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Recent Stories Covering Financial Troubles at U.S. Teaching Hospitals

Clippings from newspapers
April 15, 1999

- GU Medical Center Loses 62.4 Million; Deficit Results in Lower Credit Rating
  The Washington Post
  By Avram Goldstein
  January 7, 1999

- Lifespan slashes 506 positions
  The Providence Journal
  By Brian C. Jones, Journal Staff Writer
  March 25, 1999

- Bradley Hospital announces layoffs
  The Providence Journal
  By Felice J. Freyer, Journal Medical Writer
  March 18, 1999

- Ford Health System plans more layoffs
  Detroit Free Press
  By Patricia Anstett, Free Press Medical Writer
  March 24, 1999

- Mercy Health Services will slash 1,350 jobs by July
  Detroit Free Press
  By Boaz Herzog
  March 31, 1999

- MGH will cut 130 jobs, raise prices
  The Boston Globe
  By Alex Pham, Globe Staff Writer
  March 20, 1999

- Early losses cited by area hospitals: Medicare cuts blamed for woes in first quarter
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  By Alex Pham, Globe Staff Writer
  March 19, 1999

Hospital Coverage--2

- Detroit Medical Center Bond Ratings Slip
  Detroit Free Press
  By Boaz Herzog, Staff Writer
  February 13, 1999

- Wayne State's links to DMC examined
  Detroit Free Press
  By Patricia Anstett, Free Press Medical Writer
  January 23, 1999

- DMC Chief quits amid reports of big losses
  Detroit Free Press
  By Patricia Anstett, Free Press Medical Writer
  December 16, 1998

- UCSF Stanford announces $170 million budget balancing plan
  Press Release
  March 30, 1999

- UCSF Stanford hospitals brace for cuts. Unexpected $10.7 million loss may mean reducing staff 15%
  San Francisco Chronicle
  By Tom Abate, Chronicle Staff Writer
  March 5, 1999

- University of Illinois at Chicago Medical Center eliminating 250 jobs
  Chicago Tribune
  By Bruce Jaspen, Tribune Staff Writer
  March 9, 1999

- Many Pennsylvania hospitals in the red, study says"
  Philadelphia Inquirer
  By Josh Goldstein
  March 17

- Hospital profits helped by stocks
  Pittsburgh Post Gazette
  By Pamela Gaynor
  March 17, 1999

Hospital Coverage–3

- Primary Health seeks Chapter 11 protection
  Associated Press
  March 19, 1999

- Penn's Bond Rating is Downgraded Because of Financial Losses at Its Hospitals
  The Chronicle of Higher Education
  By Martin Van Der Werf
  April 2, 1999

- Profits plunge at St. Vincent's parent, Mercy Health Partners
  The Toledo Blade News
  By George J. Tanber, Blade Staff Writer
  April 9, 1999

- How hospital systems bled red ink last year
  The Inquirer
  By Karl Stark, Inquirer Staff Writer
  April 11, 1999

GU MEDICAL CENTER LOSES $62.4 MILLION; DEFICIT RESULTS IN LOWER CREDIT RATING

AVRAM GOLDSTEIN
WASHINGTON POST STAFF WRITER
Thursday, January 7, 1999 ; Page B01

Georgetown University Medical Center lost $62.4 million last year, and Wall Street analysts have responded by downgrading the university's credit rating. As a result, university officials are intensifying their campaign to form a partnership with an outside health care organization.

The figures for the fiscal year ending June 30 show that finances at the complex on Reservoir Road NW -- which includes a teaching hospital, medical and nursing schools and a large research enterprise -- continued to deteriorate even as administrators cut operating costs by $20 million. The previous year's deficit was $57 million. The medical center had projected its losses in 1998 would be only $35 million.

"To an outsider, it looks as though we're not making progress or that we're even slipping slightly. In fact, we know we're making progress," said Kenneth D. Bloem, chief executive of the 4,465-employee medical center. "It's still a very strong medical center and a strong university."

Hospital admissions, research funding and applications to the elite medical school are all up, Bloem said.

But the switch to a new computerized billing system resulted in $21.6 million of bills going uncollected last year. The university set aside $5.3 million to cover liabilities created by "external audits" -- the nature of which the university would not reveal.

The university's endowment exceeds $600 million and the health care deficit is being covered by university reserves. Because the university is so strong, there is no deadline for finding a partner, officials said.

But Moody's Investors Service, which rates the financial wherewithal of organizations that borrow money on Wall Street, portrayed the medical center as a drag on the university's otherwise sterling finances.

"I think the losses at Georgetown are quite large," said Kevin J. Ramundo, one of the Moody's analysts who downgraded the university's credit rating one notch last week. The $170 million of tax-exempt bonds issued by Georgetown are now considered "upper medium grade."

Bond holders are likely to receive all their payments, but Georgetown is "susceptible to impairment in the future," said Susan Fitzgerald, another Moody's analyst.

Academic medical centers across the nation are adapting to tightened Medicare and Medicaid payments and intensive cost-cutting by private managed care health plans.

Employers, private insurance companies and health maintenance organizations increasingly have refused to pay teaching hospitals more than neighboring community hospitals for equivalent services, experts said. Yet it costs 20 to 30 percent more to provide the same care in a teaching hospital because such institutions have medical trainees who perform more diagnostic testing and need extensive supervision.

Teaching hospitals also offer many specialized services involving expensive equipment, and academic centers like Georgetown invest in research programs that attract millions of dollars worth of scientific grants.

Those factors would be challenging enough in any U.S. city, but they are magnified in Washington, which has thousands of empty hospital beds and four teaching hospitals scrambling for patients at the heart of a region where the population is shifting toward the suburbs. Georgetown Hospital is licensed to operate 535 beds but generally keeps 350 open.

"Georgetown is in a tough competitive spot," said Susan M. Hansen, former administrator of Columbia Hospital for Woman and now president of a Washington firm that consults with hospitals nationwide about mergers, acquisitions and partnerships. "The more the institution loses money, the faster it finds itself in a mood to merge."

Several Georgetown officials said they don't know whether the future partner will be a for-profit, nonprofit, academic or Catholic institution -- all are possible. But any affiliation is unlikely to be simple because Georgetown has objectives that must be met, said Dan Porterfield, spokesman for Georgetown President Leo J. O'Donovan.

"It would have to be consistent with our tradition of academic excellence and with our religious identity as a Catholic and Jesuit institution, and it would have to minimize the challenges we face in a rapidly evolving managed care-dominated marketplace," Porterfield said.

In the three months ending Sept. 30, hospital admissions reached 4,038, up 7.5 percent from the same period the year before, according to medical center figures.

"We can weather this transition. If we don't panic, if we focus on the fundamentals, we'll be fine," Porterfield said. "In this country, quality endures."

Because of Georgetown's international reputation, Hansen said a partner would gain much by operating under the school's renowned "brand name."

Said Hansen: "They would be a true prize."

LEVEL 1 - 1 OF 1 STORY

The Providence Journal-Bulletin

March 25, 1999, Thursday, ALL EDITIONS

SECTION: NEWS, Pg. 1A

LENGTH: 2073 words

HEADLINE: Lifespan slashes 506 positions Officials blame reduced Medicare and private insurance payments

BYLINE: BRIAN C. JONES; Journal Staff Writer

DATELINE: PROVIDENCE

BODY:

In a tear-filled day, the Lifespan hospital network yesterday laid off 269 workers and axed another 237 vacant positions at two of its hospitals, as the huge system struggled to cure multimillion-dollar deficits.

The elimination of 506 jobs at Rhode Island and Miriam Hospitals capped a series of cuts that began last August in the five-hospital network.

Most of the workers were informed one by one of their lost jobs throughout the day. They included nurses, social workers, lab technicians, pharmacists, janitors and housekeepers.

Officials blamed a chronic shortage of funds they say is crippling many hospitals throughout the country, created by tight-fisted bill payers, including the federal government and private health insurers.

The employees "are wonderful individuals, people who are doing a good job," said Steven D. Baron, the Lifespan official who is president of both hospitals. "It's a reimbursement problem, not an expense problem."

Baron and Edward M. Schottland, chief operating officer of the two Providence hospitals, said that Lifespan expects the job cuts to save the system $ 16 million a year, a key step in eliminating operating deficits which last year soared over $ 50 million.

On the positive side, Baron said he expected this would be the last round of foreseeable job cuts. And possibly a third of those laid off would be able to find other jobs within Lifespan, he said.

Further, Baron said there will be no such cuts at two other Lifespan facilities, Newport Hospital and the New England Medical Center in Boston.

YESTERDAY'S CUTS had long been expected. George A. Vecchione, Lifespan's new president, began hinting last October that "painful" steps were coming, and in January, he conceded major layoffs were planned.

Indeed, in the last two months, Lifespan eliminated 64 jobs at its home health agency, the Visiting Nurse Association of Rhode Island, and another 14 at Bradley Hospital, the psychiatric hospital for children.

Providence Journal-Bulletin, March 25, 1999

But yesterday's move was by far the largest. It will leave the two hospitals with 6,925 workers when the cuts are complete this spring.

Lifespan would not let reporters inside patient care areas of the hospital. But some of those who were there described emotional, tearful scenes.

Dr. Lynn Taylor, a second-year resident in internal medicine at Rhode Island Hospital, said she had no inkling of what was about to happen to some of her colleagues when she arrived at a medical clinic.

"I got to the clinic at 9, and I was meeting patients," Taylor said. "And when I went out to the desk, I saw a lot of nurses and nurse practitioners crying.

Taylor said that the abruptness of the dismissals struck her as "cruel." She said the social workers and nurse practitioners in her clinic were "the glue that keeps the place together."

Linda McDonald, president of the Rhode Island Hospital unit of United Nurses & Allied Professionals, a union representing 1,800 workers, said many throughout the hospital were devastated by the announcements.

"It's terrible," McDonald said at a news conference late in the afternoon. "It's really shocking to walk through and see men who are sobbing in the hallways. I had a member who was going to speak (at the briefing), but who is in shock."

About 80 of those laid off are nurses.

But it's likely that most of the nurses will be offered jobs within Lifespan, most at their own hospitals, said Baron, the hospitals' president. But some may not elect to take the posts if they don't like the shifts or units where vacancies exist.

Lifespan has established a "career research center" to help employees find jobs within Lifespan or elsewhere.

Of the two hospitals, Rhode Island Hospital, which during its busiest flu-season periods has 520 patients a day, had the most layoffs: 192 workers. Miriam, with about 200 patients when running full tilt, was assigned 77 layoffs.

Of the total laid off, 34 were described as "managers."

Lifespan, which was formed only five years ago when Rhode Island and Miriam merged, attempted to trim jobs that would not detract directly from the treatment of patients, Baron said.

"We will continue to maintain patient care standards that we've had in the past," Baron said. "So nursing hours that patients receive will not change through this process."

BUT CRITICS said that the cutbacks will still sting patients.

One of the sharpest attacks came from Kate Coyne-McCoy, executive director of the National Association of Social Workers' Rhode Island chapter. She decried

the layoffs of 10 social workers, out of a total of 27 at the two hospitals and 40 within Lifespan.

"What happened today was a crime," Coyne-McCoy said at the news conference that unions and community groups held outside Lifespan's corporate headquarters on Point Street.

"The administration at Rhode Island Hospital says that this won't affect patient care," she said. "Tell that to a woman who had a mastectomy this morning, when she wakes up tomorrow and she is trying to adjust to her new body."

Baron did not deny, in a news briefing earlier, that social workers play an important role. But he maintained that after looking at national "benchmarks," the system decided to cut some jobs.

IT WAS OBVIOUS that trench warfare battles were being fought right to the end to fend off or reverse cuts.

Stuart B. Mundy, secretary-treasurer of the International Brotherhood of Teamsters, Local 251, which represents about 1,800 service workers at Rhode Island Hospital, said he had talked officials out of a few cuts and was meeting late that afternoon to try to ward off more.

"It was 86," Mundy said of the original number of Teamsters slated for layoff; "it's down to 81."

Some areas escaped altogether.

It had been long rumored that foreign language interpreters might lose their jobs, and in fact one speaker at the critics' news conference decried such a move. But Lifespan officials said earlier that no such cuts were made.

Similarly, there had been worries that a skilled group of nurses called case managers, who guide patients through the medical maze (and try to meet managed-care demands for the shortest possible hospital stays) would go. That was not the case.

However, McDonald, the nurses' union president, was highly critical of a move to eliminate a few "nurse educators" who teach other workers about high-tech equipment and procedures.

Not only is their work vital in a hospital associated with a medical school, McDonald said, but because the nurses are veterans - most have 18 years or more service - their seniority would allow them to stay in other jobs, thus defeating the potential cost savings, she said.

In general, McDonald said that trying to save money through layoffs was a futile exercise in a hospital that she described as efficient, and overwhelmed with business, with many of the 1,500 nurses working overtime.

"It's a crime, because we already are running so efficiently and so lean as it is, it just doesn't address the problem," McDonald said. "We didn't make the mess, it's a revenue problem."

In fact, people on both sides of the layoff debate agreed that the real villain is the perilous reduction that the government and public have allowed to be made in what insurers and others pay for the care of hospital patients.

Baron, the Lifespan executive, said that a particular problem is lower reimbursements from the federal Medicare program, outlined in the Balanced Budget Act of 1997, and expected to trim $ 220 million that otherwise would have come to the state's hospitals over five years.

U.S. Rep. Patrick J. Kennedy yesterday said he opposed the 1997 budget law and would continue fighting further Medicare cuts. He said he also asked U.S. Labor Secretary Alexis Herman to seek immediate assistance for the laid-off workers.

As did McDonald, the union official, Baron said that both the state and federal governments "need to understand their commitment to health care and quality," or face more days like Lifespan experienced yesterday.

"I can't emphasize enough that it is not a happy day, saying good-bye to wonderful employees," Baron said.

FISCAL HOSPITAL ILLS

July 31, 1997: The Hospital Association of Rhode Island predicts that the state's 14 hospitals will lose more than $ 200 million over five years because of Medicare cutbacks in the proposed Balanced Budget Act of 1997. This is the first of many warnings by the trade association about the effects federal cutbacks will have.

Nov. 12, 1997: Lifespan acknowledges an operating deficit of about $ 14 million in the fiscal year that ended Sept. 30, and that it expects to lose as much as $ 40 million in 1998. The network hires 50 experts from the big national accounting and consulting firm of Ernst & Young to help save money and look for new sources of revenue.

Aug. 6, 1998: About 60 administrative positions have been eliminated from the Lifespan system as a result of cutbacks from the financial review, Lifespan announces. But only 15 people are to lose jobs, with the rest of the cuts coming from unfilled positions.

Oct. 7, 1998: George A. Vecchione, the new Lifespan president hired after the financial woes surfaced, makes his first public statement since taking over a month earlier, saying that "painful" measures will have to be taken to solve the money problems by 2000.

Oct. 8, 1998: Lifespan and Care New England stun the health-care industry with the announcement that the two major hospital networks hope to merge, creating an eight-hospital empire with $ 1.4 billion in revenues and 20,000 workers.

Oct. 23, 1998: Landmark Medical Center in Woonsocket announces it will lay off 24 of its 900 employees, citing falling Medicare reimbursements.

Oct. 28, 1998: Kent County Memorial Hospital in Warwick gives pink slips to 19 workers, to help offset $ 5 million it expects to lose in both the past and

current fiscal years.

Dec. 10, 1998: In another indication of health system financial ills, Blue Cross & Blue Shield of Rhode Island announces it is exploring a merger with another health insurance company to combat relentless money problems, including a $ 22-million loss expected in the current year. Its rivals - United HealthCare, Harvard Pilgrim Health Care and Tufts Health Plan - also expect losses.

Dec.13, 1998: The Providence Journal reports that Lifespan has laid off five highly trained nurse practitioners who provided care to poor youngsters in clinics at Hasbro Children's Hospital. Care is to be shifted to medical school graduates, and the system plans to rehire one of the practitioners.

Jan. 12, 1999: The poison control center at Rhode Island Hospital, one of the often-cited public services of Lifespan, is on the chopping block. The hospital network says it can no longer shoulder the more than $ 300,000 annual cost of the telephone information service.

Jan. 29, 1999: Lifespan announces grimmer than expected financial figures, and predicts that there will be "not insignificant" layoffs. The 1998 operating deficit was $ 50.2 million, and the system had to take $ 6.4 million from its endowment to balance the books. The prediction for fiscal 1999 is for a $ 23-million operating loss; and a $ 10 million shortfall in 2000, when finances were expected to return to normal.

Feb. 10, 1999: Lifespan eliminates 64 full-time jobs at its Visiting Nurse Association of Rhode Island, in a series of layoffs and job reshuffling that leaves the state's largest home health agency with 260 workers. Federal cutbacks are blamed for huge losses, which the layoffs will not eliminate.

March 5, 1999: General Assembly leaders announce they will provide $ 300,000 to keep the poison control center at Rhode Island Hospital open through Dec. 31, averting what legislators feared was to be an April 1 shutdown. Lifespan said that it would contribute $ 60,000.

March 17, 1999: Fourteen people are laid off from Bradley Hospital, Lifespan's children's psychiatric facility in East Providence. In addition, nine vacant jobs are eliminated.

March 24, 1999: Lifespan announces its largest layoff - 269 jobs at Rhode Island and Miriam Hospitals. In addition, the system axes 237 jobs that had become vacant over the past several months. The cuts will save the system $ 16 million annually, according to officials, who say no more layoffs are planned.

LOAD-DATE: March 26, 1999

LEVEL 1 - 1 OF 1 STORY

The Providence Journal-Bulletin

March 18, 1999, Thursday, ALL EDITIONS

SECTION: NEWS, Pg. 1B

LENGTH: 1068 words

HEADLINE: Bradley Hospital announces layoffs;
The layoffs, expected to save $ 2 million a year, are the second to occur this year in the Lifespan hospital network.

BYLINE: FELICE J. FREYER; Journal Medical Writer

DATELINE: EAST PROVIDENCE

BODY:
In the latest trickle of cost-cutting news to emerge from the Lifespan health care network, Bradley Hospital announced yesterday that it was laying off 14 people and eliminating 9 vacant jobs and money for about 7 per-diem positions.

The hospital is also eliminating funds for five post-doctoral training positions for psychologists and six social-work interns. But most of its academic program with Brown University will survive, with 12 medical residents continuing to work there.

Including the training positions, the reduction in staff totals the equivalent of 37 full-time jobs. However, some of the social-work interns may stay on without their stipends.

Together, these cuts are expected to save $ 2 million a year for Bradley, which has been struggling with the push toward lower-paying outpatient care and a census that fluctuates dramatically while fixed costs remain the same.

Bradley's layoff is the second to occur this year in the Lifespan network, the Providence-based five-hospital health-care system that experienced a $ 43-million loss in the fiscal year that ended last Sept. 30. Last month, the VNA of Rhode Island, a Lifespan partner, announced that it would reduce its staff by 20 percent.

Major layoffs have been expected at Lifespan for months, and people both inside and outside the organization have been anxiously awaiting the announcement of where - and how hard - the ax will fall.

But the network has chosen to break the news piecemeal, with each affected institution making its own announcement, said Jim Peters, Lifespan's director of communications and public affairs. That's because each institution has had its own issues and its own set of "gut-wrenching" decisions to make, and those decisions are not all being completed simultaneously, Peters said.

As for when the layoffs will be announced at Lifespan's biggest partner - Rhode Island Hospital - Peters would only say: "Soon."

BRADLEY POSTED losses of about $ 2.3 million in each of the past two fiscal years, after applying roughly $ 1.2 million in endowment income. (In fiscal year 1997, the hospital also wrote off $ 4.4 million in bad debt, making its net losses among the highest in the Lifespan network.) From October 1998 through January 1999, Bradley had already lost $ 1.8 million, but with the staff reduction the hospitals hopes to avoid any more losses for the rest of this fiscal year.

Bradley's financial problems are occurring even as the number of patients the hospital serves has nearly doubled in the past decade.

"More patients, less money: it's hard to figure out," said Ruth Kauffman, chairwoman of the Bradley Board of Trustees.

"That's the irony: the demand for services continues to grow," said Daniel J. Wall, hospital president and chief executive officer. But the lengths of stay are shorter, and more people are being treated in less intensive and off-campus environments. This year, the hospital expects that, for the first time, less than half its revenue will come from acute inpatient care.

"These trends are really what the community needs," Wall added.

Bradley has no unionized workers. Before yesterday's layoffs, the hospital had 450 full-time equivalent positions. The people being laid off are two maintenance people, one phlebotomist, one housekeeping person, three secretaries, two social workers, one nurse and four people that Wall described as "ancillary caregivers."

To manage without them, the hospital plans to eliminate such labor-intensive programs as off-campus trips for the children, reduce the amount of psychological testing, and cross-train the staff to perform more than one function.

The hospital is also saving about a dozen jobs by expanding its residential program for developmentally disabled children who no longer need in-hospital care but aren't ready to return to the community. A new home in Warwick will open in May, serving six boys ages 6 to 9.

SITUATED ON 39 acres overlooking the Seekonk River, Bradley Hospital was founded in 1931 by George and Helen Bradley, whose daughter Emma Pendleton Bradley suffered from mental illness and could not find a hospital to care for her. The trust fund that created the hospital, now valued at about $ 40 million, requires that mental health services for children be offered on that land and in those buildings. Additionally, the trustees and the hospital are not permitted to spend the endowment principal.

As recently as 10 years ago, Bradley essentially offered two services: inpatient psychiatric care for some 50 children, and the Bradley School, treating and educating 70 youngsters with behaviorial problems so severe that they could not stay in a public school classroom. By last year the picture had changed: on an average day, there were 32 children receiving acute inpatient care; 8 inpatients in "subacute" care, a less intensive form of hospital care; 6 patients in a day-hospital program; 47 coming for outpatient visits; 16 in out-of-hospital residential care; and 113 enrolled in the Bradley School.

Among those Bradley treats are children who have been severely traumatized or abused, adolescents who are suicidally depressed, and mentally retarded youngsters who also have psychological, behavioral and sometimes physical problems. Some of Bradley's programs are highly specialized, the place of last resort for children from all over the country.

Although Bradley is a private nonprofit hospital, most of the care is publicly financed. Local school districts pay tuition (about $ 215 a day) to enroll their charges in the Bradley School, and about 65 percent of the psychiatric care is paid for by the state-run Medicaid program.

Unlike others in the mental health field, Wall did not rail against the level of Medicaid funds or the practices of managed-care companies. Instead, he said his biggest problem was the fact that the hospital is so small, and the number of patients can fluctuate wildly. The adolescent unit, for example, can go from 14 one day to 4 the next. With fewer patients, less money comes in, but costs associated with sustaining the unit - building maintenance, staffing, services such as medical records and accounting - stay the same.

The off-campus residential programs are much more stable and predictable, Wall said, and he hopes to enroll an average of 51 youngsters in those programs during this fiscal year.

LOAD-DATE: March 19, 1999

Ford health system plans more layoffs

March 24, 1999

BY PATRICIA ANSTETT
Free Press Medical Writer

Faced with $43.8 million in losses last year -- three times more than it previously announced -- the Henry Ford Health System will reduce its workforce by 425 employees by May 1 and cut spending.

"We're hunkering down," said Tom McNulty, senior vice president and chief financial officer, after releasing year-end figures Tuesday.

Officials don't know whether the system will make money this year. It will not reach a goal of breaking even by May 1, even with attempts to cut costs. These moves include restrictions on travel and continuing education and other expenses.

The reduction in workforce, expected to save $22 million, will be accomplished mostly through layoffs, including physicians.

Last year, the health system laid off 50 workers and cut overtime and outside workers. McNulty took issue with reports that physician turnover is higher than usual because of unhappiness with changes. About 7 to 9 percent of Ford's doctors leave each year, a rate that has not changed in several years, he said.

The losses are the Ford system's largest in 15 years. The system has six hospitals and 19,000 staffers, and is one of the largest systems in the state. It made $39 million in 1997.

Huge changes in health care -- shrinking payments from government, high drug costs and other factors -- are hurting many

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Detroit-area hospitals. In Ford's case, it turned a moneymaker into one of the more financially troubled systems in the region.

The Ford system's $43.8 million in losses came from $24.4 million in net losses from operations and $19.4 million in onetime charges for three costly ventures.

Two were mergers: Ford's Cottage Hospital in Grosse Pointe Farms joined with nearby Bon Secours in the city of Grosse Pointe, and Ford's money-losing Medical Value Plan in Ohio with another health-maintenance organization. A third onetime charge involved converting computers to Year 2000 compliance.

Other big losses -- problems that won't go away -- were caused by:

Dwindling Medicare payments. The Ford system received $8 million less from the federal program last year, compared with 1997, largely because of cuts by Congress in what it saw as unnecessarily high profits in the program.

Hospitals earned record profits from Medicare of more than 16 percent in 1997, according to a report in the March 15 issue of Modern Healthcare, an industry publication. Profit margins will slip to 0.1 percent this year, and are expected to climb to 2.6 percent by 2002. McNulty said of the expected rise: "I wouldn't count on it."

Shrinking Medicaid payments. In 1998, Ford received $16 million less from the state-sponsored program, compared with 1997, though it provided the same care. It also has $10 million in unpaid bills for Medicaid patients, mostly those with other health plans who come to the Ford Hospital emergency department.

Costly drugs. New arthritis, allergy and impotency medicines caused unexpected expenses. To counteract this, employee copays may grow.

Bob Smedes, Medicaid director, said last year's

Medicaid budget provided a 5-percent increase to pay for care. The legislature is now considering a 4-percent hike.

Many HMOs are making profits, he said. The ones that aren't need to offer less care in emergency departments and more prevention services to keep people healthy, he said.

One recent state study found that hospitals are charging for more care than what is rendered, a practice known as up-coding. "When Ford says it is owed $10 million, a good portion of that may be disputed," Smedes said.

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Health-care cuts go deeper

Mercy Health Services will slash 1,350 jobs by July

March 31, 1999

BY BOAZ HERZOG
Free Press Business Writer

Mercy Health Services will cut the equivalent of 1,350 full-time employees by the end of June, becoming the latest in a string of sick hospital systems slashing their workforces.

With the Mercy cuts, full-time positions lost at major Detroit-area systems add up to more than 4,500 since January, bringing into question the quality of service. The health systems say patient care won't change.

Farmington-Hills based Mercy, the state's largest health-care provider, lost $6.9 million at its 14 Michigan hospitals in the first eight months -- ending Feb. 28 -- of its 1999 fiscal year. The nonprofit company brought in $37 million during the same period a year earlier.

"By January of this year, every one of our Michigan hospitals was losing money on patient care operations, and that's the first time that's ever happened to us," Mercy spokesman Stephen Shivinsky said Tuesday. "We know we need to make some dramatic changes."

Like other money-losing health providers in metro Detroit, Mercy blames the cuts on reduced government reimbursements to care for Medicare and Medicaid patients and higher costs for prescription drugs.

Those changes have forced Mercy to trim its 28,000 workforce in Michigan by about 5 percent, Shivinsky said.

Mercy employs 35,000 in its network of 39 hospitals, 200 clinics, 17 nursing homes, 23

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home-care offices and 10 hospice offices that are located primarily in Michigan and Iowa. The 14 hospitals in Michigan handle nearly three million patient visits annually.

Reductions by other major health systems include:

Detroit Medical Center, projecting $53 million in losses this year, cut the equivalent of 2,000 full-time positions in January. In addition, DMC will lay off 50 primary care physicians and 205 support staff by the end of 1999.

After $43.8 million in losses last year, Henry Ford Health System said last week it will reduce its workforce by 425 employees by May 1. Henry Ford laid off 50 workers last year.

St. John Health System, forecasting $5 million in losses this year, said last month it plans to cut up to 500 jobs by June.

The Mercy system net income this fiscal year will be lower than its take of $147.8 million in its 1998 fiscal year, Shivinsky said.

The health systems say cuts will not affect the quality of patient care. Mercy said its cuts, mostly done through attrition, reductions in overtime and early retirement, will mainly affect employees such as managers and those in marketing and planning. But cost cutting has to show up somewhere, experts say.

"Just because it's not directly related to patient care doesn't mean it's not going to affect patients," said Marsha Gold, a senior fellow specializing in health care with Mathematica Policy Research in Washington.

The cuts may mean phones are answered slower, bills aren't paid as fast and funds for general education are reduced, she said.

Mercy's cost-cutting effort also halts for at least two years plans to construct a $30-million, 150,000-square-foot headquarters building in Novi, Shivinsky said. Also on hold are plans for Mercy's subsidiary in Ann Arbor, St. Joseph Mercy Health Systems, to build a

$50-million outpatient clinic.

Mercy has absorbed reimbursement drops of $18 million from Medicare and $19.5 million from Medicaid in Michigan so far in fiscal year 1999, Shivinsky said.

Pharmaceutical costs have jumped 15 percent to $72 million in the first eight months of Mercy's fiscal year 1999, he said.

In addition, Mercy has faced an increase in bad debt of $7 million, the result of caring for more uninsured patients.

Labor costs have also risen.

Mercy employees began receiving notification this month. Those laid off will receive career transition training, benefits and other support, Shivinksy said.

Business writer Boaz Herzog can be reached at 1-313-222-6731 or via E-mail at herzog@freepress.com

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MGH will cut 130 jobs, raise prices

Budget shortfall, Medicare cuts cited

By Alex Pham, Globe Staff, 03/20/99

Massachusetts General Hospital yesterday announced to its employees that it will eliminate 130 positions and raise retail prices for its services by 10 percent across the board in order to cope with a multimillion dollar shortfall in its budget.

Health care observers say the Mass. General staff reduction is one of many wrenching cutbacks likely to hit Massachusetts hospitals because of a planned five-year reduction in Medicare reimbursements that began last year.

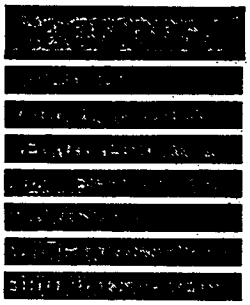
Mass. General, which employs 11,825 full-time workers, lost nearly $5 million in the first quarter of its fiscal year 1999 ended Dec. 31, despite record numbers of patients cared for at the Boston teaching hospital.

Dr. James Mongan, the hospital's chief executive, said Mass. General employees "have to prepare for the times ahead, which are expected to see flat or declining revenues, decreased funds for medical education, and other challenges related to cutbacks in Medicare funding."

Because the majority of the positions being eliminated are currently unfilled, only about 10 people are expected to be laid off, according to Peggy Slasman, spokeswoman for the hospital.

The hospital also is taking a three-pronged approach to boost revenue, including increasing the price it charges for drugs, collecting payments more aggressively from insurers, and raising retail charges for hospital services by 10 percent. Bumping up retail charges is expected to have only a modest impact because very few patients actually pay retail since their insurance companies have negotiated discounted prices. Still, the three-part strategy is projected to bring in $7.5 million over the next six months, Slasman said.

Industry observers predict that other institutions will make similar moves over the next three years as Medicare continues to march through a five-year program of reduced spending in which cutbacks get progressively steeper in the final three years ending 2002.



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"In the 20 years I've worked in health care, these are the most painful times I've seen," said Ann Thornburg, a health care consultant for PricewaterhouseCoopers in Boston. "And it is even more troubling to know that we haven't hit bottom yet."

Mass. General is part of Partners HealthCare System Inc., a hospital network that includes Brigham and Women's Hospital in Boston. A spokesman at the Brigham said yesterday that the hospital was "taking a look at all sorts of cost improvement options right now, and we're not ruling anything out." Medicare payments to all Partners hospitals are expected to be $340 million lower than if Congress had not curbed spending.

This story ran on page C01 of the Boston Globe on 03/20/99.

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From: John Parker
To: Darnell Privott, Jordan Cohen, Karen Fisher, Ly...
Date: Fri, Mar 19, 1999 11:18 AM
Subject: FYI/Boston Globe/Medicare

http://www.boston.com/dailyglobe2/078/nation/Early_losses_cited_by_area_hospitals+.shtml

Early losses cited by area hospitals

Medicare cuts blamed for woes in first quarter

By Alex Pham, Globe Staff, 03/19/99

inancially reeling from deep cuts in Medicare reimbursement, Massachusetts teaching hospitals are showing substantial losses in the first three months of fiscal 1999, with one facility hemorrhaging more than $1 million a week.

Alarmed at the amount of red ink, hospitals are frantically lobbying Congress for relief. The effort comes at a crucial time for hospitals as Washington lawmakers contemplate further reductions as part of next year's Medicare budget.

Medicare is the biggest single source of revenue for hospitals around the country, pumping $108 billion a year into the industry. In Massachusetts, hospitals rely on Medicare for $3 billion a year, or about 30 percent of their revenue.

That stream of money has become critical to academic teaching hospitals coping with the high price of staying on the cutting edge of medicine and the increasingly tight payments from managed-care insurers.

But as Washington pares down the Medicare budget, academic medical centers nationwide are plunging into the red. The effects are particularly acute in Massachusetts, home to one of the highest concentrations of teaching hospitals.

"It's absolutely remarkable to me," said Jeffrey Otten, president of Brigham and Women's Hospital in Boston. "Our operating rooms are filled. We're reopening beds that we've closed. Our emergency visits are up 17 percent this year. The demand for our services is greater than they've ever been. We're full, and yet we're losing money."

In the first fiscal quarter of 1999, which ended Dec. 31, Massachusetts General Hospital in Boston lost nearly $5 million, after making close to $10 million in the first quarter last year. Beth Israel Deaconess Medical Center in Boston lost $16.7 million, compared to a $1.2 million gain last year. Brigham and Women's posted a loss of $3.5 million, compared to a loss of $800,000 in the same period last year. And UMass Medical Center in Worcester saw a $6.6 million loss, more than quadruple its loss in 1998.

"Everywhere you look, hospitals are losing money," said Dr. James Reinertsen, chief executive of CareGroup Inc., which owns Beth Israel Deaconess. "This is unprecedented."

While the figures do not reflect an entire year's performance, the first quarter

is often the most telling period for hospitals, according to Gregg Bennett, chief executive of HBS International, a health care data consulting firm in Bellevue, Wash.

To be sure, cuts in Medicare aren't entirely responsible for the red ink. Hospitals in the state this year are having to spend tens of millions of dollars to fix the computer problem popularly known as the Y2K bug. In addition, the cost of medication is skyrocketing, even as managed-care insurers continue to squeeze the rate they pay to hospitals, said Dr. Michael Collins, chief executive of Caritas Christi, a Catholic hospital system that owns St. Elizabeth's Medical Center in Brighton.

In the past, Medicare was considered a generous payer, and academic hospitals relied on the money as a cushion to fund teaching and research programs as well as to make up for losses from their other operations.

But the cushion is rapidly disappearing. In 1997, Congress passed the Balanced Budget Act, which sought to slice $112 billion in Medicare spending over five years. In Massachusetts, that translates to a $1.5 billion cut from what hospitals would have received without the Balanced Budget Act. In 1997, only one in 10 hospitals lost money on their Medicare patients, according to the Massachusetts Hospital Association. Today, three out of 10 hospitals do not make money from Medicare. And in 2001, projections show that half of the state's hospitals will lose money from Medicare.

"Medicare was the safety valve," said Ronald Hollander, president of the hospital association. "But the Balanced Budget Act changed everything ... It's my conclusion that we're on an unsustainable collision course."

The picture is expected to get worse. Hospitals currently are in the second year of a five-year cycle set up by the Balanced Budget Act, and the bulk of the reductions are scheduled to take place in the final three years.

Teaching hospitals, which employ one out of five workers in Boston, are coping in various ways. St. Elizabeth's has a hiring freeze on all positions not involving direct patient care. UMass Medical Center has laid off one-third of its senior management team and 12 percent of its middle management team. Construction for a new ambulatory care center at Mass. General has been delayed for several months.

Community hospitals also have been hit hard. Boston Regional Medical Center recently closed its doors after serving Stoneham residents for more than 100 years. Malden Hospital has decided to fold its inpatient beds. And East Boston Neighborhood Health Center filed for bankruptcy court protection.

The changes by themselves may not be dramatic, but hospital officials insist they amount to an erosion in the foundation of an industry that has given Massachusetts its reputation as the nation's "medical mecca."

"These places tend to bend rather than break," said Dr. James Mongan, president of Mass. General. "They slowly deteriorate over time."

Harvard University officials were worried enough about the financial conditions of its major affiliated teaching hospitals to call a meeting in

DETROIT FREE PRESS

MEDICAL CENTER BOND RATINGS SLIP

Saturday, February 13, 1999
Section: BIZ; BUSINESS
Page: 10B
BOAZ HERZOG Free Press Business Writer

Three major New York ratings companies have downgraded Detroit Medical Center revenue bonds, signaling a decline of confidence in the health system's ability to repay debt.

The ratings follow DMC announcements Feb. 2 of larger-than-expected losses in 1998 and projections of $53 million in losses this year. The DMC cut the equivalent of 2,000 full-time positions in January.

"They have some serious challenges to be met," said M. Craig Kornett, a director for Fitch IBCA, which Thursday lowered the rating on outstanding DMC revenue bonds three notches, to BBB- from A-.

"It's a monumental effort to implement the kinds of changes they need to return to fiscal responsibility when they're working with less people, low morale and declining discharges and outpatient visits. It's going to take a number of years for DMC to return to profitability."

The bonds total about $617 million. Earlier this week, Standard & Poor's downgraded them two ticks, to BBB from A-. Last week, Moody's Investors Service lowered DMC's bond rating two notches, to Baa2 from A3.

Despite lower ratings, DMC bonds still are of investment grade, and with "any investment grade rating we feel very strongly that bondholders will be repaid," said Liz Sweeney, an S&P director.

Tom Honen, DMC interim chief financial officer and a consultant with Hunter Group, a St. Petersburg, Fla.-based company hired to stop DMC's financial bleeding, said, "We are not surprised."

Reach Boaz Herzog at herzog@freepress.com or 1-313-222-6731.

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Wayne State's links to DMC examined

School hires consultant to study programs it shares with the money-losing medical center

January 23, 1999

BY PATRICIA ANSTETT
Free Press Medical Writer

Wayne State University has hired a consulting firm to examine the relationship of its medical school to the financially troubled Detroit Medical Center.

ECG Management Consultants Inc., a Wakefield, Mass., consulting firm, began working this month to examine financial and organizational issues, said George Dambach, interim vice president for research and dean of the WSU graduate school.

The company will work with another consulting firm, the Hunter Group, brought in by the DMC to reorganize and restore it to financial health. Last year, the health system lost about $100 million, officials say. More precise numbers await a closer financial analysis.

WSU has not set a time limit on its contract with the company, Dambach said. The next month will be a crucial one, he said. Medical school and university officials are meeting regularly with the group.

One of the issues the consultants will examine is whether WSU should retain a physician model called Specialists-in-Chief, where doctors serve as heads of departments at the DMC while holding teaching and research duties at the medical school, Dambach said.

A related issue is faculty pay and revenues

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generated for the medical school by physicians who work at the DMC.

Contracts with physician groups require doctors in those groups to pay a certain percentage to the medical school for research and education, and an extra percentage to a fund called the dean's tax special projects. Dambach said the percentages vary; he had no idea what they averaged.

The DMC's financial problems have not hurt hiring and retention of physicians at the medical school, Dambach said.

Each year, about 30 people leave the medical school faculty. "Other than normal turnover, we're not looking at major downsizing," he said.

ECG Management was involved in merger talks in 1997 between the DMC and the Henry Ford Health System. After months of meetings, both health systems agreed a merger was not feasible. Dambach said the company is not looking at a merger with the Ford system again.

Patricia Anstett can be reached at 1-313-222-5021, or by E-mail at anstett@freepress.com

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DMC CHIEF QUITS AMID REPORTS OF BIG LOSSES
CUTS MIGHT INCLUDE A HOSPITAL CLOSING

Wednesday, December 16, 1998
Section: NWS
Page: 1A
PATRICIA ANSTETT Free Press Medical Writer;
Staff writer Patricia Montemurri contributed to this story.

Illustration: Photo

Caption: David Campbell has resigned from Detroit Medical Center. DMC's losses may top $100 million.

Faced with staggering losses that might surpass $100 million, David Campbell, the top executive at the Detroit Medical Center, resigned Tuesday.

The losses, possibly more than triple the $30 million reported by the DMC last month, likely will cause large program cuts, even closing a hospital, experts outside the system say.

"They have no choice but to go in there and make big cuts," said one veteran health care accountant, who spoke on condition of not being named. Item-by-item cuts aren't a realistic option to turn around one of the area's largest health systems, experts say.

One cut getting closer scrutiny: Closing either Grace or Sinai hospitals, two northwest Detroit facilities in fierce competition with Providence and Beaumont hospitals in Oakland County. The DMC recently sued Providence for stealing doctors before their contracts had run out, a charge Providence has denied.

Sinai, a historically Jewish hospital, is in deep financial trouble, but closing it is likely to be unpopular with area Jewish leaders.

Recently, at the same time it announced projected losses of $30 million this year, the DMC postponed a costly merger of Sinai and Grace, about a mile apart.

Late Tuesday, DMC officials released Campbell's letter in which he resigned as president and CEO, a job he has held since 1990.

The letter said that after 11 years in senior management at the health system, he believes new leadership is needed to guide the system. He plans to step down by Jan. 31. He did not return a reporter's call about his decision.

Campbell's resignation had been rumored for months. But the DMC board recently gave him a vote of confidence, and board chairman Lloyd Semple on several occasions has announced strong support for Campbell.

According to two officials with information about the rapidly changing environment at the DMC, both of whom asked not to be named, Campbell's departure followed a strongly worded recommendation Monday from the Hunter Group, a consulting firm hired by the DMC. It asked that Campbell either resign or be fired because of the mounting losses. One official pegged the losses at more than $100 million.

Semple denied Tuesday night that Campbell was forced out.

Asked to comment on growing losses, he said: "Ooooh." He paused and replied: "I'm not going to talk about that. There are serious challenges ahead."

Juliette Okotie-Eboh, vice president for corporate public affairs, also did not return calls requesting comment on the size of the losses.

The Hunter Group, a St. Petersburg, Fla., firm that has engineered the reorganization of many Detroit area hospitals, including Sinai in the '80s, has placed two executives in top jobs at the DMC and is reviewing ways to wring cuts in the system.

The DMC has eight hospitals in Wayne and Oakland counties, with its headquarters north of downtown. It is affiliated with the Wayne State University School of Medicine. Detroit's largest private employer, the DMC has 16,600 employees and 3,000 hospital beds. It sees more than one million patients a year. Officials have announced $150 million in cuts in the next 1 1/2 years.

The losses make the DMC's financial woes the largest reported this year for a large Michigan health system. A large health system has more than a

half-dozen hospitals.

Its chief competitors, all nonprofit hospitals, face similar pressures, particularly with reduced income from Medicare and Medicaid.

But with the exception of the Henry Ford Health System, which expects a $14-million loss this year, its first in many years, many of the area's other large health systems are showing profits.

At law offices, accounting firms, community groups and medical societies involved with the DMC through contracts and programs, Campbell's resignation triggered discussion Monday about possible interim successors.

They include Mike Duggan, Wayne County deputy county executive. Reached Tuesday, Duggan declined to answer questions, including whether he had been contacted by anyone about the DMC job. "I won't talk about it further," he said.

Duggan has told friends he was approached about the job, but had reservations about losses and doubts about the board's commitment to make major changes.

Two other possible interim successors are DMC board members: attorney David Page, of the Honigman, Miller, Schwartz & Cohn law firm, and Leroy Richie, a retired Chrysler vice president and general counsel for automotive legal affairs.

Officials at the Coalition for Health Care Equity, which last month announced a landmark agreement to boost minority promotions, board jobs and contracts at the DMC, expressed concern.

"I'm still trying to put pieces together," said the Rev. Joseph Jordan, chairman of the coalition. Semple notified him late Tuesday about Campbell's decision.

"My concern is: Will they live up to their responsibility?" Jordan asked. Semple assured him the DMC would fulfill commitments, which will be reviewed in January. "I think the coalition can be of help."

At the 500-member Detroit Medical Society, officials also fielded calls from doctors worried about the effect of DMC losses on patient care.

"It's hard to lower expenses when you are trying to maintain an acceptable level of care," said a Detroit Medical Society official who asked not to be named because of the sensitivity of ongoing discussions.

The higher than expected losses make layoffs more likely, experts say. A merger with another large health system also is possible, although DMC's bottom line makes it undesirable as a merger partner.

A senior DMC staffer said physicians attributed spiraling losses to mounting costs at Sinai and Grace hospitals, a shoddy billing system and a reorganization three years ago that made it harder to figure out which programs were causing the biggest losses.

Others question two large DMC purchases last year: Sinai for $65 million and the former Park Medical health clinics, a network of health care centers, for $11 million.

Many of the clinics were so substandard the DMC had to close some and budgeted $15 million to upgrade others.

Patricia Anstett can be reached at 1-313-222-5021 or by E-mail at anstett@freepress.com

From: "Tony Mazzaschi" <Tmazzaschi@aamc.org>
To: <basicmail@aamcinfo.aamc.org>, <casmail@aamcinfo.a...
Date: 3/30/99 1:20PM
Subject: research-aamc UCSF Stanford Announce $170 Million Budget Plan

UCSF Stanford Health Care on Monday issued the following press release announcing a $170 million budget balancing plan that will include $112 million in savings to be generated by workforce reductions over the next year. According to the release, "There may be up to 800 layoffs as part of the initial reduction of 1,275 full-time equivalent positions over the next several months." The full release follows.

Tony Mazzaschi
AAMC

UCSF STANFORD ANNOUNCES $170 MILLION BUDGET BALANCING PLAN

UCSF Stanford Health Care today announced a performance improvement plan to cut costs by 11 percent over the next 17 months to offset shortfalls in government reimbursements for the care of Medi-Cal and Medicare recipients, who make up half of UCSF Stanford's patients, and to offset skyrocketing increases in the costs of drugs and other medical supplies.

Payments from private insurers and health maintenance organizations (HMOs) that are not keeping pace with rising costs are also contributing to UCSF Stanford's financial problems that resulted in a first quarter operating loss of $10.7 million. If uncorrected, the loss would grow substantially by the year 2000.

The state's fifth largest Medi-Cal provider, UCSF Stanford received $80 million less than what it cost to provide care to Medi-Cal patients last year. The Medi-Cal deficit is expected to increase by $11 million next year. About one-third of the Medi-Cal care was for children under the age of one.

Academic medical centers like UCSF Stanford have been hit hard by reductions in Medicare payments due to the 1997 Federal Balanced Budget Act. Annual reductions in Medicare payments to UCSF Stanford will total $10 million in 1999 and $23 million in the year 2000. By 2003, federally legislated Medicare cuts will amount to $46 million annually.

UCSF Stanford's financial problems are not unique. Partners HealthCare System in Boston - created by the merger of Massachusetts General and Brigham and Women's hospitals - estimated that congressionally mandated reductions in Medicare payments to the two hospitals will total $340 million between 1998 and 2002. Even without the impact of the Balanced Budget Act, many university hospitals are losing money, according to the University HealthSystem Consortium, a national alliance of the clinical enterprises of academic health centers.

UCSF Stanford's performance improvement plan calls for reducing expenses by $170 million within an annual operating budget of $1.5 billion. About two-thirds of the savings, or $112 million, will come

from a phased reduction in the workforce over the next year; another 22 percent, or $38 million, through reductions in drug and supply costs; and the remaining 12 percent, or $20 million, through a variety of other measures to increase revenue and reduce expenses.

There may be up to 800 layoffs as part of the initial reduction of 1,275 full-time equivalent positions over the next several months. Due to vacancies and turnover, nurses are not expected to be laid off in the initial reductions, provided those nurses whose jobs are affected are willing to accept other assignments and/or shifts. Another 725 positions will be identified for elimination later this year, but it is not yet known how many layoffs will be required. As with the initial reductions, non-essential open positions, attrition and the elimination of temporary jobs will be looked to first to meet the job reduction target.

After all cuts are made, it is estimated that the number of employees in central administrative services will be reduced by about 40 percent, hospital support staff by about 28 percent, direct patient care by about 9 percent and diagnostic services such as x-ray and lab services by about 8 percent.

"These are extraordinarily painful decisions for all of us," said UCSF Stanford Chief Executive Officer Peter Van Etten. "But we have no other choice. We must find ways to continue to deliver high quality care to meet the needs of our patients with fewer resources.

"The merger of UCSF and Stanford hospitals," Van Etten said, "affords us the ability to make significant infrastructure cuts that will shield against larger reductions in patient care service areas than would have otherwise been necessary."

The 17-month-old merger has produced more than double the new patients projected, but revenues have remained flat due to declining government payments while drug, supply and staffing costs have risen rapidly.

While these actions will return UCSF Stanford to a break-even point for fiscal year 2000, Van Etten cautioned that "unless there are some fundamental changes in the way health care is funded in this country, academic medical centers like UCSF Stanford will continue to be vulnerable."

Employees who are laid off will receive 30-days notice and severance pay based on years of service with UCSF Stanford or its parent organizations, UCSF and Stanford, unless otherwise specified as part of a union contract. UCSF Stanford will also provide affected employees with career counseling and a two-day career transition workshop that includes help with job searches, preparing for interviews and resume writing. On-site job fairs and career and personal counseling will also be provided.

These cuts are not being made across the board. They were determined based on departmental workloads and staffing compared to other academic medical centers. UCSF Stanford currently has 7.9 employees per "adjusted occupied bed," a widely used benchmark in the hospital

industry that takes into consideration both inpatient and outpatient activity. The goal is to reduce that ratio to 6.5-to-1. Nationally, the most cost- effective academic medical centers average 5.5 to 6.5 employees for every "adjusted occupied bed." Physicians, working with nursing managers and administrators, will monitor the proposed cuts to assure that patient service and quality of care are not compromised by the reductions.

The savings will be achieved, in part, by taking what are currently the most efficient practices in individual departments and applying them across UCSF Stanford's four hospitals. Other savings include streamlining administrative practices such as accounting systems and reducing management. UCSF Stanford's university medical centers are consistently rated among the top 10 in the nation. UCSF Stanford is the major referral center for acutely ill children and adults in Northern California.

UCSF Stanford Health Care operates four acute care hospitals - UCSF Medical Center, UCSF/Mount Zion Medical Center, Stanford Hospital and Clinics and Lucile Salter Packard Children's Hospital at Stanford.

Research-AAMC

From: "Tony Mazzaschi" <Tmazzaschi@aamc.org>
To: AAMC.GWIA("research-aamc@aamcinfo.aamc.org","clini...
Date: Mon, Mar 8, 1999 9:39 AM
Subject: research-aamc UCSF Stanford Hospitals Brace for Cuts

The following article details the efforts of UCSF Stanford Health Care to reduce costs in light of recent losses. The artilce discusses the use of comparative benchmarks supplied by the Hunter Group in an effort to reduce costs. The article ran on page one of Friday's San Francisco Chronicle.

Tony Mazzaschi
AAMC

UCSF, Stanford Hospitals Brace for Cuts
Unexpected $10.7 million loss may mean reducing staff 15%

Tom Abate, Chronicle Staff Writer Friday, March 5, 1999

UCSF Stanford Health Care administrators next week will begin looking for ways to cut an estimated 10 to 15 percent of the 12,500 staff jobs at its four hospitals in San Francisco and Palo Alto.

They will hand dozens of department heads a report comparing their staff-to-patient ratios with those at 52 teaching hospitals nationwide.

This ``benchmarking'' report, prepared by an outside consulting firm that has recommended layoffs at other money-losing medical centers, will help identify where and how deeply the system should cut its payroll to make up for a surprising $10.7 million loss during the first quarter of this year.

``It may not have to be done entirely through layoffs; some reductions may occur through attrition,'' said UCSF Stanford Health Care President Peter Van Etten. ``But I do not see how it could be done without layoffs.''

The staff reductions will affect all four of the system's hospitals -- UCSF Medical Center and UCSF Mount Zion in San Francisco and Stanford Medical Center and the Lucile Salter Packard Children's Hospital in Palo Alto. The cutbacks will not affect doctors.

Libby Sayre, with the University Professional and Technical Employees, one of several hospital unions, said that with more patients than ever coming in the doors, UCSF Stanford cannot afford to lose staff.

``The quality of patient care is going to plummet,'' she said.

Van Etten agreed that with patient counts rising, staffers ``are already working hard. We've got to find ways to operate more cost effectively.''

The potential layoffs have reopened the debate whether the two teaching hospitals -- Stanford and UCSF -- should have merged in 1997.

``This merger was supposed to make the two systems more efficient, but instead it's gotten top- heavy with administrators," said Fred Alvarez, a computer programmer at UCSF Medical Center and leader of a union representing about 2,000 lab and clinical workers.

In an hourlong interview, Van Etten stressed he has not put a final number on the cuts. But he said a 10 to 15 percent cut was ``possible." He said it might take 30 to 60 days to arrive at a final number.

Van Etten said no part of UCSF Stanford Health Care -- including top administration -- would be immune from the contemplated cuts.

But he insisted that the system's recent loss was not caused by the merger. He noted that other giant health systems such as Kaiser Foundation Health Plan are also running in the red, because of higher drug costs, cuts in Medicare reimbursement, and labor shortages that boost payroll expenses.

``We're operating in an environment where the costs are escalating and the reimbursements are capped," he said.

The four-hospital system eked out a $20 million surplus on $1.5 billion in revenues in fiscal 1998, which ended in August. Van Etten said administrators had anticipated a slim surplus this year but were planning for a $100 million shortfall in fiscal 2000, as the Medicare cuts and other factors kicked in.

But in December, when UCSF Stanford reported a $10.7 million first quarter operating loss, hospital administrators realized the crisis had already arrived. He said the system hired the Hunter Group, of St. Petersburg, Fla., to help turn around the loss.

Van Etten said the Hunter Group's report will compare the labor costs for every job -- from writing a bill to overseeing intensive care -- to the same costs at 52 other teaching hospitals.

Overall, labor makes up 50.3 percent of the system's budget.

Van Etten said UCSF Stanford has 7.9 full-time staff positions for every hospital bed compared to about 6.5 full-time workers per bed at other teaching hospitals. Nonteaching hospitals can go as low as 5.5 positions per bed.

``We're going to share this data with department heads and ask them to explain any differences and come up with ways to bring their benchmarks into line," Van Etten said.

He said the 1,800-person administrative, finance and computing staff would be a particular area of focus, as UCSF Stanford tries to create one billing system to replace the separate system at the four hospitals.

UC San Diego Health System, another teaching hospital, also used the

Hunter Group, and its benchmarking process, when it suffered a $20 million loss on roughly $269 million of revenues in 1996. UC San Diego ended up cutting 500 full- time equivalents out of a 3,100 person workforce, a spokeswoman said. The hospital system became profitable in 1997 and has remained in the black since.

In 1994, the Hunter Group advised San Francisco's California Pacific Medical Center (CPMC) to lay off 500 employees to reverse $48.3 million in losses accrued over a three-year period. CPMC was formed by the merger of Childrens Hospital of San Francisco and Pacific Presbyterian Medical Center.

Officials at UCSF and Stanford say the benchmarking process and any layoffs that result will not directly affect the roughly 1,500 physicians who practice and teach at the four hospitals.

Haile Debas, dean of medicine at UCSF, said medical faculty are UC employees whose pay and work rules are set by UCSF, not UCSF Stanford Health Care, which is a separate entity.

But medical faculty have already felt the squeeze in Medicare and private insurance payments because their income is partly based on how much they generate in patient-treatment fees collected by the hospitals and returned to their UCSF or Stanford departments.

Judith Swain, chair of the department of medicine at Stanford, said doctors also have a role in trying to reduce costs, by deciding whether to order fewer lab tests, or prescribe less-expensive drugs when available.

"We've gotten into such a legal- medical problem in this country that sometimes it's easier to get the test rather than not get the test," Swain said.

But with drugs and medical supplies, including tests, comprising 16 percent of UCSF Stanford's costs, she said it is up to doctors to balance need against cost.
Research-AAMC

CC: AAMC.HQ(JEPARKER,Rfjones,Rdickler,Kfisher,Jykrakow...

From: "Tony Mazzaschi" <Tmazzaschi@aamc.org>
To: AAMC.GWIA("research-aamc@aamcinfo.aamc.org","clini...
Date: Tue, Mar 9, 1999 7:55 AM
Subject: research-aamc UIC Reports Unexpected Loss; Cuts Planned

Tuesday morning's Chicago Tribune reports that the University of Illinois at Chicago Medical Center has an "unexpected deficit" of $8 million over six months and will eliminate 250 positions in an effort to reduce costs. The article also reports that the UI Board has approved the hiring of the Hunter Group to conduct a 14-week study of hospital operations. The article follows.

Tony Mazzaschi
AAMC

UIC MEDICAL CENTER ELIMINATING 250 JOBS
By Bruce Japsen Tribune Staff Writer March 9, 1999

The University of Illinois at Chicago Medical Center disclosed Monday evening an "unexpected deficit" of $8 million in the first half of this year that will result in the elimination of more than 250 positions at the West Side teaching hospital.

Because of the shortfall, the hospital has instituted a freeze on both hiring and overtime pay for its employees. Since Jan. 1, the hospital has pared its workforce to 2,750 full-time employees.

The hospital has already eliminated more than 200 positions through attrition or retirements and is looking to cut another "40 to 50" by early May.

Academic medical centers like the University of Illinois have been hit hard by managed-care insurers, which emphasize lower-cost outpatient medical care services. While University of Illinois outpatient services continue to see growth, the hospital is losing money because fewer patients are hospitalized, particularly in the area of inpatient surgeries and births, a spokesman said.

"With the health-care industry still undergoing enormous changes, including a shift from inpatient to outpatient care and marketplace pressures to limit payments for services, many academic medical centers around the country are experiencing the same financial difficulties," said R.K. Dieter Haussmann, the university's vice chancellor for health services. He was unavailable for further comment.

To stem the tide of losses, the University of Illinois Board has approved hiring Florida-based consulting firm Hunter Group to advise hospital executives. The firm will be paid $1.2 million to conduct a 14-week study of hospital operations.
Research-AAMC

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Business

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Many Pa. hospitals in the red, study says

The situation, severe in Phila., is worse than the figures show, experts say.

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By Josh Goldstein
INQUIRER STAFF WRITER

One-third of the acute-care hospitals in Pennsylvania and 45 percent of those in the Philadelphia area are in severe economic distress, according to a report released yesterday by an independent state agency.

The Pennsylvania Health Care Cost Containment Council's financial report found that 69 hospitals across the state -- including 23 in Southeastern Pennsylvania -- either lost money or had total surpluses of less than 2 percent in the three-year period from July 1994 to June 1997.
The 42 hospitals that lost money "are likely to be in financial distress and should be taking extraordinary means to increase revenues and reduce expenses," the report said.

The situation today is worse, according to area health-care executives and experts. They said that the bleak numbers in the report do not indicate the true severity of the problems faced by hospitals in Philadelphia and the surrounding counties.

They noted that the agency used data that are more than 18 months old and, as a result, the report does not reflect the current situation.

For instance, some of the worst-performing city hospitals in the report were part of the Allegheny system and filed for bankruptcy in July.

"This information is far too old to be of any help to us," said William N. Kelley, chief executive of the University of Pennsylvania Health System. "We have seen major negative changes since 1997."

Kelley said the report does not reflect the effect of reduced Medicare and Medicaid reimbursement levels resulting from the federal Balanced Budget Act of 1997, the state's HealthChoices HMO program for medical assistance recipients, or the growth of managed care led by the area's dominant insurance companies, Independence Blue Cross and Aetna U.S. Healthcare.

Cost Containment Council spokesman Joe Martin said the departure of key analysts during the production of the report delayed its completion. Despite that delay, Martin said the information would be helpful to policymakers.

"We hope that this report and future reports can help us foresee situations like the Allegheny health system bankruptcy, so that the appropriate people can take actions to avoid such problems in the future," said Martin.

According to the report, the city's hospitals on average lost money during that three-year period. The margins ranged from the Hospital of the University of Pennsylvania's 15 percent surplus to St. Agnes Medical Center's 16.7 percent loss. At the same time, hospitals in the four-county Philadelphia suburbs posted average net margins of nearly 3.5 percent. "It's going to get worse before it gets better," said Michael D. Rosko, a professor of health administration at Widener University.

"Area hospitals are going to have to continue cutting expenses to make it through the next few years and also undertake creative initiatives to improve their bottom lines by generating new revenue sources," he said.

He said recent initiatives by the area's health systems to expand outpatient services in the suburbs are the kind of moves they must make to remain financially viable.

Despite those and other efforts by area hospitals and health systems, lawmakers on the local, state and federal levels must become involved in helping hospitals adjust to the new health-care economy, said Andrew Wigglesworth, president of the Delaware Valley Healthcare Council, which represents the area's hospitals.

For example, the report shows that uncompensated care provided by Philadelphia hospitals amounted to nearly 7 percent of net patient revenues, compared with 4.5 percent of patient revenues for suburban hospitals in fiscal 1997. Wigglesworth said that in 1998, hospitals in the region provided more than $400 million in uncompensated care, putting an enormous burden on the health systems, particularly those with facilities in areas that have large numbers of uninsured people.

"The state, particularly the governor and the General Assembly, have a unique opportunity to address many of these needs with the tobacco settlement money," Wigglesworth said. Over the next 25 years, the state will collect an average of more than $400 million a year from tobacco companies, money that Wigglesworth said should be used for health care.

While a shift of medical care to the suburbs could boost the prospects for the

area's health systems, it also poses a problem for Philadelphia's major teaching hospitals -- Temple University Hospital, the Hospital of the University of Pennsylvania, and Jefferson University Hospital.

When Pennsylvania allowed its certificate-of-need law to lapse in 1997, suburban hospitals began to provide high-end procedures formerly reserved for the academic hospitals, said Leon Malmud, president of the Temple University Health System.

"An unintended consequence was that cardiac surgeries and other procedures that generated revenues the teaching hospitals used to offset the cost of uncompensated care began migrating to the suburban hospitals that provide relatively little uncompensated care," Malmud said.

"We are depleting what has been an enormous resource to the city and the state, the academic medical centers," he said.

Hospital profits helped by stocks

Wednesday, March 17, 1999

By Pamela Gaynor, Post-Gazette Staff Writer

The state's largest general acute-care hospitals have been posting strong profits, with much of the bounty coming from booming stock market.

If the stock market fades, the hospitals' overall financial picture would take a turn for the worse just at a time when reimbursements for patient care are expected to tighten further, according to the Pennsylvania Hospital Cost Containment Council's latest report on hospital revenues and profits.

For the fiscal year ended June 1997, the latest year for which results have been tabulated, total profit margins for general acute-care hospitals with more than 100 beds averaged 3.64 percent, up slightly from a three-year average of 3.28 percent, the council's report said.

Total profit margins for the region's large, general acute-care hospitals averaged 3.5 percent, slightly below the statewide average.

But those margins, which include income from investments and charitable contributions, mask bleaker margins from hospitals' main activity: taking care of patients.

Operating margins, or the percentage of profit hospitals make on patient care, averaged 2.66 percent for large hospitals statewide and 2.17 percent in the region.

"Any softening in the [stock] market is going to have an effect on an important source of revenues" for many hospitals, said Joe Martin, spokesman for the council.

Nor is income from hospitals' patient care activity expected to improve. "You can expect the pressure to increase, not decrease," Martin said.

The pinch on income from patient care is coming because of curbs on Medicare and Medicaid spending and on reimbursements from private managed care insurance plans. Hospital admissions and lengths of stay have also declined, because of pressures from insurers and new technologies that have made more treatments available on an outpatient basis.

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Martin noted that the profit picture for the state's smaller general hospitals, those with fewer than 100 beds, was worse than for larger institutions.

Total margins for hospitals with fewer than 100 beds averaged 1.57 percent in 1997, compared with the 3.64 percent average for large hospitals.

Business

Primary Health seeks Chapter 11 protection

The Wayne company listed $237 million in debts. It plans cutbacks at its five Cleveland-area hospitals.

ASSOCIATED PRESS

Primary Health Systems Inc. and its five Ohio hospitals filed for bankruptcy protection yesterday, listing $237 million in debts.

As part of the reorganization, the Wayne-based health system plans across-the-board staff cuts and a shift away from revenue-draining teaching programs, the company said in a statement.

"Teaching is a large component of expense," spokeswoman Beth Sweeney said.

Primary Health, which listed $157 million in assets, operates three primary-care hospitals and two teaching hospitals in the Cleveland area, Sweeney said. As part of the reorganization, the hospitals will be locally managed and the parent system will be taken over by Crossroads Capital Partners L.L.C, which has managed the health system since July 1998.

The system plans to change Mount Sinai Medical Center-University Circle from a teaching hospital to a community hospital, with the company laying off workers in any discontinued academic programs. Residency contracts and teaching affiliations with University Hospitals and Case Western Reserve University School of Medicine will be canceled by June 30, the company said.

Staff reductions are planned at all the Ohio hospitals, including closing the obstetrics unit at Deaconess Hospital by mid-April. Other hospitals affected include Mount Sinai Medical Center-East in Richmond Heights, Mount Sinai Medical Campus-Beachwood and St. Michael Hospital in Cleveland. Sweeney would not elaborate on how many people will be laid off.

The system also plans to seek not-for-profit status under a new name, which has not been determined, and install a new $10 million computer database.

"We are stabilizing the financial condition of the system while preserving the vast majority of the system's jobs," chief executive P. Michael Autry said. "As

we implement our initiative . . . we are totally focused on providing the superior level of health care our patients expect and deserve."

The unsecured debt includes bank loans of an unspecified amount from First Union National Bank and Key Corporate Capital Inc. of Cleveland. The next 18 largest unsecured claims are trade debt, ranging from $129,000 to $700,000.

Primary Health filed for protection under Chapter 11 in U.S. Bankruptcy Court in Wilmington, where the company is incorporated. While its corporate offices are in Wayne, all operations are based in Cleveland.

The Chronicle of Higher Education
Money & Management

From the issue dated April 2, 1999

Penn's Bond Rating Is Downgraded Because of Financial Losses at Its Hospitals

By MARTIN VAN DER WERF

Moody's Investors Service has downgraded the credit rating for the University of Pennsylvania, citing continuing financial losses by its hospitals and School of Medicine.

The university's academic performance is exceptional, the credit agency said, but "severe managed-care pressures" have forced the health-care arm to borrow $120-million from the university over the past 18 months, sapping some financial strength.

The university's rating was lowered from Aa2 to Aa3, which is the lowest rating for what is considered a "high-grade" bond. The rating for the University of Pennsylvania Health Services system was lowered from A1 to A2, two steps below the university's rating.

The lower credit rating did not surprise university officials.

"Over 50 per cent of our revenues come from the health system," said Kathy J. Engebretson, vice-president for finance. "So we expect when there is financial pressure at the health system, we are going to feel it throughout the university."

Nevertheless, a downgrade in a credit rating is unusual for an institution that is doing so well. Indeed, Moody's analysis calls the university "among the most prestigious in the country." Penn accepted fewer than 30 per cent of applicants for fall 1998, its most-selective rate ever. It ranks among the top 20 universities in the nation in the amount of research money it receives.

However, the university will at best break even in fiscal 1999, and may have operating losses for several years, says the analysis, which was released last week. The university and health system combined have $1.43-billion in debt.

Through the first six months of this fiscal year, Penn's health system reported a $33-million loss. That was an improvement from the $53-million loss in the comparable period the year before. The losses have been pared because the health system has signed more physicians and patients after the bankruptcy last year of the Allegheny Health, Education, and Research

Foundation, another health-care network based in Philadelphia.

"In the short run, the Allegheny situation has helped us," said Ms. Engebretson. With increased volume and a cost-reduction program, officials of Penn's health system hope to break even in fiscal 2000.

But Moody's casts doubt on that hope. The rate of reduction in losses may slow down, it says, because Philadelphia's two dominant health-maintenance organizations, Independence Blue Cross and Aetna/U.S. Healthcare, are reducing and delaying payments, denying more requests for care, and cutting reimbursement for outpatient services.

Penn's situation is similar to that of Georgetown University, which had its credit rating downgraded by Moody's in December and by Standard & Poor's, the other major credit-rating agency, in February. Both agencies cited losses by the university's hospital and School of Medicine. Georgetown is now looking to affiliate with another health-care provider.

Penn would consider other options for operating its medical school, four hospitals, and physician network, Ms. Engebretson said. Other universities that have encountered financial trouble with their hospitals have sold them, spun them off into separate corporations, or merged them with other providers.

"Our preference would be to keep the health system and School of Medicine integrated," she said. "But I think we would be foolish in the current climate not to look at other models."

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Section: Money & Management
Page: A47

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Profits plunge at St. Vincent's parent, Mercy Health Partners

April 9, 1999

BY GEORGE J. TANBER
BLADE STAFF WRITER

Mercy Health Partners' profits dropped $73 million last year, prompting a New York bond rating firm to warn that it might downgrade the rating of its Cincinnati-based parent company.

After a robust decade, Mercy Health - whose operations include St. Vincent Mercy Medical Center, St. Charles Mercy Hospital, and Riverside Mercy Hospital - made $1 million in 1998 after earning $74,225,000 in 1997, said Michael Connelly, president and chief executive officer of Catholic Healthcare Partners, Mercy Health's parent company.

``What's going on in Toledo is going on everywhere," said Mr. Connelly. ``The Balanced Budget Act [of 1997] and advances in medical technology have put tremendous pressure on health care providers and have diminished the level of their financial performance."

In recent years Mercy Health has been waging a fierce, costly battle with its local rival, ProMedica Health System, for control of the area market.

Officials at ProMedica, whose area holdings include Toledo Hospital, Flower Hospital, and Children's Medical Center of Northwest Ohio, would not release the company's 1998 earnings. However, they acknowledged that ProMedica had a worse year in 1998 than in 1997.

Also contributing to the poor performance of Mercy Health's parent corporation was its

Toledo-based insurance company, Family Health Plan, a health maintenance organization. After losing $9.8 million in 1997, Family Health lost $4.1 million during the first six months of last year, according to analysts.

Mercy Health's poor performance in 1998 was, in part, the result of:

Losing money on its expanded physician group.

Riverside Mercy Hospital, which was acquired by Mercy Health in 1997, losing $3.5 million in 1998.

The reduction of reimbursements for health care to the elderly and poor under the Balanced Budget Act of 1997.

As a result, analysts at Moody Financial Services have issued a warning to Catholic Healthcare to improve its finances or risk a downgraded bond rating.

Standard & Poor's, another New York bond rating company, issued a similar report last week. Analysts there cited ``declining operating income and diminished near-term financial performance" at Catholic Healthcare as the reasons for their concern. The analysts did not specifically mention Mercy Health in their report.

The Moody analysts reported that Catholic Healthcare had a decrease of $80.7 million in operating income last year and that Mercy Health represented more than half of that decline.

The analysts said they issued a warning only because they normally don't penalize a company after a single bad year.

The health care system, which operates 27 acute-care hospitals and 13 nursing homes in Ohio, Pennsylvania, Kentucky, and Tennessee, has nearly $1 billion in outstanding bonds, a large percentage of which are insured, Moody analysts said.

Mercy Health operates Mercy Children's Hospital, MCO/Mercy Rehabilitation Hospital, and the Mercy hospitals in Tiffin and Willard, O.

The poor numbers caught the analysts off guard because the Toledo region is the system's largest cash flow contributor and had experienced strong financial growth the last several years.

In 1997, for instance, St. Vincent Mercy Medical Center made a $58 million profit, said Allan Baumgarten, a Minneapolis-based analyst who monitors health care systems in Ohio.

``Given the region's historic financial momentum, the severity of the recent performance decline comes as a surprise to Moody's as operating cash flow declined approximately 60 per cent between 1997 and 1998," wrote Moody analysts Kevin Ramundo and Bruce Gordon in their report on Catholic Healthcare Partners.

Catholic Healthcare earnings had grown steadily since the system's inception in 1986, they noted.

Mercy Health officials said the company earned $41,113,000 in 1996 before jumping to $74.2 million in 1997. The 1997 figure included a one-time windfall of $13 million to $15 million from its acquisition of St. Vincent that year, officials said.

But operating pressures and higher accounts receivables halted the system's cash growth last year.

In their report, Mr. Ramundo and Mr. Gordon cited the pending departure of the company's president and chief executive and the recent resignation of its chief financial officer as signs of instability at Mercy Health.

Darryl Lippman, 58, president and chief executive, announced at a board meeting in February that he will retire June 30.

Augusto Noronha, the chief financial officer, left the company Jan. 31, according to a Mercy Health spokeswoman.

Mr. Connelly said a search is under way for Mr. Lippman's replacement.

``I'm fairly optimistic there will be a smooth

transition," he said.

The losses sustained by Family Health Plan were not surprising, given the turbulence in the state's HMO industry. In 1997, the state's approximately 40 HMOs lost $59.7 million, according to the state's HMO association.

Regulatory changes and rising costs are the culprits, the association said.

``We lost money," conceded Thomas Beaty, Family Health's interim president and chief executive officer. ``But at the same time, we're growing . . . and we're introducing new products and services. You can't expand and grow your business and have a significant profit margin."

Mr. Beaty, the company's former chief operating officer, replaced Jim Massie, who resigned last month. Mr. Massie spent one year at Family Health. He replaced Bruce Haskins, who left for another position at Catholic Healthcare.

Mercy Health officials said changes are being made to enhance the company's performance without diminishing the quality of care.

``We are confident we will be able to do them well. We are already under way accomplishing them," said Mark Lloyd, regional vice president of marketing and communications.

Nearly half of the 206 middle management and supervisory positions at St. Vincent were eliminated last fall. That followed the elimination of 56 St. Vincent jobs - most of them nurses - in July. The company laid off 33 other employees at St. Vincent, St. Charles, and Riverside in January.

Mr. Lloyd could not rule out additional layoffs.

``We continue to look for ways to reduce our workforce without having to resort to layoffs," he said. ``[But] it's impossible to predict. We anticipate none, but we want to be responsible and flexible enough to do what business dictates."

Mercy Health employs about 7,800 people.

Riverside's woes involve, in part, its North Superior Street location and poor accessibility because of a closed I-280 ramp across the street, Mr. Lloyd contended. He said Mercy Health eventually will convert the hospital into an outpatient clinic.

Despite losing $3.5 million last year, Riverside admissions dropped only 3.5 per cent from 1997 to 1998, and its outpatient surgery activity remained about the same during that period.

``That shows we're delivering more care for less payment,'' said Mr. Connelly, who, like many health care system executives, believes the decrease in government reimbursements is the main reason for the financial problems facing many health systems.

Nevertheless, according to the analysts, there are other reasons as well.

For instance, Mercy Health, like other health care systems, aggressively pursued signing independent physician groups in recent years. Some of those agreements proved to be costly and ineffective, according to the analysts.

Mr. Baumgarten said companies such as Mercy Health are losing an average of $80,000 a year per physician.

As a result, ``we are looking to terminate disadvantageous physician agreements - we're evaluating that as an option,'' said Mr. Lloyd, adding that Mercy Health has about 120 physicians under contract.

But, according to Mr. Baumgarten, health systems have fared poorly in pruning physicians from their payrolls.

``They need to pare down the clinical side. But for a variety of reasons, they don't do it. At least not yet. In some cases, they don't want to risk losing doctors to the competition,'' he said.

In other cost-cutting measures, Mr. Lloyd said Mercy Health has consolidated its dietary and purchasing departments, formed a partnership with

the Medical College of Ohio to operate jointly a regional laboratory, and is attempting to reduce the number of patient tests and procedures.

The company has begun allowing its employees to have a say in how to streamline work processes, a move Mr. Lloyd predicted could save millions.

Mr. Ramundo and Mr. Gordon are not as certain as Mr. Lloyd about Mercy Health's ability to right its problems immediately, one of the reasons they decided to change from stable to negative the long-term rating outlook for Catholic Healthcare.

``We believe improvement is possible, but feel that management's projected 1999 results are optimistic and will be difficult to attain given the challenge the organization faces,'' they wrote.

However, based on the system's previous performance, Mr. Ramundo and Mr. Gordon said Catholic Healthcare should rebound eventually.

Said Mr. Connelly: ``We're on track with our plan.''

In their report, Mr. Ramundo and Mr. Gordon cited poor performances by Catholic Healthcare's three facilities in Pennsylvania and its recent acquisition of the Cincinnati-based Franciscan Health Partnership, for $82 million, as contributing to the down year.

Meanwhile, officials at the area's two other hospitals said they had good years in 1998. St. Luke's Hospital officials said they exceeded 1998 financial goals, and a Medical College of Ohio Hospital spokesman said MCO Hospital had one of its best years. Neither hospital would release its 1998 earnings.

Hospital systems around the country have been reporting record 1998 losses in recent weeks.

Last month, Cleveland Clinic Health System reported it lost $111.1 million last year. Also last month, Henry Ford Health System in Detroit announced it lost $43.8 million in 1998.

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Front Page

How hospital systems bled red ink last year

Penn, for example, lost $90 million. A variety of factors has been blamed. The prognosis is pessimistic.

By Karl Stark
INQUIRER STAFF WRITER

Hospital systems in Philadelphia suffered their worst losses in more than a decade last year, according to analysts and financial records.

A confluence of factors, including reduced federal and state spending and slow-paying HMOs, is draining the finances particularly of teaching hospitals, which train future doctors and treat the poor.

The University of Pennsylvania Health System -- long the financial engine of Penn's prestigious medical school and research program -- chalked up the worst year that anyone there can remember. The health system lost $90 million on operations in 1998 on revenues of $1.5 billion. That is $75 million more than it lost the year before, when it posted a $15 million operating deficit, financial statements show.

The Penn system, which controls 20 percent of the Philadelphia market, has seen its cash on hand decline by $168 million in the last 18 months.

Its results could have been worse. The health system was able to borrow $123 million last year from its parent, the University of Pennsylvania, a move that helped persuade a major rating agency to downgrade the debt of both institutions.

Penn's loss is the largest, but is not unusual among the region's nonprofit health systems.

The Temple University Health System recorded a $24.7 million operating loss last year on revenues of $558 million. "What we have brewing is a catastrophe," said Leon Malmud, president of the Temple University Health

System.

"If health care is looked upon as a marketplace phenomenon in which nature should take its course, there will be as many hospitals of quality as there are branches of Neiman Marcus or Nordstrom's in the city, which is zero."

The Jefferson Health System lost $30.5 million on operations on revenues of $1.7 billion, records show. The Crozer-Keystone Health System lost about $4.5 million on operations on revenues of $482 million, according to records.

Tenet Healthcare Corp., which runs the region's only for-profit hospitals, said last week that those eight Philadelphia hospitals dragged down its quarterly earnings by 2 cents per share, or $6.2 million.

About two-third of all nonprofit hospitals in Pennsylvania reported operating losses in 1998.

New Jersey hospitals produced similar results due in part to the failure of two HMOs, which left hospitals and doctors with $150 million in unpaid bills. The hospitals there averaged a 1.5 percent loss on operations in 1998 -- the first time hospitals in New Jersey have collectively been less than break-even.

"There are probably going to be some closures" or consolidations, said Kerry McKean Kelly, speaking for the New Jersey Hospital Association.

Another hospital group could go the way of the Allegheny health system, whose Philadelphia-area operations declared bankrupcty last summer, said Andrew Wigglesworth, president of the Delaware Valley Healthcare Council. "You can't continue to lose money on operations and sustain yourself over time," he said.

The region's health systems are finding that short-term solutions to financial problems can create long-term problems.

At Penn, the internal borrowing already has had consequences. Moody's Investor Services last month downgraded the bond ratings for both institutions, citing the health system's "volatile operating environment." The downgrades will make it more difficult for the system and the university to raise money through bond offerings.

William N. Kelley, the health system's chief executive, said Penn had the deep pockets to weather this downturn. He vowed to bring the organization back to the break-even point within two years.

But it will not be easy. Hospital executives say they are remaining afloat with investment income. Kelley argued, for example, that Penn's $90 million loss was mitigated somewhat by $45 million in investment income last year. The Jefferson system had $45.6 million from investments. Temple had $22.8 million, while Crozer-Keystone had $5.9 million in investment income last

year, according to records. Hospitals typically add investment income to their operating results.

But Moody's analysts say investment income is flush from the current bull market and can mask operating problems. The truest way to assess a system is to exclude investment income, analysts said.

"Fiscal 1998 was probably the toughest year in the last decade or so for Philadelphia hospitals," said Lisa Martin, a Moody's vice president. Martin expects losses in 1999 to be smaller but still sizable.

Others are not so sanguine. Jack McMeekin, Crozer-Keystone's chief executive, pointed out that the worst of the government cutbacks will take effect over the next two years or so. "I think things are going to get worse," he said. "We're not at a plateau."

McMeekin predicted that inner-city hospitals would be hit hardest.

Many hospitals also will try to cut staff, because personnel represents 60 percent of costs. "At some point, that's got to impact on the quality of care and the responsiveness of people," McMeekin said. "It's not an ideal recipe for quality care."

Cyclical earnings long have been a pattern in health care. But analysts and administrators say this downturn is markedly different because so many negative forces are arising at once.

The biggest is the federal Balanced Budget Act of 1997, which has cut Medicare payments for hospitals. Those cuts did not fully hit hospitals in fiscal 1998. But each year until 2003, hospitals will receive less from Medicare, with the biggest hit coming in later years. The Penn system will receive $175 million less each year by 2003, Kelley said.

Welfare changes in Pennsylvania have slashed Medicaid rolls and reduced payments to hospitals for treating those patients. Teaching hospitals are also treating more uninsured patients.

HMOs still squeeze hospital charges and often deny payments altogether, administrators said.

Aetna U.S. Healthcare and Independence Blue Cross have denied that they intentionally withheld payments to hospitals. In a speech last month, Independence Blue Cross president G. Fred DiBona Jr. said that he had heard such concerns from hospital executives and was trying to work with them. He said Blue Cross was doing its best to save money and keep premiums low.

Many executives are not so sure. The Jefferson system was the first to challenge an HMO in this area. Jefferson's Main Line hospitals and Albert Einstein Medical Center are threatening to end their contract July 1 with Aetna unless the insurer agrees to higher rates. If Jefferson and Aetna cannot

agree on terms. Aetna members would have to pay their own way -- or choose another insurer -- if they want to be treated at those hospitals.

Jefferson's strategy is fraught with peril, in part because Philadelphia has so many hospitals and only two dominant insurers. Aetna and Independence Blue Cross. MCP and Pennsylvania Hospital tried to reject Aetna U.S. Healthcare in the early and mid-1990s and ultimately retreated due to lost patients.

Still. more systems may be tempted to try such measures. Moody's Martin said. because they have few other options to increase revenue.

The federal goverment could calm matters by postponing or eliminating the steepest cutbacks of the Balanced Budget Act. Or Pennsylvania lawmakers could earmark some money for health care from the $11.3 billion tobacco settlement expected across the next 25 years.

"We're going to reach a point where we're going to have so many hospitals in trouble that the government will be forced to reexamine its payment rates" for Medicare and Medicaid. said Howard Peterson, who heads the eastern office of the consulting firm LarsonAllen Weishair & Co.

Another possibility is that the teaching hospitals will be forced to shrink and even fade away.

"We're eating into our cash." Temple's Malmud said. "We're spending down our resources." Next year's loss at Temple will be larger without goverment assistance, he said.

The factors that make the Philadelphia market so harsh are also hitting hospitals nationwide. UCSF Stanford Health Care, the four-hospital system in California. recently projected a $150 million loss in 2000 and plans to cut 2.000 jobs. or 16 percent of its workforce, over the next two years.

Likewise. the University of Texas medical branch at Galveston projected a $110 million deficit by 2000, said Robert J. Baker, president of the University Health System Consortium in Oakbrook, Ill.

The situation is not so dire at Penn but warning signs abound.

Records show that Penn's $90 million loss included a $25 million shortfall on its physician practices in 1998 and another $25 million loss at Pennsylvania Hospital. which administrators are busily trying to turn around.

The system lost an additional $12 million insuring 180,000 patients in its full-risk coverage unit. Many health systems have lost money that way because treatment costs are often greater than expected.

Records also show that Penn's uncollected bills to insurers and others increased by $94 million last year -- or by 33 percent -- to $378 million. Penn

officials said they were not getting prompt payment from insurers.

"That is one massive increase," said Gerry Katz, a health-care consultant in Plymouth Meeting. Because of its growing pile of uncollected bills, the system has to pay suppliers more slowly and draw money from the university, Katz said.

"Their overall financial picture is declining," Katz said "What it means is there is big trouble ahead for everybody. Penn is in a stronger position to weather this. It doesn't get better for anybody else."

The university is the Penn health system's bulwark against bad times. But some believe that the operating losses are wearing out the patience of Penn president Judith Rodin, who is Kelley's boss. They say she is putting more pressure on the health system to cut costs quickly and is scrutinizing expenses.

Spokesman Ken Wildes said Rodin always had been closely involved in the health system and remains so.

Kelley said he invited Rodin's help. He said program cuts were being planned but he declined to name any yet. He also said senior staff was being reorganized to clarify accountability.

Kelley blamed the increase in uncollected bills on insurers paying more slowly. He said it was not a mistake to acquire Pennsylvania Hospital because it is turning around. The physician practices attract much-needed revenue into the system, he said, while the system strives to make full-risk contracting at least break even so it can teach medical students how to practice in a managed-care environment.

Kelley said the system retained many strengths. The system's cash on hand still totals $555 million. Its federal research money has risen from 10th in the nation in 1990 to second this year, with its medical school's prestige rising accordingly.

Though Penn's fiscal problems could eventually hurt its research, Kelley says that will not happen.

"I think there are going to be bankruptcies," Kelley said. "It won't be us."

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  By Boaz Herzog
  March 31, 1999

- MGH will cut 130 jobs, raise prices
  The Boston Globe
  By Alex Pham, Globe Staff Writer
  March 20, 1999

- Early losses cited by area hospitals: Medicare cuts blamed for woes in first quarter
  The Boston Globe
  By Alex Pham, Globe Staff Writer
  March 19, 1999

Hospital Coverage--2

- Detroit Medical Center Bond Ratings Slip
  Detroit Free Press
  By Boaz Herzog, Staff Writer
  February 13, 1999

- Wayne State's links to DMC examined
  Detroit Free Press
  By Patricia Anstett, Free Press Medical Writer
  January 23, 1999

- DMC Chief quits amid reports of big losses
  Detroit Free Press
  By Patricia Anstett, Free Press Medical Writer
  December 16, 1998

- UCSF Stanford announces $170 million budget balancing plan
  Press Release
  March 30, 1999

- UCSF Stanford hospitals brace for cuts. Unexpected $10.7 million loss may mean reducing staff 15%
  San Francisco Chronicle
  By Tom Abate, Chronicle Staff Writer
  March 5, 1999

- University of Illinois at Chicago Medical Center eliminating 250 jobs
  Chicago Tribune
  By Bruce Jaspen, Tribune Staff Writer
  March 9, 1999

- Many Pennsylvania hospitals in the red, study says"
  Philadelphia Inquirer
  By Josh Goldstein
  March 17

- Hospital profits helped by stocks
  Pittsburgh Post Gazette
  By Pamela Gaynor
  March 17, 1999

Hospital Coverage--3

- Primary Health seeks Chapter 11 protection
  Associated Press
  March 19

- Penn's Bond Rating is Downgraded Because of Financial Losses at Its Hospitals
  The Chronicle of Higher Education
  By Martin Van Der Werf
  April 2

GU MEDICAL CENTER LOSES $62.4 MILLION; DEFICIT RESULTS IN LOWER CREDIT RATING

AVRAM GOLDSTEIN
WASHINGTON POST STAFF WRITER
Thursday, January 7, 1999 ; Page B01

Georgetown University Medical Center lost $62.4 million last year, and Wall Street analysts have responded by downgrading the university's credit rating. As a result, university officials are intensifying their campaign to form a partnership with an outside health care organization.

The figures for the fiscal year ending June 30 show that finances at the complex on Reservoir Road NW -- which includes a teaching hospital, medical and nursing schools and a large research enterprise -- continued to deteriorate even as administrators cut operating costs by $20 million. The previous year's deficit was $57 million. The medical center had projected its losses in 1998 would be only $35 million.

"To an outsider, it looks as though we're not making progress or that we're even slipping slightly. In fact, we know we're making progress," said Kenneth D. Bloem, chief executive of the 4,465-employee medical center. "It's still a very strong medical center and a strong university."

Hospital admissions, research funding and applications to the elite medical school are all up, Bloem said.

But the switch to a new computerized billing system resulted in $21.6 million of bills going uncollected last year. The university set aside $5.3 million to cover liabilities created by "external audits" -- the nature of which the university would not reveal.

The university's endowment exceeds $600 million and the health care deficit is being covered by university reserves. Because the university is so strong, there is no deadline for finding a partner, officials said.

But Moody's Investors Service, which rates the financial wherewithal of organizations that borrow money on Wall Street, portrayed the medical center as a drag on the university's otherwise sterling finances.

"I think the losses at Georgetown are quite large," said Kevin J. Ramundo, one of the Moody's analysts who downgraded the university's credit rating one notch last week. The $170 million of tax-exempt bonds issued by Georgetown are now considered "upper medium grade."

Bond holders are likely to receive all their payments, but Georgetown is "susceptible to impairment in the future," said Susan Fitzgerald, another Moody's analyst.

Academic medical centers across the nation are adapting to tightened Medicare and Medicaid payments and intensive cost-cutting by private managed care health plans.

Employers, private insurance companies and health maintenance organizations increasingly have refused to pay teaching hospitals more than neighboring community hospitals for equivalent services, experts said. Yet it costs 20 to 30 percent more to provide the same care in a teaching hospital because such institutions have medical trainees who perform more diagnostic testing and need extensive supervision.

Teaching hospitals also offer many specialized services involving expensive equipment, and academic centers like Georgetown invest in research programs that attract millions of dollars worth of scientific grants.

Those factors would be challenging enough in any U.S. city, but they are magnified in Washington, which has thousands of empty hospital beds and four teaching hospitals scrambling for patients at the heart of a region where the population is shifting toward the suburbs. Georgetown Hospital is licensed to operate 535 beds but generally keeps 350 open.

"Georgetown is in a tough competitive spot," said Susan M. Hansen, former administrator of Columbia Hospital for Woman and now president of a Washington firm that consults with hospitals nationwide about mergers, acquisitions and partnerships. "The more the institution loses money, the faster it finds itself in a mood to merge."

Several Georgetown officials said they don't know whether the future partner will be a for-profit, nonprofit, academic or Catholic institution -- all are possible. But any affiliation is unlikely to be simple because Georgetown has objectives that must be met, said Dan Porterfield, spokesman for Georgetown President Leo J. O'Donovan.

"It would have to be consistent with our tradition of academic excellence and with our religious identity as a Catholic and Jesuit institution, and it would have to minimize the challenges we face in a rapidly evolving managed care-dominated marketplace," Porterfield said.

In the three months ending Sept. 30, hospital admissions reached 4,038, up 7.5 percent from the same period the year before, according to medical center figures.

"We can weather this transition. If we don't panic, if we focus on the fundamentals, we'll be fine," Porterfield said. "In this country, quality endures."

Because of Georgetown's international reputation, Hansen said a partner would gain much by operating under the school's renowned "brand name."

Said Hansen: "They would be a true prize."

LEVEL 1 - 1 OF 1 STORY

March 25, 1999, Thursday, ALL EDITIONS

SECTION: NEWS, Pg. 1A

LENGTH: 2073 words

HEADLINE: Lifespan slashes 506 positions Officials blame reduced Medicare and private insurance payments

BYLINE: BRIAN C. JONES; Journal Staff Writer

DATELINE: PROVIDENCE

BODY:

In a tear-filled day, the Lifespan hospital network yesterday laid off 269 workers and axed another 237 vacant positions at two of its hospitals, as the huge system struggled to cure multimillion-dollar deficits.

The elimination of 506 jobs at Rhode Island and Miriam Hospitals capped a series of cuts that began last August in the five-hospital network.

Most of the workers were informed one by one of their lost jobs throughout the day. They included nurses, social workers, lab technicians, pharmacists, janitors and housekeepers.

Officials blamed a chronic shortage of funds they say is crippling many hospitals throughout the country, created by tight-fisted bill payers, including the federal government and private health insurers.

The employees "are wonderful individuals, people who are doing a good job," said Steven D. Baron, the Lifespan official who is president of both hospitals. "It's a reimbursement problem, not an expense problem."

Baron and Edward M. Schottland, chief operating officer of the two Providence hospitals, said that Lifespan expects the job cuts to save the system $ 16 million a year, a key step in eliminating operating deficits which last year soared over $ 50 million.

On the positive side, Baron said he expected this would be the last round of foreseeable job cuts. And possibly a third of those laid off would be able to find other jobs within Lifespan, he said.

Further, Baron said there will be no such cuts at two other Lifespan facilities, Newport Hospital and the New England Medical Center in Boston.

YESTERDAY'S CUTS had long been expected. George A. Vecchione, Lifespan's new president, began hinting last October that "painful" steps were coming, and in January, he conceded major layoffs were planned.

Indeed, in the last two months, Lifespan eliminated 64 jobs at its home health agency, the Visiting Nurse Association of Rhode Island, and another 14 at Bradley Hospital, the psychiatric hospital for children.

But yesterday's move was by far the largest. It will leave the two hospitals with 6,925 workers when the cuts are complete this spring.

Lifespan would not let reporters inside patient care areas of the hospital. But some of those who were there described emotional, tearful scenes.

Dr. Lynn Taylor, a second-year resident in internal medicine at Rhode Island Hospital, said she had no inkling of what was about to happen to some of her colleagues when she arrived at a medical clinic.

"I got to the clinic at 9, and I was meeting patients," Taylor said. "And when I went out to the desk, I saw a lot of nurses and nurse practitioners crying.

Taylor said that the abruptness of the dismissals struck her as "cruel." She said the social workers and nurse practitioners in her clinic were "the glue that keeps the place together."

Linda McDonald, president of the Rhode Island Hospital unit of United Nurses & Allied Professionals, a union representing 1,800 workers, said many throughout the hospital were devastated by the announcements.

"It's terrible," McDonald said at a news conference late in the afternoon. "It's really shocking to walk through and see men who are sobbing in the hallways. I had a member who was going to speak (at the briefing), but who is in shock."

About 80 of those laid off are nurses.

But it's likely that most of the nurses will be offered jobs within Lifespan, most at their own hospitals, said Baron, the hospitals' president. But some may not elect to take the posts if they don't like the shifts or units where vacancies exist.

Lifespan has established a "career research center" to help employees find jobs within Lifespan or elsewhere.

Of the two hospitals, Rhode Island Hospital, which during its busiest flu-season periods has 520 patients a day, had the most layoffs: 192 workers. Miriam, with about 200 patients when running full tilt, was assigned 77 layoffs.

Of the total laid off, 34 were described as "managers."

Lifespan, which was formed only five years ago when Rhode Island and Miriam merged, attempted to trim jobs that would not detract directly from the treatment of patients, Baron said.

"We will continue to maintain patient care standards that we've had in the past," Baron said. "So nursing hours that patients receive will not change through this process."

BUT CRITICS said that the cutbacks will still sting patients.

One of the sharpest attacks came from Kate Coyne-McCoy, executive director of the National Association of Social Workers' Rhode Island chapter. She decried

the layoffs of 10 social workers, out of a total of 27 at the two hospitals and 40 within Lifespan.

"What happened today was a crime," Coyne-McCoy said at the news conference that unions and community groups held outside Lifespan's corporate headquarters on Point Street.

"The administration at Rhode Island Hospital says that this won't affect patient care," she said. "Tell that to a woman who had a mastectomy this morning, when she wakes up tomorrow and she is trying to adjust to her new body."

Baron did not deny, in a news briefing earlier, that social workers play an important role. But he maintained that after looking at national "benchmarks," the system decided to cut some jobs.

IT WAS OBVIOUS that trench warfare battles were being fought right to the end to fend off or reverse cuts.

Stuart B. Mundy, secretary-treasurer of the International Brotherhood of Teamsters, Local 251, which represents about 1,800 service workers at Rhode Island Hospital, said he had talked officials out of a few cuts and was meeting late that afternoon to try to ward off more.

"It was 86," Mundy said of the original number of Teamsters slated for layoff; "it's down to 81."

Some areas escaped altogether.

It had been long rumored that foreign language interpreters might lose their jobs, and in fact one speaker at the critics' news conference decried such a move. But Lifespan officials said earlier that no such cuts were made.

Similarly, there had been worries that a skilled group of nurses called case managers, who guide patients through the medical maze (and try to meet managed-care demands for the shortest possible hospital stays) would go. That was not the case.

However, McDonald, the nurses' union president, was highly critical of a move to eliminate a few "nurse educators" who teach other workers about high-tech equipment and procedures.

Not only is their work vital in a hospital associated with a medical school, McDonald said, but because the nurses are veterans - most have 18 years or more service - their seniority would allow them to stay in other jobs, thus defeating the potential cost savings, she said.

In general, McDonald said that trying to save money through layoffs was a futile exercise in a hospital that she described as efficient, and overwhelmed with business, with many of the 1,500 nurses working overtime.

"It's a crime, because we already are running so efficiently and so lean as it is, it just doesn't address the problem," McDonald said. "We didn't make the mess, it's a revenue problem."

In fact, people on both sides of the layoff debate agreed that the real villain is the perilous reduction that the government and public have allowed to be made in what insurers and others pay for the care of hospital patients.

Baron, the Lifespan executive, said that a particular problem is lower reimbursements from the federal Medicare program, outlined in the Balanced Budget Act of 1997, and expected to trim $ 220 million that otherwise would have come to the state's hospitals over five years.

U.S. Rep. Patrick J. Kennedy yesterday said he opposed the 1997 budget law and would continue fighting further Medicare cuts. He said he also asked U.S. Labor Secretary Alexis Herman to seek immediate assistance for the laid-off workers.

As did McDonald, the union official, Baron said that both the state and federal governments "need to understand their commitment to health care and quality," or face more days like Lifespan experienced yesterday.

"I can't emphasize enough that it is not a happy day, saying good-bye to wonderful employees," Baron said.

FISCAL HOSPITAL ILLS

July 31, 1997: The Hospital Association of Rhode Island predicts that the state's 14 hospitals will lose more than $ 200 million over five years because of Medicare cutbacks in the proposed Balanced Budget Act of 1997. This is the first of many warnings by the trade association about the effects federal cutbacks will have.

Nov. 12, 1997: Lifespan acknowledges an operating deficit of about $ 14 million in the fiscal year that ended Sept. 30, and that it expects to lose as much as $ 40 million in 1998. The network hires 50 experts from the big national accounting and consulting firm of Ernst & Young to help save money and look for new sources of revenue.

Aug. 6, 1998: About 60 administrative positions have been eliminated from the Lifespan system as a result of cutbacks from the financial review, Lifespan announces. But only 15 people are to lose jobs, with the rest of the cuts coming from unfilled positions.

Oct. 7, 1998: George A. Vecchione, the new Lifespan president hired after the financial woes surfaced, makes his first public statement since taking over a month earlier, saying that "painful" measures will have to be taken to solve the money problems by 2000.

Oct. 8, 1998: Lifespan and Care New England stun the health-care industry with the announcement that the two major hospital networks hope to merge, creating an eight-hospital empire with $ 1.4 billion in revenues and 20,000 workers.

Oct. 23, 1998: Landmark Medical Center in Woonsocket announces it will lay off 24 of its 900 employees, citing falling Medicare reimbursements.

Oct. 28, 1998: Kent County Memorial Hospital in Warwick gives pink slips to 19 workers, to help offset $ 5 million it expects to lose in both the past and

current fiscal years.

Dec. 10, 1998: In another indication of health system financial ills, Blue Cross & Blue Shield of Rhode Island announces it is exploring a merger with another health insurance company to combat relentless money problems, including a $ 22-million loss expected in the current year. Its rivals - United HealthCare, Harvard Pilgrim Health Care and Tufts Health Plan - also expect losses.

Dec.13, 1998: The Providence Journal reports that Lifespan has laid off five highly trained nurse practitioners who provided care to poor youngsters in clinics at Hasbro Children's Hospital. Care is to be shifted to medical school graduates, and the system plans to rehire one of the practitioners.

Jan. 12, 1999: The poison control center at Rhode Island Hospital, one of the often-cited public services of Lifespan, is on the chopping block. The hospital network says it can no longer shoulder the more than $ 300,000 annual cost of the telephone information service.

Jan. 29, 1999: Lifespan announces grimmer than expected financial figures, and predicts that there will be "not insignificant" layoffs. The 1998 operating deficit was $ 50.2 million, and the system had to take $ 6.4 million from its endowment to balance the books. The prediction for fiscal 1999 is for a $ 23-million operating loss; and a $ 10 million shortfall in 2000, when finances were expected to return to normal.

Feb. 10, 1999: Lifespan eliminates 64 full-time jobs at its Visiting Nurse Association of Rhode Island, in a series of layoffs and job reshuffling that leaves the state's largest home health agency with 260 workers. Federal cutbacks are blamed for huge losses, which the layoffs will not eliminate.

March 5, 1999: General Assembly leaders announce they will provide $ 300,000 to keep the poison control center at Rhode Island Hospital open through Dec. 31, averting what legislators feared was to be an April 1 shutdown. Lifespan said that it would contribute $ 60,000.

March 17, 1999: Fourteen people are laid off from Bradley Hospital, Lifespan's children's psychiatric facility in East Providence. In addition, nine vacant jobs are eliminated.

March 24, 1999: Lifespan announces its largest layoff - 269 jobs at Rhode Island and Miriam Hospitals. In addition, the system axes 237 jobs that had become vacant over the past several months. The cuts will save the system $ 16 million annually, according to officials, who say no more layoffs are planned.

LOAD-DATE: March 26, 1999

LEVEL 1 - 1 OF 1 STORY

March 18, 1999, Thursday, ALL EDITIONS

SECTION: NEWS, Pg. 1B

LENGTH: 1068 words

HEADLINE: Bradley Hospital announces layoffs;
The layoffs, expected to save $ 2 million a year, are the second to occur this year in the Lifespan hospital network.

BYLINE: FELICE J. FREYER; Journal Medical Writer

DATELINE: EAST PROVIDENCE

BODY:
In the latest trickle of cost-cutting news to emerge from the Lifespan health care network, Bradley Hospital announced yesterday that it was laying off 14 people and eliminating 9 vacant jobs and money for about 7 per-diem positions.

The hospital is also eliminating funds for five post-doctoral training positions for psychologists and six social-work interns. But most of its academic program with Brown University will survive, with 12 medical residents continuing to work there.

Including the training positions, the reduction in staff totals the equivalent of 37 full-time jobs. However, some of the social-work interns may stay on without their stipends.

Together, these cuts are expected to save $ 2 million a year for Bradley, which has been struggling with the push toward lower-paying outpatient care and a census that fluctuates dramatically while fixed costs remain the same.

Bradley's layoff is the second to occur this year in the Lifespan network, the Providence-based five-hospital health-care system that experienced a $ 43-million loss in the fiscal year that ended last Sept. 30. Last month, the VNA of Rhode Island, a Lifespan partner, announced that it would reduce its staff by 20 percent.

Major layoffs have been expected at Lifespan for months, and people both inside and outside the organization have been anxiously awaiting the announcement of where - and how hard - the ax will fall.

But the network has chosen to break the news piecemeal, with each affected institution making its own announcement, said Jim Peters, Lifespan's director of communications and public affairs. That's because each institution has had its own issues and its own set of "gut-wrenching" decisions to make, and those decisions are not all being completed simultaneously, Peters said.

As for when the layoffs will be announced at Lifespan's biggest partner - Rhode Island Hospital - Peters would only say: "Soon."

BRADLEY POSTED losses of about $ 2.3 million in each of the past two fiscal years, after applying roughly $ 1.2 million in endowment income. (In fiscal year 1997, the hospital also wrote off $ 4.4 million in bad debt, making its net losses among the highest in the Lifespan network.) From October 1998 through January 1999, Bradley had already lost $ 1.8 million, but with the staff reduction the hospitals hopes to avoid any more losses for the rest of this fiscal year.

Bradley's financial problems are occurring even as the number of patients the hospital serves has nearly doubled in the past decade.

"More patients, less money: it's hard to figure out," said Ruth Kauffman, chairwoman of the Bradley Board of Trustees.

"That's the irony: the demand for services continues to grow," said Daniel J. Wall, hospital president and chief executive officer. But the lengths of stay are shorter, and more people are being treated in less intensive and off-campus environments. This year, the hospital expects that, for the first time, less than half its revenue will come from acute inpatient care.

"These trends are really what the community needs," Wall added.

Bradley has no unionized workers. Before yesterday's layoffs, the hospital had 450 full-time equivalent positions. The people being laid off are two maintenance people, one phlebotomist, one housekeeping person, three secretaries, two social workers, one nurse and four people that Wall described as "ancillary caregivers."

To manage without them, the hospital plans to eliminate such labor-intensive programs as off-campus trips for the children, reduce the amount of psychological testing, and cross-train the staff to perform more than one function.

The hospital is also saving about a dozen jobs by expanding its residential program for developmentally disabled children who no longer need in-hospital care but aren't ready to return to the community. A new home in Warwick will open in May, serving six boys ages 6 to 9.

SITUATED ON 39 acres overlooking the Seekonk River, Bradley Hospital was founded in 1931 by George and Helen Bradley, whose daughter Emma Pendleton Bradley suffered from mental illness and could not find a hospital to care for her. The trust fund that created the hospital, now valued at about $ 40 million, requires that mental health services for children be offered on that land and in those buildings. Additionally, the trustees and the hospital are not permitted to spend the endowment principal.

As recently as 10 years ago, Bradley essentially offered two services: inpatient psychiatric care for some 50 children, and the Bradley School, treating and educating 70 youngsters with behaviorial problems so severe that they could not stay in a public school classroom. By last year the picture had changed: on an average day, there were 32 children receiving acute inpatient care; 8 inpatients in "subacute" care, a less intensive form of hospital care; 6 patients in a day-hospital program; 47 coming for outpatient visits; 16 in out-of-hospital residential care; and 113 enrolled in the Bradley School.

Providence Journal-Bulletin, March 18, 1999

Among those Bradley treats are children who have been severely traumatized or abused, adolescents who are suicidally depressed, and mentally retarded youngsters who also have psychological, behavioral and sometimes physical problems. Some of Bradley's programs are highly specialized, the place of last resort for children from all over the country.

Although Bradley is a private nonprofit hospital, most of the care is publicly financed. Local school districts pay tuition (about $ 215 a day) to enroll their charges in the Bradley School, and about 65 percent of the psychiatric care is paid for by the state-run Medicaid program.

Unlike others in the mental health field, Wall did not rail against the level of Medicaid funds or the practices of managed-care companies. Instead, he said his biggest problem was the fact that the hospital is so small, and the number of patients can fluctuate wildly. The adolescent unit, for example, can go from 14 one day to 4 the next. With fewer patients, less money comes in, but costs associated with sustaining the unit - building maintenance, staffing, services such as medical records and accounting - stay the same.

The off-campus residential programs are much more stable and predictable, Wall said, and he hopes to enroll an average of 51 youngsters in those programs during this fiscal year.

LOAD-DATE: March 19, 1999

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Ford health system plans more layoffs

March 24, 1999

BY PATRICIA ANSTETT
Free Press Medical Writer

Faced with $43.8 million in losses last year -- three times more than it previously announced -- the Henry Ford Health System will reduce its workforce by 425 employees by May 1 and cut spending.

"We're hunkering down," said Tom McNulty, senior vice president and chief financial officer, after releasing year-end figures Tuesday.

Officials don't know whether the system will make money this year. It will not reach a goal of breaking even by May 1, even with attempts to cut costs. These moves include restrictions on travel and continuing education and other expenses.

The reduction in workforce, expected to save $22 million, will be accomplished mostly through layoffs, including physicians.

Last year, the health system laid off 50 workers and cut overtime and outside workers. McNulty took issue with reports that physician turnover is higher than usual because of unhappiness with changes. About 7 to 9 percent of Ford's doctors leave each year, a rate that has not changed in several years, he said.

The losses are the Ford system's largest in 15 years. The system has six hospitals and 19,000 staffers, and is one of the largest systems in the state. It made $39 million in 1997.

Huge changes in health care -- shrinking payments from government, high drug costs and other factors -- are hurting many

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SPECIAL REPORTS
How to pick a health plan (includes searchable database)

Detroit-area hospitals. In Ford's case, it turned a moneymaker into one of the more financially troubled systems in the region.

The Ford system's $43.8 million in losses came from $24.4 million in net losses from operations and $19.4 million in onetime charges for three costly ventures.

Two were mergers: Ford's Cottage Hospital in Grosse Pointe Farms joined with nearby Bon Secours in the city of Grosse Pointe, and Ford's money-losing Medical Value Plan in Ohio with another health-maintenance organization. A third onetime charge involved converting computers to Year 2000 compliance.

Other big losses -- problems that won't go away -- were caused by:

Dwindling Medicare payments. The Ford system received $8 million less from the federal program last year, compared with 1997, largely because of cuts by Congress in what it saw as unnecessarily high profits in the program.

Hospitals earned record profits from Medicare of more than 16 percent in 1997, according to a report in the March 15 issue of Modern Healthcare, an industry publication. Profit margins will slip to 0.1 percent this year, and are expected to climb to 2.6 percent by 2002. McNulty said of the expected rise: "I wouldn't count on it."

Shrinking Medicaid payments. In 1998, Ford received $16 million less from the state-sponsored program, compared with 1997, though it provided the same care. It also has $10 million in unpaid bills for Medicaid patients, mostly those with other health plans who come to the Ford Hospital emergency department.

Costly drugs. New arthritis, allergy and impotency medicines caused unexpected expenses. To counteract this, employee copays may grow.

Bob Smedes, Medicaid director, said last year's

Medicaid budget provided a 5-percent increase to pay for care. The legislature is now considering a 4-percent hike.

Many HMOs are making profits, he said. The ones that aren't need to offer less care in emergency departments and more prevention services to keep people healthy, he said.

One recent state study found that hospitals are charging for more care than what is rendered, a practice known as up-coding. "When Ford says it is owed $10 million, a good portion of that may be disputed," Smedes said.

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Health-care cuts go deeper

Mercy Health Services will slash 1,350 jobs by July

March 31, 1999

BY BOAZ HERZOG
Free Press Business Writer

Mercy Health Services will cut the equivalent of 1,350 full-time employees by the end of June, becoming the latest in a string of sick hospital systems slashing their workforces.

With the Mercy cuts, full-time positions lost at major Detroit-area systems add up to more than 4,500 since January, bringing into question the quality of service. The health systems say patient care won't change.

Farmington-Hills based Mercy, the state's largest health-care provider, lost $6.9 million at its 14 Michigan hospitals in the first eight months -- ending Feb. 28 -- of its 1999 fiscal year. The nonprofit company brought in $37 million during the same period a year earlier.

"By January of this year, every one of our Michigan hospitals was losing money on patient care operations, and that's the first time that's ever happened to us," Mercy spokesman Stephen Shivinsky said Tuesday. "We know we need to make some dramatic changes."

Like other money-losing health providers in metro Detroit, Mercy blames the cuts on reduced government reimbursements to care for Medicare and Medicaid patients and higher costs for prescription drugs.

Those changes have forced Mercy to trim its 28,000 workforce in Michigan by about 5 percent, Shivinsky said.

Mercy employs 35,000 in its network of 39 hospitals, 200 clinics, 17 nursing homes, 23

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home-care offices and 10 hospice offices that are located primarily in Michigan and Iowa. The 14 hospitals in Michigan handle nearly three million patient visits annually.

Reductions by other major health systems include:

Detroit Medical Center, projecting $53 million in losses this year, cut the equivalent of 2,000 full-time positions in January. In addition, DMC will lay off 50 primary care physicians and 205 support staff by the end of 1999.

After $43.8 million in losses last year, Henry Ford Health System said last week it will reduce its workforce by 425 employees by May 1. Henry Ford laid off 50 workers last year.

St. John Health System, forecasting $5 million in losses this year, said last month it plans to cut up to 500 jobs by June.

The Mercy system net income this fiscal year will be lower than its take of $147.8 million in its 1998 fiscal year, Shivinsky said.

The health systems say cuts will not affect the quality of patient care. Mercy said its cuts, mostly done through attrition, reductions in overtime and early retirement, will mainly affect employees such as managers and those in marketing and planning. But cost cutting has to show up somewhere, experts say.

"Just because it's not directly related to patient care doesn't mean it's not going to affect patients," said Marsha Gold, a senior fellow specializing in health care with Mathematica Policy Research in Washington.

The cuts may mean phones are answered slower, bills aren't paid as fast and funds for general education are reduced, she said.

Mercy's cost-cutting effort also halts for at least two years plans to construct a $30-million, 150,000-square-foot headquarters building in Novi, Shivinsky said. Also on hold are plans for Mercy's subsidiary in Ann Arbor, St. Joseph Mercy Health Systems, to build a

$50-million outpatient clinic.

Mercy has absorbed reimbursement drops of $18 million from Medicare and $19.5 million from Medicaid in Michigan so far in fiscal year 1999, Shivinsky said.

Pharmaceutical costs have jumped 15 percent to $72 million in the first eight months of Mercy's fiscal year 1999, he said.

In addition, Mercy has faced an increase in bad debt of $7 million, the result of caring for more uninsured patients.

Labor costs have also risen.

Mercy employees began receiving notification this month. Those laid off will receive career transition training, benefits and other support, Shivinksy said.

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The Boston Globe boston.com

Business

MGH will cut 130 jobs, raise prices

Budget shortfall, Medicare cuts cited

By Alex Pham, Globe Staff, 03/20/99

Massachusetts General Hospital yesterday announced to its employees that it will eliminate 130 positions and raise retail prices for its services by 10 percent across the board in order to cope with a multimillion dollar shortfall in its budget.

Health care observers say the Mass. General staff reduction is one of many wrenching cutbacks likely to hit Massachusetts hospitals because of a planned five-year reduction in Medicare reimbursements that began last year.

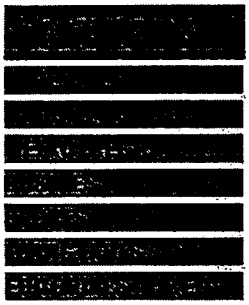
Mass. General, which employs 11,825 full-time workers, lost nearly $5 million in the first quarter of its fiscal year 1999 ended Dec. 31, despite record numbers of patients cared for at the Boston teaching hospital.

Dr. James Mongan, the hospital's chief executive, said Mass. General employees "have to prepare for the times ahead, which are expected to see flat or declining revenues, decreased funds for medical education, and other challenges related to cutbacks in Medicare funding."

Because the majority of the positions being eliminated are currently unfilled, only about 10 people are expected to be laid off, according to Peggy Slasman, spokeswoman for the hospital.

The hospital also is taking a three-pronged approach to boost revenue, including increasing the price it charges for drugs, collecting payments more aggressively from insurers, and raising retail charges for hospital services by 10 percent. Bumping up retail charges is expected to have only a modest impact because very few patients actually pay retail since their insurance companies have negotiated discounted prices. Still, the three-part strategy is projected to bring in $7.5 million over the next six months, Slasman said.

Industry observers predict that other institutions will make similar moves over the next three years as Medicare continues to march through a five-year program of reduced spending in which cutbacks get progressively steeper in the final three years ending 2002.



"In the 20 years I've worked in health care, these are the most painful times I've seen," said Ann Thornburg, a health care consultant for PricewaterhouseCoopers in Boston. "And it is even more troubling to know that we haven't hit bottom yet."

Mass. General is part of Partners HealthCare System Inc., a hospital network that includes Brigham and Women's Hospital in Boston. A spokesman at the Brigham said yesterday that the hospital was "taking a look at all sorts of cost improvement options right now, and we're not ruling anything out." Medicare payments to all Partners hospitals are expected to be $340 million lower than if Congress had not curbed spending.

This story ran on page C01 of the Boston Globe on 03/20/99.

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http://www.boston.com/dailyglobe2/078/nation/Early_losses_cited_by_area_hospitals+.shtml

Early losses cited by area hospitals

Medicare cuts blamed for woes in first quarter

By Alex Pham, Globe Staff, 03/19/99

inancially reeling from deep cuts in Medicare reimbursement, Massachusetts teaching hospitals are showing substantial losses in the first three months of fiscal 1999, with one facility hemorrhaging more than $1 million a week.

Alarmed at the amount of red ink, hospitals are frantically lobbying Congress for relief. The effort comes at a crucial time for hospitals as Washington lawmakers contemplate further reductions as part of next year's Medicare budget.

Medicare is the biggest single source of revenue for hospitals around the country, pumping $108 billion a year into the industry. In Massachusetts, hospitals rely on Medicare for $3 billion a year, or about 30 percent of their revenue.

That stream of money has become critical to academic teaching hospitals coping with the high price of staying on the cutting edge of medicine and the increasingly tight payments from managed-care insurers.

But as Washington pares down the Medicare budget, academic medical centers nationwide are plunging into the red. The effects are particularly acute in Massachusetts, home to one of the highest concentrations of teaching hospitals.

"It's absolutely remarkable to me," said Jeffrey Otten, president of Brigham and Women's Hospital in Boston. "Our operating rooms are filled. We're reopening beds that we've closed. Our emergency visits are up 17 percent this year. The demand for our services is greater than they've ever been. We're full, and yet we're losing money."

In the first fiscal quarter of 1999, which ended Dec. 31, Massachusetts General Hospital in Boston lost nearly $5 million, after making close to $10 million in the first quarter last year. Beth Israel Deaconess Medical Center in Boston lost $16.7 million, compared to a $1.2 million gain last year. Brigham and Women's posted a loss of $3.5 million, compared to a loss of $800,000 in the same period last year. And UMass Medical Center in Worcester saw a $6.6 million loss, more than quadruple its loss in 1998.

"Everywhere you look, hospitals are losing money," said Dr. James Reinertsen, chief executive of CareGroup Inc., which owns Beth Israel Deaconess. "This is unprecedented."

While the figures do not reflect an entire year's performance, the first quarter

is often the most telling period for hospitals, according to Gregg Bennett, chief executive of HBS International, a health care data consulting firm in Bellevue, Wash.

To be sure, cuts in Medicare aren't entirely responsible for the red ink. Hospitals in the state this year are having to spend tens of millions of dollars to fix the computer problem popularly known as the Y2K bug. In addition, the cost of medication is skyrocketing, even as managed-care insurers continue to squeeze the rate they pay to hospitals, said Dr. Michael Collins, chief executive of Caritas Christi, a Catholic hospital system that owns St. Elizabeth's Medical Center in Brighton.

In the past, Medicare was considered a generous payer, and academic hospitals relied on the money as a cushion to fund teaching and research programs as well as to make up for losses from their other operations.

But the cushion is rapidly disappearing. In 1997, Congress passed the Balanced Budget Act, which sought to slice $112 billion in Medicare spending over five years. In Massachusetts, that translates to a $1.5 billion cut from what hospitals would have received without the Balanced Budget Act. In 1997, only one in 10 hospitals lost money on their Medicare patients, according to the Massachusetts Hospital Association. Today, three out of 10 hospitals do not make money from Medicare. And in 2001, projections show that half of the state's hospitals will lose money from Medicare.

"Medicare was the safety valve," said Ronald Hollander, president of the hospital association. "But the Balanced Budget Act changed everything ... It's my conclusion that we're on an unsustainable collision course."

The picture is expected to get worse. Hospitals currently are in the second year of a five-year cycle set up by the Balanced Budget Act, and the bulk of the reductions are scheduled to take place in the final three years.

Teaching hospitals, which employ one out of five workers in Boston, are coping in various ways. St. Elizabeth's has a hiring freeze on all positions not involving direct patient care. UMass Medical Center has laid off one-third of its senior management team and 12 percent of its middle management team. Construction for a new ambulatory care center at Mass. General has been delayed for several months.

Community hospitals also have been hit hard. Boston Regional Medical Center recently closed its doors after serving Stoneham residents for more than 100 years. Malden Hospital has decided to fold its inpatient beds. And East Boston Neighborhood Health Center filed for bankruptcy court protection.

The changes by themselves may not be dramatic, but hospital officials insist they amount to an erosion in the foundation of an industry that has given Massachusetts its reputation as the nation's "medical mecca."

"These places tend to bend rather than break," said Dr. James Mongan, president of Mass. General. "They slowly deteriorate over time."

Harvard University officials were worried enough about the financial conditions of its major affiliated teaching hospitals to call a meeting in

February to discuss the financial losses. Attending the meeting were Harvard University president Neil L. Rudenstine, Harvard Medical School dean Joseph Martin, and the chief executives and board chairmen of the Brigham, Beth Israel Deaconess, Mass. General, Dana-Farber Cancer Institute, and Children's Hospital.

The meeting resulted in an agreement among all the Harvard hospitals to collaboratively find ways to cut costs. It was unusual in that it called upon two rival Harvard hospital systems - Partners HealthCare System Inc., which owns Mass. General and the Brigham, and CareGroup Inc., which owns Beth Israel Deaconess - to work together in teaching and research efforts.

Becoming more efficient is one way to cope, but at some point, the cuts do serious harm, said Dr. Peter Levine, chief executive of UMass Medical Center, which has cut $22 million from its hospital budget in the last year.

Levine points to Assabet Valley Home Health Association in Marlborough, which shut down last year because of financial distress caused by Medicare cuts. While UMass had no business ties with the Marlborough agency, they often cared for the same patients. "We were asked to step in and take it over," Levine said. "But we were in a very large deficit position, and we were not able to do that. So the agency just disappeared, and a large number of patients were cast adrift."

"This isn't low-level whining on the part of hospitals," Levine says. "This has gotten to the point where there are things you know you should be doing that you cannot do."

This story ran on page A01 of the Boston Globe on 03/19/99.

DETROIT FREE PRESS

MEDICAL CENTER BOND RATINGS SLIP

Saturday, February 13, 1999
Section: BIZ; BUSINESS
Page: 10B
BOAZ HERZOG Free Press Business Writer

Three major New York ratings companies have downgraded Detroit Medical Center revenue bonds, signaling a decline of confidence in the health system's ability to repay debt.

The ratings follow DMC announcements Feb. 2 of larger-than-expected losses in 1998 and projections of $53 million in losses this year. The DMC cut the equivalent of 2,000 full-time positions in January.

"They have some serious challenges to be met," said M. Craig Kornett, a director for Fitch IBCA, which Thursday lowered the rating on outstanding DMC revenue bonds three notches, to BBB- from A-.

"It's a monumental effort to implement the kinds of changes they need to return to fiscal responsibility when they're working with less people, low morale and declining discharges and outpatient visits. It's going to take a number of years for DMC to return to profitability."

The bonds total about $617 million. Earlier this week, Standard & Poor's downgraded them two ticks, to BBB from A-. Last week, Moody's Investors Service lowered DMC's bond rating two notches, to Baa2 from A3.

Despite lower ratings, DMC bonds still are of investment grade, and with "any investment grade rating we feel very strongly that bondholders will be repaid," said Liz Sweeney, an S&P director.

Tom Honen, DMC interim chief financial officer and a consultant with Hunter Group, a St. Petersburg, Fla.-based company hired to stop DMC's financial bleeding, said, "We are not surprised."

Reach Boaz Herzog at herzog@freepress.com or 1-313-222-6731.

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Wayne State's links to DMC examined

School hires consultant to study programs it shares with the money-losing medical center

January 23, 1999

BY PATRICIA ANSTETT
Free Press Medical Writer

Wayne State University has hired a consulting firm to examine the relationship of its medical school to the financially troubled Detroit Medical Center.

ECG Management Consultants Inc., a Wakefield, Mass., consulting firm, began working this month to examine financial and organizational issues, said George Dambach, interim vice president for research and dean of the WSU graduate school.

The company will work with another consulting firm, the Hunter Group, brought in by the DMC to reorganize and restore it to financial health. Last year, the health system lost about $100 million, officials say. More precise numbers await a closer financial analysis.

WSU has not set a time limit on its contract with the company, Dambach said. The next month will be a crucial one, he said. Medical school and university officials are meeting regularly with the group.

One of the issues the consultants will examine is whether WSU should retain a physician model called Specialists-in-Chief, where doctors serve as heads of departments at the DMC while holding teaching and research duties at the medical school, Dambach said.

A related issue is faculty pay and revenues

Join the discussion in the education forum.

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generated for the medical school by physicians who work at the DMC.

Contracts with physician groups require doctors in those groups to pay a certain percentage to the medical school for research and education, and an extra percentage to a fund called the dean's tax special projects. Dambach said the percentages vary; he had no idea what they averaged.

The DMC's financial problems have not hurt hiring and retention of physicians at the medical school, Dambach said.

Each year, about 30 people leave the medical school faculty. "Other than normal turnover, we're not looking at major downsizing," he said.

ECG Management was involved in merger talks in 1997 between the DMC and the Henry Ford Health System. After months of meetings, both health systems agreed a merger was not feasible. Dambach said the company is not looking at a merger with the Ford system again.

Patricia Anstett can be reached at 1-313-222-5021, or by E-mail at anstett@freepress.com

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DETROIT FREE PRESS

DMC CHIEF QUITS AMID REPORTS OF BIG LOSSES
CUTS MIGHT INCLUDE A HOSPITAL CLOSING

Wednesday, December 16, 1998
Section: NWS
Page: 1A
PATRICIA ANSTETT Free Press Medical Writer;
Staff writer Patricia Montemurri contributed to this story.

Illustration: Photo

Caption: David Campbell has resigned from Detroit Medical Center. DMC's losses may top $100 million.

Faced with staggering losses that might surpass $100 million, David Campbell, the top executive at the Detroit Medical Center, resigned Tuesday.

The losses, possibly more than triple the $30 million reported by the DMC last month, likely will cause large program cuts, even closing a hospital, experts outside the system say.

"They have no choice but to go in there and make big cuts," said one veteran health care accountant, who spoke on condition of not being named. Item-by-item cuts aren't a realistic option to turn around one of the area's largest health systems, experts say.

One cut getting closer scrutiny: Closing either Grace or Sinai hospitals, two northwest Detroit facilities in fierce competition with Providence and Beaumont hospitals in Oakland County. The DMC recently sued Providence for stealing doctors before their contracts had run out, a charge Providence has denied.

Sinai, a historically Jewish hospital, is in deep financial trouble, but closing it is likely to be unpopular with area Jewish leaders.

Recently, at the same time it announced projected losses of $30 million this year, the DMC postponed a costly merger of Sinai and Grace, about a mile apart.

Late Tuesday, DMC officials released Campbell's letter in which he resigned as president and CEO, a job he has held since 1990.

The letter said that after 11 years in senior management at the health system, he believes new leadership is needed to guide the system. He plans to step down by Jan. 31. He did not return a reporter's call about his decision.

Campbell's resignation had been rumored for months. But the DMC board recently gave him a vote of confidence, and board chairman Lloyd Semple on several occasions has announced strong support for Campbell.

According to two officials with information about the rapidly changing environment at the DMC, both of whom asked not to be named, Campbell's departure followed a strongly worded recommendation Monday from the Hunter Group, a consulting firm hired by the DMC. It asked that Campbell either resign or be fired because of the mounting losses. One official pegged the losses at more than $100 million.

Semple denied Tuesday night that Campbell was forced out.

Asked to comment on growing losses, he said: "Ooooh." He paused and replied: "I'm not going to talk about that. There are serious challenges ahead."

Juliette Okotie-Eboh, vice president for corporate public affairs, also did not return calls requesting comment on the size of the losses.

The Hunter Group, a St. Petersburg, Fla., firm that has engineered the reorganization of many Detroit area hospitals, including Sinai in the '80s, has placed two executives in top jobs at the DMC and is reviewing ways to wring cuts in the system.

The DMC has eight hospitals in Wayne and Oakland counties, with its headquarters north of downtown. It is affiliated with the Wayne State University School of Medicine. Detroit's largest private employer, the DMC has 16,600 employees and 3,000 hospital beds. It sees more than one million patients a year. Officials have announced $150 million in cuts in the next 1 1/2 years.

The losses make the DMC's financial woes the largest reported this year for a large Michigan health system. A large health system has more than a

half-dozen hospitals.

Its chief competitors, all nonprofit hospitals, face similar pressures, particularly with reduced income from Medicare and Medicaid.

But with the exception of the Henry Ford Health System, which expects a $14-million loss this year, its first in many years, many of the area's other large health systems are showing profits.

At law offices, accounting firms, community groups and medical societies involved with the DMC through contracts and programs, Campbell's resignation triggered discussion Monday about possible interim successors.

They include Mike Duggan, Wayne County deputy county executive. Reached Tuesday, Duggan declined to answer questions, including whether he had been contacted by anyone about the DMC job. "I won't talk about it further," he said.

Duggan has told friends he was approached about the job, but had reservations about losses and doubts about the board's commitment to make major changes.

Two other possible interim successors are DMC board members: attorney David Page, of the Honigman, Miller, Schwartz & Cohn law firm, and Leroy Richie, a retired Chrysler vice president and general counsel for automotive legal affairs.

Officials at the Coalition for Health Care Equity, which last month announced a landmark agreement to boost minority promotions, board jobs and contracts at the DMC, expressed concern.

"I'm still trying to put pieces together," said the Rev. Joseph Jordan, chairman of the coalition. Semple notified him late Tuesday about Campbell's decision.

"My concern is: Will they live up to their responsibility?" Jordan asked. Semple assured him the DMC would fulfill commitments, which will be reviewed in January. "I think the coalition can be of help."

At the 500-member Detroit Medical Society, officials also fielded calls from doctors worried about the effect of DMC losses on patient care.

"It's hard to lower expenses when you are trying to maintain an acceptable level of care," said a Detroit Medical Society official who asked not to be named because of the sensitivity of ongoing discussions.

The higher than expected losses make layoffs more likely, experts say. A merger with another large health system also is possible, although DMC's bottom line makes it undesirable as a merger partner.

A senior DMC staffer said physicians attributed spiraling losses to mounting costs at Sinai and Grace hospitals, a shoddy billing system and a reorganization three years ago that made it harder to figure out which programs were causing the biggest losses.

Others question two large DMC purchases last year: Sinai for $65 million and the former Park Medical health clinics, a network of health care centers, for $11 million.

Many of the clinics were so substandard the DMC had to close some and budgeted $15 million to upgrade others.

Patricia Anstett can be reached at 1-313-222-5021 or by E-mail at anstett@freepress.com

From: "Tony Mazzaschi" <Tmazzaschi@aamc.org>
To: <basicmail@aamcinfo.aamc.org>, <casmail@aamcinfo.a...
Date: 3/30/99 1:20PM
Subject: research-aamc UCSF Stanford Announce $170 Million Budget Plan

UCSF Stanford Health Care on Monday issued the following press release announcing a $170 million budget balancing plan that will include $112 million in savings to be generated by workforce reductions over the next year. According to the release, "There may be up to 800 layoffs as part of the initial reduction of 1,275 full-time equivalent positions over the next several months." The full release follows.

Tony Mazzaschi
AAMC

UCSF STANFORD ANNOUNCES $170 MILLION BUDGET BALANCING PLAN

UCSF Stanford Health Care today announced a performance improvement plan to cut costs by 11 percent over the next 17 months to offset shortfalls in government reimbursements for the care of Medi-Cal and Medicare recipients, who make up half of UCSF Stanford's patients, and to offset skyrocketing increases in the costs of drugs and other medical supplies.

Payments from private insurers and health maintenance organizations (HMOs) that are not keeping pace with rising costs are also contributing to UCSF Stanford's financial problems that resulted in a first quarter operating loss of $10.7 million. If uncorrected, the loss would grow substantially by the year 2000.

The state's fifth largest Medi-Cal provider, UCSF Stanford received $80 million less than what it cost to provide care to Medi-Cal patients last year. The Medi-Cal deficit is expected to increase by $11 million next year. About one-third of the Medi-Cal care was for children under the age of one.

Academic medical centers like UCSF Stanford have been hit hard by reductions in Medicare payments due to the 1997 Federal Balanced Budget Act. Annual reductions in Medicare payments to UCSF Stanford will total $10 million in 1999 and $23 million in the year 2000. By 2003, federally legislated Medicare cuts will amount to $46 million annually.

UCSF Stanford's financial problems are not unique. Partners HealthCare System in Boston - created by the merger of Massachusetts General and Brigham and Women's hospitals - estimated that congressionally mandated reductions in Medicare payments to the two hospitals will total $340 million between 1998 and 2002. Even without the impact of the Balanced Budget Act, many university hospitals are losing money, according to the University HealthSystem Consortium, a national alliance of the clinical enterprises of academic health centers.

UCSF Stanford's performance improvement plan calls for reducing expenses by $170 million within an annual operating budget of $1.5 billion. About two-thirds of the savings, or $112 million, will come

from a phased reduction in the workforce over the next year; another 22 percent, or $38 million, through reductions in drug and supply costs; and the remaining 12 percent, or $20 million, through a variety of other measures to increase revenue and reduce expenses.

There may be up to 800 layoffs as part of the initial reduction of 1,275 full-time equivalent positions over the next several months. Due to vacancies and turnover, nurses are not expected to be laid off in the initial reductions, provided those nurses whose jobs are affected are willing to accept other assignments and/or shifts. Another 725 positions will be identified for elimination later this year, but it is not yet known how many layoffs will be required. As with the initial reductions, non-essential open positions, attrition and the elimination of temporary jobs will be looked to first to meet the job reduction target.

After all cuts are made, it is estimated that the number of employees in central administrative services will be reduced by about 40 percent, hospital support staff by about 28 percent, direct patient care by about 9 percent and diagnostic services such as x-ray and lab services by about 8 percent.

"These are extraordinarily painful decisions for all of us," said UCSF Stanford Chief Executive Officer Peter Van Etten. "But we have no other choice. We must find ways to continue to deliver high quality care to meet the needs of our patients with fewer resources.

"The merger of UCSF and Stanford hospitals," Van Etten said, "affords us the ability to make significant infrastructure cuts that will shield against larger reductions in patient care service areas than would have otherwise been necessary."

The 17-month-old merger has produced more than double the new patients projected, but revenues have remained flat due to declining government payments while drug, supply and staffing costs have risen rapidly.

While these actions will return UCSF Stanford to a break-even point for fiscal year 2000, Van Etten cautioned that "unless there are some fundamental changes in the way health care is funded in this country, academic medical centers like UCSF Stanford will continue to be vulnerable."

Employees who are laid off will receive 30-days notice and severance pay based on years of service with UCSF Stanford or its parent organizations, UCSF and Stanford, unless otherwise specified as part of a union contract. UCSF Stanford will also provide affected employees with career counseling and a two-day career transition workshop that includes help with job searches, preparing for interviews and resume writing. On-site job fairs and career and personal counseling will also be provided.

These cuts are not being made across the board. They were determined based on departmental workloads and staffing compared to other academic medical centers. UCSF Stanford currently has 7.9 employees per "adjusted occupied bed," a widely used benchmark in the hospital

industry that takes into consideration both inpatient and outpatient activity. The goal is to reduce that ratio to 6.5-to-1. Nationally, the most cost- effective academic medical centers average 5.5 to 6.5 employees for every "adjusted occupied bed." Physicians, working with nursing managers and administrators, will monitor the proposed cuts to assure that patient service and quality of care are not compromised by the reductions.

The savings will be achieved, in part, by taking what are currently the most efficient practices in individual departments and applying them across UCSF Stanford's four hospitals. Other savings include streamlining administrative practices such as accounting systems and reducing management. UCSF Stanford's university medical centers are consistently rated among the top 10 in the nation. UCSF Stanford is the major referral center for acutely ill children and adults in Northern California.

UCSF Stanford Health Care operates four acute care hospitals - UCSF Medical Center, UCSF/Mount Zion Medical Center, Stanford Hospital and Clinics and Lucile Salter Packard Children's Hospital at Stanford.

Research-AAMC

From: "Tony Mazzaschi" <Tmazzaschi@aamc.org>
To: AAMC.GWIA("research-aamc@aamcinfo.aamc.org","clini...
Date: Mon, Mar 8, 1999 9:39 AM
Subject: research-aamc UCSF Stanford Hospitals Brace for Cuts

The following article details the efforts of UCSF Stanford Health Care to reduce costs in light of recent losses. The artilce discusses the use of comparative benchmarks supplied by the Hunter Group in an effort to reduce costs. The article ran on page one of Friday's San Francisco Chronicle.

Tony Mazzaschi
AAMC

UCSF, Stanford Hospitals Brace for Cuts
Unexpected $10.7 million loss may mean reducing staff 15%

Tom Abate, Chronicle Staff Writer Friday, March 5, 1999

UCSF Stanford Health Care administrators next week will begin looking for ways to cut an estimated 10 to 15 percent of the 12,500 staff jobs at its four hospitals in San Francisco and Palo Alto.

They will hand dozens of department heads a report comparing their staff-to-patient ratios with those at 52 teaching hospitals nationwide.

This ``benchmarking'' report, prepared by an outside consulting firm that has recommended layoffs at other money-losing medical centers, will help identify where and how deeply the system should cut its payroll to make up for a surprising $10.7 million loss during the first quarter of this year.

``It may not have to be done entirely through layoffs; some reductions may occur through attrition,'' said UCSF Stanford Health Care President Peter Van Etten. ``But I do not see how it could be done without layoffs.''

The staff reductions will affect all four of the system's hospitals -- UCSF Medical Center and UCSF Mount Zion in San Francisco and Stanford Medical Center and the Lucile Salter Packard Children's Hospital in Palo Alto. The cutbacks will not affect doctors.

Libby Sayre, with the University Professional and Technical Employees, one of several hospital unions, said that with more patients than ever coming in the doors, UCSF Stanford cannot afford to lose staff.

``The quality of patient care is going to plummet,'' she said.

Van Etten agreed that with patient counts rising, staffers ``are already working hard. We've got to find ways to operate more cost effectively.''

The potential layoffs have reopened the debate whether the two teaching hospitals -- Stanford and UCSF -- should have merged in 1997.

``This merger was supposed to make the two systems more efficient, but instead it's gotten top- heavy with administrators," said Fred Alvarez, a computer programmer at UCSF Medical Center and leader of a union representing about 2,000 lab and clinical workers.

In an hourlong interview, Van Etten stressed he has not put a final number on the cuts. But he said a 10 to 15 percent cut was ``possible." He said it might take 30 to 60 days to arrive at a final number.

Van Etten said no part of UCSF Stanford Health Care -- including top administration -- would be immune from the contemplated cuts.

But he insisted that the system's recent loss was not caused by the merger. He noted that other giant health systems such as Kaiser Foundation Health Plan are also running in the red, because of higher drug costs, cuts in Medicare reimbursement, and labor shortages that boost payroll expenses.

``We're operating in an environment where the costs are escalating and the reimbursements are capped," he said.

The four-hospital system eked out a $20 million surplus on $1.5 billion in revenues in fiscal 1998, which ended in August. Van Etten said administrators had anticipated a slim surplus this year but were planning for a $100 million shortfall in fiscal 2000, as the Medicare cuts and other factors kicked in.

But in December, when UCSF Stanford reported a $10.7 million first quarter operating loss, hospital administrators realized the crisis had already arrived. He said the system hired the Hunter Group, of St. Petersburg, Fla., to help turn around the loss.

Van Etten said the Hunter Group's report will compare the labor costs for every job -- from writing a bill to overseeing intensive care -- to the same costs at 52 other teaching hospitals.

Overall, labor makes up 50.3 percent of the system's budget.

Van Etten said UCSF Stanford has 7.9 full-time staff positions for every hospital bed compared to about 6.5 full-time workers per bed at other teaching hospitals. Nonteaching hospitals can go as low as 5.5 positions per bed.

``We're going to share this data with department heads and ask them to explain any differences and come up with ways to bring their benchmarks into line," Van Etten said.

He said the 1,800-person administrative, finance and computing staff would be a particular area of focus, as UCSF Stanford tries to create one billing system to replace the separate system at the four hospitals.

UC San Diego Health System, another teaching hospital, also used the

Hunter Group, and its benchmarking process, when it suffered a $20 million loss on roughly $269 million of revenues in 1996. UC San Diego ended up cutting 500 full- time equivalents out of a 3,100 person workforce, a spokeswoman said. The hospital system became profitable in 1997 and has remained in the black since.

In 1994, the Hunter Group advised San Francisco's California Pacific Medical Center (CPMC) to lay off 500 employees to reverse $48.3 million in losses accrued over a three-year period. CPMC was formed by the merger of Childrens Hospital of San Francisco and Pacific Presbyterian Medical Center.

Officials at UCSF and Stanford say the benchmarking process and any layoffs that result will not directly affect the roughly 1,500 physicians who practice and teach at the four hospitals.

Haile Debas, dean of medicine at UCSF, said medical faculty are UC employees whose pay and work rules are set by UCSF, not UCSF Stanford Health Care, which is a separate entity.

But medical faculty have already felt the squeeze in Medicare and private insurance payments because their income is partly based on how much they generate in patient-treatment fees collected by the hospitals and returned to their UCSF or Stanford departments.

Judith Swain, chair of the department of medicine at Stanford, said doctors also have a role in trying to reduce costs, by deciding whether to order fewer lab tests, or prescribe less-expensive drugs when available.

"We've gotten into such a legal- medical problem in this country that sometimes it's easier to get the test rather than not get the test," Swain said.

But with drugs and medical supplies, including tests, comprising 16 percent of UCSF Stanford's costs, she said it is up to doctors to balance need against cost.
Research-AAMC

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Date: Tue, Mar 9, 1999 7:55 AM
Subject: research-aamc UIC Reports Unexpected Loss; Cuts Planned

Tuesday morning's Chicago Tribune reports that the University of Illinois at Chicago Medical Center has an "unexpected deficit" of $8 million over six months and will eliminate 250 positions in an effort to reduce costs. The article also reports that the UI Board has approved the hiring of the Hunter Group to conduct a 14-week study of hospital operations. The article follows.

Tony Mazzaschi
AAMC

UIC MEDICAL CENTER ELIMINATING 250 JOBS
By Bruce Japsen Tribune Staff Writer March 9, 1999

The University of Illinois at Chicago Medical Center disclosed Monday evening an "unexpected deficit" of $8 million in the first half of this year that will result in the elimination of more than 250 positions at the West Side teaching hospital.

Because of the shortfall, the hospital has instituted a freeze on both hiring and overtime pay for its employees. Since Jan. 1, the hospital has pared its workforce to 2,750 full-time employees.

The hospital has already eliminated more than 200 positions through attrition or retirements and is looking to cut another "40 to 50" by early May.

Academic medical centers like the University of Illinois have been hit hard by managed-care insurers, which emphasize lower-cost outpatient medical care services. While University of Illinois outpatient services continue to see growth, the hospital is losing money because fewer patients are hospitalized, particularly in the area of inpatient surgeries and births, a spokesman said.

"With the health-care industry still undergoing enormous changes, including a shift from inpatient to outpatient care and marketplace pressures to limit payments for services, many academic medical centers around the country are experiencing the same financial difficulties," said R.K. Dieter Haussmann, the university's vice chancellor for health services. He was unavailable for further comment.

To stem the tide of losses, the University of Illinois Board has approved hiring Florida-based consulting firm Hunter Group to advise hospital executives. The firm will be paid $1.2 million to conduct a 14-week study of hospital operations.
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Business

Many Pa. hospitals in the red, study says

The situation, severe in Phila., is worse than the figures show, experts say.

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By Josh Goldstein
INQUIRER STAFF WRITER

One-third of the acute-care hospitals in Pennsylvania and 45 percent of those in the Philadelphia area are in severe economic distress, according to a report released yesterday by an independent state agency.

The Pennsylvania Health Care Cost Containment Council's financial report found that 69 hospitals across the state -- including 23 in Southeastern Pennsylvania -- either lost money or had total surpluses of less than 2 percent in the three-year period from July 1994 to June 1997.
The 42 hospitals that lost money "are likely to be in financial distress and should be taking extraordinary means to increase revenues and reduce expenses," the report said.

The situation today is worse, according to area health-care executives and experts. They said that the bleak numbers in the report do not indicate the true severity of the problems faced by hospitals in Philadelphia and the surrounding counties.

They noted that the agency used data that are more than 18 months old and, as a result, the report does not reflect the current situation.

For instance, some of the worst-performing city hospitals in the report were part of the Allegheny system and filed for bankruptcy in July.

"This information is far too old to be of any help to us," said William N. Kelley, chief executive of the University of Pennsylvania Health System. "We have seen major negative changes since 1997."

Kelley said the report does not reflect the effect of reduced Medicare and Medicaid reimbursement levels resulting from the federal Balanced Budget Act of 1997, the state's HealthChoices HMO program for medical assistance recipients, or the growth of managed care led by the area's dominant insurance companies, Independence Blue Cross and Aetna U.S. Healthcare.

Cost Containment Council spokesman Joe Martin said the departure of key analysts during the production of the report delayed its completion. Despite that delay, Martin said the information would be helpful to policymakers.

"We hope that this report and future reports can help us foresee situations like the Allegheny health system bankruptcy, so that the appropriate people can take actions to avoid such problems in the future," said Martin.

According to the report, the city's hospitals on average lost money during that three-year period. The margins ranged from the Hospital of the University of Pennsylvania's 15 percent surplus to St. Agnes Medical Center's 16.7 percent loss. At the same time, hospitals in the four-county Philadelphia suburbs posted average net margins of nearly 3.5 percent. "It's going to get worse before it gets better," said Michael D. Rosko, a professor of health administration at Widener University.

"Area hospitals are going to have to continue cutting expenses to make it through the next few years and also undertake creative initiatives to improve their bottom lines by generating new revenue sources," he said.

He said recent initiatives by the area's health systems to expand outpatient services in the suburbs are the kind of moves they must make to remain financially viable.

Despite those and other efforts by area hospitals and health systems, lawmakers on the local, state and federal levels must become involved in helping hospitals adjust to the new health-care economy, said Andrew Wigglesworth, president of the Delaware Valley Healthcare Council, which represents the area's hospitals.

For example, the report shows that uncompensated care provided by Philadelphia hospitals amounted to nearly 7 percent of net patient revenues, compared with 4.5 percent of patient revenues for suburban hospitals in fiscal 1997. Wigglesworth said that in 1998, hospitals in the region provided more than $400 million in uncompensated care, putting an enormous burden on the health systems, particularly those with facilities in areas that have large numbers of uninsured people.

"The state, particularly the governor and the General Assembly, have a unique opportunity to address many of these needs with the tobacco settlement money," Wigglesworth said. Over the next 25 years, the state will collect an average of more than $400 million a year from tobacco companies, money that Wigglesworth said should be used for health care.

While a shift of medical care to the suburbs could boost the prospects for the

area's health systems, it also poses a problem for Philadelphia's major teaching hospitals -- Temple University Hospital, the Hospital of the University of Pennsylvania, and Jefferson University Hospital.

When Pennsylvania allowed its certificate-of-need law to lapse in 1997, suburban hospitals began to provide high-end procedures formerly reserved for the academic hospitals, said Leon Malmud, president of the Temple University Health System.

"An unintended consequence was that cardiac surgeries and other procedures that generated revenues the teaching hospitals used to offset the cost of uncompensated care began migrating to the suburban hospitals that provide relatively little uncompensated care," Malmud said.

"We are depleting what has been an enormous resource to the city and the state, the academic medical centers," he said.

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Hospital profits helped by stocks

Wednesday, March 17, 1999

By Pamela Gaynor, Post-Gazette Staff Writer

The state's largest general acute-care hospitals have been posting strong profits, with much of the bounty coming from booming stock market.

If the stock market fades, the hospitals' overall financial picture would take a turn for the worse just at a time when reimbursements for patient care are expected to tighten further, according to the Pennsylvania Hospital Cost Containment Council's latest report on hospital revenues and profits.

For the fiscal year ended June 1997, the latest year for which results have been tabulated, total profit margins for general acute-care hospitals with more than 100 beds averaged 3.64 percent, up slightly from a three-year average of 3.28 percent, the council's report said.

Total profit margins for the region's large, general acute-care hospitals averaged 3.5 percent, slightly below the statewide average.

But those margins, which include income from investments and charitable contributions, mask bleaker margins from hospitals' main activity: taking care of patients.

Operating margins, or the percentage of profit hospitals make on patient care, averaged 2.66 percent for large hospitals statewide and 2.17 percent in the region.

"Any softening in the [stock] market is going to have an effect on an important source of revenues" for many hospitals, said Joe Martin, spokesman for the council.

Nor is income from hospitals' patient care activity expected to improve. "You can expect the pressure to increase, not decrease," Martin said.

The pinch on income from patient care is coming because of curbs on Medicare and Medicaid spending and on reimbursements from private managed care insurance plans. Hospital admissions and lengths of stay have also declined, because of pressures from insurers and new technologies that have made more treatments available on an outpatient basis.

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Martin noted that the profit picture for the state's smaller general hospitals, those with fewer than 100 beds, was worse than for larger institutions.

Total margins for hospitals with fewer than 100 beds averaged 1.57 percent in 1997, compared with the 3.64 percent average for large hospitals.

Business

Primary Health seeks Chapter 11 protection

The Wayne company listed $237 million in debts. It plans cutbacks at its five Cleveland-area hospitals.

ASSOCIATED PRESS

Primary Health Systems Inc. and its five Ohio hospitals filed for bankruptcy protection yesterday, listing $237 million in debts.

As part of the reorganization, the Wayne-based health system plans across-the-board staff cuts and a shift away from revenue-draining teaching programs, the company said in a statement.

"Teaching is a large component of expense," spokeswoman Beth Sweeney said.

Primary Health, which listed $157 million in assets, operates three primary-care hospitals and two teaching hospitals in the Cleveland area, Sweeney said. As part of the reorganization, the hospitals will be locally managed and the parent system will be taken over by Crossroads Capital Partners L.L.C, which has managed the health system since July 1998.

The system plans to change Mount Sinai Medical Center-University Circle from a teaching hospital to a community hospital, with the company laying off workers in any discontinued academic programs. Residency contracts and teaching affiliations with University Hospitals and Case Western Reserve University School of Medicine will be canceled by June 30, the company said.

Staff reductions are planned at all the Ohio hospitals, including closing the obstetrics unit at Deaconess Hospital by mid-April. Other hospitals affected include Mount Sinai Medical Center-East in Richmond Heights, Mount Sinai Medical Campus-Beachwood and St. Michael Hospital in Cleveland. Sweeney would not elaborate on how many people will be laid off.

The system also plans to seek not-for-profit status under a new name, which has not been determined, and install a new $10 million computer database.

"We are stabilizing the financial condition of the system while preserving the vast majority of the system's jobs," chief executive P. Michael Autry said. "As

we implement our initiative . . . we are totally focused on providing the superior level of health care our patients expect and deserve."

The unsecured debt includes bank loans of an unspecified amount from First Union National Bank and Key Corporate Capital Inc. of Cleveland. The next 18 largest unsecured claims are trade debt, ranging from $129,000 to $700,000.

Primary Health filed for protection under Chapter 11 in U.S. Bankruptcy Court in Wilmington, where the company is incorporated. While its corporate offices are in Wayne, all operations are based in Cleveland.

From the issue dated April 2, 1999

Penn's Bond Rating Is Downgraded Because of Financial Losses at Its Hospitals

By MARTIN VAN DER WERF

Moody's Investors Service has downgraded the credit rating for the University of Pennsylvania, citing continuing financial losses by its hospitals and School of Medicine.

The university's academic performance is exceptional, the credit agency said, but "severe managed-care pressures" have forced the health-care arm to borrow $120-million from the university over the past 18 months, sapping some financial strength.

The university's rating was lowered from Aa2 to Aa3, which is the lowest rating for what is considered a "high-grade" bond. The rating for the University of Pennsylvania Health Services system was lowered from A1 to A2, two steps below the university's rating.

The lower credit rating did not surprise university officials.

"Over 50 per cent of our revenues come from the health system," said Kathy J. Engebretson, vice-president for finance. "So we expect when there is financial pressure at the health system, we are going to feel it throughout the university."

Nevertheless, a downgrade in a credit rating is unusual for an institution that is doing so well. Indeed, Moody's analysis calls the university "among the most prestigious in the country." Penn accepted fewer than 30 per cent of applicants for fall 1998, its most-selective rate ever. It ranks among the top 20 universities in the nation in the amount of research money it receives.

However, the university will at best break even in fiscal 1999, and may have operating losses for several years, says the analysis, which was released last week. The university and health system combined have $1.43-billion in debt.

Through the first six months of this fiscal year, Penn's health system reported a $33-million loss. That was an improvement from the $53-million loss in the comparable period the year before. The losses have been pared because the health system has signed more physicians and patients after the bankruptcy last year of the Allegheny Health, Education, and Research

Foundation, another health-care network based in Philadelphia.

"In the short run, the Allegheny situation has helped us," said Ms. Engebretson. With increased volume and a cost-reduction program, officials of Penn's health system hope to break even in fiscal 2000.

But Moody's casts doubt on that hope. The rate of reduction in losses may slow down, it says, because Philadelphia's two dominant health-maintenance organizations, Independence Blue Cross and Aetna/U.S. Healthcare, are reducing and delaying payments, denying more requests for care, and cutting reimbursement for outpatient services.

Penn's situation is similar to that of Georgetown University, which had its credit rating downgraded by Moody's in December and by Standard & Poor's, the other major credit-rating agency, in February. Both agencies cited losses by the university's hospital and School of Medicine. Georgetown is now looking to affiliate with another health-care provider.

Penn would consider other options for operating its medical school, four hospitals, and physician network, Ms. Engebretson said. Other universities that have encountered financial trouble with their hospitals have sold them, spun them off into separate corporations, or merged them with other providers.

"Our preference would be to keep the health system and School of Medicine integrated," she said. "But I think we would be foolish in the current climate not to look at other models."

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Section: Money & Management
Page: A47
