Hospital margins sink in Pennsylvania

In Pennsylvania, hospitals are struggling to stay financially afloat and as a result trying new corporate structures

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Pennsylvania acute care hospitals are facing something of a financial sustainability crisis, forcing health systems to rethink organizational mergers and management.

One third of Pennsylvania’s hospitals had negative operating margins in the 2013 fiscal year, according to the Pennsylvania Healthcare Cost Containment Council, an independent state agency. Of the 173 licensed general acute care hospitals — including three new ones opened by Einstein, UPMC and Wellspan — half had margins below the 4 percent threshold considered necessary for long-term stability, the council found.

Over fiscal year 2013, 59 hospitals, or 35 percent, saw a loss in operating margins, and 22 percent have had average losses over the last three years combined.

[See also: Collaboration as merger alternative: Health systems seek new model.]

Along with declining Medicare reimbursement in some areas, the Hospital and Health System Association of Pennsylvania points to uncompensated care as one large source of the losses, amid an ongoing debate about expanding Medicaid in a state with some 1 million uninsured residents.

Between 2012 and 2013, uncompensated care costs for PA hospitals grew by 5 percent, totalling more than $1 billion, according to the Cost Containment Council.

All of Pennsylvania’s non-general acute care facilities — for rehabilitation, psychiatric, long-term acute care and specialty services — had positive margins in the most recent fiscal year, according to the council. But hospitals still account for the bulk of health system revenue, and trends in Medicare reimbursement and bad debt have left a number of organizations struggling (see chart below).

The University of Pennsylvania saw an average 9.5 percent operating margin across its four main hospitals, with a 10 percent margin over the last three years. The region’s largest health system, Jefferson, saw an average operating margin just shy of the black last year, although many of its facilities had high operating margins and it’s three year average is around 2.8 percent. Jefferson’s flagship 930-bed University Hospital had a 5.4 percent margin and three of the main hospitals of Main Line Health had operating margins over 10 percent.

Compared to greater Pittsburgh, where Highmark and UPMC are both the largest commercial payers and the largest providers, greater Philadelphia has two main commercial payers, Independence Blue Cross having more than half of the market, and dozens of hospitals and health systems with varying levels of organizational integration.

Southeastern Pennsylvania has “historically had an oversupply of hospitals,” said Robert Fields, a Drexel University health policy professor and Philly.com healthcare blogger. “I think it still has more hospital beds than it needs.”

The Delaware and Ridley Memorial hospitals, a part of Main Line Health (itself a member of Jefferson Health System), saw negative margins, along with the Tenet-owned Hahnemann and the University of Pennsylvania teaching hospitals.

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The two organizations are in the midst of a restructuring under the Jefferson Health System, though Jefferson Health System’s board recently voted to continue joint clinical and academic programs and ACO and payer management, while having each organization manage strategic decision-making and financial oversight.

“Today’s healthcare environment requires that we reimagine the way healthcare is delivered,” said Stephen K. Klasko, MD, President and CEO of Thomas Jefferson University and TJUH System, in a media release. “We collectively realized that the existing corporate structure needs to be changed to allow us to be more entrepreneurial, nimble and responsive. Jefferson looks forward to an increasingly vibrant clinical and academic relationship with Main Line Health.”

Meanwhile, Abington Health, Aria Health, Crozer-Keystone Health System and Einstein Healthcare Network are trying out an institutional partnership, but without consolidation, partnering for joint clinical and payment collaboration under an organization called the Noble Health Alliance.