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Recession Puts Chinks In Health-Care Industry Armor

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Dec. 24--The recession. The rising number of unemployed Americans without health insurance. Billions in unpaid Medicaid bills. Chicago-area hospitals haven't seen such threats to the health-care industry in recent memory.

Long considered recession-proof, health-care providers are laying off thousands, delaying medical equipment purchases and putting building projects on hold as they grapple with fewer patients, as well as consumers who cannot pay their bills, trends that could continue as the economy slumps along.

The state a few weeks ago carried out its offering of short-term general-obligation bonds that will bring in \$1.4 billion, but that falls short of the nearly \$4.5 billion needed to pay vendors that had provided health-care and other services, and includes more than \$2 billion in Medicaid payments to medical-care providers.

"Underneath the headlines are the programs and services that people in Illinois need and depend on that are threatened," said Howard Peters, senior vice president of government relations at the Illinois Hospital Association. "It is a real health-care dilemma."

The nation's financial crisis and tight credit markets have started to affect hospitals across the country, including some of the wealthiest medical centers in the Chicago area.

Although Advocate Health Care has more than \$1.6 billion in cash on its balance sheet, the Oak Brook-based hospital operator is holding onto its reserves to brace for an increase in the number of patients who cannot pay their bills. It also is preparing to deal with an increase in late payments from the Medicaid program.

"In this state, Medicaid receivables are building," said Dominic Nakis, chief financial officer for Advocate, the Chicago area's largest provider of medical care. "Those are . . . reasons to maintain cash."

The health-care industry is seen as recession-proof because it has been growing, thanks in part to the aging Baby Boomer population, and the fact that people routinely get sick.

An ailing health-care industry, which at \$2 trillion accounts for 16 percent of the gross domestic product and employs 5 million people in the U.S., could reverberate to the broader economy. In 2007, 45 percent of new private sector jobs in the U.S. came from the health industry, according to the American Hospital Association.

Hospital surgeries nationwide fell 1.4 percent in the third quarter of this year compared with the same period in 2007. Emergency room visits fell 1 percent, an alarming sign considering such facilities are a health-care destination of last resort for those without health benefits.

"I think there is a recognition that health care needs are always going to be there and there will be demand . . . because it's not like the automobile industry or Wal-Mart where you don't have to buy anything," said Caroline Steinberg, vice president for trends analysis at the American Hospital Association, a trade group representing about 5,000 U.S. hospitals. "Ultimately, there is going to be demand for patient care, but that demand may not come with financing. The unknown is how many of those patients are going to pay and how big that hardship is going to be on hospitals."

Hospitals that were busting at the seams with patients a few months ago are seeing admissions slow as patients delay getting medical care, forcing providers to deal with lower revenue.

Advocate has held up some projects throughout its nine-hospital system, notably its \$200 million, 148-bed expansion project at Oak Lawn's Advocate Christ Medical Center, its largest hospital.

The Loyola University Health System in Maywood is eliminating more than 200 jobs as part of an effort to cut annual expenses by 5 percent, or about \$30 million. The hospital said it also has cut more than \$23 million from its expenses by placing "non-essential expenses on hold," including certain construction projects, while reducing contract expenses and overtime pay to workers.

"Health care is not immune to the effects of the general economic downturn," said Dr. Paul Whelton, Loyola president and chief executive. "Many individuals are delaying or skipping health-care visits and elective procedures as they seek ways to reduce family expenses."

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