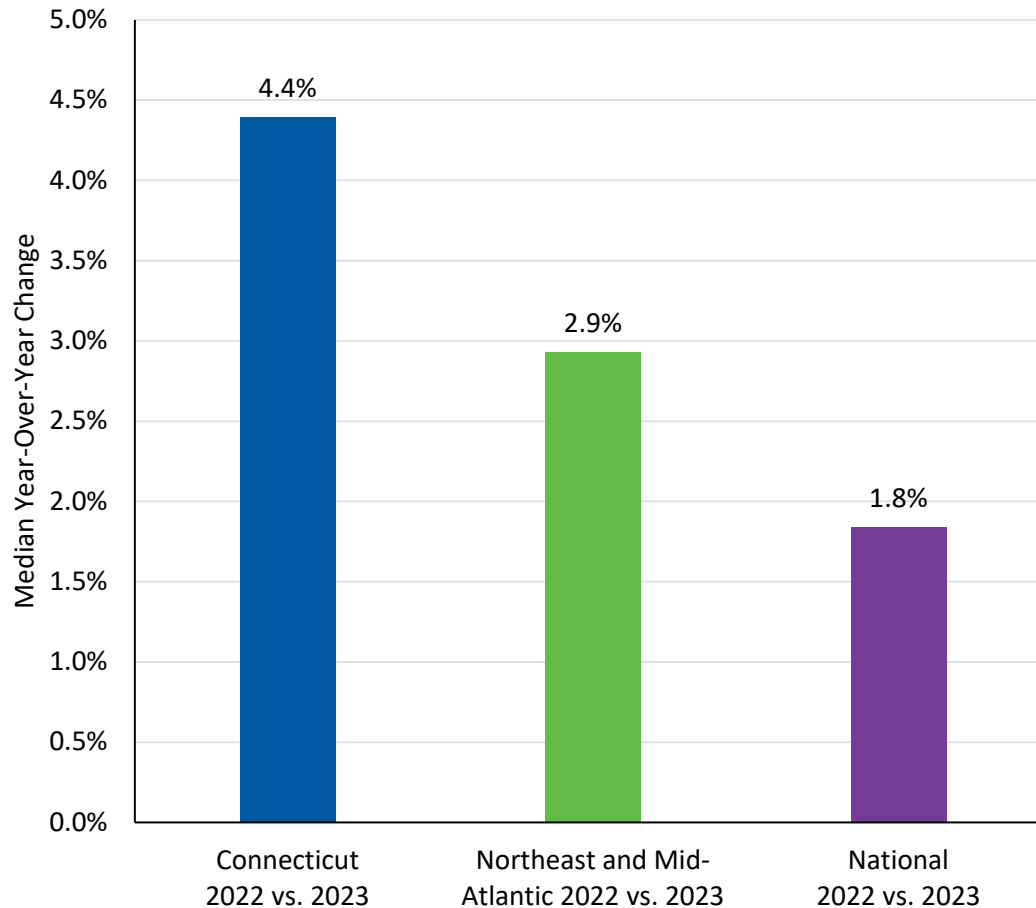


KEY TAKEAWAYS

- **Rising Operating Expenses Are Generally Not Within a Hospital's Control:** Many outside factors directly impacted the increase.
- **Consistent Increase Across the Board:** Connecticut, Northeast and Mid-Atlantic and national median hospitals experienced increases in total operating expense, with Connecticut rising faster than the nation.
- **National Trend of Rising Operating Costs Continues:** The increase in operating expenses for Connecticut, the Northeast and Mid-Atlantic, and nationally suggests a broader trend in rising operating costs in the healthcare sector.

Connecticut Median Hospital Labor Expense Increased 4.4% in 2023, or a Total Increase of \$169 Million, Exceeding the Northeast and Mid-Atlantic and Nation

Year-Over-Year Relative Change in Labor Expense

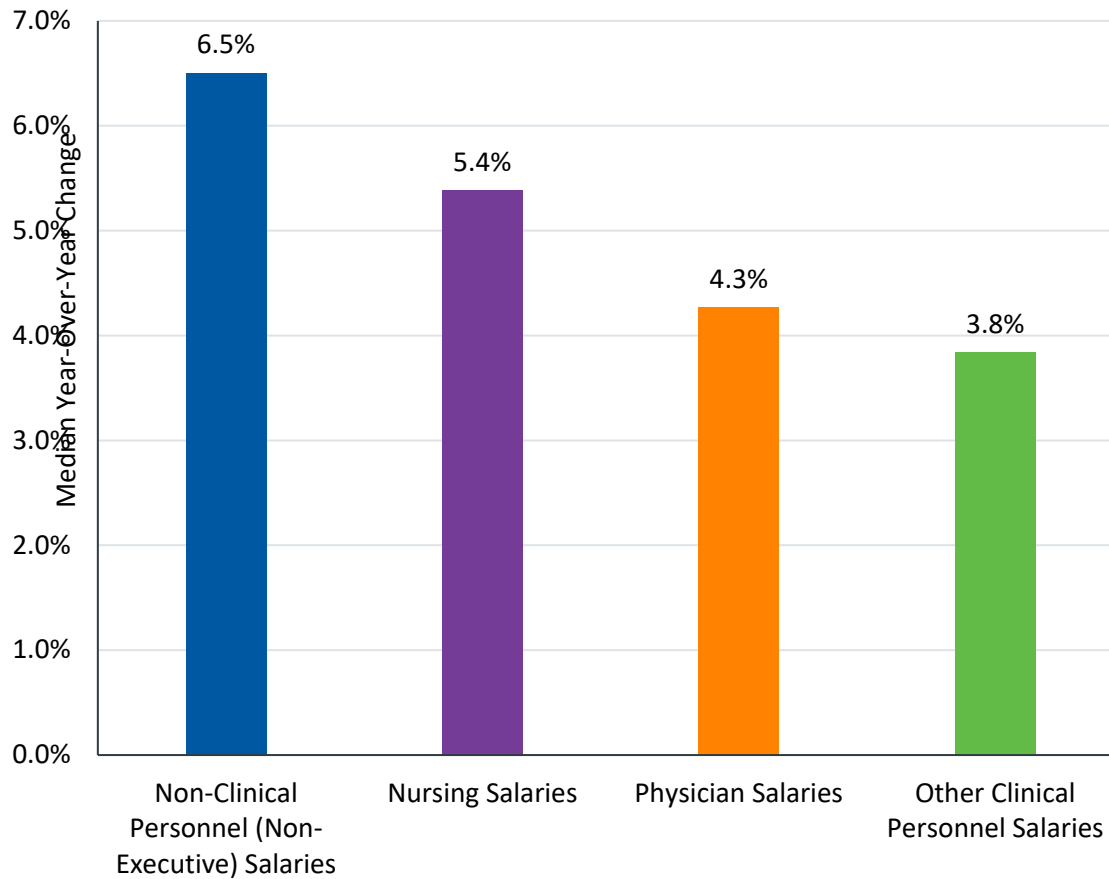


KEY TAKEAWAYS

- **Significant Increases in Salary and Wage Expense** in Connecticut as compared with the Northeast and Mid-Atlantic and national highlight shifts towards retainment of internal talent.
- A tight labor market for talent across all levels of skill has increased, requiring hospitals in Connecticut to raise wages more rapidly to remain attractive employers.

Connecticut Hospitals' Salary Growth Was Focused on Non-Clinical Personnel (Non-Executive) and Nursing Staff

Median Growth in Salary Expense by Position Type

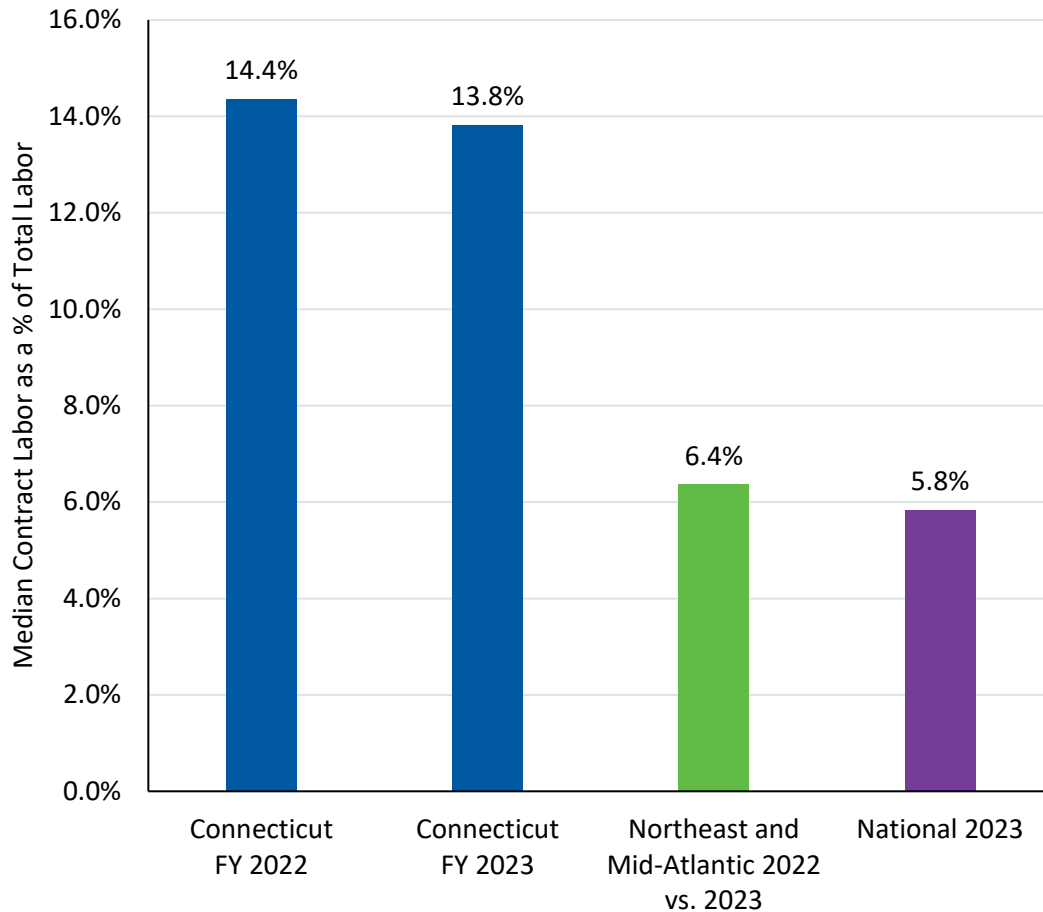


KEY TAKEAWAYS

- Nearly 70% of the total increase in salary expense was driven by growth in non-clinical personnel (non-executive) and nursing salaries.
- This growth represents a focus not only on caregivers but also on all other support staff. The tight labor market and increased competition have also driven these salaries higher as compared with last year.

Lessening Dependence on Nursing Contract Labor, But Still Exceeding Northeast and Mid-Atlantic and National Trends

Median Contract Labor as a % of Total Labor

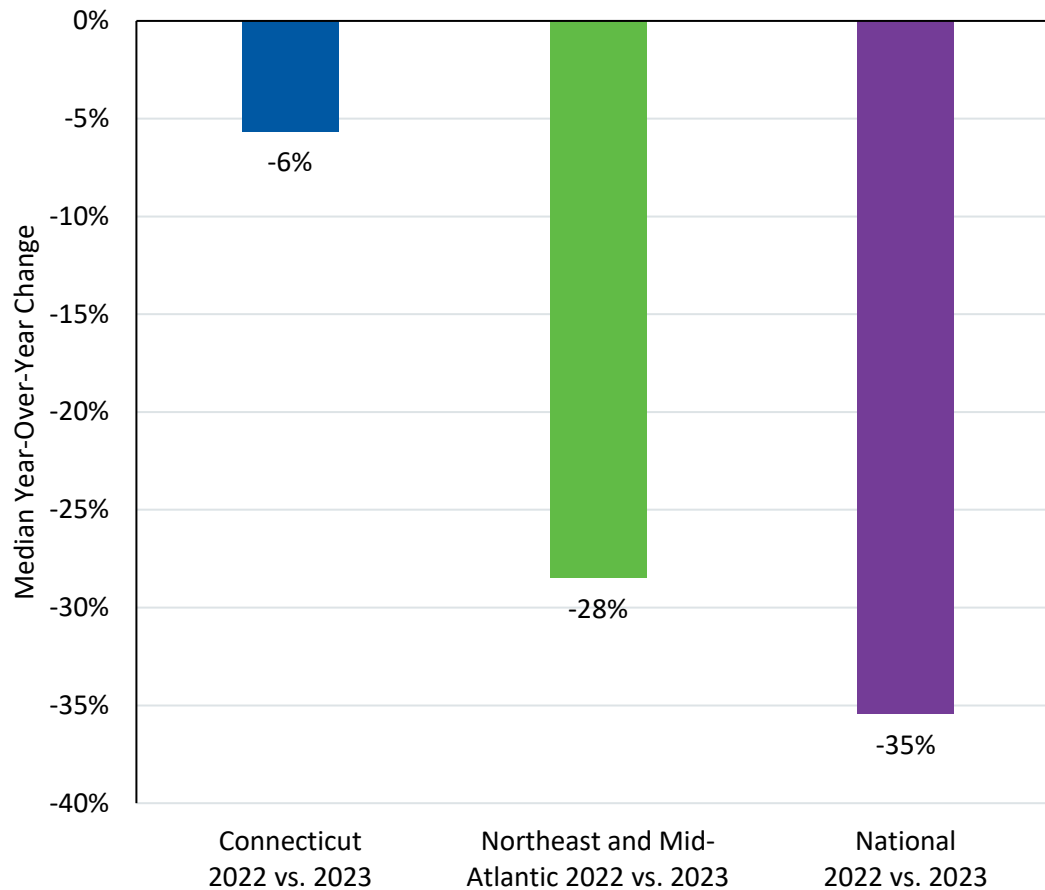


KEY TAKEAWAYS

- **Connecticut utilized nursing contract labor at a significantly higher rate than the nation and Northeast and Mid-Atlantic in 2022 and 2023** which is a reflection of the tight employed labor market.

Lessening Dependence on Contract Labor: 6% Median Decrease or a Total of \$130 Million Decrease Compared to 2022

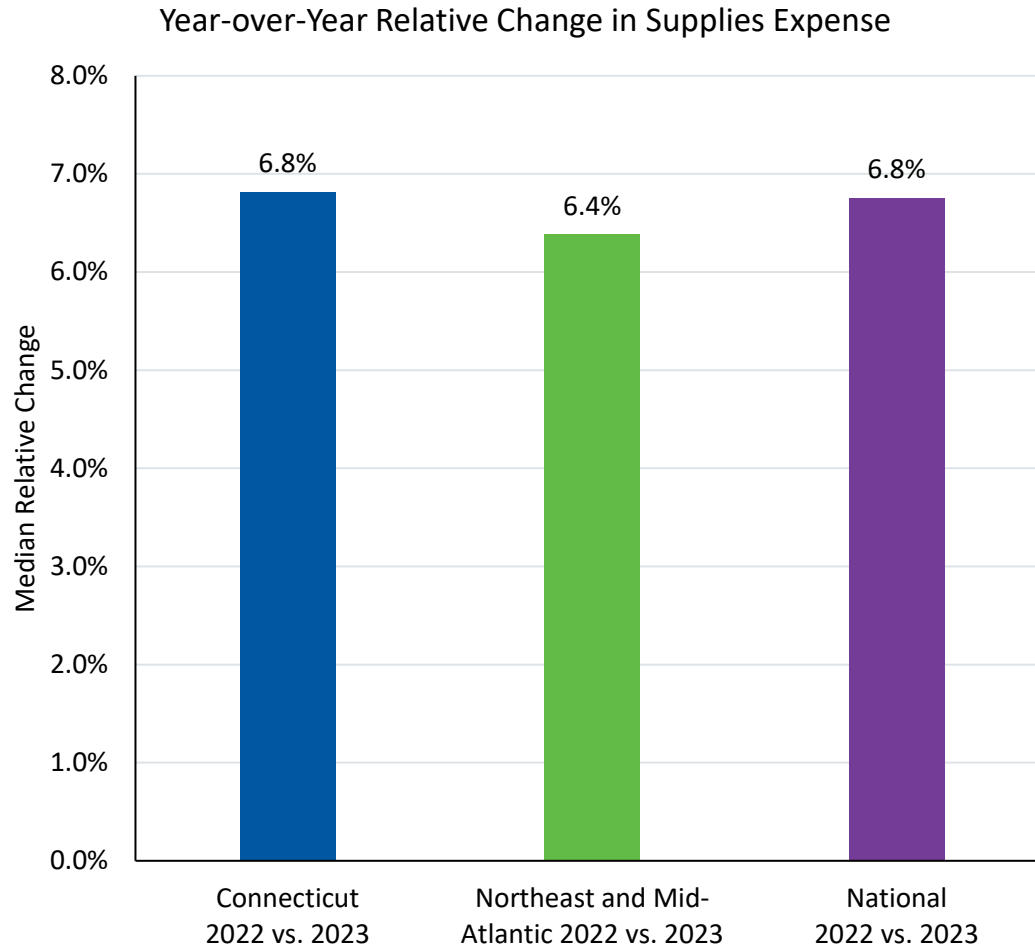
Median Year-over-Year Change in Contract Labor Expense



KEY TAKEAWAYS

- Whereas the national and Northeast and Mid-Atlantic cohorts reduced their utilization of contract labor significantly, Connecticut lagged those trends, leading to greater relative pressure from contract labor in 2023.

Rising Medical Supply Costs: Median Increase of 6.8% or a Total of \$92 Million in 2023

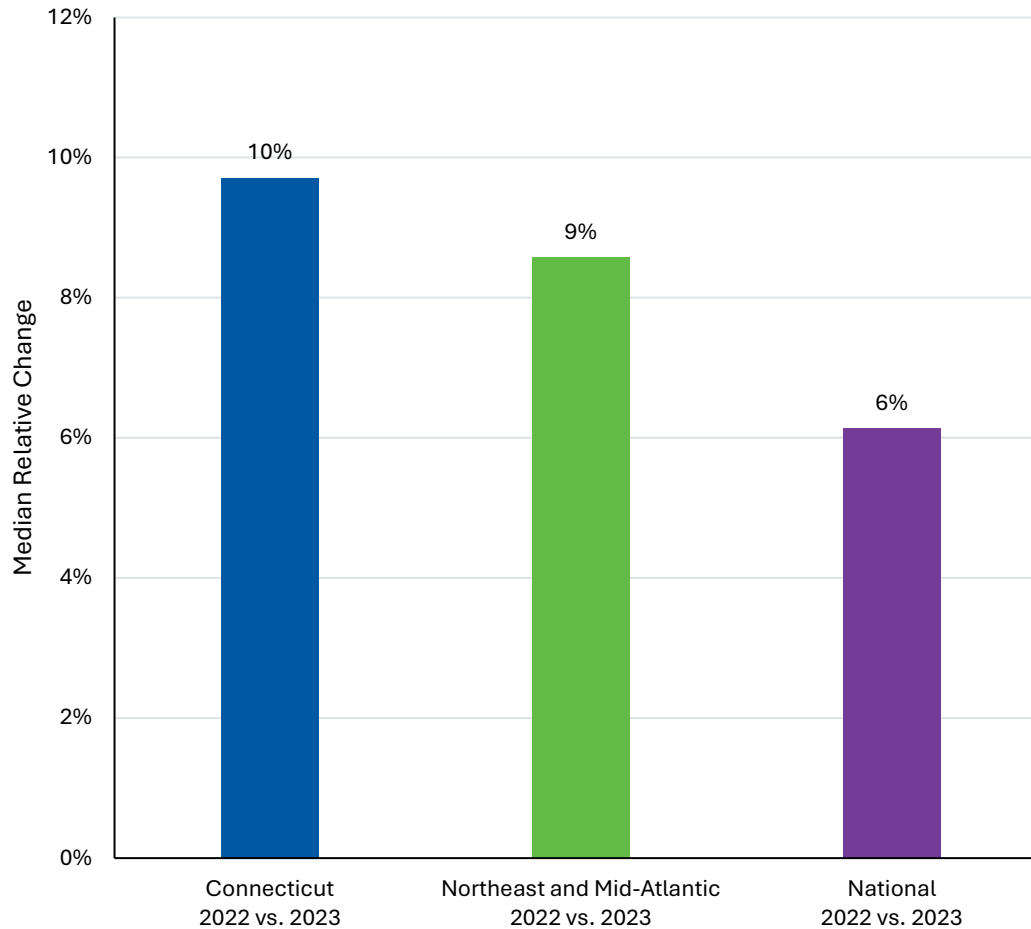


KEY TAKEAWAYS

- **Rising Supply Costs:** Connecticut's median hospitals experienced a 6.8% increase in medical supply expenses, totaling \$92 million
- **Hospitals Have Little Control:** Rising medical supply costs are generally beyond hospitals' control.

Rising Drug Costs: Expenses Increased by 10% or a Total of \$249 Million in 2023 Outpacing the Northeast and Mid-Atlantic and Nation

Year-over-Year Relative Change in Drugs Expense

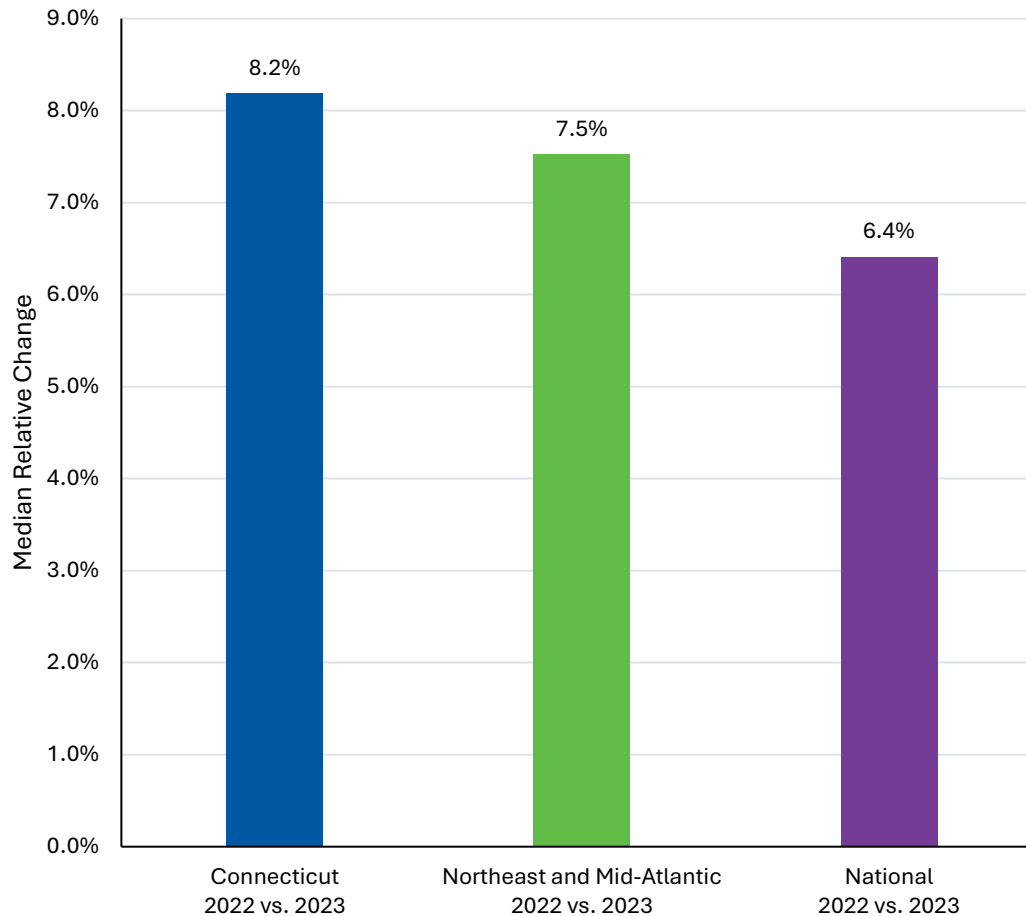


KEY TAKEAWAYS

- **Rising Supply Costs:** Connecticut's median hospitals experienced a 10% increase in drug expenses, higher than both the Northeast and Mid-Atlantic and national medians.
- **Patient acuity and average length of stay has remained relatively flat in Connecticut** indicating that the growth in drug costs are principally related to increased drug prices for which hospitals have little control.

Rising Other Expense: Other Expenses Increased by 8.2% in 2023 or a Total Increase of \$510 Million, Outpacing the Northeast and Mid-Atlantic and Nation

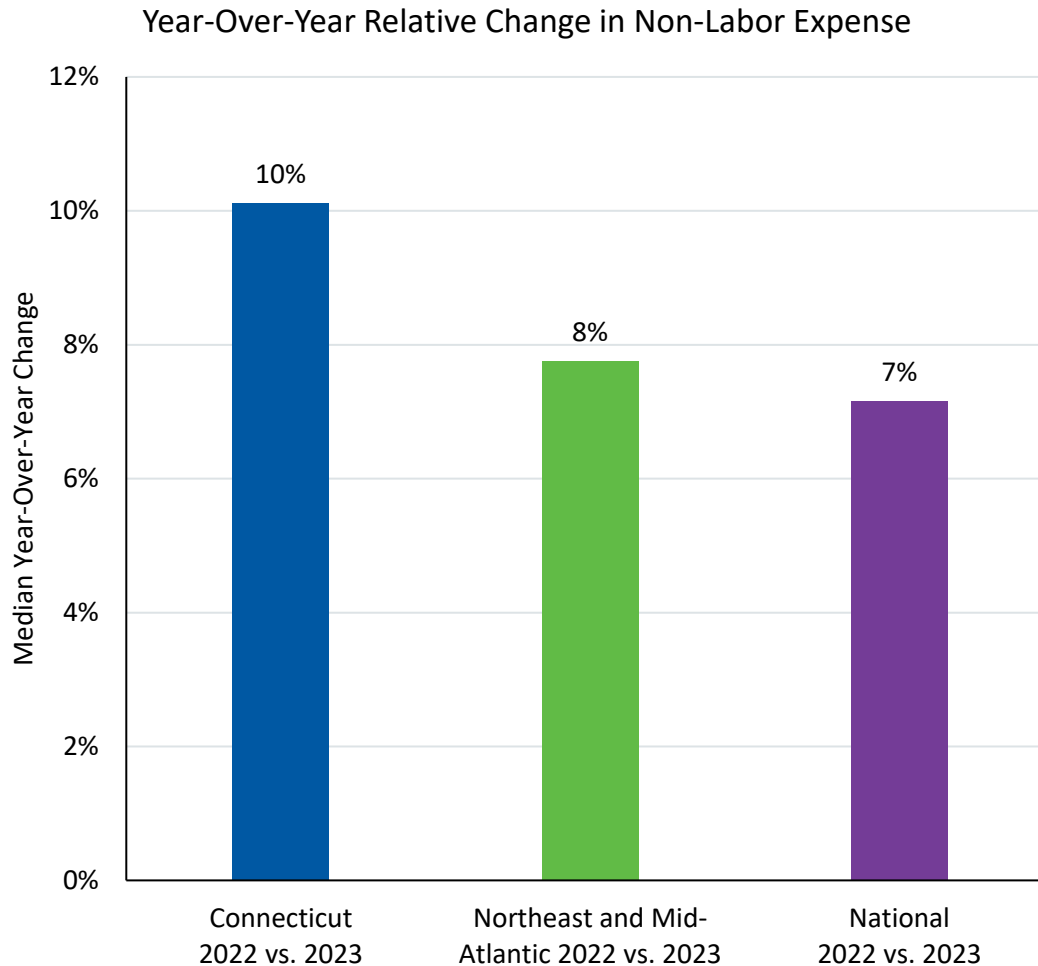
Year-over-Year Relative Change in Total Other Expense



KEY TAKEAWAYS

- **Other operating expense growth in Connecticut outpaced the nation**, as the inflationary pressures are levied onto hospitals.
- **The largest growth has occurred within affiliate support**, or subsidization from the hospital to other entities including physician groups.
- **As with other non-labor areas, hospitals have little control over these costs** as they are often required to conduct business and include education expenses, recruitment expenses, advertising fees, freight and postage expense, and others.

Rising Non-Labor Costs: Total Non-Labor Expenses Rose 10% or a Total of \$851 Million Exceeding The Northeast and Mid-Atlantic and Nation



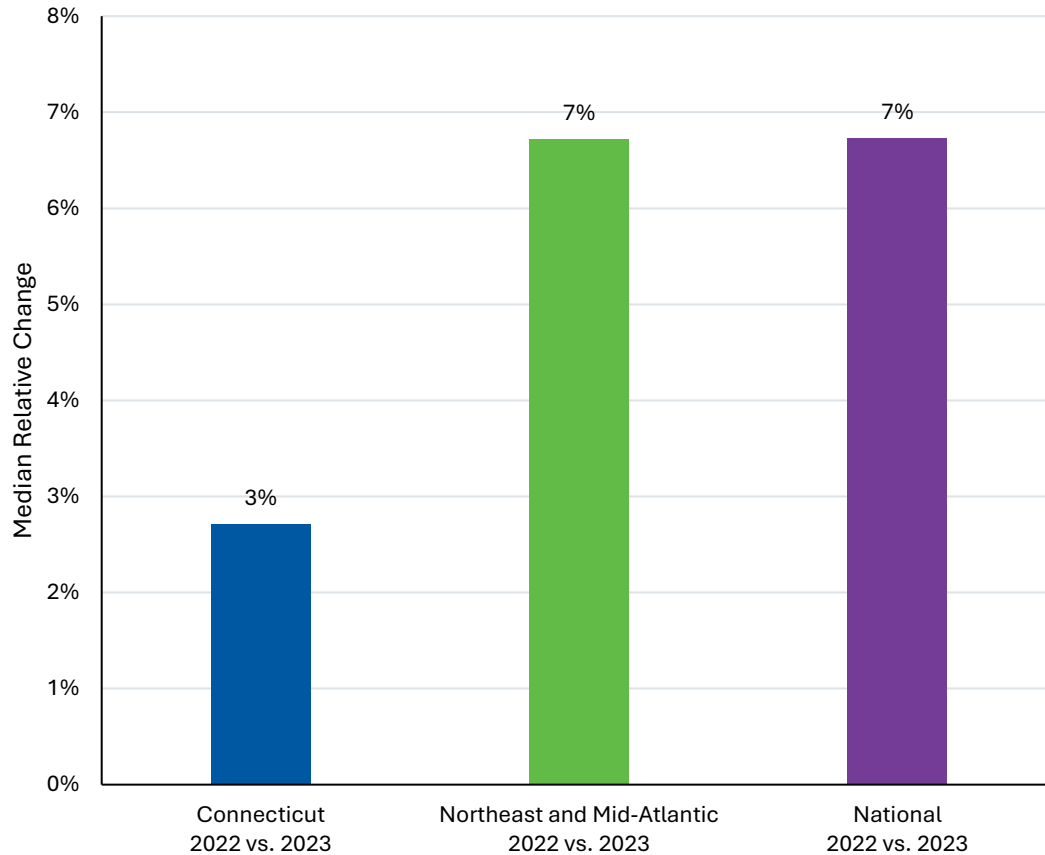
KEY TAKEAWAYS

- **Rising Non-Labor Costs:** Connecticut's hospitals experienced a 10% median increase in non-labor expenses, greater than national and Northeast and Mid-Atlantic growth.
- Non-Labor expenses include supplies, outsourced services like IT support, laundry and linen, software licenses, drugs, and miscellaneous expenses.

Revenues

Connecticut's Hospital Operating Revenue Growth Lagged the Northeast and Mid-Atlantic and the Nation In Part Due to Rising Governmental Payer Mix

Year-over-Year Relative Change in Total Operating Revenue



KEY TAKEAWAYS

- Connecticut's median hospitals experienced a 3% operating revenue increase compared with a 7% increase in the Northeast and nation.
- The total increase in revenue in Connecticut was \$1.15 billion over last year, or a 7.3% total improvement, although improvements were not evenly distributed.
- **Payer mix and market dynamics in Connecticut remain challenging for hospitals**, and along with anemic volume growth, present longer-term challenges to the state's providers.
- Medicaid underpayment only further exacerbates a slower recovery and margin challenges

Methodology

Methodology

1 | Generated the Kaufman Hall Sample

All Short-Term Acute Care Hospitals in Connecticut were sampled from data provided by Connecticut Hospital Association.

3 | Computed the 2022 Baseline

Using data from Connecticut Hospital Association and Kaufman Hall, all metrics were calculated for 2022 and 2023.



2 | Normalized the Kaufman Hall Sample

Based on hospital bed-sizes, the Kaufman Hall sample was bootstrapped so that the distribution of hospitals within various bed-size bins matched that for the entire state of Connecticut.

4 | Calculated Median Percent and Total Change

The median year-over-year percent change was calculated for each sample, along with aggregated totals. External benchmarks for similar time periods and metrics were included for both the Northeast and Mid-Atlantic and National hospitals.*

*Northeast and Mid-Atlantic peer group includes hospitals from the following states: VA, WV, MD, DE, DC, NJ, NY, PA, RI, MA, VT, NH, and ME

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