

# FACTFILE

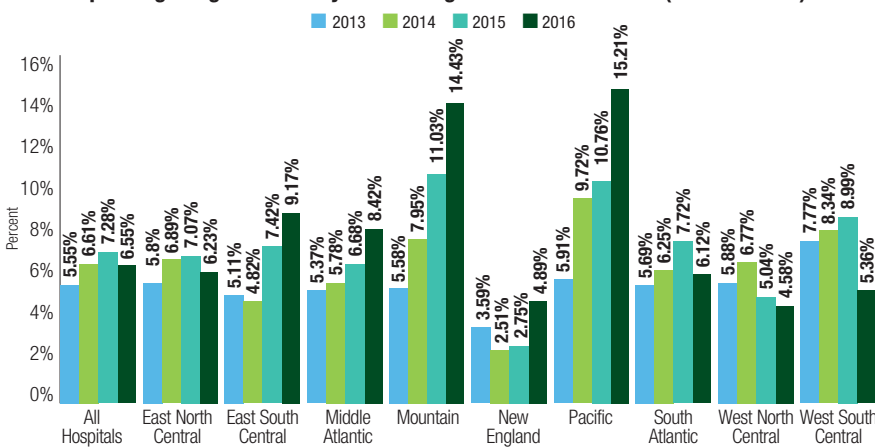
## Operational Insights

The healthcare industry has undergone remarkable changes over five years. Many things have impacted the financial health and stability of hospitals across the United States during this time, including the implementation of the Affordable Care Act (ACA) with the concurrent expansion of Medicaid in some states, the push to reward and penalize based on value, migration of inpatient services to the outpatient setting, and ongoing mergers and acquisitions. Truven Health Analytics, part of the IBM Watson Health business, has analyzed regional trends in profitability, liquidity, uncompensated care, and collections and reimbursement to study how this period of great change may have impacted financial indicators of hospital performance across the United States. There are striking differences between some regions, potentially indicating the impact of Medicaid expansion, the ACA, and regional patterns of charge structures.

### PROFITABILITY

The operating margin of a hospital is a key performance indicator of profitability from patient care services and other hospital operations. Operating margin percent represents operating profit (loss) as a percent of total net operating revenue. There are marked differences between regions of the United States over time, with the hospitals in the western part of the U.S. having the greatest profitability compared to other regions. Even more notable is the growth rate of the margins in the west, even though medical practice losses are growing quickly in mountain states.

Operating Margin Percent by Census Region—Four-Year Trend (FY 2013–2016)

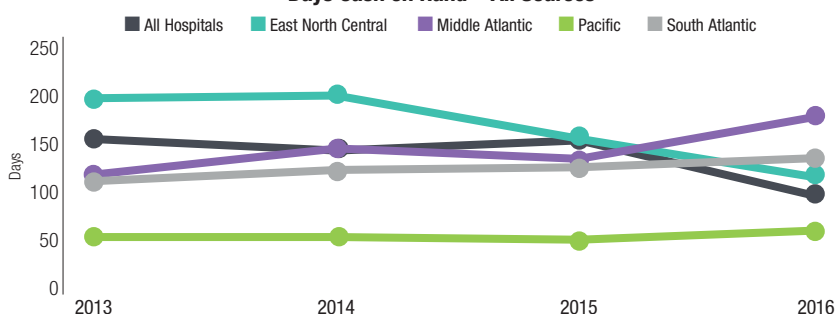


SOURCE: Truven Health Analytics, part of the IBM Watson Health business

### LIQUIDITY

Days cash on hand is a key performance indicator of hospital liquidity and indicates the number of days a hospital could meet its daily obligations with no new cash resources available. While liquidity is viewed favorably by creditors, excess amounts of cash or short-term investments generally provide a lower return than long-term investments. The median for all hospitals has declined from 160 to 110 days in the past three years. This may be due to declining reimbursements, but there are likely other factors impacting these changes. Some regions were excluded due to small sample size.

Days Cash on Hand—All Sources



SOURCE: Truven Health Analytics, part of the IBM Watson Health business

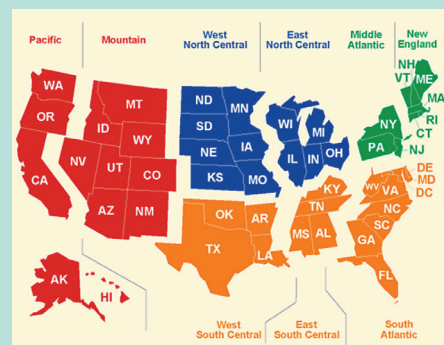
### About the Data

Unless otherwise noted, data for the calculations presented in this Fact File are aggregate regional data from contributing hospitals to Truven Health Analytics', an IBM company, ActionO<sup>®</sup> database for FY 2013–2016, unless otherwise noted. All statistics (except where otherwise noted) are the medians of annual values. Data with extreme values (outliers) for the metric are excluded from the analysis, trimmed at 1.5 interquartile ranges. Where the sample size for regional data was too small to be reported, it will be denoted.

### U.S. Census Comparative Groups used in our data analysis\*:

- East North Central (IL, IN, MI, OH, WI)
- East South Central (AL, KY, MS, TN)
- Middle Atlantic (NJ, NY, PA)
- Mountain (AZ, CO, ID, MT, NM, NV, UT, WY)
- New England (CT, MA, ME, NH, RI, VT)
- Pacific (AK, CA, HI, OR, WA)
- South Atlantic (DC, DE, FL, GA, MD, NC, SC, VA, WV)
- West North Central (IA, KS, MN, MO, ND, NE, SD)
- West South Central (AR, LA, OK, TX)

\*Note: States in bright blue are those that expanded Medicaid as of 1/1/17, according to the Kaiser Family Foundation. States that are bolded expanded through 1115 waiver approvals.



### Upcoming Topic:

> Projected Impact of Repeal

### FACT FILE PARTNER:



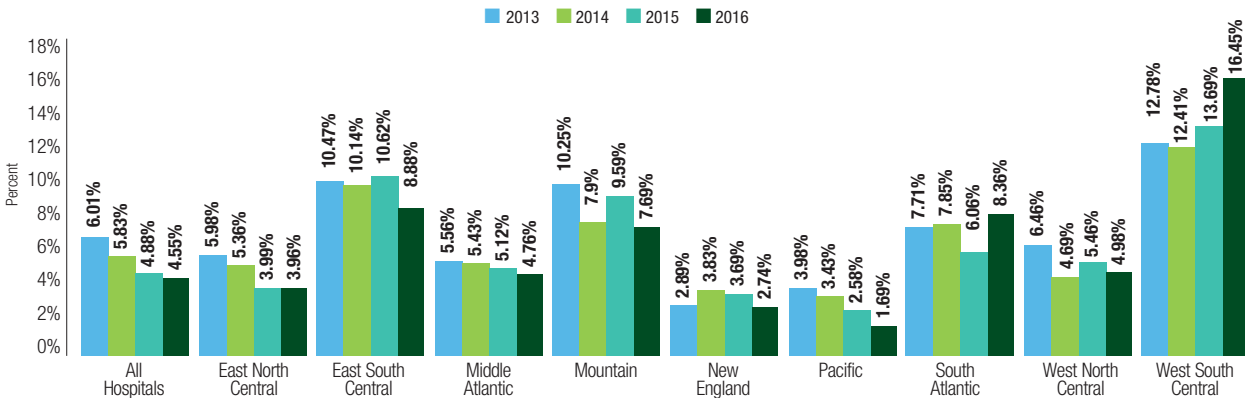
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## UNCOMPENSATED CARE

Provision for bad debts is the estimated write-offs hospitals make for uncollected accounts receivable related to patient service revenues. The regions that did not engage in Medicaid expansion tended to have a steady level of bad debt or increase in bad debt, while the hospitals in Medicaid expansion regions tended to decrease their bad debt.

Provision for Bad Debts as Percent of Net Operating Revenue by Census Region—Four-Year Trend (FY 2013–2016)

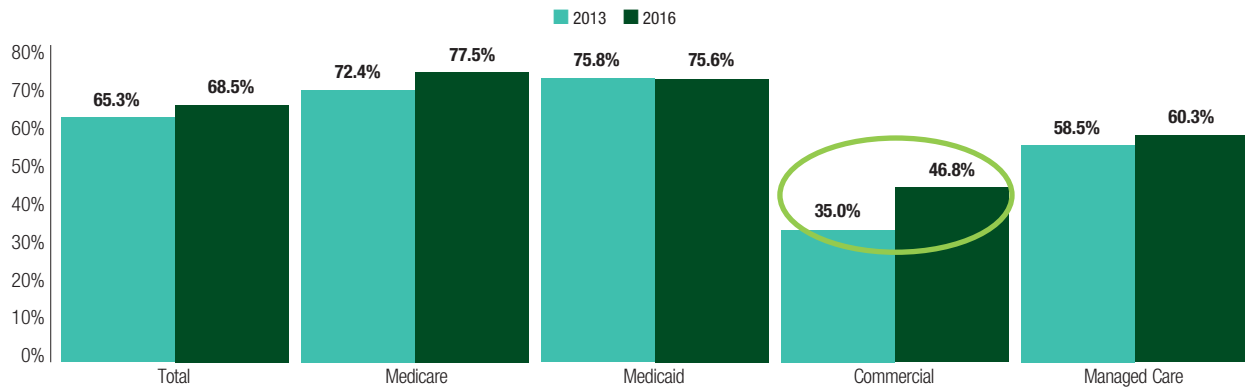


SOURCE: Truven Health Analytics, part of the IBM Watson Health business

## SHIFT IN CONTRACTUAL ALLOWANCES AND DISCOUNTS FOR GOVERNMENT AND COMMERCIAL PAYERS

The shift in contractual allowances indicates a trend towards commercial payers embarking in cost shifting, we believe, to “equalize” contract structures.

Contractual Allowances and Discounts as a % of Gross Patient Revenue FY 2013 vs. 2016, All Hospitals

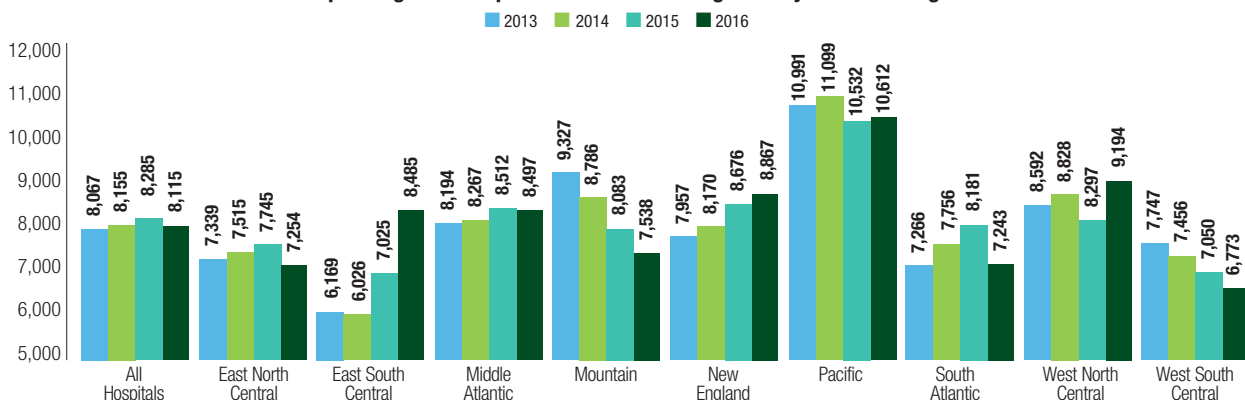


SOURCE: Truven Health Analytics, part of the IBM Watson Health business

## REIMBURSEMENT: NET REVENUE

Despite seeing increases in every region in terms of gross revenue per case mix index weighted adjusted discharges, only four regions experienced an increase in net revenue from 2013 to 2016. The All Hospitals medians tell the story. Hospitals should be aware of this trend during contract negotiations.

Net Operating Revenue per Case Mix Index Weighted Adjusted Discharge



SOURCE: Truven Health Analytics, part of the IBM Watson Health business

