HEALTHCARE FINANCE NEWS

Hospitals aren't immune from Wall Street's meltdown

By *John Andrews, Contributing Writer* | 12/01/08 | MANAGEMENT 1208

NOW THAT HEALTHCARE is beset with the same troubles as the rest of the economy, it's official: No place is insulated from the Wall Street collapse.

"Even though hospitals' financial strength is about as good as it's ever been, they have been impacted negatively by the disruption," said Randy Waring, managing director of GE Healthcare Financial Services' Hospital Enterprise Group in Chicago. "On the cash flow side, they've been hit because interest rates have gone up on variable rate debt.

Their investment portfolios are losing money. Many hospitals have defined benefit pension plans and the value of those is going down, which will require them to raise additional cash to get their balances back up to a certain level."

Pension plans have taken a major hit as stock market values have plummeted 40 percent since October 2007, said John Tiscornia, managing director in healthcare practice for Chicago-based Huron Consulting Group.

"You're promising the employee those funds, but as stocks go down, hospitals will have to come up with more cash to fund them," he said. "As a result, we'll see larger pension plan liabilities. More importantly they will have to come up with more cash."

Putting construction projects on hold is an unfamiliar situation for an industry that has been used to pretty much building at will. Moreover, the financial stalemate will soon have a ripple effect into other areas of development, such as new pharmaceuticals and medical technology, Tiscornia said.

Research from Wachovia Capital Markets in New York paints a "deteriorating" picture of the current hospital financial situation.

"Our work indicates that hospitals are having difficulty raising capital and seeing deteriorating operating margins, forcing them to ration capital expenditures to increase free cash flow," a recent report on hospital capital spending states. "We think that hospitals have delayed and may continue to delay projects and we forecast declining capital budgets."

Hospitals are also hurting on the revenue side. Wachovia Senior Analyst Michael Matson says providers are feeling the pinch from fewer elective surgeries due to high co-pays and deductibles.

"Health plans are putting more of a cost burden on patients, who are increasingly deciding to put off having these surgeries," he said. "So it has become an economically sensitive area."

SUPPLY CHAIN REACTION

Financial performance drivers and revised outlooks for 2009 are causing a negative healthcare supply chain reaction, reports MedAssets.

The Atlanta-based hospital member service organization described the climate as follows: "Hospital CFOs need to be more cognizant about reimbursement reform initiatives, including Medicare RAC audits, and quality improvement programs such as Never Events, which can have a material negative impact on provider's reimbursement, cash collections, cash-days-on-hand and therefore access to low cost capital. Additionally, energy-related costs in everything from utilities, supplies made of plastic, latex, and steel, have experience upward cost pressures and are an unfavorable variance to future projections. These costs are further eating into operating margins."

The MedAssets statement also suggests that "there are opportunities for hospitals to generate cash from existing operations by taking advantage of revenue cycle solutions in areas such as up front patient bill estimation and patient

responsibility collections; claims and denials management; A/R management; solutions to address RAC audits to minimize the reimbursement impact."