

## Thomson Reuters Study Tracks Impact of Recession on Hospitals

March 2, 2009

Hospitals' Median Total Margin and Cash-on-Hand Hit Unprecedented Lows; Approximately Half of Hospitals Unprofitable

ANN ARBOR, Mich., March 2 /PRNewswire/ -- The median profit margin of U.S. hospitals has fallen to zero percent, according to a Thomson Reuters analysis of hospital finances published today. Driven largely by a decline in non-operating revenues, financial strains are apparent in all types of hospitals - small, medium and large community hospitals, teaching hospitals and major teaching hospitals.

The study tracks two dozen key financial indicators, using proprietary and public data to dissect the balance sheets of more than 400 hospitals nationwide. It evaluates trends in revenue and profit, employment levels, closures, inpatient volume, reimbursement rates, and frequency of elective medical treatments to gauge the fiscal health of the nation's hospitals.

Following are the key findings of the analysis:

- Total Margin at Zero: The median total margin among the 439 hospitals in the study was zero percent in the third quarter of 2008 - an historically unprecedented low.
- In the Red: Approximately 50 percent of hospitals were unprofitable in the third quarter of 2008.
- Growth in Reimbursement Rates Shrinking: Payments hospitals received from Medicare, Medicaid and private insurers were growing at a declining rate through the end of 2008.
- Credit Crunch: Hospitals' median cash-on-hand reached an historic low in the third quarter of 2008, demonstrating the impact of the credit crisis on liquidity. There was great variability in the median value of 110 days-cash-on-hand seen at that time - from 57 days for the lowest quartile of hospitals to 203 days for hospitals in the highest quartile.
- Stable Operations: Potential recessionary impacts that are not yet seen in the data include bed closures, mass layoffs, declining patient volumes, or a decline in elective procedures.

"Hospitals are facing unprecedented economic stress and many of the indicators we're seeing suggest that things will get worse before they get better," said Gary Pickens, chief research officer for the Healthcare business of Thomson Reuters and lead author of the study. "While operating margins are generally holding steady, non-operating margins have all but disappeared from hospital balance sheets. That makes it difficult for hospitals to secure financing for new equipment and to fund expansion efforts."

"The key metrics we're watching most closely right now are operating margins and frequency of elective procedures," Pickens added. "If they start to slip, it may usher in a host of contagion effects."

A preliminary draft of the study is available here. The Healthcare business of Thomson Reuters will update this report regularly as an ongoing benchmark of hospital financial performance.

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