Research Announcement: Moody's - US NFP & public hospitals' annual medians show expense growth topping revenues for second year

New York, August 28, 2018 -- Expense growth continues to outpace revenue growth for US not-for-profit and public hospitals, and the widening gap places the sector on an unsustainable path, according to the fiscal 2017 sector medians from Moody's Investors Service. This is the second consecutive year expenses have topped revenues, and will remain the largest strain on NFP hospital profitability through 2019.

"Revenue pressures continue to overshadow expense saving initiatives," according to Moody's Analyst Rita Sverdlik. "While the median annual expense growth rate decelerated to 5.7% from 7.1%, annual revenue growth rate declined faster, to 4.6% from 6.1%."

Drivers of the lower revenue growth include lower reimbursement rates, shift to outpatient care, increased merger and acquisition activity, and increased ambulatory competition. The lower expense rate was largely achieved through better control of labor and supply costs.

Another emerging trend is a large jump in hospitals reporting operating deficits and lower absolute operating cash flow in 2017. The medians show 28.4% of hospitals with operating losses, which rose from 16.5% in 2016. The 59% of providers reporting lower absolute operating cash flow is more than double the 24% reported in 2015 and the highest percentage in five years.

Moody's expects NFP hospital margins will continue to be suppressed through 2018 after median margins fell to an all-time low of 1.6% operating and 8.1% of operating cash flow.

"Margin pressures led to softened debt coverage ratios, though the median growth rate of total debt has been negative over the last five years," Sverdlik says. "Ongoing operating pressures will constrain the ability to reverse these trends, especially if providers turn to debt to fund capital needs."

The medians did show some positive financial signs. Median unrestricted cash and investments growth rate improved to 8.9% amid strong market returns and steady capital spending. Absolute cash growth exceeded expense growth, which led to improved median cash on hand to 209.9 days, but this trend will not continue if more cash flow is spent on capital or equity markets fall.

Median outpatient growth rates also exceeded inpatient growth rates for the fifth straight year as the sector shifts to less expensive care.

"Reversing sluggish volume trends and growing profitable service lines will be critical to improving the sector's financial trajectory over the near-term as most hospitals continue to operate in a fee-for-service environment," said Sverdlik.

Subscribers can access the report "Not-for-profit and public healthcare – US: Medians - Operating pressures persist as growth in expenses exceeds revenue," at: http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1135090

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