Drivers of Operating Margin

Some factors commonly used to explain poor operating performance do not prevent many hospitals from being highly profitable. For example, Truven Health Analytics™ has found that rates of uncompensated care, drug expense, and other factors do not seem to differ between unprofitable and very profitable hospitals. But factors such as Medicaid utilization rates and poor reimbursement rates do appear to impact the least profitable hospitals. One controllable factor that appears to be significant is labor productivity, with the most profitable hospitals posting the lowest labor expense per patient.

UNCOMPENSATED CARE NOT A FACTOR

Uncompensated care does not explain differences in margins across hospitals. If anything, hospitals in the midrange of operating margin have higher bad debt than hospitals with either higher or lower margins.

IMPACT OF MEDICAID UTILIZATION

Medicaid utilization rates can explain a portion of the differences in operating margin. The least profitable hospitals have the highest Medicaid utilization, while the most profitable hospitals have higher rates than some hospitals with lower margins. Medicaid has a higher percent of discharges than per

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MARGIN AND SALARY AND BENEFITS

The least profitable hospitals (with negative margins) provide the lowest benefits of any quintile. The top three quintiles of hospitals in profitability on average offer higher salaries than hospitals in the lowest two quintiles.

$64,000 $63,000 $62,000 $61,000 $60,000 $59,000
$18,000 $17,500 $17,000 $16,500 $16,000 $15,500

SOURCE: Truven Health Analytics.

MARGIN AND LABOR PRODUCTIVITY

The most profitable hospitals have a significant labor productivity advantage in terms of staff paid hours and staff worked hours per patient. (Patient is defined as an adjusted discharge, case mix index weighted). So, even though we see (above) that hospitals with higher operating margins provide better salary and benefits, they also have superior labor productivity.

MARGIN AND EXPENSES PER PATIENT

The most profitable hospitals have a large advantage in labor expense per patient (adjusted discharge, CMI weighted) compared to less profitable hospitals. This factor accounts for a substantial portion of their higher margins. Even though supply expenses may be slightly higher for the higher-margin hospitals, the dollar amount is not significant in light of the higher operating margin.

MARGIN AND CHARGES AND NET REVENUE PER PATIENT

Hospitals in the least profitable quintile have higher gross inpatient and outpatient revenues per patient. However, the least profitable receive far higher deductions by payers. As a result, they receive lower average net revenue per patient despite their higher charges.