

March 13, 2012

HOSPITAL FINANCING: THE BASICS

The hospital sector is facing many of the same pressures that the economy as a whole faces, but is taking an especially hard hit from government payers. This brief is designed to outline – and put some perspective into - the daily operations and financing of private, not-for-profit hospitals across the United States including, Florida Hospital.

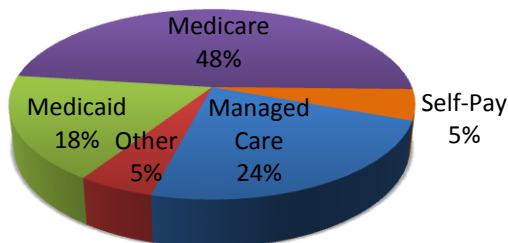
How are hospitals regulated?

Health care policies and regulations are complicated, and include federal, state and local rules. The regulations run the gamut: they prohibit us from turning people away from emergency rooms; they make sure there are enough nurses on staff; they prevent market monopolies; etc.

How does a hospital generate revenue?

Hospitals generate revenue through contracts with public and private payers. Medicare, Medicaid and TriCare are the largest public/government payers. Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and Point of Service (POS) plans are examples of private payers. Self-pay patients include those who have no health insurance and pay or do not pay part or all of the costs of their care. Hospitals also receive income from non-medical services, donations and grants, and investments.

Patient Volume by Payer



The Numbers

17,000

Number of people employed by Florida Hospital

59%

Percentage of total operating costs from salaries, wages and benefits

\$100 Million

Invested to date by Florida Hospital in Electronic Medical Records

76%

Percentage of costs covered by Medicaid

80%

Percentage of costs covered by Medicare

\$10.4 Billion

Economic impact of Florida Hospital in the State of Florida

\$40 Million

Spent every year by Florida Hospital to support innovative physician models that improve care

Public Payers

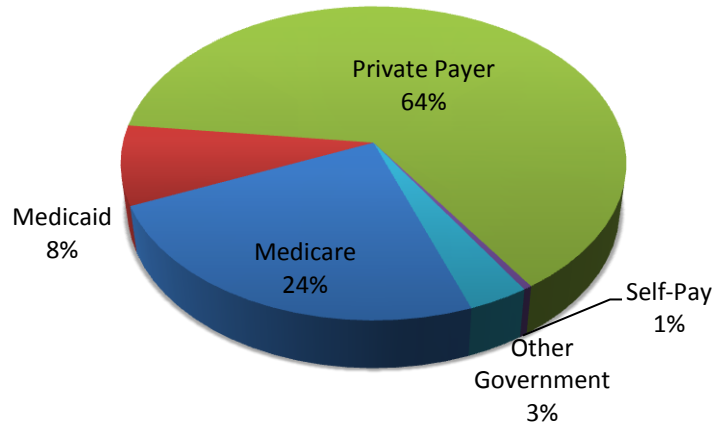
The largest number of Florida Hospital's patients comes from public payers - who do not cover the actual cost of providing care. Medicare is the nation's largest health insurance program, providing health coverage to people age 65 and older, and is funded through the federal government. Medicaid is a federal and state program that provides health coverage for low-income individuals, families, and the disabled. Between 2008 to 2011, Florida Hospital's inpatient visits grew from 56% to 71% in Medicare, Medicaid and the uninsured. As the economy worsens, the number of uninsured and Medicaid patients increases.

Medicare payments are mostly fixed per patient and depend on the diagnosis procedures performed and other criteria. In 2010, Medicare payments covered only 80% of the actual cost of treating beneficiaries.

In Florida, Medicaid covers only 76% of the care provided to beneficiaries.

Hospitals located in rural areas are facing some of the toughest challenges. Due to the large population of Medicare and Medicaid these hospitals serve, they are even more susceptible to potential and real funding cuts than larger, urban-based hospitals.

Cost Coverage by Payer



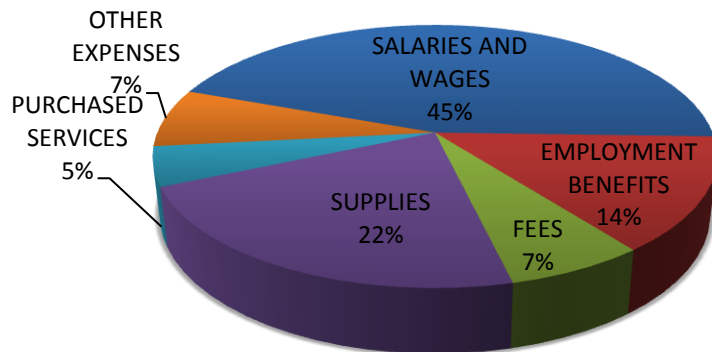
Private Payers

Payments from private payers subsidize the uninsured and low reimbursement rates from the public sector. In 2010, private payers accounted for less than 30% of total hospital patients at Florida Hospital but paid for more than 65% of the costs of running the hospital. Shifting costs to the private sector creates an unsustainable model that puts pressure on businesses and private payers alike.

What is the cost of running a hospital?

Salaries, wages and employment benefits account for the majority of the costs for running a hospital and represent 59% of the total operating costs. The next largest expense is supplies related to patient care (22%).

Hospital Expenses by Category



Charity Care

Hospitals are the front lines for providing care to disadvantaged demographic groups. On average, self-pay population payments only cover 9% of the cost of care, while 88% of patient balances are written off as charity care. In addition, a growing number of

insured patients are failing to pay deductibles and hospitals are left to cover the costs of their care; this is known as bad debt. Florida Hospital had charity losses of \$155 million in 2010, including \$24.6 million in bad debt – at cost.

“We fully support government efforts to improve quality and reduce health care costs,” said Rich Morrison, Senior Vice President, “but it is a major challenge when we lose money on well over half our patients. We cannot continue to shift the costs of entitlement programs to the private sector. It is not sustainable.

“We hope we do not see a time when we are forced to re-evaluate some of our low-margin services,” he said. “It is essential that policymakers understand this, and help us find solutions that do not negatively affect the health and welfare of our community.”

© 2012 Florida Hospital Government & Public Affairs

For more information, please contact

rich.morrison@flhosp.org (407) 303-1607 or

julia.hartwell@flhosp.org (407) 506-8425

Resources:

1. Florida Hospital, Finance Department.
2. “The Financial Health of California Hospitals: A Looming Crisis,” Mark Harrison ,Cecilia Montalvo, Health Affairs, Jan. 2002.
3. “Essentials of Health Care Finance,” Cleverley, et al. Jones & Bartlett Learning, LLC, 7th Edition, 2011.
4. “A Community Leader’s Guide to Hospital Finance,” Sarah Lane, et al. The Access Project, 2001.