

THOUGHT LEADERSHIP SERIES
December 2008

**Health Care IT Spending and
Economic Realities**

A survey of hospital and health system chief financial officers, vice presidents of finance and chief information officers.



OVERVIEW

Hospitals and health systems are taking measured but deliberate action to cope with the nation's financial crisis, including delaying capital projects, cutting capital and operating budgets, and laying off workers. While health information technology budgets are not escaping cutbacks, a survey of 144 chief information officers and 27 chief financial officers and vice-presidents of finance at hospitals of all sizes across the country makes it clear that health IT remains a strategic imperative for hospitals. Many providers see health IT as critical to achieving greater operating efficiencies in addition to other organizational goals such as improved patient safety. As a result, electronic medical records (EMRs), electronic health records (EHRs,) computerized provider order entry (CPOE), and electronic medication management remain high-priority projects for about half or more of all respondents.

“Cost cutting is important, but we can’t ignore the potential of IT to have a profound positive financial impact on the organization in these trying times. This is precisely the time when creative leadership in IT can be most effective” CTO, Midwest, multi-state health system.

METHODOLOGY

To gauge the impact of the volatile economic climate on hospitals and health systems, the College of Healthcare Information Management Executives (CHIME), The National Alliance for Health Information Technology (NAHIT) and AHA Solutions, Inc. conducted an online survey from November 12 through November 21 with CIOs, CFOs and financial executives. The group received responses to 10 questions (see appendix) from 144 CIOs and 27 CFOs/finance VPs. Respondents represent a cross-section of hospitals and health systems of all sizes, locations and teaching status.

Key findings:

- Over half of the CFOs/VPs Finance (55%) report experiencing slight or significant delays in accessing capital and expect the financial crisis to last another 12 to 24 months.
- For now, CFOs/VPs Finance are dealing with budgetary pressures by delaying or lengthening timeframes for completing new facilities or facility upgrades, (74%), deferring IT equipment purchases (57%) and delaying or lengthening timeframes for implementing health IT initiatives (52%).
- CIOs are responding by implementing longer timeframes for application projects (63%) and reducing spending on outsourced IT services (34%).
- One-third (33%) of CFOs/VPs Finance plan to or have cut budgets while one in four (26%) plan or have laid off staff or instituted a hiring freeze.
- Almost all respondents (94%) have cut IT budgets by extending implementation time of existing projects and delaying or reducing the slate of new projects.

Convinced of the importance of health IT in keeping their organizations competitive, the respondents are taking a longer view on health IT projects and are looking for creative ways to push ahead with select system implementations.

“We are maintaining the same pace for our current IT projects in order to meet the organization’s pay for performance objectives. Otherwise, we will have a larger economic crisis.” CIO, Mid-Atlantic, 132-bed hospital

“We are knee deep in an EMR roll-out across many hospitals and practices. We had committed capital and are spending it but it has impacted the rest of the health system’s ability to spend capital.” CIO, South-Atlantic, not-for-profit healthcare system

TIGHTER ACCESS TO CAPITAL IS FORCING PROJECT DELAYS.









CFOs/VPs Finance are feeling the effects of tightening credit from the nation's financial institutions. More than half (52%) report slight or significant delays in accessing capital and expect the financial crisis to last another one to two years.

For now, three out of four (74%) CFOs/VPs Finance are dealing with budgetary pressures first and foremost by delaying or lengthening development of new facilities, facility renovations and health IT initiatives. A third (33%) also are cutting budgets, and one in four (26%) are planning or implementing staff layoffs or have instituted hiring freezes.





Even the minority of CFOs/VPs Finance reporting an increase in their IT capital budgets (11%) are finding ways to reduce costs by more aggressively negotiating with payers or providing increased oversight on charity/uncompensated care.

Big-budget, organization-wide clinical IT initiatives are coming under fire at a large number of organizations, with as many as 52% of CFOs/VPs Finance reporting that their organizations are delaying or cutting EMR rollouts and 43% pushing back or reducing CPOE implementations. However, an equal or larger number plan to move full-speed ahead with these strategic clinical IT application projects.

CFOs/VPs Finance: Response to Financial Crisis

	Response Percent	
Across the board cuts		0%
Reductions in specific departments' budgets		33%
Delaying facility/facility upgrade investments or lengthening timeframes for completion		74%
Delaying equipment purchases		56%
Delaying health IT initiatives or lengthening timeframes for completion		52%
Selective layoffs due to utilization reductions		23%
Increases in charges		19%
More aggressive negotiations with payers		30%
More oversight on charity/uncompensated care		26%





CFO/VPs Finance: Impact on 2009 Projects

	Response Percent	
Capital projects will be delayed or dropped		39%
Investigating other approaches to funding capital expenses		15%
Making other budget adjustments to keep capital projects on track		4%
Tapping into foundation, endowment and other funds to meet capital expenses		8%
No organizational strategy has been outlined.		35%

DECREASES IN 2009 IT CAPITAL SPENDING WILL AFFECT HOSPITAL IT VENDORS

In terms of capital spending, IT seems to fare a bit worse than overall capital budget spending. More than half (52%) of CIOs reported that their organization's capital budget will remain the same in 2009 while 36% said it would decrease. Just 2% expected their organizations' capital budgets to rise.





CIOs: 2009 Organization Overall Capital Budgets

Response Percent		
Increase		2%
Decrease		36%
Stay the same		52%
Don't know		10%





Nearly half (49%) of CIOs and 44% of CFOs/VPs Finance report that their organizations' IT capital budgets will be lower in 2009. Another 36% of CIOs and 33% of CFOs/VPs Finance said they expect IT capital spending will remain the same.

Both CFOs/VPs Finance and CIOs expecting capital IT budget cuts said reductions will impact applications, software and outsourced IT services such as consultants. Some also pointed to cuts in spending on servers, networking and storage.







CIOs: 2009 IT Department Capital Budgets

Response Percent		
Increase		5%
Decrease		49%
Stay the same		36%
Don't know		10%

CFOs/VPs Finance: 2009 IT Capital Budgets

Response Percent		
Increase		11%
Decrease		44%
Stay the same		33%
Don't know		11%

CIOs: Decrease in IT Capital Budget, Areas with the Biggest Cuts

Response Percent		
Servers		21%
Storage		11%
Applications/software		63%
IT services (Outsourced e.g. consultants)		34%
Networking		12%
Across the board cuts		6%

Other areas noted that will see cuts include: Telco, desktops, infrastructure investment and not going forward with a new data center.

2009 OPERATING BUDGETS TARGET OUTSOURCED SERVICES FOR CUTBACKS

Most hospital operating budgets and their IT operating budgets are holding their own in 2009, report CFOs/VPs Finance and CIOs.

- Two-thirds (67%) of CFOs/VPs Finance say their organization's operating budgets will increase or stay the same vs. 26% of CFOs/VPs Finance reporting a decrease.
- More than half (54%) of CIOs report that their organization's operating budgets will increase or stay the same vs. 39% of CIOs reporting a decrease.

"We still expect to execute to our strategic financial plan. We will probably require some redistribution of budgeted expenses." CIO, Northeast, 300-bed, private, non-profit hospital

Many IT operating budgets are in even better shape than their organization's. Two-thirds of CIOs (65%) say the annual budgets for running their departments will increase or stay the same in 2009 compared with 31% who say their budgets will decrease. Of the CIOs who are cutting their 2009 operating budgets, six out of 10 (59%) plan to reduce IT services, 30% will cut staff, and 27% will decrease new applications and other software.

CFOs/VPs Finance whose organizations are decreasing IT operating budgets expect applications, software and outsourced IT services to see the biggest cuts, followed by staff layoffs.

Importantly, CFOs/VPs Finance and CIOs are moving forward with projects already underway, but about two-thirds (64%) are delaying or reducing new projects.







"Although my IT budget is up by 5%, the number of major projects is up by 33%. The consequence is that we are being more stringent about approval of additional projects and enhancements" CIO, Northeast, nonprofit, 180-bed community hospital

IT STAFF CUTS ARE EXPECTED






Outsourced IT services are the most common area targeted for cuts, according to

CFOs/VPs Finance and CIOs and many also are looking at staffing reductions and decreased training and professional development to manage the operating budget constraints.







CIOs: IT Operating Budget, Areas with the Biggest Cuts

	Response Percent	
IT staff		30%
IT services (Outsourced e.g. consultants)		59%
Hardware		8%
Networking		3%
Applications/software		27%
Across the board		2%

CFOs/VPs Finance: IT Operating Budget, Areas with the Biggest Cuts

	Response Percent	
IT Staff		25%
IT services		50%
Hardware		38%
Networking		13%
Applications/software		63%

CFOs/VPs Finance & CIOs: Response to IT Operating Budget Cuts

	Response Percent	
Extend implementation time of existing projects		30%
Delay or reduce slate of new projects		64%
Reduce staff/implement hiring freeze		26%
Reduce support for training and professional development		26%
Across the board		13%
Re-negotiate service contracts		4%

HEALTH IT INITIATIVES ARE STRATEGIC IMPERATIVES BUT DELAYS IN FUNDING SUPPORT IS ANTICIPATED

Major clinical IT initiatives show the biggest dichotomy among respondents. Half (50%) of CFOs/VPs Finance and 52% of CIOs report reductions or delays in funding for EMRs. Slightly fewer - 43% of CIOs and 36% of CFOs/VPs Finance - expect cuts or delays in funding for CPOE systems. Many of their counterparts, however, are moving ahead with these types of efforts.

“We are intensifying IT/EMR implementation to drive efficiencies and overall lower operating costs.”

CIO, Southwest, 650-bed, nonprofit health system

“The demand for IT services is expanding as other units are required to become more cost-effective.” CIO, Southeast, 400-bed academic medical center

CFOs/VPs Finance: Clinical Initiatives with Planned Reduction or Delay in Funding Support

	Response Percent	
EHR/EMR		50%
CPOE		36%
Medication Management		14. %
Other (please explain)		21 %

CIOs: Clinical Initiatives with Planned Reduction or Delay in Funding Support

	Response Percent	
EHR/EMR		52%
CPOE		43%
Medication Management		32%

IMPLICATIONS

Going into 2009 and possibly some or all of 2010 will be challenging years for hospitals. Before economic turmoil hit, hospitals had shown important progress in health IT adoption, and for now, many of these initiatives are funded and moving forward. But a prolonged or deeper economic slowdown will inevitably be met by further reductions in IT capital and operating budgets, so even those health IT initiatives that have a demonstrated return on investment could become difficult to fund.

Health IT is no longer a “nice to have.”. It is a strategic priority for hospitals to deliver safer, higher quality and more cost-effective care, thus enabling hospitals to stay competitive. Some hospitals executives surveyed see this as *the* time to invest in IT initiatives that will deliver direct and quantifiable savings to their organizations. As a CFO from a Southeast, non-profit hospital said, “...hard times are time to invest in the future.”

APPENDIX

Survey Questions

Each survey asked the following questions:

- Is your organization taking financial steps to address the current economic downturn?
- Will your 2009 organization capital budget increase/decrease or stay the same?
- Will your 2009 IT capital budget increase/decrease or stay the same?
- Which areas of your IT capital budget will see the biggest cuts?
- Will your 2009 organizational operating budget increase/decrease or stay the same?
- Will your 2009 IT operating budget increase/decrease or stay the same?
- Which areas of your IT operating budget will see the biggest cuts?
- How do you anticipate responding to these IT budget cuts?

In addition, the CFOs/VPs Finance were asked specific finance-related questions.

- Describe the extent to which your organization is having trouble accessing capital in recent months for projects or other organizational needs.
- How is your organization responding to the financial crisis?
- What impact will restricted access to capital have on 2009 projects?