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Fitch: Pandemic Heightens ESG Labor Issues for NFP Hospitals

Fitch Ratings-New York/Austin-19 January 2021: Healthcare staff have faced unprecedented pressures during the coronavirus pandemic, with job dissatisfaction and nursing shortages potentially leading to longer-term staffing and expense pressures at US hospitals, Fitch Ratings says. Hospitals and healthcare systems' ability to maintain adequate staffing and provide for employee safety and well-being during the pandemic has become more critical than ever. Fitch believes the importance of these labor issues to a hospital's Environmental, Social and Governance (ESG) Relevance Score and credit has been heightened over the past year, indicating the potential for these considerations to have a greater bearing on a hospital's rating over time.

The coronavirus pandemic has implications for healthcare employee well-being, which may be affected by cost cutting, insufficient supply of personal protective equipment (PPE) at the onset of the health crisis, greater work stress and demands and environment safety. Employees in patient-facing roles are enduring difficult conditions, leading to burnout, labor strikes, demand for higher wages and loss of staff. Fitch believes these issues could negatively affect labor relations and present longer-term challenges in attracting, hiring and retaining staff at hospitals.

The pandemic has exacerbated the widespread need for nurses, particularly those working in intensive care units, resulting in staff shortages and higher costs, which is expected to continue in the near term against a backdrop of lower revenues due to reduced elective surgery volumes. Staffing is a hospital's largest expense, usually around 50% of total expenses. US hospitals have needed to ramp up staffing and supplies during the pandemic, and are competing for a limited supply of nurses, including more expensive contract nursing staff. These pressures are heightened for smaller rural hospitals that must staff up for increased caseloads, as rural areas typically do not have a significant supply of nurses from which to draw. Rural hospitals are challenged to compete for nursing staff and pay for overtime, traveling nurses and premium pay.

The longer it takes to effectively manage the pandemic, the more difficult it will become to maintain high staffing levels if there are recurring surges of infections, especially if the surges occur across multiple areas of the nation simultaneously. Under this scenario, fatigue will inevitably escalate among existing staff who could decide to retire early or leave the workforce due to fears of contracting the virus, or if they feel their health, well-being and safety have not been prioritized or are at risk.

The widespread availability of effective vaccines should accelerate the foreseeable end of the pandemic and mitigate staffing risk for hospitals, especially given that healthcare workers have been prioritized to be among the first recipients of vaccine doses. High inoculation rates will eventually reduce caseloads and ease pressures on staff. However, hospitals will have to face the longer-term challenge of attracting talent to an industry that already faces a labor shortfall and consider investing in programs that positively impact employees and reduce turnover to mitigate expense increases and improve clinical outcomes.

President-elect Joseph Biden's American Rescue Plan proposes to aid the healthcare industry's coronavirus response by providing \$30 billion for supplies and PPE and investing \$10 billion in domestic manufacturing of medical supplies. The plan also recommends a Covid-19 workplace protection standard that would cover a wide range of workers, including hospital staff, from unsafe working conditions and retaliation. Fitch views the healthcare priorities in the proposed plan as positive steps to help alleviate pandemic-related workplace environment challenges.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.