OCTOBER 2021

National Hospital Flash Report

Real Data. Real Insight. Real Time.

*Based on September Data from Over 900 Hospitals*
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Key Observations
Summary

Overall performance
High numbers of high-acuity patients coupled with escalating expenses continued to stress the nation’s hospitals and health systems in September. Actual hospital operating margins remained close to the prior month’s levels. The median Kaufman Hall Operating Margin Index was 3.2% in September, not including federal CARES Act funding. With the aid, it was 4.1%.

Margins
Not including CARES, the median change in Operating Margin declined 18.2% from August to September. Compared to pre-pandemic levels in 2019, the median change in Operating Margin decreased 1.7% year-over-year (YOY). Hospitals in regions hardest hit by the recent COVID-19 Delta surge were most affected, with the West, South, and Northeast/Mid-Atlantic all experiencing YOY margin declines for the month.

Volumes
Patient volumes softened month-over-month, but rose across some metrics both YOY and year-to-date (YTD). In particular, hospitals continued to see an increase in sicker patients requiring longer lengths of stay. Patient Days increased 11.4% YOY and 9.3% YTD—but dropped 1.4% from August to September, reflecting a decrease in COVID-19 related hospitalizations. Average Length of Stay increased across the board, up 4.8% YOY versus 2020 and up 8.2% YOY versus 2019.

Revenues
Hospital revenues increased YTD compared to both 2019 and 2020 for a seventh consecutive month, due in part to yearly rate changes and the continued rise in higher acuity cases. Gross Operating Revenues (not including CARES) jumped 16.6% YTD and 12.3% YOY versus 2020 and 10.4% YTD and 18.2% YOY versus 2019. Growth in Inpatient Revenues outpaced Outpatient Revenues, reflecting some patients’ continued reluctance to seek care amid the ongoing pandemic.

Expenses
Expenses continued to climb. Total Expense per Adjusted Discharge was up 2.6% YTD and 12.9% YOY. Labor expenses rose across all measures even as the number of hospital workers per patient bed declined, reflecting higher pay as hospitals compete for healthcare professionals amid nationwide labor shortages. Non-labor expenses also rose due to significant increases in drug and supply expenses driven in part by worldwide supply chain issues.

Non-operating expenses
Supply chain and labor issues also affected non-operating expenses, as inflation continued to rise in September. The Consumer Price Index increased 5.4% YOY, up from 5.2% in August. Unemployment reached 4.8%, its lowest rate since the start of the pandemic, but jobs growth was unexpectedly weak with only 194,000 jobs added in September. The Federal Reserve said bond purchases will be reduced as early as November and half of the committee’s 18 members now project a rate hike in 2022.
Takeaways at a Glance

1. **Hospital performance declined in September by almost every metric.**
   While revenue increased from prior year performance, volumes dropped relative to pre-pandemic levels and expenses increased dramatically, leading to declines in margins.

2. **While fewer patients are being admitted, patients are staying longer.**
   There were fewer overall hospital admissions in September compared with August, likely due in part to a decline in COVID-19 patients. At the same time, the average patient length of stay rose, discharges decreased, and patient days remained high relative to pre-pandemic levels.

3. **Declining outpatient revenues may signal Delta-related consumer concerns.**
   While overall revenue is still high relative to pre-pandemic levels, a reduction in outpatient revenue compared with August suggests that consumer worries about accessing care during the recent Delta surge have led to another downswing.

4. **Expenses continue to rise dramatically.**
   Labor expenses continue to outpace the increase in the number of hours that hospital employees are working. In addition, large increases in supply and drug expenses point to worldwide supply chain issues.
Margins
National Margin Results

### MARGIN % CHANGE

<table>
<thead>
<tr>
<th></th>
<th>Budget Variance</th>
<th>Month-Over-Month</th>
<th>Year-Over-Year</th>
<th>Year-to-Date</th>
<th>Year-to-Date 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating EBITDA Margin Less CARES</td>
<td>-5.3%</td>
<td>-14.6%</td>
<td>-14.1%</td>
<td>46.6%</td>
<td>-6.1%</td>
</tr>
<tr>
<td>Operating Margin Less CARES</td>
<td>-1.9%</td>
<td>-18.2%</td>
<td>-9.7%</td>
<td>62.9%</td>
<td>-3.6%</td>
</tr>
</tbody>
</table>

Unless noted, figures are actuals and medians are expressed as percentage change.

### MARGIN ABSOLUTE CHANGE

<table>
<thead>
<tr>
<th></th>
<th>Budget Variance</th>
<th>Month-Over-Month</th>
<th>Year-Over-Year</th>
<th>Year-to-Date</th>
<th>Year-to-Date 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating EBITDA Margin Less CARES</td>
<td>-73.7</td>
<td>-155.2</td>
<td>-174.8</td>
<td>454.6</td>
<td>-58.2</td>
</tr>
<tr>
<td>Operating Margin Less CARES</td>
<td>-20.1</td>
<td>-163.3</td>
<td>-108.9</td>
<td>478.9</td>
<td>-51.4</td>
</tr>
</tbody>
</table>

### Kaufman Hall Operating Margin Index‘ YTD by Month

Source: National Hospital Flash Report (October 2021)

*Note: The Kaufman Hall Hospital Operating Margin and Operating EBITDA Margin Indices are comprised of the national median of our dataset adjusted for allocations to hospitals from corporate, physician, and other entities.*
EBITDA Margin by Region

Hospital margins suffered in September in regions most affected by the recent COVID-19 Delta surge. Not including CARES, the median change in Operating EBITDA Margin was down year-over-year (YOY) and below budget in the Northeast/Mid-Atlantic, South, and West. The West had the biggest YOY drop at 38%.

EBITDA Margin by Bed Size

The median change in Operating EBITDA Margin (without CARES) decreased YOY for five of six bed-size cohorts. The largest hospitals (500+ beds) had the biggest declines at 36% YOY and 41% below budget, while the smallest hospitals (0-25 beds) were the only cohort to see margins increase YOY and to budget.
Volumes
National Volume Results

<table>
<thead>
<tr>
<th>VOLUMES % CHANGE</th>
<th>Budget Variance</th>
<th>Month-Over-Month</th>
<th>Year-Over-Year</th>
<th>Year-to-Date</th>
<th>2019 Year-to-Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discharges</td>
<td>3.3%</td>
<td>-1.5%</td>
<td>6.8%</td>
<td>3.8%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Adjusted Discharges</td>
<td>-3.6%</td>
<td>-5.1%</td>
<td>2.4%</td>
<td>8.1%</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Patient Days</td>
<td>6.8%</td>
<td>-1.4%</td>
<td>11.4%</td>
<td>9.3%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Adjusted Patient Days</td>
<td>4.8%</td>
<td>-3.7%</td>
<td>7.0%</td>
<td>12.3%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>10.9%</td>
<td>0.7%</td>
<td>4.8%</td>
<td>4.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>ED Visits</td>
<td>9.8%</td>
<td>-6.0%</td>
<td>19.6%</td>
<td>8.3%</td>
<td>-10.5%</td>
</tr>
<tr>
<td>Operating Room Minutes</td>
<td>-5.6%</td>
<td>-4.5%</td>
<td>-7.9%</td>
<td>12.3%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Unless noted, figures are actuals and medians are expressed as percentage change.

Volume by Region

Discharges rose YOY for three regions and declined YOY in two. The West saw the biggest YOY increase at 11.5%, while the Great Plains had the biggest YOY decrease at 11.6%. Adjusted Discharges also rose YOY for three regions, but were down YOY and below budget for hospitals in the Great Plains and South.
Volume by Region (continued)

Adjusted Patient Days rose above budget and between 5.6% to 12% YOY for four regions. The Great Plains was the only region to see a YOY decrease at 20.1%. Average Length of Stay (LOS) was above budget across all regions and up YOY for three. The South had the biggest YOY jump at 16.4%.

Emergency Department (ED) Visits were above budget and up from 18.9% to 21.4% YOY for four regions. The Great Plains was an outlier, with ED Visits down 36% YOY and 40.9% below budget. Operating Room Minutes declined YOY in three regions and rose YOY in two, with the Great Plains up 119% YOY.
Discharges rose YOY and above budget for all hospitals, with 0-25 bed hospitals seeing the biggest YOY increase at 21.4%. Adjusted Discharges increased YOY for five of six bed-size cohorts, but only two were above budget. Hospitals with 100-199 beds were down less than 1% YOY for the metric.

Adjusted Patient Days rose more than 5.4% YOY for all cohorts, with the largest hospitals (500+ beds) seeing the biggest increase at 9.6%. Only 200-299 bed hospitals were below budget. Average LOS was up more than 4.3% YOY for five cohorts, with 100-199 bed hospitals seeing the biggest jump at 12.6% YOY.
**Volume by Bed Size** (continued)

ED Visits were above budget and up between 15.2% and 21.2% YOY for hospitals of all sizes. Operating Room Minutes were down YOY and below budget for five bed-size cohorts. The smallest hospitals with 0-25 beds were the outlier, with Operating Room Minutes jumping 71.6% YOY and 4.1% above budget.
Revenues
National Revenue Results

### REVENUE % CHANGE

<table>
<thead>
<tr>
<th></th>
<th>Budget Variance</th>
<th>Month-Over-Month</th>
<th>Year-Over-Year</th>
<th>Year-to-Date</th>
<th>2019 Year-to-Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Operating Revenue Less CARES</td>
<td>9.3%</td>
<td>-1.4%</td>
<td>12.3%</td>
<td>16.6%</td>
<td>10.4%</td>
</tr>
<tr>
<td>IP Revenue</td>
<td>10.9%</td>
<td>1.5%</td>
<td>19.4%</td>
<td>12.2%</td>
<td>6.9%</td>
</tr>
<tr>
<td>OP Revenue</td>
<td>6.6%</td>
<td>-3.3%</td>
<td>10.8%</td>
<td>19.6%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Bad Debt and Charity</td>
<td>-6.7%</td>
<td>-6.9%</td>
<td>12.7%</td>
<td>0.3%</td>
<td>-6.2%</td>
</tr>
<tr>
<td>NPSR per Adjusted Discharge</td>
<td>14.5%</td>
<td>4.1%</td>
<td>11%</td>
<td>7.8%</td>
<td>15.2%</td>
</tr>
<tr>
<td>NPSR per Adjusted Patient Day</td>
<td>2%</td>
<td>3.5%</td>
<td>5.2%</td>
<td>4.1%</td>
<td>9.2%</td>
</tr>
<tr>
<td>IP/OP Adjustment Factor</td>
<td>-2.1%</td>
<td>-1.8%</td>
<td>-3.3%</td>
<td>2.6%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Bad Debt and Charity as a % of Gross</td>
<td>-14.6%</td>
<td>-5.9%</td>
<td>-1.6%</td>
<td>-13.2%</td>
<td>-14.6%</td>
</tr>
</tbody>
</table>

Unless noted, figures are actuals and medians are expressed as percentage change.

### Revenue by Region

For a second consecutive month, Net Patient Service Revenue (NPSR) per Adjusted Discharge rose YOY and above budget for all regions, with the South again seeing the biggest increases. NPSR per Adjusted Patient Day was up YOY in four of five regions. The Great Plains had the biggest YOY jump at 27.7%.
Revenue by Region (continued)

The Inpatient/Outpatient (IP/OP) Adjustment Factor declined YOY for four regions, but was up 2% YOY in the Great Plains. Bad Debt and Charity as a Percent of Gross was below budget across all regions, and only the Northeast/Mid-Atlantic had a YOY increase for the metric at 19.7%.
Revenue by Bed Size

NPSR per Adjusted Discharge was up YOY and to budget for all bed-size cohorts for a second month in a row, with 26-99 bed hospitals again seeing the biggest YOY increase. NPSR per Adjusted Patient Day rose YOY for all cohorts, but was below budget in two. Hospitals with 0-25 beds had the biggest YOY jump at 25.1%.

The IP/OP Adjustment Factor declined YOY for all cohorts, with 26-99 bed hospitals seeing the biggest drop at 7.6% YOY and only 0-25 bed hospitals above budget. Bad Debt and Charity as a Percent of Gross was more than 10.4% below budget for all cohorts, but up YOY for the two largest hospital cohorts.
Expenses
National Expense Results

<table>
<thead>
<tr>
<th>EXPENSES % CHANGE</th>
<th>Budget Variance</th>
<th>Month-Over-Month</th>
<th>Year-Over-Year</th>
<th>Year-to-Date</th>
<th>Year-to-Date 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expense</td>
<td>7.6%</td>
<td>2.2%</td>
<td>11.2%</td>
<td>8.9%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Total Labor Expense</td>
<td>8.8%</td>
<td>1.4%</td>
<td>14.6%</td>
<td>8.9%</td>
<td>11%</td>
</tr>
<tr>
<td>Total Non-Labor Expense</td>
<td>7.2%</td>
<td>1.3%</td>
<td>10.3%</td>
<td>8.8%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Supply Expense</td>
<td>15.2%</td>
<td>1.2%</td>
<td>15.4%</td>
<td>14.2%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Drugs Expense</td>
<td>36.6%</td>
<td>3.9%</td>
<td>43.9%</td>
<td>23.5%</td>
<td>29.5%</td>
</tr>
<tr>
<td>Purchased Service Expense</td>
<td>5.2%</td>
<td>2.5%</td>
<td>10.9%</td>
<td>12%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Total Expense per Adjusted Discharge</td>
<td>13.8%</td>
<td>7.6%</td>
<td>12.9%</td>
<td>2.6%</td>
<td>17%</td>
</tr>
<tr>
<td>Labor Expense per Adjusted Discharge</td>
<td>16.3%</td>
<td>9.5%</td>
<td>18.4%</td>
<td>3.0%</td>
<td>15.6%</td>
</tr>
<tr>
<td>FTEs per AOB</td>
<td>-5.6%</td>
<td>0.4%</td>
<td>-3.3%</td>
<td>-8.1%</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Non-Labor Expense per Adjusted Discharge</td>
<td>10.4%</td>
<td>5.8%</td>
<td>8.9%</td>
<td>1.9%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Supply Expense per Adjusted Discharge</td>
<td>25.8%</td>
<td>5.2%</td>
<td>14.2%</td>
<td>4.6%</td>
<td>20%</td>
</tr>
<tr>
<td>Drug Expense per Adjusted Discharge</td>
<td>32.1%</td>
<td>3.9%</td>
<td>40.4%</td>
<td>14.3%</td>
<td>37.1%</td>
</tr>
<tr>
<td>Purchased Service Expense per Adjusted Discharge</td>
<td>11.2%</td>
<td>6.8%</td>
<td>11.9%</td>
<td>5.5%</td>
<td>15.4%</td>
</tr>
</tbody>
</table>

Unless noted, figures are actuals and medians are expressed as percentage change
Total Expense and Labor Expense per Adjusted Discharge both rose YOY and above budget across all regions. The South had the biggest YOY increases for both, up 22.3% and 30.6%, respectively. Full-Time Equivalents (FTEs) per Adjusted Occupied Bed (AOB) were down YOY and below budget for hospitals in four regions.
Expense by Region (continued)

Non-Labor Expense and Supply Expense per Adjusted Discharge increased YOY and to budget for all regions for a second consecutive month. The South again saw the biggest increases for both metrics, up 15.7% YOY and 16.2% above budget and up 24.2% YOY and 30.5% above budget, respectively.

Drug Expense per Adjusted Discharge rose YOY for all regions, and only the Great Plains was below budget. The South had the biggest increases at 69.5% YOY and 82.5% above budget. Purchased Service Expense per Adjusted Discharge rose YOY and above budget for hospitals in four of five regions.
Expense by Bed Size

Total Expense and Labor Expense per Adjusted Discharge both rose YOY and to budget for hospitals of all sizes in September. Hospitals with 100-199 beds had the biggest YOY increases at 14% and 23.4%, respectively. FTEs per AOB dropped YOY and below budget for four of six bed-size cohorts.
Expense by Bed Size (continued)

Non-Labor Expense and Supply Expense per Adjusted Discharge both rose YOY and above budget for hospitals of all sizes for a second consecutive month. Hospitals with 0-25 beds had the biggest increases, rising 16.2% YOY and 14.8% above budget and 24.2% YOY and 34% above budget, respectively.

Drug Expense and Purchased Service Expense per Adjusted Discharge also rose YOY and to budget for all cohorts for the second month in a row. Hospitals with 26-99 beds had the biggest YOY increase for drugs at 60.2%, while 0-25 bed hospitals had the biggest YOY increase for purchased services at 20.4%.
Non-Operating
# National Non-Operating Results

<table>
<thead>
<tr>
<th></th>
<th>September 2021</th>
<th>Month-Over-Month</th>
<th>Year-Over-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Growth†</td>
<td>6.7%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.8%</td>
<td>-0.4%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Personal Consumption Expenditures (YoY)</td>
<td>3.6%</td>
<td>n/c</td>
<td>+2.1%</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1m LIBOR</td>
<td>0.08%</td>
<td>n/c</td>
<td>-7 bps</td>
</tr>
<tr>
<td>SIFMA</td>
<td>0.05%</td>
<td>+3 bps</td>
<td>-6 bps</td>
</tr>
<tr>
<td>30yr MMD</td>
<td>1.67%</td>
<td>+15 bps</td>
<td>+5 bps</td>
</tr>
<tr>
<td>30yr Treasury</td>
<td>2.04%</td>
<td>+11 bps</td>
<td>+59 bps</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>60/40 Asset Allocation*</td>
<td>n/a</td>
<td>-3.1%</td>
<td>+14.6%</td>
</tr>
</tbody>
</table>

† U.S. Bureau of Economic Analysis, Q2 2021 "Third Estimate"

* 60/40 Asset Allocation assumes 30% S&P 500 Index, 20% MSCI World Index, 10% MSCI Emerging Markets Index, 40% Barclays US Aggregate Bond Index
Benchmark rates rose in September with the 30-year U.S. Treasury up 11 basis points (bps) to 2.04% and 30-year MMD up 15 bps to 1.67%. Demand remains strong as municipal bond funds saw $7.1 billion of inflows in September for a 17th consecutive month of positive fund flows.

**Non-Operating Liabilities**

**Long Term – Monthly Municipal Bond Fund Flows with 30-Year U.S. Treasury and 30-Year MMD**

**NOTE:** Taxable and tax-exempt debt capital markets, as approximated here by the “30-year U.S. Treasury” and “30-year MMD Index,” are dependent upon macroeconomic conditions, including inflation expectations, GDP growth, and investment opportunities elsewhere in the market. A key measure to track is bond fund flows, particularly in the more supply and demand sensitive tax-exempt market. Fund flows are monies moving into bond funds from new investments and principal and interest payments on existing and maturing holdings. Strong fund flows generally signal that investors have more cash to put to work, a boon to demand. Fund inflows generally are moderate and consistent over time, while fund outflows typically are large and sudden as external events affect investor sentiment, resulting in quick position liquidation which can drive yields up considerably in a short amount of time.
Non-Operating Liabilities (continued)

Last Twelve Months – Monthly Municipal Bond Fund Flows with 30-Year U.S. Treasury and 30-Year MMD

Source: Kaufman Hall National Hospital Flash Report, October 2021
Non-Operating Assets

Long Term – Illustrative Investment Portfolio Returns, Month-Over-Month Change

The 60/40 blended asset portfolio ended September down 3.1%. The S&P 500 finished down 4.8% for the month, ending seven consecutive months of gains. The MSCI World Index finished down 4.3%. The MSCI Emerging Markets Index finished the month down 4.2%, with the Barclays Aggregate Index down 0.9%. The 60/40 portfolio was up 14.6% YOY.

Last Twelve Months – Illustrative Investment Portfolio Returns, Month-Over-Month Change

*Illustrative portfolio consists of 40% Broad Fixed Income, 30% Domestic Equities, 20% Int'l Developed Equities, and 10% Emerging Market Equities
† Rates as of last day of the month
About the Data

The National Hospital Flash Report uses both actual and budget data over the last three years, sampled from over 900 hospitals on a recurring monthly basis from Syntellis Performance Solutions. The sample of hospitals for this report is representative of all hospitals in the United States both geographically and by bed size. Additionally, hospitals of all types are represented, from large academic to small critical access. Advanced statistical techniques are used to standardize data, identify and handle outliers, and ensure statistical soundness prior to inclusion in the report. While this report presents data in the aggregate, Syntellis Performance Solutions also has real-time data down to individual department, jobcode, paytype, and account levels, which can be customized into peer groups for unparalleled comparisons to drive operational decisions and performance improvement initiatives.

General Statistical Terms

- **Range**: The difference in value between the maximum and minimum values of a dataset
- **Average (Mean)**: The average value of an entire dataset
- **Median**: The value that divides the dataset in half, the middle value
- **1st Quartile**: The value halfway between the smallest number and the median
- **3rd Quartile**: The value halfway between the median and the largest number
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Talk to us

Have a comment on the Kaufman Hall National Hospital Flash Report?
We want to hear from you. Please direct all questions or comments to flashreports@kaufmanhall.com