


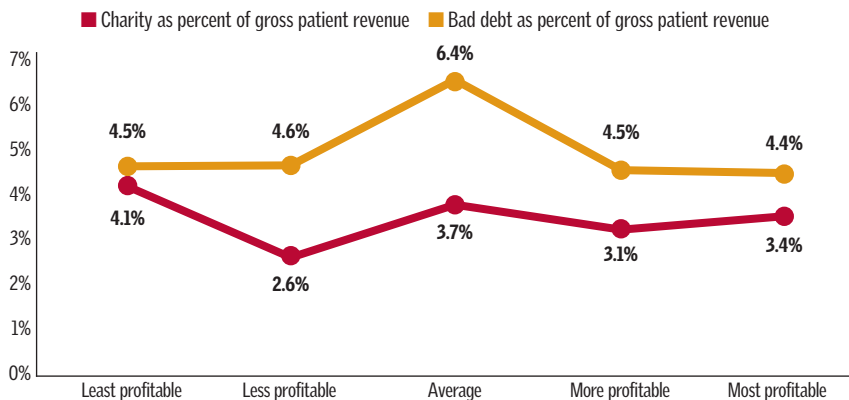
# FACTFILE

## 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

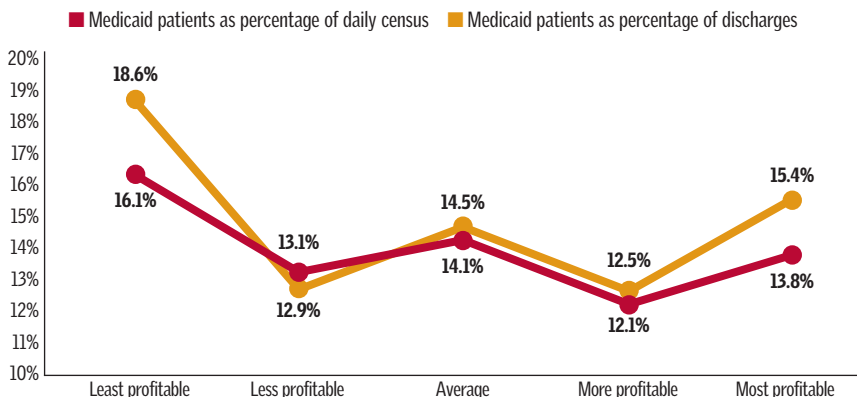
Uncompensated care does not explain differences in margins across hospitals. If anything, hospitals in the midrange of operating margin have higher bad debt than hospitals with either higher or lower margins.



SOURCE: Truven Health Analytics.

### 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 percent of patient census (or patient days) because Medicaid patients tend to have shorter-than-average lengths of stay. Days depend on both number of patients and length of stay.



SOURCE: Truven Health Analytics.

**ABOUT THE DATA:** The Truven Health ActionOI database maintains annual and quarterly operational information for approximately 600 hospitals. Truven Health Analytics selected the most recent annual financial report from data submitted to the ActionOI database by participating acute care community hospitals. Most of these were FY 2014 reports plus some with FYs ending 12/31/2013. Data was retained only on hospitals having complete and nonextreme data for the key analysis variables. This provides a sample of 517 hospitals. Note that not all hospitals provide responses to all data elements. Truven classes these hospitals into profitability quintiles within hospital class based on reported operating margin. The five hospital classes are small (86), medium (117), and large community hospitals (75), plus teaching (138) and major teaching hospitals (101). The average operating margins for each quintile, in order, are: -3.7%, 2.7%, 6.1%, 9.5%, and 16.2%. Contact Truven Health at [info@truvenhealth.com](mailto:info@truvenhealth.com) or 800-366-7526.

### Cost of Hospital Services

More than \$759 billion was spent on hospital care services in the United States in 2009. As may be expected, more is spent in states with larger populations; California had the highest spending at \$76.6 billion while Wyoming had the least spending at \$1.58 billion.

Location	Hospital care (in millions)
United States	\$759,074
Alabama	\$9,936
Alaska	\$2,695
Arizona	\$13,026
Arkansas	\$6,412
California	\$76,628
Colorado	\$10,781
Connecticut	\$9,353
Delaware	\$2,749
District of Columbia	\$2,968
Florida	\$40,852
Georgia	\$18,859
Hawaii	\$3,195
Idaho	\$3,267
Illinois	\$34,778
Indiana	\$16,703
Iowa	\$8,162
Kansas	\$7,128
Kentucky	\$11,241
Louisiana	\$11,369
Maine	\$4,300
Maryland	\$15,738
Massachusetts	\$23,108
Michigan	\$26,828
Minnesota	\$13,653
Mississippi	\$8,085
Missouri	\$18,805
Montana	\$2,767
Nebraska	\$5,298
Nevada	\$5,142
New Hampshire	\$3,940
New Jersey	\$20,440
New Mexico	\$4,956
New York	\$57,571
North Carolina	\$21,336
North Dakota	\$2,056
Ohio	\$33,225
Oklahoma	\$9,344
Oregon	\$8,441
Pennsylvania	\$36,021
Rhode Island	\$3,236
South Carolina	\$11,627
South Dakota	\$2,552
Tennessee	\$13,591
Texas	\$52,956
Utah	\$5,088
Vermont	\$2,118
Virginia	\$18,067
Washington	\$16,074
West Virginia	\$5,597
Wisconsin	\$15,428
Wyoming	\$1,586

NOTE: This covers all services provided by hospitals to patients, including room and board, ancillary charges, services of resident physicians, inpatient pharmacy, hospital-based nursing home and home healthcare, and any other services billed by hospitals in the United States. The value of hospital services is measured by total net revenue, which equals gross patient revenues (charges) less contractual adjustments, bad debts, and charity care. It also includes government tax appropriations as well as nonpatient and nonoperating revenues.

SOURCE: Kaiser State Health Facts, *Distribution of Health Care Expenditures by Service by State of Residence (in millions)*, <http://kff.org/other/state-indicator/distribution-of-health-care-expenditures-by-service-by-state-of-residence-in-millions/>; Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group, *National Health Expenditure Data: Health Expenditures by State of Residence, December 2011*.

#### Upcoming Topic:

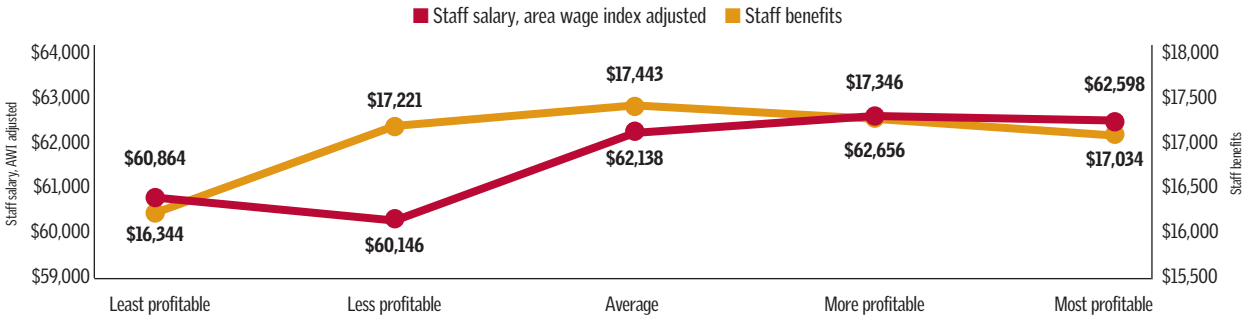
> Industry Leaders in Hospital Performance

#### FACT FILE PARTNER:



### MARGIN AND SALARY AND BENEFITS

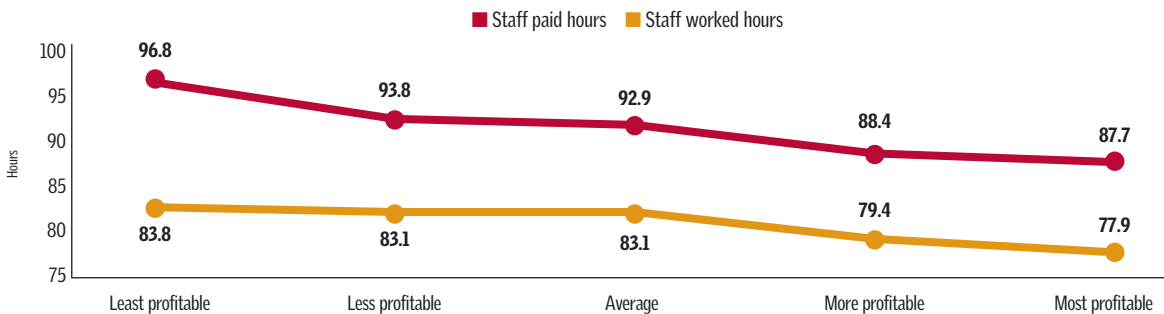
The least profitable hospitals (with negative margins) provide the lowest benefits of any quintile. The top three quintiles of hospitals in profitability on average offer higher salaries than hospitals in the lowest two quintiles.



SOURCE: Truven Health Analytics.

### MARGIN AND LABOR PRODUCTIVITY

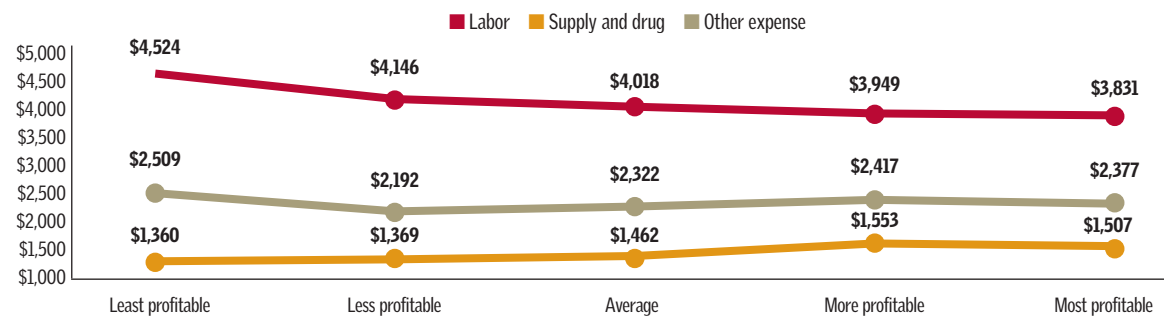
The most profitable hospitals have a significant labor productivity advantage in terms of staff paid hours and staff worked hours per patient. (Patient is defined as an adjusted discharge, case mix index weighted). So, even though we see (above) that hospitals with higher operating margins provide better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



SOURCE: Truven Health Analytics.

### MARGIN AND EXPENSES PER PATIENT

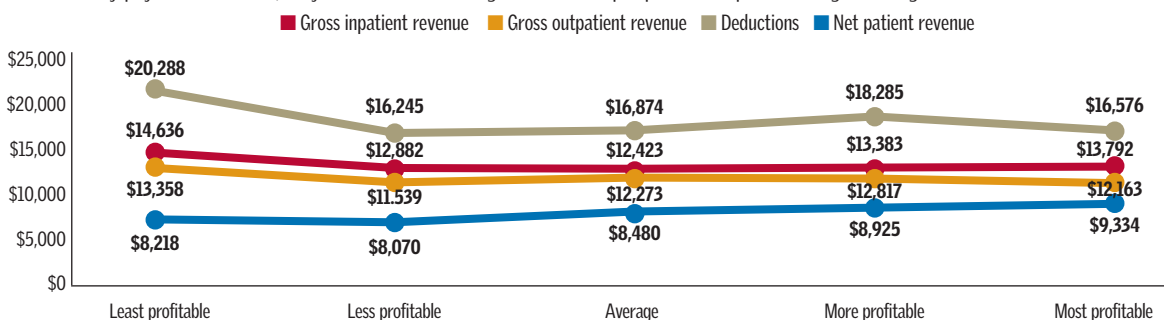
The most profitable hospitals have a large advantage in labor expense per patient (adjusted discharge, CMI weighted) compared to less profitable hospitals. This factor accounts for a substantial portion of their higher margins. Even though supply expenses may be slightly higher for the higher-margin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



SOURCE: Truven Health Analytics.

### 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.



SOURCE: Truven Health Analytics.

