



**2025 Annual Public Hearing of the Office of Affordable Health Care  
Northern Light Health Comment  
September 29, 2024**

Northern Light Health appreciates the opportunity to provide comment regarding the status of health affordability care in Maine. Our comments focus on the ongoing statewide challenges hospitals experience as we continue our work to stabilize our finances. The Office of Affordable Health Care is solely focused on the commercially insured cost of care and the impact that cost has on individuals and families in Maine. We agree that health care represents a cost burden to consumers and providers of care. And we feel strongly that the public should understand the significant challenges hospitals are experiencing that ultimately impacts the cost they experience.

Northern Light Health member hospitals provide care to one out of every four Mainer's discharged statewide. Every day we focus on our mission to improve the health of the people and communities we serve. As I noted in comments provided last year, we are challenged. Fiscal year 2024 was the third year of challenging financial performance for Northern Light Health. The 2024 operating loss totaled \$156 million, creating tremendous fiscal pressure on our organization and the services we provide. Revenues for our services largely come from governmental payments (Medicare and Medicaid) that chronically reimburse us less than the cost of care. Sixty- six percent of our revenue comes from governmental payers. In 2024 our government underpayment reached an historic level – the payment gap reached nearly \$300 million dollars. This is the core financial challenge driving our negative financial performance.

Since the beginning of our fiscal year last October, we have worked diligently to align our cost structure with revenues received for the care we provide. Initial adjustments focused on reducing administrative costs, as time went on, we made very difficult decisions regarding service reductions, including the closure of Northern Light Inland Hospital. We simply cannot sustain the financial losses. Our work continues and difficult decisions will continue to be made as returning to positive financial performance is a multiyear effort. We also do this work at a time of unprecedented risk as Congress passed into law cuts to Medicaid and federal health care programs that will impact us all.

It is important that the public also understand that challenges impacting the health care infrastructure in Maine are far broader than our health system. Hospitals throughout the State are challenged every day with nursing facility

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Maine Coast Hospital  
Mayo Hospital  
Mercy Hospital  
Northern Light Health Foundation  
Northern Light Pharmacy  
Sebasticook Valley Hospital

patients in acute care beds or behavioral health youth in our emergency departments for extended lengths of stay in need of discharge to community-based services. Nursing home and behavioral health providers are highly dependent on MaineCare payments and funding challenges for community-based services simply exacerbates access barriers for patients clinically qualified to be discharged from the hospital. Our caregivers are exemplary in their dedication to all our patients but patients, but families and our services suffer negative impact when system failures result in patients waiting for weeks and months trying to access the right level of care to meet their needs. The hospital providers in the state provide the safety net for the failures in other parts of the continuum, this is not good for patients or for the sustainability of hospital economics. Despite consistent comment on these challenges, we are disappointed that the Office of Affordable Health Care has not focused on extended hospitalization stay and the role this has in increasing the cost of hospital care.

In April of this year the American Hospital Association published “ The Cost of Caring: Challenges Facing America’s Hospitals in 2025”. The report outlines key trends impacting hospital financial stability – and the cost of care – in 2025. The report notes that hospital expenses have surged and remain elevated due to:

- Labor Costs Dominating Hospital Expenses
- Medicare and Medicaid Reimbursements Not Keeping Up with The Cost of Caring
- Hospital Expenses Growing Faster Than Inflation
- The Impact of Chronic Disease Burden Costs Are Driven by Increased Utilization
- Medicare Advantage is Increasing the Cost to Provide Care
- Tariffs on Medical Imports Could Significantly Raise Costs for Hospitals

These challenges impact the consumer cost of care, we believe the public should understand the drivers of health care costs impacting commercially insured payments for coverage and services. I have attached a copy of the AHA report to my testimony.

Thank you.

# The Cost of Caring: Challenges Facing America's Hospitals in 2025

## Introduction

America's hospitals and health systems are the cornerstone of the nation's health care system, providing life-saving care to millions of patients each year. However, hospitals face a perfect storm of financial pressures: persistent cost growth, inadequate reimbursement, and shifting care patterns driven by both policy changes and an older, sicker population with more complex, chronic conditions. Hospitals are struggling to maintain access to essential services amid workforce shortages, supply chain disruptions, tariffs and policy decisions that often fail to reflect on-the-ground realities.

This report outlines the key trends impacting hospital financial stability in 2025.

## Hospital Expenses Have Surged and Remain Elevated

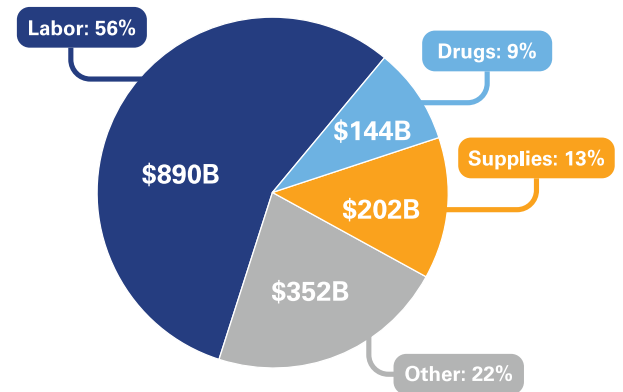
### Labor Costs Dominate Hospital Expenses

Hospitals are among the few sectors that consistently employ a highly educated, highly paid workforce — anchoring local economies with middle- and high-skill jobs that cannot be outsourced or automated. Consequently — and despite growth in drug spending and other fast-rising non-labor costs — labor remains the single largest category of hospital spending. Total compensation and related expenses now account for 56% of total hospital costs (see Figure 1). Amid ongoing workforce shortages, hospitals offer competitive wages to retain and recruit staff. According to AHA analysis of Lightcast data, advertised salaries for registered nurses have grown 26.6% faster than the rate of inflation over the past four years. These increases are essential to maintain staffing levels but also contribute to the overall financial challenges hospitals face.

### Medicare and Medicaid Reimbursements Are Not Keeping Up With the Cost of Caring

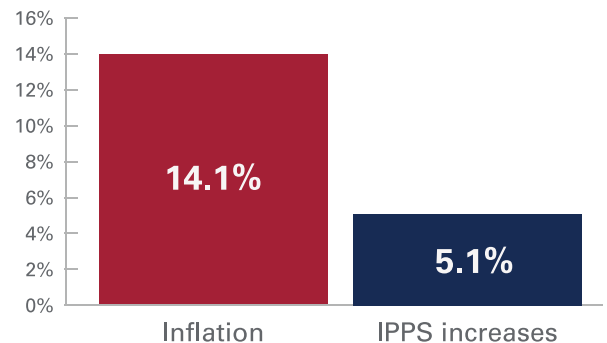
Despite escalating expenses, Medicare reimbursement continues to lag behind inflation — covering just 83 cents for every dollar spent by hospitals in 2023, resulting in over \$100 billion in underpayments, according to AHA analysis of AHA Annual Survey data. From 2022 to 2024, general inflation rose by 14.1%, while Medicare net inpatient payment rates increased by only 5.1% — amounting to an effective payment cut over the past three years (see Figure 2).

**Figure 1.** Labor spend still dominated hospital expenses in 2024



**Note:** Average expenses estimated by industry benchmark data from Strata Decision Technology, LLC. Labor is inclusive of purchased services and professional fees.

**Figure 2.** Inflation Overshadows IPPS Net Payment Increases, FY 2022 to 2024



**Note:** Net IPPS payment increase from FY2022-2024 market basket updates. Inflation measured using CPI-U from BLS using data between October of 2021 and October of 2024.

The AHA estimates that this erosion in payment value due to inflation resulted in \$8.4 billion in lost hospital revenue during that period, further straining hospitals’ ability to care for Medicare beneficiaries, who make up a large share of most hospitals’ patients. In total, hospitals absorbed \$130 billion in underpayments from Medicare and Medicaid in 2023 alone. These shortfalls are worsening — growing on average 14% annually between 2019 and 2023.

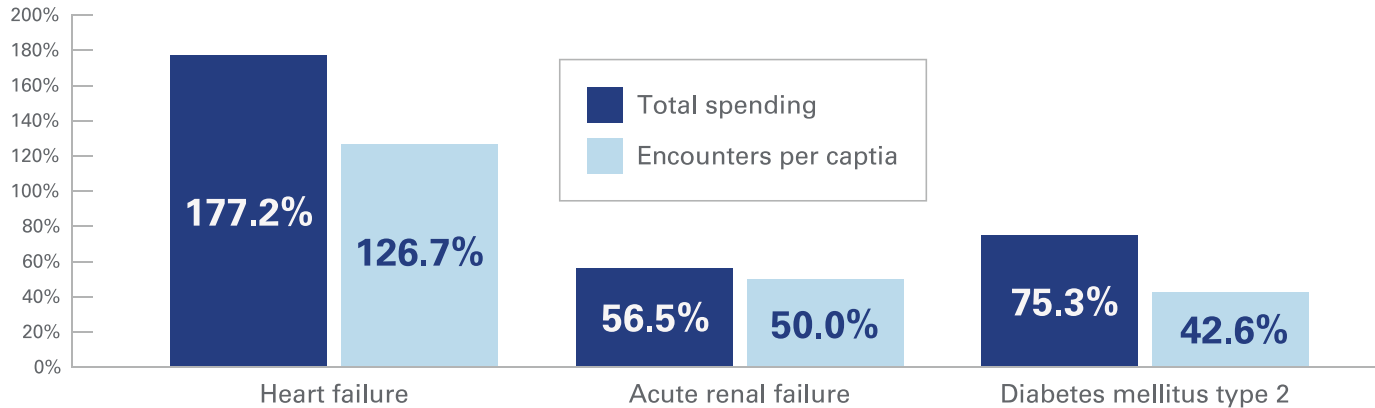
**Hospital Expenses are Growing Faster Than Inflation**

Specifically, in 2024 alone, total hospital expense grew 5.1%, significantly outpacing the overall inflation rate of 2.9%. Though expense growth has started to slow in 2025, it remains elevated — particularly in areas driven by labor and supply chain pressures. Persistent expense growth threatens hospitals’ solvency and their ability to sustain comprehensive services in the communities they serve. A telling indicator of this strain is the average age of plant — a measure of the age of hospital infrastructure — which has risen by more than 10% over the last two years, according to industry benchmark data from Strata Decision Technology, LLC. This trend suggests that hospitals are increasingly unable to reinvest in critical physical assets, such as medical equipment, operating rooms and facility upgrades. Delayed capital improvements not only jeopardize care quality but also hinder hospitals’ ability to keep pace with evolving health care standards and technology.

**Impact of Chronic Disease Burden Costs Driven by Increased Utilization**

Rising hospital costs are increasingly driven by higher utilization and acuity, especially among patients with chronic conditions. According to the Centers for Medicare & Medicaid Services (CMS), recent growth in spending on hospitals reflects increased service intensity and use.<sup>1</sup> For example, emergency department (ED) visits related to heart failure increased 126.7% per capita between 2010 and 2019 (see Figure 3), with associated spending growing 177.2%. Similar patterns are observed for type 2 diabetes and acute renal failure — some of the costliest conditions in terms of patient health and resource use. These trends underscore the demand-side pressures fueling cost growth.

**Figure 3.** Hospital ED Cost Growth for Privately Insured Patients Driven by Increased Utilization



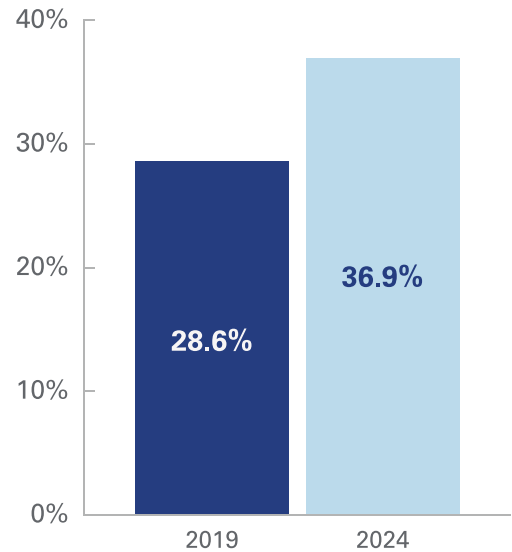
**Note:** AHA analysis of the data from the Institute of Health Metrics and Evaluation (IHME). United States Health Care spending by Health Condition and County (2010-2019)

# The Growing Impact of Medicare Advantage on Hospital Finances

## Observation Stays Are Increasing in Duration

Medicare Advantage (MA) plans have long relied on extended observation stays to avoid admitting patients as inpatients — a strategy that helps plans reduce costs but shifts financial burden onto hospitals. Recent data show that this practice is worsening. In 2019, MA patients had observation stays 28.6% longer than those in Traditional Medicare; by 2024, the gap widened to 36.9% (see Figure 4). These prolonged observation stays drive up hospital costs without a corresponding increase in reimbursement, further straining hospital finances. Compared to inpatient admissions, observation stays are reimbursed at lower rates — or in some cases, not at all — leaving hospitals to absorb much of the cost. In 2024, MA plans reimbursed just 49% of the actual cost for patients held in observation status, according to industry benchmark data from Strata Decision Technology, LLC.

**Figure 4. MA Drives Longer Observation Stays**  
Percent Longer MA Observation Stay Compared to Traditional Medicare



**Note:** Data from industry benchmark data from Strata Decision Technology, LLC.

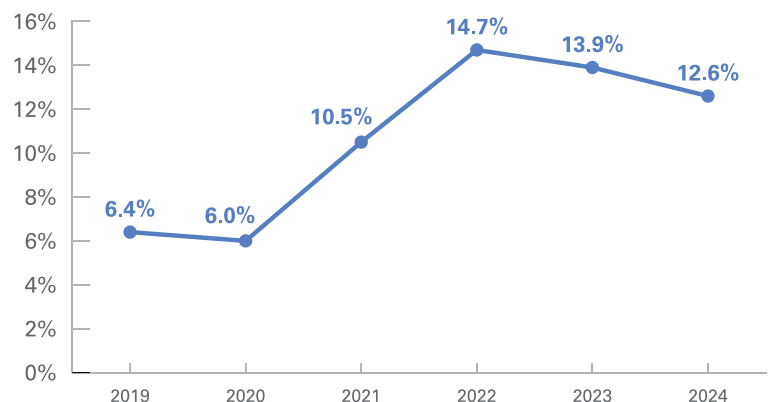
## Longer Stays, Lower Payments

The inpatient setting reveals a similar pattern: longer stays for MA patients but with lower reimbursement. From 2019 to 2024, the average length of stay for MA patients grew substantially compared to Traditional Medicare — more than doubling the gap over this period, according to industry benchmark data from Strata Decision Technology, LLC. Yet during the same timeframe, hospital reimbursement from MA plans fell by 8.8% on a cost basis. In other words, hospitals are being asked to do more with less.

## Discharge Delays Are Compounding the Problem

Delays in discharging patients to post-acute care facilities are a growing contributor to longer inpatient stays. These delays are often driven by prior authorization requirements or insufficient post-acute provider networks within MA plans. Among MA patients, the average length of stay prior to discharge to post-acute care has doubled relative to Traditional Medicare between 2019 and 2024 (see Figure 5). These delays lead to higher costs, increased hospital crowding — including in the emergency department — and longer lengths of stay. In some cases, plans may use these delays

**Figure 5. MA Delays Discharges to Post-Acute Care**  
Percent Longer MA Stay Compared to Traditional Medicare



**Note:** Data from industry benchmark data from Strata Decision Technology, LLC.

to steer patients toward lower-cost care settings — or avoid post-acute care altogether — while the hospital continues to absorb the cost of care. A Senate Permanent Subcommittee report recently found that some MA plans disproportionately imposed prior authorization and claim denials on post-acute care, exacerbating delays and shifting costs to hospitals.<sup>2</sup> Post-acute care providers also have faced lagging reimbursement rates from Medicare, which has exacerbated staffing challenges and made it difficult to accommodate discharge requests from acute-care hospitals.

**Lower Reimbursement and Increasing Administrative Burden**

Hospitals are increasingly reporting lower negotiated MA rates than Traditional Medicare for many common inpatient services (see Figure 6). These discrepancies continue to create significant financial challenges for hospitals, especially for those in rural areas that have seen relatively fast growth in the volume of MA beneficiaries in recent years.<sup>3</sup>

MA Negotiated Rates as Percentage of Traditional Medicare Rates, Selected DRGs		
MS-DRG	Description	% of FFS rates
190	Chronic Obstructive Pulmonary Disease	96.5%
280	Acute Myocardial Infarction	96.2%
470	Major Joint Replacement or Reattachment of Lower Extremity	97.6%

**Note:** AHA analysis of hospital price transparency data from Turquoise Health. Figures calculated by dividing hospital-level median MA rates by hospital-specific baseline FFS rates. Outliers excluded (5th and 95th percentiles).

At the same time, administrative complexity continues to increase. MA plans issued nearly 50 million prior authorizations in 2023 — up more than 40% since 2020, according to KFF.<sup>4</sup> A Premier study found that hospitals spent \$26 billion in 2023 managing insurance claims — a 23% increase over the previous year.<sup>5</sup>

Notably, 70% of denied claims were eventually paid, but only after multiple costly reviews. These burdens not only strain hospitals financially but also delay care and divert clinical staff from patient care. A Morning Consult survey commissioned by the AHA found that 85% of clinicians report that prior authorization and other requirements delay necessary care.

**Impact of Tariffs on Hospital Costs**

Hospitals and health systems rely on the right medicines, devices and other supplies used at the right time to support the delivery of safe and effective care. The supply chain for these essential medical goods is complex, weaving together both domestic and international sourcing, and is prone to significant disruption. For example, as of March 2025, there were 270 active drug shortages in the U.S., including shortages of life-saving intravenous (IV) fluids stemming from Hurricane Helene in 2024.<sup>6</sup> Recent changes in U.S. trade policy are creating additional uncertainty, with the Administration implementing new tariffs that affect medical devices and supplies, and considering new tariffs on pharmaceuticals. Tariffs on these critical goods could exacerbate shortages, disrupt patient care and raise costs for hospitals.

Despite efforts to bolster the domestic supply chain, a significant proportion of essential medical goods come from international sources. For example, nearly 70% of medical devices marketed in the U.S. are manufactured exclusively overseas.<sup>7</sup> In 2024 alone, the U.S. imported over \$75 billion in medical devices and supplies, according to AHA analysis of Census Bureau data. These imports include many low-margin, high-use essentials in hospital settings — such as syringes, needles, blood pressure cuffs, and IV saline bags. Hospitals rely on imports for advanced surgical tools and other critical technologies as well.

Moreover, hospitals rely on international sources for a significant proportion of the protective equipment for their caregivers. In 2023, Chinese manufacturers supplied the majority of N95 and other respirators used in health care. Additionally, China was the source for one-third of disposable face masks, two-thirds of non-disposable face masks, and 94% of the plastic gloves used in health care settings.<sup>8</sup>

Many pharmaceuticals — and especially the key starter ingredients that go into them — also are sourced from overseas. The U.S. gets nearly 30% of its active pharmaceutical ingredients (APIs) from China.<sup>9</sup> According to a 2023 Department of Health and Human Services estimate, over 90% of generic sterile injectable drugs — such as certain chemotherapy treatments and antibiotics — depend on key starter materials from either India or China.<sup>10</sup> Even temporary disruptions in access to medication and supplies can impact care and increase the risk of patient harm.

Tariffs on medical imports could significantly raise costs for hospitals. A recent survey found that 82% of health care experts expect tariff-related expenses to raise hospital costs by at least 15% over the next six months, and 94% of health care administrators expected to delay equipment upgrades to manage financial strain.<sup>11</sup> Tariffs also may force hospitals to seek new vendors — often at higher cost or with lower reliability. In fact, 90% of supply chain professionals are expecting procurement disruptions.<sup>12</sup>

## **Conclusion: Supporting Hospitals Means Supporting Patients**

Hospitals are not only centers of care but also vital economic engines in their communities. Rising costs, inadequate reimbursement, and policy-driven inefficiencies jeopardize the ability of hospitals to deliver high-quality, timely care. To ensure that hospitals can continue to serve patients and communities, policymakers should:

- ▶ **Recognize that rising expenses reflect real pressures**, such as labor shortages and increasing demand — not inefficiency.
- ▶ **Acknowledge Medicare and MA payment policies must be updated to reflect the actual cost of care.**
- ▶ **Address structural drivers of cost**, such as care delays and excessive administrative burdens, instead of simply cutting payments.

As we look to the future, preserving access to hospital care should be a national priority. Supporting hospitals means supporting patients, communities and the entire health care system.

## End Notes:

- 1 [healthaffairs.org/doi/10.1377/hlthaff.2024.01375](https://healthaffairs.org/doi/10.1377/hlthaff.2024.01375)
- 2 [hsgac.senate.gov/wp-content/uploads/2024.10.17-PSI-Majority-Staff-Report-on-Medicare-Advantage.pdf](https://hsgac.senate.gov/wp-content/uploads/2024.10.17-PSI-Majority-Staff-Report-on-Medicare-Advantage.pdf)
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- 4 [kff.org/medicare/issue-brief/nearly-50-million-prior-authorization-requests-were-sent-to-medicare-advantage-insurers-in-2023/](https://kff.org/medicare/issue-brief/nearly-50-million-prior-authorization-requests-were-sent-to-medicare-advantage-insurers-in-2023/)
- 5 [premierinc.com/newsroom/blog/claims-adjudication-costs-providers-25-7-billion](https://premierinc.com/newsroom/blog/claims-adjudication-costs-providers-25-7-billion)
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- 8 AdvaMed presentation, 2023.
- 9 [atlanticcouncil.org/blogs/econographics/the-us-is-relying-more-on-china-for-pharmaceuticals-and-vice-versa/](https://atlanticcouncil.org/blogs/econographics/the-us-is-relying-more-on-china-for-pharmaceuticals-and-vice-versa/)
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- 11 [beckershospitalreview.com/supply-chain/hospital-finance-supply-leaders-predict-15-increase-in-tariff-related-costs/](https://beckershospitalreview.com/supply-chain/hospital-finance-supply-leaders-predict-15-increase-in-tariff-related-costs/)
- 12 [beckershospitalreview.com/supply-chain/hospital-finance-supply-leaders-predict-15-increase-in-tariff-related-costs/](https://beckershospitalreview.com/supply-chain/hospital-finance-supply-leaders-predict-15-increase-in-tariff-related-costs/)