


HealthLeaders^{Media} FACT FILE

JUNE 2008

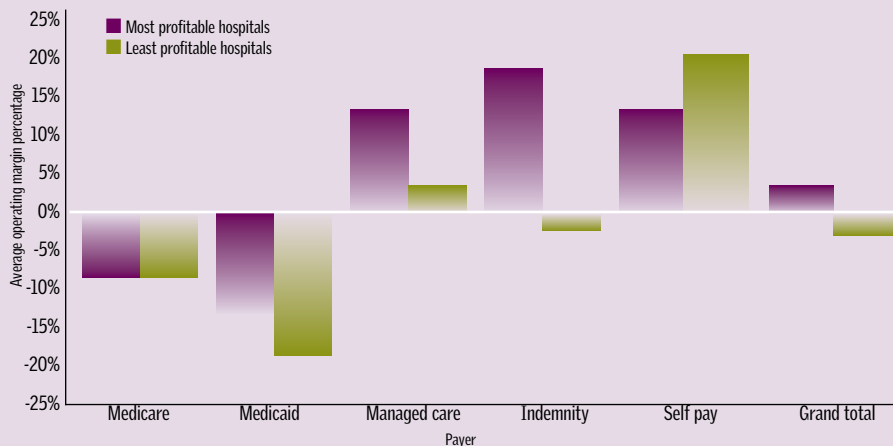
Hospital Profitability

In an uncertain reimbursement climate that includes projections that Medicare could go broke in 11 years, hospitals are increasingly being forced to get more creative in their efforts to maintain previous levels of profitability. Although there is no single magic formula for a healthy margin, one key is efficiency. A study that compared the nation's

most profitable hospitals to their less profitable brethren found that high-profit hospitals have shorter average length of stay, lower operating expenses per discharge, and a higher case mix index, suggesting that the most profitable hospitals find ways to provide care more efficiently even when they see higher-acuity patients. 

MARGINS BY PAYER

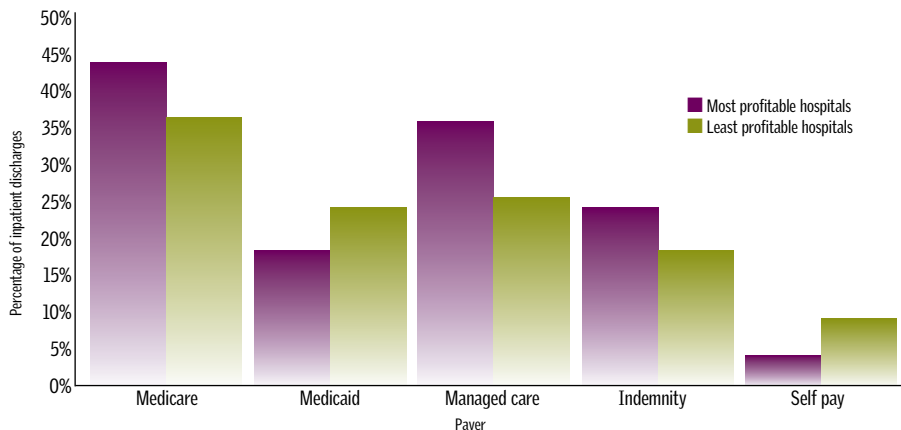
The most profitable hospitals produce better operating margins in individual aspects of their business than the least profitable hospitals with the exception of Medicare, which shows nearly identical operating margins for both groups. Both Medicare and Medicaid are associated with negative operating margins for hospitals.



SOURCE: Thomson Reuters ACTION O-I® Database, 2004-2007

PAYER MIX

The most profitable hospitals have a different payer mix than the least profitable. Highly profitable hospitals have smaller proportions of Medicaid and self-pay patients than less profitable hospitals.



SOURCE: Thomson Reuters ACTION O-I® Database, 2004-2007

State by State

Alaska hospitals have the highest expenses per inpatient day in a state ranking of the estimated expenses incurred by a hospital to provide a day of inpatient care. South Dakota has the lowest expenses.

Rank	Expenses per Inpatient Day
1 Alaska	\$2,246
2 Washington	\$2,143
3 Oregon	\$2,062
4 California	\$1,994
5 District of Columbia	\$1,910
6 Maryland	\$1,831
7 Utah	\$1,823
8 New Jersey	\$1,797
9 New Mexico	\$1,780
10 Arizona	\$1,769
11 Colorado	\$1,751
12 Massachusetts	\$1,751
13 Rhode Island	\$1,719
14 Delaware	\$1,715
15 Connecticut	\$1,713
16 Nevada	\$1,685
17 Ohio	\$1,673
18 Illinois	\$1,637
19 Texas	\$1,636
20 New Hampshire	\$1,627
21 Indiana	\$1,569
22 Missouri	\$1,560
23 New York	\$1,539
24 Maine	\$1,528
25 Pennsylvania	\$1,500
26 Florida	\$1,497
27 Idaho	\$1,484
28 South Carolina	\$1,465
29 Michigan	\$1,460
30 Wisconsin	\$1,458
31 Virginia	\$1,394
32 Oklahoma	\$1,332
33 North Carolina	\$1,320
34 Hawaii	\$1,310
35 Minnesota	\$1,300
36 Louisiana	\$1,293
37 Arkansas	\$1,238
38 Tennessee	\$1,234
39 Georgia	\$1,202
40 Alabama	\$1,198
41 Kentucky	\$1,194
42 Vermont	\$1,166
43 West Virginia	\$1,113
44 Nebraska	\$1,066
45 Kansas	\$1,055
46 Iowa	\$1,036
47 Mississippi	\$1,021
48 North Dakota	\$898
49 Montana	\$814
50 Wyoming	\$805
51 South Dakota	\$733

SOURCE: Kaiser Family Foundation, www.statehealthfacts.org

Upcoming Topic:
» Physician Staffing

FACT FILE PARTNER:



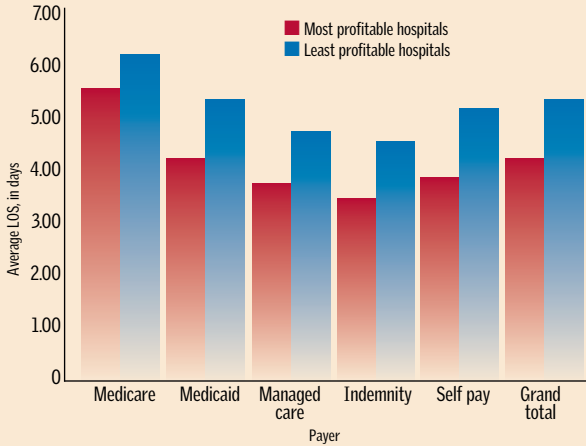
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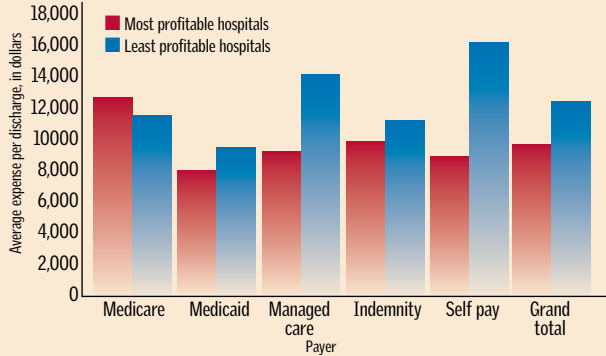
DOES PROFITABILITY MEAN EFFICIENCY?

Systematic differences exist in average length of stay between the most and least profitable hospitals. The most profitable hospitals produce lower ALOS than the least profitable. This begs the question: Are highly profitable hospitals more efficient, or do they treat lower acuity patients than their less profitable counterparts?



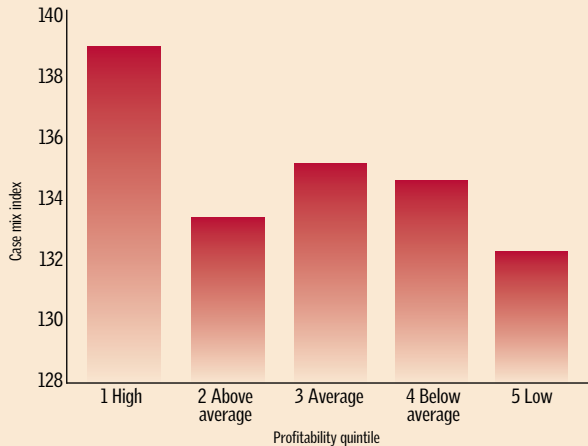
KEEPING EXPENSES DOWN

One more factor suggesting that the most profitable hospitals are more efficient than less profitable ones: The most profitable hospitals enjoy lower operating expenses per discharge, both overall and by individual payers, with the exception of Medicare.



HIGHER PROFITS, HIGHER ACUITY

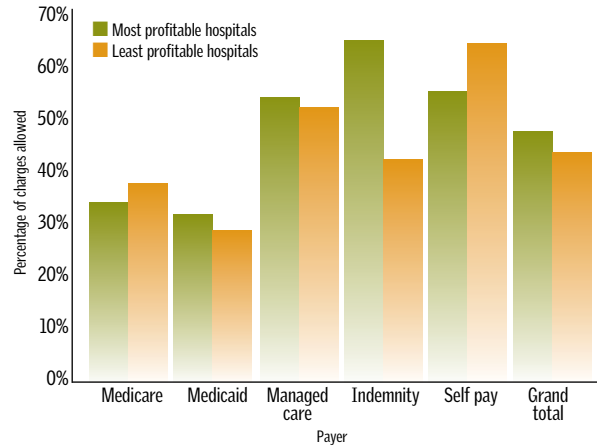
If anything, more profitable hospitals have a disadvantage: a higher case mix index. This suggests higher, not lower, acuity. Case mix indices, a way of measuring the complexity and severity of the patients a hospital sees, for the less profitable hospitals are similar. A higher case mix index combined with lower ALOS suggests that the most profitable hospitals are more efficient. The most profitable hospitals do not achieve lower ALOS and operating expense through lower-acuity patients.



SOURCE: Thomson Reuters ACTION O-I® Database, 2004-2007

KEEPING EXPENSES DOWN

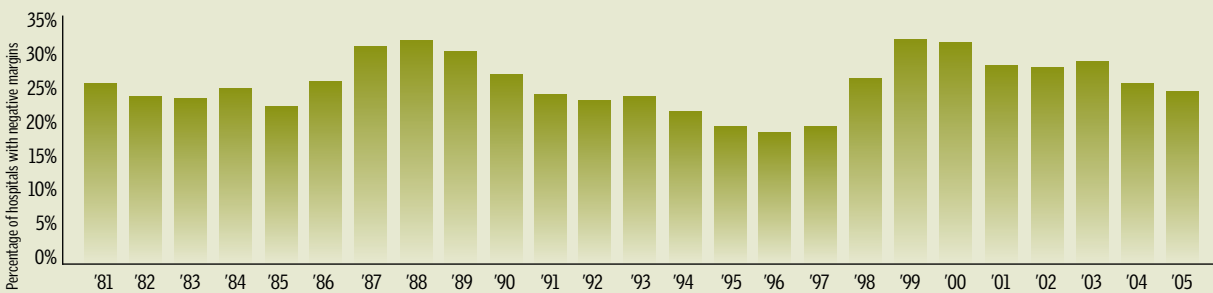
With the exception of indemnity, the percent of charges allowed by payers is similar for the most and least profitable hospitals. The total across payers is nearly identical, suggesting that the percentage of charges allowed does not seem to be a factor in whether a hospital will be more or less profitable.



SOURCE: Thomson Reuters ACTION O-I® Database, 2004-2007

WATCH THE MARGINS

After hitting a peak at the end of the 1990s, the percentage of hospitals with negative total margins has fallen slightly.



SOURCE: American Hospital Association, *Trendwatch Chartbook 2007*, Avalere Health analysis of AHA annual survey data

