Kaiser Health News: Some of America's wealthiest hospital systems ended up even richer, thanks to federal bailouts

As the crisis crushed smaller providers, some of the nation's richest health systems thrived, reporting hundreds of millions of dollars in surpluses after accepting huge grants for pandemic relief

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Last May, Baylor Scott & White Health, the largest nonprofit hospital system in Texas, laid off 1,200 employees and furloughed others as it braced for the then-novel coronavirus to spread. The cancellation of lucrative elective procedures as the hospital pivoted to treat a new and less profitable infectious disease presaged financial distress, if not ruin. The federal government rushed $454 million in relief funds to help shore up its operations.

But Baylor not only weathered the crisis, it thrived. By the end of 2020, Baylor had accumulated an $815 million surplus, $20 million more than it had in 2019, creating a 7.5 percent operating margin that would be higher than most hospitals' profits in the flushest of eras, a KHN examination of financial statements shows.

Like Baylor, some of the nation's richest hospitals and health systems recorded hundreds of millions of dollars in surpluses after accepting a substantial share of the federal health-care bailout grants, their records show. Those included the Mayo Clinic, Pittsburgh's UPMC and NYU Langone Health. But poorer hospitals — many serving rural and minority populations — got a tinier slice of the pie and limped through the year with deficits, downgrades of their bond ratings and bleak fiscal futures.

"A lot of the funding helped the wealthy hospitals at a time, especially in New York, when safety-net hospitals were hemorrhaging," said Colleen Grogan, a health policy professor at the University of Chicago. "We could have tailored it to hospitals we knew were really suffering and taking on a disproportionate amount of the burden."

In Baylor's case, the system, which runs Baylor University Medical Center in Dallas and 51 other hospitals, said it spent $257 million last year on pandemic-related costs, including protective clothing for employees and patients and creating isolation rooms.

Baylor has $197 million in unspent federal relief funds to use this year to cover costs of battling the virus and refrigerating vaccines, it said.

"Our covid-19-related expenses and lost revenue continue to exceed the funding we have received to date," Baylor said in a statement to KHN.

Other well-heeled hospitals or large systems faced bigger problems. Both NewYork-Presbyterian Hospital and CommonSpirit Health, a 140-hospital Catholic system that operates in 21 states, lost money despite federal grants in the vicinity of a billion dollars each. A few systems, including the for-profit chain HCA Healthcare, returned federal funds when they saw they had skirted their worst-case scenarios. But most spent the aid and held onto any leftover money and new grants to cover anticipated pandemic costs this year because hospital executives fear more case spikes.

Much of the lopsided distribution was caused by the way the Department of Health and Human Services based the allotment of the initial bailout funds on hospitals' past revenue. That favored institutions with well-off patients who have private health plans over those that rely on lower-paying government insurance, which is what many poor people use.

HHS distribution formulas did not take into account which hospitals had enough assets to survive.

Baylor, for instance, began 2020 with $5.4 billion in cash and investments, enough to keep it running for 238 days, the financial disclosures show.

Hospitals that ended the year with profits were entitled to federal aid because of the extraordinary latitude Congress and HHS set in how hospitals could classify their pandemic costs.

Last fall, when HHS attempted to limit how much aid hospitals could keep based on their profits — so the money could be redirected to struggling hospitals — the effort was swiftly beaten back by the industry and Congress. HHS officials declined requests for an interview but noted in a statement that Congress had ordered it to revert to its "broader definition of permissible use of PRF funds."

"The Biden Administration continues to review programs and policies including considerations for the unallocated funding under the PRF program and the $8.5 billion recently appropriated under the recently signed American Rescue Plan Act," the statement said.

Avoiding a drawdown of reserves

The bailouts were initiated last spring to help health-care providers ride out a once-in-a-century public health calamity. The money designated to hospitals and other health-care providers from the Coronavirus Aid, Relief, and Economic Security (Cares) Act and subsequent legislation totaled $178 billion.

It was intended to offset all costs of treating infected patients, including purchasing ventilators, masks, gowns and other personal protective equipment. Congress further authorized hospitals to use the money to compensate for a drop in revenue when they shut down elective surgeries and non-emergency treatments to prepare for the anticipated deluge of covid-19 patients.

The money, referred to as the Provider Relief Fund, helped many poorer hospitals avert cash crunches, layoffs and bond rating downgrades. A survey by Kaufman Hall, a consulting firm hired by the American Hospital Association, found that the median hospital gain during 2020 would have been 0.3 percent without the federal support.

With it, half of hospitals posted gains of 2.7 percent or more, below the 2019 median margin of 3.1 percent.

In February, the association urged Congress to replenish the nearly empty relief fund, saying, “hospitals have never experienced such a widespread, national health crisis.”

Some hospitals’ finances deteriorated significantly during the pandemic. From the end of March through December, the rating agency Moody’s downgraded 28 hospitals, primarily because of weaknesses such as higher debt or more competition, said Lisa Goldstein, associate managing director at Moody’s.

Others suffered worse fates, such as Williamson Memorial Hospital, which shut down last April. The hospital, in West Virginia’s coal country, had been trying to climb out of bankruptcy protection, but “unfortunately, the decline in volumes experienced from the current pandemic were to[o] sudden and severe for us to sustain operations,” its CEO wrote on Facebook.

Conversely, many prosperous health systems emerged unscathed from the moratoriums of last spring, often due to the federal aid. “It gave them an ability to not have to draw down on their reserves to make up for the loss in revenue,” said Suzie Desai, a senior director at S&P Global Ratings.

Systems saw patient visits return to near normal as the year wore on. In some cases, business in the latter half of 2020 was even higher than in the same period in 2019 because of pent-up demand for treatments postponed from the spring, financial records show.

“We saw volumes spring back” in every area except emergency room visits, said Kevin Holloran, a senior director at Fitch Ratings. Major hospital systems also reported that cases tended to be more complex than normal, leading to higher insurance payments.

UPMC accepted $460 million in bailout funds while collecting $2.5 billion more in revenue in 2020 than in 2019. The nonprofit system ended the year with an $836 million operating surplus — providing a 3.6 percent margin that was triple the prior year’s — in part due to the growth of the health insurance plan the system owns.

Other hospitals that sold insurance, including Baylor, persevered because the cause of their financial troubles — fewer surgeries and doctors’ visits — meant the health plans paid fewer claims.

UPMC’s strong finances went unmentioned in a recent fundraising pitch announcing the launch of its “Health Care Heroes” campaign. “During the past year, health care workers have carried the weight of the world on their shoulders, risking their own health and safety to ensure ours as we navigated the covid-19 pandemic,” the email said. “Now it’s our turn to recognize their hard work. … By making a donation, you will help provide training, recognition, and support for our staff initiatives.”

Donald Yealy, senior vice president, UPMC and chief medical officer, UPMC Health Services, said the fundraising appeal was a way to allow people in the community to show their appreciation.

“The intent of the request and the letter were clear. People are free to ignore or to have an opinion. I don’t begrudge that at all. I respect people having a different opinion," he said.

Hospitals can hold on to unspent relief funds until the end of July to defray any further pandemic-related costs. After that, any unspent money must be returned to the U.S. Treasury. UPMC retains $80 million in unspent relief funds, which the health system said it expects to use. “We’re still in the process of incurring significant costs related to covid," said Edward Karlovich, UPMC executive vice president and chief financial officer.

'A shot in the arm' sometimes unneeded

In April 2020, the Mayo Clinic in Rochester, Minn., forecast up to $3 billion in lost revenue because of the pandemic. Instead, Mayo, which received $338 million in federal relief funds, ended the year with revenue that was $202 million higher than in 2019. Mayo recorded a $728 million surplus, which equaled a 5.2 percent margin.

"It gave us a shot in the arm when we needed it," said Dennis Dahlen, Mayo's chief financial officer. Later, when it seemed likely Mayo would run a surplus, executives debated what to do with the federal funds.

"Honestly, we considered dropping the margin," Dahlen said. After weighing its options, Mayo "landed in a middle-of-the-road decision" by returning $156 million to the federal government.

"We considered it with what everyone else was doing … and we thought about what was good for society," Dahlen said. "Nonprofit doesn't really mean no profit. It means tax-exempt. We still have to create earnings so we can reinvest in ourselves."

Mayo ended the year with $14 billion in investments, $3 billion more than it had in 2019, a 29 percent increase.

The funds were, indeed, a lifesaver for some. Marvin O'Quinn, president and chief operating officer of CommonSpirit Health, said "there was never a thought of turning back the money."

Despite receiving $1.3 billion in relief funds, CommonSpirit, based in Chicago, ended last year with a $75 million deficit, which translated to a 0.2 percent loss.

"We have been set back by a year," O'Quinn said. "All the things we wanted to do — to renovate, to building new facilities, to expand our service — we've had to slow up to get through the crisis."

Scattershot relief

The first $50 billion in relief funds "was sent out indiscriminately as a life support," said Ge Bai, an associate professor at Johns Hopkins Bloomberg School of Public Health.

HHS tried to target subsequent distributions. It sent $22 billion to 1,090 hospitals with large numbers of covid-19 patients. It sprinkled an additional $16 billion among hospitals that serve poor populations, Native American tribes, people in rural areas and children.

But even with the targeted aid, recipients included well-endowed academic medical centers and major urban hospitals. Only $14 billion took profitability into consideration, HHS documents show. HHS restricted those payments to hospitals with 3 percent or lower profit margins.

Wealthy hospitals also benefited because HHS used a broad definition of lost revenue. If a hospital earned less than in the year before, or simply less revenue than it had budgeted for, it could chalk up that difference to the pandemic and apply the relief funds to it. The implications garnered little attention at the time as they were overshadowed by the concerns about how HHS was doling out the money rather than how it could be used.

In September, HHS attempted to tighten its overall limits on how much money the hospitals could keep by basing it on the difference from the previous year's net income rather than overall revenue — a number that in many cases would be much lower. The goal, the department said, was to “prohibit most providers from using PRF [Provider Relief Fund] payments to become more profitable than they were pre-pandemic, to conserve resources to allocate to providers who were less profitable.”

The American Hospital Association complained that would punish hospitals that had behaved responsibly by cutting costs and be an “administrative and accounting disaster,” as many hospitals had already spent the grant money.

HHS backed down a month later, citing “significant attention and opposition from many stakeholders and Members of Congress.” Not fully satisfied, Congress cemented the rollback in a December law.

Some hospital executives attributed their surpluses to their aggressive cost-cutting measures.

NYU Langone Health, for instance, received $461 million in relief funds, which covered about a third of its pandemic-related losses, said Daniel Widawsky, chief financial officer. Another third of Langone’s losses were absorbed by the record-high financial performance in the months before the pandemic, he said, and prompt cost control addressed the rest.

Widawsky said that at the beginning of March Langone canceled travel, froze hiring, paused construction and stopped discretionary purchases. “The first three days in March, we locked down spending,” he said. “If they wanted to buy a pencil, they had to call me.” Langone ended its fiscal year in August with $208 million in net income, and recorded a $136 million surplus in the final quarter of 2020, or 5.5 percent. Earlier this year, two credit agencies upgraded their outlook on Langone from stable to positive.

Despite accepting $942 million in bailout funds, NewYork-Presbyterian Hospital had a $457 million operating deficit, a 7 percent loss, at the end of September. It was a sharp turn from September 2019, when the system recorded a $166 million surplus, a 2.5 percent gain.

The system, which declined to comment, has not yet released its financial metrics for the final three months of 2020, but Fitch projected it would remain in the red. Still, NewYork-Presbyterian remains fiscally solid: Its most recent disclosure reported $3.8 billion in cash and short-term investments, enough to keep operating for more than a year.