

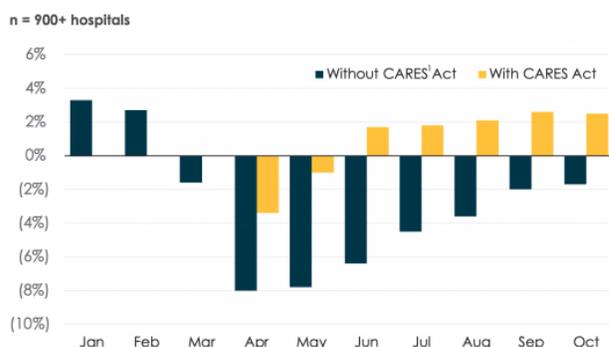
Did the CARES Act rescue hospital margins?

Despite taking a huge volume hit in Q2, most hospitals have managed to maintain positive operating margins—largely thanks to a \$100B cash infusion from the federal government via the Coronavirus Aid, Relief and Economic Security (CARES) Act. According to Kaufman Hall's most recent **National Hospital Flash Report**, based on data from over 900 hospitals of all sizes nationwide, hospitals would have been operating at a significant loss without federal aid. As the graphic below shows, **the average hospital operating margin without CARES Act relief funds would have been negative eight percent in April—and would still be in the red as of October, despite much of the cancelled elective business returning across the summer and early fall.** However, with the aid, hospitals operating margins only turned negative in April and May. When compared to the same time period last year, **year-to-date (YTD) gross revenue is down almost five percent, though net patient service revenue per discharge is up**—the result of longer lengths of stay, the 20 percent Medicare reimbursement bump for COVID-19 patients, and suspension of the two percent sequestration adjustment on Medicare fee-for-service payments. Yet hospital expenses per discharge are also up 13.5 percent, dampening profitability.

Though the CARES Act has been a stopgap solution for the vast majority of hospitals, a handful, most notably **HCA Healthcare**, have proactively returned the money. While motivations for doing so are varied, we've been hearing that the ever-changing reporting and spending **requirements** associated with CARES Act funding have many hospital leaders concerned about possible future claw-backs. **With COVID-19 hospitalizations now reaching record-breaking highs, potentially forcing another round of shut-downs, and with little movement on another round of federal relief, hospitals may be on their own for the time being—and the greatest hit to health system finances may still be yet to come.**

Federal Funding Allowed Many Hospitals to Bounce Back

National Hospital Operating Margin Index, 2020



Revenue, Expense Percentage Change From Preceding Period

October 2020

| Percent Change | Month-over-Month | Year-to-Date |
|---------------------------------|------------------|--------------|
| Gross Revenue ² | 4.1% | (4.8%) |
| IP Revenue | 6.1% | (2.4%) |
| OP Revenue | 1.6% | (6.6%) |
| NPSR ³ per Discharge | (1.0%) | 5.6% |
| Total Expense | 2.7% | 1.9% |
| Labor Expense | (3.4%) | 2.3% |
| Non-Labor Expense | 3.5% | 2.0% |
| Expense per Discharge | (2.9%) | 13.5% |

YTD Operating Margin Compared to 2019

Without CARES Act **(6.0%)** → With CARES Act **(1.7%)**

\$6B Amount of CARES Act relief funds HCA Healthcare plans to return



1. Coronavirus Aid, Relief, and Economic Security.
2. Without CARES Act relief funds.
3. Net patient service revenue.

Source: "National Hospital Flash Report," Kaufman Hall, November 2020. Web: Evans, Melanie. "HCA Says Return of \$6 Billion Pandemic Aid to Restore Financial Flexibility." The Wall Street Journal, 9 Oct. 2020; Gist Healthcare analysis.