



Fact Sheet: Profitability of Mississippi Hospitals

Statistics on the profitability of Mississippi hospitals have been circulating on the radio talk-show circuit in Mississippi. We have heard statements ranging from Mississippi is the most profitable state for hospitals in the nation to our state is in the top five most profitable states. They state that American Hospital Association (AHA) data is the source for their numbers.

The AHA does publish *Hospital Statistics* annually and they do include financial information in their book, but with the full disclaimer that the data is collected voluntarily. Hospitals are not required to submit the data and many do not. The book clearly states that estimates are made for non-reporting hospitals. According to the data provided in the guide, Mississippi is the seventh most profitable state, with an average profit margin of 8.2% (of the hospitals that answered the survey). ***Hospital Statistics is a useful guide to track national hospital trends for analysis and comparison but it is not considered a comprehensive reference for the financial condition of hospitals.***

To get an accurate picture of Mississippi hospitals' financial condition, we can look at Medicare cost report data, which is a mandatory reporting tool for any hospital that accepts Medicare patients and is often used to judge the financial health of hospitals. Below is a five-year trend for the median profit margins of Mississippi hospitals.

Mississippi is the 37th most profitable state in the nation according to Medicare cost report data.

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
1%	3.4%	4.3%	2.9%	2.7%

Many statistical reports use weighted averages in their comparisons. This is because when dealing with smaller numbers a very profitable or a very unprofitable hospital can affect the median profit margin numbers. Below is a five-year trend for the profit margins of Mississippi hospitals using weighted averages. ***Mississippi is the 30th most profitable state in the nation according to Medicare cost report data - even considering weighted averages.***

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
6.5%	6.4%	1.6%	4.5%	4.3%

In 2004, U.S. hospitals reported an average profit margin of 5.2%, according to the AHA report previously referenced. Moody's Investors Service, which follows more than 500 hospital systems, reported an average hospital profit margin of 4.5%. Mississippi is below the averages reported for both AHA and Moody's. (And it is important to note that all of these numbers are pre-Katrina. Health policy statisticians believe that Hurricane Katrina negatively impacted hospital profit margins in Mississippi.)

A common misconception is that a hospital can operate at a break-even point as long as it is covering its day-to-day cash needs. The reality is that, to keep clinically and structurally up-to-date and to be able to borrow money when a hospital needs it, the hospital must have sound fiscal health - just like any other business. Hospitals with significant financial strains and significant debt burdens may have access to capital, but from a more limited number of sources and at a higher cost than hospitals with limited debt burdens and healthier margins. According to a 2004 study by the Healthcare Financial Management Association (HFMA) along with GE Healthcare Financial Services, Mississippi is one of the top five states (#4) with the highest percentage of hospitals with limited access to capital.