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Children's hospitals outperform adult hospitals but face growing financial and operational pressures

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The Buzz This Week

Moody's and Fitch credit rating agencies released median hospital financial reports for 2024 in mid-August, including ratings for children's hospitals. While children's hospitals continued to outperform adult hospitals and showed sustained revenue growth, profitability was the lowest it has been in 5 years. This is due to rising expenses, workforce shortages, and reimbursement pressures.

Increased patient volumes and high-acuity services drove a median operating revenue growth rate of 10.1%, compared to 9.3% for adult hospitals. Pediatric hospitals also saw continued strong philanthropic support, allowing for ongoing investment in facilities and research.

Yet even with robust revenue performance, pediatric hospitals have not returned to pre-pandemic operating margin levels. While expense growth has decreased from a peak of 12.8% in 2022, it remained significantly above historical averages at 9.0%.

Like adult hospitals, children's hospitals continue to see higher labor costs and rising costs for drugs and other key supplies. Unlike adult hospitals, pediatric providers have less ability to pass on increased costs due to high Medicaid enrollment. On average, Medicaid accounts for more than half of the gross revenue for children's hospitals, compared to 15% for adult hospitals.

Why It Matters

Children's hospitals historically have outperformed adult hospitals financially, and FY2024 was no different. However, significant uncertainty and headwinds are ahead for pediatric providers.

The One Big Beautiful Bill Act (OBBBA) cuts nearly \$1 trillion from Medicaid, so high dependency on Medicaid funding could pose significant risk to children's hospitals' financials. The exact implications of OBBBA are murkier than for adult hospitals, though.

While work requirements will not directly impact children's enrollment in Medicaid and Children's Health Insurance Program (CHIP), changes to administrative enrollment requirements (like frequent verification of income and personal details) could cause some families truly eligible for Medicaid to lose coverage.

The legislation also changes Medicaid funding mechanisms, specifically through state-directed payment and provider tax caps. This will significantly reduce the overall pool for Medicaid, inevitably impacting children's providers.

Currently, most children's hospitals lose money on caring for Medicaid patients and rely on supplemental payments from these funding mechanisms as a stopgap. On average, Medicaid reimburses 80% of the cost of caring for Medicaid patients, even with supplemental payments. Without those additional payments, or with an increase in uncompensated care, some children's hospitals may have to cut vital wraparound services for all families. Some may even close.

Children's hospitals will also feel the impacts of other policies. Most children's hospitals are part of an academic health system and rely on research dollars to develop new pediatric treatments, train specialists, improve hospital capabilities, and advance long-term outcomes. Proposed reductions to the National Institutes of Health (NIH) budget and research funding could impact important revenue streams.

All of these policy changes come at a time when pediatric staffing shortages are at a critical level. Pediatric wait times continue to increase, and the combination of decreasing numbers of specialists with financial pressures resulting in pediatric closures and reductions in services will only make waits worse.

Children's hospitals should prepare for financial headwinds now. Pediatric providers should proactively evaluate expanding and scaling certain services to meet rising demand and serve broader populations while continuing to leverage philanthropy to stabilize and grow revenues. Proactive cost management—including redesigning care delivery models, and evaluating and appropriately using advanced analytics and AI—to improve operational efficiency will be critical in mitigating expense growth.

Addressing workforce shortages will also be vital. Tactics may include implementing targeted recruitment strategies, investing in staff retention and well-being, and developing training pipelines for specialized pediatric roles.

Hospitals may also explore collaborative care models, partnerships with community organizations, and flexible delivery methods (such as telehealth) to extend their reach and improve access. Together, these strategies can strengthen resilience, improve patient outcomes, and position children's hospitals to thrive in a rapidly evolving healthcare environment.

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