NEW YORK STATE AFL-CIO

NEW YORK STATE NURSES ASSOCIATION

COMMUNICATIONS WORKERS OF AMERICA, DISTRICT 1

COMMITTEE OF INTERNS AND RESIDENTS / SEIU HEALTHCARE

PUBLIC EMPLOYEES FEDERATION

WORKING FAMILIES PARTY

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NEW YORK STATEWIDE SENIOR ACTION COUNCIL

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NEW YORK COMMUNITIES FOR CHANGE

COALITION FOR ECONOMIC JUSTICE

METRO NEW YORK HEALTHCARE FOR ALL

the NEW YORK CAMPAIGN for PATIENT SAFETY

Protecting NY Patients

ECONOMIC ANALYSIS OF THE SAFE STAFFING FOR QUALITY CARE ACT

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Assembly Member Gunther

S782
Senator Hannon

1. **Claimed Cost of Compliance**

   According to written position statements issued by the GNYHA and HANYS, the cost of hiring nurses to comply with the proposed staffing ratios legislation is $2 billion. Based on an assumed average cost per nurse of $100,000 (including salary **and** benefits), this means that in the aggregate NY hospitals claim that they will have to hire approximately 20,000 nurses to comply with the proposed law.[i]

   It should be noted that the hospitals have failed to provide any concrete information regarding their current staffing or support for the contention that they will have to hire 20,000 nurses. We believe, based on a review of limited staffing data in our possession, that the hospitals are greatly exaggerating the price tag of the ratios bill. The $2 billion price is an arbitrary assertion that is unsupported by any concrete data.

2. **The Relative Cost of Compliance is Minor**

   According to data obtained from the American Hospital Directory, the aggregate revenue of NY state hospitals (excluding the VA system) is $160.59 billion.[ii] The $2 billion cost of complying with ratios alleged by the hospitals thus amounts to less than 1.25% of total revenues, a very small relative share of total hospital revenue and of total costs.

3. **Compliance Can Be Attained Without Additional Expenditures**

   According to a review of IRS form 990 data from a sampling of hospitals, managerial expenses range from 18% to 27% of total hospital expenses.

   Based on our analysis of hospital IRS 990 returns, managerial and other non-patient care functions include such expenditures as “key employee” salaries and benefits (i.e., salaries and benefits for executives and high level managers), advertising, occupancy and office expenses, travel expenses,

dues paid to industry associations, lobbying costs, legal fees, and other similar non-patient care costs.

We also note that in addition to expenses categorized on the IRS 990 returns as purely "managerial," NY hospitals increasingly utilize multiple layers of management and supervisory personnel at all levels of operation, including at the patient care unit and department levels. Many hospitals categorize these excess levels of middle management as "program expenses" (i.e., as patient care) and thus further mask the true degree to which resources are diverted to non-patient care activity. These managers do not provide direct patient care and siphon resources away from direct patient care.

It must also be noted that executive level salaries are often inordinate and excessive. Of the approximately 200 hospitals in NY State, the top 412 executives alone receive compensation of $339 million.[iii]

If we assume that the average hospital expenditure on managerial and other functions unrelated to direct patient care is 20% of revenues (probably a low estimate), then the aggregate spending on non-patient care operations is about $32.12 billion per year. The $2 billion that the hospitals claim it will cost to comply with minimum staffing ratios is thus only 6.25% of the $32.12 billion that is currently spent on managerial and other non-patient care functions.

The hospitals could easily meet the costs of compliance without incurring any additional costs by: 1) reducing executive salaries, 2) eliminating excess layers of management throughout hospital operations, 3) reducing or eliminating advertising and other wasteful spending, and 4) streamlining other non-patient care functions.

The claimed $2 billion cost of compliance could thus be absorbed merely by shifting 6.25% or 1/16th of current managerial and overhead spending (i.e., reducing managerial/overhead costs from the current 20% or more of budget to around 15%). Compliance thus would not cost the hospitals a dime. It would merely require CEOs to figure out how to spend a little bit more of their existing budgets on direct patient care.

4. The Hospitals' Cost Analysis Does Not Account for Other Cost Factors

In coming up with their $2 billion price tag, the hospitals have only accounted for the direct cost of hiring more nurses. They have not considered the dynamic cost effects of increased RN staffing, which include the following:

- Reduced length of stay and fewer incidences of unreimbursed excess stays;
- Fewer reimbursement reductions resulting from hospital-acquired complications;
- Fewer unreimbursed 30 day re-admissions;
- Improved morale and productivity of RNs and other patient care staff;
- Reduced RN turnover, resulting in lower costs of recruitment and training, and higher productivity;
- Reduced reimbursement penalties for failure to meet quality standards;
- Lower incidence of workplace injuries and illness among staff that is often attributable to short staffing, stress on the job and heavy patient loads;
- Fewer assaults on nurses and other staff by patients and family members, caused by long wait times or frustration with the lack of staff to meet patient needs in a timely fashion, resulting in lower workers compensation and legal liability costs;
- Lower costs of defending against malpractice lawsuits by patients or their survivors; and

- Increased patient satisfaction scores and other metrics that result in bonus payments.

Though we have not been able to fully quantify the cost savings that will flow from increased staffing, and understand that some of the savings will not be immediately gained, it is clear that the offsetting benefits of staffing ratios are substantial and will greatly reduce the direct costs of compliance.

For, example, about 86% of NYS hospitals evaluated in 2014 faced Medicare penalties for high re-admission rates. In California, by way of contrast, where nurse to patient ratios are already law, only 33% of hospitals had a readmission penalty imposed, and the average penalty amount was half of the NYS average.

It should also be noted that in California, the passage of staffing ratios legislation corresponded to a dramatic increase in hospital net income. Median hospital operating margins increased from 0.1% in 2001 (before the 2003 implementation of staffing ratios) to 3.1% in 2010. The percentage of hospitals with negative operating margins dropped from 50% in 2001 to 34% in 2010.[iv]

[i] See: HANYS and GNYHA memoranda in opposition to the bill.
[ii] See: American Hospital Directory, https://www.ahd.com/states/hospital_NY.html
[iii] See: Paying for What Doesn't Count, How Exorbitant Executive Compensation and Frivolous Advertising Hurts New York Hospital Patients, Memorandum, Communication Workers of America District One.
[iv] See: California Hospitals: Buildings, Beds, and Business, California Health Care Foundation, January 2013
http://www.chcf.org/~/media/MEDIA%20LIBRARY%20Files/PDF/PDF%20C/PDF%20CaliforniaHospitals2013.pdf