FACTS ABOUT THE UNIVERSITY OF CALIFORNIA

UC Office of the President

September 1, 2009,

UC Medical Center Income

UC's World-Class Health System

UC's health system is the fourth largest in California, and has long been recognized for its outstanding medical care, excellent training programs, and cutting edge research and innovation. Year after year, our medical centers rank among the best in the nation for the quality of care we give our patients. As teaching hospitals with close ties to affiliated UC schools of medicine, our medical centers offer patients unparalleled access to the researchers and clinicians at the forefront of medical science. The medical centers play an important role in the delivery of emergency services. Four of the five medical centers operate as Level 1 trauma centers, offering the highest-level specialty care 24 hours a day. Our medical centers are also a crucial part of California's safety net for medically vulnerable populations, serving high numbers of uninsured, underinsured, Medicare and Medi-Cal patients. Despite the state's economic troubles, UC remains committed to maintaining the highest quality clinical and educational programs, and serving a diverse and growing patient population. Our commitment can only be met through continued investment in talent, infrastructure, technology and competitive employment at all levels of the health system.

KEY FACTS

Medical centers are self-supporting enterprises that operate in extremely competitive health care markets

- UC medical centers receive virtually no state money. Continuous reinvestment into facilities, new technology and personnel is essential to ensuring the medical centers remain competitive.
- The quality of care and medical research that UC is renowned for is due directly to the caliber of its personnel. Given today's extremely competitive healthcare industry, UC medical centers must offer market-rate compensation packages in order to attract and retain top-flight nurses, doctors and other healthcare professionals.
- Unlike many competitors, UC medical centers help support affiliated schools of medicine. When those costs are factored in, the operating margin for the medical centers is even smaller -- roughly 4 percent, on par with California's nonprofit hospitals.

Increases in operating income result from strategic efforts to prepare for growing fiscal challenges.

- UC medical centers have done a tremendous job streamlining operations and reducing costs, resulting in positive net income for all five UC medical centers.
- Positive net income must be safeguarded and used strategically as it could soon be overwhelmed by new demands, including pension fund payments; growing contributions to affiliated schools of medicine; and reduced reimbursement rates for Medi-Cal, Medi-Care and uninsured patients.
- Additionally, healthcare reform and the weak economy create great uncertainty about the financial outlook, underscoring he need to protect net revenues.

Claims of "record profits" ignore the fiscal realities

- UC has been forced to implement fiscal austerity measures to address a sharp drop in state support. Employees across the system – with the exception of the medical centers – face furloughs and salary reductions of 4-10 percent.
- Medical centers cannot take on new financial obligations at a time of economic uncertainty.

Paying for Excellence

The medical centers are self-supporting enterprises that operate in extremely competitive health care markets. If they fail to operate efficiently and generate enough revenue to cover their strategic needs, they will not survive in the competitive health care marketplace.

Unlike other parts of UC, the medical centers receive almost no state money. As public entities, all net income is reinvested back into operations. Last year, the five medical centers had combined revenues of $5.21 billion, an increase over the previous year of 11.5 percent. While the results are now being finalized, we expect the medical centers' net income – the amount left after operational expenses are met – to be approximately $400 million, a margin of 7.8 percent. Of this total, $200 million has already been transferred to the schools of medicine to meet their budget needs. After adjusting the medical center's net income for the transfers to the medical schools, we expect the medical center's net income to be approximately $200 million, a margin of approximately 4 percent. That puts the medical centers on par with the majority of California nonprofit hospitals, including Kaiser Permanente and Sutter Health.

UC medical centers use net income to pay for the continuous reinvestment necessary to remain competitive and to maintain and improve facilities and equipment. Over the next five years, the medical centers will need over $4.5 billion to meet their programmatic and strategic needs, including implementation of electronic medical records. Medical center margins are also used for seismic safety compliance and investment in high-end, costly equipment that is critical for complex clinical procedures. They allow us to offer the competitive compensation necessary to attract and retain the nurses, doctors and other healthcare professionals who make our medical centers such renowned institutions. Together, these investments give our communities access to unique clinical services that are often unavailable elsewhere, including trauma care, burn and cancer centers, high-risk obstetrics programs, neonatal intensive care units, cardiac care, and organ transplant programs.

Income is also needed to support our schools of medicine, which along with the university as a whole have seen a steady decline in state funding in recent years. Since 2002, state financial support for the medical schools has fallen from 14 percent of the schools' total budget to about 10 percent. Our medical centers have stepped into the breach, providing the operational funds necessary for our medical schools to continue to be among the very best in the nation. As a practical matter, medical center support to maintaining world-class medical schools is a key component of the university's success in the health services and sciences area.

Rising Revenues In a Time of Uncertainty

The medical centers have seen a rise in net income stemming from aggressive management efforts to optimize revenue and reduce costs aimed at ensuring long-term financial stability in the face of growing fiscal challenges. These enhanced revenues stem from specific factors that the medical centers may not be able to rely on in the future:

- Savings accrued through attrition, streamlined pharmacy operations, supply chain reductions and other structural efficiencies.

- A temporary influx of $60 million in federal stimulus funds.

Some groups have seen the growth in income and assume that the medical centers are experiencing an unexpected windfall. In fact, the medical centers are coping with significant challenges, all of which have implications for the short and long-term fiscal outlook. Growth in net income reflects a deliberate strategy to protect our institutions and our people amidst change and financial uncertainty:

- UC medical centers must begin paying into employee pension funds in April 2010. These costs, which would total $300 million annually based on a 10 percent employer contribution, have the potential to overwhelm medical centers' total net income. These expenses will need to be paid entirely by the medical centers. Maintaining the health of the pension fund is a commitment we have made to our employees and is a top UC priority. It is also part of our overall strategy for offering competitive compensation to our doctors, nurses and other health care professionals.

- Sixty percent of hospital stays are Medicare, Medi-Cal or uninsured patients, but state and federal payments do not cover the full cost of their care. The medical centers' strong financial performance has allowed us to absorb those losses, but pressure is growing for governments to reduce Medi-Cal and Medicare payments even further.

- The weak economy, and resulting loss of employer-based health coverage, means fewer insured patients coming in our doors. Since the recession began, 500,000 Californians have lost medical coverage.

- Health care reform may result in lower reimbursements from private insurers, new fees on hospitals and the re-engineering of health care delivery, particularly inpatient services as the market focuses more on prevention, chronic disease management and outpatient services.

- State contributions to our schools of medicine continue to decline, and were cut by 20 percent in the most recent budget.

- The medical centers were able to spare employees from the UC furlough program and the 4-10 percent salary reduction facing most other UC employees. Medical centers must now find an equivalent level of savings elsewhere. In fact, the only employees to receive a pay cut under the furlough program are senior managers, who beginning Sept. 1 will see their pay reduced by 10 percent.

Claims of 'Record Profits' Ignore Fiscal Realities

As UC struggles with budget cuts, some groups have suggested it cover the deficit with the "record profits" coming into the medical centers. As outlined above, the medical centers are legally obligated to reinvest income into operations. And without those investments into expanded facilities, new technologies and top-flight health professionals, the medical centers will lose their competitive edge. That's not in the interests of UC, nor is it in the interest of the patients and communities we serve.

We are in a period of great financial uncertainty right now. Rising pension costs, and a possible sea change ahead in both private and government revenue sources could quickly overtake the gains made through carefully streamlining operational costs.

In addition, the university as a whole is in the midst of a financial crisis, the result of declining state support. Employees in all our labor unions – with the lone exception of those who work for the medical centers – have been asked to accept furloughs and salary reductions. As noted above, medical center senior managers are also taking pay cuts of 10 percent.

In this period of fiscal austerity – when most members of the university community have accepted the shared sacrifice of furloughs, and California faces another bleak budget year – the medical centers have a fiscal responsibility to protect their operations and their employees by limiting any new financial obligations. And they have an obligation to other members of the UC community to share in the sacrifices being made elsewhere.