

Current State of Healthcare

RMA New England

David Wenger – Senior Vice President

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Supporting the vital work of healthcare professionals nationwide

Bank of America Merrill Lynch is recognized worldwide as a leading provider of innovative financial guidance and solutions to healthcare professionals, their employees and families.

Highlights:

- Thirty years of leadership in healthcare banking
- Extensive resources, with 400 healthcare bankers and product specialists across the United States and Europe
- More than \$50 billion in capital commitments to the healthcare industry.¹

¹As of 6/01/12



What is Healthcare?

MANY DIFFERENT SUBSECTORS

HOSPITALS
& PHYSICIANS

LONG TERM
CARE

PAYORS/
MANAGED
CARE

LABORATORY

MEDICAL
DEVICES &
EQUIPMENT

PHARMA

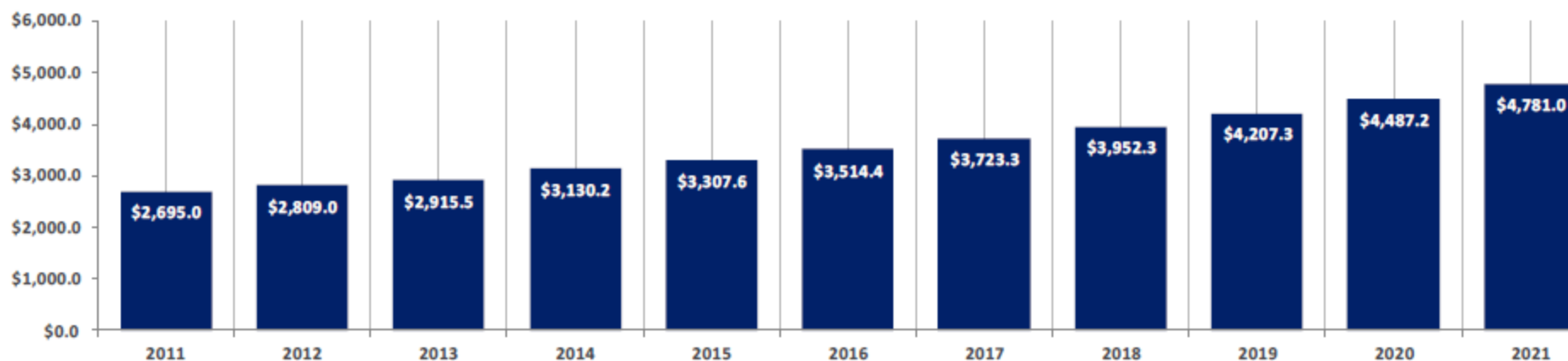
Life Sciences /
Biotech

And Many More.....

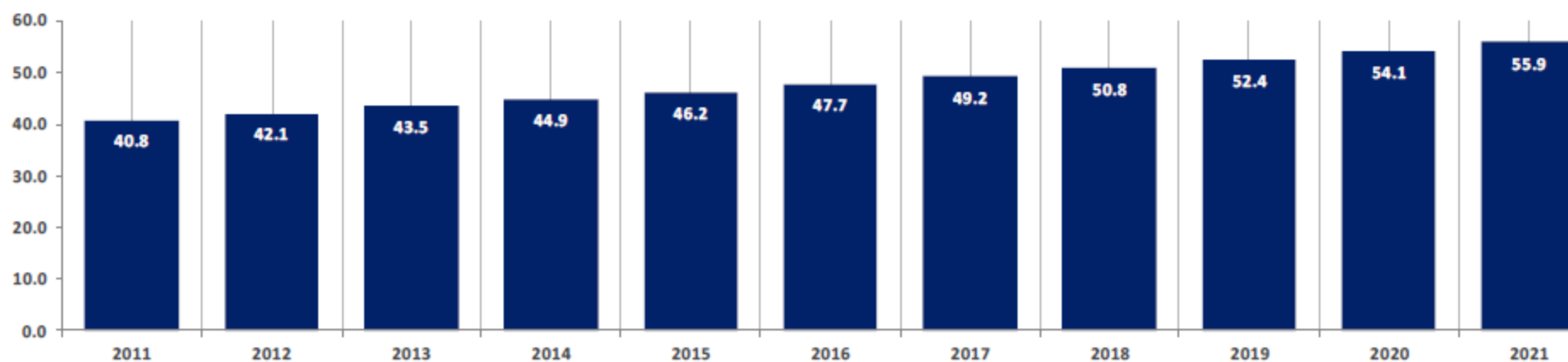
Situation Analysis

Healthcare in the U.S.

National Health Expenditures (Projected) (\$ in billions)



Population Age 65 Years and Older (Projected) (in millions) *



Source: Centers for Medicare & Medicaid Services

Note: The health spending projections were based on the National Health Expenditures released in January 2012. The projections include impacts of the Affordable Care Act.

* July 1 Census resident based population estimates.

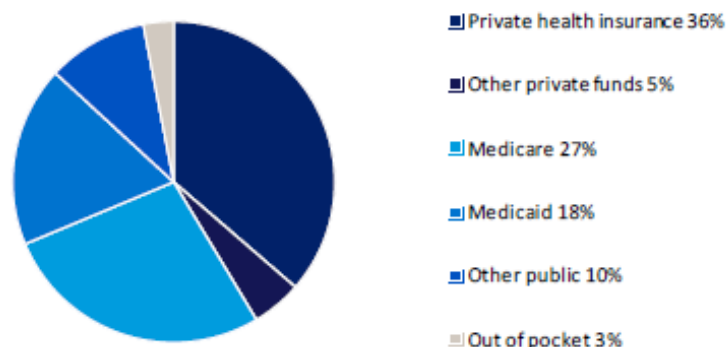
Situation Analysis

Hospitals in the U.S.

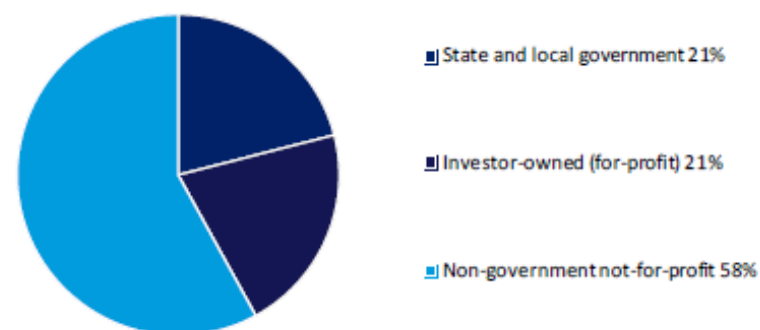
Industry Overview

- Hospital services is the largest single category in health care at 31% of total health care spending in 2012, or approximately \$884.7BN, according to the Centers for Medicare & Medicaid Services (CMS) projections
 - CMS projects the hospital services to grow by 4 – 7% per year through 2021 due to the aging of the U.S. population and consumer demand for expanded medical services since 2005
- An acute care hospital is a typical general hospital providing services ranging from delivering babies to performing open heart surgery
 - A typical hospital generates 27% of its revenue from Medicare, a federal reimbursement system that pays for health care services for the elderly and an additional 18% of revenue from Medicaid, a state-run program with federal matching that pays for health care for the poor
 - Other payers, including Managed Care, represent 55% of revenues
- Demand for hospital services is driven by demographics, illness and injury rates, and advances in medical care and technology

Hospitals Expenditures by Source of Funds *



Hospital Ownership by Class *



Situation Analysis

Hospitals in the U.S.

Fast Facts on the U.S. Hospitals (as of January 03, 2013)

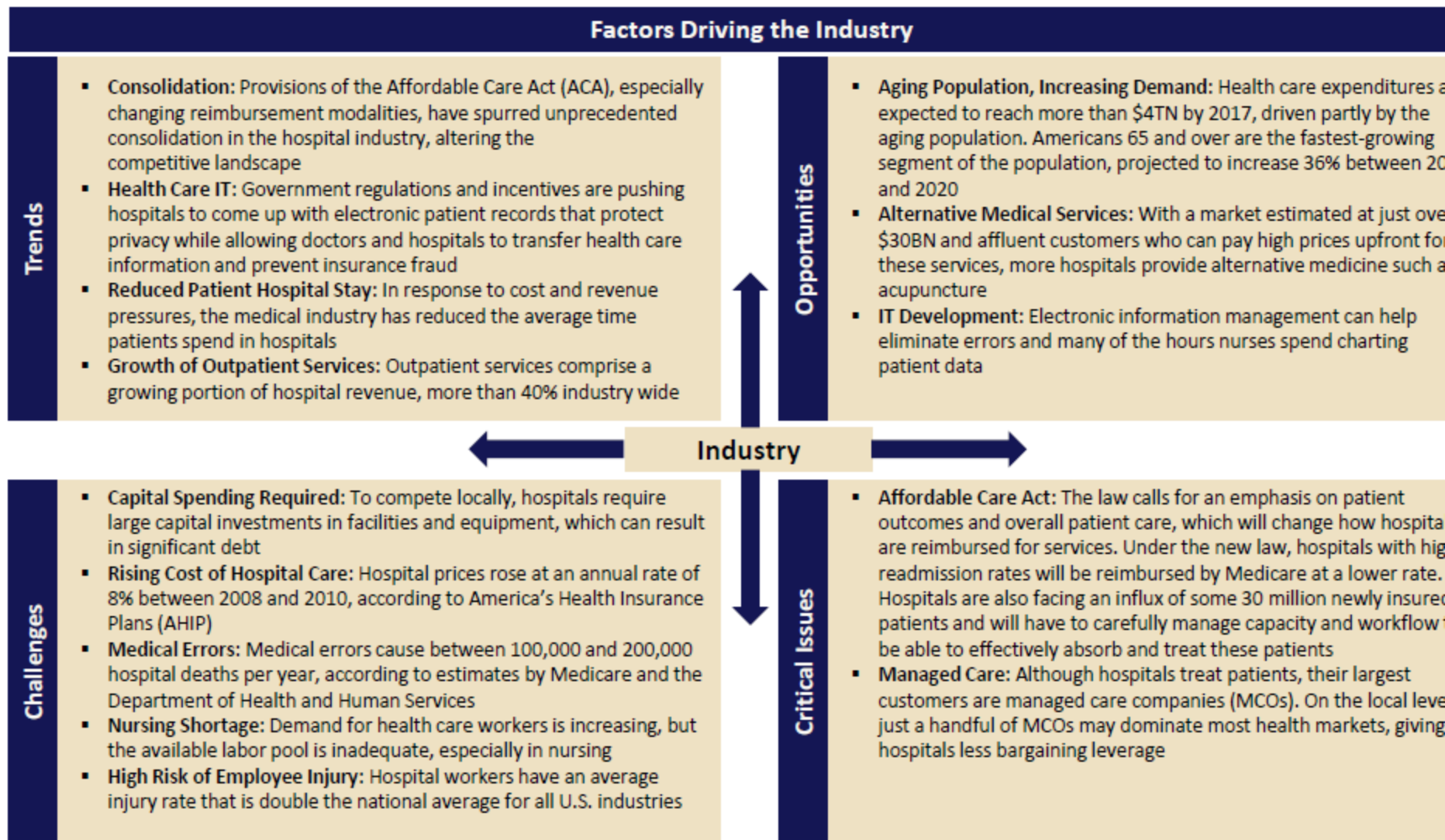
Number of Nongovernment Not-for-Profit Community Hospitals	Number of Investor-Owned (For-Profit) Community Hospitals	Number of State and Local Government Community Hospitals	Number of Federal Government Hospitals	Number of Nonfederal Psychiatric Hospitals	Number of Nonfederal Long Term Care Hospitals	Number of Hospital Units of Institutions (Prison Hospitals, College Infirmarys, Etc.)
2,903	1,025	1,045	208	421	112	10
Total Staffed Beds in All U.S. Registered ^(a) Hospitals	Staffed Beds in Community ^(b) Hospitals	Total Admissions in All U.S. Registered Hospitals	Admissions in Community Hospitals	Total Expenses for All U.S. Registered Hospitals	Number of Community Hospitals in a System ^(c)	
924,333	797,403	36,564,886	34,843,085	\$773,546,800,000	3,007	

Source: The American Hospital Association (AHA)

- (a) Registered hospitals are those hospitals that meet AHA's criteria for registration as a hospital facility. Registered hospitals include AHA member hospitals as well as nonmember hospitals.
- (b) Community hospitals are defined as all nonfederal, short-term general, and other special hospitals. Other special hospitals include obstetrics and gynecology; eye, ear, nose, and throat; rehabilitation; orthopedic; and other individually described specialty services. Community hospitals include academic medical centers or other teaching hospitals if they are nonfederal short-term hospitals. Excluded are hospitals not accessible by the general public, such as prison hospitals or college infirmaries.
- (c) System is defined by AHA as either a multihospital or a diversified single hospital system. A multihospital system is two or more hospitals owned, leased, sponsored, or contract managed by a central organization. Single, freestanding hospitals may be categorized as a system by bringing into membership three or more, and at least 25 percent, of their owned or leased non-hospital preacute or postacute health care organizations. System affiliation does not preclude network participation.

Situation Analysis

Hospitals in the U.S.



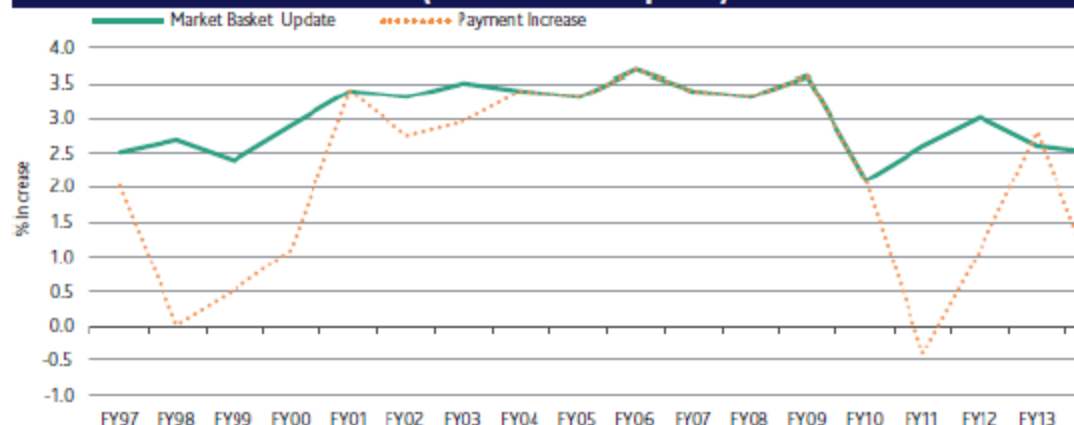
Situation Analysis

Hospitals in the U.S.

Not-For-Profit Hospitals' Profitability Strained as Medicare Rate Increase Does Not Cover Higher Costs

- The Centers for Medicare & Medicaid Services (CMS) announced that in 2014 the rate that Medicare reimburses hospitals for inpatient services increase by only 0.7%, or \$1.2BN over the prior year
 - Hospitals rely heavily on revenues from Medicare reimbursements to help cover the rising cost of providing services
 - The modest increase for fiscal 2014 is credit negative for not-for-profit hospitals because it is lower than the prior year increase of 2.8% or \$2.5BN and more importantly because the increase is materially below the pace that hospital costs are rising
- Medicare is the single largest payer for the overwhelming majority of not-for-profit hospitals
 - The 0.7% increase in Medicare reimbursement rates for 2014 is not enough to cover the approximately 2.5% increase in hospitals' costs expected by CMS
 - Indeed, Medicare reimbursement rate increases have for several years been below the rate of hospital expenditure growth as measured by the market basket update, which is CMS's measure of hospitals cost inflation
- In addition to the perennially low Medicare reimbursement increases, hospitals have increasingly grappled with multiple pressures on revenue growth. These additional pressures include
 - Federal budget sequestration cuts Medicare reimbursements by an additional 2% per year starting in 2013 until a federal budget deal is reached
 - Minimal rate increases from private insurance and Medicaid payers.
 - Payment penalties levied on hospitals by CMS to discourage high readmission rates and poor service quality
 - More stringent criteria from CMS and private insurers to qualify patients for inpatient admissions, creating a shift outpatient 'observation status' which has lower reimbursement rates

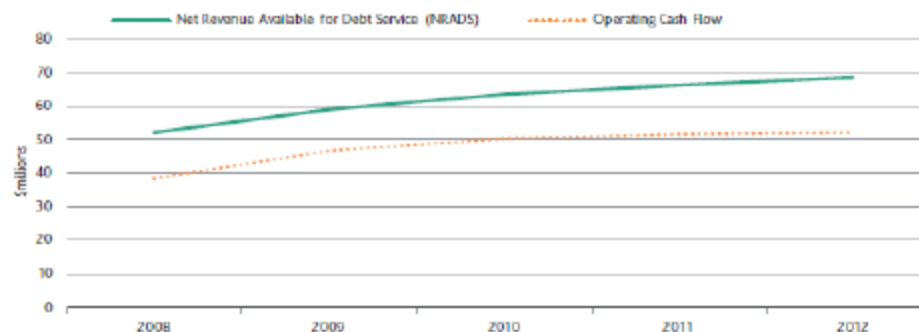
Medicare Reimburse Rate Increases Have Been At or Below Hospital Cost Inflation (Market Basket Update)



Situation Analysis

Hospitals in the U.S.

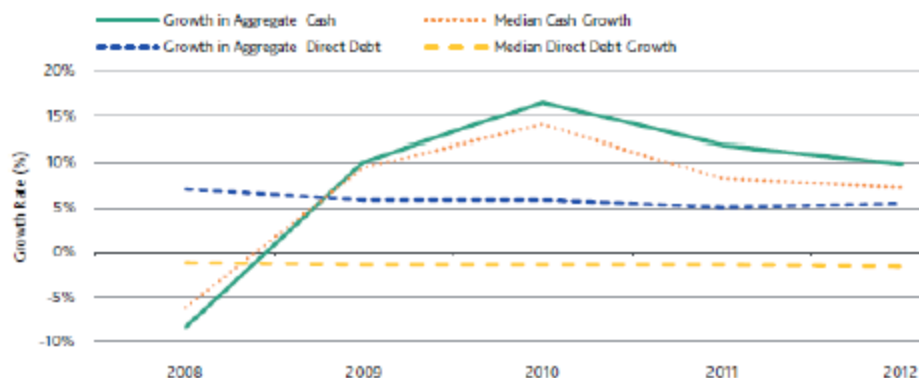
Median Operating Cash Flow and Net Revenue Available for Debt Service Remain Stable in FY 2012



Debt-to-Cash Flow is Stable in FY 2012



Aggregate & Median Growth Rates for Unrestricted Cash and Debt Show Mixed Trends



Median Days Cash on Hand Remains Stable as Operating Expenses Increase

