



Current State of Indiana Hospital Finances

May 2024

Agenda

1. Executive Summary of Findings
2. Indiana Hospital Margin Overview
3. Indiana Hospital Expense Overview
4. Indiana Hospital Revenue Overview
5. Indiana Hospital Volume Overview
6. Methodology

Executive Summary

Indiana Hospital Performance Continues to Be Challenged

In recent years, Indiana 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 Indiana hospitals from the beginning of the pandemic through 2023 include:

- **Hospital finances remain at risk.** Indiana hospitals operated on a cumulative 0.9% operating margin in 2023, marking a slight improvement for Indiana hospitals compared to 2022. Improved volumes and reductions in contract labor contributed to the improved margins. However, Indiana margins lagged national performance, and are not sustainable at current levels.
- **Expenses are persistently high.** Indiana hospitals' operating expenses increased 4.6% in 2023—a higher rate of growth than national levels. Hospital costs for medical supplies and other non-labor expenses both rose higher than the national average in 2023.

Indiana hospitals were less dependent on contract labor in 2023 but still had higher utilization compared to hospitals nationally, due in part to significant, persistent state workforce shortages. Other expenses for Indiana hospitals – including the Hospital Assessment Fee (HAF) – increased nearly 10%, at a much higher rate than hospitals nationally.

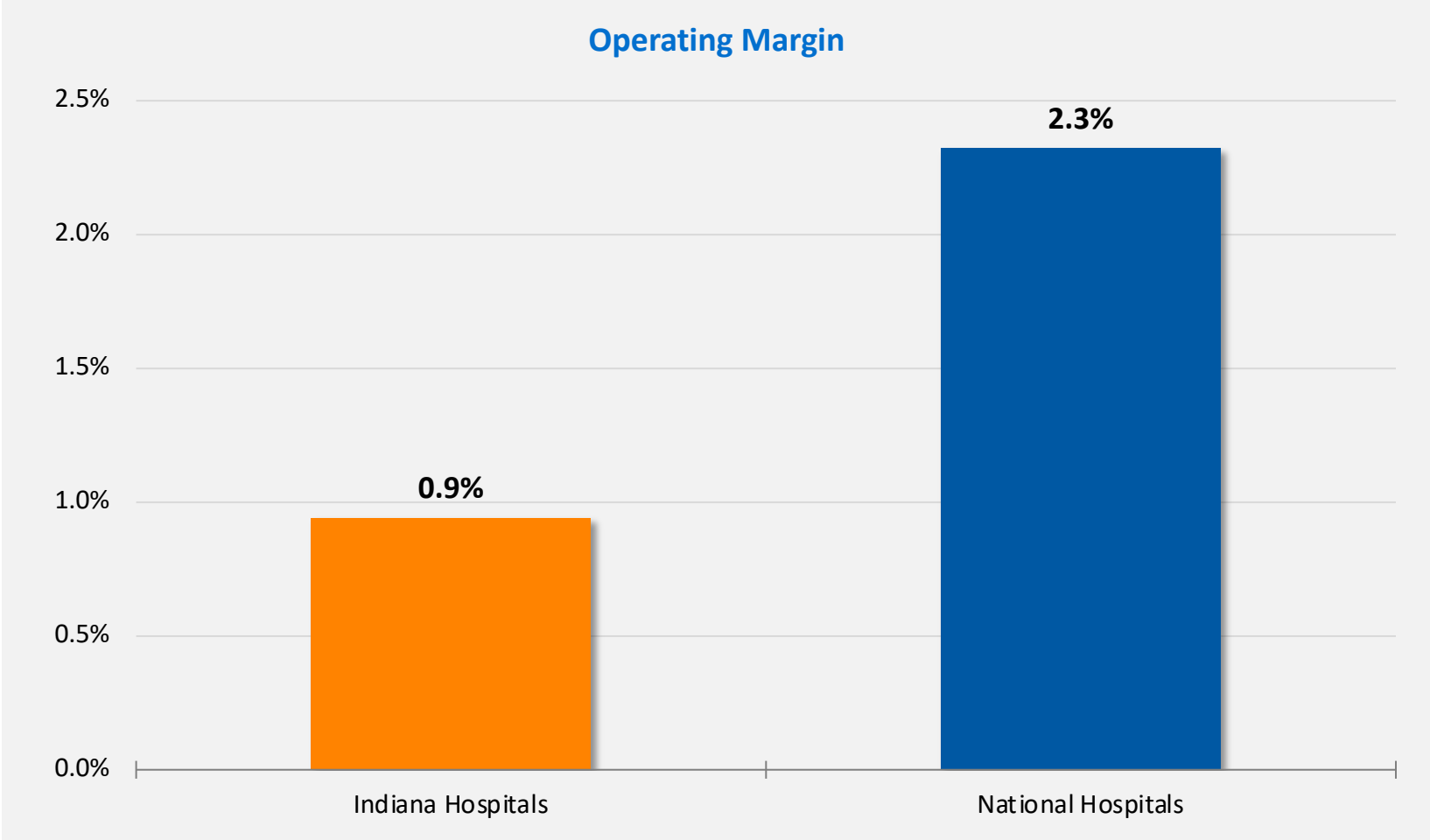
- **Hospital revenues are lagging national levels.** Indiana hospitals' net patient revenue (NPR) per adjusted discharge decreased by 1% in 2023 while hospitals nationally experienced an 0.6% increase—putting increased strain on Indiana providers grappling with rising expenses.
- **Bad debt and charity care are at elevated levels.** Indiana hospitals saw a 22% increase in bad debt and charity care in 2023, far outpacing national growth of 8%.

These findings underscore the existential financial and operational threats Indiana hospitals continue to face.

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

Margins

Indiana Hospital Operating Margins Grew to 0.9% in 2023, But Remain Highly Depressed Relative to the Nation

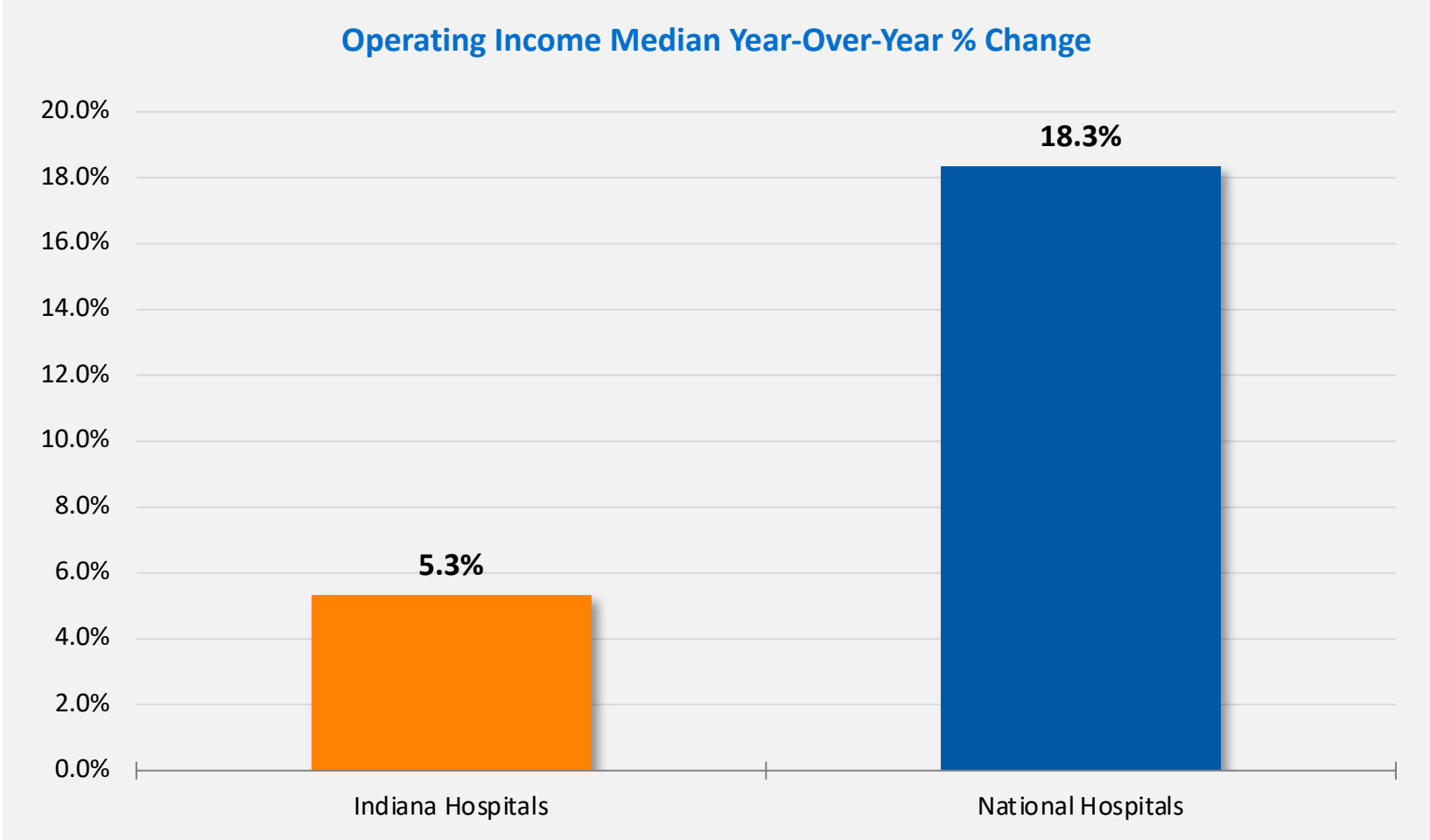


KEY TAKEAWAYS

- **Improved Indiana Hospital Performance:** Total hospital operating margins for Indiana reached 0.9% in 2023, lagging national margins of 2.3%.
- **Historically Low National Margins:** While U.S. hospital operating margins reached 2.3% in 2023, margins have historically hovered between 4%-6% and are not sustainable at current levels.
- **Prior to the pandemic,** Indiana hospitals had a median operating margin of 2.6% in 2019, which was below the national median.

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

Indiana Operating Income Improved in 2023, But Growth Lagged the Nation

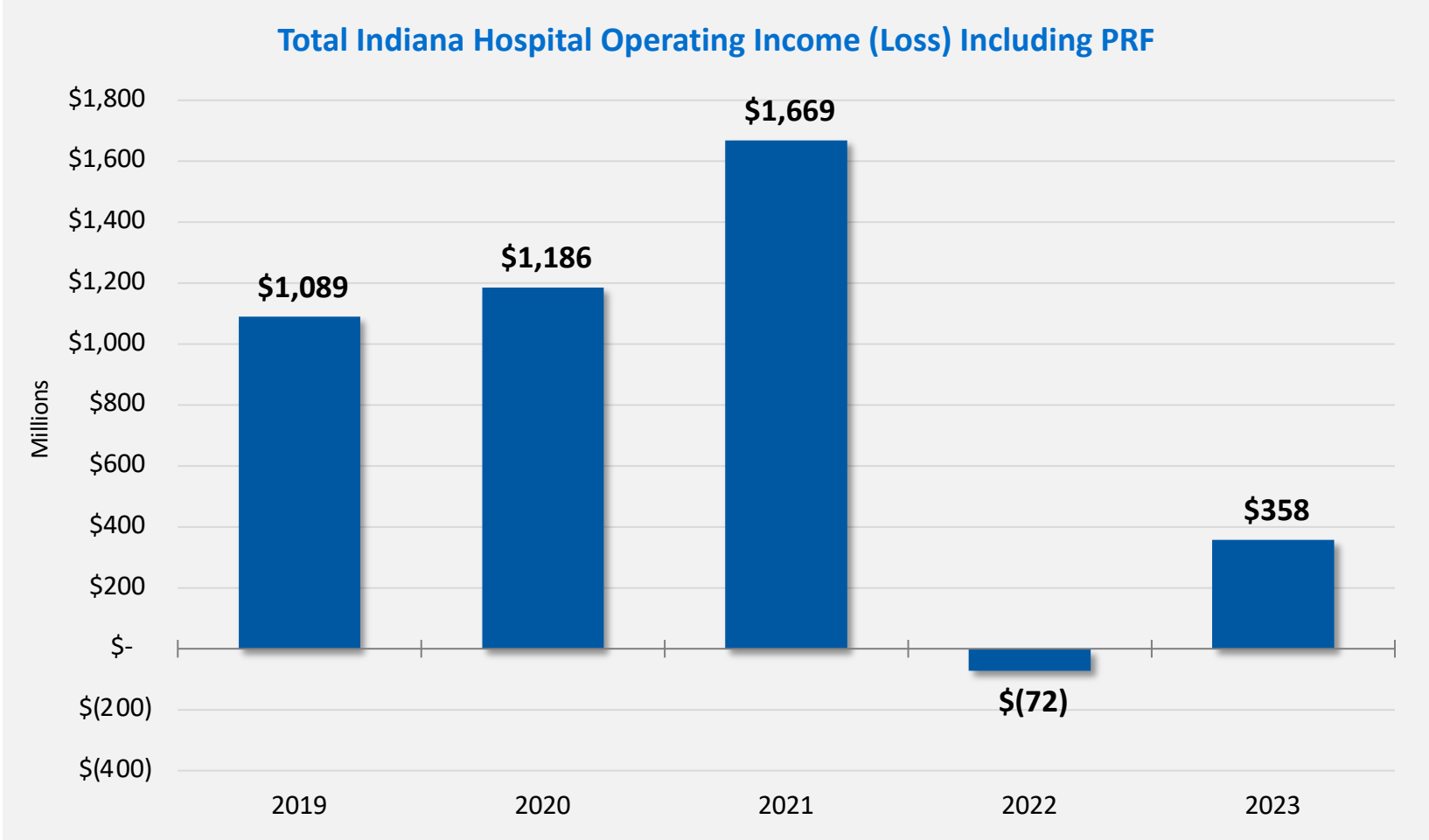


KEY TAKEAWAYS

- **Operating Income Improvements Lag National Performance:** Indiana hospitals saw improvement in 2023 over 2022, but significantly lagged national performance.

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

Indiana Operating Income Improved in 2023, But Remained Well Below Historical Levels



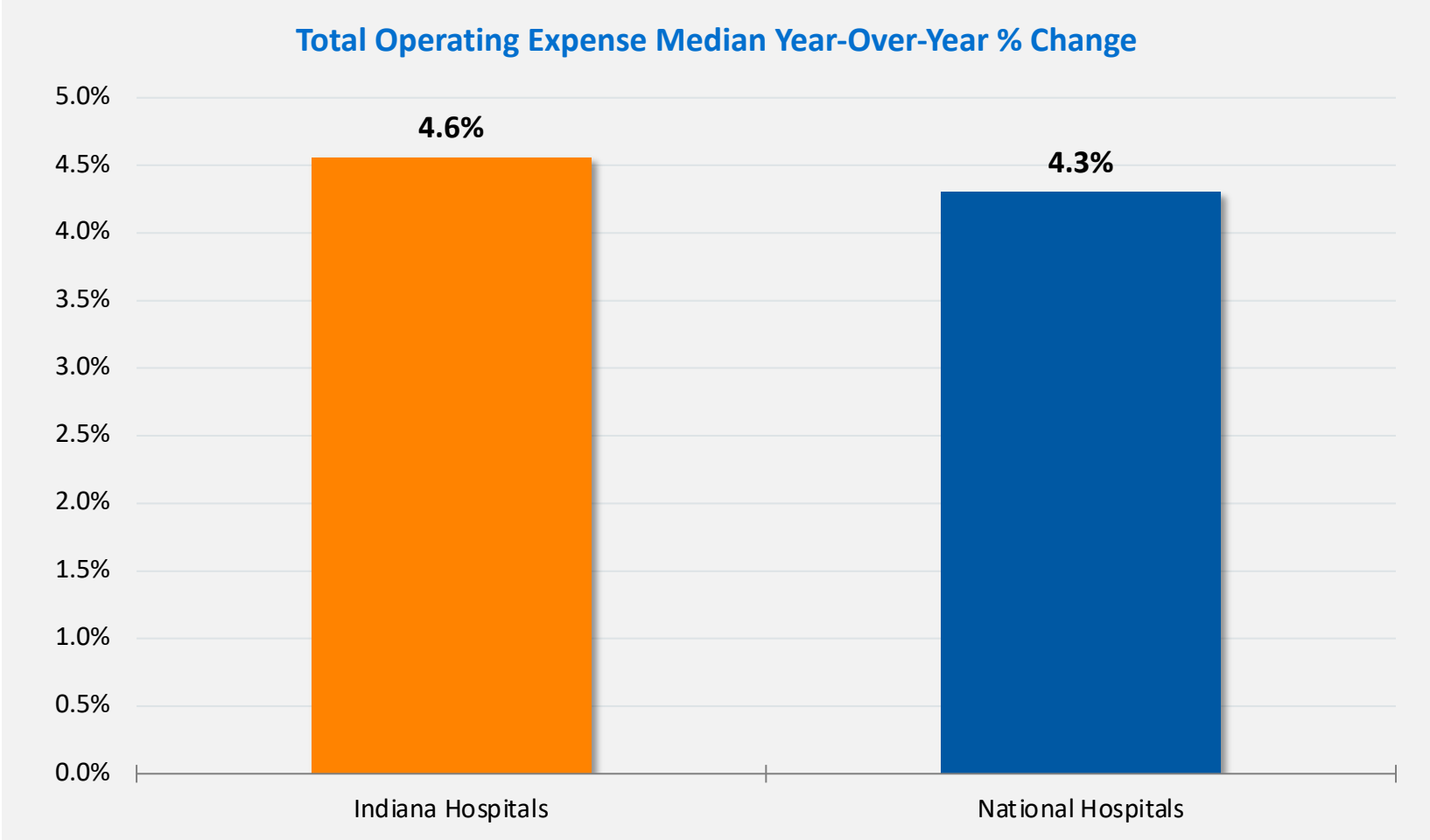
KEY TAKEAWAYS

- **Operating Income Is Still Lagging Historic Performance:** Indiana hospitals generated \$358 million in operating income in 2023, an improvement over the substantial losses in 2022, but well below historical rates.
- The income in 2023 represents an approximately \$731 million decline in income from pre-pandemic baselines.

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

Operating Expenses

Indiana Hospital Operating Expense Increased 4.6% at the Median in 2023

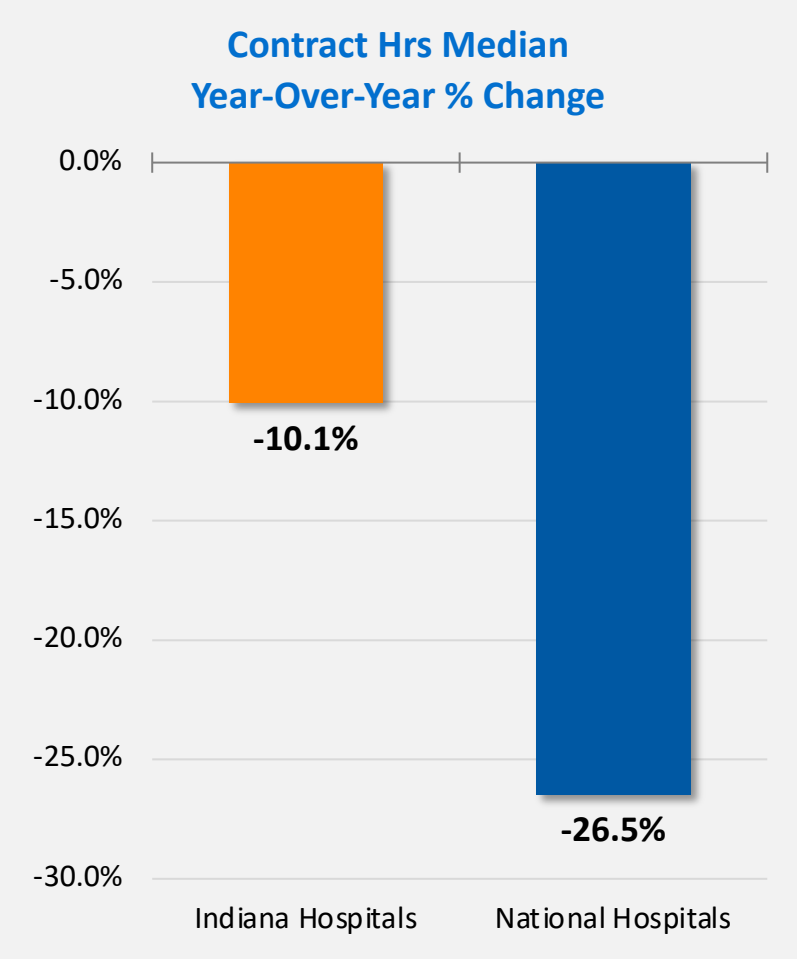
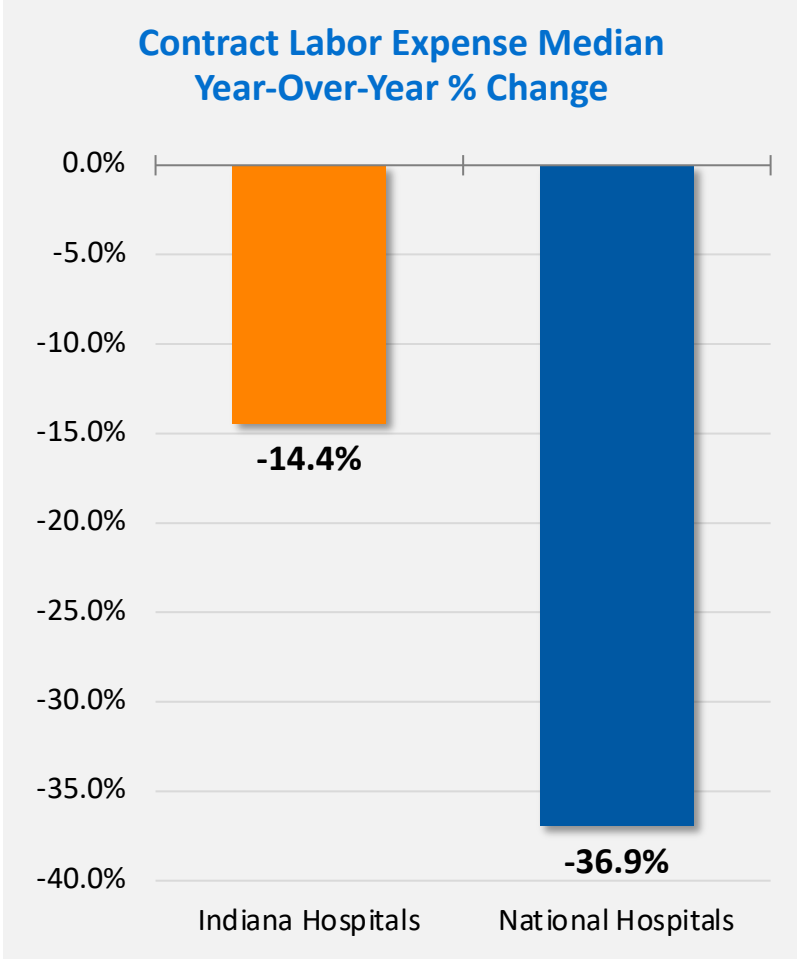


KEY TAKEAWAYS

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

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

Lessening Dependence on Contract Labor: 14% Decrease Compared to 2022

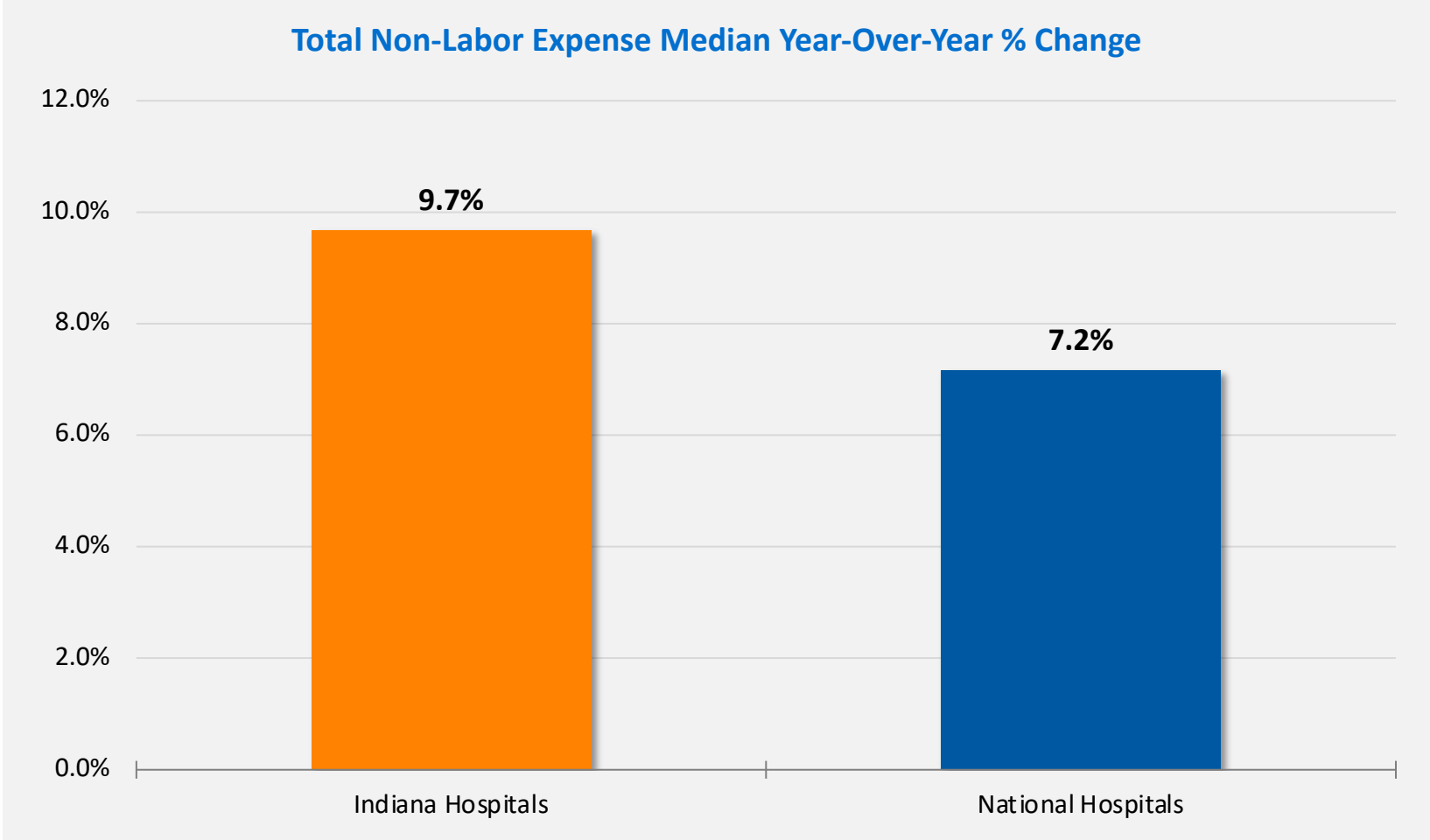


KEY TAKEAWAYS

- Greater Reductions Nationally:** Indiana's decrease in contract labor expenses is in the same direction as the nation, but not to the same order of magnitude.
- Workforce Shortages Temper Reductions:** Persistent Indiana workforce shortages likely contributed to the disparity in the reduction of contract labor compared to national rates.

Source(s): 1) The median YOY % change in Indiana hospital contract labor expense and contract labor hours were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics.

Rising Non-Labor Costs: Total Non-Labor Expenses Rose 9.7% Year-over-Year; Much Higher Than Nation

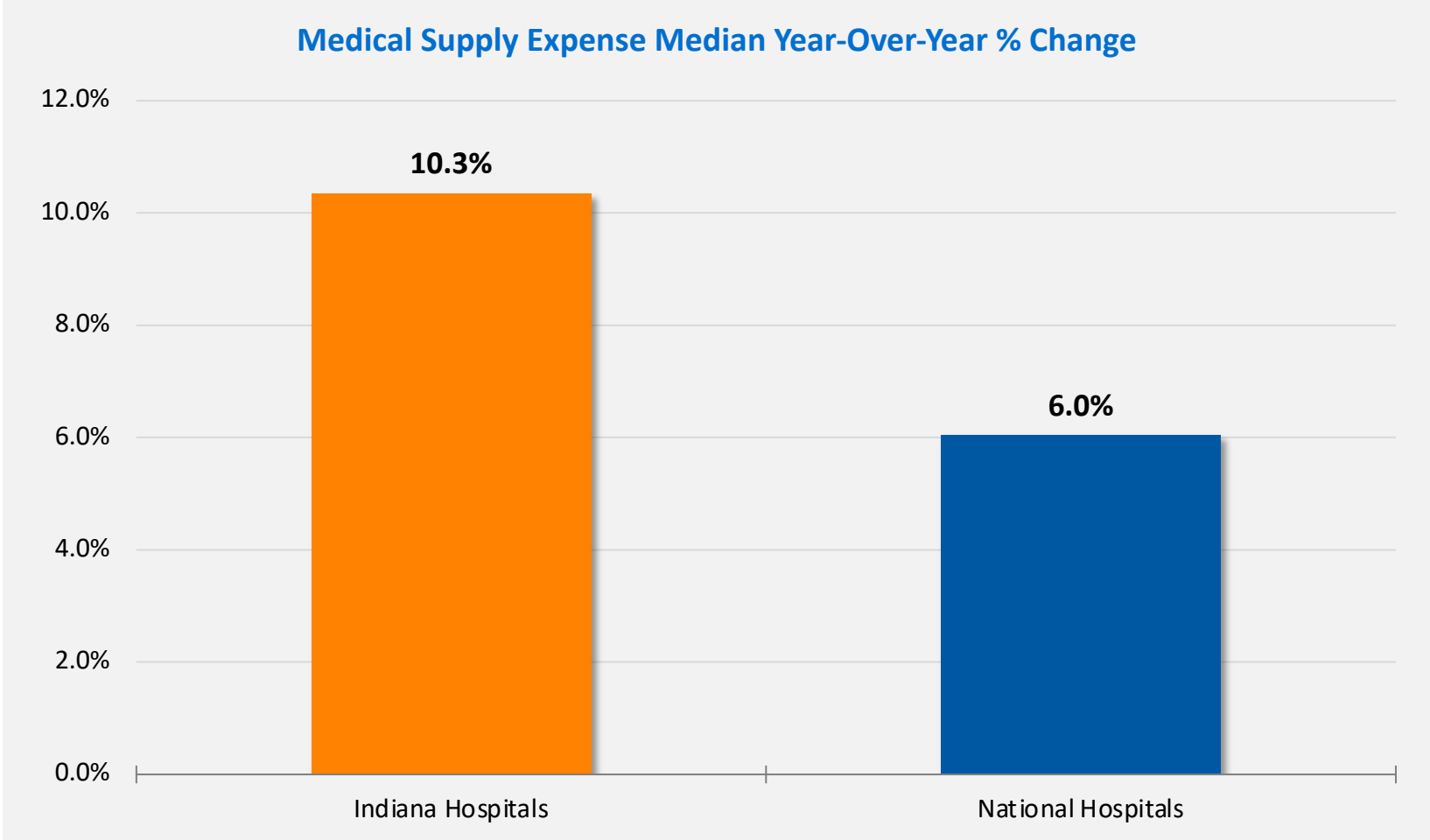


KEY TAKEAWAYS

- **Rising Non-Labor Costs:** Indiana's hospitals experienced a 9.7% median increase in non-labor expenses in 2023, higher than the national median.
- **Regional Differences in Cost Pressures:** The variation between Indiana and national medians points to regional differences in cost pressures related to medical supplies.
- **Non-Labor expenses include** supplies; outsourced services like IT support, laundry and linen; software licenses; drugs; and miscellaneous expenses.

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

Rising Medical Supply Costs: Medical Supply Expenses Increased by 10.3% in 2023

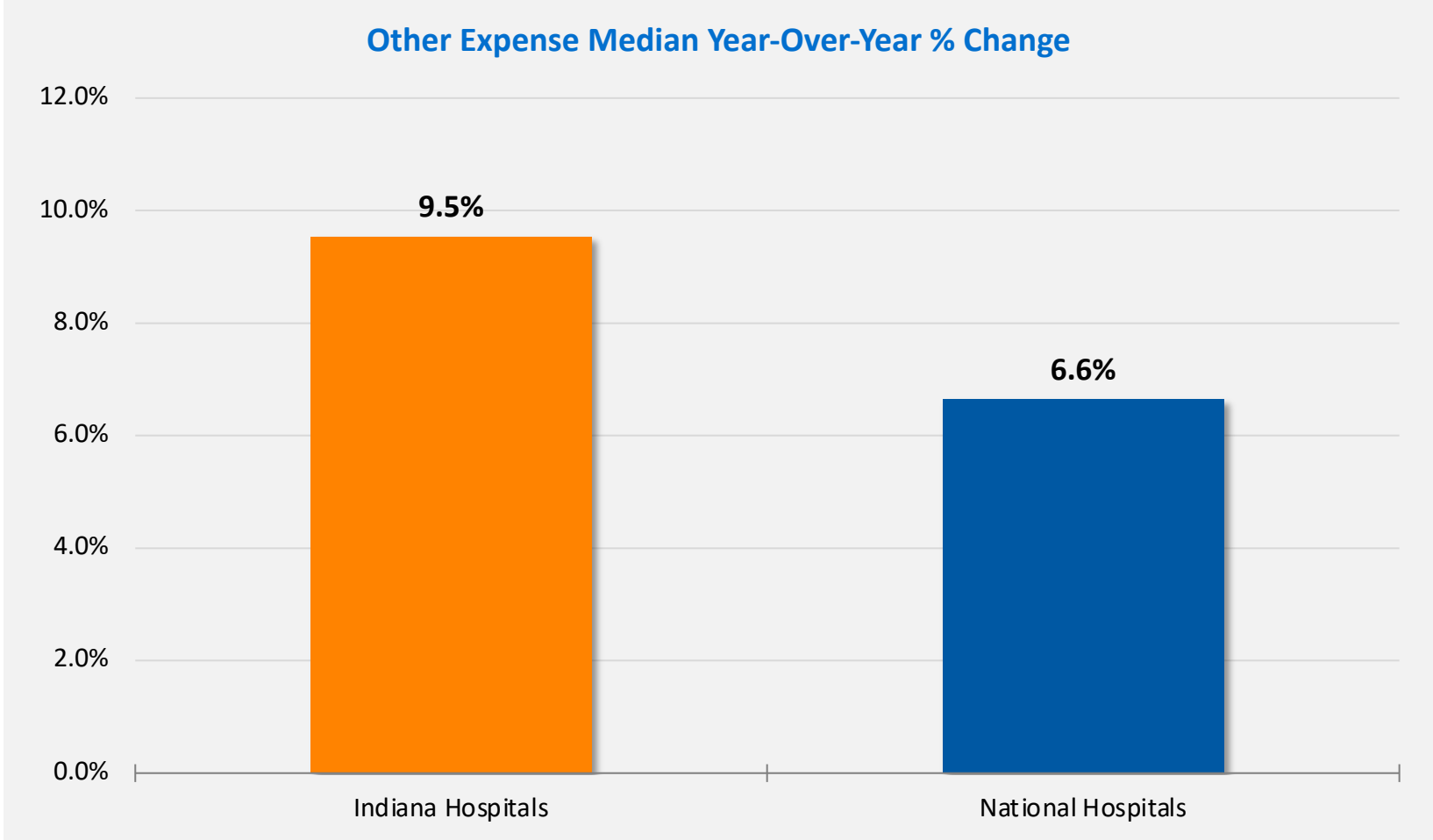


KEY TAKEAWAYS

- **Rising Supply Costs:** Indiana's hospitals experienced a 10.3% median increase in medical supply expenses, higher than the national median.
- **Regional Differences in Cost Pressures:** The variation between Indiana and national medians points to regional differences in cost pressures related to medical supplies.
- **Hospitals Have Little Control:** Rising medical supply costs are generally beyond hospitals' control.

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

Rising Other Expenses: Indiana's Hospitals Experienced a 9.5% Growth Over 2022



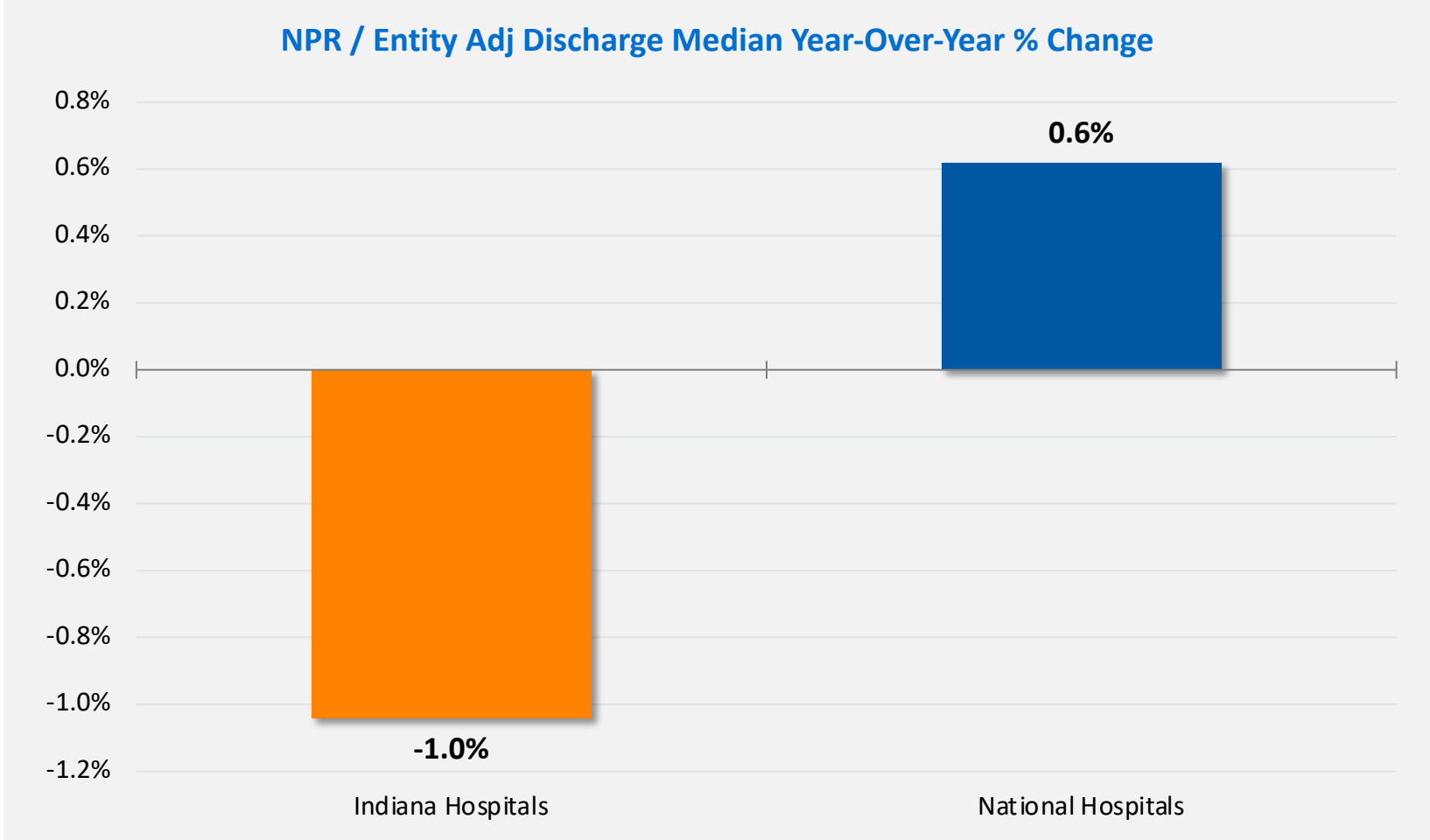
KEY TAKEAWAYS

- **Other Expenses Rise:** Other expenses, which include subscriptions, dues, depreciation and more, rose in Indiana at 9.5%, outpacing national growth.
- These expenses are inclusive of provider taxes, highlighting the offsetting nature of this situation to the governmental rates.

Source(s): 1) The median YOY % change in Indiana hospital purchased service expense was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Operating Revenue

Indiana's Hospital Net Patient Revenue/ Discharge Fell Relative to the Nation in 2023

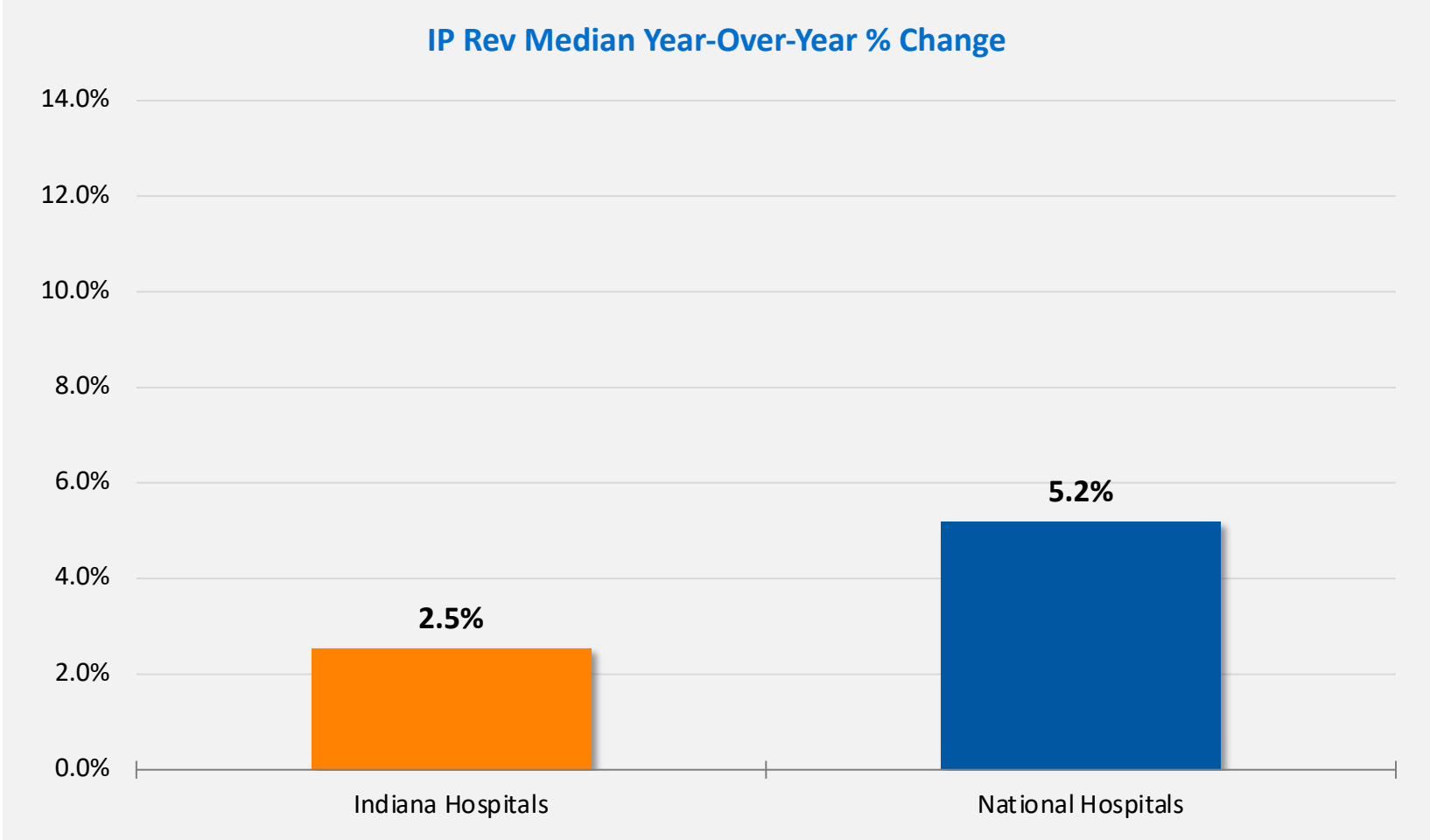


KEY TAKEAWAYS

- **Indiana Hospitals Experienced Declines in Net Patient Revenue per Adjusted Discharge in 2023:** The decline in net patient revenue per adjusted discharge in Indiana highlights revenue challenges, a shifting payer mix, and shift of services away from hospitals.

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

Indiana Hospitals Trail National Inpatient Revenue Improvements



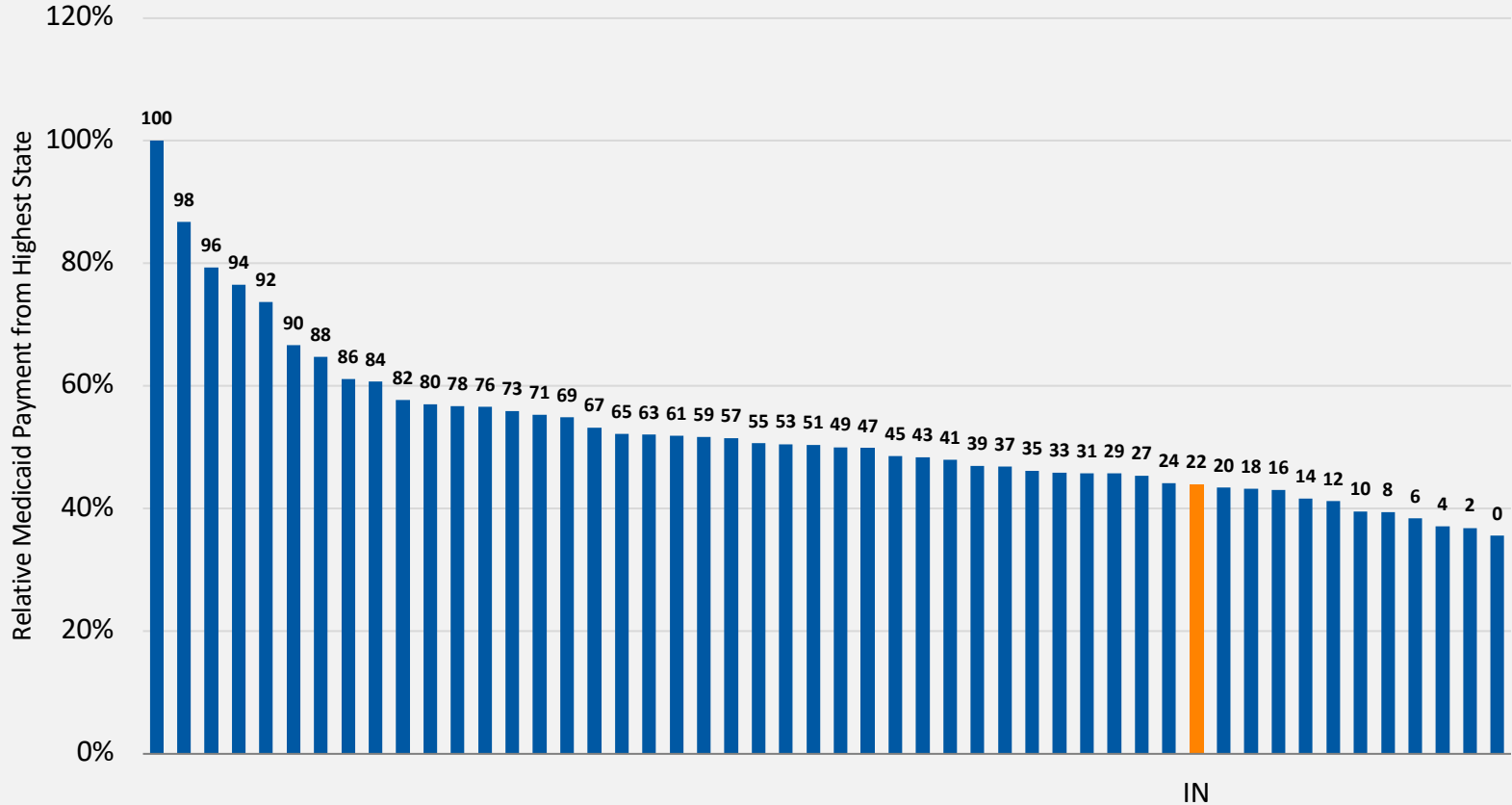
KEY TAKEAWAYS

- **Inpatient Revenue Growth:** Indiana's median hospitals achieved a 2.5% increase in inpatient revenue year-over-year, well under the national growth of 5.2%.

Source(s): 1) The median YOY % change in Indiana hospital inpatient and outpatient revenue was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Indiana Hospitals' Medicaid Payments Are Below the Median

Relative Medicaid Payment by State and Percentile

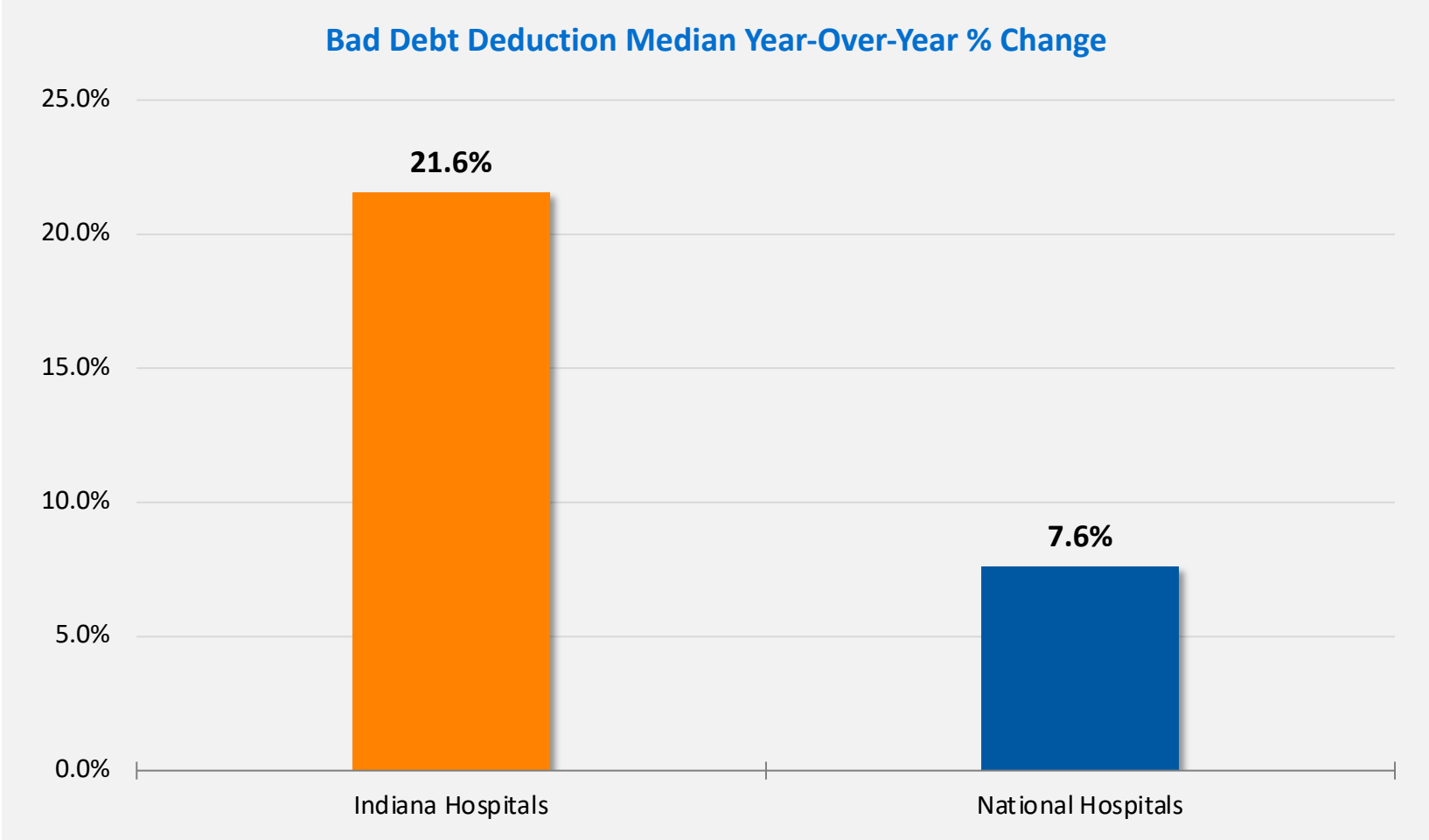


KEY TAKEAWAYS

- **Indiana Hospitals' Average Medicaid Rates Are in the 22nd Percentile Nationwide for Hospital Admissions:** Indiana hospitals receive below median reimbursement from Medicaid as compared with other states.
- Indiana rates are approximately 44% of the highest-state Medicaid reimbursement rate.
- Importantly, Indiana also has a high provider tax, which is used to support these rates and is included in hospital expenses. Without the provider tax, Medicaid rates would be substantially reduced, highlighting the important role that hospitals play in funding this program in Indiana.

Source(s): 1) MacPAC State Medicaid Payment Policies for Inpatient Hospital Services, 2) KFF Medicaid-to-Medicare Fee Index, 3) KFF States and Medicaid Provider Taxes or Fees, 4) CMS Physician Fee Schedule for CPT 99222

Rising Bad Debt/Charity Care: Indiana's Hospitals Experienced a 21.6% Growth in 2023



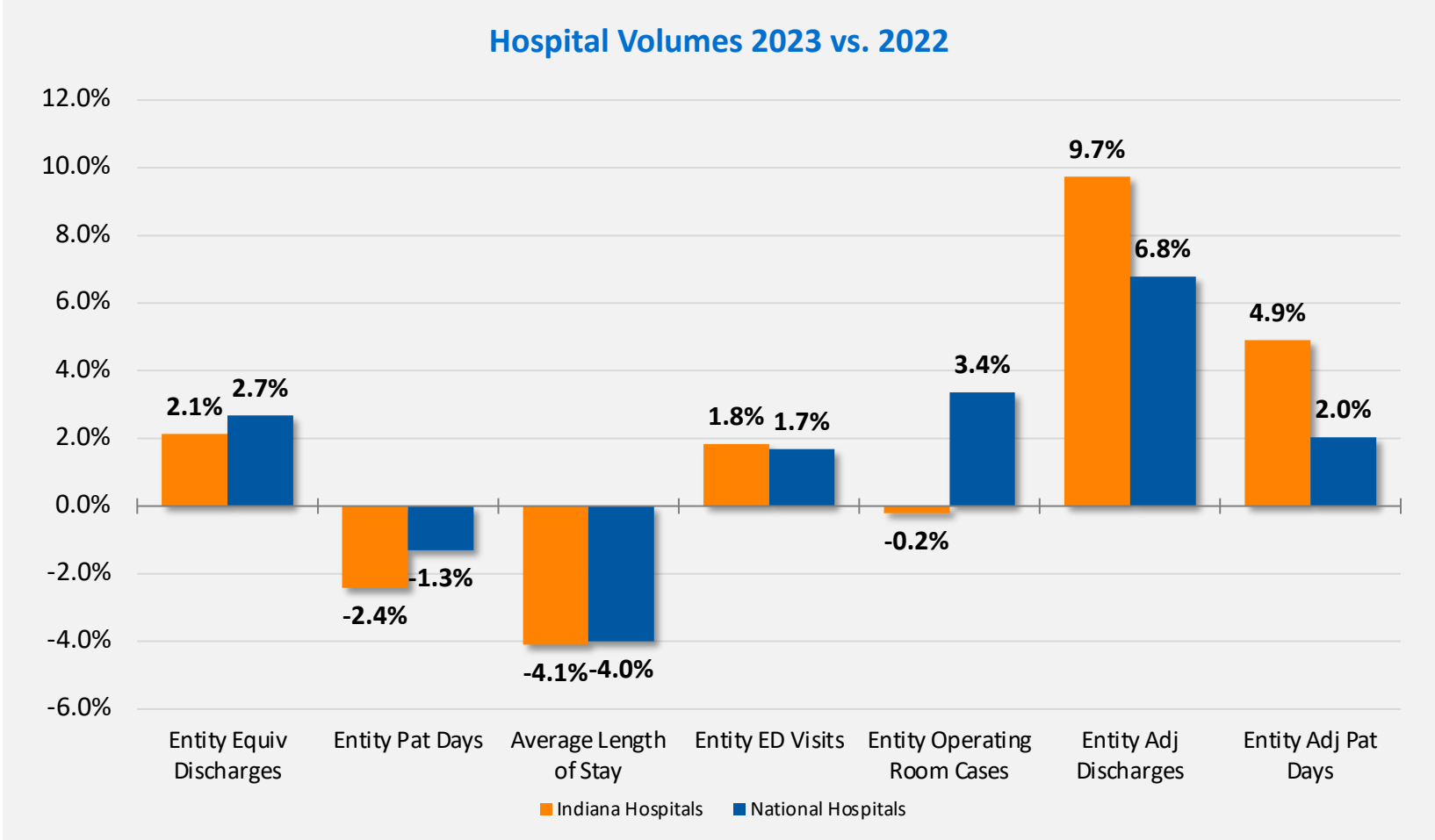
KEY TAKEAWAYS

- **Bad Debt/Charity Care Growth in Indiana Markedly Exceeds National Rates:** Indiana hospitals experienced a 22% growth in bad debt/charity care in 2023 compared to 2022, outpacing the national growth rate of 8%.
- Rising bad debt translates to an increase in charity care provided by Indiana hospitals.

Source(s): 1) The median YOY % change in Indiana hospital purchased service expense was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

Volumes

Growth Across Most Volume Metrics for Indiana Outpaced the National Median



KEY TAKEAWAYS

- **Discharges Grew in Indiana as Patient Days Fell** – highlighting the shifts in patient acuity.
- **ED Visits Rose Slightly Higher than the Nation** – possibly suggesting reduced primary care access for the population.
- **Notably, OR Cases Declined Slightly Year-over-Year**, which is a stark contrast to the national growth of 3.4%. This highlights the competitive footprint in the outpatient surgical space in Indiana.

Source(s): 1) The median YOY % change in Indiana hospital volumes were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics.
 2) Association of American Medical Colleges State Physician Workforce Data Report (https://store.aamc.org/downloadable/download/sample/sample_id/506/)

Methodology

Methodology

1



Generated the Kaufman Hall Sample

More than 52 Indiana hospitals were sampled from data provided by Strata Decision Technologies.

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 Indiana.

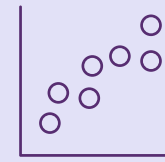
3



Computed the 2021 Baseline

Using data from Definitive Health, the total net operating revenue and operating expense for all critical access, acute care, and children's hospitals within the state of Indiana were calculated for 2021.

4



Calculated Median Percent Change

The median year-over-year percent change was calculated from the Kaufman Hall sample for each metric.

5



Extrapolated the 2020–2023 Absolute Values

Extrapolated operating margins and income (loss) for 2021-2023 by applying the median year-over-year percent changes from the Kaufman Hall sample to the 2021 baseline metrics.

Qualifications, Assumptions and Limiting Conditions (01.30.24):

All information, analysis, conclusions, and data contained in this document are provided “as-is/where-is” and “with all faults and defects”. Neither Kaufman Hall nor any third-party sources make any representations or warranties to you, whether express or implied, or arising by trade usage, course of dealing, or otherwise. This disclaimer includes without limitation any implied warranties of merchantability or fitness for a particular purpose (whether regarding the data or the accuracy, timeliness or completeness of any information in this document), non-infringement, or any implied indemnities. The findings contained in this document may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Past performance is not necessarily indicative of future results. Kaufman Hall accepts no responsibility for actual results or future events. The opinions expressed herein are valid only for the purpose stated herein and as of the date of this document. All decisions in connection with the implementation or use of advice or recommendations contained in this document are the sole responsibility of the client. In no event will Kaufman Hall be liable to you for damages of any type in connection with this document, whether known or unknown, foreseeable or unforeseeable.

KaufmanHall

CHICAGO, IL

LOS ANGELES, CA

SKOKIE, IL

WEST PALM BEACH, FL

BRENTWOOD, TN