

Hospital Financial Analysis 2000

April 2001

The Pennsylvania Health Care Cost Containment Council is an independent state agency charged with addressing the cost and quality of health care in Pennsylvania. The Council fosters competition in the health care market through the collection, analysis and dissemination of quality health care information.

In order to maintain a high quality, cost-effective health care delivery system, hospitals and freestanding surgery centers must be financially viable and effectively managed. To this end, the Council has produced a series of annual reports that measure the financial health of the Commonwealth's hospitals and surgery centers and the utilization of their services. These reports began with the 1989 fiscal year.

In response to the high level of interest in the financial health of Pennsylvania's general acute care hospitals, the Council is releasing this *Preview* in advance of its forthcoming *Financial Analysis 2000*. The more comprehensive *Financial Analysis 2000* will be released later this Spring.

The Financial Health of GAC Hospitals Improved During the 2000 Fiscal Year

The overall financial health of Pennsylvania's general acute care (GAC) hospitals improved during the 2000 fiscal year (FY00). The statewide average total margin rose 1.57 points from 1.60% during FY99 to 3.17% during FY00.

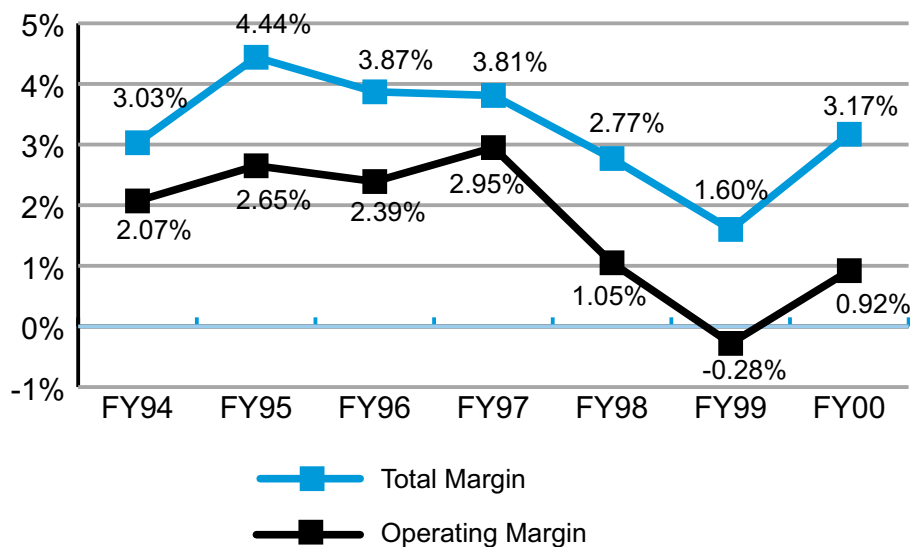
Total margin reflects the "net income" hospitals receive from all sources, including patient care, investment income and contributions. Consequently, net income more than doubled from \$295 million in FY99 to \$608

million in FY00. Net income is also known as "revenue over expenses" for non-profit hospitals and "net after-tax income" for for-profit hospitals.

The statewide average operating margin also improved 1.2 points from -0.28% in FY99 to 0.92% in FY00. Operating margin demonstrates the extent that the fees hospitals receive for patient care and other services compare to the costs for providing those services. During FY99, Pennsylvania's GAC hospitals lost

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Average Total & Operating Margin



money from their operations. During FY00, they realized a little less than one cent (0.92¢) of income from every dollar of revenue from operations.

Despite the improvement in the operating margin, GAC hospitals still receive about 71% of their net income from non-operating sources, such as investment income and contributions. Only about 29% of net income comes from operations such as treating patients and other related services.

Fewer Hospitals Lost Money

The number of hospitals that finished FY00 with a loss fell to 65 or 34% of the 189 GAC hospitals that provided complete financial data. This is a decline from the 81 or 42% of the 195 reporting hospitals in FY99.

While fewer hospitals lost money in FY00, more hospitals had negative 3-year average total margins. The number of hospitals that had negative average total margins over the past three fiscal years (FY98 – FY00) grew to 66 or 36% of GAC hospitals. At the end of FY99, there were 51 hospitals with negative 3-year average margins, 15 fewer than in FY00.

One reason for the increase in the number of hospitals with 3-year negative total margins is because the improvements in hospital income levels during FY00 were not enough to completely offset losses incurred during FY99 and/or FY98.

Revenues Grow Faster than Expenses

Statewide income improved because hospitals were able to keep the growth in expenses

below the growth in revenue. GAC hospitals collectively received about \$18.8 billion in operating revenue during FY00, a growth of about 4.0%, or \$729 million over FY99. Statewide expenses grew 2.8%, or \$505 million, to a total of \$18.6 billion.

Net patient revenue (NPR), the revenue hospitals receive for patient care, grew slightly faster than overall hospital revenues. NPR increased about 4.1%, or \$702 million, to a statewide total of \$17.7 billion. NPR represented about 94.2% of total operating revenue during FY00.

Commercial Insurance Leads Revenue Increases

The 7.2% growth in revenue from commercial insurers was responsible for 67.0% of the increase in statewide NPR during FY00. The 12.0% increase in total payments from the Medical

Net Patient Revenue by Payor

Payor	Net Patient Revenue (million)			Average Net Inpatient Revenue per Discharge		
	FY99	FY00	% Change	FY99	FY00	% Change
Commercial	\$6,499	\$6,969	7.2%	\$5,887	\$6,359	8.0%
Medicare	\$7,680	\$7,561	-1.6%	\$7,297	\$7,325	0.4%
Medical Assistance	\$1,410	\$1,579	12.0%	\$4,954	\$5,456	10.1%
Other	\$1,432	\$1,615	12.7%	\$7,082	\$7,166	1.2%
Total	\$17,022	\$17,724	4.1%	\$6,502	\$6,733	3.6%

Assistance (MA) program was responsible for 24.1% of the growth in NPR. The average inpatient revenue per discharge increased 8.0% for patients covered by commercial insurance and 10.1% for MA participants.

Part of the reason for the increase in MA revenue during FY00 is the implementation of MA managed care in the Southwestern part of the state during the first six months of 1999. The transition of MA participants from a fee-for-service plan to a managed care program resulted in some hospitals receiving revenue in FY00 (after July 1, 1999) for care provided in FY99.

Hospitals reported virtually no change in the number of commercial and MA discharges from inpatient care during FY00. Commercial discharges increased 0.1% and MA discharges declined 0.2%.

Hospitals also reported a small decline (-1.6%) in total revenue from the Medicare program during FY00. There was a modest decline (-2.6%) in the number of Medicare patients seeking inpatient care and the average revenue received for each Medicare inpatient discharge increased less than one percent (0.4%) from FY99.

Contribution to Change in Net Patient Revenue by Payor

Payor	Percent of Statewide NPR FY00	Contribution to Change in Statewide NPR FY99-FY00
Commercial	39.3%	67.0%
Medicare	42.7%	-17.0%
Medical Assistance	8.9%	24.1%
Other	9.1%	26.0%

Inpatient Care Remains Relatively Constant While Outpatient Visits Continue to Rise

Preliminary analysis of hospital utilization data indicates that inpatient discharges and patient days declined less than 1% during FY00.

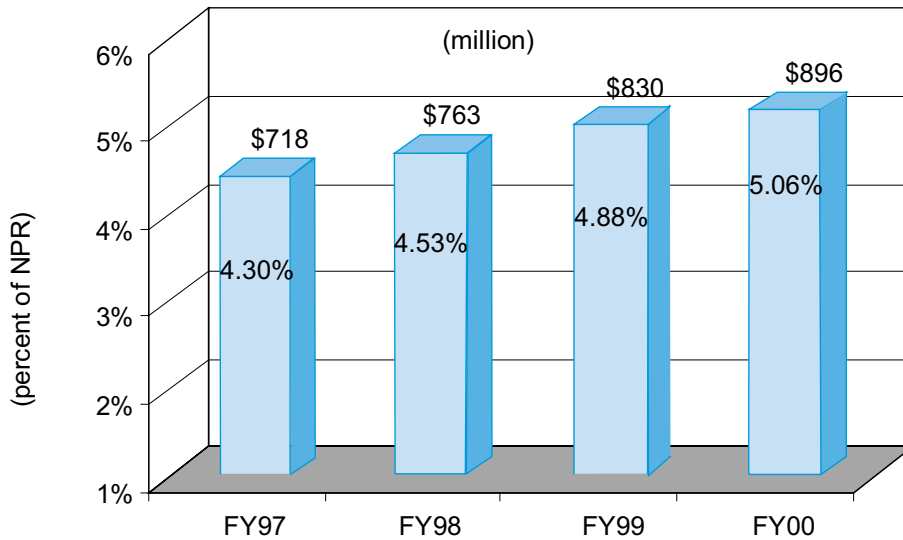
Average length of stay has leveled off during FY00 after eight years of steady declines from over seven days during FY92 to 5.6 days in FY99. The statewide average length of stay fell only 0.02 days to 5.58 days during FY00. In contrast, the number of outpatient visits to GAC hospitals increased in the 5% to 6% range during FY00.

Uncompensated Care Continues to Increase

The amount of uncompensated care provided by Pennsylvania's GAC hospitals grew by \$66 million during FY00. Statewide uncompensated care totaled about \$896 million, which is equivalent to 5.0% of statewide net patient revenue (NPR). Uncompensated care has grown about 25% since FY97.

The \$896 million reported in FY00 represents an 8% increase from FY99, less than the increase of 9% from FY98 to FY99, but more than the 6% increase from FY97 to FY98. The vast majority of uncompensated care is recorded as bad debt (\$700 million of \$896 million).

Statewide Uncompensated Care



How Uncompensated Care is Reported

Uncompensated care is comprised of charity care and bad debt expense.

Charity care is the care that hospitals provide when they determine a patient is unable to pay through third-party coverage or the patient's own resources. Hospitals have varying procedures for determining a patient's ability to pay and different policies on granting charity care.

Because policies and procedures related to uncompensated care vary from hospital to hospital, it is difficult to make a distinction between charity care and bad debt expense on a statewide basis. What one hospital may record as a bad debt expense another hospital may categorize as charity care. Consequently,

bad debt and charity care are reported together as uncompensated care.

The Pennsylvania Health Care Cost Containment Council presents uncompensated care on a foregone revenue (NPR) basis. Uncompensated care reflects the revenue hospitals would have received if patients receiving free care had paid the average fees received on behalf of all other patients.

What is Included in Charity Care

All services and materials that are provided to the general public under an established fee are eligible to be included in charity care. Consequently, the costs of many public health programs are not included. Hospitals frequently report these activities separately.

Some hospitals report the difference between the reimbursement they receive from government-funded programs, such as Medical Assistance, and their customary fees or charges as a component of charity care. We remove this portion and these differences are not included in the uncompensated care levels reported by PHC4. However, if a patient fails to pay a required co-payment, or receives care beyond the range of benefits provided by a third-party payor, these foregone revenues may be included in charity care.

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