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THE THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY

Hospital Finances Show a Profitable Industry

By Mike Thompson

12/18/2015 – Once again, the financial numbers from the hospital industry show that it is doing very well overall. Close to 80% of the hospitals in our state are profitable. The number of hospitals running operating deficits have decreased each of the last three years.

Our study last month showed that the hospitals had made, industrywide, a year over year profit (November 2013 to November 2014) of 10.7%. Immediately the VHHA came out and said, according to WINA radio in Charlottesville, that our study was “flawed.” that the hospitals “still face financial pressures,” and that one third to one half of the hospitals were operating in the red.

However, the official hospital numbers on the Virginia Health Information (VHI) website don't reflect those statements. A 10.7% profit margin doesn't show an industry in financial crisis. And the VHI hospital numbers showed that 25% of the hospitals were running in the red – not 33% and not 50% as was stated by the VHHA lobbyist. Surely 25% is a number that should be reviewed to determine if public policy changes are appropriate. But to misrepresent this number as dramatically as was done unnecessarily distorts the public discussion.

And now comes the new, up-to-date numbers reported after our November study and laid out in our new study ([here](#)) show that in the most recent year-over-year figures, the hospitals as a whole enjoyed a profit of 8.6%. This is on top of the 10.7% profit in the previous year. Not bad for an industry bemoaning its financial troubles. And the number of hospitals operating with deficits decreased by fourteen (14) while those that found operating profits turn to operating deficits were seven (7). Thus, on the whole, the industry finds itself with a net of seven (7) fewer hospitals that are running deficits according to their own numbers. And these new numbers show that 21.7% of the reporting hospitals were running deficits. So there are fewer hospitals running operating deficits (13% fewer) in this most recent reporting period than in our report last month.

Indeed, if you look at the past three years of financial reporting, the number of hospitals running “in the red” has fallen each year – from 42 in 2013, to 39 in 2014 and now to 34 in 2015.

In a four page letter to Governor McAuliffe dated December 1, the VHHA paints a picture of an industry in dire need of government help. The letter refers to declining reimbursements, more than \$600 million in discounted services to the poor, hospitals subsidizing Medicaid by more than \$400 million, and reductions in Medicare reimbursements. This VHHA
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letter goes on to say that all of this “threatens serious harm to this key sector of Virginia’s economy. Virginia’s local hospitals and health systems simply cannot continue to absorb these reductions.”

It is hard to comprehend what the VHHA is talking about when it couches its letter and its public statements in a way that indicates the industry as a whole is faced with pending financial disaster. The numbers that are reported by these hospitals and health care facilities simply show a different story.

The new numbers – those posted on the VHI website – show that the combined profit of the reporting hospitals was \$1.9 billion, an 8.6% increase year-over-year, or a profit industrywide in Virginia of \$150 million more than a year earlier.

And the new total net worth of the hospitals listed on the Virginia Health Information website is \$58.3 million more than a year earlier.

The hospital industry in every region of our state is profitable. Only the southwest region was less profitable than a year earlier. But every region is profitable.

All regions of the state, except the Central region, had increases in the net worth for the hospitals overall. The Central region had a lower overall net worth because one hospital, CJW in Richmond, reported its net worth declined, perplexingly, by over \$1 billion.

This new analysis by the Thomas Jefferson Institute ([here](#)) shows that the hospitals in Virginia are doing very well. Of course, some specific hospitals continue to show operating losses and we ought to look at this 21% of the industry. But for the hospital industry lobbyists to say that the entire industry is facing financial disaster is not supported by the numbers. The hospitals’ own numbers show that the industry continues to show healthy profits year over year.

The hospital industry supports the expansion of Medicaid because it says it is hurting financially. The hospital industry opposes the elimination of the anti-competitive Certificate of Public Need (COPN) because it says it can’t afford competition. The newly released financial numbers from the hospitals themselves clearly show this industry as a whole is doing very well. For it to say otherwise is simply not supported by the facts.

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Michael Thompson is currently the Chairman and President of the Thomas Jefferson Institute for Public Policy. The views expressed here are his own and do not necessarily reflect those of the Thomas Jefferson Institute or its Board of Directors. He can be reached at info@thomasjeffersoninst.org.