Select Financial, Operating and Patient Characteristics of Physician Owned Hospitals Compared to Non-Physician Owned Hospitals

Fact Sheet with Supplemental Charts and Appendix

Submitted to:
Federation of American Hospitals (FAH)
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Submitted by:

Dobson | DaVanzo
HEALTH ECONOMICS CONSULTING

Al Dobson, Ph.D.
Randall Haught
Kimberly Rhodes, M.A.
Collin McGuire, M.H.S.
Lorraine Otero, M.S.
Joan DaVanzo, Ph.D., M.S.W.

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Fact Sheet

Dobson | DaVanzo recently examined select operating, financial and patient characteristics of hospitals in categories defined by hospital ownership.[1] This fact sheet provides descriptive statistics for physician owned hospitals (POHs) compared to non-physician owned hospitals. Exhibit 1 provides these statistics in tabular form, while Figures 1 through 12 present the data graphically.

The POHs represented in this fact sheet were identified based primarily on a June 2016 Physician Hospitals of America list and subsequent FAH/AHA review. Non-POHs are defined as the remaining acute care hospitals that are paid under the inpatient hospital prospective payment system (IPPS) defined under Section 1886(d) of the Social Security Act.[2] Using the FY 2023 Hospital IPPS Final Rule and Correction Notice Impact Public Use File and FY 2020-2021 Medicare Cost Reports, we identified 163 POHs and 3,020 non-POHs for inclusion in the analysis.[3]

The data were drawn from the FY 2020-2021 Medicare Cost Reports,[4] the FY 2023 Hospital IPPS Final Rule and Correction Notice Impact Public Use File, the FY 2022 CMS 100% Research Identifiable (RIF) File Fee-For-Service (FFS) claims and Master Beneficiary Summary File (MBSF) data for inpatient and outpatient services. Specific data sources for each variable are provided in the Appendix.

The statistics included in Exhibit 1 and Figures 1 through 12 show the differences in select hospital operating, financial and patient characteristics between POHs and non-POHs. **Overall, these data indicate that compared to non-POHs, POHs generally treat a population that is younger, less complex or comorbid, and less likely to be dually eligible or non-white, and that POHs have higher margins and lower unreimbursed and uncompensated care costs as a percent of net patient revenue compared to non-POHs.** Specifically, POHs had: 1) lower Medicaid discharges as percent of total discharges, 2) lower percent of Medicare inpatient claims with Emergency Room services, 3) lower percent of Medicare inpatient claims for patients with dual eligibility, 4) lower percent of Medicare inpatient claims for patients aged 85 years or older, 5) lower percent of Medicare inpatient claims for non-white patients, 6) lower percent of Medicare discharges for patients with a primary or secondary diagnosis of COVID-19, and 7) lower mean number of CC/MCCs[5] per Medicare claim when compared to non-POHs.

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[1] This study was commissioned by the Federation of American Hospitals (FAH) and the American Hospital Association (AHA).

[2] Critical Access Hospitals (small rural hospitals), Psychiatric Hospitals, Inpatient Rehabilitation Facilities, Long Term Care Hospitals, and Pediatric Hospitals are excluded.

[3] Note that the number of hospitals included can vary by metric, based on the available data; please refer to the Appendix for details.

[4] Medicare Cost Reports data for FY 2021 is incomplete, for missing hospitals we used their FY 2020 cost report.

[5] CC is defined as complicating or comorbid condition. MCC is defined as a major complicating or comorbid condition.

POHs also had: 1) a lower percentage of hospitals located in rural areas, 2) a higher percentage of hospitals with Medicare maximum readmission penalty of 3%, 3) higher patient care and overall Medicare margins, and 4) lower unreimbursed and uncompensated care costs as a percent of net patient revenue than non-POHs. While not shown, additional analyses of FY 2018-2020 Medicare Cost Reports and FY 2019-2021 Medicare claims data indicate similar patterns and consistency in the differences between POHs and non-POHs over time.

Exhibit 1: Summary Statistics for Physician Owned Hospitals (POHs) and All Other Medicare IPPS Hospitals (Non-POHs)

	POHs	Non-POHs
Number of Hospitals	163	3,020
Hospital Financial and Operating Characteristics		
Percentage of Hospitals with Medicare Maximum Readmission Penalty of 3%	5.6%	1.0%
Percentage of Hospitals Located in Rural Areas	6.8%	24.0%
Patient Care Margin[6]	15.3%	-1.4%
Overall Medicare Margin[6]	-0.3%	-8.3%
Total Unreimbursed and Uncompensated Care Cost as a Percent of Net Patient Revenue[7]	3.1%	6.7%
Hospital Patient Characteristics[8]		
Medicaid Discharges as a Percent of Total	3.5%	8.4%
Percentage of Medicare Inpatient Claims with Emergency Room Services	39.1%	79.0%
Percentage of Medicare Inpatient Claims for Patients with Dual Eligibility	15.6%	26.3%
Mean Number of CC/MCCs per Medicare Claim	2.3	3.7
Percentages of Medicare Inpatient Claims for Patients who are 85 Years or Older	12.1%	19.7%
Percentage of Medicare Inpatient Claims for Patients who are Non-White	17.5%	22.3%
Percentage of Medicare Inpatient Claims for Patients with a Diagnosis of COVID-19 (Primary or Secondary)	4.1%	8.6%

Source: Dobson | DaVanzo analysis of FY 2020-2021 Medicare Hospital Cost Report data, FY 2022 Medicare RIF claims data, MBSF data, and FY 2023 Medicare IPPS Impact File data.

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[6] Margins are calculated as aggregate revenues minus aggregate costs, divided by aggregate revenues across all hospitals in the group.

[7] Unreimbursed and uncompensated care costs are defined as Line 31 from the Worksheet S-10, which includes the total unreimbursed cost for Medicaid, CHIP, and state and local indigent care programs, the cost of charity care, and the cost of non-Medicare and non-reimbursable Medicare bad debt expense. This metric is calculated as aggregate Unreimbursed and Uncompensated Care Costs divided by net patient revenue across all hospitals in the group.

[8] Data represent weighted averages across providers in the group using number of discharges.

Charts

Physician Owned Hospitals (POHs) and All Other Medicare IPPS Hospitals (Non-POHs)

Figure 1: Medicaid Discharges as Percent of Total Discharges, FY 2021
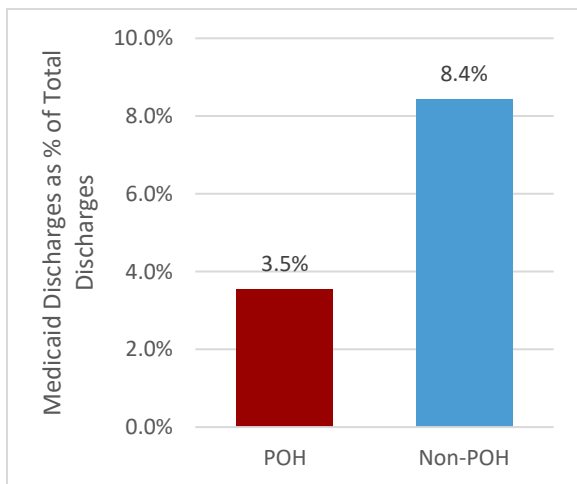

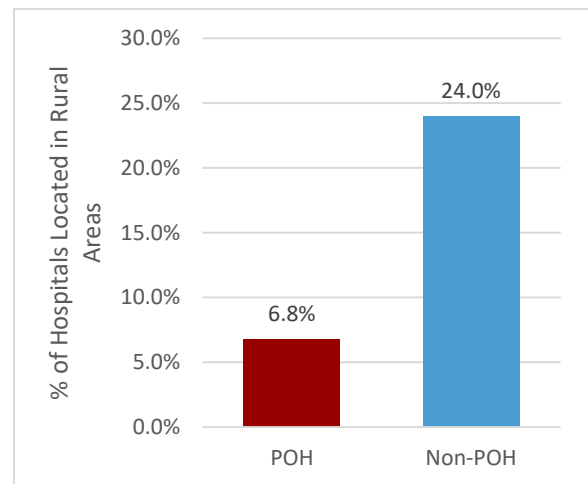**Figure 3: Percentage of Hospitals Located in Rural Areas, FY 2023**

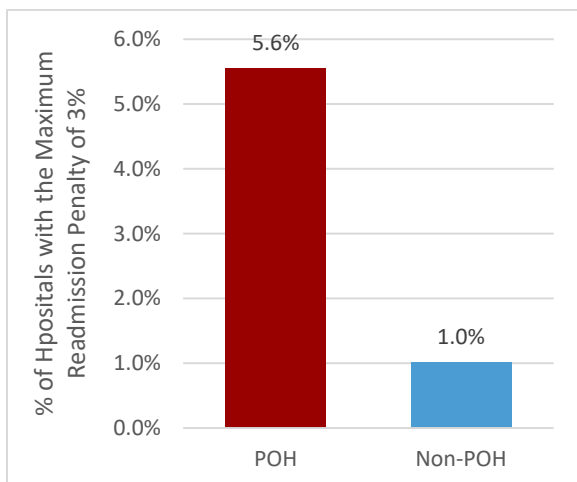**Figure 2: Percentage of Hospitals with Medicare Maximum Readmission Penalty of 3%, FY 2023**
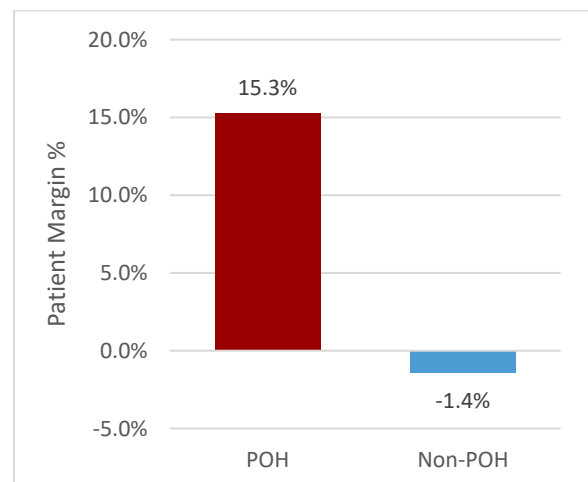

Figure 4: Patient Care Margin, FY 2021
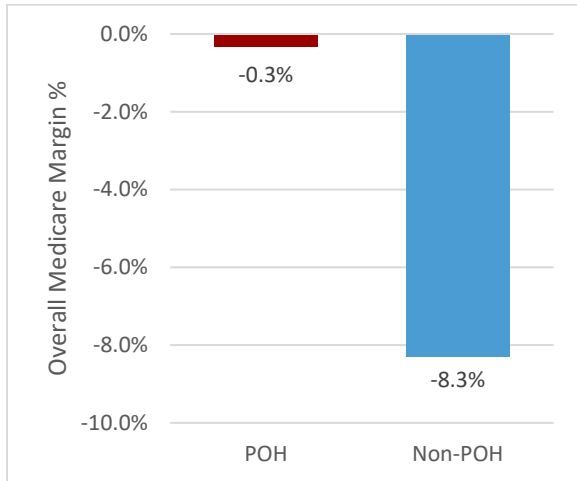
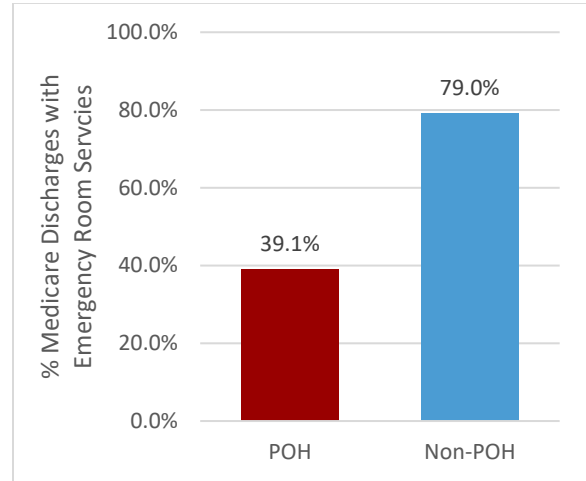**Figure 5: Overall Medicare Margin, FY 2021**

Figure 6: Total Unreimbursed and Uncompensated Care Costs as Percent of Net Patient Revenue, FY 2021

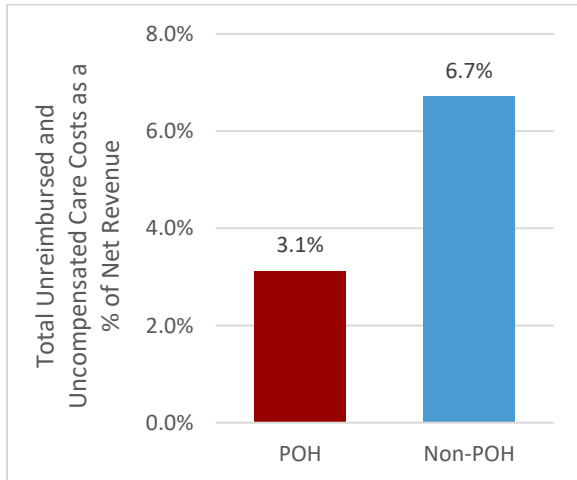**Figure 7: Percentage of Medicare Inpatient Claims with Emergency Room Services, FY 2022**

Figure 8: Percentage of Medicare Inpatient Claims for Patients with Dual Eligibility, FY 2022
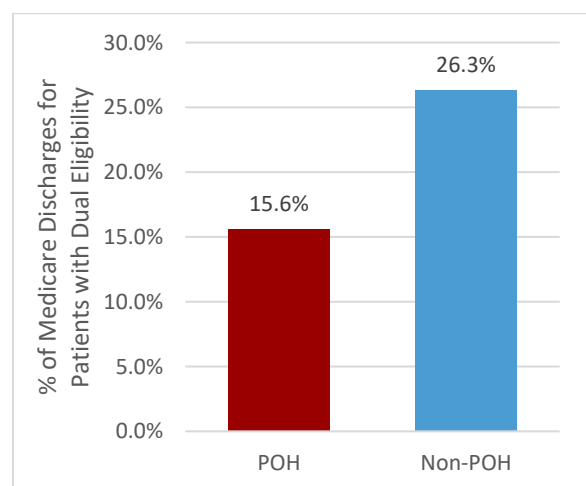
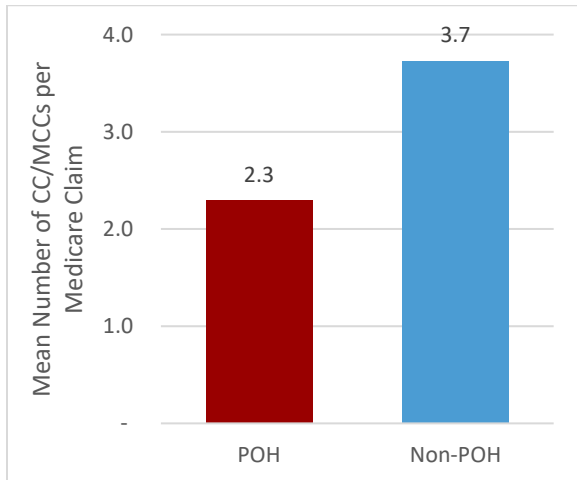**Figure 9: Mean Number of CC/MCCs per Medicare Claim, FY 2022**

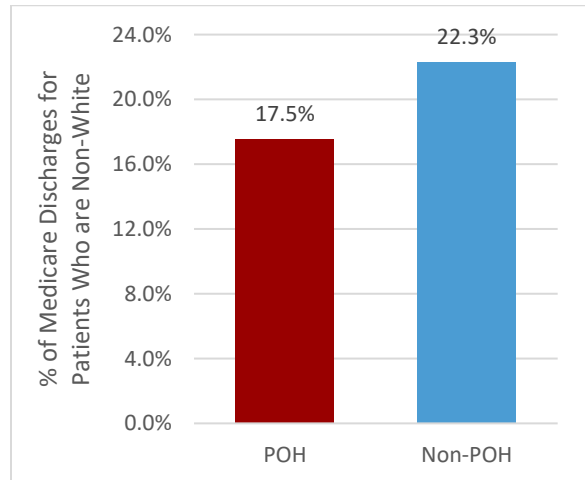**Figure 11: Percentage of Medicare Inpatient Claims for Patients who are Non-White, FY 2022**

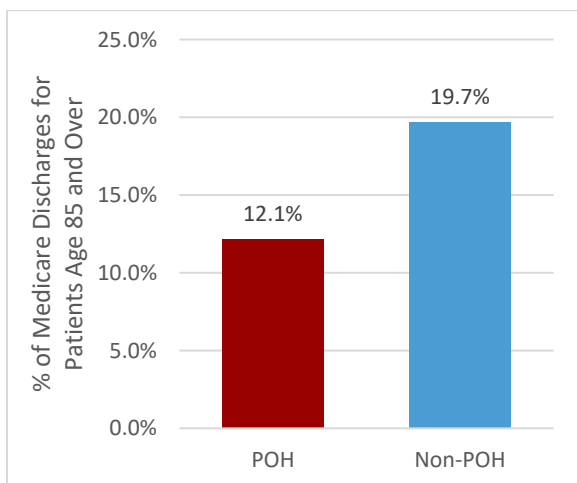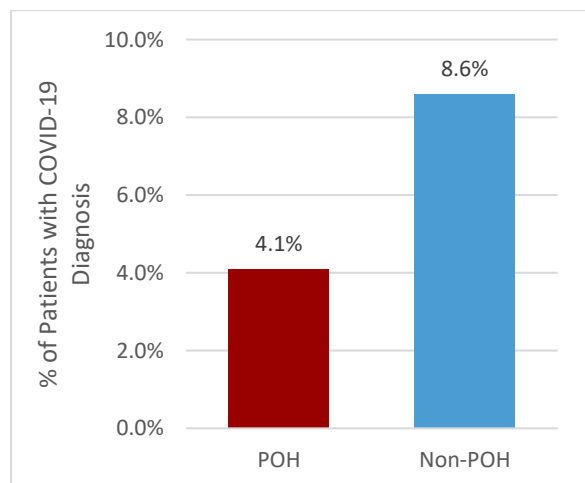**Figure 10: Percentage of Medicare Inpatient Claims for Patients who are 85 Years or Older, FY 2022**

Figure 12: Percentage of Medicare Inpatient Claims for Patients with COVID-19, FY 2022

Appendix

Appendix: Data Sources Used to Calculate Summary Statistics

Source: FY 2020-2021 Medicare Cost Reports				
Data Point	**Worksheet**	**Line**	**Column**	**Number of Hospitals Reported**
Medicaid Discharges as a Percent of Total Discharges	S-3	14	14	POHs = 163 Non-POHs = 3,020
Total Discharges	S-3	15	14	
Net Patient Revenue	G-3	3	1	
Other Revenue	G-3	8 to 24	1	
Total Revenue	Sum of Net Patient Revenue and Other Revenue (excludes donations, contributions, investment income and COVID-19 funds)	Line 3 + (Lines 8 to 24)		
Operating Expense	G-3	4	1	
Other Expense	G-3	28	1	
Total Expense	Sum of Operating and Other Expense	4 + 28		
Patient Margin[9]	(Net Patient Revenue – Operating Expense) / Net Patient Revenue			POHs = 158 Non-POHs = 2,851
Overall Medicare Margin[10]	Sum of Medicare cost and revenues for inpatient, outpatient, IPF units, hospital-based SNFs, hospital-based HHA, and GME			POHs = 152 Non-POHs = 2,892

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[9] Hospitals with margin less than -50% or greater than 50% were excluded from the analysis.

[10] Hospitals with Medicare margin less than -50% or greater than 40% were excluded from the analysis.

Source: FY 2020-2021 Medicare Cost Reports				
Data Point	**Worksheet**	**Line**	**Column**	**Number of Hospitals Reported**
Total Unreimbursed and Uncompensated Care Cost[11] as a Percent of Net Patient Revenue	S-10	31	1	POHs = 163 Non-POHs = 2,962

Source: FY 2022 CMS 100% Research Identifiable Claims and Master Beneficiary Summary File Data			
Data Point	**File**	**Variable(s)**	**Number of Hospitals Reported**
Percentage of Medicare Paid Inpatient Claims with Emergency Room Services	FY 2022 Inpatient Claims File, FY 2022 Inpatient Revenue File. ER claims were defined as having charges in revenue centers (045X or 0981, and revenue center charge > 0).	REV_CNTR, REV_CNTR_TOT_CHRG_AMT	POHs = 159 Non-POHs = 2,974
Percentage of Medicare Paid Inpatient Claims for Patients with Dual Eligibility	FY 2022 Inpatient Claims File. Inpatient discharges for beneficiaries with dual eligibility were defined as having MBSF dual status code (01-06 or 08 in the month of discharge).	DUAL_STUS_CD_01 – DUAL_STUD_CD_12	
Mean Number of CC/MCCs per Medicare Claim	FY 2022 Inpatient Claims File, FY 2022 CC File, FY 2022 MCC File. Diagnosis codes on Medicare paid inpatient discharges identified as CC or MCC using the Medicare CC and MCC list with primary diagnosis exclusions for each corresponding FY.	ICD_DGNS_CD1 – ICD_DGNS_CD25	

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[11] Hospitals with uncompensated care cost less than 0 or uncompensated care cost as percent of net patient revenue greater than 100% were excluded from the analysis. Hospitals with charity cost less than 0 or as a percent of net patient revenue over 100% were excluded from the analysis.

Source: FY 2022 CMS 100% Research Identifiable Claims and Master Beneficiary Summary File Data			
Data Point	**File**	**Variable(s)**	**Number of Hospitals Reported**
Percentage of Medicare Paid Inpatient Claims for Patients Aged 85 or Older	FY 2022 Inpatient Claims File. Inpatient discharges for beneficiaries who are 85 years or older (with age_code on claim = 6 or MBSF age at end of reference year >= 85).	AGE_AT_END_REF_YR, DOB_DT	
Percentage of Medicare Paid Inpatient Claims for Patients who are Non-White	FY 2022 Inpatient Claims File. Inpatient discharges for beneficiaries who are non-white (with RTI race code not equal to 1 (non-Hispanic White)).	RTI_RACE_CD	
Percent of Medicare discharges for patients with diagnosis of COVID-19 (primary or secondary)	FY 2022 Inpatient Claims File. Medicare paid inpatient discharges for beneficiaries with principal or secondary diagnosis of B9729 (1/27/2020-3/31/2020) or U071 (4/1/2020 and after)	ICD_DGNS_CDX	

Source: FY 2023 Hospital IPPS Final Rule and Correction Notice Impact Public Use File			
Data Point	**File**	**Variable(s)**	**Number of Hospitals Reported**
Medicare readmission penalty	FY 2023 Medicare IPPS Impact File data. Percent of hospitals with Proxy Readmission Adjustment Factor = 0.97.	Readmission Adjustment Factor	POHs = 162

Non-POHs = 3,051 |
| Percentage of Hospitals Located in Rural Areas | FY 2023 Medicare IPPS Impact File data. Percent of hospitals with URGEO = RURAL. | URGEO | |