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Hospitals also dealing with ill effects of a sick economy
L&M, Backus managing so far to keep operations on relatively healthy level
By Judy Benson

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Health care, it seems, isn't recession-proof after all.

The region's three hospitals, like others across the country, are all feeling the effects of the economic downturn and figuring out how to adapt.

"Everyone is doing all they can to hang on and ride out this negative series of events," said Stephen Frayne, senior vice president of health care policy for the Connecticut Hospital Association.

Of its 27 member hospitals, Frayne said, 21 are operating at a deficit for the first part of the 2009 fiscal year, which began this fall.

Hardest hit are the hospitals in Fairfield County, where commuters who work in the troubled financial markets on Wall Street are concentrated.

Hospitals' endowment investments have eroded with the downturn in the stock market, more patients are seeking charity care or are covered by lower-paying government insurance, and patients are delaying elective surgery and routine screening tests, Frayne said.

About 50,000 more state residents are now covered by federal or state health insurance compared to last year, and fewer by private insurance, he said. That's bad news for hospitals, because the federal Medicare and Medicaid programs pay about 70 percent of the actual cost of care, and state programs pay only 30 to 35 percent. Private insurance payments offset those gaps.

"The number of people we have covering those losses is shrinking," Frayne said.

Southeastern Connecticut's two hospitals, Lawrence & Memorial in New London and The William W. Backus in Norwich, are among the six in the state that are still operating in the black, according to officials at each. But the recession has weakened the financial strength of both nonprofit institutions.

"We're aware that other hospitals are seeing a slackening of demand," Keith Fontaine, vice president of corporate communications at Backus, said.

Thus far for the fiscal year, he said, patient admissions have held at about the same level as last year, just over 25,000, and outpatient numbers haven't taken a hit, either. But there has been a sharp increase in patients requesting charity care because of inability to pay, and the hospital's endowment is worth only half as much as last year.

Some hospitals use interest income from their endowments toward operating budgets. Backus does not, but relies on its endowment income to support charity care and to keep its bond rating high. Thus far the hospital has been able to keep up with the increasing requests for charity care, Fontaine said, but it's taking a hard look at setting limits.

”This is part of our mission,” he said, “but when do you reach the tipping point?”

Requests for care are coming from those recently unemployed and uninsured as well as from patients who may still have insurance, but can't afford a $250 co-payment, he said. One recent charity patient, a few weeks shy of her 65th birthday when she would be eligible for Medicare, ran up a $140,000 bill for a 73-day hospital stay due to injuries from an accident and an infection. Last year, charity care was provided to more than 7,200 patients, and the numbers are expected to grow substantially this year, along with the severity of illness.

”They're winding up here sicker, because they don't see their primary care doctor so that ache or cough gets worse and becomes pneumonia and they have to be admitted,” he said.

The endowment loss has persuaded Backus officials to hold off any capital expenditures for new equipment or renovations. The hospital recently completed a $50 million renovation and expansion and refinanced the debt just before the downturn with favorable interest rates.

”Timing is everything,” said Fontaine. “For now, there'll be no more projects.”

Backus is still on target to meet its budget plan to end the fiscal year with a 4 percent operating margin.

At L&M, last year's operating margin was 1.5 percent, actually about twice the average for hospitals statewide, but still a slim cushion to weather an economic downturn. Hospital President Bruce Cummings said in an interview last week that L&M has seen a “dramatic” drop in patient visits as more people forgo elective surgery and routine tests. Even patients with health insurance are delaying care because of rising out-of-pocket payments and deductibles, and those with so-called high-deductible plans are most likely to defer care. Those who have lost jobs and health insurance are also less likely to seek preventive and routine care, he said in a follow-up statement, and “more at risk of requiring emergency services when they do seek care.”

The endowment losses have forced L&M to slow its timeline for a new campus in Waterford and renovations to the main building, as well as to put off making equipment purchases.

An increase in requests for charity care, he said, has not translated into substantially higher costs to the hospital, because it has been able to get more uninsured patients into programs such as Medicaid and Medicare, and others into payment plans. This was accomplished through the hiring of a social worker to assist homeless patients and three financial counselors who help self-paying patients.

”Although those governmental plans pay only a fraction of the true cost of care provided,” he said, “we are at least getting some partial payment rather than none at all.”

L&M has not had to cut any programs or services or laid off any workers. It has been able to find savings and efficiencies to make up for the losses thus far, Cummings said. Four hospitals elsewhere in the state have laid off workers, according to Frayne.

The Westerly Hospital, in its fifth year of deficits, is hoping for an increase in payments from Rhode Island to help it survive the recession, spokesman Brian Jordan said. Inpatient and outpatient numbers are about the same as last year, but emergency room visits have declined sharply. The state's unemployment rate, one of the nation's highest, is about 10.5 percent. Connecticut's rate is about 8 percent.

”People aren't coming in because they don't have the money for the co-pay, and when they do come in the acuity of their illness has increased,” Jordan said.

Requests for charity care have increased, as has the amount of unpaid patient bills, he said.

”Everybody's doing their best here to try and maintain services,” he said.

The hospital has not laid off any workers, but has reduced hours for some nonmedical support staff, he said. It has also stepped up efforts to convince state lawmakers of the need to help the state's hospitals.

Unless state payments are increased, he said, “we may have to look at cutting services. It's difficult.”

Frayne, of the Connecticut Hospital Association, said the plight of hospitals during the recession shows the need for health care reform.

”It points to how fragile our system is, that there is not the elasticity” to better weather a recession.

The hospital association is urging the state legislature to take three steps that would provide some relief to hospitals, Frayne said. It is pushing for a measure that would move more patients currently covered by state health insurance onto higher-paying federal insurance, and to ensure that an expected increase in Medicare reimbursement rates goes to hospitals and not toward offsetting the state budget deficit.

Thirdly, creation of a state loan program for hospitals to purchase and install electronic medical records equipment would enable the state to tap millions of federal stimulus dollars.