


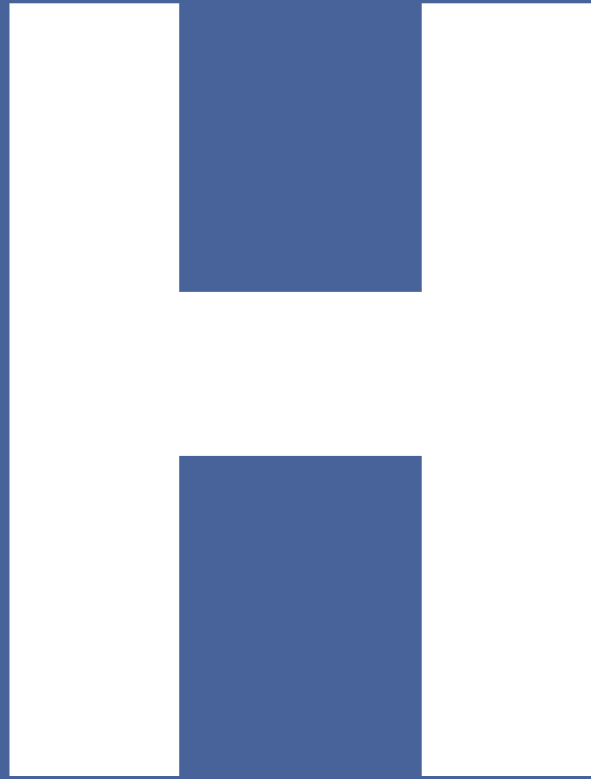


Protecting

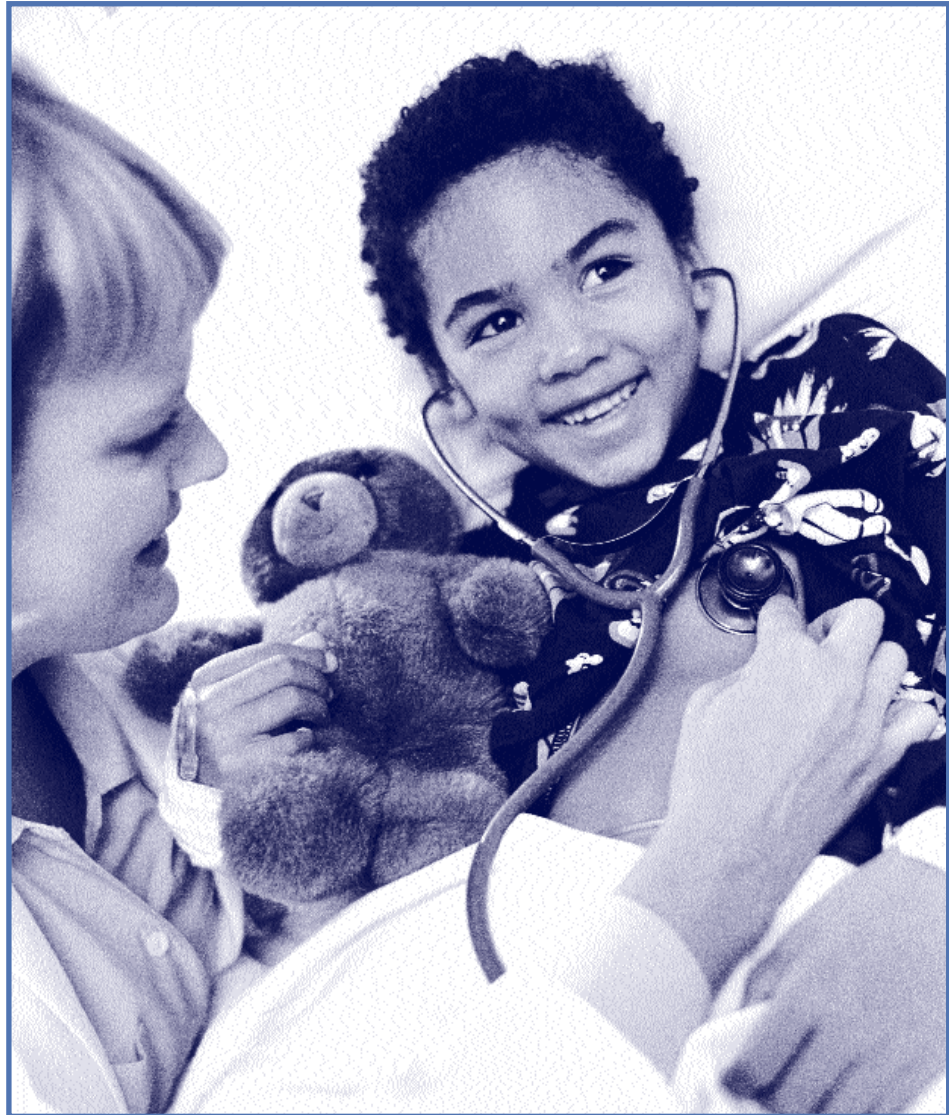
THE PROMISE



**American Hospital
Association**



Millions of times every day in communities across the country, people see this simple symbol: H. It represents the local hospital and the promise of curing and caring, of healing and compassion. It represents a haven for all who need medical attention. And it promises a variety of services that hospitals provide every day to Americans—setting the Little League player’s broken arm in the emergency department...helping an elderly stroke victim regain mobility through rehabilitation...promoting health awareness among school children...and so much more.



Protecting

THE PROMISE



American Hospital
Association



Every day hospitals confront many challenges that make it harder to keep the promise of care and curing in their community.

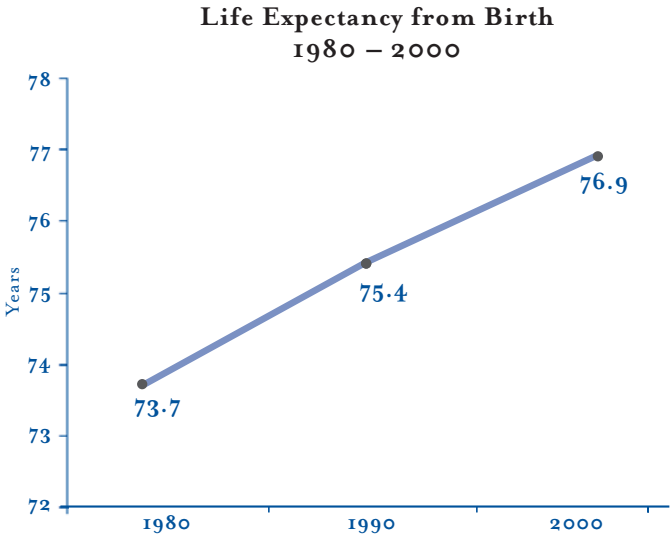
- **Demand for care is rising** as advances in medicine open new possibilities for America's growing and aging population.
- **Lack of health care coverage** threatens access to timely and appropriate care for almost 44 million Americans and strains the financial resources of the hospitals that care for many of these individuals.
- **Worker shortages** will reach crisis proportions in the coming decades unless we act now.
- **Lack of staff and space to meet growing demand** is causing emergency department overcrowding and ambulance diversion.
- **Decreased ability to obtain needed capital funding** hampers hospitals' ability to meet rising demand, keep up with advances in technology and maintain facilities.
- **Rising costs to provide care** will continue to threaten the financial stability of hospitals if increases in payment don't keep pace.
- **A medical liability crisis** is jeopardizing access to care, especially in our nation's emergency departments.
- **Regulatory burden** takes caregivers away from the bedside and diverts financial resources away from patient care.
- **Niche or specialty providers** drain essential resources from community hospitals.
- **Payment shortfalls for Medicare and Medicaid**—government programs that support half of the care hospitals provide—contribute to hospital financial stress.

These challenges must be addressed now to allow hospitals to protect the promise for future generations.

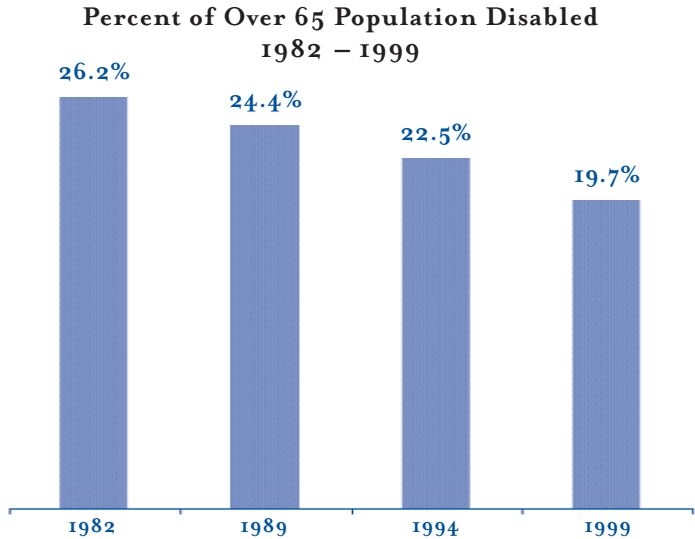


**Each year America's health care system
—and America's hospitals—
can do more things for more people.**

*Our health care system produces enormous value
in terms of longer and better lives...*



Source: Centers for Disease Control and Prevention, *Health United States*, 2003

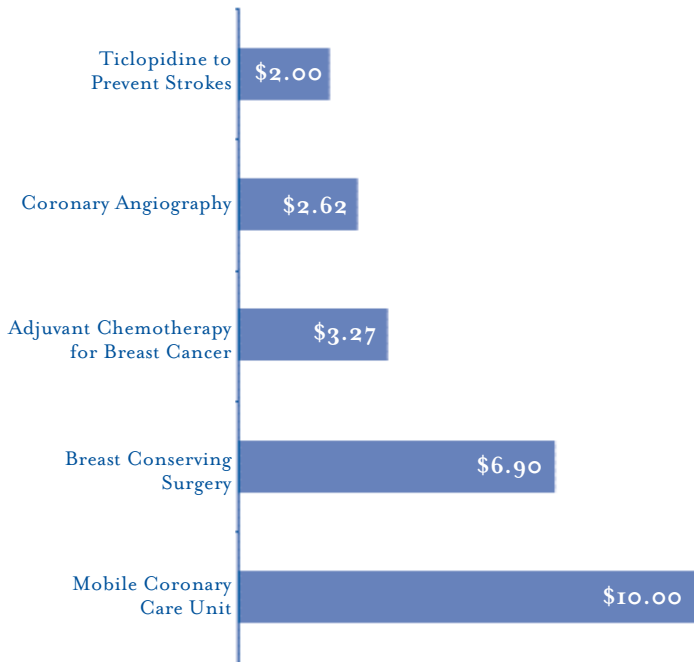


Source: MEDTAP International, *The Value of Investment in Health Care, Better Care, Better Lives*, 2004

Advances in health care

produce a high return per dollar spent...

Value per Care Dollar Invested in Key Advances



Source: MEDTAP International, *The Value of Investment in Health Care, Better Care, Better Lives, 2004*

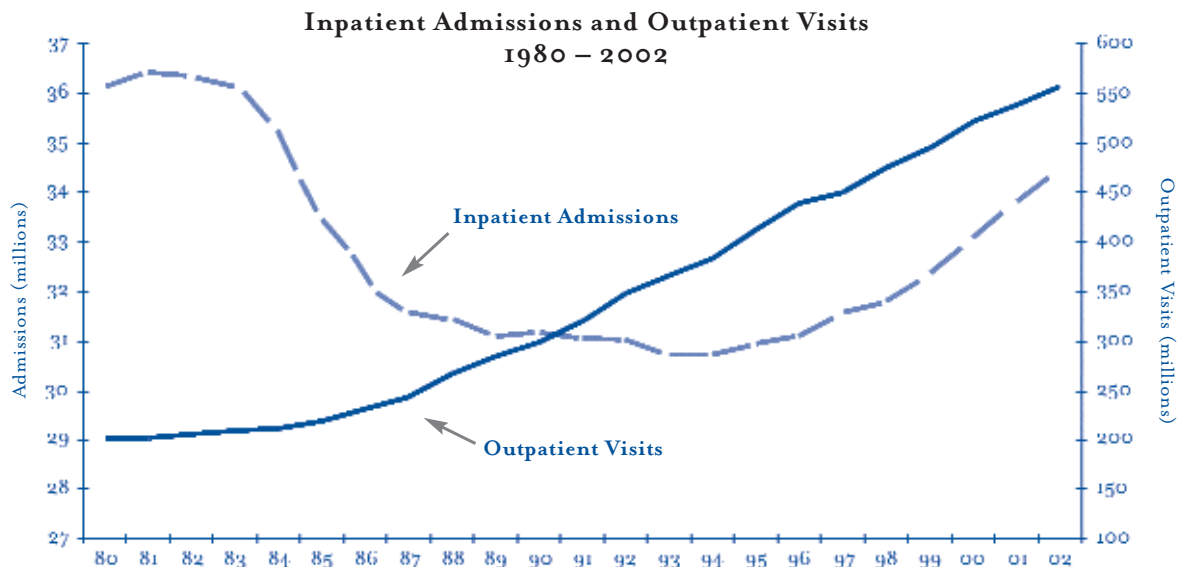
Hospitals are the cornerstone of our health care system—a system that has contributed to longer and better lives for Americans. Advances in medicine have provided enormous benefits to society and individuals. Since 1980:

- Overall mortality rates have declined by 16%.
- Disability rates in the over 65 population are down by 25%.
- Mortality for heart attack has been cut in half.
- Mortality for stroke has been cut by more than a third.

In fact, a person born in 2000 can expect to live more than three years longer than a person born in 1980.

But these advances mean more and more demand for hospital care and increases in the costs to provide that care. Too often, we fail to account for the benefits when we look at our spending on health care—benefits that need to be protected from the many stresses on our health care system.

...but new possibilities for patients create rising demand for hospital care.



Source: AHA Annual Survey, 1980 - 2002



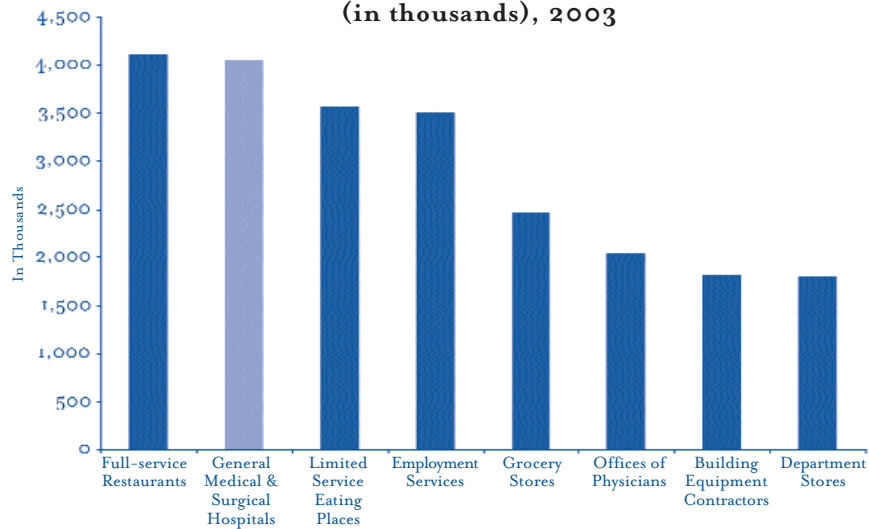
Hospitals support the health and well-being of communities in ways beyond the delivery of care to ill and injured patients.

Beyond providing care for ill and injured patients, hospitals offer an array of special programs and activities to help meet communities' broader health and social needs. Hospitals provide services that aid in disease prevention, promote health awareness, help patients cope with illness, contribute to advances in medicine, and address other societal issues that affect health.

Hospitals also contribute to the economic well-being of their communities, employing nearly 5 million people and spending more than \$213 billion on goods and services. These purchases provide revenue and jobs for other businesses. Hospital employees spend their paychecks on food, clothing and cars, for example, also supporting other parts of local economies. When these so-called "ripple effects" are taken into account, hospitals support one of every nine jobs in the United States. During the last recession, hospitals were one of the few places where job opportunities continued to grow.

Hospitals are the second largest employer in the private sector...

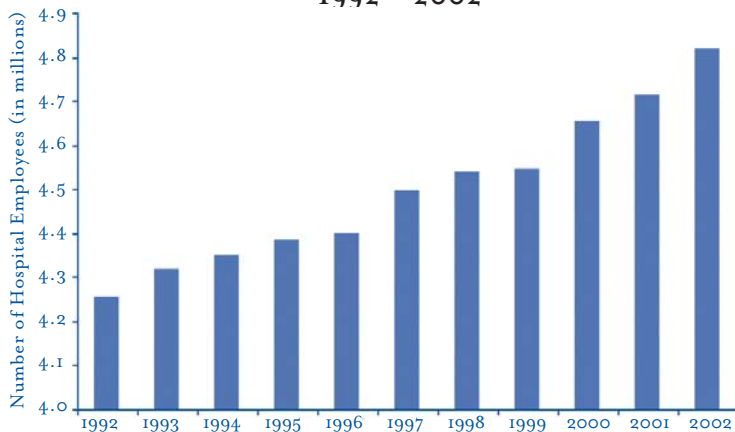
Hospital Employment vs. Employment in Other Industries
(in thousands), 2003



Source: Bureau of Labor Statistics, Current Employment Statistics Survey, custom data request

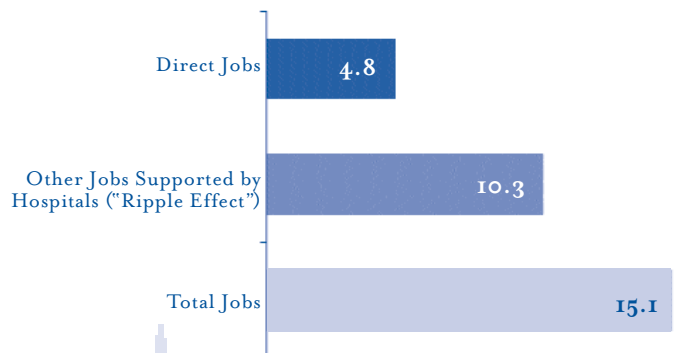
...employing nearly 5 million people...

Number of Full Time and Part Time Hospital Employees
1992 - 2002



Source: AHA, Hospital Statistics, 1992 - 2002

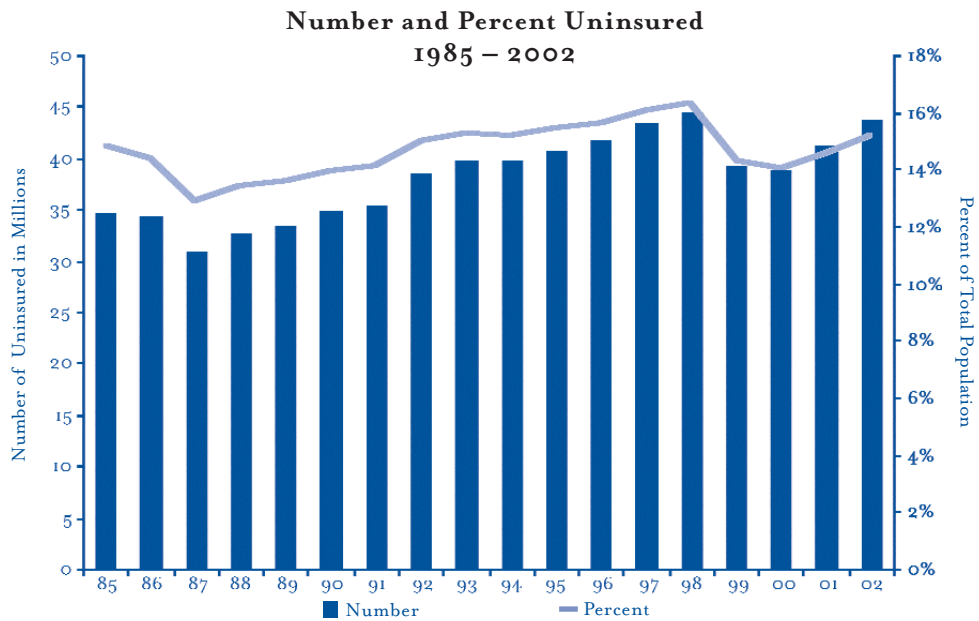
Total Impact of Community Hospitals on U.S. Jobs
(in millions), 2002



Source: The Lewin Group, using BEA RIMS-II multipliers applied to AHA Annual Survey data, 2002

...and, with ripple effects included,
support one of every nine jobs in the U.S.

*Recent progress in reducing the number
of uninsured has been erased...*



Source: U.S. Census Bureau



Source: Bureau of Labor Statistics, rates for the civilian non-institutionalized workforce

...by rising unemployment.



**Hospitals serve as the safety net
for America's almost 44 million
uninsured people.**

**Aggregate Hospital Uncompensated Care Costs
(in billions), 1997 – 2002**



Source: AHA Annual Survey

A As part of their mission—and as mandated by federal law—hospitals serve as the safety net for America's almost 44 million uninsured people, and in 2002, provided \$22 billion of uncompensated care. The modest gains in reducing the number of uninsured people made during the economic upturn of the late '90s have been erased as unemployment climbs and state budget deficits threaten recent coverage expansions.

Hospitals get support for providing care to low income patients from Medicaid and subsidies from state and local governments. This support, however, falls substantially below the cost of caring for these populations.

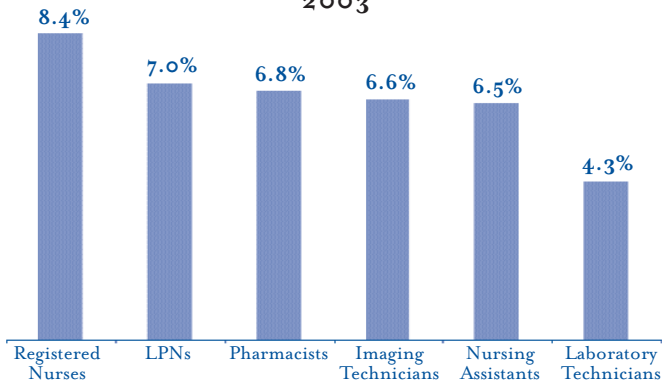
*Meanwhile the cost of uncompensated care
provided by hospitals is rising.*

The supply of hospital caregivers and other workers is not keeping pace with the demand for hospital care. Without action, our current workforce shortage will reach crisis proportions in the coming decades.

Hospitals face workforce shortages in key caregiving professions...



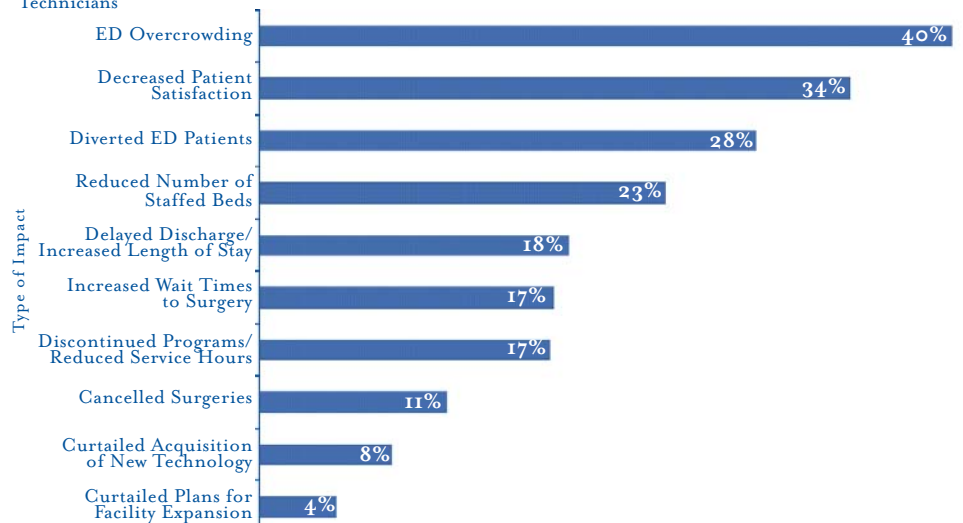
Vacancy Rates for Selected Hospital Personnel 2003



Source: 2004 AHA Survey of Hospital Leaders

...that are affecting patient care...

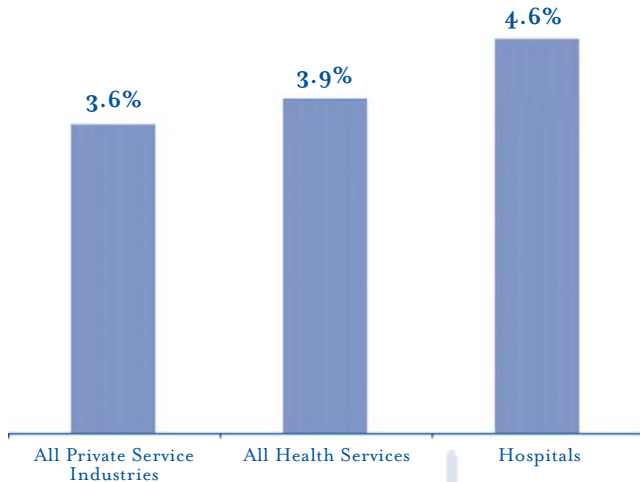
Percent of Hospitals Reporting Service Impacts of Workforce Shortage, 2003



Source: 2004 AHA Survey of Hospital Leaders

...and driving up labor costs.

**Percent Change in Employment Cost Index for Private Service Industries
12 Months Ending December, 2003**



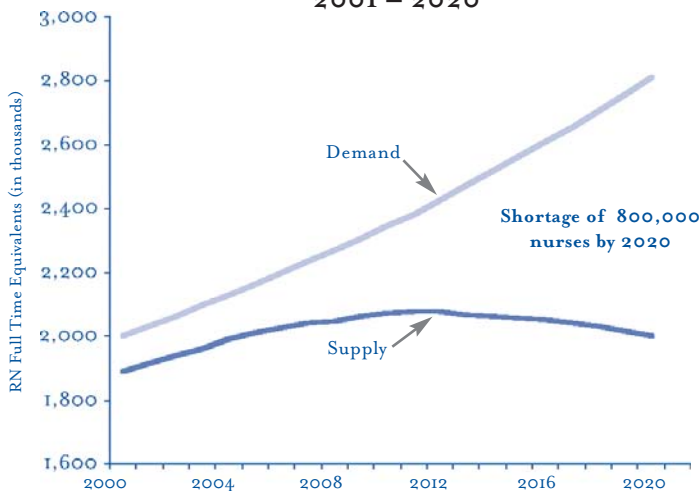
Source: Bureau of Labor Statistics, Employment Cost Index, data for total compensation, 12 months ending December 2003

Hospitals face an immediate need for caregivers and support staff to meet rising demand for hospital care. As of January 2004, hospitals had an estimated 110,000 vacant positions just for registered nurses. We must act now if we are to continue our tradition of providing the best medical care in the world.

Rising unemployment in other sectors has led some to turn back to hospitals as a source of employment, temporarily easing the shortage for some types of workers. But those re-entering the hospital workforce tend to be older and closer to retirement, making the long term projections still look grim.

The health care workforce—particularly the registered nurse (RN) population—is aging and retiring. Enrollment in health education programs has been declining as people—especially women—face an expanded range of employment options. Between 1980 and 2000, RNs under age 30 dropped from 30 to 11 percent of the overall nursing workforce. The Bureau of Labor Statistics projects more new jobs will be created for RNs than for any other occupation between now and 2012. By 2020, demand for RNs will exceed supply by an estimated 800,000 RNs.

**Supply vs. Demand for Registered Nurses
2001 – 2020**



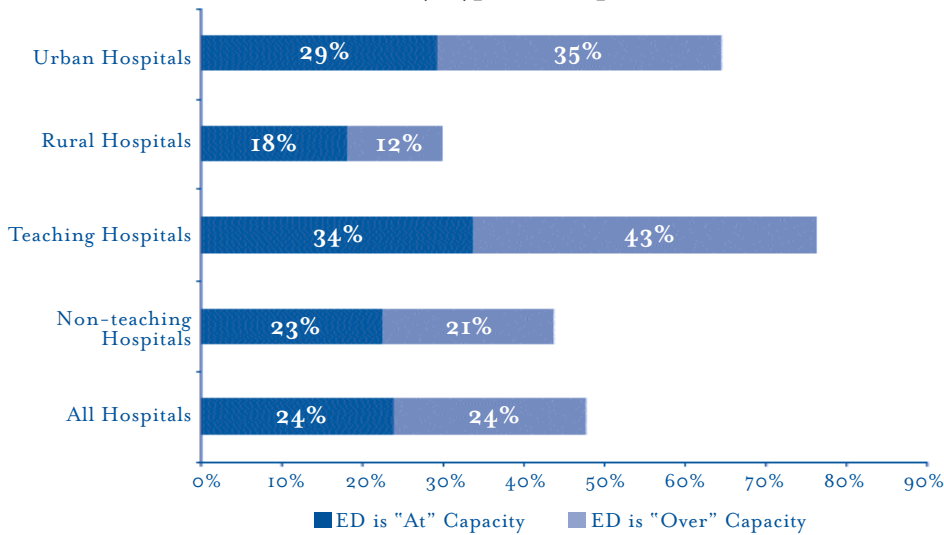
Source: Bureau of Health Professions, National Center for Health Workforce Analysis, *Projected Supply, Demand, and Shortages of Registered Nurses: 2000 – 2020*, released July 2002

The labor shortage will reach crisis proportions

unless action is taken.

Most EDs are “at” or “over” capacity...

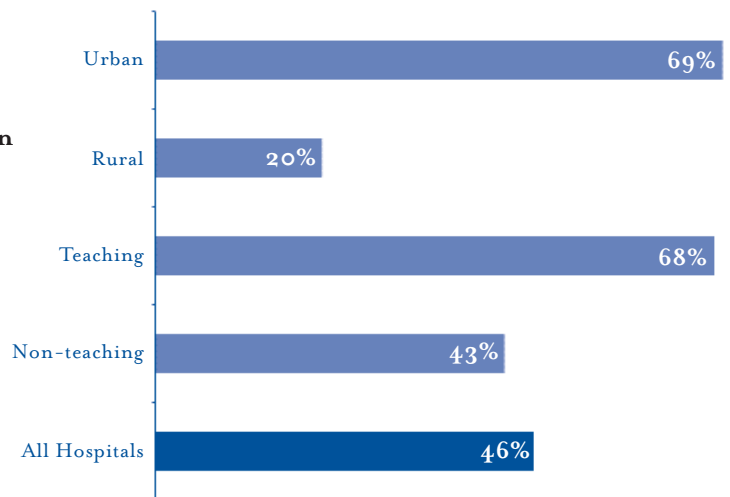
Percent of Hospitals Reporting ED Capacity Issues by Type of Hospital, 2004



Source: AHA 2004 Survey of Hospital Leaders

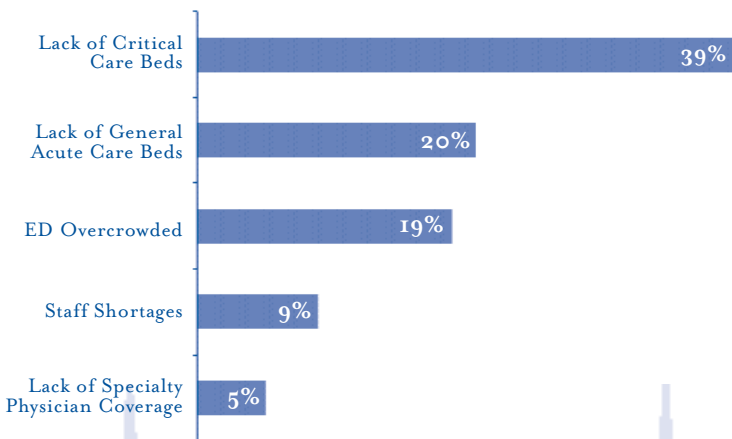
...and a majority of urban and teaching hospitals experience time on ED diversion...

Percent of Hospitals Reporting Time on Diversion in Last 12 Months



Source: AHA 2004 Survey of Hospital Leaders

Percent of Hospitals Citing Factor as Number One Reason for Ambulance Diversion, January 2004



Source: AHA 2004 Survey of Hospital Leaders

...most often caused by a lack of staffed critical care beds.

Lack of staff and space to meet growing demand is causing gridlock in our nation's emergency departments.

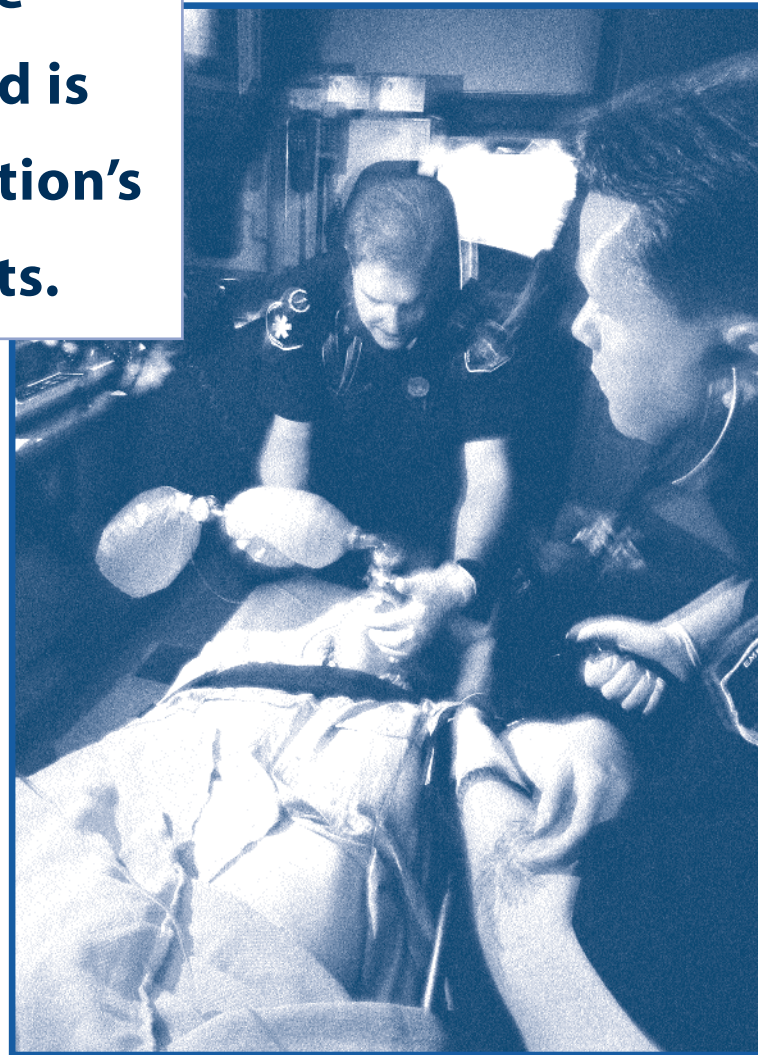
America has more than 900 fewer hospitals than in 1980. Over the past two decades, declining inpatient utilization and pressures to increase efficiency have led to hospital closures and consolidation. But now demand for hospital services is rising, and the remaining hospitals are struggling to keep up.

Nowhere is this trend more evident than in our nation's emergency departments (ED). EDs are the entry point for care—not only for those with heart attacks, strokes and injury, but also for those with nowhere else to turn for any level of care—from ear infections to major trauma. But our EDs are backing up with patients who need acute or intensive care beds that are already full. When no staff and space are available to care for additional patients, hospitals must divert ambulances to other facilities.

A recent survey found:

- 48% percent of all hospital EDs—and 64% percent of urban EDs—are “at” or “over” capacity.
- During the past year, 69% of urban hospitals reported time on “ED diversion,” when the hospital was unable to accept patients by ambulance.
- One in 10 urban hospitals is on diversion more than 20% of the time.
- ED diversions are caused most frequently by capacity constraints beyond the ED, when acute or critical care beds are not available for ED patients.

ED gridlock is a critical warning sign of an overburdened health care system.





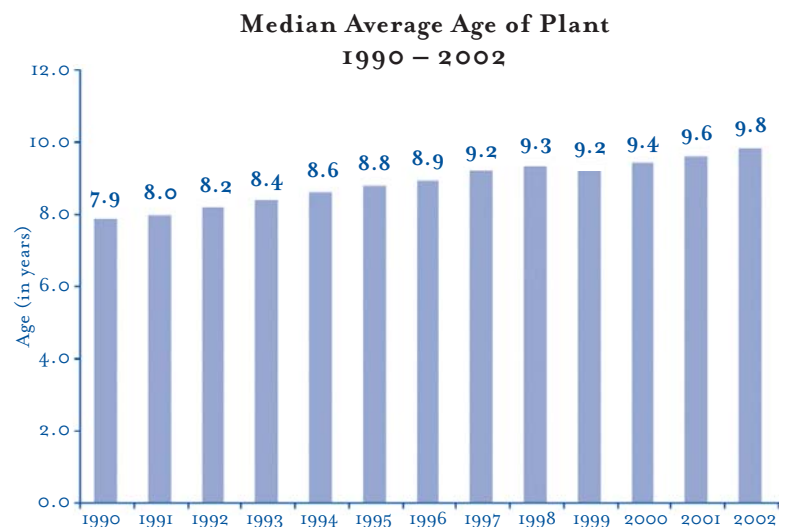
Hospitals are facing difficulty accessing the capital funding needed to meet growing demand, replace aging facilities, and update technology.

Hospitals continually need capital funding to maintain and update facilities, retool to meet changing patient demand, and invest in new technology. The nature of health care delivery is changing. Hospitals need not only to meet rising outpatient demand, but also need to expand critical care capacity to serve the older and sicker patient population that still requires inpatient care.

Hospitals need to invest in clinical information systems to improve care coordination and ensure patient safety, but installing systems like computerized physician order entry can cost millions of dollars. Hospitals must balance these needs against the capital needs to keep pace with demand for new clinical care technologies—which can be staggering. While a traditional X-ray machine costs \$175,000, a more advanced CAT scanner—now standard in most hospitals—costs \$1 million, and the next round of technology, the PET scanner, costs \$2.3 million. Meanwhile, physical facilities are aging, requiring renovation, expansion or replacement to meet patient needs.

Hospitals are finding it difficult to access the critical capital funding essential to ensure that our health care system can continue providing the same high quality of care on which our patients depend.

Hospital facilities are aging....



Source: Ingenix, *Almanac of Hospital Financial & Operating Indicators 2004*

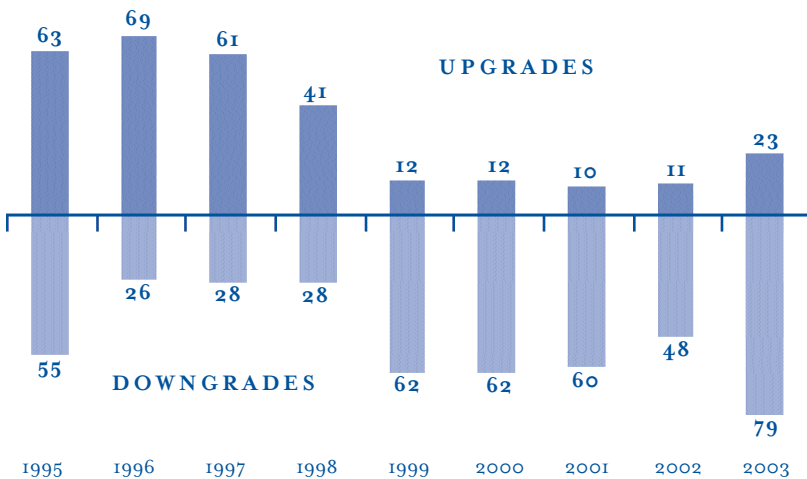
"Traditional" Technology	Contemporary Technology	Next Round Technology
X-Ray Machine \$175,000	CAT Scanner \$1,000,000	CT Functional Imaging with PET \$2,300,000
Open Surgery Instrument Set \$10,000	Laparoscopic Surgery Set \$15,000	Robotic Surgical Device \$1,000,000
Cardiac Balloon Catheter \$500	Stent \$2,300	Treated Stent \$5,000
Scalpel \$20	Electrocautery \$12,000	Harmonic Scalpel \$30,000

Source: ©2002 University Health System Consortium

...and the cost to keep up with advanced technology is staggering...

...but bond downgrades outnumber upgrades...

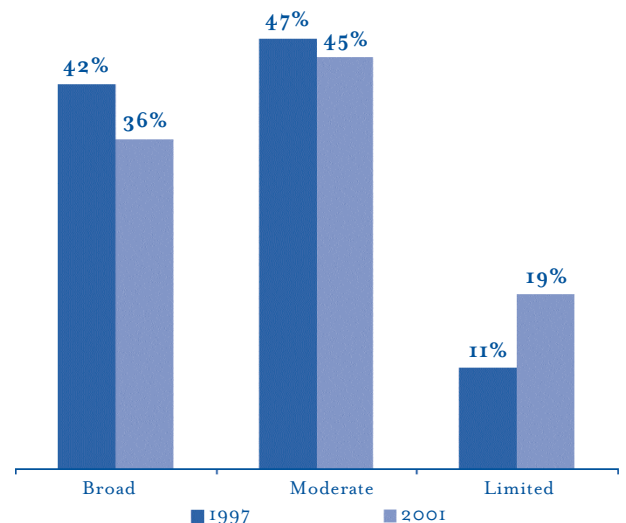
Number of Bond Rating Upgrades and Downgrades of Non-profit Hospitals, 1995 - 2003



Source: Standard & Poor's, 2004

...and access to capital has been declining.

Percentage of Hospitals with Broad, Moderate, and Limited Access to Capital, 1997 vs. 2001

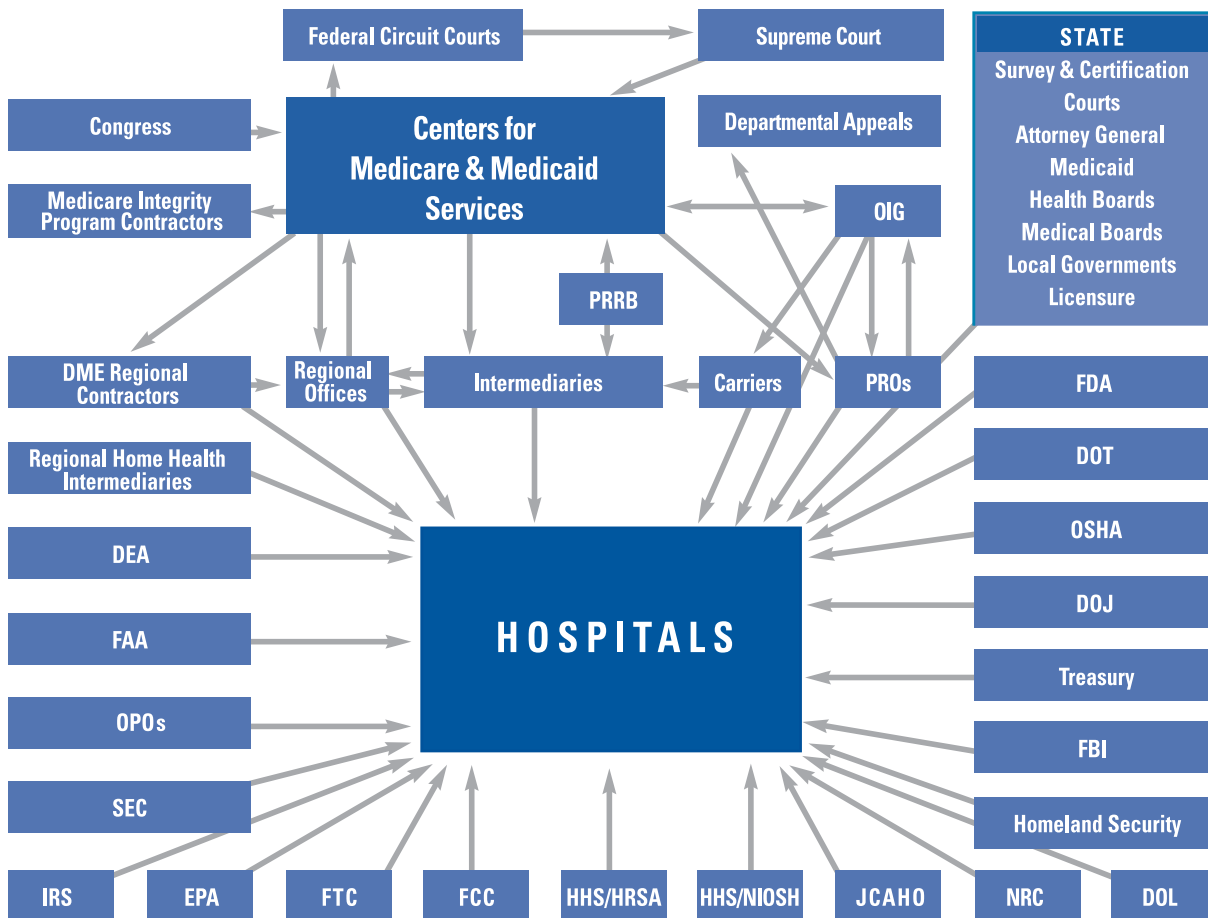


Source: HFMA and G. E. Capital, *Financing the Future*, 2003

In an era of serious health care worker shortages, caregivers' time must be used as efficiently as possible. But, paperwork requires at least 30 minutes—often as much as an hour—for every hour of patient care provided. The burden is too heavy—at the expense of patient care. Excessive paperwork not only shortchanges the patient, it also makes the job of the health care professional less rewarding—a key issue in making the health care field attractive to future workers.

*Government regulation of health care
is cumbersome and confusing...*

Who Regulates Hospitals?

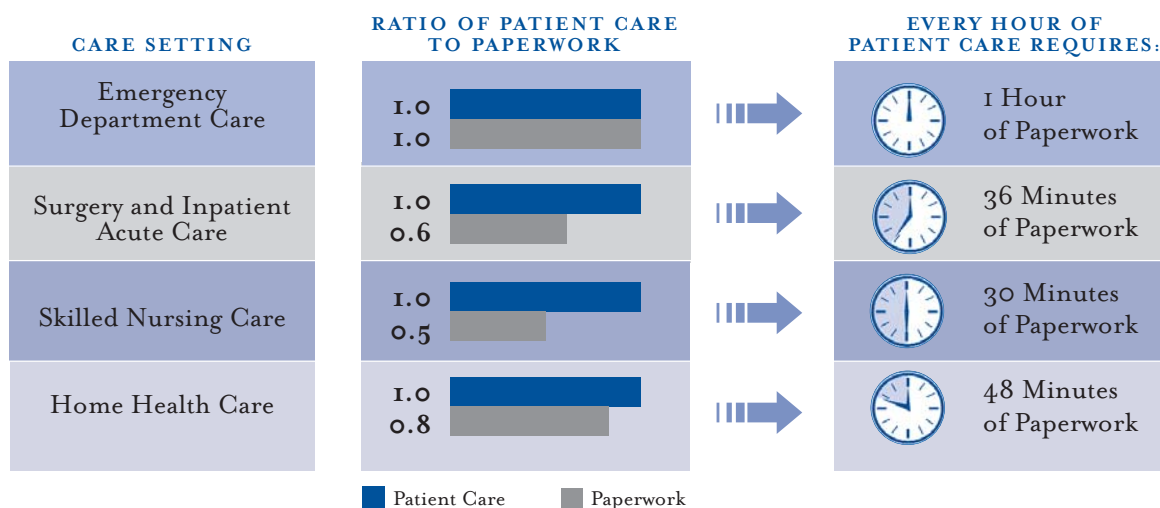


Confusing, contradictory and cumbersome regulations force caregivers to spend more time on paperwork and less on patient care.

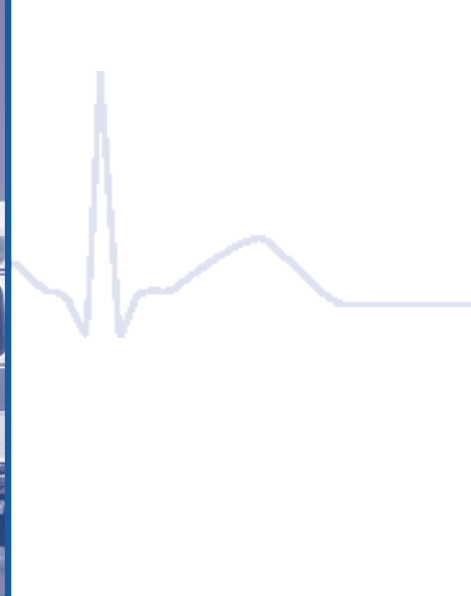


...creating a paperwork burden that takes caregivers away from the bedside.

Study Results: The Paperwork Burden



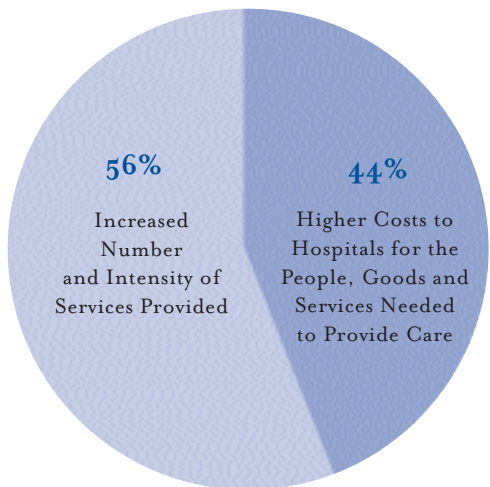
Source: PricewaterhouseCoopers survey of hospitals and health systems.



Hospitals face rising expenses due to growing demand, changing needs, and increasing costs for the people, goods and services needed to provide care.

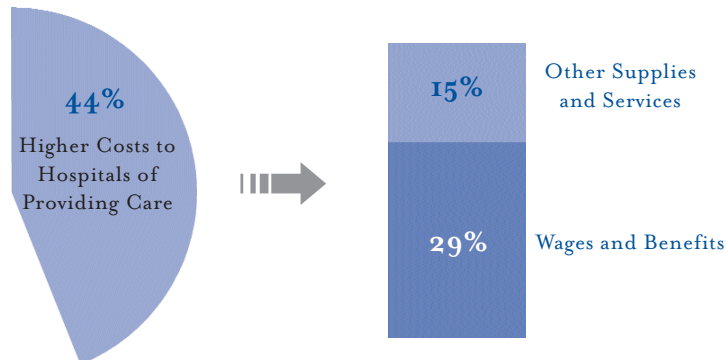
Increased volume and intensity of care are key drivers of growing hospital expenses...

Share of Growth in Expenses for Hospital Care
2001 – 2002



...along with rising wages and salaries.

Share of Growth in Expenses for Hospital Care
2001 – 2002



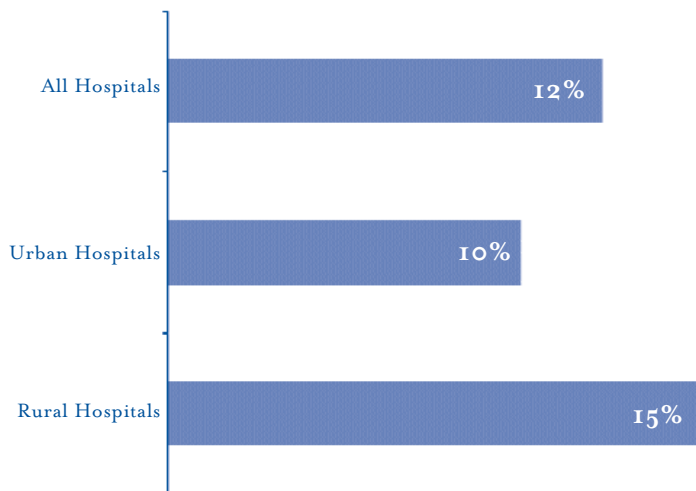
Source: Analysis of Centers for Medicare & Medicaid Services PPS Market Basket data and AHA Annual Survey data

Source: Analysis of Centers for Medicare & Medicaid Services PPS Market Basket data and AHA Annual Survey data

But hospitals face double-digit increases

in the costs of pharmaceuticals...

Percent Change in Hospital Expenses for Pharmaceuticals, 2002 to 2003



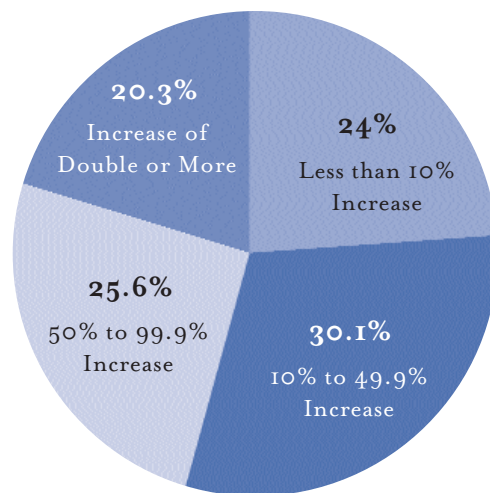
Source: AHA 2004 Survey of Hospital Leaders

America's health care system continually offers new possibilities to care for the needs of our aging and growing population. As a result, the demand for hospital care is rising and the costs to provide that care are increasing. Last year community hospital expenses rose by 8.6%. Rising demand and growing intensity of care—sicker patients, new drugs or technologies replacing old ones, e.g. drug eluting stents replacing bare metal stents—accounted for 56% of the increase in hospital expenses. The remaining 44% was due to hospitals' increased costs for the people, goods and services needed to provide care, such as rising wages and higher prices for the same drugs.

- **Labor:** Wages and salaries for caregivers and others make up more than half of the costs of hospital care. The labor shortage is pushing up wages—an important driver of cost increases.
- **Drugs and Technology:** Hospitals report double digit increases in pharmaceutical expenses. The bulk of this increase is due to the use of new, more expensive drugs rather than to rising prices for existing drugs. Sales of the new drug eluting stents—a single new technology—are expected to reach \$2.6 billion per year.
- **Professional Liability Coverage:** Health care liability premiums are skyrocketing, drastically reducing access to care in many communities. A growing number of insurance carriers have discontinued health care liability insurance or become insolvent, resulting in fewer carriers, less competition and higher premiums.
- **Disaster Readiness:** As frontline responders in the event of disasters, hospitals must help defend the homefront by upgrading their capacity to respond to nuclear, biological and chemical attacks—requiring an investment of more than \$11 billion to ensure that every hospital has a minimum capacity to respond to such emergencies.

...and skyrocketing costs for medical liability coverage.

Percent of Hospitals in Crisis States* by Rate of Growth in Professional Liability Expense over Past Two Years



* Crisis states as identified by the American Medical Association as of March of 2004 include: PA, WV, NV, MS, WA, OR, TX, AR, MO, GA, FL, IL, NC, KY, OH, NY, CT, NJ, WY. Some of these states recently have passed legislative reforms that have not been tested in the courts.

Source: AHA 2004 Survey of Hospital Leaders

Niche or specialty providers drain essential resources from community hospitals.

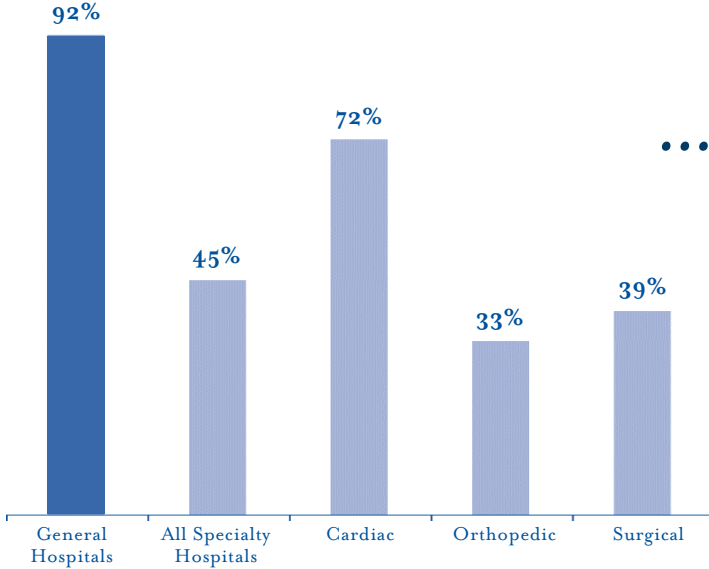


Communities across America rely on hospitals to provide access to basic health services. They look to the mission of hospitals and physicians to provide care to all, including those who are uninsured or underinsured. Community hospitals serve as the medical safety net for those in need.

But physician-owned specialty care providers, or “niche” providers, can drain essential resources from communities. These organizations—among them heart, orthopedic and other specialty hospitals—generally focus on patients and services with high payment rates yielding high margins. They undercut the ability of community hospitals to meet the needs of the broader community by drawing profitable services away from community hospitals, making it more difficult to support other critical services, such as trauma centers, neonatal ICUs and burn units.

*Niche providers are less likely to offer
emergency services....*

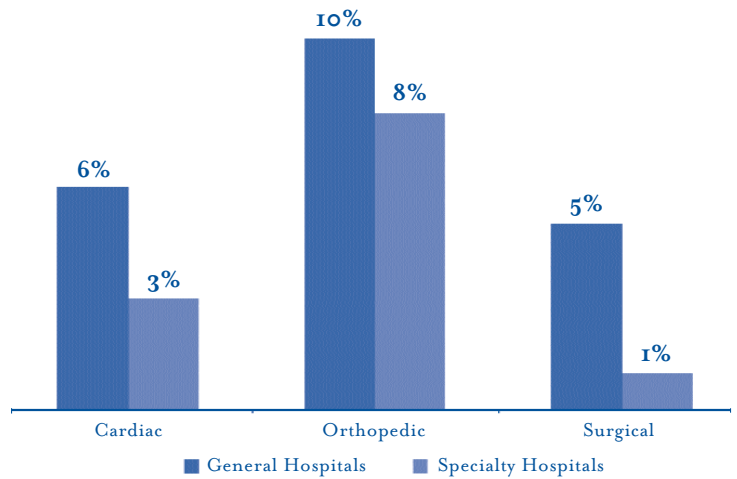
Percentage of Specialty and General Hospitals with
Emergency Departments, 2003



Source: General Accounting Office, *Specialty Hospitals: Geographic Location, Services Provided, and Financial Performance*, October 2003

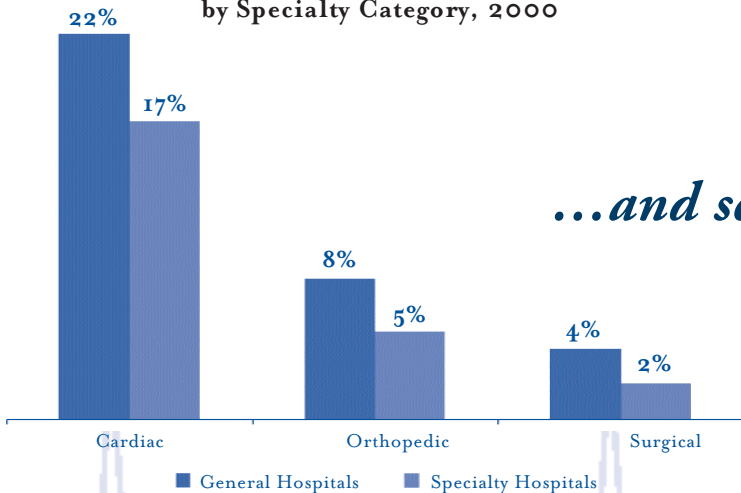
*...serve a lower proportion of
low-income populations...*

Percentage of Patients Covered by Medicaid in
Specialty vs. General Hospitals for Services in Same
Specialty and Geographic Area, 2000



Source: General Accounting Office, *Specialty Hospitals: Geographic Location, Services Provided, and Financial Performance*, October 2003

Median Percentage of Severely Ill Patients Treated
by Specialty vs. General Hospitals,
by Specialty Category, 2000

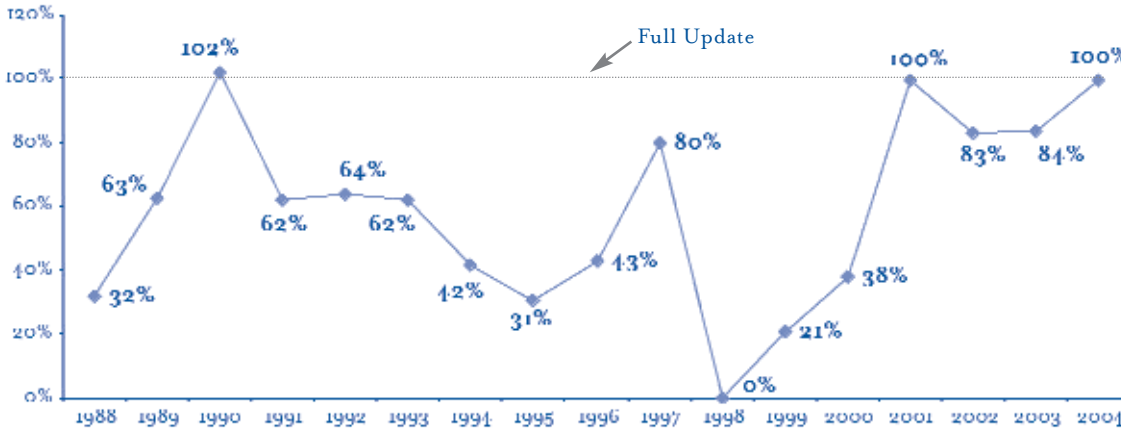


Source: General Accounting Office, *Specialty Hospitals: Information on National Market Share, Physician Ownership, and Patients Served*, April 2003

*...and serve fewer severely ill patients
within their specialty area.*

Hospitals have received payment updates less than inflation for 14 of the last 17 years...

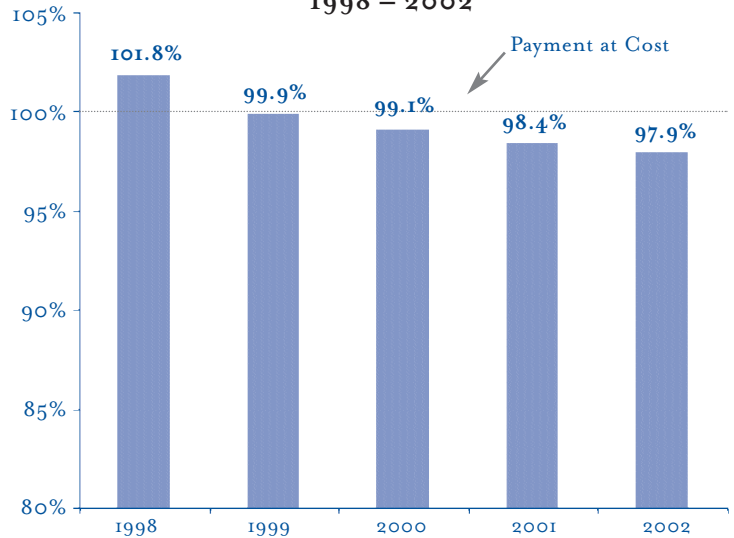
Historical Medicare PPS Update as a Percent of Market Basket, 1998 – 2004



Source: Centers for Medicare & Medicaid Services, Center for Medicare Management, 1988-1995 update as a percent of market basket uses the large urban payment update

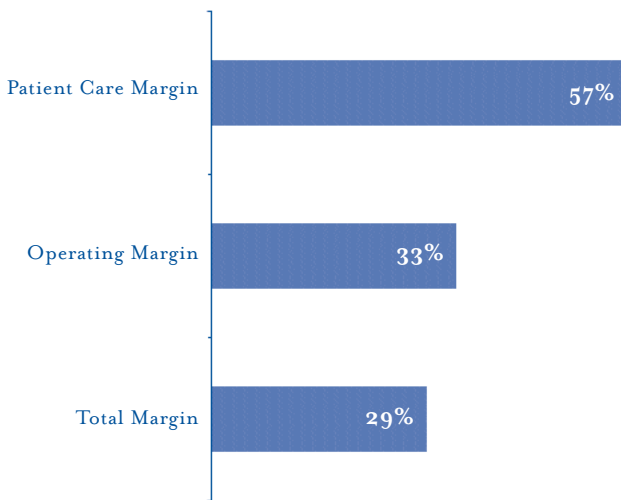
...and Medicare payments have fallen below the costs of caring for Medicare patients.

Medicare Payments as a Percent of Costs 1998 – 2002



Source: AHA Annual Survey

Percent of Hospitals with Negative Margins, 2002



Source: AHA Annual Survey

Half of hospitals lose money providing patient care and nearly a third lose money overall.

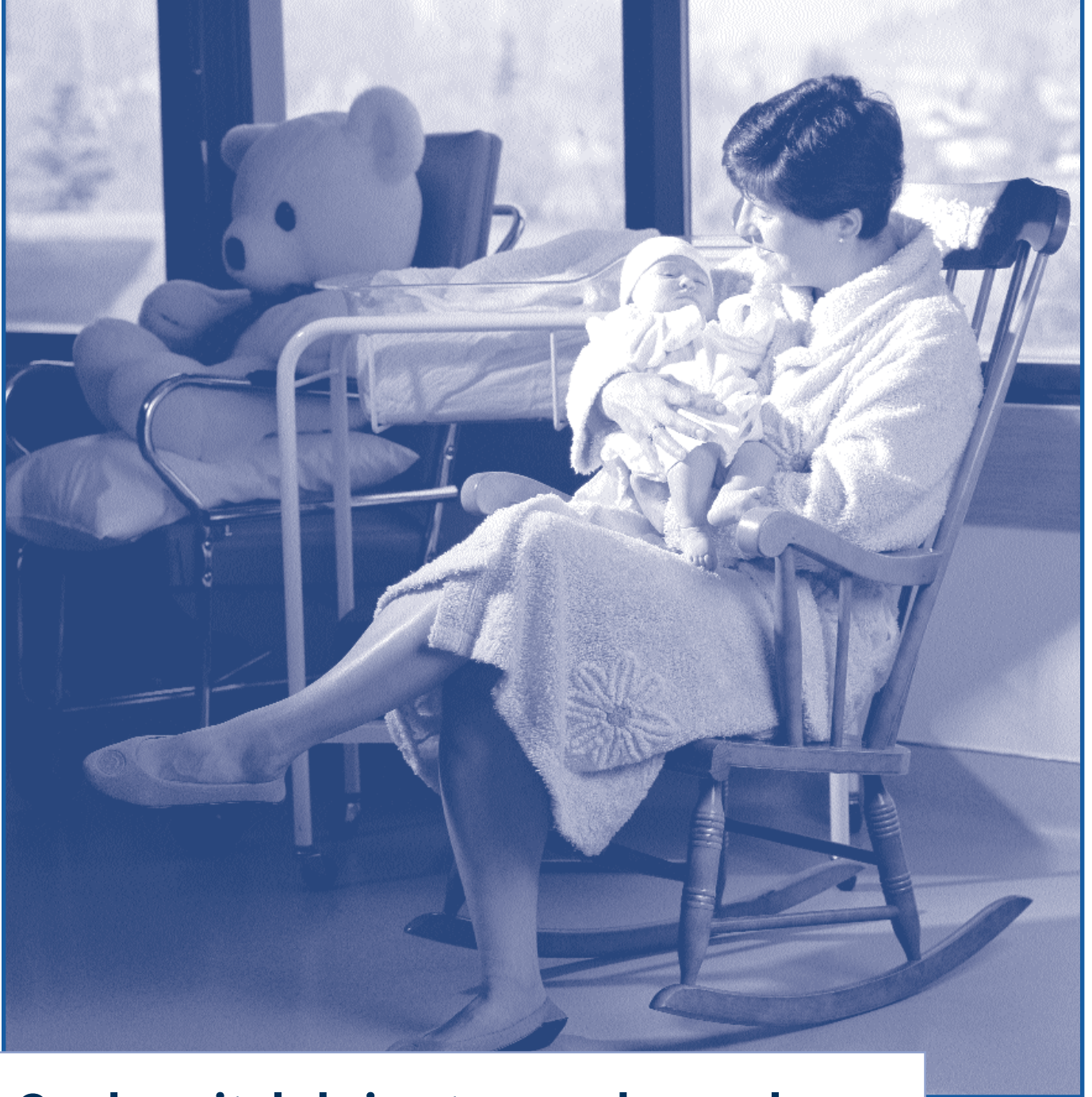
Payment shortfalls from Medicare and Medicaid make it difficult for hospitals to meet current challenges and keep the promise to their communities.

As hospitals strive to meet the challenges of workforce shortages, increased demand, regulatory burden and the rising costs of providing care, the federal government plays a critical role through its funding for Medicare and Medicaid. But community hospitals lose money serving these patients. The Medicare payment update for hospitals in FY 2004 represents only the third time in 17 years that Congress has provided a full inflationary update to all hospitals for inpatient care.

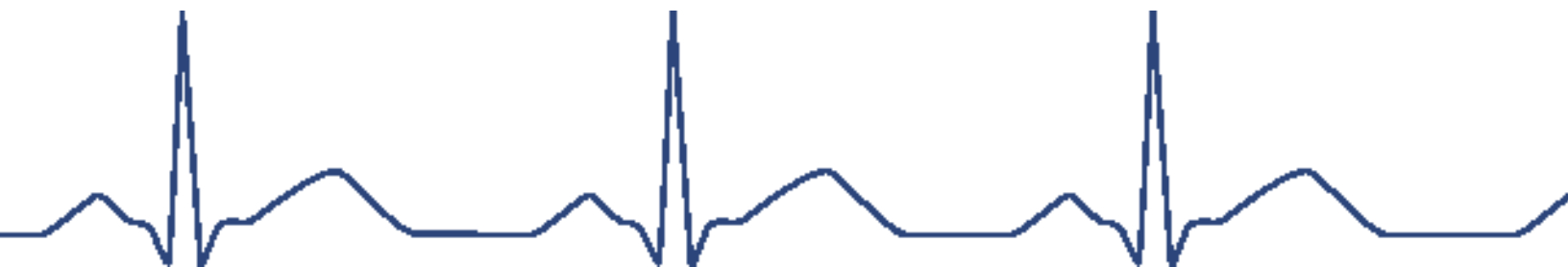
Financial pressures created by Medicare, Medicaid and private payers over the past decade have forced hospitals to cut costs dramatically. Hospitals have reduced length of stay and eliminated excess capacity. But there is little fat left in the system. The decline in length of stay has flattened out, an increasingly stressful hospital work environment is contributing to the workforce shortage, and rising rates of ambulance diversion indicate that capacity has become constrained in many parts of the country. Focusing on the rates paid per service for hospital care is no longer a viable strategy to address growing spending on health care.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003, signed into law last December, provides targeted relief to certain hospitals and a full inflationary update for FY 2004—relief that must be expanded and protected. The federal budget cannot be balanced on the backs of America's hospitals if the promise is to be protected.





Our hospitals bring tremendous value to individuals and communities—value that must be protected for future generations.



We must take action now to:

...make sure payments are sufficient to cover rising costs and support financial stability;

...build a health care workforce that can meet the rising demands of our aging population;

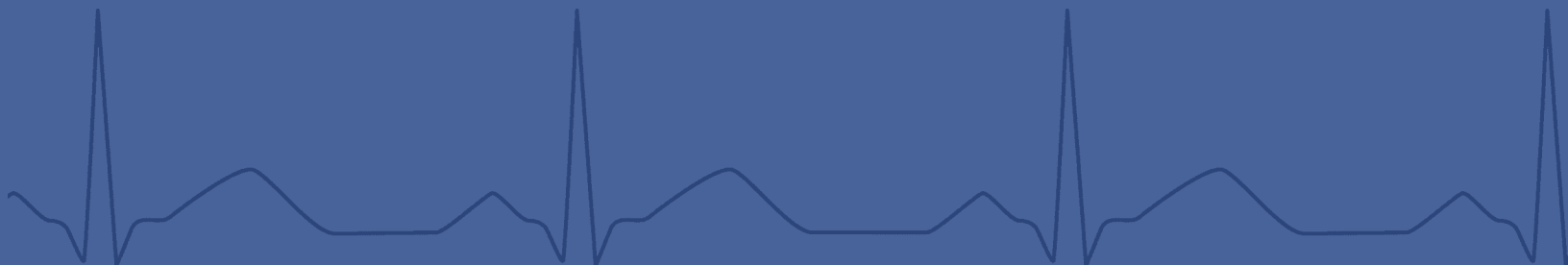
...help hospitals access capital funding to build and maintain facilities and keep pace with technological change;

...ensure caregiver time goes to patients, not to paperwork;

...improve access to care for uninsured populations;

...protect the role of hospitals in their communities from niche providers;

...address the growing crisis in the medical liability insurance market.





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