Illinois' largest hospital system plans $200 million in cuts

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Advocate Health Care, the largest hospital system in Illinois, last month announced plans to cut spending by $200 million, or 4 percent. The announcement follows the implementation of a hiring freeze for management and non-clinical positions in April, which is expected to remain in effect until at least July 1.

Advocate's cuts are proceeding despite a rise in revenue at the system, from $1.37 billion in the first quarter of 2016 to $1.56 billion in the first quarter of this year. The nearly $200 million increase nevertheless fell short by $70 million from the amount Advocate had budgeted.

"The timing [for the cuts] is right because Advocate has never been stronger," wrote Jim Skogsbergh, CEO of the non-profit, in an email to staff announcing the cuts. Skogsbergh attributed the cuts to "severe financial pressures," blaming lower reimbursements by the state and federal governments and private insurers, and stated that Advocate's "cost structure is not sustainable." Although details of the cuts have yet to be revealed, "some of our decisions will be difficult as they will undoubtedly impact programs, services and jobs," Skogsbergh added.

In other words, the cuts will mean the further restriction of patients' access to much-needed health services, and an escalation of the attack on the jobs and working conditions of health care workers.

Advocate, headquartered in Downers Grove in suburban Chicago, has 12 hospitals in its network—in addition to numerous smaller clinics and offices—and employs approximately 36,000. The system has been rapidly expanding in recent years, buying up rival hospitals and smaller physician practices, particularly in the wake of the 2010 Affordable Care Act (ACA), the key domestic legislation of former President Barack Obama. The law, otherwise known as Obamacare, precipitated a wave of mergers and acquisitions among health systems, insurers and pharmaceutical companies, accelerating the monopolization of health care and increasingly rationing it along class lines.

In fact, the cuts at Advocate come shortly after its attempt to merge with NorthShore University Health System collapsed as a result of a challenge from the Federal Trade Commission (FTC). The merger, pursued by the two entities for over two years, would have created the 11th-largest health system in the country and given the combined organization a monopoly over the region's health delivery system. Moreover, the merger itself would have entailed massive cuts, with Advocate estimating its cost savings at $500 million, and media commentators predicting the closure of hospitals viewed as redundant in the new system.

Although Advocate has denied a connection between the announcement of its cuts and the failed merger, it is clear that many of the other "financial pressures" it cites as justification are the reactionary consequences of the ACA.

The ACA plans for more than $700 billion in cuts to Medicare payments over the next 10 years, and hospitals in Illinois expect their payments from the program to fall by at least $10 billion in that time. If the Republican-backed American Health Care Act (AHCA) bill passes the Senate in its current form, those cuts will remain in place.

In addition, while the Democrats and their apologists have touted that the ACA expanded the number of those with insurance, ballooning bad debt at Advocate and other health systems exposes the reality: Patients have been forced into cut-rate insurance plans with deductibles in the thousands of dollars, and are unable to pay for necessary health care even when they are technically "insured." Uncollectable debt at Advocate spiked 22 percent, to $269.5 million, in 2016, according to a report in *Crain's Chicago Business*.

Along with eroding income at the federal level and from patients, Advocate has seen its reimbursements from Medicaid and the state government wither under the impact of Illinois' budget impasse between Republican Governor Bruce Rauner and the Democratic Party-controlled state legislature. Illinois has not had a budget for two years, and reimbursements owed to hospitals by the state are estimated at more than $600 million.

While Advocate is technically a "non-profit" health system, the term is a misnomer, and their financial statements certainly indicate that they remain a solvent and profitable organization, with $236.6 million in operating income in 2016. As of last year, Advocate held assets worth $12.9 billion—nearly equivalent to the amount of Illinois' total unpaid bills—with $1.5 billion of that in cash. The system has seen a continued net growth since 2013, while their operating costs are slowly declining, from 6.1 percent in 2013 to 4.7 percent in 2016. Meanwhile, their investment yields have grown in the last four out of five years, with a 7.8 percent positive yield in 2016, or nearly $400 million.

According to a *TIME* magazine report in 2013, "The 2,900 non-profit hospitals across the country, which are exempt from income taxes, actually end up averaging higher profit margins than the 1,000 for-profit hospitals after the income-tax obligations are deducted." The top five grossing non-profit hospitals in the US took in from $8.55 to $11.87 *billion* in 2011.

Non-profit hospitals are considered "charitable" organizations and are thus exempt from federal and state taxes. Noteworthy is a 2013 review from the *New England Journal of Medicine* that found that tax breaks for non-profit hospitals amounted to $13 billion. To earn a non-profit status, written policies must be in place determining how patients in need of financial assistance will be treated and how charges will be calculated.

There have been many recent challenges from a variety of constituencies that argue non-profit hospitals fail to provide adequate benefits to their community, while they are handsomely rewarded by tax exemptions. As non-profit hospitals like Advocate Health Care grow, they become the major source of jobs in the area. But because they are tax exempt, they don't contribute significantly to necessary infrastructure and public services. The profits earned are subsequently deployed in the form of enormous salaries and bonuses for administrators, the buying of new facilities and equipment, expanding services and the purchase of competing hospitals and systems. Skogsbergh, Advocate's CEO, earned $4 million in 2011. The national median salary for non-profit hospital CEOs is $533,392.

With the cuts in Medicaid expected from the AHCA and Trump's budget, currently estimated at $1.4 trillion over a decade, insurance companies will have significant leverage to negotiate prices for services even lower, further encroaching on hospital revenues, while simultaneously raising premiums on individuals. And in turn, the non-profit hospitals—while slashing jobs and restricting services—will bill patients with inflated costs, leaving workers and the poor in an impossible situation.