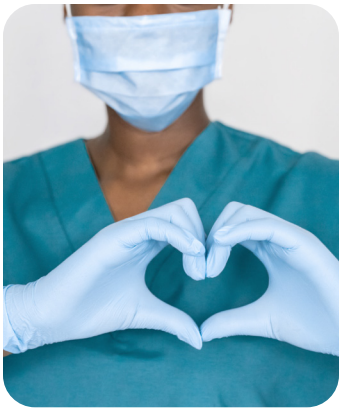
Minnesota Hospital Association



HOSPITALS 101:

A Primer on Minnesota Hospitals and Health Systems

Minnesota's 140 hospitals and health systems are cornerstones of their communities, providing state-of-the-art care when and where patients need it most. This includes routine primary and preventive care, chronic care management, mental health services, emergency care, rehabilitation, and specialized and advanced treatments.

Hospitals and health systems are also a key component of the state's economy, with more than **129,000 employees** and **$10.7 billion** in payroll in 2023.

They also stand ready to respond to natural disasters and other emergencies, caring for 5,000 emergency department patients a day. There have been nearly 80,000 hospital stays related to the COVID-19 pandemic in Minnesota, so far.

Now, hospitals and health systems are facing significant financial, workforce, and capacity challenges. While caring for an aging population and meeting rising demand for mental health and substance use treatment, they are coping with record tight labor markets and soaring supply costs. All the while, hospitals and health systems are routinely paid well under the cost of care by both the state and federal government. At the same time, private payers are not keeping up with inflation.

In this primer, we explain how Minnesota's hospitals and health systems are financed, overview many contributions by hospitals and health systems to Minnesotans' health and communities, and explore current challenges and potential solutions.

Hospitals and health systems by the numbers

530,000
Inpatient stays annually

123 Emergency departments

OPEN
24 Hrs a day
365 Days a year

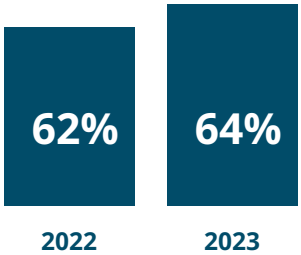
2M
Patients treated annually in emergency departments

Minnesota has several large health systems and small community hospitals across our state. They care for about 515,000 individuals on an inpatient basis every year and have nearly 8 million outpatient visits. Hospitals are often the largest employer in a community, and statewide employ over 129,000 people.

Minnesota hospitals are the safety nets of their communities providing 123 emergency departments that are open 24 hours a day, 365 days a year, that treat 2 million patients annually.

This care is paid for with reimbursements from a mix of payers, including federal and state governments, insurance companies and patients themselves. The charges reflect the cost of room and board, inpatient and outpatient care, medications, supplies and host of other health care inputs. Hospital expenses are largely driven by salaries, wages, and benefits, accounting for over half of hospitals' costs, in addition to pharmaceuticals, supplies, high-tech equipment, facilities and maintenance costs.

In recent years, the gap between the costs of providing care and the actual payments to hospitals has widened alarmingly. Medicare, the federal program that covers people with permanent disabilities and seniors, has been reimbursing hospitals as much as 20% below the cost of care, leaving a $1 billion annual gap in Minnesota in 2021.



Patients covered by government insurance programs

Discharge Delays 2023
No payment for these patients

195,000
"Avoidable days"

$487 million
unpaid care

The state's Medicaid program, which provides health coverage for people with low incomes and the disabled, pays even less, about **27% below the cost of care**. That deficit amounted to $868 million in 2021.

Those shortfalls resulted in more than **$400 million in losses** reported in the first half of 2023 in a survey of more than 70 hospitals and health systems by the Minnesota Hospital Association.

Adding to the crisis are demographic changes that mean a growing share of hospital patients are covered by the Medicare and Medicaid programs. A survey found the mix of patients covered by government insurance programs grew from 62% to 64% in the last year alone. For several hospitals, this number has grown to more than 70% of their patient mix being enrolled in a government insurance program. This means a **higher base of patient care is delivered at reimbursements that do not cover the actual costs.** This is unsustainable.

Another factor affecting hospitals is the **inability to move patients ready for discharge to appropriate alternate levels of care such as nursing homes, transitional care units, rehab facilities, group homes, and residential treatment facilities.** Some patients are being housed in emergency department beds because they have been dropped off at a safety net hospital. Often these patients do not qualify for inpatient care. They would be more appropriately cared for in community support facilities.

According to surveys by the MN Department of Human Services and MHA, there were nearly **195,000 patient days of avoidable and unpaid care in 2023.** This patient gridlock not only reduces overall capacity for hospital care; it also cost Minnesota hospitals and health systems an estimated $487 million in unpaid care.

This is at a time when expenses are soaring. The costs of labor grew by 7%, and supply and service costs grew by 6%. Nearly a quarter of member hospitals and health systems reported labor costs rising by double digit percentage points, and a third of hospitals said supply and service costs had risen by more than 10% over 2022.

This year's MHA survey found the median margin for the first half of 2023 stood at a negative 2.7%. In fact, two thirds of hospitals and health systems in the MHA analysis had negative operating margins, which means they were losing money. This is up from 55% of hospitals and health systems that had negative margins in 2022.

Losses like these are simply unsustainable. If they continue, Minnesotans will see serious cuts in services at their local hospitals, longer wait times for outpatient procedures, longer waits in emergency departments, and even potential closures.

The costs of labor grew by

↑ 7%

Supply and service costs grew by

↑ 6%

Operating margins have dropped from

↓ -0.5%
in 2022 to
-2.7%
in 2023

Minnesota hospitals and health systems have also made historic investments in tracking and improving the quality of care. In 2005, Minnesota became the first state to publicly report adverse health events, by hospital. Today hospitals routinely report data on key indicators of the quality of care such as preventable readmissions, complications, delivery of timely and effective care, and more. In 2021, the federal Agency for Healthcare Research and Quality ranked Minnesota among the best states for health care quality. Hospitals are working together to build a culture of safety and adopt the latest advancements to promote the health of all Minnesotans.

Nurse Anesthetist "Stops the Line" to Ensure Safety

One example of hospital efforts to improve safety and quality was recognized last year with a Minnesota Hospital Association "Good Catch" Award.

Nurse anesthetist Joshua Scharback, of Children's Minnesota, was preparing a tranexamic acid bolus and infusion for a child's cranioplasty. Joshua noted an issue with the infusion rate and put into practice the error prevention technique known as STAR: Stop, Think, Act, and Review. He paused the procedure, worked with his team to consult references and literature, and called a pharmacist and surgeon to confirm the correct infusion rate.

Workforce trends

All this is happening amid historic changes in the labor market.

The disruptions and stress of the pandemic prompted some health care workers to leave the hospital setting, go to another hospital setting, resign, work part-time, or retire, adding to long-standing workforce shortages in Minnesota and across the country. Shortages extend beyond physicians and nurses to other crucial roles, including mental health clinicians, lab tech professionals, and others. The workforce challenges aren't only due to the pandemic, nor are they short-term issues. More than half of nursing staff, for example, are only working part time. The retirement of the baby boomer generation will also increase demand for care, just as more health care workers are retiring, and becoming patients themselves. Nearly 20% of Minnesota's job openings in 2022 were in health care.

Potential state-imposed nurse staffing mandates could make this situation even more difficult, by adding cost, reducing flexibility, and limiting innovation, like new automation technologies. All these factors may also have an inevitable effect: cutting hospital capacity and care to meet a state mandate.

> **"Without a robust workforce, the capacity to care for our communities is threatened. Staffing shortages throughout the health care sector have both immediate and multiplying effects. Staffing shortages threaten to limit access to critical care for Minnesotans."**
>
> Minnesota Hospital Association President and CEO Rahul Koranne

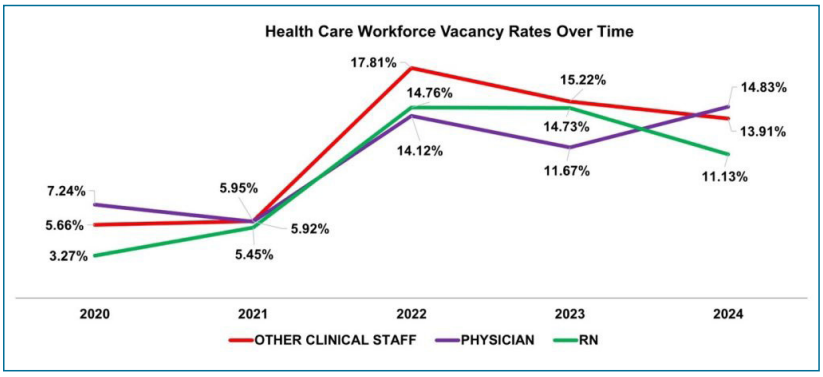
Hospital leaders are focused on building a strong health care workforce by increasing salaries and offering flexible schedules, bonuses, tuition reimbursement, and other incentives. They are also partnering with high schools, colleges, and medical schools, to build a pipeline of health care professionals. Wallethub, a personal finance research company, listed Minnesota as the third best state in the country for nurse salaries this year, adjusted for cost of living.

These efforts are paying off: the vacancy rate in Minnesota's health care workforce is now about 13%, down from nearly 15% in 2023.

Vacancies

Despite a **12% decrease** in vacancy rates since report year 2023, vacancy rates remain critically high at 13% in 2024. This is a **178% increase** since report year 2019.

Continued burnout and stress from the COVID-19 pandemic and changing demographics are just some of the factors that contribute to the high vacancy rates in Minnesota and across the nation. MHA is working diligently with its members to address key factors in vacancy rates to ensure that all Minnesotans have access to the care they need when they need it - now and into the future.



The Summer Health Care Internship Program — administered by the Minnesota Hospital Association on behalf of the Minnesota Department of Health — gives students across the state opportunities to gain firsthand experience working in hospitals, clinics, and long-term care facilities.

Trend chart: Vacancy Rates by Job Category

2024 Workforce Report | Tableau Public

Legislative attention and funding are needed to bolster and grow the state's health care workforce. This includes raising reimbursement rates for Medicaid and Medicare to create sustainable public programs. Potential solutions include:

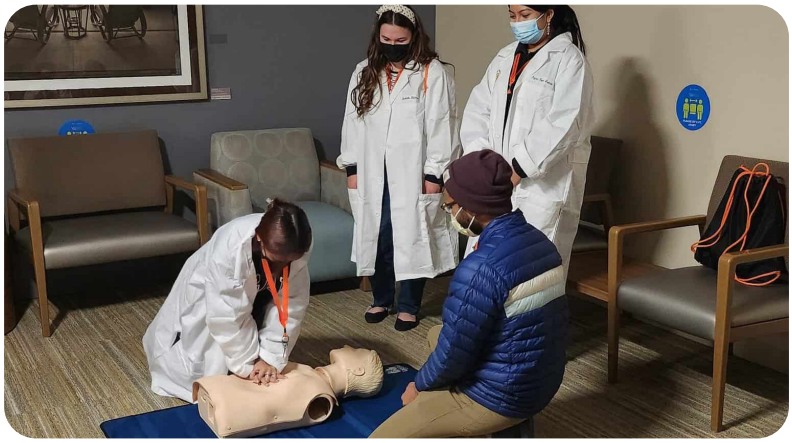
- Increased funding for loan forgiveness and scholarships for students in all areas of health care, including allied health professionals.
- Significant investment to build the health care workforce pipeline, including programs for career laddering, inspiring, and exposing students to health care careers at an earlier age.
- Accelerated entry into the professional workforce by simplifying the administrative processes at the health care licensing boards, especially the Board of Nursing.

Reflecting Minnesota's diversity

In 2022, more than 296 youth participated in summits at Hennepin Healthcare, in Minneapolis. The summits — Black Men with Stethoscopes, Black Women with Stethoscopes, Latino Youth with Stethoscopes, and the Summer Talent Garden Youth Internship Program — give young people hands-on experiences in health care careers.

One encouraging trend is that Minnesota's health care workforce is becoming increasingly diverse. The number of Black, Indigenous, and other people of color working in health care increased 1.2% from 2023 to 2024 — and by 86% since 2017. These trends are playing out in cities, and rural parts of the state.

Hospitals across the state are also responding to calls from their staff and patients to identify and reverse racial inequality and bias in health care.

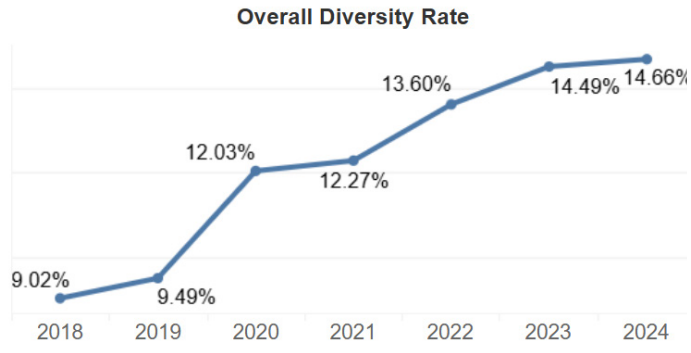


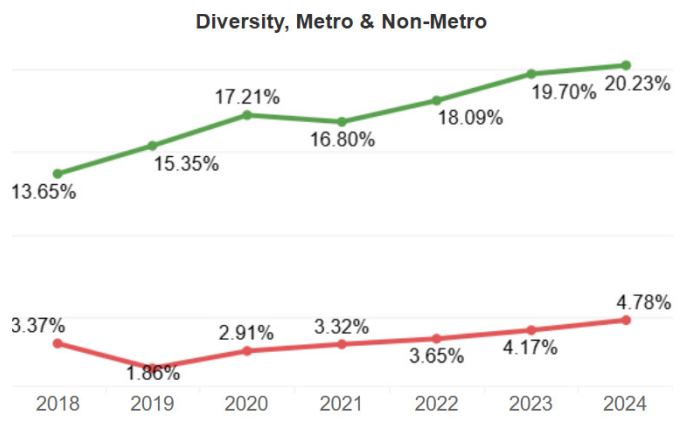
Diversity

In addition to a **2.7% increase** in the diversity of metro-area health care workers to **20%** in report year 2023, non-metro (outside the 13-country metro area) diversity grew **15%** in report year 2023 and a massive **157%** from report year 2019.

Rehabilitation RNs are now the most diverse job category at **44%** identifying as BIPOC - followed by CNAs at **39%**, and Behavioral Health RNs at **32%**.

Diversity Charts
2024 Workforce Report | Tableau Public





Rural hospitals

While Minnesota is home to large health systems, much of the state is rural. 78 of the state's 141 hospitals are critical access hospitals, small rural hospitals (with 25 or fewer beds), generally located 35 miles from another hospital. In an effort to shore up the finances of rural hospitals and ensure access to essential health care, the federal government created the critical access hospital designation in 1997. These hospitals receive cost-based reimbursement for Medicare services and other benefits.

As the name suggests, critical access hospitals often care for patients throughout their lives, providing essential services that would otherwise be hours away.

Despite this federal program, rural hospitals in Minnesota and around the country are struggling; six in Minnesota have shut their doors since 2005, part of a years-long wave of 199 rural hospital closures across the country. Often, rural hospitals struggle because of twin challenges: not only are they more dependent than other hospitals on public payers, which pay lower rates, they are also often unable to negotiate adequate reimbursements from private payers due to low volume and lack of bargaining power. They also have even more challenging workforce issues than large systems. Still, many are responding by extending their reach and their access to expert care through telehealth.

Prescription medication affordability

Since 1992, the 340B Drug Pricing Program has provided financial help to safety-net hospitals and clinics to manage rising prescription drug costs and preserve access to needed health care services in communities. Under the 340B program, pharmaceutical manufacturers participating in Medicaid are required to sell outpatient drugs at discounted prices to eligible health care organizations that care for a significant percentage of uninsured and low-income patients. A patient's health insurance status and income level does not affect a hospital or health system's ability to access 340B discounted medications. If the hospital or health system's overall patient population meets the 340B requirements, discounts are available for all eligible outpatient drug purchases. The 340B program also helps offset Medicaid underpayments and exorbitant prices from pharmaceutical companies.

Over two thirds of Minnesota's hospitals participate in and rely on this program, as do federally qualified health centers, the Ryan White HIV/AIDS Program, and Planned Parenthood.

Mental and behavioral health demand continues to grow and impact other care

Another major challenge to health care in Minnesota is the sharp rise in demand for mental and behavioral health care.

Over the past decade, visits to Minnesota's emergency departments for issues related to mental health and substance use increased a staggering 77%. There are not nearly enough mental health and addiction treatment providers — nine of Minnesota's 11 geographic regions are designated as mental health professional shortage areas by the Health Resources and Services Administration. Too often, this means people can't find help they need, fall into crisis, and wind up in emergency departments. And because of the scarcity of community mental health providers, hospitals struggle to find other, more appropriate care for these patients, driving up costs and making acute care beds unavailable for others.

Minnesota needs a system of mental health and addiction treatment, with accessible services, including telehealth and community clinics, that keeps people out of crisis. Increased reimbursement could also improve recruitment of mental health providers, as would state and federal investments in training programs.

Hospital gridlock

Lack of mental and behavioral health services is also one of the causes of another major challenge facing hospitals: discharge delays. Those happen when a patient is no longer in need of acute medical care and would be better cared for in another community setting.

For example, emergency departments are boarding adolescents with mental health challenges and violent behaviors because there is no room for them in other care facilities. Other patients in Minnesota hospitals are no longer in need of round-the-clock hospital care, but can't find a bed in a nursing home, rehabilitation facility, or other services.

Surveys by the Minnesota Hospital Association and the Minnesota Department of Human Services in 2023 found more than 195,000 days of unnecessary hospital care. This patient gridlock not only reduces overall capacity for hospital care; it also cost Minnesota hospitals and health systems an estimated $487 million in unpaid care.

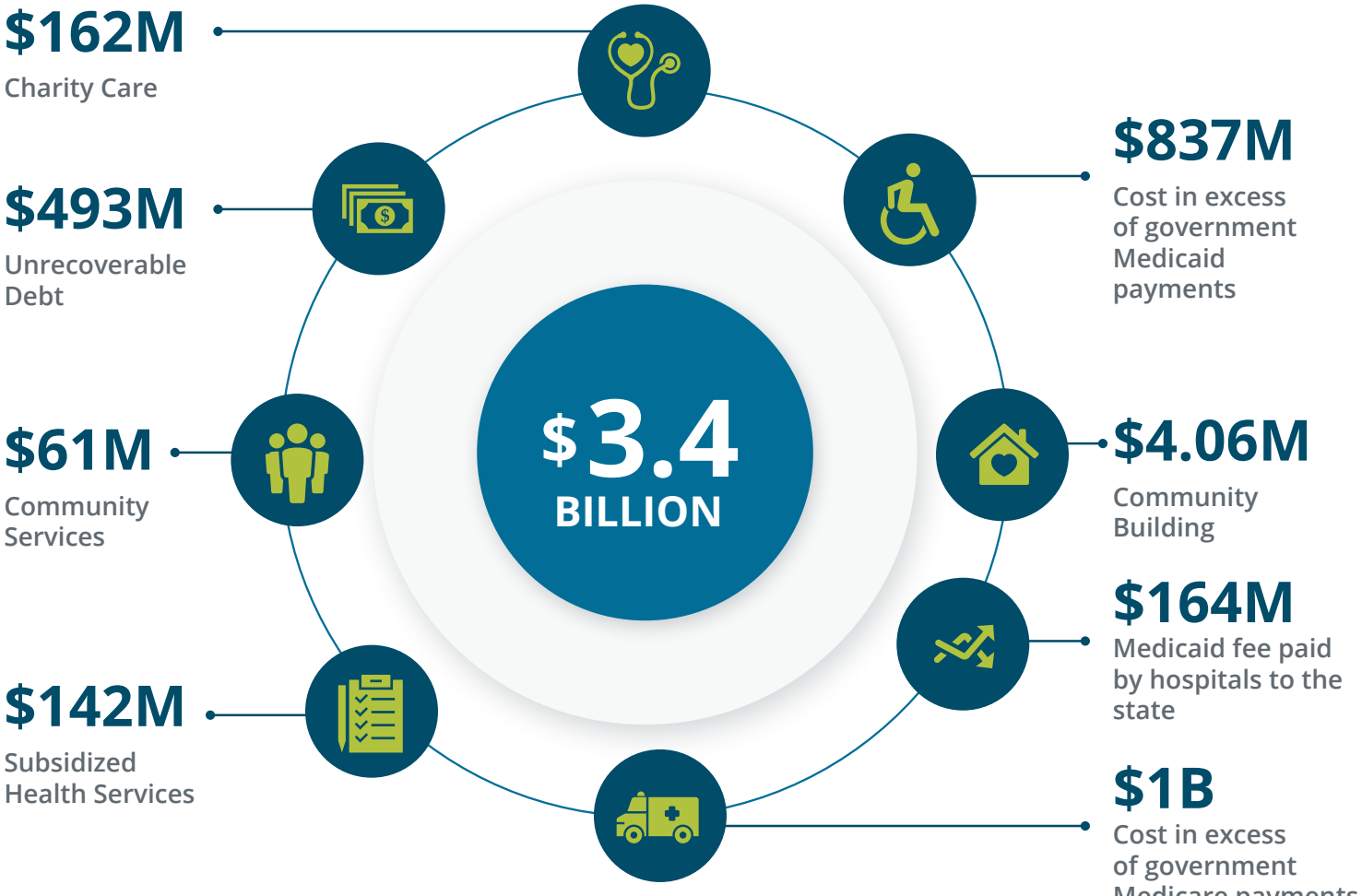
Building healthy communities and bolstering local economies

Almost all Minnesota hospitals are not-for-profit or government-run institutions that pursue a mission to provide care to all residents, regardless of their ability to pay. Every three years, nonprofit hospitals conduct community health needs assessments that explore their communities' assets and identify unmet needs. Hospitals then develop plans to meet those needs in partnership with nonprofit organizations, schools, and other community leaders.

Health care is also one of Minnesota's economic engines, contributing $39 billion in 2021. It is the largest private-sector source of jobs, directly employing more than 127,000 people and employing another 105,000 people in jobs tied to health care. Particularly in Minnesota's many small towns, hospitals are often the largest employers in their communities.

Providing care to all

2021 community benefit data



Minnesota Hospital Association

Seismic demographic changes in Minnesota's workforce, overwhelming demand for mental and behavioral health care and the long lasting impact of the COVID pandemic have brought unprecedented challenges to the state's hospitals. While they have a history of providing some of the best care in the nation, they also cannot continue down the current financially unsustainable path. They will require innovation, realistic reimbursement by public and private payers and the continued dedication of tens of thousands of medical professionals. The health of Minnesotans depends on it.

You can find out more from the Minnesota Hospital Association at http://www.mnhospitals.org

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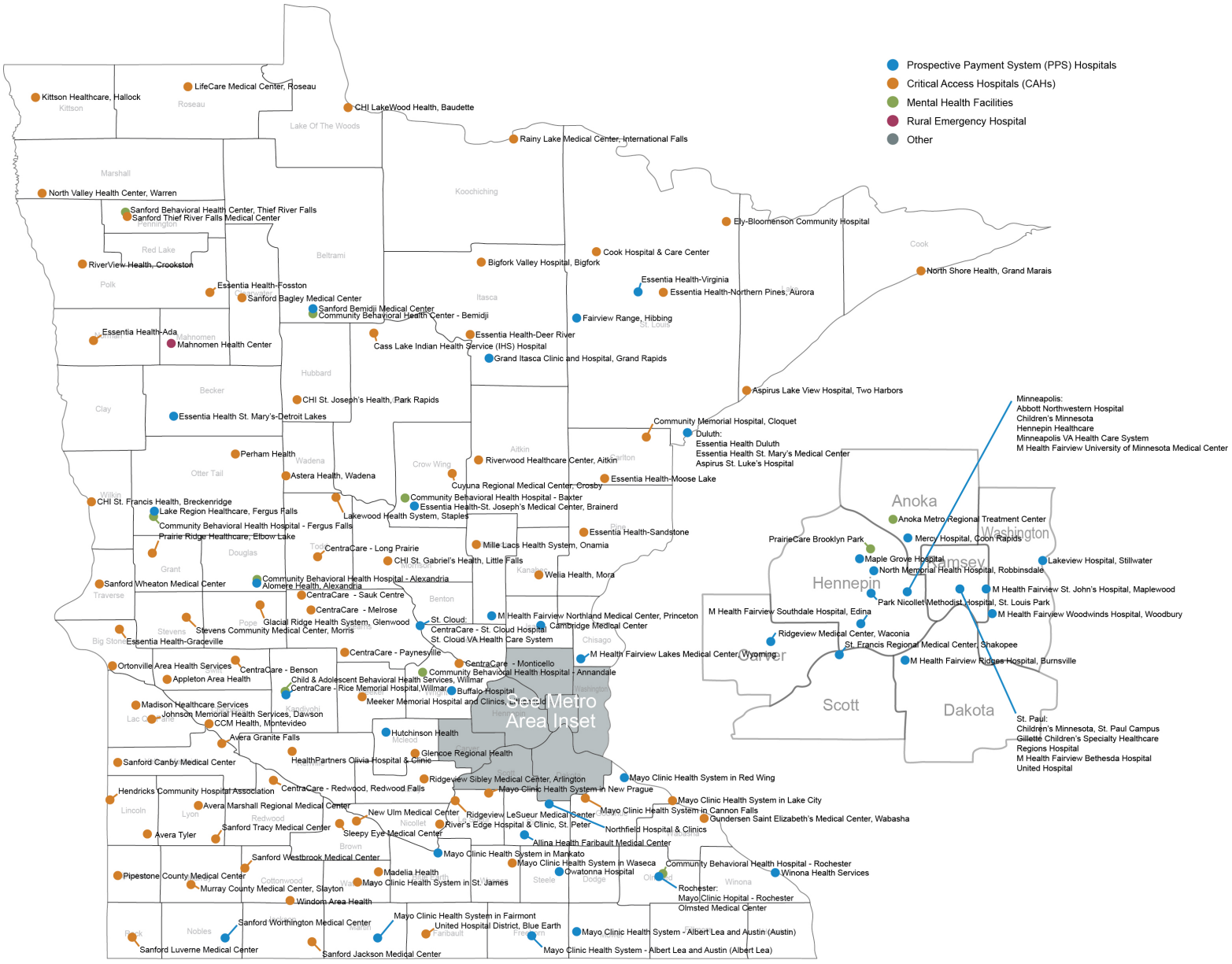
Minnesota Hospital Association

Minnesota's hospitals and health systems



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