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Is Healthcare Recession-Proof?

Is healthcare recession-proof? Or perhaps the more accurate question to ask is: "*is healthcare pandemic-proof?*" Paradoxically, the COVID-19 public health crisis has wreaked havoc on the U.S. healthcare industry. The *U.S. Bureau of Labor Statistics* (BLS) forecasted that healthcare occupations would grow at a much faster rate between 2018 and 2028 than the average for all other occupations (14%), with the healthcare sector expected to add approximately 1.9 million new jobs.[1] However, as of the end of the first quarter of 2020, healthcare has lost 1.4 million jobs, and real personal consumption for healthcare services has plummeted by 4.97% from the fourth quarter of 2019.[2] Correspondingly, the *American Hospital Association* (AHA) estimates that between March 1 and June 30, 2020, hospitals and health systems stand to lose a combined $202.6 billion in revenue as a consequence of the COVID-19 pandemic.[3] COVID-19 has been the direct cause of the impending economic recession that has upended not only the U.S. economy generally, but also, the once-thought recession-proof healthcare industry.[4] Such an atypical situation warrants a review of how this economic fallout in the healthcare industry has deviated from prior recessions, and the degree to which COVID-19 is disrupting the finances of the healthcare sector.

With more than 1.5 million COVID-19 cases as of May 2020;[5] no clear end to the pandemic in sight; and, a possible resurgence of the virus in the fall and winter, it may be assumed that such a public health emergency would be a boon for the healthcare industry. However, that assumption could not be further from the truth. COVID-19 has impacted the U.S. healthcare industry in ways that were near impossible to forecast. This virus is not only novel in a sense that it is (still) an enigma, but also in the way that it has caused mass economic destruction in healthcare, which strongly deviates from decades past. Historically, healthcare has been generally resistant to economic recessions.[6] In fact, some economists and healthcare analysts view the healthcare industry as recession-proof, because it has acted as a buffer against the normal cyclical business cycle.[7] For example, during the 2007-2009 Great Recession, the healthcare sector actually added jobs (more than 850,000 between 2007 and 2010),[8] while the broader U.S. economy lost almost 8 million jobs.[9]

However, healthcare has never been completely recession-proof, i.e., unconditionally shielded from economic contractions.[10] The belief that healthcare is recession-proof is derived from the notion that even in economic recessions, people will still get sick and need to utilize healthcare services.[11] Generally, healthcare reacts differently to economic downturns than other industries. Precedent shows when the labor force begins to post significant job losses, individuals begin to change their healthcare consumption habits as they lose their employer-sponsored health insurance.[12] In other words, healthcare consumers (i.e., patients) choose to delay elective procedures until the future of the broader economy looks more promising.[13] This consumer behavior leads the healthcare sector to experience economic downturns on a delay, and experience a recovery after the broader economy does.[14] During such times, physicians and hospitals bear the most risk, because they are the most vulnerable to immediate consumer spending changes.[15] Moreover, McKinsey & Company estimates for both for-profit and nonprofit providers during a typical economic recession, they are likely to incur a 30% drop in *earnings before interest, taxation, depreciation, and amortization* (EBITDA).[16] Payors and *pharmacy benefit managers* (PBM) are slightly less at risk, with a 5% to 20%, and 5% to 15%, EBITDA drop, respectively.[17] Although providers, payors, and PBMs do feel a financial drag during recessions, the healthcare industry does not usually experience financial stress as acutely as the broader U.S. economy.[18]

In past recessions, healthcare has been less volatile than other cyclical sectors.[19] Healthcare's insulation is primarily the result of most Americans having health insurance.[20] Payors will continue to inject capital into the healthcare economy, whereas in other cyclical sectors of the economy, spending dries up significantly.[21] In fact, the biggest users of the insurance system are older Americans, who tend to be sicker (i.e., utilize a disproportionate amount of healthcare services) and receive comprehensive insurance coverage through Medicare.[22] This spending by government payors, as well as by commercial insurers, has been the main driver of new jobs in healthcare during economic downturns, and why healthcare is viewed by some economists as leading economic recoveries, because the durable jobs created subsequently helped strengthen local economies.[23]

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While a comprehensive study as to the ultimate quantified financial impact of the COVID-19 pandemic on providers has, understandably, not yet been completed, early evidence reveals a grim situation. Job loss in the healthcare sector has been staggering thus far, and behind all of the pay-cuts, furloughs, and layoffs is the extraordinary revenue loss.[24] Hospitals and health systems are facing catastrophic financial challenges in light of the COVID-19 pandemic,[25] with multiple health systems reporting revenue losses of more than 50%.[26] After accounting for the net financial impact of COVID-19 on hospital costs, total revenue losses stemming from the cancellation of non-emergency (i.e., elective) procedures; the reduced volume of emergency room visits and hospital admissions; additional costs associated with the purchase of needed *personal protective equipment* (PPE); and, the costs of additional compensation that some hospitals are providing to their front line workers, the AHA estimates that, on average, hospitals are losing a combined $50.7 billion per month in revenue.[27] Additionally, with the cancelation of elective procedures, emergency room visits, admissions, and surgeries are all down substantially. Consequently, the healthcare professionals that are not caring for COVID-19 patients are effectively out of demand, which is unique to previous economic recessionary periods.[28]

The COVID-19 pandemic has also exposed the precarious method by which hospitals seek to maintain profitability. Healthcare tends to be a low-margin industry that includes high fixed costs to providers. If revenues abruptly stop, that may be (quickly) disastrous for functional operations. For hospitals, treating patients for a deadly illness is far less profitable than conducting elective surgeries.[29] Elective cases are the primary source of revenue for many hospitals, which allows them to take a loss on certain other services while remaining profitable.[30]

A similar revenue shock has taken place in many physician practices.[31] Some primary care practices are reporting reductions in the use of healthcare services of up to 70%,[32] which, similar to hospitals, has led to clinical staff pay-cuts, furloughs, and layoffs.[33] Many physicians have chosen to close their offices to reduce the risk spreading the disease.[34] The others that have remained open are seeing a drastic reduction in demand as older patients are afraid to visit for fear of being exposed to COVID-19, and other treatments are deferred due to economic uncertainty. But this time, unlike during the Great Recession, another barrier to healthcare access exists, which is specifically affecting commercially insured beneficiaries – rising healthcare out-of-pocket costs, particularly with respect to insurance policy deductibles.[35] Currently, 25% of private insurance beneficiaries have an insurance deductible of $2,000 or more, which is four times more individuals than a decade ago.[36] Consequently, even more so than during the Great Recession, patients that may still be willing to go to a physician's office for a visit or procedure may choose not to for financial reasons.

As with the sudden drop in demand for services, high costs (factoring in the healthcare business model discussed above and the greatly-increased need for additional PPE and ventilators)[37] and very little revenue coming in for providers, COVID-19 has greatly distorted the economics of healthcare.[38] The unprecedented nature of this virus has inflicted devastating financial injury on the healthcare industry, which may lead to economic recession. The indeterminate length of the pandemic further confirms that the COVID-19 pandemic, and the resulting economic crisis, is unlike anything the U.S. economy has experienced in modern times, and the ultimate financial impact on the healthcare industry remains to be seen.

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