Hospital Finance 101

The Key Factors Shaping Hospitals’ Financial Health
Who is CHA?

- Hospital trade association
- Represents 40 hospitals in 7 counties
- Services:
  - Workforce
  - Reimbursement
  - Emergency Preparedness
  - Advocacy
Presentation Overview

- Overall sense of how hospitals operate from a financial perspective
  - Hospital payers
  - Sources of revenue
  - Sources of expense
  - Cost drivers
  - Payer & service mix

- Effects of the recession

- Challenges facing the health system
How are hospital services paid for?

- Three primary payers:
  - Private insurance
  - Government programs
  - Self pay
How are hospital services paid for?

- Private insurance
  - Cover 68% of the population
  - Majority (60% of population) covered by employer-based health insurance
  - Remainder covered by directly purchased health insurance
How are hospital services paid for?

- Government programs
  - Together cover about 25% of the population
  - Medicare
    - Age 65+, or people with disabilities, end-stage renal disease
    - Covers 43 million nationally, 1.7 million Ohioans
  - Medicaid
    - Low-income & medically vulnerable populations
    - Covers 52 million nationally, 1.9 million Ohioans
  - VA & TRICARE
    - Veterans, active & retired military
    - Covers 11.6 million nationally
Ohio Medicaid eligibility guidelines

<table>
<thead>
<tr>
<th>Who is covered</th>
<th>Income eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children (to age 19)</td>
<td>200% FPL</td>
</tr>
<tr>
<td>Pregnant Women</td>
<td>200% FPL</td>
</tr>
<tr>
<td>Families</td>
<td>90% FPL</td>
</tr>
<tr>
<td>Older Adults (65+) &amp; Disabled Persons (any age)</td>
<td>64% FPL</td>
</tr>
</tbody>
</table>

The FPL for a family of three is $18,310.
How are hospital services paid for?

- Self pay
  - Uninsured individuals who have the ability to pay for some or all of their hospital costs out-of-pocket
  - Typically includes a large portion of working poor
  - Out-of-pocket portion growing as deductibles and co-pays rise
  - Can result in uncompensated care
Northeast Ohio Hospital Uncompensated Care

$ - $50,000,000 to $250,000,000

2001 2002 2003 2004 2005 2006 2007
What are the sources of hospital revenues?

- Four primary sources:
  - Patient care services, both inpatient and outpatient
    - i.e. ‘room and board’ for admitted patients, X-rays, physical therapy
  - Non-patient care services
    - i.e. parking garages, cafeterias, gift shops
  - Investment income
  - Grants and donations
What are the sources of hospital expenses?

- Personnel
- Pharmaceuticals
- Capital
- Other expenses: administrative supplies, lab & O.R. supplies, non-medical services such as food & automotive
Northeast Ohio Expenses

- Personnel: 59%
- Other supplies & services: 23%
- Capital expenses: 7%
- Prescription drugs: 6%
- Other operating expenses: 5%
- Other operating expenses: 5%
What factors drive hospital costs?

- Workforce shortages
- Facilities construction
- IT advances
- Treatment advances
What is payer mix?

- **Payer mix**
  - Proportion of hospital reimbursement received from different payers
  - Linked to community demographics
  - Northeast Ohio Hospitals’ Payer Mix:
    - 47% private insurance
    - 38% Medicare
    - 9% Medicaid
    - 5% self pay
    - 1% other
What is service mix?

- Service mix
  - Some services tend to be reimbursed more favorably than others
    - For example, surgical care is more profitable than medical care
    - Hospitals tend to lose money on emergency departments, trauma units, burn units and intensive care units
How has the recession affected hospitals?

- Proportion of uninsured ED patients is up
- More patients unable to pay for care
- More patients covered by public programs for low-income populations
- Fewer patients seeking inpatient and elective services
- Physicians looking to hospitals for help
- Decline in hospital financial health
- Slowdown in capital projects
Challenges facing the health system

- Uninsured
  - 46 million nationally
  - 11% of Ohioans
  - 132,000 people in Cuyahoga County

- Decline in employer-sponsored insurance
  - Between 2001 and 2005:
    - Percent of employees covered by employer-sponsored insurance fell from 81.2% to 77.4%
    - Premiums for family of four grew between 9% and 14% annually
Challenges facing the health system

- Health spending continues to rise
  - Utilization is rising
    - More interventions available now than historically
    - Treatments & technologies increasingly expensive
    - Rise in chronic disease incidence
Striking a balance

COST

ACCESS

QUALITY
Striking a balance

- **Cost**
  - Has risen due to:
    - Increased utilization
    - Medical advances
    - New technologies
    - Workforce shortages
    - Worsening overall health of the population
  - Influences affordability of private insurance, adds stress to public programs
Striking a balance

• Access
  ◦ Uninsured & underinsured
  ◦ Challenges with dental, mental health & vision services
  ◦ Primary care shortage
  ◦ Urban challenges include public transportation availability & hours that clinics are open
Medically Underserved Areas

Map AHC 8.2
Primary Medical Care Shortage Areas and Medically Underserved Areas
Cuyahoga County, 2007

Shortage Areas by Census Tract
- Entire Population
- Medicaid (Low-Income) Population Only
- Homeless Population Only
- Medically Underserved Census Tracts
  - CHA Member Hospitals
  - Federally Qualified Health Centers

Municipalities and Cleveland SPAs
- City of Cleveland

Note: Statistical Planning Areas (SPAs) in the city of Cleveland are neighborhoods grouped by census tracts.

Source: Dept. of Health and Human Services, Health Resources and Services Administration
Striking a balance

- Quality
  - Using proven clinical pathways
  - Incorporating health information technology
    - EMR (electronic medical records)
    - CPOE (computerized physician order entry)
    - eMAR (electronic medication administration record)
  - Addressing healthcare disparities
  - Eliminating errors, preventing infections
Conclusions

- People use the health system differently today than they did 20 years ago
- Payer and service mix determine a hospital’s ability to remain financially viable
- Any health system must make choices in how they balance cost, access, quality
Questions?

For more information go to

www.chanet.org