

COVID-19's Impact on Hospitals Is More Than Financial as Volume Reductions Continue

The number of patients going to New Jersey hospitals for care or procedures continues to be dramatically below pre-pandemic levels. Significant decreases in patient activity are present across all settings, raising concerns about the potential impact on residents' health and the financial and operational challenges for hospitals and other healthcare providers as an anticipated post-COVID rebound remains uncertain.

This bulletin examines hospital data through the third quarter of 2020, ending Sept. 30, 2020. It continues a quarterly review of hospital utilization and financial data first provided last October by NJHA's Center for Health Analytics, Research & Transformation (CHART).

The 2020 third-quarter data shows the pandemic's deep, sustained impact on hospitals when compared to the same time frame in 2019, before COVID-19 sparked the greatest public health threat in a century. The data reveals:

- Hospital emergency department cases plummeted 27 percent.
- Outpatient visits dropped by 20 percent.
- Inpatient admissions decreased 9.6 percent.
- Total expenses jumped 10 percent.
- Patient revenues and average operating margins declined.
- The percent of hospitals posting operating losses nearly doubled.

These findings show the continuing effect of COVID-19 on hospital finances and patient volumes. Relief aid from federal legislation such as the Coronavirus Aid, Relief, and Economic Security (CARES) Act to hospitals in New Jersey and throughout the nation has not erased the financial strain as hospitals continue to care for patients and play a leading role in vaccinating their staffs and communities.

Of the \$175 billion of Provider Relief Fund payments appropriated by the CARES Act, roughly \$103 billion has already been paid to more than 400,000 hospitals, nursing homes, clinics and other healthcare providers throughout the nation. According to federal data updated through Jan. 27, 2021, nearly 16,500 New Jersey providers have collectively received \$4.3 billion in Provider Relief Fund payments.

Despite this short-term federal relief, as of Sept. 30, 2020, the proportion of New Jersey hospitals operating "in the red" (with net revenues insufficient to cover operating expenses) was 41 percent – nearly twice the percentage just one year ago (22 percent).

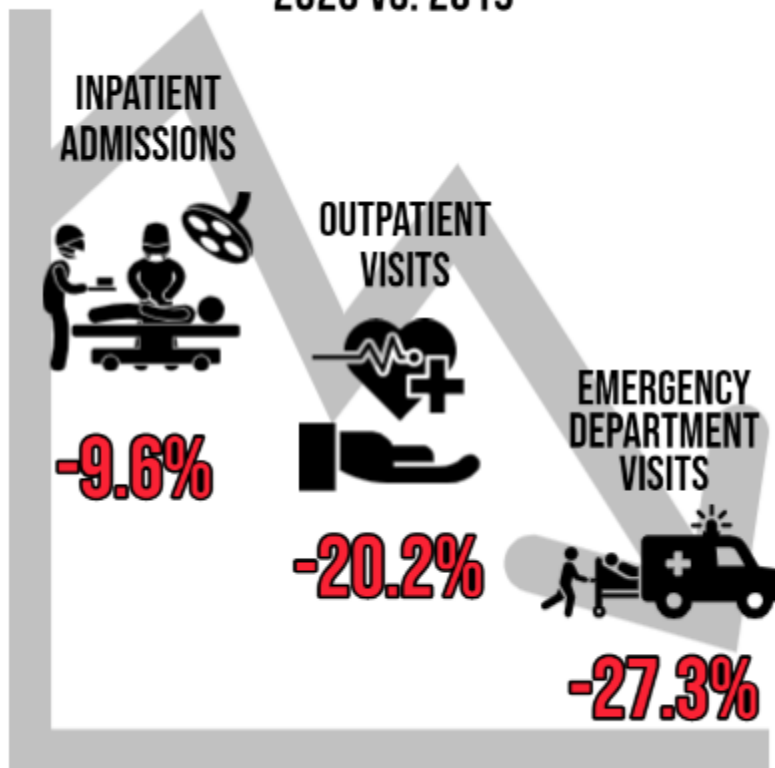
Volume Indicators

The ongoing reductions in patient volumes across all settings – inpatient admissions, outpatient visits and emergency department visits – compared with pre-COVID-19 levels, continue to adversely impact the fiscal health of the state's hospitals.

With inpatient admissions accounting for more than half of all patient revenues, even a modest reduction in volume can wreak havoc on hospital budgets. Through the third quarter of 2020, inpatient admissions were 9.6 percent lower than admissions through the same period in 2019. The falloff in outpatient visits was even greater over the same period, declining 20.2 percent in 2020 compared to 2019.

The most dramatic reductions in volume, however, were seen in the emergency department setting. Through Sept. 30, year-to-date emergency department visits were 27.3 percent lower in 2020 than last year. These figures exclude visits that resulted in the patient being admitted to the hospital, as such patients are captured in the inpatient totals.

CHANGE IN N.J. HOSPITAL PATIENT VOLUMES 2020 VS. 2019*



*from Jan. 1 to Sept. 30 for both years

Financial Performance

A hospital's fiscal performance is inextricably linked to patient volumes. To better understand the industry's overall financial status, this analysis first examined revenues and expenses independently. Comparisons to historical levels were made by calculating the average amount of expenses incurred – and net patient service revenue (NPSR) received – for all services provided to patients across any setting. The resulting “per adjusted admissions” metrics were then adjusted for case mix intensity (CMI) – the average severity of all patients treated at each hospital.

For the pre-COVID period year-to-date Sept. 30, 2019, the statewide average total expenses per adjusted admission, after adjusting for case mix, was \$11,298. One year later, after more than six months of costly pandemic response activity across the state, average hospital expenses increased 10 percent, to \$12,413 per adjusted admission.

While less extreme, the change in average revenues continued the downward trend observed earlier in the year. The nine-month average for total NPSR per adjusted admission was \$10,899 in 2019 (also adjusted for case mix). By Sept. 30, 2020, statewide revenues fell to \$10,613 (a decrease of 2.6 percent compared to 2019).

This increase in expenses, coupled with a decrease in revenues, is reflected in the statewide average operating margin. Through three-quarters of 2020, the average margin for New Jersey hospitals was 1.6 percent, less than half of the 3.6 percent average margin one year earlier. Similarly, the percent of hospitals ending the period with a negative margin, or “in the red,” nearly doubled – from 22 percent in Q3 2019 to 41 percent in Q3 2020.

This real decline in average operating margin persisted despite the influx of federal relief received through the Provider Relief Fund provisions of the CARES Act. According to the American Hospital Association, this funding falls far short of covering hospitals' losses. As noted above, hospitals and other providers have received only a little over half (59 percent)

of total relief funds available under the Act. Without the Provider Relief Fund payments already allocated to New Jersey hospitals, the 2020 statewide average operating margin would be even lower.

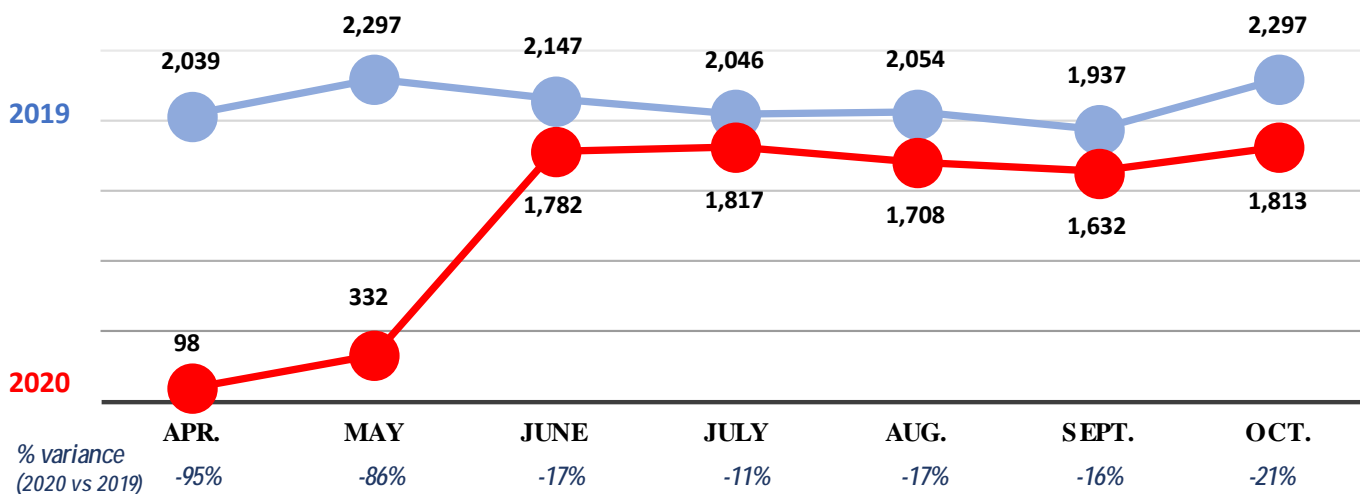
Update on Elective Procedures

The ongoing declines in patient volume across all hospital settings as of Sept. 30, 2020, continue to raise concerns about residents avoiding or delaying visits to their community hospital for certain healthcare services during the pandemic. In the mid-year report, CHART reviewed claims-level data for six common inpatient elective procedures (Bariatric Sleeve Gastrectomy, Pacemaker Insertion, Spinal Fusion, Right Knee Replacement, Left Knee Replacement, and Hernia Repair) performed both during and immediately after the two months the statewide ban on electives was in effect.¹

As expected, the volume for these selected procedures in the two months (June and July) immediately following the ban increased from the two months the ban was in place (April and May). However, when compared to the same months from one year earlier, it was clear that fewer procedures were being scheduled and performed in 2020.

In an updated analysis, CHART reviewed the claims data for the same six inpatient elective procedures for the five-month period following the rescinding of the ban (June through October 2020) compared to the same months in 2019. The results reaffirm the initial findings: While more electives are being performed than during the state-mandated ban, the number of procedures is substantially less than that from one year ago.

**Statewide Totals for Six Common Inpatient Elective Procedures
Performed at New Jersey Hospitals**



As shown in the graph above, volume for the inpatient elective procedures included in the study began to rebound in June – the first full month after the ban was lifted on May 26, 2020 – yet lagged behind 2019 levels by approximately 17 percent. In July the gap had closed to within 11 percent of prior year volume. But August and September saw a return to June levels, with 2020 monthly volumes at just 83 percent and 84 percent, respectively, of 2019 levels. It should be noted that the apparent decline in October activity may be overstated as a result of the inherent lag between the date of service for a given

¹ Gov. Murphy’s Executive Order 109, which called for a suspension of medical and dental “elective” procedures during the COVID-19 response, was in effect from March 27 through May 26, 2020. In order to simplify the discussion about volume trends, CHART considered the months of April and May 2020 in their entirety to represent the two-month period the ban was in effect, even though it began in late March and ended in late May. The order defined an elective procedure as “any surgery or invasive procedure that can be delayed without undue risk to the current or future health of the patient as determined by the patient’s treating physician or dentist.”

procedure and the date the claim for that service is reflected in the statewide hospital dataset. Nonetheless, it appears that a full rebound to historical levels of elective volume may be months away.

An alternate takeaway from these ongoing volume reductions in inpatient elective procedures – and more globally in overall admissions, outpatient visits and emergency department activity – is that hospital patient visits may not return to pre-COVID levels for the remainder of year. The possibility that the low volume levels currently presenting at New Jersey hospitals become the new “volume baseline” for 2021 must be considered. In fact, such a conclusion was reached by TransUnion Healthcare in a new [study](#) published last month. Based on data from more than 500 hospitals nationwide, the analysis found that inpatient admissions from June through December 2020 were down 7 percent compared to the same period in 2019, and emergency department visits were down 22 percent. These reductions are not dissimilar to the experience of New Jersey hospitals as discussed in this report.

The national study predicts that hospitals will likely see continued volatility in patient visit volumes over the next 12 months. Hospitals in New Jersey have already begun the process of adapting to treating fewer patients during the COVID-19 pandemic. Based on the recent statewide and national data, continued contingency planning throughout 2021 in anticipation of extended volume reductions should be considered.

Visit www.njha.com/chart/ for additional resources.