Hospital Financial Trends

The median fiscal and operational performance of U.S. hospitals over the past year remained relatively flat, despite expectations to the contrary. The data spans a four-year period from 2009Q4 to 2013Q4. Overall, hospitals saw flat or no growth in utilization, but major teaching hospitals saw steady utilization growth. Among the other trends:

- Outpatient charges are increasing as a percentage of total charges
- Hospitals have been able to control margins by managing costs
- Hospital margins have recovered since 2011 and have regained historic levels
- 25% of all hospitals had negative margins
- Hospitals control labor and supply expenses better than other operating expenses
- All components of supply expense have been well-controlled
- Average age of the plant continues to increase

HOSPITAL UTILIZATION, FOUR-YEAR ANNUALIZED RATE OF CHANGE

From the last quarter of 2009 to the last quarter of 2013, hospitals, generally, have experienced flat or declining utilization of key services. The exception is among major teaching hospitals, which have had the strongest performance in key utilization areas. This trend is seen in acute hospital discharges, or declining utilization of key services. The exception is among major teaching hospitals, which have a low of 30.7% in Connecticut and a high of 47.8% in Washington, D.C.

1. Connecticut 30.7%
2. Florida 30.8%
3. New Jersey 31.0%
4. California 33.3%
5. Oregon 33.6%
6. Tennessee 33.7%
7. Alabama 33.7%
8. Nevada 34.0%
9. Minnesota 35.0%
10. Georgia 35.1%
11. North Carolina 35.4%
12. New York 35.4%
13. Washington 35.5%
14. Colorado 35.9%
15. Arkansas 36.0%
16. Texas 36.1%
17. Hawaii 36.2%
18. Utah 36.4%
19. Arizona 36.4%
20. Virginia 36.6%
21. Delaware 36.7%
22. Rhode Island 36.8%
23. Maryland 36.9%
24. Pennsylvania 37.0%
25. New Mexico 37.1%
26. Louisiana 37.3%
27. Kansas 37.3%
28. Idaho 37.4%
29. Wisconsin 37.7%
30. Massachusetts 37.9%
31. New Hampshire 38.0%
32. Maine 38.4%
33. Oklahoma 38.8%
34. Indiana 39.0%
35. Iowa 39.2%
36. Kentucky 39.5%
37. Illinois 39.9%
38. West Virginia 40.1%
39. South Carolina 40.4%
40. Ohio 40.7%
40. Michigan 40.7%
41. North Dakota 41.1%
42. Wyoming 41.4%
43. Mississippi 41.7%
45. Nebraska 41.9%
46. Alaska 42.5%
47. Montana 42.8%
48. Vermont 44.6%
48. South Dakota 44.6%
50. Missouri 45.1%
51. District of Columbia 47.8%

NOTE: Healthcare expenditures measure spending for all privately and publicly funded personal healthcare services and products (hospital care, physician services, nursing home care, prescription drugs, etc.) by state of residents. Hospital spending is included and reflects the total net revenue (gross charges less contractual adjustments, bad debts, and charity care). Costs such as insurance premium administration, research, and construction expenses are not included in this total.


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ABOUT THE DATA: The data reflect the median performance of U.S. hospitals for calendar years 2009–2013. The hospital comparison groups are created using methodologies from the Truven Health Analytics 100 Top Hospitals program. Data are from the Truven Health ActionOI database. With operational and financial data from more than 750 healthcare organizations across the country, ActionOI has the largest comparative database in the industry. For more information, email info@truvenhealth.com, call 1-800-366-7526, or visit www.truvenhealth.com
U.S. hospital operating margins have regained strength, reaching 5.35% in 2013Q4. Total margin, too, showed strength, with a 7.61% level in the same quarter, some 2.26 points above the operating margin. Nonoperating revenues historically (before the recession of 2008–2009) contributed 1 to 2 percentage points to total margins, subsidizing patient care. In 2011Q3, many hospitals realized losses on their investments, causing median hospital total margins to decline.

EXPENSES AND NET PATIENT REVENUE
Even though revenues per patient have remained flat the past two years, hospitals have managed to cut costs per patient, which has contributed to margins. In 2013Q4, net patient revenue per adjusted discharge (case mix index weighted) reached $7,854, while expenses per adjusted discharge (area wage index adjusted, excluding bad debt) was $7,066.

HOSPITAL OUTPATIENT CHARGES
On average, hospital outpatient charges are still growing as a percent of total charges. That said, there is a strong seasonal component. Outpatient services are the lowest proportion of total services in Q1 (winter) of each year. Typically, the markup from costs is higher for outpatient services. Therefore, outpatient services provide a higher margin.

HOSPITAL FACILITIES: AVERAGE AGE OF PLANT
Hospital facilities are aging. From 2005 to 2008, the average age of the plant held at about the 9.5-year level. But from 2009 to 2013, the average age increased to more than 11 years, which indicates that insufficient investment is leading to aging facilities.