

The Financial Impact of the Covid-19 Pandemic on Children's Hospitals

A Data-Driven Perspective from January to December 2020

Introduction

It has been one year since the United States began a rolling shutdown of travel, schools, social establishments, and importantly, access to children's hospitals for any care that might be deferred to support the national surge response. What began as policies initiated by federal, state and local governments soon expanded to a social culture of anxiety, driving many families to avoid necessary routine and chronic health care for children over concerns of viral exposure. Pediatric providers, including children's hospitals and pediatricians, experienced immediate and precipitous declines in patient volumes. These declines have been greater than those incurred across the national hospital sector primarily serving adult patients.

Importantly, pediatric hospital volumes continue to decline into 2021, and are not projected to return to pre-pandemic levels until 2022. The effect of the pandemic on impact has resulted in dire financial challenges for many pediatric providers. Children's hospitals as a major anchor of the national safety net infrastructure for children are at risk.

Revenue sources are different between pediatric and adult-focused health care providers. Medicaid is the primary payer for children's hospitals covering more than 50% of patients treated in the pediatric health care system. Children's hospitals are the highest Medicaid provider hospitals in the country. As such, the more than 40 million children relying on Medicaid—many living with medical and social complexities resulting from socio-economic, environmental, and racial disparities—depend on children's hospitals for their care.

This report highlights the effects of the pandemic on pediatric hospitals by analyzing volume and financial data of the past year (January to December 2020). The data shows the reality of lagging recovery from the misperception that pediatric providers avoided material damages.

Data Sources and Approach

Data from a sample of 33 children's hospitals across the U.S. was collected and analyzed quarterly over the past year (January to December 2020), with January to December 2019 serving as the comparative baseline. The dataset is pediatric representation, similar to the subset cited in the [Kaufman Hall National Hospital Flash Report Summary: January 2021](#), which assessed the effects of the pandemic on all U.S. hospitals.

The children's hospital financial and volume data is self-reported, comparable to the information in the Kaufman Hall report. Subsequent standardization and analysis were completed by the analytics team at the Children's Hospital Association (CHA). CHA is the world's largest and one of the most trusted repositories of financial and operational data framed specifically to support improving the care of children in children's hospitals.

Highlights

1) Utilization of health care by children has declined significantly through the pandemic, resulting in large volume and revenue shortfalls for children’s hospitals and pediatricians.

Children have not suffered the same physical effects of COVID-19 as adults, and there was no comparable surge of acutely ill children. Coupled with the declines in accessing routine and chronic care, volumes and patient care revenues in children’s hospitals declined more than in hospitals focused on caring for adult patients. The analysis shows inpatient pediatric discharges decreased (17%), with greater decreases in visits to primary care, the emergency room and pediatric outpatient services. As a result, patient care revenues decreased (7%). By comparison, the Kaufman Hall report cites a lesser (4%) reduction in discharges and an increase in patient care revenues of 4% across all hospitals. The decline in revenues to children’s hospitals is estimated at negative \$5 billion for FY2020. Federal disaster relief in the form of the Provider Relief Fund (PRF) offset over \$3 billion of this loss, leaving a large negative impact on children’s hospitals.

Figure 1
Volume and financial impact of COVID-19 pandemic

Volume Indicator	All U.S. Hospitals	Children’s Hospitals
Inpatient discharges	(4%)	(17%)
Patient care revenues	4%	(7%)
Inpatient revenue	9%	(4%)
Outpatient revenue	0%	(11%)

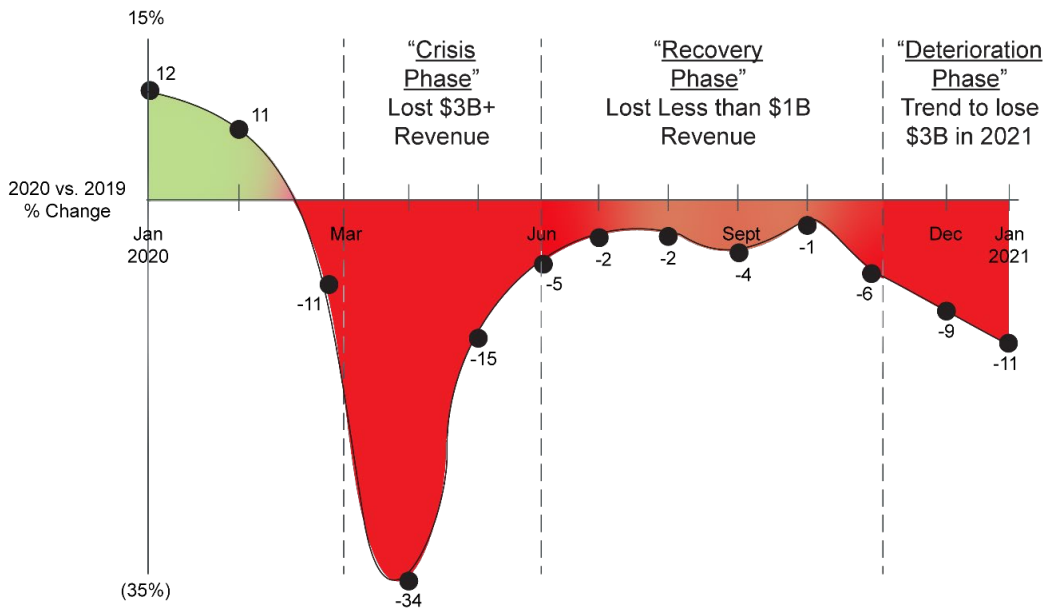
Sources: Children’s Hospital Association, Kaufman Hall; January to December 2020

2) Children’s hospitals’ patient care revenues have not recovered and continue to trend negatively.

After a tumultuous start to 2020, a backlog of demand helped volumes steadily recover in the summer and early autumn. However, the pediatric industry never recovered to pre-pandemic levels with shortfalls continuing and cumulative losses mounting steadily over what was expected to be a period of recovery. The stable trend was not sustained, and inpatient discharges dropped steeply from November 2020 to January 2021, with emergency room and outpatient care volumes remaining far below pre-pandemic levels.

Current 2021 forecasting suggests a monthly negative variance through the end of 2021. We expect revenue losses to exceed \$1 billion over the first quarter and slowly return to within a few negative points of pre-pandemic levels over the balance of the year. These projections result in the pediatric hospital sector absorbing upwards of another \$3 billion in 2021 revenue losses due to the pandemic, on top of the \$5 billion impact in 2020.

Figure 2
Children's hospital's patient revenues vs. prior year

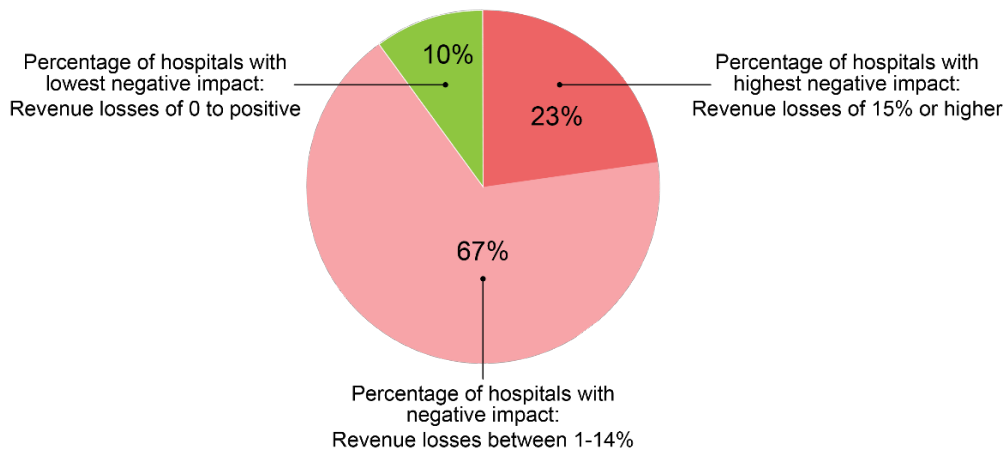


Source: Children's Hospital Association; January 2020 to January 2021

3) Ninety percent of children's hospitals experienced a negative financial impact in 2020 and have not recovered.

Revenue declines were 5% to 10% for most children's hospitals with a significant number of organizations experiencing more significant losses in the 15% to 20% range. These losses were sustained consistently across all national regions and major metro markets. While there is variation at the institutional level, very few children's hospitals have yet emerged from the worst of the pandemic's effects.

Figure 3
COVID-19 revenue impact on the children's hospital industry



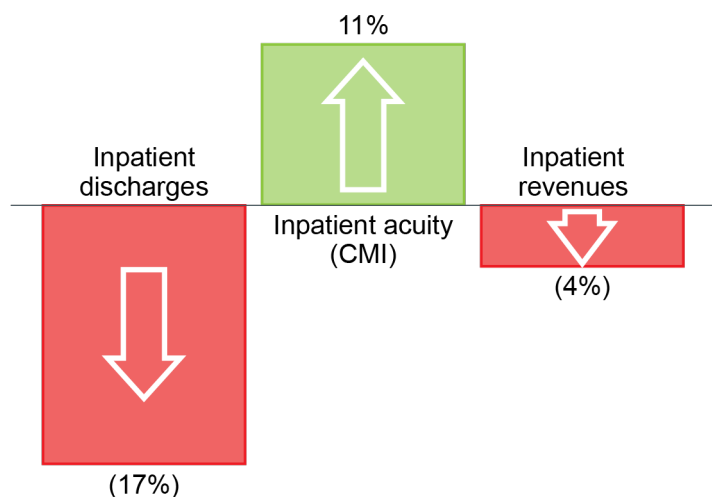
Source: Children's Hospital Association; January to December 2020

4) Children admitted to children’s hospitals in the last year have been sicker (higher acuity).

Children being admitted to children’s hospitals presented with more severe illness than prior years. The Case Mix Index (CMI), a measure of diversity, clinical complexity and the need for resources for all the pediatric admissions, increased by 11% from January to December 2020. From 2016 to 2019, the compounded annual growth rate of the CMI for the same hospitals was just 1%. These numbers suggest children, especially those with chronic and acute illness, have suffered from deferrals in care, resulting in sicker patients requiring more resources and with unknown long-term effects to their health.

The rising acuity of patients in children’s hospitals creates higher costs of care per child. These higher costs are evident in the data, with inpatient volume losses being higher than the matching revenue losses as costs per case increase.

Figure 4
COVID-19 impact on children’s hospitals: Inpatient changes



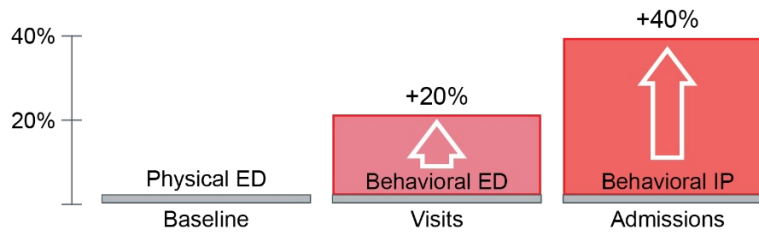
Source: Children’s Hospital Association; January to December 2020

5) Children’s hospitals have faced an exacerbation of untreated behavioral and mental health crises among children and youth.

As the safety net for children in the community, children’s hospitals’ emergency rooms are often the last resort for care of physical and mental health issues. With a lack of access to community-based resources and a pre-pandemic steady rise in behavioral health challenges, the pandemic turned what was a severe problem into a crisis in many communities.

Even as all pediatric volumes dropped in the pandemic, emergency room visits for suicide attempts, suicidal ideation and unmanaged neurodevelopmental disorders were 20 percentage points higher than emergency visit volumes involving physical health, with behavioral health inpatient discharges running an even more alarming 40 percentage points above the same baseline. Nationally, pediatric behavioral health capacity is constrained by a lack of age-appropriate infrastructure—caregivers, facilities and programs—as a result of chronic, insufficient funding.

Figure 5
COVID-19 impact on behavioral health volumes in children's hospitals



Source: Children's Hospital Association; March to December 2020

6) Children's hospitals have not had access to many critical sources of federal relief provided to all U.S. hospitals, despite incurring comparable or greater pandemic financial damages.

Since March of 2020, Congress has legislated and the administration has allocated hundreds of billions of federal relief to the provider industry. Children's hospitals, pediatricians and similar high-Medicaid providers were left out of relief provisions made available through the Medicare program and/or predicated on adult patient volumes.

Figure 6
Congressionally enacted provider relief funding

Major Provider Support	Hospitals Focused on Adults	Hospitals Focused on Children
Support via Medicare		
▶ Expansion of Part A accelerated payments	✓	✗
▶ Sequester moratorium extension	✓	✗
▶ Increase in hospital payment rates for COVID	✓	✗
Support via Provider Relief Funding		
▶ Phase 1 distribution	✓	✗
▶ Phase 2 distribution	✓	✓
▶ "Hot spot" hospitals	✓	✗
▶ Rural health care facilities	✓	✗
▶ Safety net hospitals	✓	✗
▶ Children's hospitals	✗	✓
▶ Phase 3 distribution	✓	✓

Source: Children's Hospital Association, HHS/HRSA; X=80% or greater exclusion of children's hospitals

Conclusion

The financial impact of the pandemic on pediatric providers—children’s hospitals and pediatricians—has been under-appreciated given differences of the COVID-19 caseload in hospitals focused on care for adults versus those that care for children. Decreases in patient volumes and associated patient care revenues during the COVID-19 surge and recovery periods were not offset by higher volumes in COVID-19 patients. Available federal relief was often established on Medicare and/or COVID-19 related volumes, making children’s hospitals and other high-Medicaid providers ineligible for desperately needed relief.

Additionally, unlike patient volumes and revenues in hospitals focused on caring for adults which have experienced recovery above prior year revenue levels, patient volumes and revenues in children’s hospitals continue to decline more than a year after the pandemic began. The net result for pediatric providers is greater patient-volume and revenue losses and less access to federal relief initiatives than other U.S. hospitals. More federal support from Congress and the administration in 2021 is vital. This will help mitigate the continued pandemic damages to children’s hospitals and support a rebuilding of the financial capacity and role these specialized hospitals serve in the national safety net for all children.

About Children’s Hospital Association

Children’s Hospital Association (CHA) is the national voice for more than 200 children’s hospitals. CHA advances child health through innovation in the quality, cost and delivery of care with children’s hospitals.

For more information regarding this report, contact [Gillian Ray](#) at 202-753-5327.

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