

CHANGES IN PAYER MIX AND NET INCOME FOR DETROIT-AREA HOSPITALS

BY ALLAN BAUMGARTEN

The Affordable Care Act expanded health insurance coverage in three significant ways: by increasing eligibility for Medicaid, mandating that individuals have insurance coverage, and providing subsidies to make insurance more affordable. In Michigan, data from the most recent Current Population Survey shows that the percentage of the population without insurance has dropped from 11% in 2013 to 6.1% in 2015. This is well below the national average, which dropped from 10.4% in 2013 to 9.1% in 2015.

One impact of the growth in coverage has been a shift in how inpatient hospital stays are paid for. In 2014, government programs, both Medicare and Medicaid, paid for 77% of inpatient hospital days at Detroit-area hospitals. The remaining 23% were covered by commercial insurers, both group and individual plans, and self-paying patients, which includes people without insurance.

This briefing paper analyzes trends in inpatient hospital days for Detroit-area hospitals, focusing on changes in the number of inpatient days covered by Medicaid and the share of Medicaid-covered days in the payer mix for each hospital and system. It also examines how the expansion of public insurance has affected the bottom lines of hospitals and systems in the Detroit area.

The data come from the annual Medicare facility cost reports that each hospital submits to its Medicare intermediary. The data file is available for download from the Centers for Medicare and Medicaid Services. Note that each hospital reports based on its fiscal year and that many of the hospitals may have a June 30 fiscal year, for example. In that case, their inpatient days and net income in 2014 would only reflect the first three months of the Medicaid expansion.

TRENDS IN INPATIENT DAYS AND PAYER MIX

After reaching a peak of 2.5 million in 2007, the number of inpatient days provided by Detroit area hospitals has fallen every year but one since then. By 2015, the number of inpatient days had fallen to 2.261 million. **Exhibit 1** shows that the total number of inpatient days for these hospitals increased very slightly in 2014 but then dropped by 51,000 in 2015. The decrease in inpatient care volume can be attributed to several causes. First, after the recession many people lost their health benefits or were moved into a high deductible health plan, causing many people to put off elective procedures for which they would have to pay a greater share. Second, there has been a general trend to move certain kinds of procedures out of inpatient settings and to ambulatory settings, both in hospitals and in physician offices and other facilities.

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EXHIBIT 1
Inpatient Days Covered by Medicaid, 2013 to 2015

SYSTEM	MEDICAID DAYS			CHANGE 2015/2013	% OF MEDICAID			CHANGE 2015/2013
	2013	2014	2015		2013	2014	2015	
Beaumont Health	123,363	141,396	154,606	25.3%	16.6%	18.3%	19.5%	17.6%
Tenet Detroit Medical Center	140,117	161,230	169,130	20.7%	39.0%	42.7%	46.6%	19.4%
Henry Ford Health System	75,608	78,931	85,466	13.0%	18.9%	20.5%	22.2%	17.7%
Trinity Health	19,885	24,032	8,247	-58.5%	13.7%	16.9%	10.6%	-22.6%
St. John-Providence	83,782	84,389	97,427	16.3%	20.4%	21.1%	24.3%	19.0%
McLaren Health	18,895	21,924	22,957	21.5%	17.5%	20.4%	21.8%	24.6%
Other	11,821	10,468	13,740	16.2%	12.8%	13.7%	17.3%	35.2%
TOTAL Medicaid	473,471	522,370	551,573	16.5%	21.0%	23.1%	25.5%	21.4%
TOTAL All Payers	2,256,677	2,260,739	2,209,648	-2.1%				

While overall inpatient days fell, those covered by Medicaid increased in 2014 and in 2015, growing by a total of 78,000 days or 16.5%. The number of Medicaid inpatient days increased at five of the six systems—only Trinity Health saw a decrease in the number of inpatient days provided to Medicaid recipients. (The decrease was at St. Joseph Mercy Port Huron, which was sold after the fiscal year to Prime Healthcare of California. It operated only about half of its beds in 2015.) Furthermore, virtually all the increase in inpatient days was for Medicaid recipients enrolled in HMOs.

The Beaumont Health hospitals showed the largest increase in Medicaid inpatient days, providing 31,000 (25.3%) more days in 2015 than in 2013. The Tenet Detroit Medical Center hospitals, which provided the most inpatient days covered by Medicaid of the six systems, 169,000 in 2015, showed an increase of 20.7%.

The number of inpatient days covered by Medicare in 2015 was almost the same as in 2014. As Medicaid days increased, the number of days covered by other payers decreased. In 2013, other payers covered 27.8% of inpatient days. By 2015, that proportion had dropped to 20.7%. When using the

Medicare cost reports, the other payers number is calculated as the residual of total inpatient days after subtracting inpatient days covered by Medicare and Medicaid, including HMO plans. In this analysis, we are unable to calculate what proportion of the other payers number is covered by commercial insurance and how much represents people without insurance. Still, it is reasonable to conclude that, in 2015, Medicaid covered a significant proportion of the inpatient hospital days provided to uninsured patients in previous years.

TRENDS IN HOSPITAL OPERATING INCOME AND NET INCOME

Since posting losses in 2008 and 2009, Detroit-area hospitals have generally enjoyed increasing profitability. However, they have lost money on operations and were only able to report positive net income because of significant other revenues, mostly from (1) government grants, (2) investment revenues, and (3) philanthropy. For example, Detroit-area hospitals lost \$134.6 million on operations in 2012, but had other revenues of \$499.4 million, giving them net income of \$367.9 million and an average margin of 3.4% of net patient revenues.

EXHIBIT 2
Operating Income and Net Income for Detroit-Area Hospitals, 2013 to 2015

SYSTEM	OPERATING INCOME			CHANGE 2015/2013	NET INCOME			CHANGE 2015/2013
	2013	2014	2015		2013	2014	2015	
Beaumont Health	\$93,800,448	\$202,790,428	\$226,809,089	\$133,008,641	\$158,157,347	\$276,028,585	\$301,624,848	\$143,467,501
Tenet Detroit Medical Center	-146,139,582	-62,644,341	23,954,246	170,093,828	-618,506	45,258,021	133,650,956	134,269,462
Henry Ford Health System	-164,124,564	-126,499,130	-125,967,904	38,156,660	-26,517,706	2,013,254	7,887,611	34,405,317
Trinity Health	-36,316,039	-36,063,442	2,278,854	38,594,893	15,584,448	15,145,630	14,767,492	-816,956
St. John-Providence	33,749,834	42,842,581	54,357,594	20,607,760	105,327,238	160,525,324	78,623,682	-26,703,556
McLaren Health	-11,387,548	-12,902,184	7,947,366	19,334,914	44,981,605	39,280,709	19,192,766	-25,788,839
Other	-47,728,784	-14,626,651	-56,763,523	-9,034,739	-10,846,571	7,367,159	-42,849,057	-32,002,486
TOTAL	-\$278,146,235	-\$7,102,739	\$132,615,722	\$410,761,957	\$286,067,855	\$545,618,682	\$512,898,298	\$226,830,443

Exhibit 2 shows that Detroit-area hospitals had even deeper operating losses in 2013—\$278.1 million. However, they had much better operating results in 2014, almost breaking even on operations. And in 2015, they posted operating income of \$132.6 million. This is a remarkable swing in a two-year period, improving operating results by \$410 million. Combined with other revenues, they had net income of \$545.6 million in 2014 and \$512.9 million in 2015. Note that other revenues decreased by about \$108 million in 2015, from \$514.9 million to \$407.1 million.

It is important to recall that the cost report data don't specify how much hospitals spend each year on care for people without insurance. In addition, hospitals in Detroit and the rest of the state have been working diligently to improve revenues while reducing expenses. Still, it is reasonable to conclude that a portion of this significant improvement in hospital finances was due to a reduction in the number of people without insurance.

SUMMARY

As in other metropolitan areas, hospitals in the Detroit region have seen a steady decline in inpatient hospital care utilization in the past five years. The enactment of the Affordable Care Act and the expansion of coverage to several hundred thousand residents of the state through Medicaid and subsidized individual insurance has not reversed or even stopped that overall trend. But it has resulted in an increase in the number of inpatient days provided by Detroit-area hospitals paid for by Medicaid.

Some portion of those new Medicaid days were provided to patients who were previously uninsured. This reduction in care provided to persons without insurance has occurred at the same time that hospitals have enjoyed improved profitability. Changes under the new administration that would reduce the number of persons with public or private health insurance would be potentially damaging to hospitals in the area.