Financial Trends

Hospitals are holding patient revenues and operating margins relatively steady.

The percentage of hospitals with negative operating margin is much better than the 55% in 2008Q3, but in 2011Q1, about one in five hospitals was operating in the red. Still, the overall margin for all hospitals in the first quarter of this year hit 5%, up from about 4.6% in 2010Q1.

OPERATING MARGIN BY SIZE, TEACHING STATUS

When broken down by size and teaching status, there was some variation in operating margin between 2010Q1 and 2011Q1. Major teaching hospitals experienced a peak of 6.67% in 2010Q2 and finished 2011Q1 at 4.22%. Meanwhile, small community hospitals increased margin over the period from 5.34% in 2010Q1 to 6.90%, the highest of the groups measured.

AVERAGE LOS INCREASES

The typical U.S. hospital increased its average length of stay (case mix adjusted) slightly, from a median of 3.25 days in 2010Q1 to 3.29 days in 2011Q1. Although the increase was small, it is notable because it comes after many years of annual decreases. Time will tell if this is a trend or a one-year anomaly.

ACUTE CARE DISCHARGES FALL

Acute care discharges fell again between 2010Q1 and 2011Q1, averaging a drop of 6.1% overall from a year earlier for the hospital groups Thomson Reuters studied. Of the groups, large community (-4.4%) and the smaller, less-intensive teaching hospitals (-7.7%) had the largest declines; medium-size community hospitals had a small decrease (-0.4%), and major teaching (0.1%) and small community hospitals (0.0%) remained relatively flat.

Source: Thomson Reuters ActionOI®.
HOSPITALS WITH NEGATIVE MARGINS
The percent of hospitals with negative margins is nearing 2006Q1 levels, currently at about 20%. This is down from a peak of nearly 55% in 2008Q3, but still up slightly from the lowest percent measured of about 16% in 2010Q1.

SOURCE: Thomson Reuters ActionOI®.

ANNUAL CHANGE IN HOSPITAL EXPENSES, REVENUES
Overall, hospitals’ ability to hold operating margins relatively steady over the longer term is likely tied in part to their capacity to control expenses to match fluctuations in revenues. The figure tracks annual changes in median net patient revenue and expense per adjusted discharge between 2007 and 2011. Revenue data are average wage index adjusted and expense data are AWI and case mix adjusted. In 2011Q1, revenues increased a fraction of a percent and expenses increased just 1.5%.

SOURCE: Thomson Reuters ActionOI®.

MEDICARE CASE MIX INDEX
Medicare case mix index has been increasing steadily over the past five years, indicating that hospitals are treating ever-sicker patients. For all U.S. hospitals, the median increased nearly 12% between 2006 and 2011, rising from 1.1738 to 1.3117. All of the hospital groups Thomson Reuters studied showed a similar trend, but the increases were larger for the smallest hospitals and smaller for the teaching hospitals. Larger and teaching hospitals traditionally treat the sickest patients, but these statistics may indicate that the gap between the hospital types is narrowing.

SOURCE: Thomson Reuters ActionOI®.

PATIENT REVENUES STEADY
Despite industry stresses, hospitals are holding patient revenues and operating margins relatively steady. Between 2010 and 2011, the typical U.S. hospital held net patient revenues to just over $9,300 per adjusted discharge. Of the groups Thomson Reuters studied, only medium-sized community hospitals saw a decrease in revenues in 2010. Major teaching hospitals, which historically have the highest patient revenues, enjoyed an increase of over 6% during the same period. Although they have much lower revenues, the small community hospitals had a similar increase. Large community and teaching hospitals held their revenues steady, with increases just over 3%.

SOURCE: Thomson Reuters ActionOI®.