

## 2014 to See Reduction in Capital Healthcare Expenditures?

In a changing economic healthcare environment in the midst of healthcare reform, it may come as no surprise that many hospitals and health systems are planning to reduce capital spending amounts, as compared to prior years. A 2013 survey by Premier Healthcare Alliance found that the majority of surveyed providers (69%) cited reimbursement cuts as one of the trends that will most significantly impact facilities in 2014.<sup>1</sup> In addition, survey respondents indicated that the top drivers of healthcare costs in 2014 are expected to include: (1) legislation/mandates; (2) labor costs; (3) misalignment of quality and payment incentives; and, (4) overuse of products and services.<sup>2</sup> As a result of some of these cost pressures, hospitals have increasingly reported reduced capital budgets since 2010. Compounding these effects, 40% of respondents expect to see a decrease in inpatient admissions in favor of increasing outpatient and ambulatory care treatment.<sup>3</sup> A separate survey of 391 hospitals, conducted by Premier in 2012, found that while inpatient volumes and surgeries decreased by 1.5% and 2.2%, respectively, outpatient visits and surgeries increased by 2.9% and 1.5%, respectively.<sup>4</sup>

The increasing utilization of outpatient services and decreasing utilization of inpatient care is no recent phenomena. The Health Care Cost Institute's (HCCI) 2012 Health Care Cost and Utilization report found a consistent historical low in the growth of overall healthcare expenditures and a continuous decrease in inpatient admission, while the increase of outpatient expenditures outstripped all other service categories since 2009.<sup>5</sup> A publication in Health Affairs reported similar decreases in inpatient visits (1.1%) and increases in outpatient visits (0.7%), from 2010 to 2011.<sup>6</sup>

It is difficult to identify definitive reasons for these distinct trends in national healthcare expenditures; however, an analysis by the Henry J. Kaiser Family Foundation suggests that while structural changes in the healthcare system may moderately influence spending trends, the primary reason for a general decline in capital spending is related to the general economy.<sup>7</sup> Healthcare notoriously lags behind other industries in response to economic downturns, so this trend is not wholly unpredictable, though as the economy improves it will be difficult to determine whether downturns in healthcare spending will be maintained.<sup>8</sup> Importantly,

however, due to implications of the Affordable Care Act (ACA), and associated changes to Medicare and Medicaid, the Congressional Budget Office has continued to lower projections for healthcare spending in its predictive models.<sup>9</sup>

While it may not be possible to quantify the influence of specific drivers for many of the healthcare spending trends, one recently released article justified these trends, noting that, "[f]rom the uncertainty surrounding health insurance exchanges... the anticipated influx of newly insured patients... [Recovery Audit Contractor] RAC audits and the controversial two-midnight rule, providers are feeling the financial squeeze from all sides right now."<sup>10</sup> Given the continuation of many of these new regulations and policies, the continuing emphasis on waste reduction, and the streamlining of quality care under the ACA, it seems unlikely that hospital capital budgets will expand in the near future.

- 1 "Premier Economic Outlook", by Premier Healthcare Alliance, Fall 2013, p. 19
- 2 *Ibid*, p. 61
- 3 *Ibid*, p. 63
- 4 *Ibid*, p. 71
- 5 "2012 Health Care Cost and Utilization Report", by Health Care Cost Institute, September 2013, pp. iii, 1, 7
- 6 "National Health Spending in 2011: Overall Growth Remains Low, But Some Payers and Services Show Signs of Acceleration", by Hartman et al., Health Affairs, 2013, Vol. 32, No. 1, p. 93
- 7 "Assessing the Effects of the Economy on the Recent Slowdown in Health Spending", by the Henry J. Kaiser Family Foundation, April 22, 2013, <http://kff.org/health-costs/issue-brief/assessing-the-effects-of-the-economy-on-the-recent-slowdown-in-health-spending-2/> (Accessed 12/15/13)
- 8 *Ibid*
- 9 "How Have CBO's Projections of Spending for Medicare and Medicaid Changed Since the August 2012 Baseline?" by Doug Elmendorf, The Congressional Budget Office, February 21, 2013, <http://www.cbo.gov/publication/43947> (Accessed 12/15/13)
- 10 "Healthcare Providers' Capital Spending Growth Expected to Dip in 2014", by Rene Letourneau, HealthLeaders Media, November 25, 2013, <http://www.healthleadersmedia.com/print/FIN-298667/Healthcare-Providers-Capital-Spending-Growth-Expected-to-Dip-in-2014> (Accessed 12/8/13)



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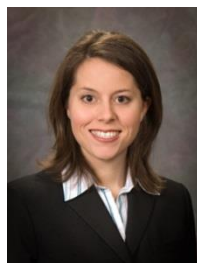
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