

Hospital Talking Points

Institute for Health and Socio-Economic Policy Study Linking Hospital Charges to Hospital Profits

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Higher gross hospital charges can be linked to higher profits, according to a study by the Institute for Health and Socio-Economic Policy (IHSP), commissioned by the California Nurses Association. This institute has prepared similar reports for the California Nurses Association, one of the largest nursing unions in the country.

In their report on gross charges and costs among U.S. hospitals, IHSP contends that hospitals charging the most tend to produce the most profit or net income. The 4,184 hospitals in the study of public data from 2002 and 2003 on average charged a 232 percent markup, up 13 percent from the previous year. The study found that Pennsylvania, New Jersey, California, and Florida are the most expensive states in which to be hospitalized, whereas highly-regulated Maryland had the lowest average markup.

Key Messages:

- The study asserts that charges drive high health care costs. Charges are not the key driver of health care costs. The largest driver of health care costs is utilization, which in Pennsylvania is attributable largely to Pennsylvania's older population. Other cost drivers include pharmaceuticals, energy, liability insurance, technology, workforce, and inefficient payment systems.
- The study asserts that higher charges correlate with higher profits. This is not true in Pennsylvania, where in 2002 almost half of hospitals had negative total margins, and almost 7 out of 10 had negative patient care margins.
- The study confuses the issue of "charges" vs. "payment." While hospitals bill charges for services, few payors—whether Medicare, Medicaid, commercial insurers, the uninsured, or self-pay patients—actually pay full charges.
- Hospitals strive to meet the essential health care needs of all patients, regardless of their ability to pay. In Pennsylvania, hospitals annually provide approximately a half billion dollars in uncompensated care to the uninsured or underinsured. Pennsylvania hospitals also work to link patients to other financial assistance, such as Medical Assistance (Pennsylvania's Medicaid program), the Children's Health Insurance Program (CHIP), or the adultBasic insurance program. (Additional information about billing and collection practices in Pennsylvania's hospitals—including HAP's charity care guidelines—is available online at http://www.haponline.org/public/charity_care/.)

- The study incorrectly links the issues of hospital charges and pharmaceutical company pricing. There is absolutely no connection between hospital charges and pharmaceutical company pricing.
- The study attempts to show the impact of charges on DRG relative weights. It also attempts to link the issue of outlier payments with charge-to-cost ratios. For both DRG relative weights and outlier payments, the report oversimplifies the process of making these adjustments and misrepresents the impact of charges on reimbursement systems.
- The study detracts from the real issues driving health care insurance premium increases, health care costs, and financially struggling hospitals:
 - The growing numbers of uninsured Americans, many of whom are employees or their dependents.
 - The complexity of government payment systems and the impact that complexity has caused.
 - Inadequate reimbursements from Medical Assistance, which in Pennsylvania only cover about 75 percent of the cost of care.
 - The growing levels of uncompensated care being borne by hospitals.
 - Ever higher medical liability insurance premiums being faced by hospitals and physicians.
- Charges are not the problem or where the debate needs to be; rather, the debate should be focused on solutions to the growing problem of uninsured individuals.

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