

Hospitals Face Fiscal Challenges as They Save Lives: The Financial Impact of COVID-19

Hospitals throughout the country are experiencing the financial impacts of the industry's response to the COVID-19 pandemic. With the exception of New York, perhaps nowhere are these effects more pronounced than they are in New Jersey – the state with the second highest count of COVID cases.

While caring for many of the more than 140,000 COVID cases since March 4, hospitals in New Jersey are on pace to lose approximately \$650 million in revenue each month due to a halt on elective procedures. At the same time, expenses increased nearly 11 percent in March and April – roughly \$214 million per month – as hospitals shifted their resources to expand capacity and staffing and increase inventory of personal protective equipment, ventilators, drugs and other essential resources. With patient volumes dropping and additional expenses being incurred, the net impact is projected to drive the statewide average hospital margin from pre-COVID levels of around 4 percent to as low as negative 30 percent, according to recent findings from NJHA's Centers for Health Analytics, Research & Transformation (CHART).

New Jersey's impact data, gathered through surveys of the state's acute care hospitals April 20 - May 1, are consistent with findings from the American Hospital Association.

Background

On March 11, the World Health Organization characterized COVID-19 as a [pandemic](#). According to the U.S. Centers for Disease Control and Prevention, this is the [first pandemic](#) known to be caused by a novel coronavirus. Since the first cases were identified in the United States, hospitals and health systems have risen to the challenges presented by COVID-19 in unprecedented

ways as they attempt to expand capacity, minimize the spread of the virus and save lives.

However, new data suggests that these heroic efforts come with significant costs. Financial impacts are beginning to be felt, and likely will impact hospital operations for months to come.

The American Hospital Association, in [Hospitals and Health Systems Face Unprecedented Financial Pressures Due to COVID-19](#), estimates that that nation's hospitals will incur losses totaling \$202.6 billion as a result of additional COVID expenses and lost revenue over the four-month period of March 1 to June 30.

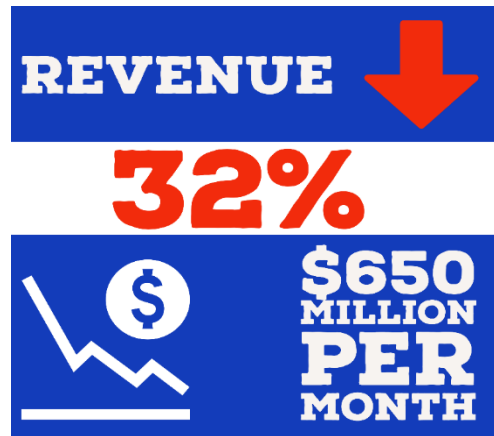
The total financial impact on hospitals and health systems includes the costs of COVID-19 hospitalizations (\$36.6 billion), the impact of canceled and foregone services due to COVID-19 on hospital revenue (\$161.4 billion), the additional costs associated with purchasing needed personal protective equipment (PPE) (\$2.4 billion), and the costs of additional support some hospitals are providing to their workers (\$2.2 billion).

New Jersey's Experience

To assess the economic impact of the pandemic response to New Jersey's acute care hospitals and health systems, NJHA conducted online surveys of hospital chief financial officers on the impact of revenue losses associated with the suspension of elective procedures, as well as the increases in expense associated with overtime, increased reliance on agency staff and the added cost of acquiring personal protective equipment.

The greatest financial impact on hospitals is incurred due to the suspension of elective procedures. Gov. Murphy's March 27 Executive Order No. 109 required providers to cancel or postpone all elective surgeries or invasive procedures, whether medical or dental, effective immediately. While that directive has been rescinded effective May 26, it remains unclear how quickly and comprehensively these services will return to hospitals.

CHART's data reveals that New Jersey hospitals will forego approximately \$650 million in patient revenue per month while that prohibition remains in place. This represents approximately 32 percent of an acute care hospital's monthly revenue.

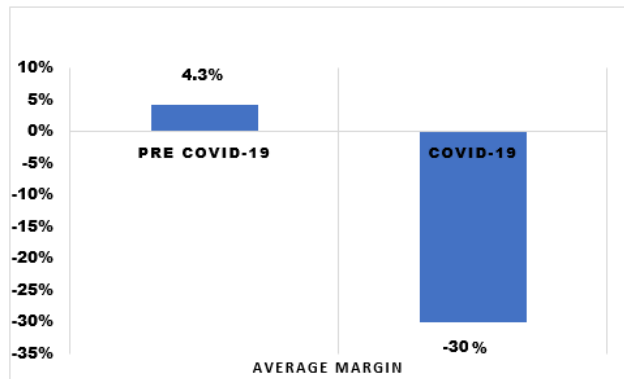


Throughout the pandemic, N.J. hospitals have remained open and staffed for an array of services that are outside the scope of Executive Order 109 – services such as emergency and trauma care, labor and delivery and essential surgeries. Nevertheless, N.J. hospitals are reporting significant declines in several key areas such as non-COVID inpatient admissions, emergency room visits and outpatient procedures. Collectively, hospitals experienced activity declines in all areas, including but not limited to:

- non-COVID inpatient discharges
- outpatient visits/procedures performed
- volume of laboratory, radiology and other diagnostic tests; or delays in receiving the results of such tests.

Additionally, hospitals collectively reported COVID-related expense increases of 10.6 percent, which equates to \$214 million monthly in additional expenses. These added expenses are associated with procurement of additional PPE amid global supply chain challenges; increased reliance on agency nurses; increased reliance on other agency clinicians; overtime pay; and other COVID-related expenses (e.g., rental costs, refrigerated trucks, etc.)

Prior to the start of the COVID pandemic in March 2020, hospitals in New Jersey collectively operated with a bottom line of about 4.3 percent. The onset of the pandemic and the corollary emergency response has resulted in hospital margins falling precipitously to approximately negative 30 percent.



Next Steps

The financial strain of the COVID pandemic on hospitals will be long lasting. Deliberate and thoughtful efforts to reopen the economy in a managed way will bring a welcome sense of normalcy to society. Reopening access to healthcare services for New Jersey residents who have delayed care will be an important part of that recovery. Hospitals are preparing processes and protocols for the safe resumption of full services, addressing issues related to infection control, cohorting of patients, social distancing, PPE and other essential supplies and resiliency for any future waves of the virus. The federal government has recognized the financial plight of hospitals and has included financial relief in its economic stimulus packages, but the complete picture of the erosion of hospital finances will not fully reveal itself for months to come. In the meantime, hospitals and the entire healthcare community are performing in a manner consistent with their missions, to meet the healthcare needs of the communities they serve.

Visit www.njha.com/chart/ for additional resources.