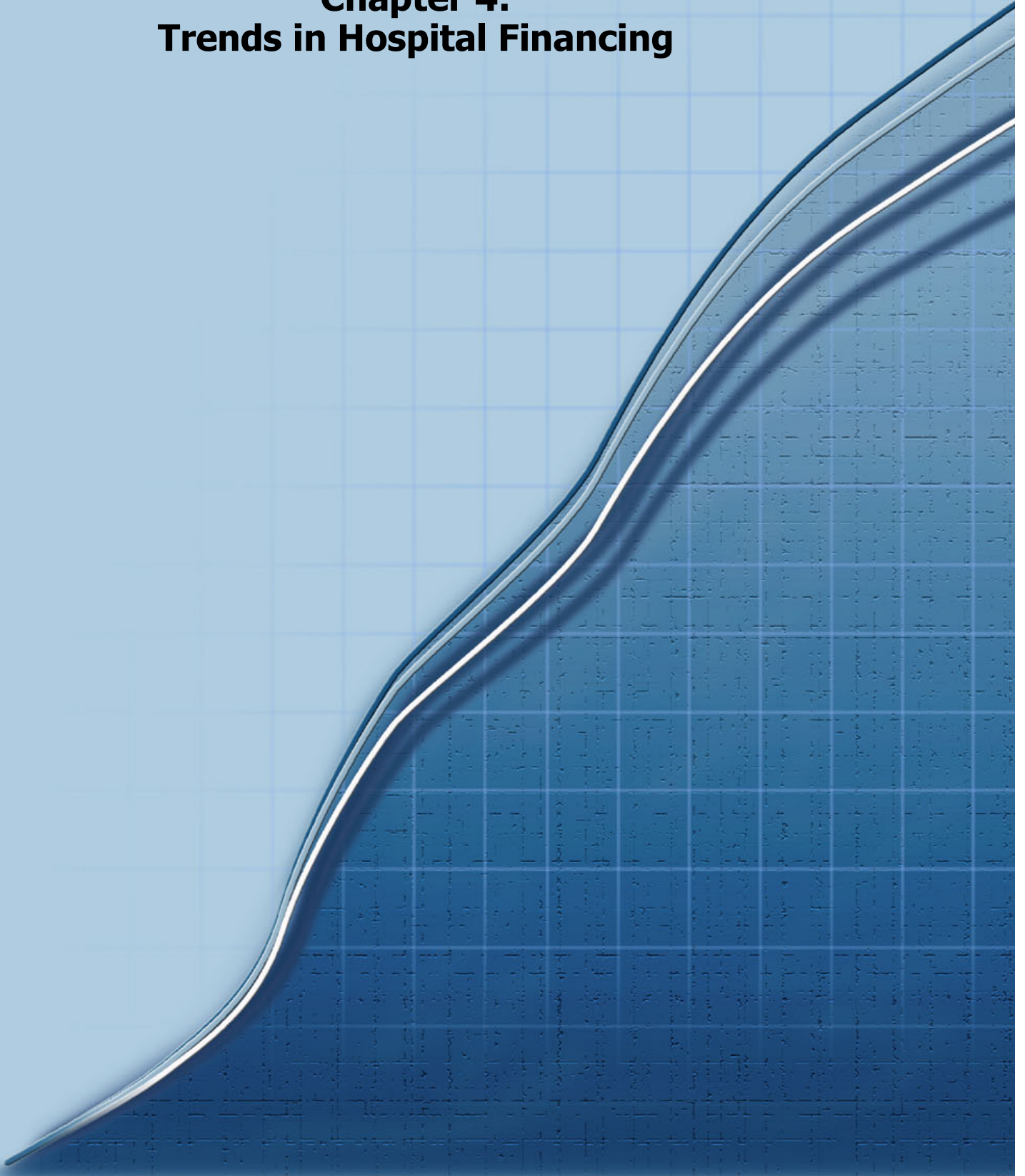


Chapter 4: Trends in Hospital Financing



Chapter 4: Trends in Hospital Financing

According to the AHA Annual Survey, aggregate total hospital margins leveled off at 4.6 percent in 2000, down from a high of 6.7 percent in 1996, though roughly one in three hospitals had a negative total margin. Hospital operating revenue and expense increases per adjusted admission were nearly even at 2.4 percent and 2.5 percent respectively. Sample data from the National Hospital Indicator Survey for 2001 suggest a total margin of 4.7 percent (Charts 4.1 - 4.2, 4.5).

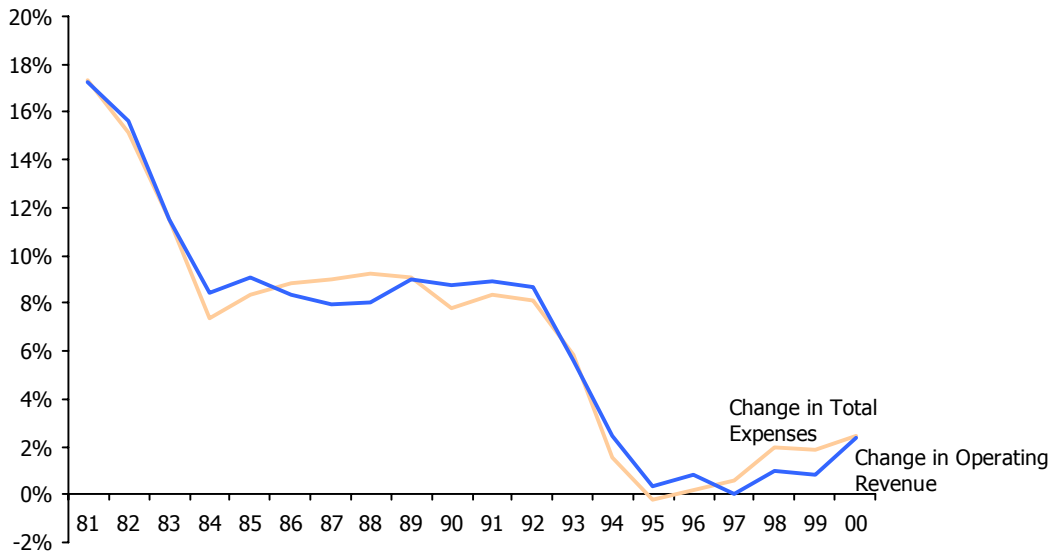
Against the backdrop of a weakened economy, the financial state of hospitals is far from secure. Aggregate non-operating gains (e.g., income from investments) as a percentage of total net revenue remained at 2.6 from 1999 to 2000. These gains represent more than half of the aggregate total margin of 4.6 percent. In addition, in 2001, Standard and Poor's downgraded more non-profit hospitals than it upgraded by a factor of 6, slightly higher than the previous two years (Charts 4.3 - 4.4, 4.6).

The distribution of hospital cost by payer type has not changed in the last year. However, since 1980, hospital reliance on Medicare and Medicaid has increased. In 1980, Medicare represented 35 percent of total costs, growing to 38 percent by 2000. Over the same period, Medicaid increased from 10 percent to 13 percent. Meanwhile, private payers' share of costs decreased from 42 percent to 39 percent. Since 1980, uncompensated care increased from five percent to six percent of total costs (Chart 4.8).

Medicare and Medicaid payments continued to decline relative to costs. In 2000, Medicare paid one percent less than the cost of providing care, while Medicaid, in the aggregate, paid about 5 percent less. Private payers paid more than the cost of providing care helping some hospitals compensate for losses from public payers and uncompensated care (Chart 4.9).



**Chart 4.1:
Annual Change in Hospital Operating Revenue and Expenses
per Adjusted Admission⁽¹⁾
1981 - 2000**

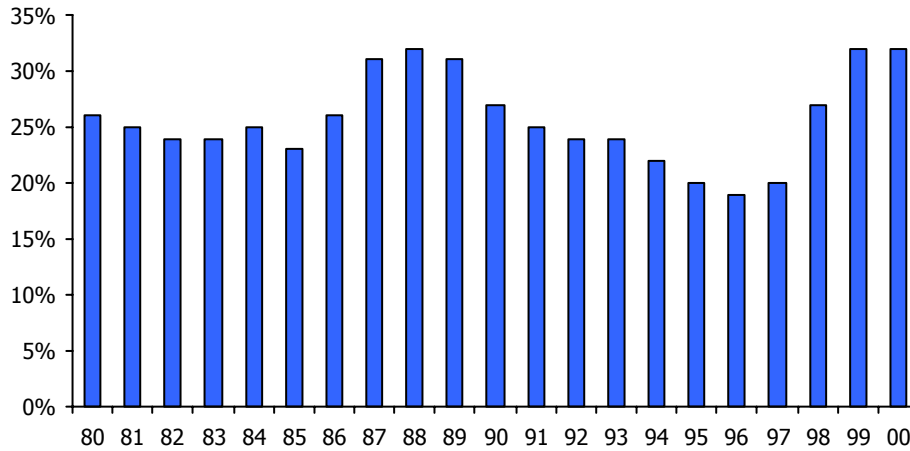


Source: The Lewin Group Analysis of the American Hospital Association Annual Survey data, 1980 - 2000, for community hospitals

⁽¹⁾ An aggregate measure of workload reflecting the number of inpatient admissions, plus an estimate of the volume of outpatient services, expressed in units equivalent to an inpatient admission in terms of level of effort

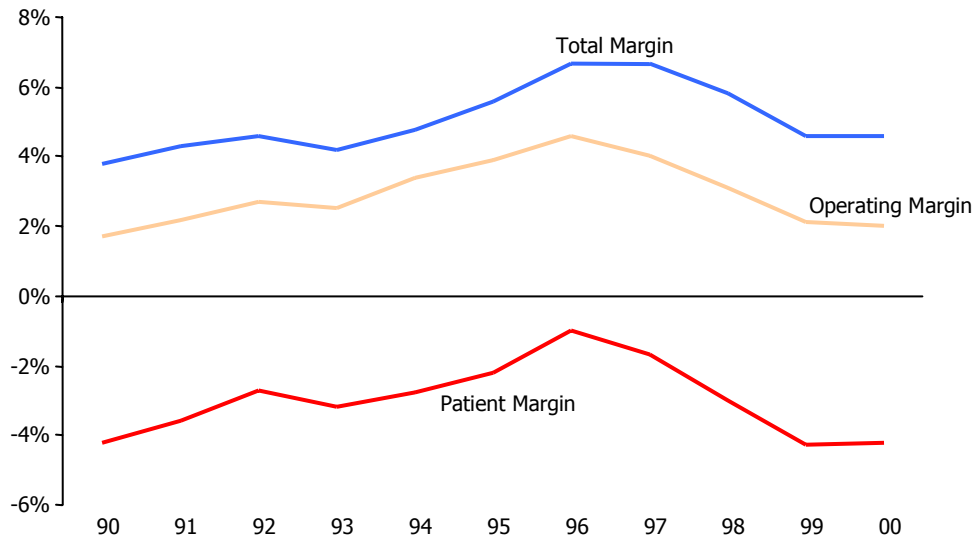


Chart 4.2:
Percentage of Hospitals with Negative Total Margins
 1980 - 2000



Source: The Lewin Group Analysis of the American Hospital Association Annual Survey data, 1980 - 2000, for community hospitals

Chart 4.3:
Aggregate Total Hospital Margins⁽¹⁾, Operating Margins⁽²⁾, and Patient Margins⁽³⁾
 1990 - 2000

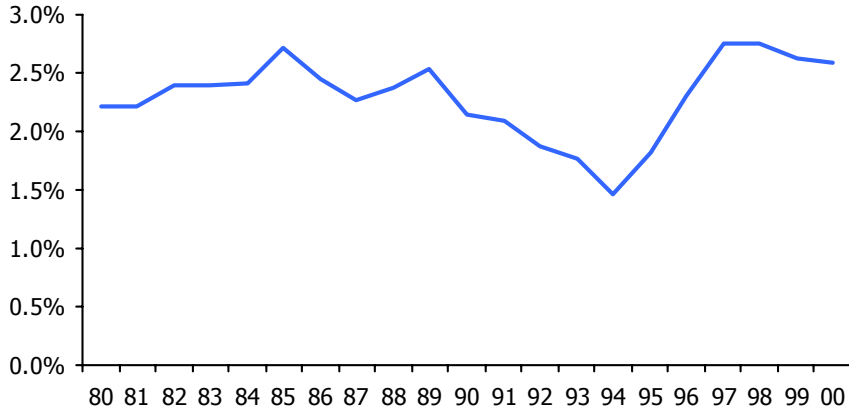


Source: The Lewin Group Analysis of the American Hospital Association Annual Survey data, 1990 - 2000, for community hospitals

- ⁽¹⁾ Total Hospital Margin is calculated as the difference between total net revenue and total expenses divided by total net revenue
- ⁽²⁾ Operating Margin is calculated as the difference between operating revenue and total expenses divided by operating revenue
- ⁽³⁾ Patient Margin is calculated as the difference between net patient revenue and total expenses divided by net patient revenue



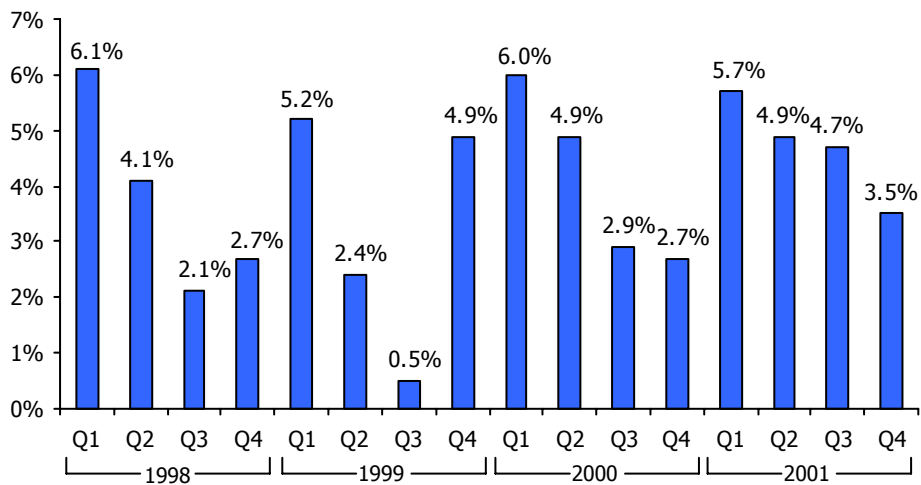
Chart 4.4:
Income from Investments and Other Non-operating Gains⁽¹⁾
as a Percentage of Total Net Revenue
1980 - 2000



Source: The Lewin Group analysis of the American Hospital Association Annual Survey data, 1980 - 2000, for community hospitals

⁽¹⁾ Non-operating gains include income from non-operating activities, including investments, endowments and extraordinary gains, as well as the value of non-realized gains from investments

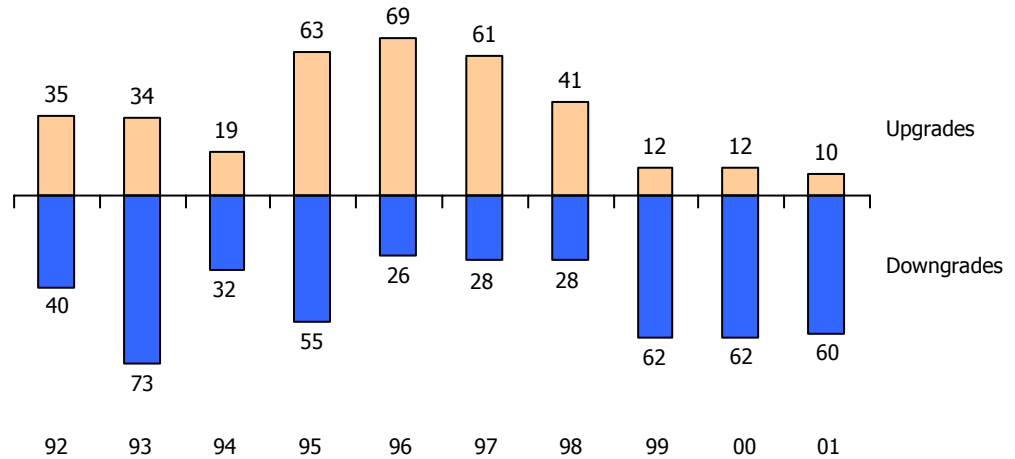
Chart 4.5:
Hospital Total Margin by Calendar Quarter
1998 - 2001



Source: National Hospital Indicator Survey, first quarter 1998 - fourth quarter 2001

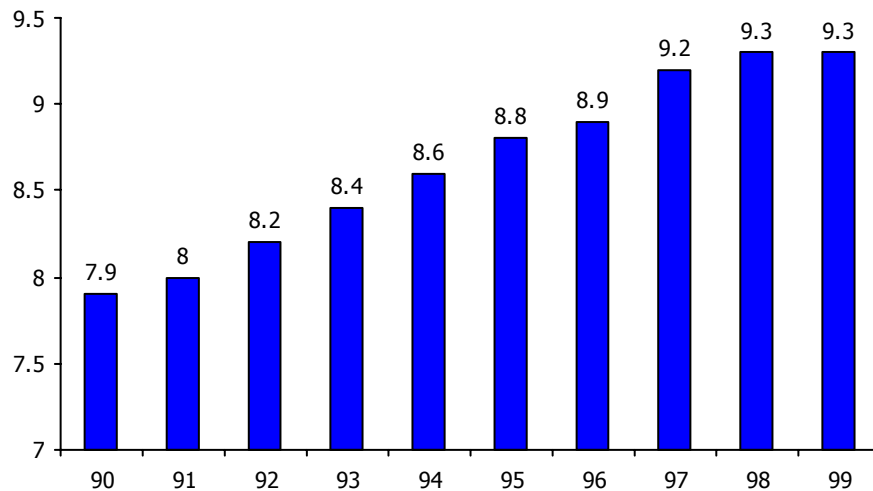


**Chart 4.6:
Number of Bond Rating Upgrades and Downgrades
of Non-profit Hospitals
1992 - 2001**



Source: Standard & Poor's, 2002

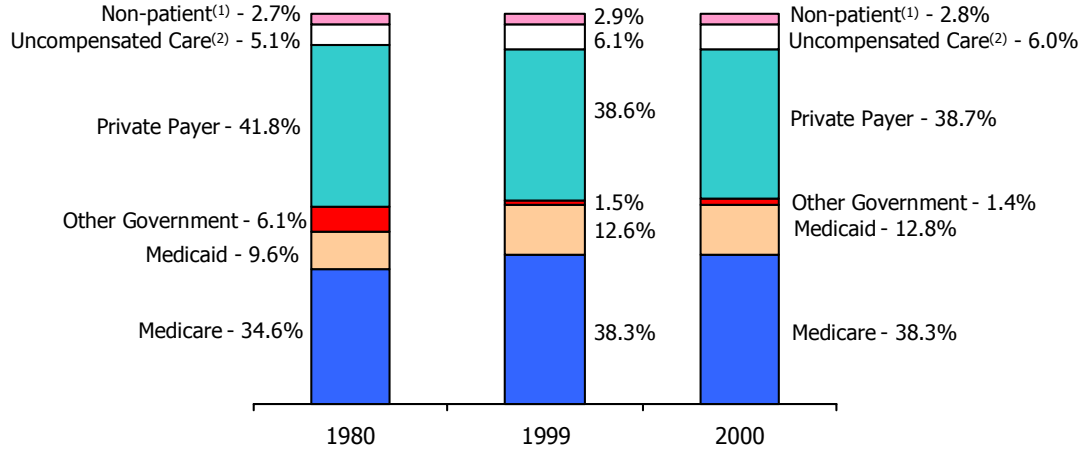
**Chart 4.7:
Median Average Age of Plant
1990 - 1999**



Source: CHIPS: The 1994 Almanac of Hospital Financial & Operating Indicators and The 1996-7 Almanac of Hospital Financial & Operating Indicators and The 2001 Almanac of Hospital Financial & Operating Indicators



Chart 4.8:
Distribution of Hospital Cost by Payer Type
 1980, 1999, and 2000

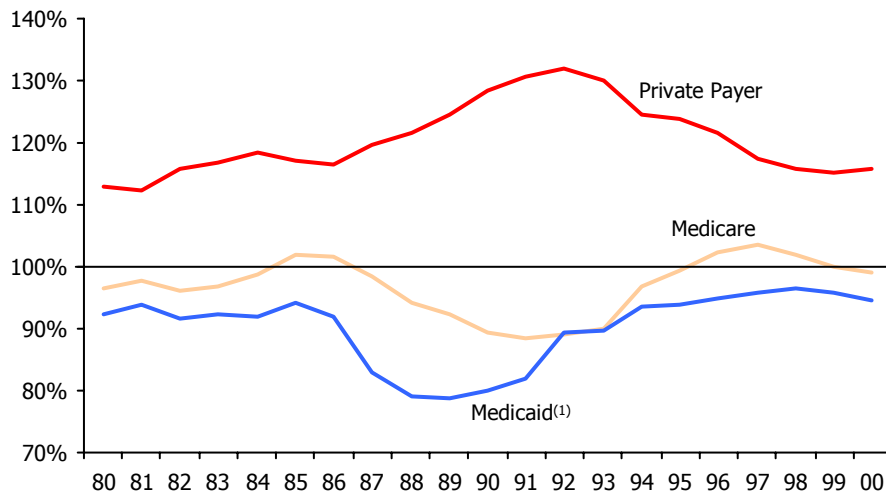


Source: The Lewin Group Analysis of the American Hospital Association Annual Survey data, 1980 - 2000, for community hospitals

⁽¹⁾ Non-patient represents costs for cafeterias, parking lots, gift shops and other non-patient care operating services and are not attributed to any one payer

⁽²⁾ Uncompensated care represents bad debt expense, at cost, and charity care

Chart 4.9:
Aggregate Hospital Payment-to-Cost Ratios
for Private Payers, Medicare and Medicaid
 1980 - 2000

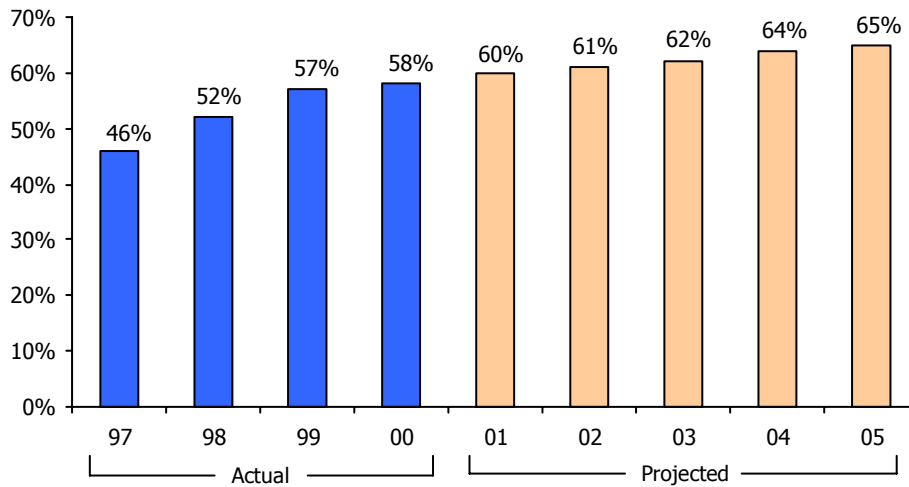


Source: The Lewin Group analysis of American Hospital Association Annual Survey data, 1980 - 2000 for community hospitals

⁽¹⁾ Includes Medicaid Disproportionate Share payments



Chart 4.10:
Percentage of Hospitals with Negative Overall Medicare Margins
 1997 – 2000 Actual
 2001 – 2005 Projected



Source: The Lewin Group analysis of the Impact of the BBA, BBRA, and BIPA on Medicare Hospital Payments and Margins.

- Notes: 1) Actual data were results of The Lewin Group analysis of American Hospital Association Annual Survey data 1998 – 2000.
 2) Years 2001 – 2005 were projected using The Lewin Group simulations of the revenue effects of the BBA, BBRA, and BIPA. Costs were increased at market basket.