HEALTHCARE EXPERIENCES LINGERING PANDEMIC CHALLENGES

HOSPITALS FACE LABOR MARKET STRAINS

More than a year and a half into the pandemic, the US economy is still missing around 4.3 million workers. At the same time, American employers are working to fill more than 10 million job openings needed to meet robust consumer demand. Resulting labor shortages are affecting most aspects of the economy, pressuring labor costs and, in some cases, slowly reshaping the workforce.

The healthcare industry has taken some of the hardest hits given a severe nursing shortage. Open nursing positions in September were 255% greater than at the same time last year. The University of California, San Francisco recently reported that the availability of California-registered nurses is falling 40,567 short of demand, a 13.6% gap that is expected to linger for years to come.

Although nursing shortages are not new, the trend has been significantly worsened by the pandemic, adding to the hospital sector's fiscal and operational challenges. In March of 2020 hospitals were required to postpone elective surgeries, draining away an important source of revenue. Even after such restrictions were lifted, many people postponed optional surgeries and limited hospital visits due in large part to enduring concerns. Now, as COVID-19 cases are beginning to wane and optimism is rebounding, hospitals are facing acute staffing challenges.

Hospitals have been working to combat labor shortages through sign-on bonuses, increased pay, and by supplementing staff with costly travel nurses. Providence Health, one of the largest health systems in the country, recently announced an investment of more than $200 million aimed at filling open positions and rewarding caregivers already on staff. Sign-on and retention bonuses have become industry standard in recent months, a favorable dynamic for employees, but one that is significantly increasing costs.

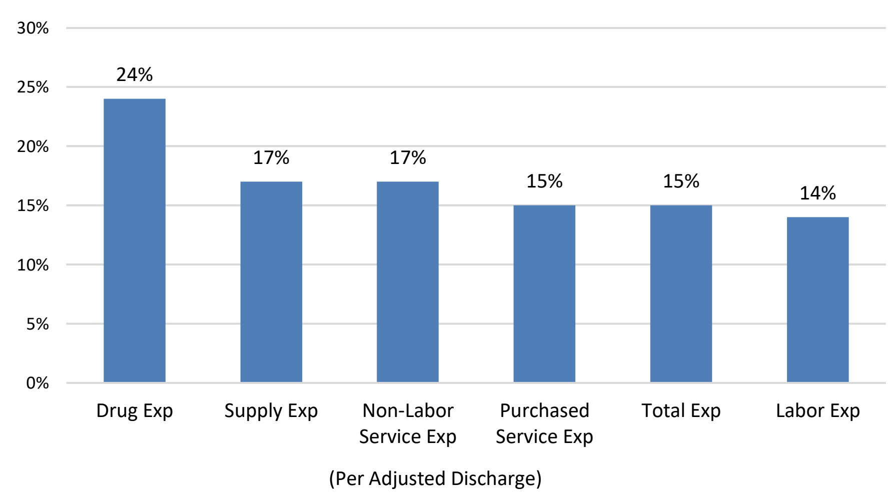
RISING COSTS SEEN ACROSS HEALTHCARE INDUSTRY

Healthcare systems are also dealing with rising costs associated with drugs, personal protective equipment, and from treating higher acuity patients such as those with severe cases of COVID-19. The nationwide median length of stay, an indication of patient acuity, is up about 8% YTD vs. 2019. Taken as a whole, many hospital systems must address strained budget conditions due to higher staff, supply and other patient care expenses.

Kaufman, Hall & Associates, a healthcare management consulting firm, estimates that total expenses per adjusted discharge, an approximate measure of the cost of patient care, are up 15% compared to pre-pandemic levels. Adding to these fiscal challenges is a reduction in higher margin outpatient visits, an element of the business mix needed to help offset budget strains in other areas.

Furthermore, Kaufman Hall projects hospitals nationwide will collectively incur an estimated $54 billion of lost net income compared to pre-pandemic levels over the course of 2021, despite generous CARES Act funding. More than one third of US hospitals are expected to run negative profit margins this year, a reality that speaks to the need to carefully evaluate balance sheet strength and fiscal management.

Charges in Expenses YTD as Compared with Pre-Pandemic Levels



Source: Kaufman, Hall & Associates, LLC

CREDIT VIGILANCE IS WARRANTED

While we expect the healthcare sector to remain under pressure for some time, the ability of individual hospital systems to manage through these challenges differs considerably. Some entered the pandemic with far greater financial resources and deeper management expertise than others, factors that give our research team confidence in their ability to maintain strong credit standing. We are carefully monitoring how individual hospitals are responding to today's difficulties and continue to favor larger systems with economies of scale and related financial flexibility.

ONE POST OFFICE SQ. BOSTON, MA 02109 TEL. 617.338.0700 WWW.APPLETONPARTNERS.COM