



Where Have All of the Hospitals Gone?

By: Michael Ryan, President of CostFlex Systems, Inc.

A common topic we discuss at our staff meetings are healthcare trends that we are seeing in the US and our client base. One trend that most people outside of our industry are not aware of is the issue of hospitals going out of business and shutting their doors.

In the last 40 years we have lost around 1,000 hospitals in the United States. Back in the 1970's there were over 7,100 hospitals operating in the USA. Currently, according to the American Hospital Association 2017 annual survey, we have 6,000+ total hospitals (5,262 community hospitals). There is confusion to the actual number of hospitals as organizations will count hospitals differently (i.e. Definitive Healthcare and the AHA have different metrics on what is a "hospital"). However, you count them, there have been 15 hospitals that have shut their doors in the last 6 months.

Of the hospitals shutting their doors, most seem to be small to medium sized hospitals. For those not in the healthcare arena, hospitals can be measured by "bed size" - about half of the hospitals in the US are 100 beds or less. These smaller hospitals tend to be located (but not always) in rural or smaller population areas.

Why are they shutting down? The main reason is financial; it costs the hospitals more to treat patients than they are getting paid from Medicare, Medicaid, and other sources. Even a not-for-profit hospital must make a profit to keep the doors open! Medicare has a solution for what is termed "Critical Access Hospitals" that provides small hospitals with a better reimbursement rate, however not all rural or small hospitals can qualify for this designation.

When hospitals shut down or merge in larger metropolitan areas, there is not a major impact to either the workforce (there are more hospitals to go work for) or patient care (again more hospitals to go to). But when a hospital closes in a rural area, or flyover country as it has been called, it can have a dramatic impact not only for patients that are in dire need of healthcare close to their homes, but the hospital tends to be one of the larger employers in the community and a nurse that is laid off will have to leave town to find work.

Where do we see the trend going with CostFlex clients? We have seen 3 of our clients go out of business in the last 30 years of business and others are merging / being bought by larger health systems. By merging the smaller hospitals are reducing staff (no need to have a separate business office or accounting department), and also reducing services (no need to have 3 MRI machines in the same geographic area or network). Reducing staff, equipment and services will help hospitals to cut fixed costs and stay profitable and, although not the best outcome, having a reduced / smaller hospital in your town is better than no hospital at all.

The future is uncertain in our industry, but we are doing what we can to give the best decision support tools possible to the CFO, CEO and cost accounting department to help them make informed decisions to keep their patient (the hospital) alive.