

KaufmanHall



The Financial Impact of the COVID-19 Pandemic on Connecticut Hospitals

March 2023

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Executive Summary

Connecticut Hospital Finances: The Financial Impact of the COVID-19 Pandemic

Since the onset of the COVID-19 pandemic in March 2020, Connecticut hospitals and health systems have taken unprecedented steps to care for their communities amid significant pressure on staff and resources.

The financial impact of the pandemic has been staggering. As hospital executives, policymakers, and other healthcare leaders assess the current landscape, key findings about the financial state of Connecticut hospitals from the beginning of the pandemic through September 2022 include:

- **Margins remain depressed relative to pre-pandemic levels.** For fiscal year (FY) 2022 ending September 2022, the median margin for Connecticut hospitals was down nearly 67% from pre-pandemic levels. FY 2022 was the worst year financially for Connecticut hospitals since the pandemic began.
- **Expenses are significantly elevated from pre-pandemic levels.** Total expenses in FY 2022 for Connecticut hospitals were \$3.5 billion higher than pre-pandemic levels, outpacing increases in revenue. Rising expenses for labor, drugs, and medical supplies have contributed to the increase—and total expenses are cumulatively well above pre-pandemic levels.

- **Hospitals are treating sicker patients.** Rising patient days in 2021 and 2022 and the resulting increase in length of stay suggest that patients that are visiting hospitals have more severe health needs than prior to the pandemic. In addition, labor shortages in post-acute settings are preventing the timely discharge of patients from hospitals, leading to increased expense without a commensurate increase in revenue.
- **Hospitals have faced a profound financial toll, with no further relief in sight.** Hospitals have incurred serious losses relative to pre-pandemic levels—including approximately \$164 million in FY 2022. As a result, Connecticut hospitals need additional support.

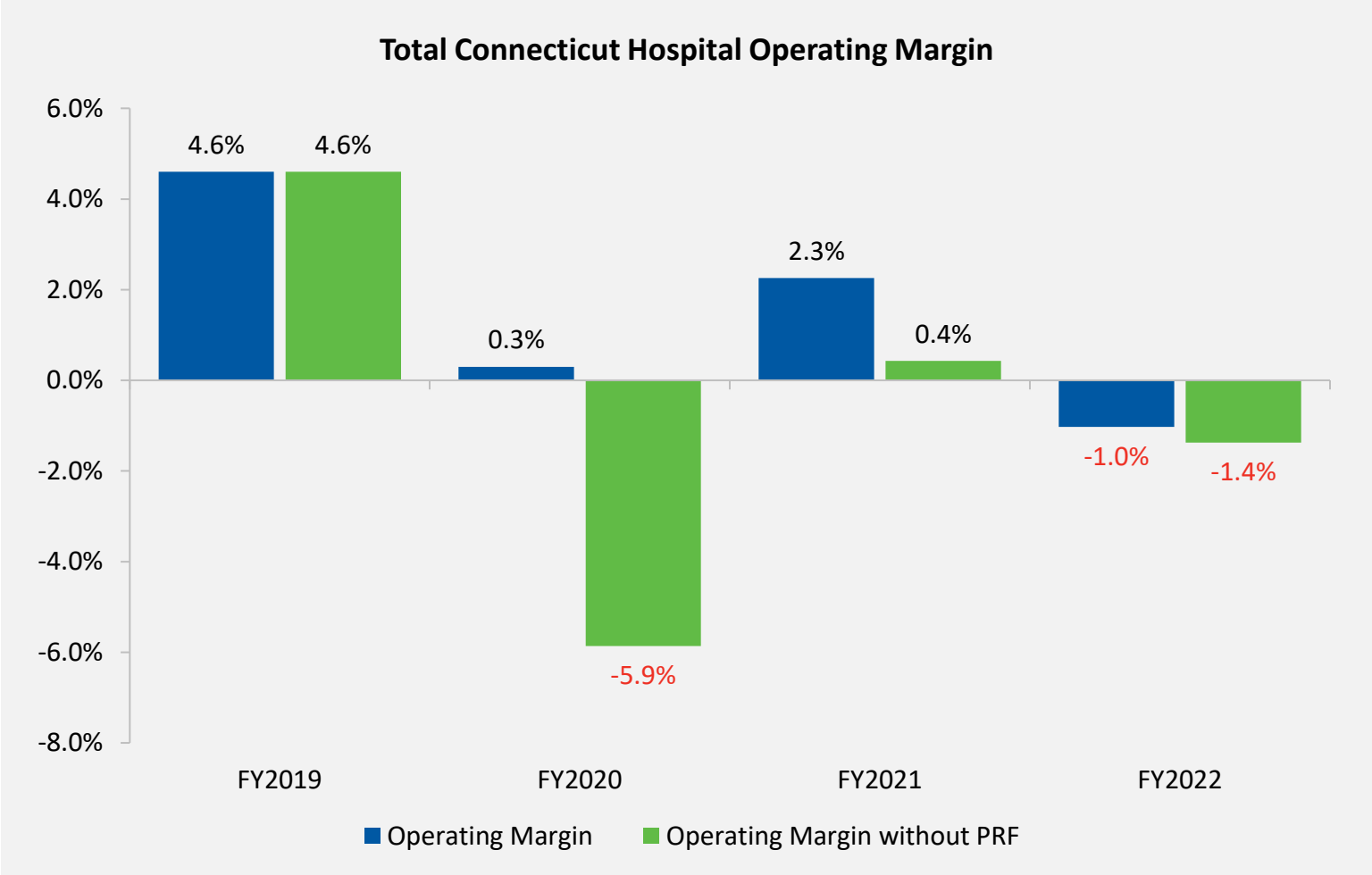
Hospitals also are facing a host of other related challenges, including workforce shortages, supply disruptions, and prior authorization delays.

These findings underscore the significant financial and operational threats Connecticut hospitals continue to face three years after the beginning of the pandemic.

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

Hospital Profitability

Hospital Operating Margins for Connecticut Are Significantly Below Pre-Pandemic Levels

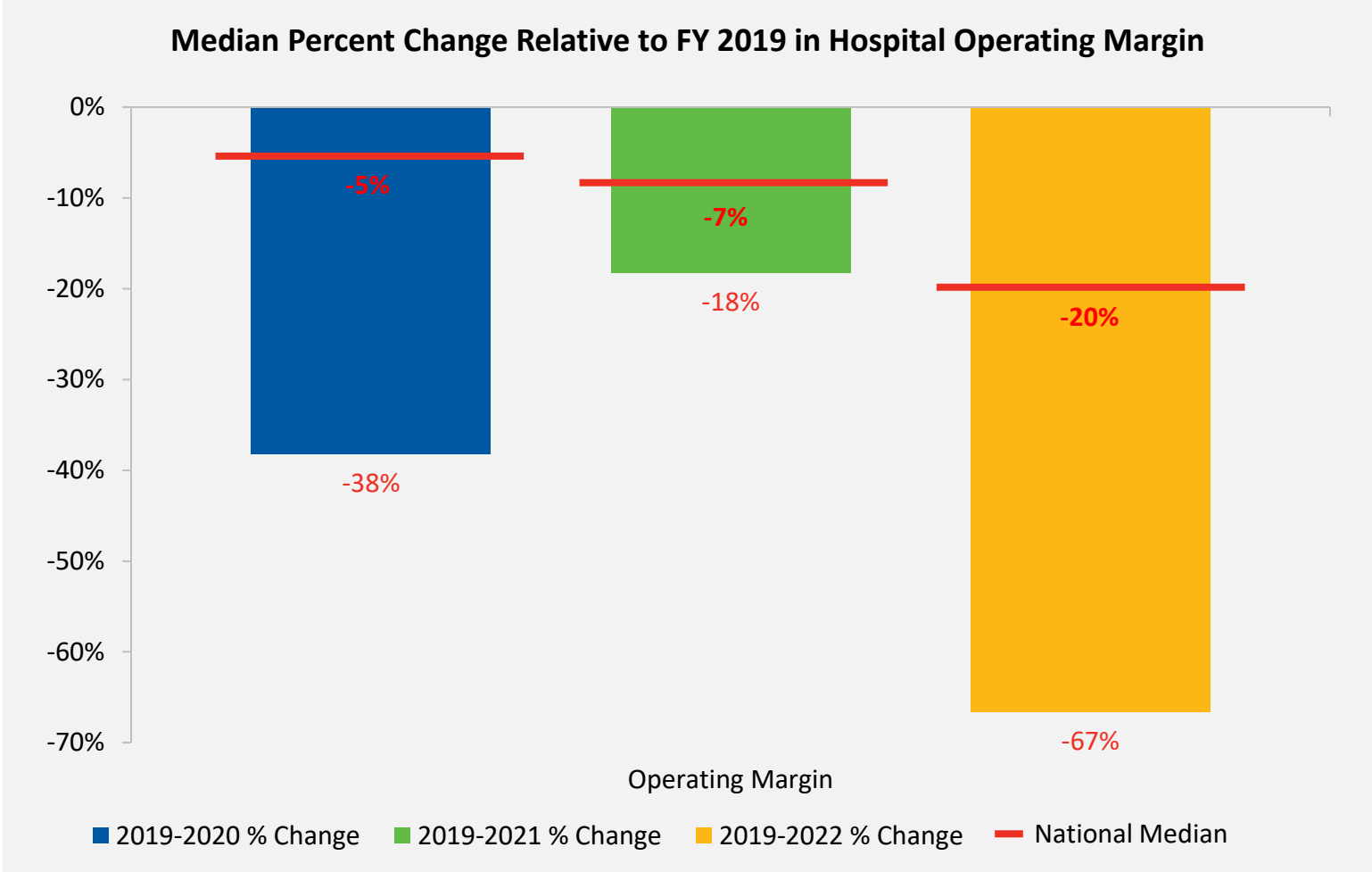


KEY TAKEAWAYS

- The total operating margin for Connecticut hospitals was **negative 1.0%** in FY 2022.
- Without **provider relief fund (PRF)** payments, the total operating margin in FY 2020 was **negative 5.9%** and only slightly positive in FY 2021 at **0.4%**.

Note: Operating margins represent the total hospital operating margin for Connecticut. FY 2019 – FY 2021 data was sourced from OHS HRS 185, while data for FY 2022 was sourced using the financial performance reports.

At the Median, Connecticut Hospital Operating Margins in FY 2022 Were 67% Below Pre-Pandemic Levels

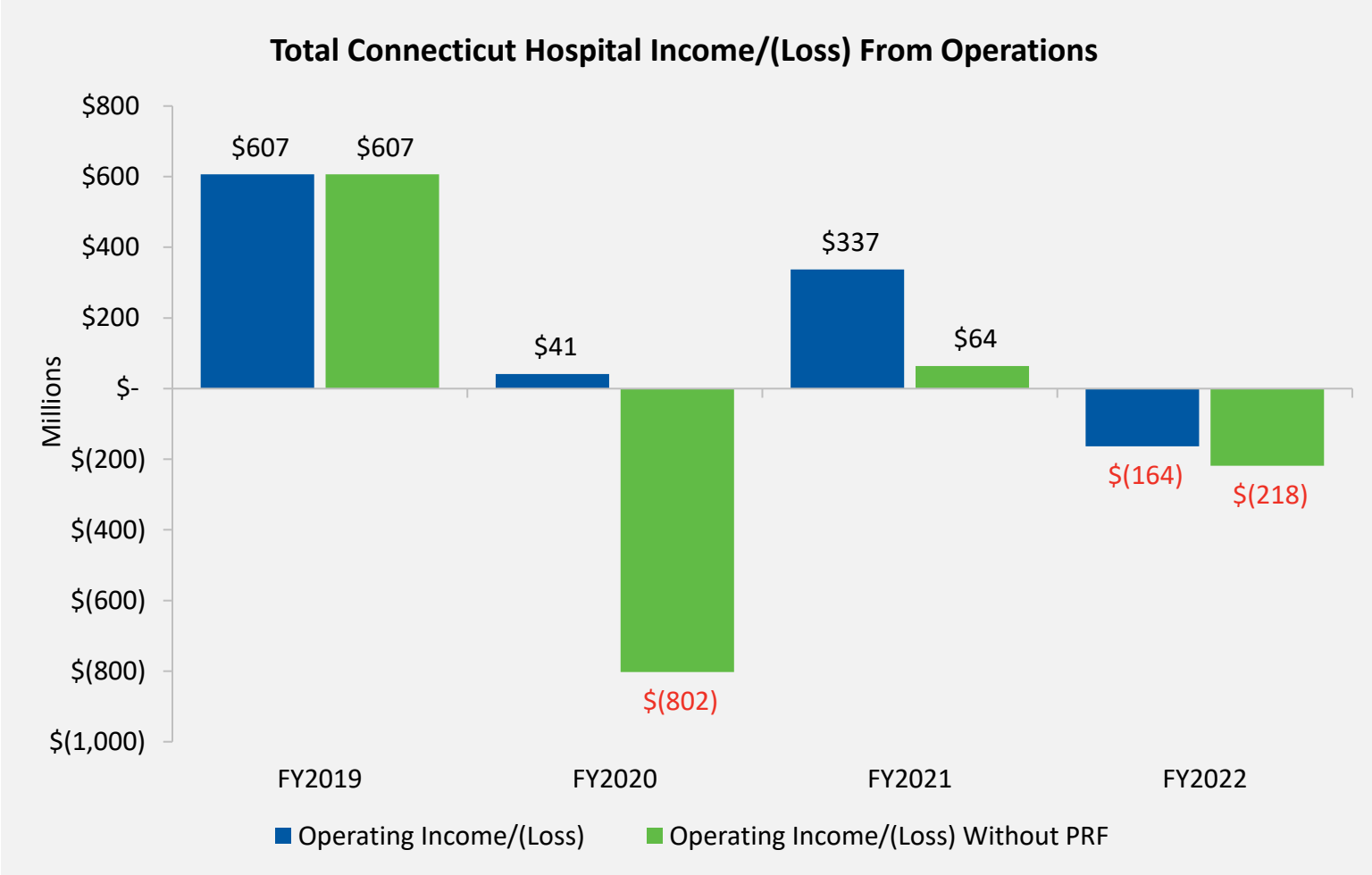


KEY TAKEAWAYS

- The median decrease in operating margin for Connecticut hospitals has far exceeded the national median for each fiscal year.

Note: Values reflect the median change operating margin for Connecticut hospitals. FY 2019 – FY 2021 data was sourced from OHS HRS 185, while data for FY 2022 was sourced using the financial performance reports. National benchmarks were produced by Kaufman Hall using data sourced from Syntellis Performance Solutions' Axiom Comparative Analytics.

The Total Connecticut Hospital Loss From Operations Was \$164 Million in FY 2022

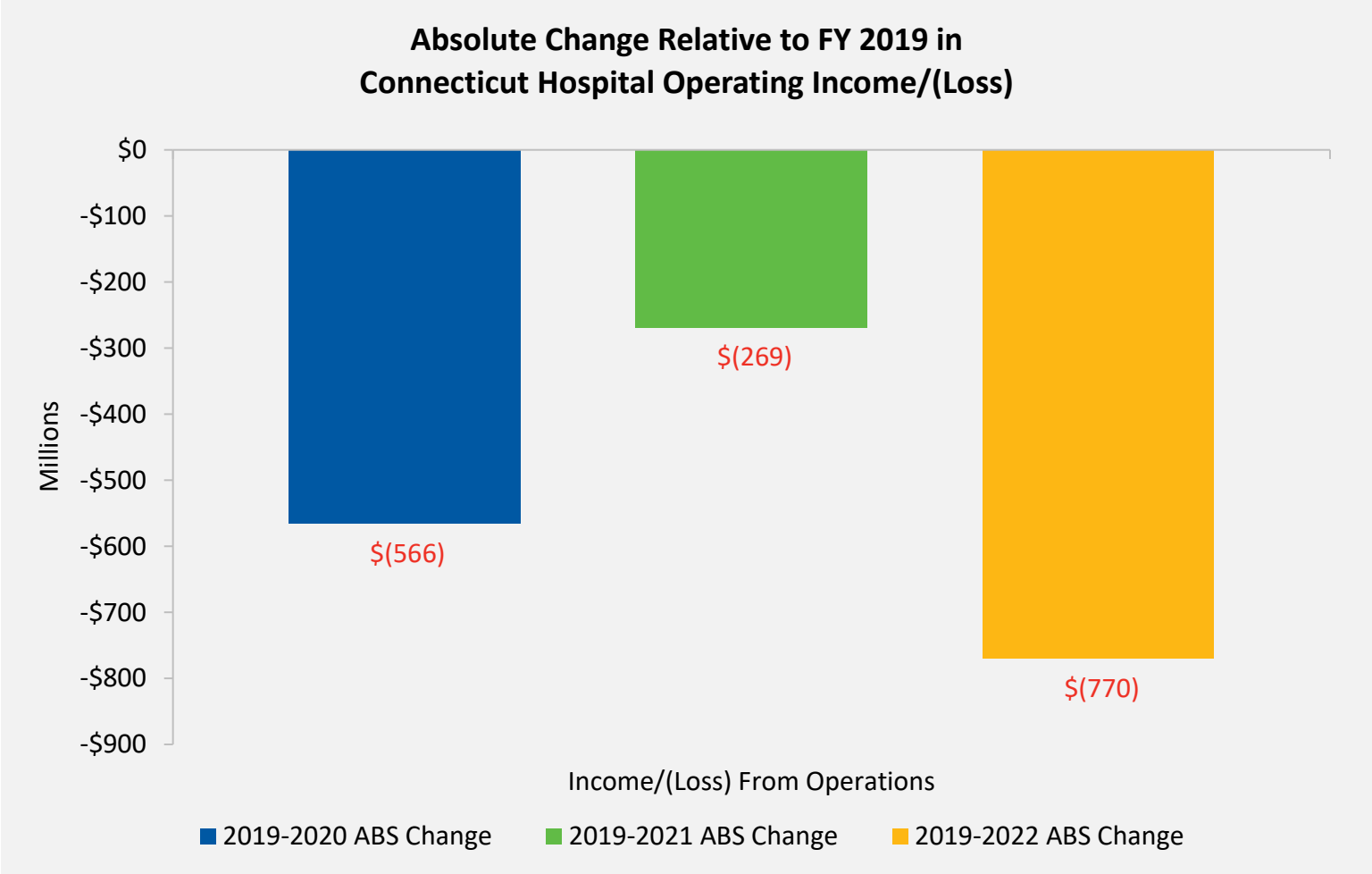


KEY TAKEAWAYS

- Total Connecticut hospital income/(loss) from operations was **\$(164) million** in FY 2022.
- Without **PRF** payments, Connecticut hospital income/(loss) from operations in FY 2020 was **\$(802) million** and only slightly positive in FY 2021.
- In the three years combined following the start of the pandemic, Connecticut hospitals’ operating income was only **\$214 million** and **\$(956) million** without PRF.

Note: Values reflect the sum of hospital income/(loss) from operations in Connecticut. FY 2019 – FY 2021 data was sourced from OHS HRS 150, while data for FY 2022 was sourced using the financial performance reports.

The Total Connecticut Hospital Income in FY 2022 Was \$770 Million Below Pre-Pandemic Levels



KEY TAKEAWAYS

- Total Connecticut hospital income/(loss) has still not recovered to pre-pandemic levels.
- In the three years combined following the start of the pandemic, Connecticut hospitals have lost a collective **\$(1.6) billion** compared to FY 2019 levels.

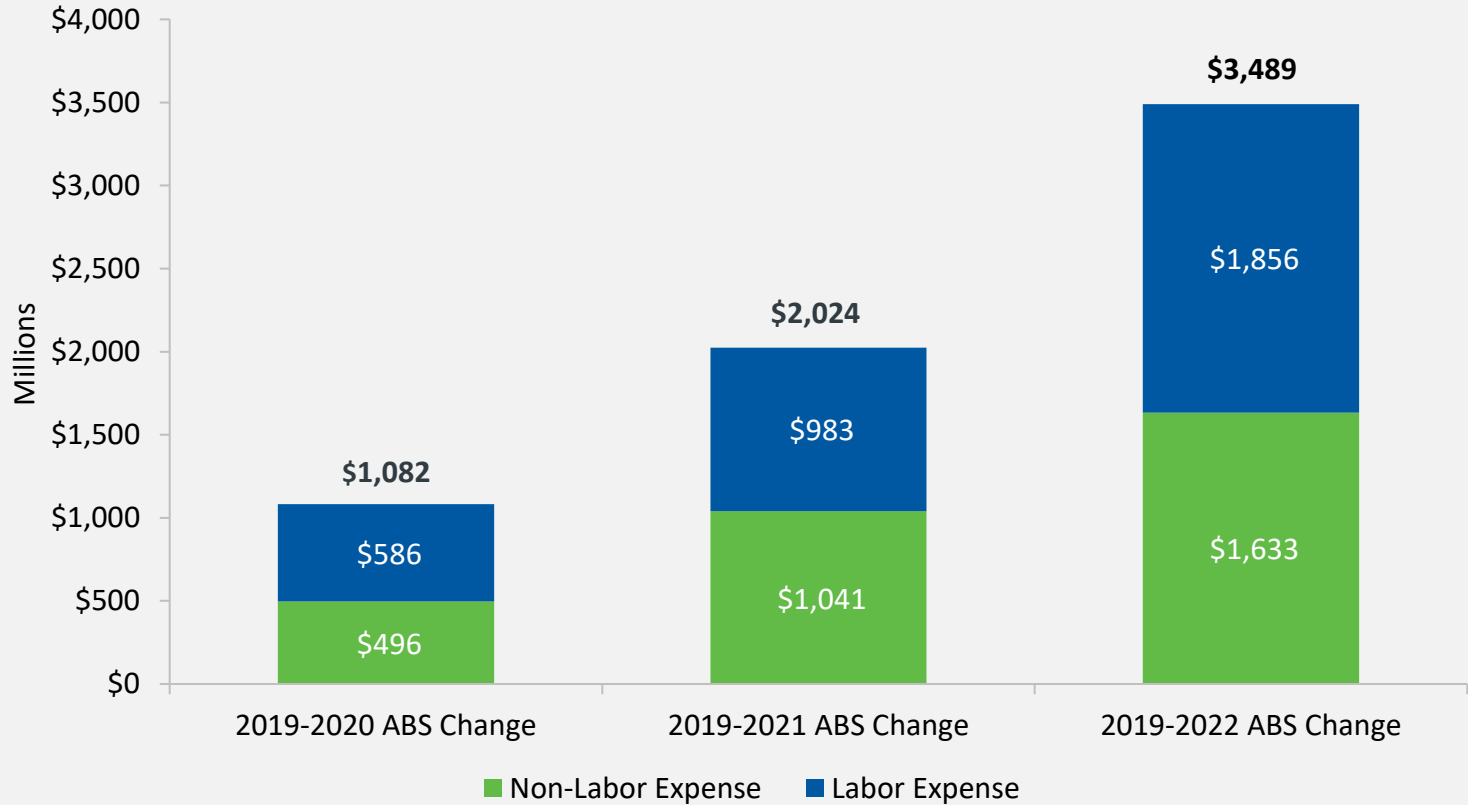
Note: Values reflect the sum of hospital income/(loss) from operations in Connecticut for each fiscal year, compared to FY 2019. FY 2019 – FY 2021 data was sourced from OHS HRS 150, while data for FY 2022 was sourced using the financial performance reports.

Hospital Operating Expenses

Total Connecticut Hospital Operating Expenses Have Increased ~\$3.5 Billion Since FY 2019



Absolute Change Relative to FY 2019 in Connecticut Hospital Operating Expense



KEY TAKEAWAYS

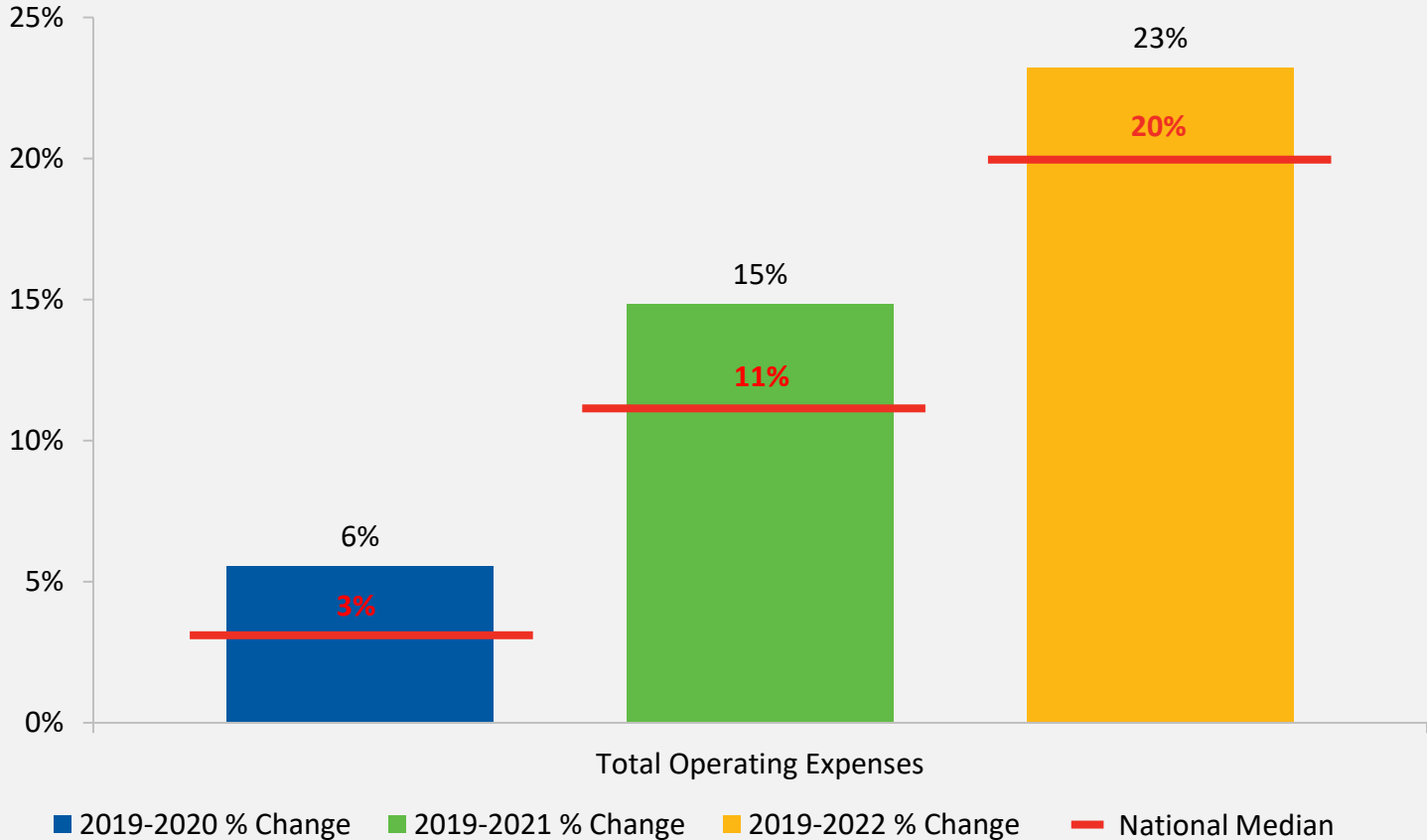
- Connecticut hospital labor expense increased more in FY 2020 and FY 2022 than non-labor expense.
- Connecticut hospital operating expense has increased a little more than **\$1 billion** each year since FY 2019.

Note: Values reflect the sum of hospital operating expenses in Connecticut for each fiscal year, compared to FY 2019. FY 2019 – FY 2021 data was sourced from OHS HRS 150, while data for FY 2022 was sourced using the financial performance reports.

At the Median, FY 2022 Connecticut Hospital Operating Expenses Increased 23% Compared to Pre-Pandemic Levels



Median Percent Change Relative to FY 2019 in Hospital Operating Expense

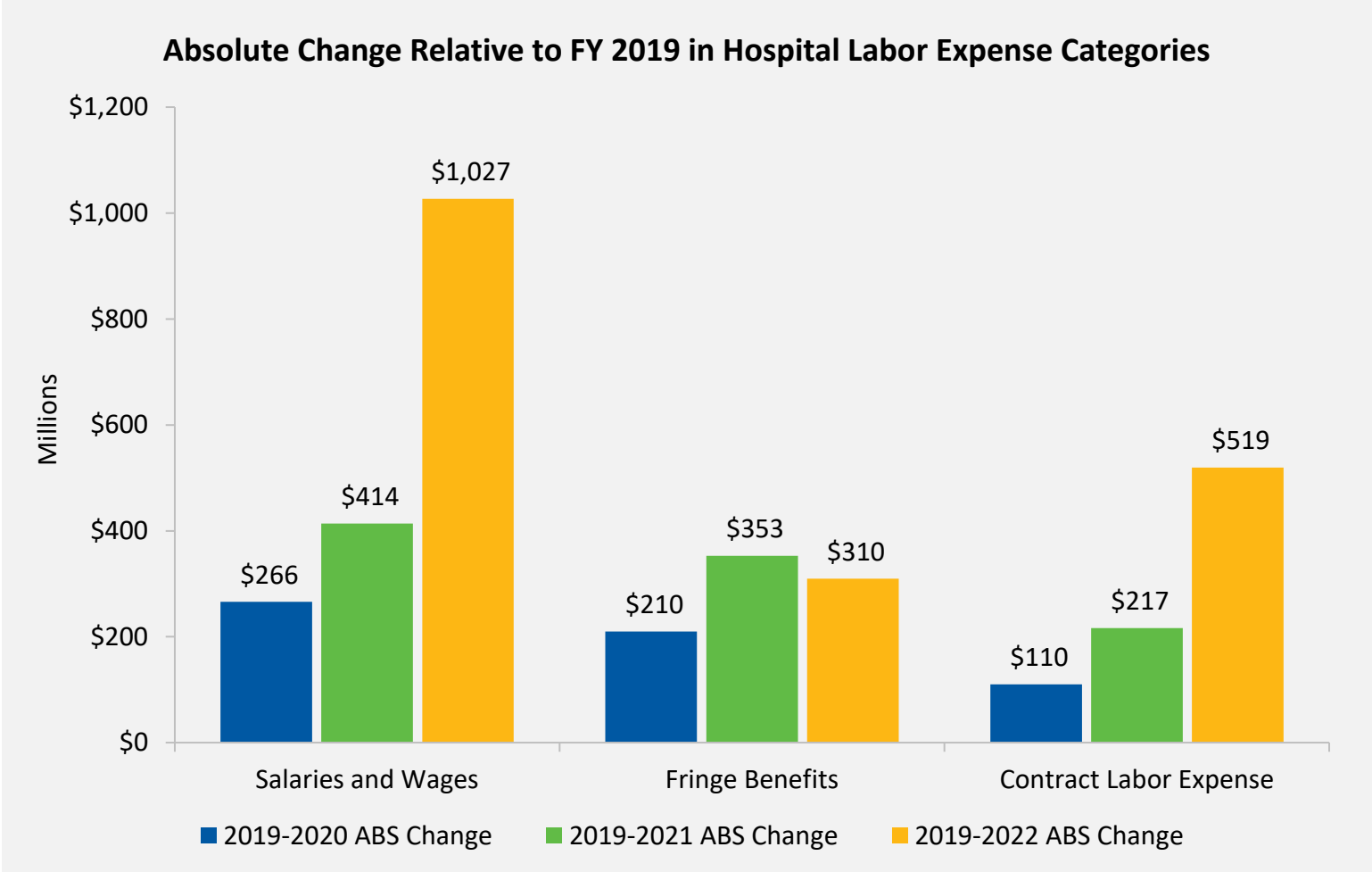


KEY TAKEAWAYS

- Growth in operating expenses for Connecticut hospitals has outpaced the national median for each fiscal year.
- Median growth in operating expenses for Connecticut hospitals grew twice as fast in FY 2022 compared to the national median.

Note: Unless otherwise noted, all values are medians. FY 2019 – 2021 data was sourced from OHS HRS 150, while data for fiscal year 2022 was sourced using the financial performance reports. National benchmarks were produced by Kaufman Hall using data sourced from Syntellis Performance Solutions’ Axiom Comparative Analytics.

Connecticut Hospital Salaries and Wages Were \$1 Billion Above Pre-Pandemic Levels in FY 2022



Note: Values reflect the sum of hospital operating expenses in Connecticut for each fiscal year, compared to FY 2019. FY 2019 – FY 2021 data was sourced from OHS HRS 150, while data for FY 2022 was sourced using the financial performance reports. Contract labor data was sourced using OHS HRS 175.

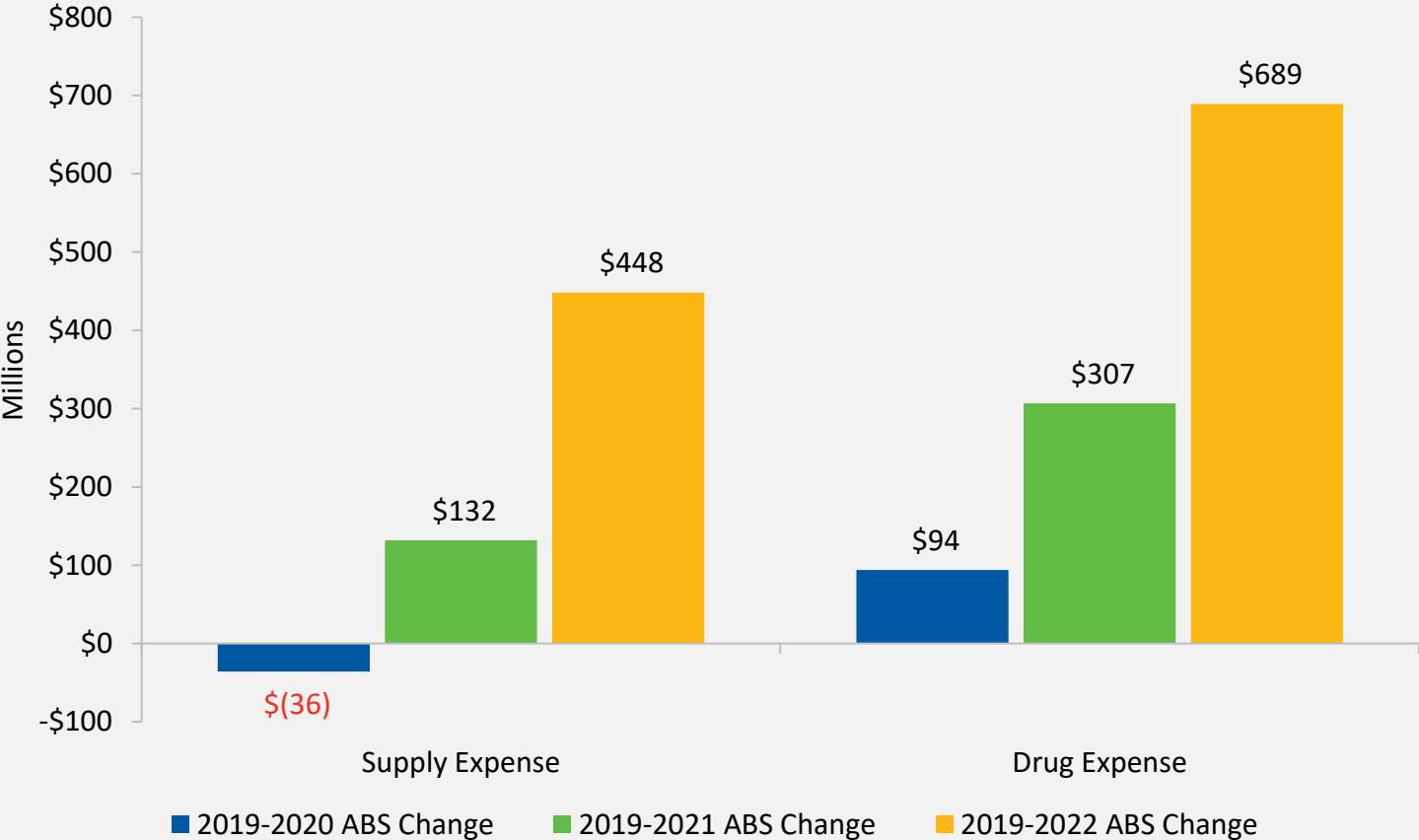
KEY TAKEAWAYS

- At the median, FY 22 salaries and wages increased **20%** compared to pre-pandemic levels.
- Median hospital contract labor expense increased **61%** compared to pre-pandemic levels.
- Contract labor expenses were **\$519 million** above pre-pandemic levels in FY 2022.

Connecticut Hospital Drug Expenses Were \$689 Million Above FY 2019 Levels in FY 2022



Absolute Change Relative to FY 2019 in Hospital Supply and Drug Expense



KEY TAKEAWAYS

- Connecticut hospital drug expenses increased more than supply expenses for each year since FY 2019.
- Supply expenses decreased slightly in FY 2020, but rose **\$448 million** in FY 2022 compared to FY 2019.
- In the three years combined following the start of the pandemic, Connecticut hospitals have spent a collective **\$1.6 billion** above FY 2019 levels on supplies and drugs.

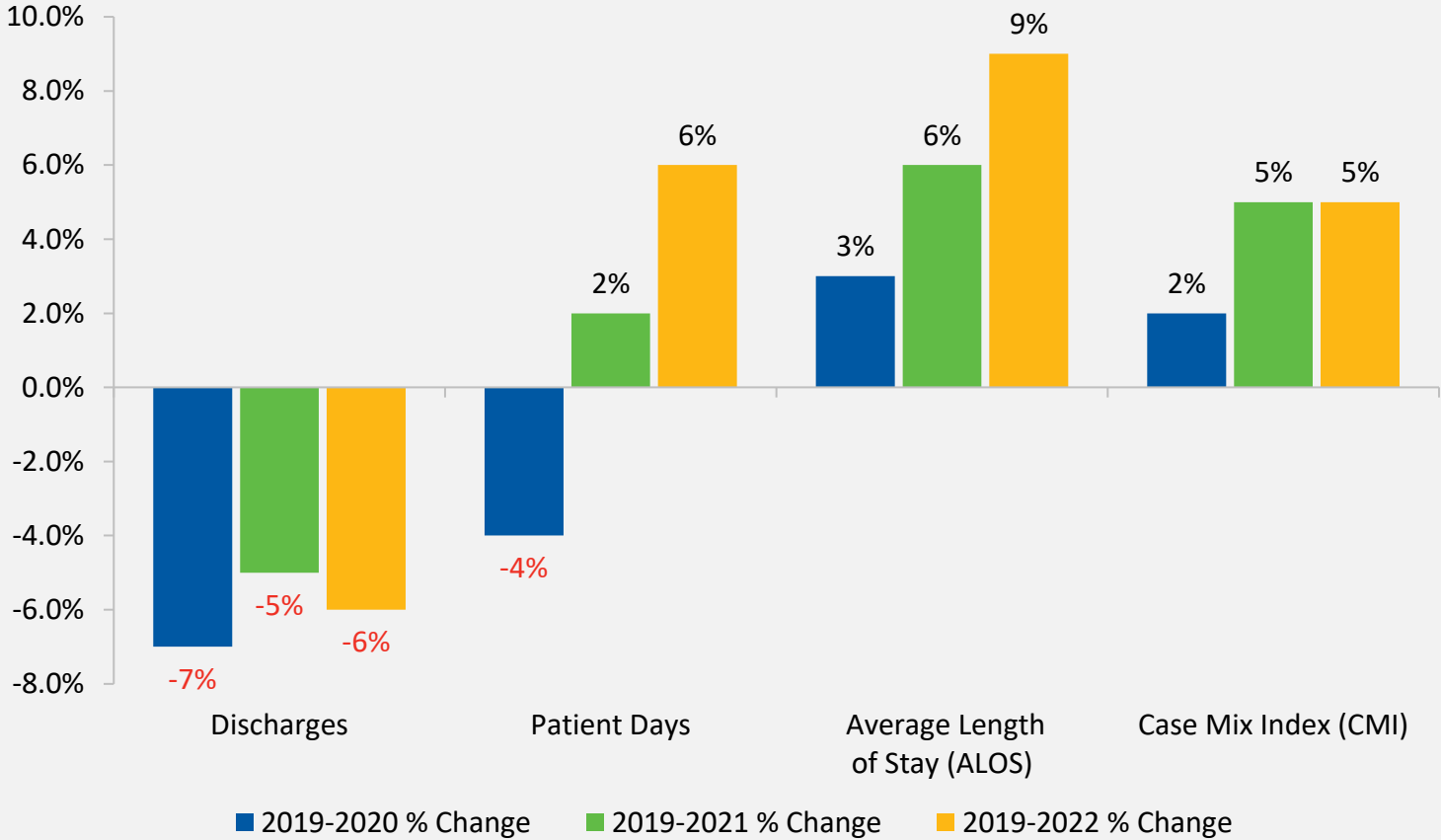
Note: Values reflect the sum of hospital operating expenses in Connecticut for each fiscal year, compared to FY 2019. FY 2019 – FY 2021 data was sourced from OHS HRS 150, while data for FY 2022 was sourced using the financial performance reports.

Hospital Volumes

Hospital Discharges Have Still Not Fully Recovered to Pre-Pandemic Levels



Median Percent Change Relative to FY 2019 in Hospital Volume Categories



Note: Unless otherwise noted, all values are medians. Data was sourced from the "FY 2019 – FY 2022 Hospital Utilization Summary" workbook.

KEY TAKEAWAYS

- An increase in patient days and decrease in discharges resulted in an increase in average length of stay (ALOS) of **9%** in FY 2022 compared to FY 2019; discharges have not recovered to pre-pandemic levels.
- Coupled with an increasing case mix index (CMI), these trends suggest that patients that are visiting hospitals have more severe health needs than prior to the pandemic.

Methodology

Report Methodology



Slides marked with a “hospital” icon in the top right corner contain data that represent the **median value** of Connecticut hospitals



Slides marked with a “CT” icon in the top right corner contain data that represents the **total value** of Connecticut hospitals

This report includes financial and operational data provided by the Connecticut Hospital Association for 27 hospitals. National benchmarks were produced by Kaufman Hall using data sourced from Syntellis Performance Solutions’ Axiom Comparative Analytics.

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