



*Maryland Hospitals = Maryland Jobs*

*April 2013*



## Critical decisions are being made in Maryland that will affect the financial condition of Maryland's hospitals.

Implications of the federal sequester for Maryland's hospitals, an upcoming decision by the state's rate-setting commission on hospital price increases for next year and state discussions about a new hospital payment system are all underway. With these decisions, literally hundreds of millions of dollars are at stake that will either be paid to, or withheld from, Maryland's hospitals.

These and other decisions about hospital payment can have significant implications for jobs and for the Maryland economy. This report provides information on hospital employment, economic impact and the potential effect on jobs and the economy of decisions to limit payments to Maryland's hospitals.

### KEY FINDINGS

The key findings of this analysis include:

- Hospitals are one of the largest private sector employers in the state, employing nearly 100,000 workers.
- Those hospital jobs support an additional 206,000 jobs in the state because of the economic “ripple effect” – additional jobs and economic activity outside of hospitals created in the state as a result of hospitals' direct economic impact.
- Hospitals create more than \$26 billion in economic activity in the state of Maryland.
- The financial condition of Maryland's hospitals is at one of the lowest points in the history of Maryland's hospital rate setting system. The aggregate Maryland hospital operating margin for the first eight months of fiscal year 2013 is 0.8 percent, meaning hospitals are barely breaking even on the care they provide.
- Every one percent cut to Maryland hospital revenues translates into more than 1,450 full-time equivalent jobs lost, and \$285 million in economic activity eliminated.

HOSPITALS SUPPORT  
**OVER**  
**300,000**  
JOBS IN MARYLAND

## MARYLAND'S HOSPITALS ARE ONE OF THE LARGEST PRIVATE SECTOR EMPLOYERS IN THE STATE

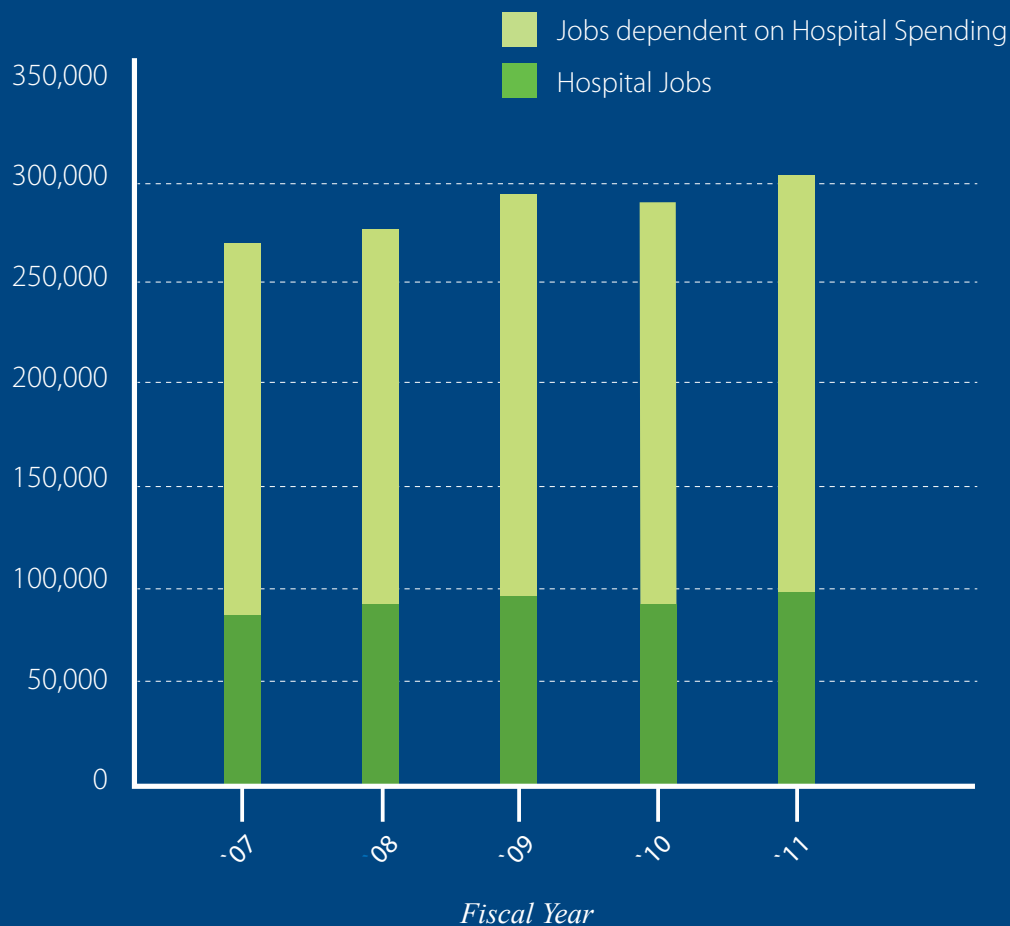
The mission of Maryland's hospitals is to take care of people. And in performing that mission, hospitals also play a role in protecting the financial health of Maryland's communities. Maryland has large numbers of employees working in federal government positions as well as education. But hospitals are one of the state's largest private sector employers, with nearly 100,000 workers creating more than \$26 billion in direct and indirect economic activity.

In 2011, Maryland's hospitals:

- Employed 99,840 people.
- Spent \$6.3 billion on wages and benefits for employees.
- Spent more than \$12.7 billion on goods and services from other businesses.
- Supported an additional 205,930 jobs elsewhere in the state, according to a report by the American Hospital Association and Avalere Health (Figure 1). This so-called "ripple effect" of employee and hospital spending is the additional economic impact created in the state as a result of hospitals' direct economic impact. These additional jobs include all of the local companies that provide goods and services to the hospitals statewide.
- Provided stability and growth during the recent economic recession.

Figure 1

### Maryland Jobs supported by Hospital Spending



Source: American Hospital Association and Avalere Health, January 2013

## HOSPITAL JOBS ARE GOOD-PAYING JOBS

And most hospital jobs are good-paying jobs with benefits, meaning that hospitals are an economic engine driving economic activity that is critical to the health of the communities they serve. While some service industries create primarily minimum wage positions, hospitals create positions at the higher end of the national pay scale. The average salary and benefits for a nurse in Maryland is just more than \$94,000. A surgical technician earns about \$67,000 in wages and benefits. A physical therapist earns on average \$106,000 in wages and salaries (Figure 2).

*Figure 2*

### *Average Hospital Salaries in Maryland*

GENERAL DUTY NURSE	\$94,411
ELECTROCARDIOGRAM (EKG) TECHNICIAN	\$58,115
IMAGING (CT) TECHNICIAN	\$93,683
MEDICAL TECHNOLOGIST	\$80,870
PHYSICAL THERAPIST	\$106,080
SURGICAL TECHNICIAN	\$66,851
SOCIAL WORKER	\$76,669

*Source: 2012 HSCRC Wage & Salary Survey*

EVERY 1% CUT  
IN HOSPITAL REVENUES =  
**1,450 LOST JOBS**

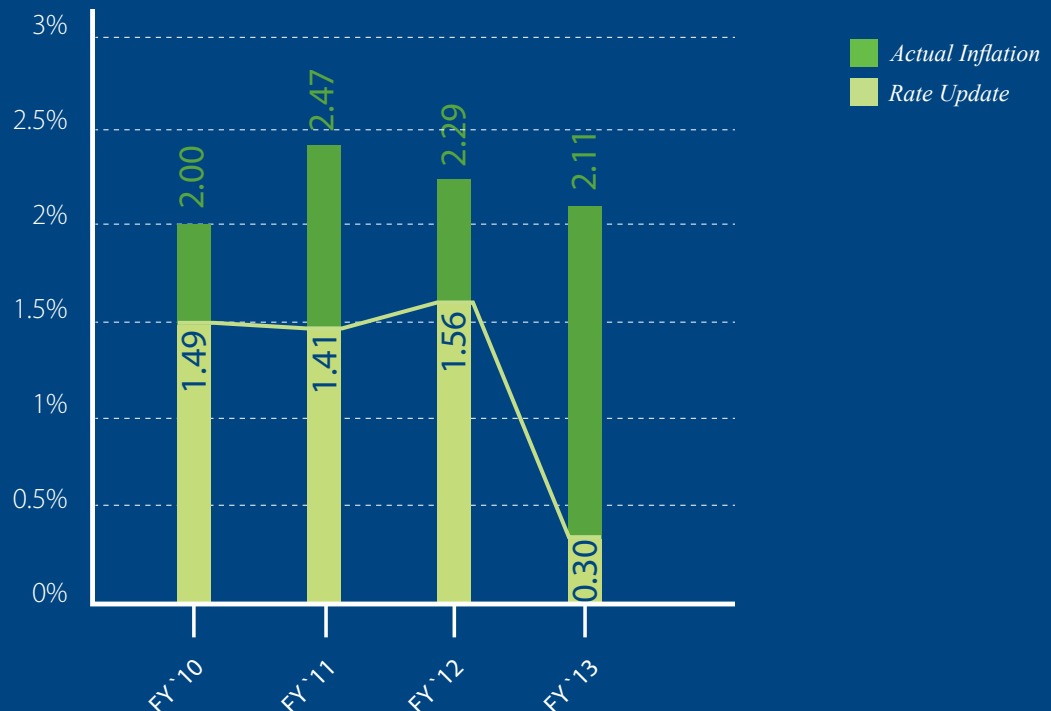
## HOSPITAL JOBS IN JEOPARDY

But, today, these jobs, and this spending, are in jeopardy. Several factors are adding up to what could be even greater significant financial challenges for hospitals and their contribution to the strength of local economies.

- Four years of rate setting commission-approved increases in hospital charges that haven't kept pace with inflation. The Health Services Cost Review Commission (HSCRC), the state rate-setting commission, has approved hospital rate increases well below the rate of inflation for the last four years. For fiscal year 2013, the HSCRC approved a rate increase of only 0.3 percent, despite the fact that inflation was expected to increase 2.11 percent for the same period (Figure 3).
- A potential 2 percent cut to the rates that Medicare will pay for hospital care for seniors in Maryland, due to the federal budget "sequester." The state rate-setting commission may pass this cost on through higher hospital rates, or may require hospitals to bear that cut.
- A hospital field-wide operating margin, the primary measure of that financial viability set and used by the HSCRC, of just 0.8 percent. This is one of the two lowest points of hospital financial performance in the last fourteen years. Maryland hospitals' financial condition will worsen to the extent that the rate-setting commission again allows less-than-inflationary increases to hospital rates.

Figure 3

### Actual Inflation vs. Maryland Hospital Rate Update

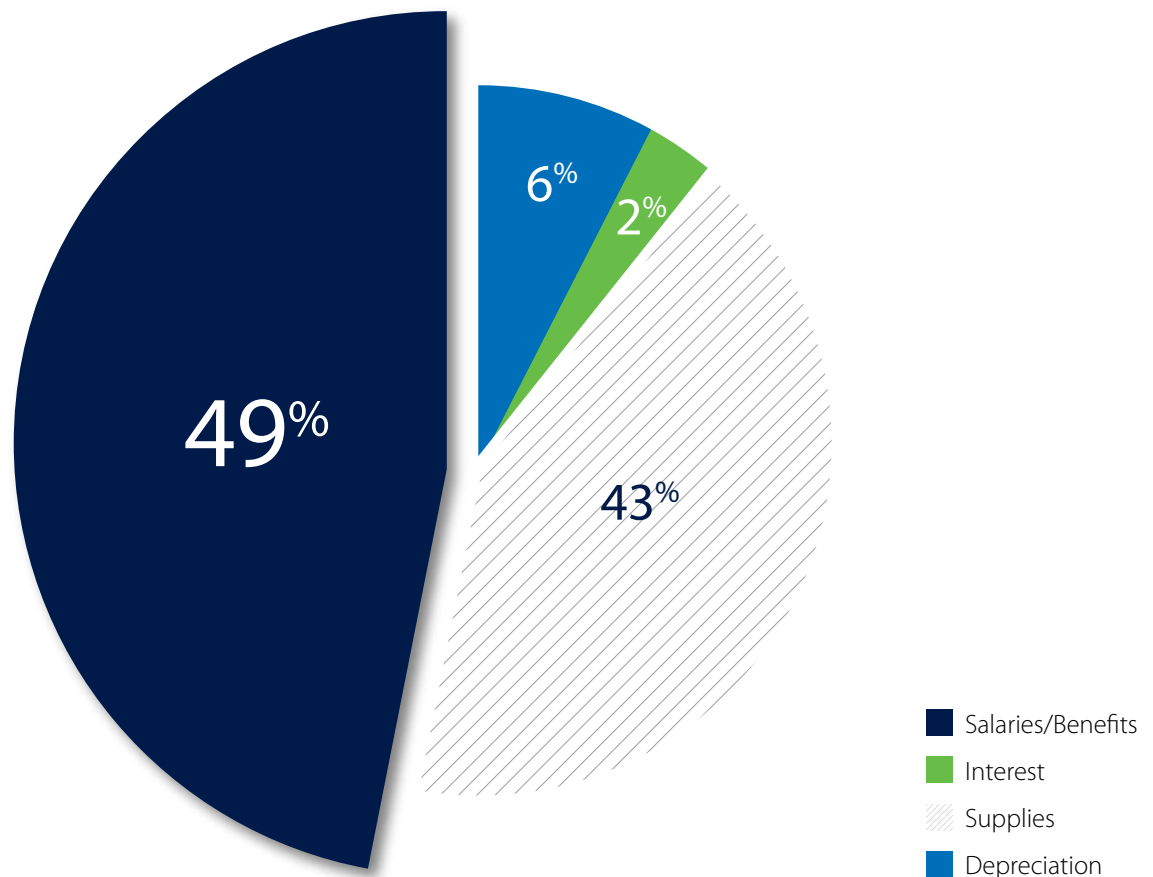


Source: Actual Inflation Data: IHS Global Insights; Rate Update: HSCRC Annual Update documents

## SALARIES AND BENEFITS ARE THE SINGLE LARGEST HOSPITAL EXPENSE

Proposed payment reductions like these leave hospitals with few options for reducing spending. Health care, and the care provided in hospitals, is done with people taking care of people. Health care is a labor-intensive field. Nearly half of a typical hospital's expenses are attributable to workers' salaries and benefits (Figure 4). Because they are so labor intensive, when hospitals are subjected to revenue cuts, especially those that require immediate implementation like the federal sequester, they have few places to reduce expenses other than labor costs.

Figure 4  
*Maryland Hospital Expenses by Category*



Source: HSCRC Unaudited Financial Data July-December 2013

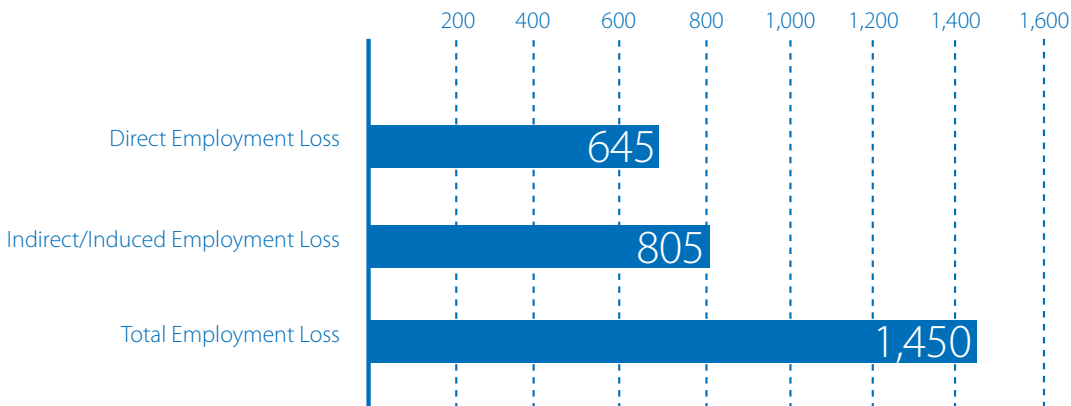
## HOSPITAL UNDERFUNDING MEANS JOB LOSSES

This all adds up to bad news for jobs in Maryland. A recent Tripp Umbach study found that every one percent cut to Maryland hospital revenues translates into more than 1,450 full-time equivalent jobs lost and \$285 million in economic activity eliminated (Figures 5 and 6). This includes, for every one percent cut to Maryland hospital revenue, the loss of 645 hospital jobs, and 805 additional jobs that exist because of the economic “ripple effect” – additional jobs and economic activity outside of hospitals

created in the state as a result of hospitals' direct economic. For every one percent cut to Maryland hospital revenue, the state's economy would experience a direct loss of \$124 million and an additional indirect loss, from that same "ripple effect," of \$161 million.

Figure 5

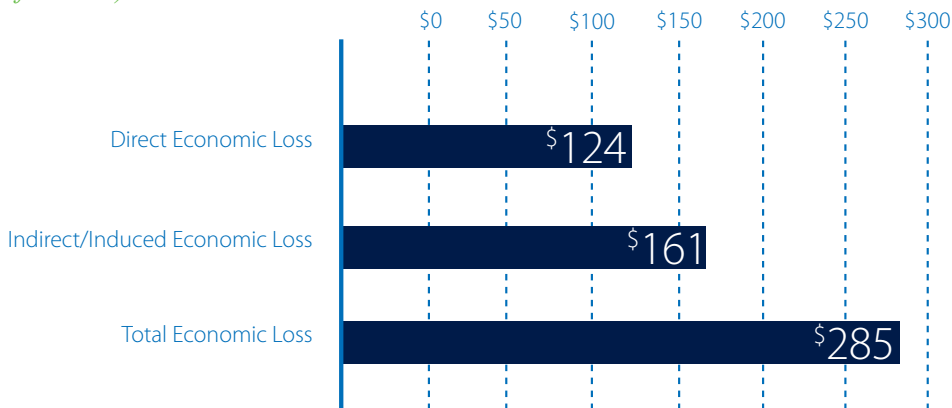
**Impact of a 1% Cut in Hospital Revenues on Employment in Maryland (FTEs)**



Source: Tripp Umbach, September 2012

Figure 6

**Impact of a 1% Cut in Hospital Revenues on Economic Activity in Maryland (millions of dollars)**



Source: Tripp Umbach, September 2012

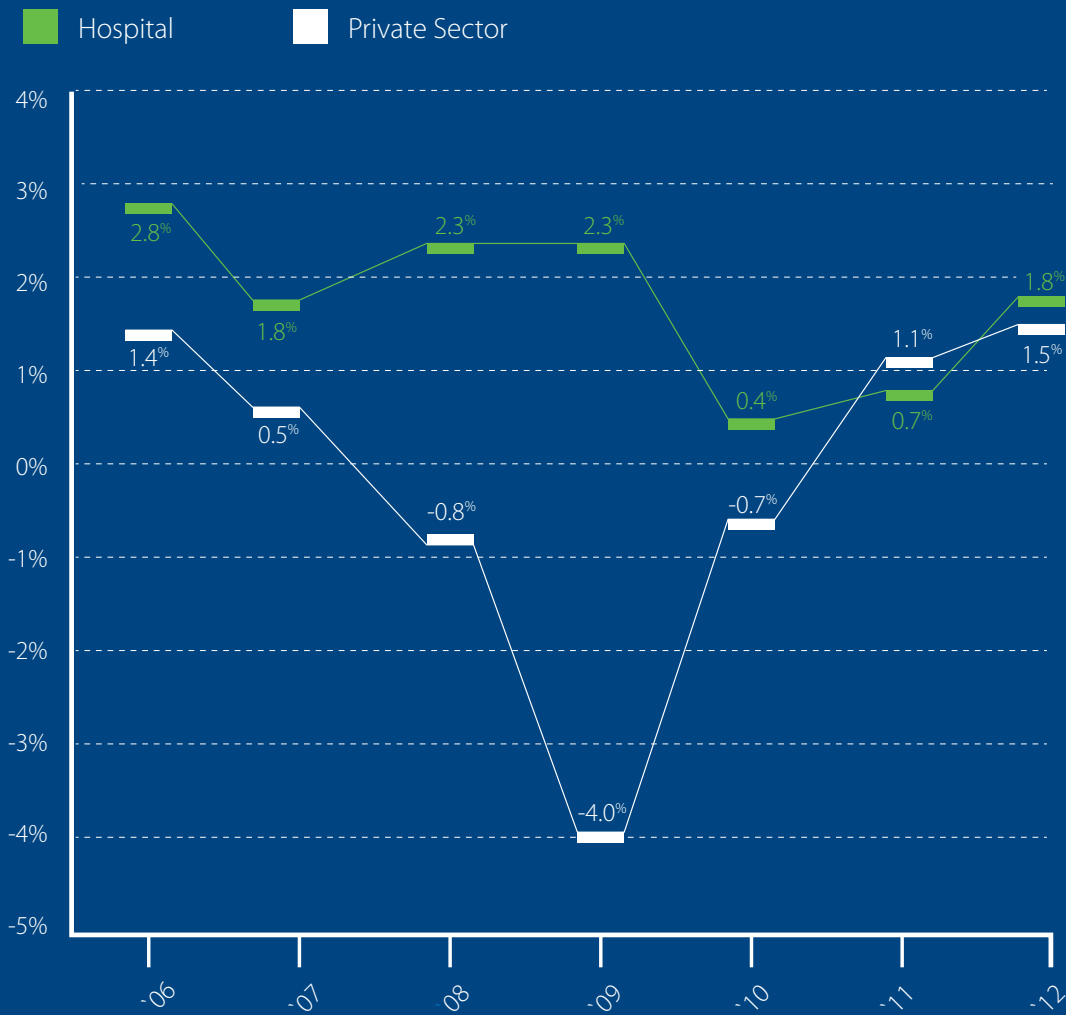
**HOSPITALS HAVE BEEN A NET ECONOMIC CONTRIBUTOR**

Maryland's hospitals acted to buoy Maryland's economy during the most recent recession. While overall private sector job losses in Maryland were significant, losses would have been far worse had hospitals not sustained employment at flat or slightly increasing levels. Job growth plummeted in Maryland's private sector to a negative 4.0 percent in 2009 as a result of the recession – a loss of four percent of the private sector jobs in the state. But hospital job growth saw some continued growth at that time, at a 2.3 percent pace (Figure 7).

Any actions that lead to further hospital revenue losses will result in statewide hospital job losses as well. Hospital job losses could reverse the state's economic recovery process.

Figure 7

### Hospital Job Growth vs. Private Sector Job Growth in Maryland



Source: Maryland Department of Planning

## IMPLICATIONS

Maryland enjoyed a \$26 billion economic boost as a result of hospital expenditures and their impact on the state's economy. Every one percent reduction in hospital revenues reduces the state's economy by \$285 million. This, at a time when the state's economy is just beginning to recover from the recession.

And now, as a result of below-inflation rate updates for the last four years, hospitals have already made spending cutbacks by renegotiating supplier contracts, refinancing their debt, postponing equipment and other investments and more. But under the current economic circumstances for Maryland's hospitals, continued weakening of hospital finances will likely lead to the last resort option — layoffs.





Maryland Hospital Association

6820 Deerpath Road • Elkridge, MD 21075

410-379-6200

[www.mhaonline.org](http://www.mhaonline.org)