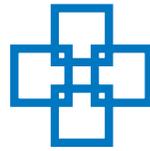


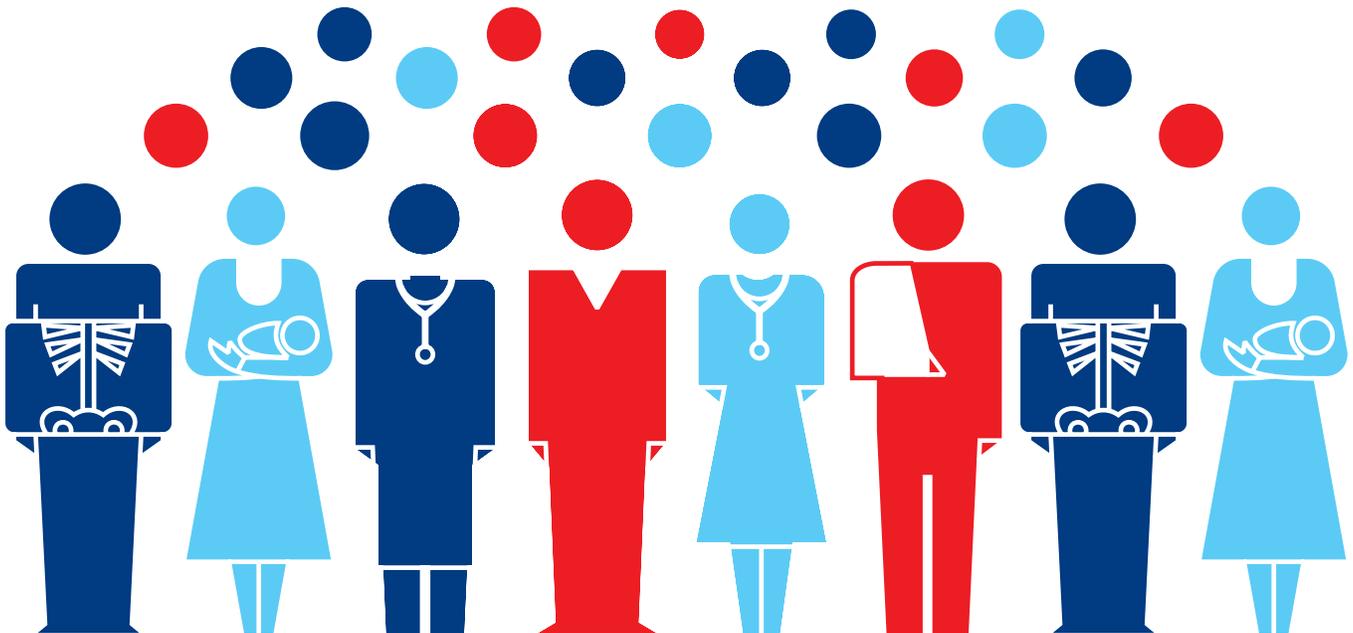


Kentucky Hospital Actions to Reduce Costs



Kentucky
Hospital
Association

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Several forces have converged on Kentucky hospitals, requiring difficult choices for facilities to remain viable. The Affordable Care Act (ACA) began reducing Medicare payments to hospitals in 2010; however, the magnitude of the ACA cuts escalates each year and will grow significantly in 2017, when Medicaid disproportionate share hospital (DSH) payments will be reduced by one-third. Medicare payments have also been reduced as part of sequestration. The state's move to Medicaid managed care in 2011 has not only slowed payment, but has increasingly resulted in denial of payment for services needed and delivered by hospitals to Medicaid patients. At the same time, bad debts are continuing to steadily rise as

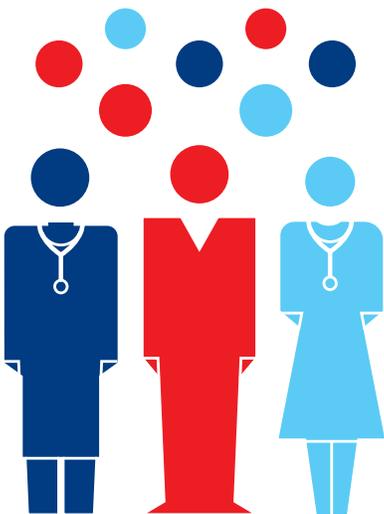
more Kentuckians are covered by insurance plans with higher deductibles and cost sharing. In order to survive, Kentucky hospitals have taken a variety of actions to lower expenses. These actions have entailed reducing jobs, reducing wages and benefits and reducing services throughout the state, which impacts access to care.

In September 2014, the Kentucky Hospital Association conducted a member survey to quantify the actions hospitals are taking to lower expenses. Kentucky hospitals were asked to provide information on workforce reductions taken in 2013, from January through June of 2014 and actions planned for the remainder of 2014. Similarly, facilities were asked to report wage and benefit actions, including the number of affected employees, as well as to identify reductions in services, which affect the entire community. Finally, hospitals were asked to share other actions they are taking to reduce expenses. There were 87 individual facility and system responses to the survey, representing 109 total hospitals. Sixty percent of respondents were comprised of rural hospitals and 40% were urban hospitals, making rural hospitals slightly more represented in the survey results as compared to their proportion of all hospitals in the state¹.

Reduction in Employees

Most reductions in the hospital workforce occurred in 2013 through the first six months of 2014. Slightly more hospitals took action in 2013 to reduce staff than in the first half of 2014. The number of hospitals continuing to reduce employees in the second six months of 2014 dropped significantly, indicating that the majority of hospital workforce reduction actions had already occurred.

Hospitals were asked to specify if workforce reductions were achieved through attrition, layoffs or by eliminating positions. More than one-half of all respondents (61 hospitals representing 56% of facilities responding) eliminated positions and nearly one-half (51 hospitals representing 47% of respondents) eliminated jobs through attrition. However, attrition accounted for the greatest number of jobs affected at nearly 5,000 jobs over the course



Hospital Workforce Reductions Occurring in 2013-2014

of 2013-2014. Slightly more than 1,500 positions were eliminated since 2013, with 50% more being eliminated in the first half of 2014 (882) as compared to 2013 (575). When positions were eliminated, most hospitals indicated that work was reassigned to

other hospital staff (50 hospitals), followed by entirely eliminating the job function (29 hospitals) and a small number stating the work was reassigned to a corporate office (11 hospitals). Fewer hospitals reported having layoffs, with more hospitals making layoffs in 2013, but larger layoffs occurring in the first half of 2014 with more employees affected. From 2013-2014 nearly 1,300 employees were laid off. This includes the closure of one rural hospital causing a loss of 80 jobs².

	# Employees	# (%) of Hospitals ⁴
Layoffs	1,268	36 (33%)
Attrition	4,922	51 (47%)
Eliminated Positions	1,516	61 (56%)
Total Workforce Reduction	7,706	

The grand total impact of attrition, job elimination and layoffs reduced the Kentucky hospital workforce by 7,706 jobs, which equates to about 10% of the hospital workforce statewide³.

Estimated Economic Impact of Reduced Workforce

The loss of these jobs has a direct negative impact on Kentucky's economy. The money hospitals spend on employee wages and salaries has a "ripple" effect as those dollars move through the larger economy, supporting other jobs and businesses in the community and generating local and state taxes. In addition, when hospital jobs are lost, the community suffers because hospital jobs pay more than most other private sector jobs due to the highly skilled nature of hospital workers. KHA estimates that **the loss of 7,706 hospital jobs translates into a \$31 million reduction in income and sales taxes and an estimated \$208 million loss in local spending for goods and services⁵.**

Type of Reduction

LAYOFFS	# Employees	# Hospitals ⁶
2013	494	33
January-June 2014	697	21
Planned Remainder 2014	77	5
Total 2013-2014	1,268	36

ATTRITION	# Employees	# Hospitals ⁶
2013	2,985	39
January-June 2014	1,825	40
Planned Remainder 2014	112	14
Total 2013-2014	4,922	51

ELIMINATED POSITIONS	# Employees	# Hospitals ⁶
2013	575	44
January-June 2014	882	39
Planned Remainder 2014	59	11
Total 2013-2014	1,516	61

Grand Total	7,706	
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More rural hospitals were forced to reduce jobs. Even small reductions in a rural hospital's workforce can have a substantial impact on the hospital and the local community.

Geographic Impact

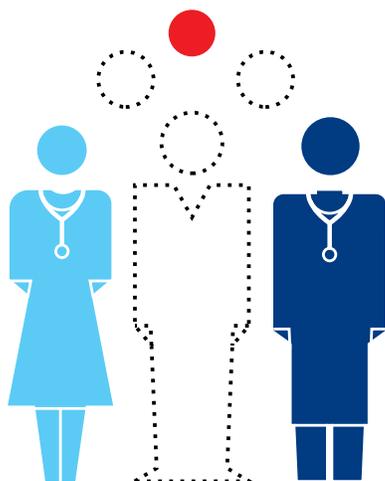
As expected, the largest number of hospital employee reductions – through layoff, attrition and eliminated jobs – occurred in urban areas. Eighty percent of hospital jobs reduced through attrition occurred in urban facilities, while about two-thirds of the layoffs and job elimination also occurred in urban hospitals. However, more rural hospitals were engaged in reducing jobs. Nearly two-thirds of facilities eliminating positions and not filling vacancies were rural hospitals and one-half of the hospitals having layoffs were also located in a rural area. Because rural hospitals employ fewer staff than urban facilities, even small reductions in their workforce can have a substantial impact on the hospital and the local community.

Geographic Location of Hospital Workforce Reductions

	% of Employees Affected	# (%) of Hospitals ⁷
Layoffs	62% Urban 38% Rural	18 (50%) Urban 18 (50%) Rural
Attrition	83% Urban 17% Rural	19 (36%) Urban 32 (64%) Rural
Eliminated Jobs	68% Urban 32% Rural	23 (38%) Urban 38 (62%) Rural

Kentucky Hospitals Making Reductions in Wages, Benefits, and Services 2013-2014

	# (%) of Hospitals	Location
Wage Freeze	35 (32%)	29 (83%) Rural 6 (17%) Urban
Wage Reduction	12 (11%)	10 (83%) Rural 2 (17%) Urban
Benefit Reduction	38 (35%)	30 (79%) Rural 8 (21%) Urban
Health Care Services Reduction	46 (42%)	33 (72%) Rural 13 (28%) Urban



Approximately one-third of hospitals implemented reductions in employee benefits in 2013-2014 and roughly the same percentage froze wages. Only a small number of hospitals reduced wages. However, **a much larger percent of rural hospitals – about 80% – implemented reductions in wages and benefits as compared to about 20% of urban hospitals.**

Forty-four percent of the hospital workforce has experienced a freeze or cut in wages.

The survey requested information on numbers of employees affected by wage and benefit reductions. About 44% of the hospital workforce⁸ has experienced either a freeze or a cut in wages, with most experiencing a freeze rather than a cut in pay. Almost 6,600 employees have experienced a wage cut, representing about 9% of the workforce. The majority of hospital workers – roughly 56% of the workforce – have experienced some type of reduction in benefits. The most frequently cited benefit reduction involved raising the amount employees must pay for health insurance through higher premiums, deductibles and cost sharing. Also, many hospitals have reduced or frozen employer contributions to employee retirement plans in addition to reducing paid time off and eliminating shift differentials.

Type of Action

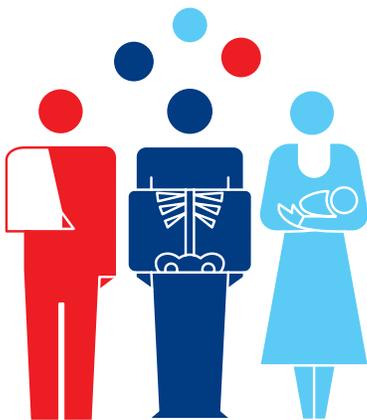
Time Period	Wage Freeze # Employees Affected	Wage Cut # Employees Affected	Benefit Reduction # Employees Affected
2013	12,111	1,636	22,934
January-June 2014	6,729	3,807	12,417
Planned Remainder 2014	5,803	1,150	5,893
Total	25,643	6,593	41, 244

Wage and Benefit Reductions

- Eliminated shift differential
- Increased employee premiums, deductibles, cost sharing for health insurance
- Reduced employer contribution to retirement plan
- Reduced paid time off
- Froze or reduced 401K match
- Reduced medical plan choice to one plan
- Reduced employer contributions for dependent health coverage
- Changed part-time employee benefits on health insurance and PTO
- Eliminated tuition assistance
- Provided “low benefit” health insurance option
- Froze wages in 2013
- Removed coverage of spouse if could be insured elsewhere
- Reduced call pay



Reductions in services can have a critical impact on the local community.



Reductions in Programs and Services

Forty-six (46) facilities representing forty-two percent (42%) of respondents took action in 2013 or 2014 to reduce programs and services. Most of these reductions occurred in rural areas, as nearly **three-fourths of the facilities making service reductions were rural hospitals.**

The most drastic example was the closure of Nicholas County Hospital, a 25-bed critical access hospital in Carlisle, Kentucky. Other reductions have occurred in both inpatient and outpatient services. Inpatient reductions included closure of certain units, with psychiatric services reported most often. These reductions included the closure of a geriatric inpatient psychiatry unit, as well as several adolescent behavioral health units, one of which was for the treatment of adolescent sex offenders. Hospitals also reported closing transitional care units and consolidating nursing units. On the outpatient side, the closure of outpatient clinics was the most frequently reported action. These included closing special clinics for wound care, outpatient therapy and cardiac rehabilitation, as well as reducing clinic hours. Several hospitals had to close outreach services such as mobile mammography and a home health waiver program. Besides reducing services, hospitals frequently reported deferring capital purchases, including deferring major building repairs and scaling back as well as deferring planned building projects. These actions have reduced access to services, particularly for outpatient care and behavioral health, at a time when the Affordable Care Act contemplated a need for expanded access.

Reductions in Programs/Services

- Closed hospital
- Closed wound care clinic
- Closed underutilized clinics
- Consolidated MD office locations
- Deferred capital purchases
- Reduced repairs and maintenance budget
- Deferred major building repair; cancelled construction project
- Closed transition care unit
- Closed geriatric psychiatric unit
- Closed sleep lab
- Closed school clinic
- Closed surgery department
- Closed adolescent behavioral health unit
- Closed outpatient therapy clinic
- Discontinued offering cardiac rehab
- Shut down lab and x-ray in primary care clinic
- Reduced hours at clinics
- Closed mobile mammography unit
- Closed home health waiver program

Time Period	# Hospitals Taking Action
2013	31
Jan-June 2014	28
Planned Remainder 2014	22
Total: 2013-2014	46

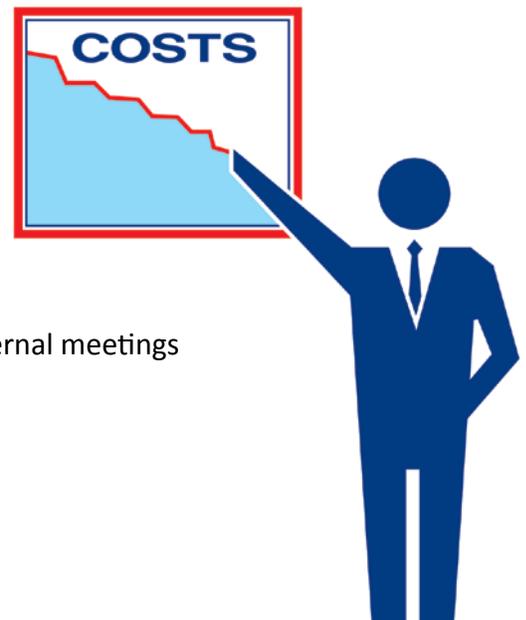
- Closed long-term care unit
- Closed adolescent sex offender and public offender unit
- Stopped providing screening for mammography and diabetes lab work for health departments
- Cancelled non-critical consulting agreements
- Renegotiated supplier/purchasing contracts

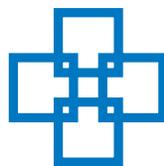
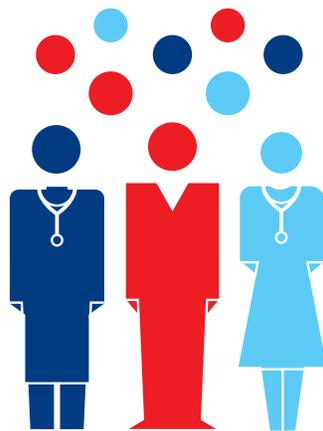
Other Cost Cutting Actions

The survey also asked hospitals to report other actions they are taking to reduce costs. The responses were varied, but tended to focus on renegotiating vendor contracts and improving contracts for purchasing supplies, along with various actions to improve productivity and manage staffing. Specific responses included the following:

- Worked on increasing productivity
- Benchmarked costs
- Conducted aggressive contract negotiations; cancelled some medical staff contracts
- Performed resource utilization studies
- Renegotiated supplier/purchasing contracts
- Negotiated with vendors, primarily on surgery and overhead
- Consolidated directors
- Centralized overhead functions
- Arranged joint purchasing with other hospitals for supplies and drugs; joined GPO
- Standardized products across all hospitals in system
- Spread management duties among regional facilities
- Consolidated revenue cycle activities under one management at corporate office
- Focused on reducing purchased services and discretionary costs
- Changed health insurance carrier to lower employee premiums; changed liability carrier
- Monitored employee staffing, hours and vacant positions constantly
- Renegotiated contract services such as anesthesia, hospitalists and ER physician coverage
- Implemented voice recognition software for radiology
- Used inventory reduction tool
- Established FTE committee to review need and requests for new/replacement FTEs/ reviewed requests for FTEs against benchmarks
- Reduced employee tuition assistance and reduced travel for education
- Implemented energy savings program
- Assessed vendors and changed equipment maintenance programs
- Cross-trained staff
- Restricted overtime to 2% or less to reduce use of overtime
- Eliminated outside nursing agency staffing
- Implemented LEAN for revenue cycle/chartered a PI Cost Reduction team that has saved through renegotiating service contracts, leases and professional service agreements
- Purchased equipment only to comply with EHR Phase II; shopped all inventory costs
- Reduced cafeteria discounts for staff; eliminated food at internal meetings
- Eliminated external community newsletter
- Increased point-of-service collections
- Cancelled employee events
- Reduced overall frequency of cleaning in non-patient areas
- Placed physicians on a productivity compensation model
- Refinanced debt

Hospitals are using every cost-cutting alternative available to avoid reducing services.





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- ¹ Rural hospitals represent 51% of all Kentucky hospitals.
- ² Nicholas County Hospital job loss was included in the total number of layoffs.
- ³ Based on a statewide hospital workforce of 74,000 as reported in Kentucky Hospitals' Economic Importance to Their Communities, 2013.
- ⁴ Includes all hospitals within a system reporting aggregated data; percent of total respondents.
- ⁵ Based on an average hospital annual wage of \$48,170 and the ratio of taxes and local spending to hospital employee wages and salaries as reported in Kentucky Hospitals' Economic Importance to Their Communities, 2013.
- ⁶ Individual hospitals and all hospitals within a system which reported aggregated system data.
- ⁷ Includes all hospitals within a system reporting aggregated data; percent of total respondents taking specified action to reduce workforce.
- ⁸ Based on 74,000 hospital employees in 2013.