



American Hospital
Association®

Setting the Record Straight on *TIME*'s Article "Bitter Pill"

In the March 4 *TIME* magazine, Steven Brill's piece "Bitter Pill" about the health care system contains some inaccurate or misleading statements. Our health care system is important to every American, and we would like to provide some clarity on a number of statements in the article.

TIME: "The American health care market has transformed tax-exempt 'non-profit' hospitals into the towns' most profitable businesses and largest businesses presided over by the regions' most richly compensated executives...."

Fact:

One-quarter of hospitals lose money on operations and the average operating margin is 5.5 percent. In non-profit hospitals, these margins are used to make capital investments to ensure that hospitals keep pace with technological change such as adoption of electronic health records, meet myriad government regulations and have the resources and capacity to meet the growing demand for care from our aging population.

Hospitals are often the largest employers in their communities, and that is a good thing. Hospitals directly employ 5.5 million people. These are good jobs with benefits that require an educated workforce. Hospitals and their employees also purchase goods and services from other businesses. With these so-called multiplier effects included, hospitals support one of every nine jobs nationwide.

Hospitals are among the most complex organizations to manage. The job of a hospital CEO is to help improve the community's health while navigating the often conflicting priorities of the public, the medical staff, government, business and insurers. There is a rigorous process prescribed by the IRS for setting executive compensation. For most hospitals, an impartial panel made up of members of a hospital's board of trustees is charged with setting CEO compensation. This impartial panel relies on benchmark data from similar organizations to determine a CEO's compensation.

TIME: The article suggests that Medicare is an adequate benchmark for payment. "Thus, under the law, Medicare is supposed to reimburse hospitals for any given service, factoring in not only direct costs but also allocated expenses such as overhead, capital expenses, executive salaries, insurance, differences in regional costs of living and even the education of medical students."

Fact:

According to the federal Medicare Payment Advisory Commission (MedPAC), the overall Medicare margin is a negative 5.8 percent, and this does not take into account the costs that Medicare disallows, like paying physicians for on-call time. For outpatient services, the underpayment is even greater, with margins below **negative 10 percent.** Hospitals need a margin to maintain the essential public services all communities depend on.

TIME: The article states: "Hospital profits are further boosted by the payments from the tens of millions of patients who... have no insurance or whose coverage does not apply because the patient has exceeded the coverage limits."

Fact:

Hospitals experience significant losses on care for uninsured and underinsured patients. In fact, hospitals in 2011, the latest year for which data are available, provided more than \$41 billion in care for which no payment was received. Not-for-profit hospitals are required to have discount policies in place, and many patients receive financial assistance.

TIME: The article compares the price of an item purchased at Amazon.com to that same item provided in a hospital emergency department, the clear implication being that the price should be the same.

Fact:

The price a hospital patient sees reflects more than the individual item received. A dose of Tylenol provides a good example. In order to take medications in a hospital, even over-the-counter medicines, they must be prescribed by a doctor (a little bit of cost for the doctor), that order gets transmitted to the pharmacy (a little more cost), the order gets filled by a pharmacist or pharmacy tech who retrieves just one Tylenol pill and individually packages that one pill (still more cost), the pill gets transported from the pharmacy to the nursing unit where the patient resides (a little more cost), then the pill is retrieved by a registered nurse who personally gives the pill to the patient and then must document the administration of that pill in the patient medication administration record (a little more cost). All of this process to give a patient a single dose of Tylenol in a hospital bed is regulated by agencies that accredit hospitals – a condition of participation in the Medicare program. In other words, this is what hospitals must do to administer a pill in compliance with all pertaining regulations (a little more cost).

Additionally, the price a hospital patient sees on a bill reflects the costs of the many roles the hospital plays in the community – staff who keep the hospital running 24/7, disaster readiness teams, trauma and burn units, training the physicians and caregivers of tomorrow, supporting medical research, and care for those who cannot afford to pay.

Communities and patients expect hospitals to be there when they need emergency care. But the standby role of hospitals is not explicitly funded and, therefore, is built into the price of every service provided.

TIME: The average operating margin of not-for-profit hospitals is 11.7 percent.

Fact:

According to the AHA Annual Survey, the average operating margin of all hospitals was 5.5 percent in 2011.

TIME: Not-for-profit hospitals should not have "profit."

Fact:

Even not-for-profit hospitals need a profit, meaning they must have revenues that exceed expenses – known as a positive margin in the not-for-profit world. Hospitals need a positive margin to help to finance the facilities and equipment needed to keep pace with advances in care and meet the rising demands of our aging population. Additionally, hospitals need to be financially sound to borrow the additional funds needed to meet these investment needs. Chronic failure to have a positive margin leads to the deterioration of facilities and equipment, eventual bankruptcy, and closure.

The net income of not-for-profit hospitals, however, by law may not be used to enrich individuals. All net income must be reinvested in the hospital or hospital system to the benefit of the community.

TIME: Hospital uncompensated care is reported at charge master rates and represents less than half of 1 percent of U.S. hospital annual revenue.

Fact:

The AHA calculates uncompensated care based on the **costs** of providing that care. The current figure of \$41.1 billion dollars is 5.4 percent of total net revenue. Hospitals also are required to report charity care and bad debt to the Internal Revenue Service (IRS) based on costs, not charges.

TIME: The charge master is the "core document that is the basis of hundreds of billions of dollars in health care bills."

Fact:

While hospitals by law are required to maintain a uniform set of charges, the rates hospitals charge to the majority of patients are not based on the charge master. Medicare pays administratively determined set rates and, in most other states, so does Medicaid. Only in the case of severely ill and complex patients (referred to as outliers) do charges enter into the algorithm and even then, at discounted rates well below the charge master. Nationally, Medicaid and Medicare account for 47 percent of care provided. Commercial insurers typically pay hospitals based on per diems, diagnosis related groups (DRGs) or fee schedules.

AHA View:

Every week, hospitals provide emergency care to 2.4 million Americans admitted to hospitals and serve as the health care safety net for 50 million Americans. Yet they operate in a uniquely and increasingly challenging environment. At the same time that they are subject to an extraordinary burden of government regulation and insurance industry requirements and constant uncertainty about federal compensation, hospitals are under tremendous pressure to improve the quality and safety of care, play a larger role in community health and bend the cost curve. The good news is that hospitals are making real progress in all of these areas. American hospitals are deeply committed to providing the best possible care in their communities and to maintaining 24/7 access to that care.