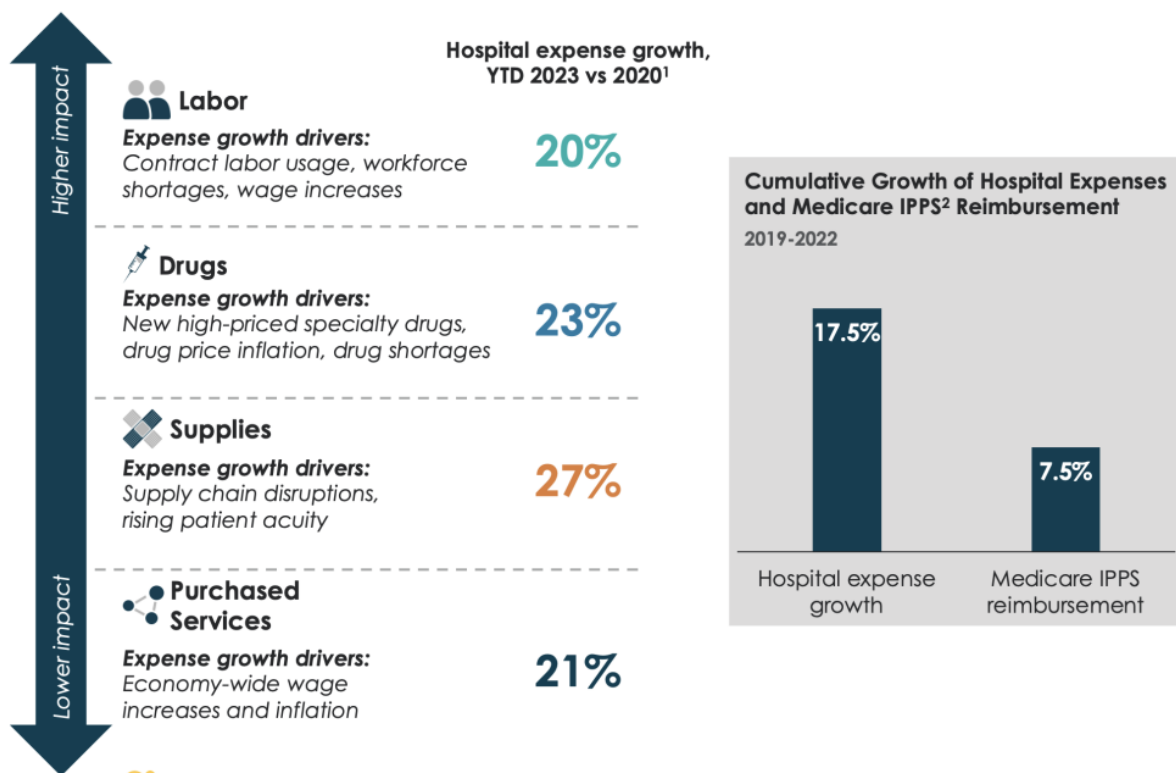


## Increased expenses, especially labor, impacting hospital margins

Workforce shortages, supply chain disruptions, expensive new drugs, and high inflation have all greatly increased hospitals' expenses. These rising costs are the top cause of the **tenuous** state of hospital margins today. As shown in the graphic below, **all major hospital operating expense categories have increased by at least 20 percent in 2023 as compared to 2020 spending levels.** While some expense trends are tied to the greater economy and could fall as inflation **abates**, **higher labor costs are more likely to persist due to the wage hikes hospitals implemented to recruit and retain workers during COVID—essentially rebasing the cost of talent.** As labor typically **comprises** over 50 percent of a hospital's expenses, even a small percent increase can have a disproportionate impact on operating margins, compared to other expenses. Importantly, this increased cost of care delivery has not been met with higher reimbursements from payers, and **hospital expenses have grown more than twice as fast as inpatient Medicare reimbursement between 2019 and 2022.**

### Impact of Expense Growth on Hospital Margins

Labor Remains Top Concern After Years of Rising Expenses



1. Median change in cumulative expenses, Jan.-Aug. of each year.  
2. Inpatient prospective payment system.

Source: Swanson, Erik, "National Hospital Flash Report: September 2023", 2 Oct. 2023; Halloran, Kevin, et al, "Controlling Labor Costs Will be Key to NFP Hospital Margin Improvement", Fitch Ratings, 2 Oct. 2023; "Cost of Caring 2023", American Hospital Association, 1 Apr. 2023; Gist Healthcare analysis.