Digging Into Hospital Finances
Key documents and recent trends -- Mar. 27, 2024
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Stories You Can Do on Hospital Finances

1) two hospital CEOs made $49m and $33m

2) Hospital patronage: jobs, $ for insiders, lobbying, charity care, community benefit, investments, purchasing...

3) Hot surgeries: Cutting Babies Tongues to ease breastfeeding. Hernia repairs disfigure patients, Gender surgeries nearly triple. Weight loss surgery booms in NYC

4) Six crucial data sources that will help you find stories

5) How to find human sources to talk to
Hospitals face big financial challenges in 2024

- Bankruptcies spiked. Labor & supply costs rose. Interest rates, insurer denials are up. Medicaid cut 15m people.
- Stand-alone and public hospitals are vulnerable
- 50% of rural hospitals lose $$ on operations; 30% at risk of closing. KS, NY & WY are worst
- Pressure to stop losing operations (baby delivery, mental health, clinics)
- Change Health cyber attack affected 94% of U.S. Hospitals. Health care is most at risk from attacks (100m people affected in 2023)
Labor is still hospitals’ biggest headache

• **Super stressful nursing jobs** - deaths, fears of disease - led to big exodus

• So hospitals **jacked up wages**, giving $100k retention bonus and $30k sign-on bonuses. Agency nurse pay soared.

• International hiring is a solution. **But broken immigration system frustrates many people** - Wash Post 12-21-23

• Staff shortages affect nursing homes even more
Check your ER. Recent survey finds lots of boarding

- My 97-year-old mother-in-law just spent 24 hours on a gurney in the ER. They gave her a bed pan and 6 blankets.
- ER boarding is rampant, says this survey of 34 academic centers.
- The hospital can’t discharge to nursing homes, rehab or home health. Patients back up across the hospital
- “This is the new normal... and it is very hard for people to get timely access to care” at hospitals. - Penn ED doc Austin Kilaru
- ProPublica stopped its ER Inspector in 2019. But it tells you how to get local waits and includes EMTALA violations
Vast mergers have occurred. It's a common strategy to squeeze more $$ from insurers

- 1,887 mergers slashed # of hospitals by 25% from 1998 to 2021. Fell from 8k to 6k: AHA,
- **637 systems now comprise 91% of US hospital beds and 51% of physicians:** JAMA
- U.S. system makes it more profitable to get bigger to raise prices than to invest in better care: JAMA
- Acquirers often raise prices and shut services like ICU, labor & delivery, and psych.
- This most affects people of color & rural residents
- Top 10 systems now control 24% of market - Deloitte
New state-of-the-art Atlanta hospital meets the future by cutting out psych beds!

- Children’s Healthcare of Atlanta’s $1b hospital aims to be “transformative”
- Yet it lacks inpatient psych beds.
- CHOA said it wasn’t wise to build an inpatient psychiatric unit. “Kids are better served through the specialized psychiatric expertise” in other facilities, said Dr. Daniel Salinas.

- Carrie Teegardin, Atlanta Journal Constitution, Oct. 16, 2022
Religion plays a growing role in hospital systems

- Five of the 10 largest private systems are run by religious groups; four are Catholic, one Seventh-Day Adventist
- Catholic systems have grown by 50% since 2001
- Huge effect on elective abortion, contraception, LGBTQ care. “All these systems use doctrine to restrict care.” - The Hospital Equity and Accountability Project
- Abortion bills pending in many states
Nonprofit hospitals now act like for-profits in many ways

- Many hospitals hound patients for money
- They move facilities to rich areas
- They treat rich patients better
- And they grow large to get more $$ from insurers. -NYT Profits over Patients series WSJ 12-26-22
Outpatient vs Inpatient Revenues 1994-2018

Source: Deloitte analysis using data from AHA annual survey and Medicare Cost Reports (via IBM Truven Health Analytics).
Hospitals will shrink, outpatient will rise more

- COVID sped up the trend
- Most Telehealth expansion rules are still in place but expirations are close.
- Psychotherapy online remains hot
- Dialysis, chemo are going to homes
- Deloitte sees 35% drop for inpatient by 2030.
- **Hospitals slap billions of fees on outpatient** – wsj 3-25-24
- Focus more stories on outpatient care.
An outpatient story: Home dialysis grows but faces big problems

- In 2019, HHS set goal for 80% of patients to get at home dialysis or transplants by 2025. (13.3% of new patients got it in 2020, up from 6.8% in 2010)
- But the U.S. system is riddled with outmoded rules and huge racial disparities.
- Richer patients can get home dialysis. Black and Latinx have much lower uptake
- What holds home dialysis back - USA Today 2-18-24
MPT lent Steward millions to fuel its acquisitions in 8 states. MPT bought many Steward buildings, then leased them back to Steward, generating millions in income.

Steward is in a big cash crunch. Trash is uncollected, bills unpaid. 3,000 bats were found in a Steward hospital in Fl. The bat removal firm sued for $1.6m in unpaid bills.

Investors bought Watsonville hospital & sold land to MPT, which got rent from the hospital: 2 years later, hospital went bankrupt.

Such “sale leaseback” deals have surged – WSJ 3-31-2022
Private equity bets big on health care

- PE bought my gastro’s practice
- PE controls 2/3rd of anesth & gastro, raising prices with lower quality - KHN 11-22-22
- Nursing homes deaths rose and mobility fell, a Wharton study found
- PE worsened hospital quality - NYT 12-26-23
- PE is buying into booming hospice field, ER staffing firms, DSOs, (dental) ambulances & rural hospitals.
- PE quadrupled projects in last decade, spending $1 trillion on 8k deals: PitchBook
- Leveraged buyouts: (big debt, rollups of competitors, pay off in 5-7 years)

Note: Often gets the latest tech & improve output. Yet are also famously opaque with layers of ownership
U.S. hospitals are a debt generating machine. Their finances may rely on collections

- Hospitals hire collection firms. Check lawsuits. Get hospital’s policy.
- 100m have med debt - 41% of adults
- 1 in 7 in debt say they’ve been denied care
- Counties with the most disease have 3-4 times the medical debt, *Urban Institute* says
- Poor and southerners have more debt
- Chicago, New Orleans, Pittsburgh & Toledo use $16m from 2021 COVID relief to forgive debt.
Brace for more uninsured patients, Check EMTALA violations

- 15m people lost Medicaid in 2023
- More uninsured will wash up in ERs.
- It’s a good time to look at EMTALA violations. Emergency Medical Treatment and Labor Act keeps hospitals from “dumping” patients for $$ reasons. Must stabilize them.
- Check hospital inspections* FOIA CMS
- Hospitals put up obstacles, delay checking eligibility and sometimes don’t give refunds even if a patient qualifies – wsj 8-25-2022
- Note: AHCJ’s hospitalinspections.org should come back soon
No Surprises Act prohibits most surprise billing, but one loophole looms large

- The act took effect on 1-1-22 but does not apply to ground ambulances
- Firms settle disputes in arbitration
- High ambulance bills are common. 28% of commercially insured ambulance rides from 2014–17 led to a potential surprise bill. - Health Affairs 1-18-23
- Patient costs tended to be higher for private equity– or public firm–owned ambulances than private ones
Plight of the undocumented; A decade-long hospital stay!

- Activists stopped an Allentown hospital from repatriating a comatose woman to Dominican Republic. (She had a brain aneurysm, was left in coma after surgery. Hospital wanted to charge her husband for $500 a day or deport her)
- Jersey City Medical Center discharged an undocumented man after 10 years, by getting him citizenship, Medicaid, & a nursing home bed.
- Housekeepers in Philly illegally will be with a family for 30 years, "something happens to them, and they're dumped at our door," a hospital case manager says. - Michael Vitez, Philly Inquirer
Hospital Finances: Why We Care

- Among a region’s largest employers
- Comprise 30% of U.S. health spending
- They buy costly devices, sell bonds, build buildings, employ lobbyists & manage $$.
  Ascension Health 2022: $19.5 billion in cash reserves
- Many hospitals collect more $$ than local governments yet get less media scrutiny.
  Pittsburgh $685m vs UPMC $28b
- Finances can affect quality of care.
  Hospitals are a safety net, treating the uninsured and leading care in an epidemic.
Rise & Fall of the House of AHERF: How I got into hospital finances

• Once the largest system in PA with 14 hospitals, 31,000 workers, $2b revenues, two medical schools
• CEO made $1.2 m plus “stock options.” Got a $120k raise after laying off 1,700 and vowing to make less
• The PR head made $220,000; Spent big to recruit docs.
• Held malpractice meetings from Paris to Cayman islands while nurses lacked supplies. Secretly gave $50k to high school of the CEO’s son to upgrade facilities. CEO’s wife commuted on the corporate jet to med school.
• Allegheny was the nation’s largest nonprofit bankruptcy
• System spent $70m in restricted research funds. Top 3 execs eventually pled guilty. Board (execs from Mellon Bank, USX, Heinz) represents an oversight failure.
Key question: What kind of hospital do you have? There are 3 types

- Nonprofit: 58%
- For-profit, 24%
- Gov’t public: 18%

NOTES:
The kind of hospital will dictate which documents you get
Hospitals may be part of systems or companies or stand-alone facilities:
These are “community” hospitals. Others include federal, psych and LTC hospitals
Source: American Hospital Association; 2024 Fast Facts
Public hospitals are fading away, and it may hurt the poor the most

- They have **fallen by 42%** from 1983–2019
- Locals don’t want to subsidize losses
- It can be simpler to outsource operations
- Medicaid expansion may help replace them
- Many are still located in the south
- When hospitals privatize, they admit fewer Medicaid patients, and other hospitals don’t help. Medicaid members may not get care or must travel further for it. **Privatizing could hurt people of color and the poor the most.**

*Wharton economist Atul Gupta*
Hospital Finances: Some Basics

- Low profit margin, 1% to 8% (profits/revenues) vs Big Pharma: 25%
- Rely on Medicare, Medicaid (Ave. 61% of rev US 2016). Higher % is worse
- ‘Nonprofits?’ They are tax-free
- Community Benefit: nonprofits repay
- Rising uncompensated care (charity & bad debt) can be key in profit and loss.
- Boards run nonprofit hospitals (expertise?)
- For-profits’ billing scams. Tenet, HCA
5 ways Medicare can ding hospitals up to 6% for performance

1) Readmissions: max of 3%  See KHN Lookup Tool here
2) Value Based Purchasing 2%
3) HAC 1% (Hospital Acquired Conditions)  KHH Tool
4) Meaningful use (EMR, systems that talk to each other) .5%, 3/4\textsuperscript{th} of next year’s rise.
5) Quality Data (penalized if you don’t submit)
Records don’t tell the whole story

• Don’t rely on documents alone. Interview! Never print a number without knowing its derivation.
• Use these documents to inform the reporting and use reporting to inform these documents.
1) Audited Financial Statements

• The gold standard for assessing a hospital's finances. Hospitals give them to banks, bondholders, suppliers & agencies so you should get them.

• TIP: Don’t accept a simplified, glossy version.

• Find experts to review them. Don’t tough it out.
How well is your hospital doing? Emma is the motherlode for nonprofit hospital finances

- Emma gives you financial results, market share, plans, suits & more. All must be told to investors on SEC’s Emma: [http://emma.msrb.org/](http://emma.msrb.org/)
- It also gives quarterly results (rare & useful)
- You can track mergers & downgrades.
The SEC’s EMMA

- Sign up for MyEmma alerts for events, mergers, downgrades
- Some systems do custom pages
- For-profits may sell bonds thru a conduit & be on Emma
- Shows contributions by advisors/underwriters
- It’s a fed database with freakin’ free support! 202 838-1500
  msrbsupport@msrb.org
2) Bond Prospectuses

- **Best document to read** if budgets scare you.
- Nonprofit hospitals sell bonds to raise $ and modernize their facilities. The prospectus summarizes the risks of those bonds.
- They show a hospital's market position, financial performance and prospects. Major suits may be disclosed.
- Great for merger stories
- **HOW TO GET THEM:** From emma.msrb.org
  From the hospital; a good bond/stockbroker; Bloomberg terminal;
- **DRAWBACKS:** They come out only when the bonds are sold so they may be out of date. Usually nonprofits issue them, not for-profits.
After closing three nursing homes and making hundreds of elderly residents move to new quarters last winter, the Temple University Health System is facing another challenge: criminal investigations of its defunct homes by state and federal prosecutors.

The health system disclosed the probes in documents describing a bond sale to renovate and add to Temple University Hospital.

Source: SEPTEMBER 21, 2003 Sunday Karl Stark INQUIRER STAFF WRITER
3) Bond Rating Reports

- Bond ratings evaluate a hospital’s business and gauge investors' risk to be repaid. Rating agencies typically give ratings reports free to media. Lexis may have them too.
- Ratings Explained: [http://www.treasurer.ca.gov/ratings/sp.asp](http://www.treasurer.ca.gov/ratings/sp.asp)
  
  **Moody’s Investors Service:** 212 553-0376 or 0377 mediarelations@moodys.com

- **Fitch**: [https://www.fitchratings.com/media-relations](https://www.fitchratings.com/media-relations) Sandro Scenga sandro.scenga@thefitchgroup.com

- **Downside**: They can miss stuff. Rating firms are paid by hospitals. In 2008, both Moody’s and S&P gave high ratings to 11 distressed groups. Lehman Bros got an A a month before it collapsed. Hospital ratings seem more reliable
4) IRS Form 990: Philly’s best paid hospital CEO made $7.4m. It is the place to go for nonprofit CEO pay.

- Nonprofit doesn’t mean no profits; It means no taxes on income or land.
- 990s are nonprofits’ tax returns. Hospitals issue them annually to justify their tax-free status and show what they do for the community.
- 990s are useful for pay packages, conflicts of interest, # of employees, community benefit, and board members’ names, but not finances.
- Get them: By law, hospitals must give them in a timely way. (same day in person) AHCJ runs a 990 site – hospitalfinances.org -- focused on what’s most useful for health reporters. Also GuideStar.org (IRS delays release), and ProPublica.
- Drawbacks: Finances are older than most recent financial statements. The 990s may conflict with audited financials. GUIDESTAR DOES NOT ALWAYS GET ALL THE SCHEDULES! Systems may file one schedule H.
990s Greatest Hits

Line A: Time covered; Line 5: total # of employees.
Line 10: investment income.
Line 12 total revenues
Line 18 expenses Line 19 excess/deficit (profit or loss for the year)

**Schedule H:** shows community benefit, charity care, bad debt & more

**Schedule J:** Part II Highest Compensated Employees

**Schedule L:** Transactions with Interested Persons. Hospitals must reveal family or business relationships among board members, officers and top employees.
AHCJ Presents 990s database specifically for health reporters

- Hospitalfinances.org
- Top salaries
- Charity care/Community benefit/Bad Debt
- Profit/Loss/Investments
- Family Business relationships
- Lobbying & more
CEO Compensation: Key is benchmarking salaries

- Sanford Health CEO Kelby Krabbenhoft got $49m payout. Sentara CEO got $33m. Execs often get $$ at the end.
- Compare top salaries at your local hospital to those of similar size in your area or state. Modern Healthcare does a survey. Benchmarking is key.
- Contrast exec salary hikes to past performance. If salaries jump, have results risen too?
Schedule H Highlights

- Adds up money spent on community benefit
- IRS includes charity care and Medicaid underpayments. It excludes bad-debt reporting and Medicare revenue
- Hospitals cite clinics and education
- Describes management firms and joint ventures
- In 2017, IRS let systems report as one entity
Nonprofit hospitals gave far less charity care than for-profits despite billions in tax breaks

- Most spent less on charity care and community investment than their estimated tax breaks — [Low Institute](https://www.lowinstitute.org) 3-26-24
- These nonprofit hospitals, comprising most U.S. facilities, wrote off in aggregate 2.3% of patient revenue on paying for patients’ bills. Their for-profit competitors, including publicly traded [HCA Healthcare](https://www.hcahealthcare.com) Inc., wrote off 3.4%, the WSJ found.
- “I don’t think people understand how little” hospitals spend on free and discounted care – Harvard’s Nancy Kane.
- Teaching hospitals were among the worst in charity care
Schedule J Highlights $$

• Shows if anyone got first-class charter travel, companions travel, housing $$, personal residence, health/social club dues

• Other goodies: Severance or change in control payments; retirement plan and equity-based pay deals; comp based on revenues, net earnings.
Schedule L: Conflicts of interest are rising as hospitals diversify

- Univ of Md. Med System CEO resigned in 2019 after the Baltimore Sun found that 9 of 30 board members had deals worth millions with UMMS.
- Memorial Sloan Kettering's chief med officer resigned in 2018 after he failed to disclose millions he got from drug and health firms in papers in 2017, a NYT & ProPublica probe found.
- "Some CEOs load the board with people they know who will not necessarily act independently," consultant Paul Keckley told Modern Healthcare.

- Alex Kacik, Modern Healthcare
Big pressure on nonprofit hospitals to pay something instead of taxes

- Yale’s 3 hospitals pay Conn $200m a year
- Morristown (N.J.) Medical Center in 2016 paid $15.5 million in back taxes and penalties, plus $1 million a year in property taxes from 2016 to 2025
- NJ now requires PILOT payments from hospitals of $3 per bed per day or $550k a year for a 500-bed hospital
- PA Court: 4 Tower Health hospitals are ineligible for tax exemptions because of “eye popping” pay.
Scrutinize the nonprofit board!

- Do members have health experience?
- Do they get quality reports at meetings?
- Term limits? (essential)
- Diversity?
- Do biz with the place?
- Go to a board meeting!

Sam Steinberg consultant
A NJ powerbroker draws $$ from a Camden hospital

- From 2008 to 2010 Cooper paid over $40m to firms tied to its board members.
- These included the insurance business of Cooper Board chair George Norcross and his brother’s law firm.
- These were far more than any Philly system.
- Cooper also spent $500k on lobbying, the most in NJ. That made it tops in state grants, DRPA $$ and federal $$. A state bill gave it the most $$ to treat uninsured.
- After The Inquirer questioned them, Cooper amended its IRS disclosure, cutting insider dealings by 94% - Philly Inquirer 3-25-2012
How a tiny hospital enriched its board in Bucks County, PA

• The year before bankruptcy, Lower Bucks Hospital paid $2.5m to firms linked to 4 trustees.

• $1.6m to the Seltzer Co., an insurance firm owned by board chair Ron Selzer; $1m to a doctor on the board for his practice and $11m to a construction firm linked to the vice chair for the ER and 4th floor renovation.
Sleepless in Seattle? A choice nugget from a hospital’s 990

- Swedish Health Services in Seattle paid a sleep disorder doctor $10 million in a year.
- Board includes ex-Microsoft exec, Nordstrom store heir, chair of the Seattle Repertory Theatre Board etc.
5) Greatest hits of Medicare Cost Reports

Nearly every hospital files one. Great for for-profits

Can show the most profitable hospitals in the area, the state or country

It details $$ to outside businesses owned by hospital leaders (Schedule A-8-1 Part B).

It lists "outlier" payments which Tenet gamed and got $900m fine. (Worksheet E Part A)

S-10 shows uncompensated care;

**Downsides:** limited to Medicare population.
How 3 teams used cost reports

- KHN asked a Johns Hopkins prof to review cost reports to explain the sudden closing of a rural hospital in Mexico, Mo.
- WSJ used them to measure nonprofit Hospitals’ Skimpy Charity Care and how COVID $$ went to many centers that didn’t need it.
- NYT used them to analyze links between nursing home profits and the broken star ratings system.
Here are the top 20 hospitals that hire the most contract labor

- Contract labor (aka independent contractors) is a big trend
- *Definitive Healthcare* used *Medicare Cost Reports in a 11-2022* study to find U.S. hospitals with the most contract labor.
- Many were in high-cost Cal. List included Johns Hopkins Hospital and Barnes-Jewish
America’s Most Profitable Hospitals

The nation’s most profitable was 235-bed Flowers Medical Center in Dothan, Ala. with an eye-popping 53% operating margin. (Owned by for-profit Community Health Systems).

Del Sol Medical Center in El Paso snared 2nd with a 45% margin (HCA-owned).

15 of the top 25 hospitals were for-profits.

The American Hospital Directory compiled the list from hospitals’ Medicare cost reports.
How to get Medicare Cost Reports

- Get them from HHS here
- Or Rand’s Hospitaldatasets.org. They’re eager to work with reporters. Christopher Whaley
- Costreportdata.com is also open to reporters’ inquiries
- American Hospital Directory also works with reporters
6) Hospital billing data, finding hot surgeries, a potential gold mine for reporters

- These can tip you to growing admissions, diagnoses, surgeries & procedures
- In Pa., we used [HC4 to document items left behind after surgery](https://www.hc4.com"
- NYT used [AHRQ data to get at gender surgeries](https://www.ahrq.gov"
- 23 states have this info and 8 more are coming
- AHRQW is building a national database
- Can also buy Medicare for national data
- Can get the data yourself or use a firm like ahd.com or Definitive Healthcare
- Some errors and missing data are concerns
How to find hospital finance experts

- Health Policy profs in med/public health/biz schools
- Hospital consultants (They work for hospitals so they may have a conflict)
- Healthcare Financial Management Association
- Former hospital executives
Some health policy & hospital finance experts

- Paula Chatterjee, University of Pennsylvania
- Leemore Dafny, a professor of business administration at Harvard Business School
- Martin Gaynor, Carnegie Mellon University
- Ge Bai, a professor of accounting at Johns Hopkins Carey Business School,
- William Schpero, a health economist and assistant professor at Weill Cornell Medicine.
- Atul Gupta, Wharton School
- Colleen Grogan, University of Chicago
Association of Health Care Journalists

Lots more help on the AHCJ web site. These include:

- How to understand a 990
- Tools for covering hospitals: Financial documents
- Medicare and Medicaid 101

AHCJ, based at the University of Missouri’s J-school, is the world’s leading group of health reporters with over 1,400 members in the U.S. and 19 countries.

AHCJ does not take industry money. Tip sheets are written by working reporters & editors
990 Experts

- Roger Colinvaux – former Joint Committee on Tax staff, now law professor at Catholic University of America Columbus School of Law colinvaux@law.edu 202-319-5146
- John Colombo – Univ of Ill. Emeritus law professor and muckraker on nonprofit hospitals, jcolombo@illinois.edu (217) 333-7985
- Mike Sanders – lawyer representing nonprofits Sanders@blankrome.com
- Rick Grafmeyer – former Joint Committee on Taxation and Finance Committee staffer, now a partner with Capitol Tax Partners Grafmeyer@capitoltax.com
- Jessica Curtis, consultant, former senior adviser for the Hospital Accountability Project at Community Catalyst in Boston https://www.linkedin.com/in/jessica-curtis-35892b4a/
- Keith Hearle (former state of CA. public health official) President Verite Healthcare Consulting Washington, DC Keith.Hearle@veriteconsulting.com
- Taylor Foy Communications Director for Sen. Chuck Grassley, key architect of the 990 revamp in 2008. (202) 224-6708 Taylor_Foy@grassley.senate.gov
May your stories always be rising

- Don’t hesitate to reach out.
- AHCJ can connect you with other journalists who can help.
- AHCJ listserv is also a dynamic place to get help.

- Karl Stark 215 356-7403 karlst@wharton.upenn.edu