



CHAPTER 7 HOSPITALS



BUSINESS BEATS BASICS

HOSPITALS

INTRODUCTION

Healthcare is a massive beat. From rural health and the impact of medication pricing to the transparency of medical billing, there are many business stories out there just waiting to be covered, both on a national and local scale. For the purpose of this chapter, we'll zero in on a single aspect of the healthcare beat: covering hospitals.

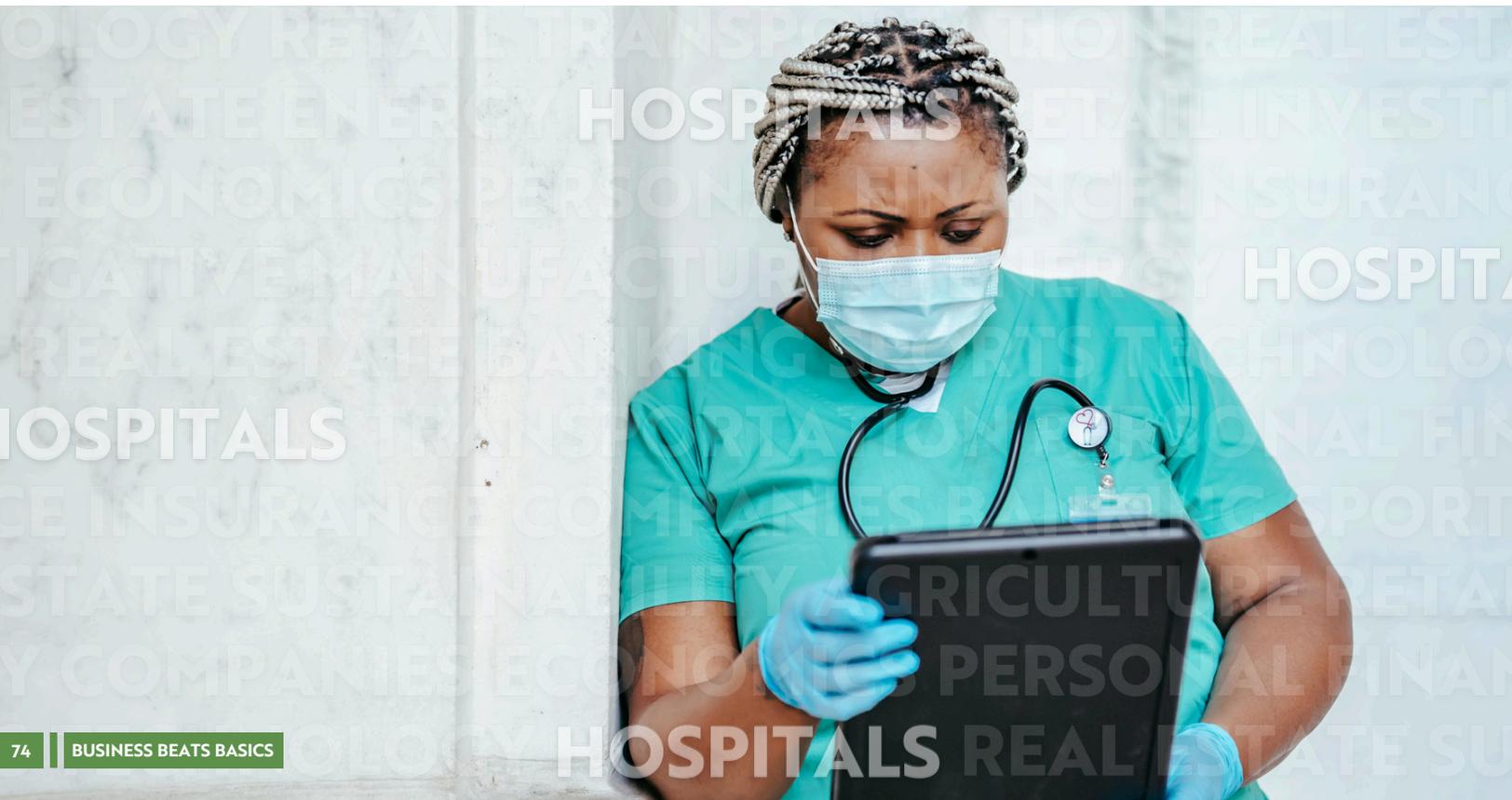
Ever notice how hospitals always seem to be growing? Many have proven remarkably resistant to economic fluctuations, including the Great Recession. Hospitals are often among a community's largest employers. Indeed, many hospitals are larger than local governments – in spending and in employees – yet receive far less media attention.

Hospitals regularly grant large contracts, buy expensive equipment, sell bonds, build huge buildings, pay lavish salaries, employ lobbyists,

and manage vast stock and bond portfolios. The value of their investments alone can reach into the billions.

Much of a hospital's success is driven by business decisions and money. With strong finances, hospitals can attract good doctors, buy the latest equipment, offer more services, and refurbish their buildings. Likewise, a poor balance sheet can limit their offerings and potentially result in inferior care.

A hospital's finances can be useful material for great stories, but often the local hospital remains a mystery, as few reporters scrutinize those finances. If the job falls to anyone, it goes to reporters covering business, politics, or features rather than a specialist. And don't expect the PR folks to make it easy. This chapter will help any reporter interested in covering hospitals.



WHERE TO BEGIN

TYPES OF HOSPITALS

U.S. hospitals generally have three kinds of financial structures:

Nonprofits

This is the traditional financial structure of hospitals as well as the most common, accounting for almost **half of all hospitals**. However, be aware that the term nonprofit, or the similar “not-for-profit,” doesn’t mean there are no profits. Many nonprofit hospitals make big bucks.

Rather, nonprofit means the hospital is tax-exempt and generally doesn’t pay taxes on income and land – although cash-strapped cities and states are increasingly asking these hospitals to contribute. Nonprofit hospitals also have to give “community benefits” in the form of giving charity care and doing other good deeds. Nonprofits predominate in the Northeast and Midwest.

For-profits

This term refers to hospitals owned by investors, comprising about **a third of the hospital market**. They are often publicly traded and are in business to reward their investors. You’ll find they also are more common in the southern and western areas of the U.S.

Government-owned or public hospitals

These are a much smaller portion of the hospital pool, but still account for roughly **15 percent** of hospitals in the U.S. Major cities tend to have at least one public hospital, which cares for those facing extreme poverty.

Identifying the kind of hospital you are covering is a critical first step because it will dictate which documents you can get.



HOW HOSPITALS MAKE MONEY

Hospitals earn nearly all their revenues from patient care. Nonprofits have the extra advantage of earning money from investments, while public hospitals are often supported by taxpayers.

The big payers for hospitals are Medicare (for the elderly or disabled) and Medicaid (for low-income individuals and families), which are government-funded programs. Medicare and Medicaid combined account for roughly a third of hospital revenues on average, while individual insurance companies make up most of the rest.

The more a hospital gets from government funders – Medicare and Medicaid – the worse its finances are likely to be. That’s because the government tends to pay less than commercial insurers for the same care.

Medicaid is typically the worst payer, so that’s a big reason why hospitals in lower-income areas may suffer while those in rich areas tend to do pretty well. Some experts say “payer mix” determines destiny because it can really drive the numbers for hospitals.

HOSPITALS ARE LOW-MARGIN BUSINESSES

Even though hospitals are huge enterprises – collecting hundreds of millions of dollars a year or more – their profit margins tend to be pretty slim. Most hospitals have an operating margin of 1 percent to 5 percent, meaning they keep one to five cents for every dollar of revenue. A really strong hospital (with a lot of commercially insured patients) could have more than a 10 percent margin. By contrast, pharmaceutical companies regularly have a 20 percent margin or more.

The low operating margin for hospitals means that just a few changes can knock them into the red, such as a slash in federal Medicare payments. This is why hospitals often employ teams of lobbyists to represent their interests at the state and federal levels.



NONPROFIT HOSPITALS' COMMUNITY BENEFIT

Nonprofit hospitals are supposed to do charitable things for the community in return for their tax-free status. This is a huge issue, as some hospitals do far less for their communities than others. Congress and state attorneys general have scrutinized this trend. Illinois once

famously revoked the nonprofit status of a hospital after finding that its community benefit was near zero. The IRS Form 990 (one of six key financial documents covered in this chapter) sets out the most specific definition yet for community benefit.



NONPROFIT HOSPITAL BOARDS

Nonprofit hospitals are run by self-perpetuating boards, whose members are not required to have financial or healthcare experience. They often are the richest people in the community and are put there for their contributions. They are the ones who hire and fire the CEO and bear ultimate responsibility for a hospital's performance. Board positions can be handed down in families for many generations. It may be hard to rock the boat when your name is on the wall. Yet reporters often overlook the dominant role held by nonprofit hospital boards.

THE AFFORDABLE CARE ACT

Current healthcare laws have a huge impact on a hospital's finances and quality. The Affordable Care Act was signed into law in 2010. This law changed – and continues to affect – how hospitals operate and collect revenue. It also requires hospitals to:

- Conduct a community health assessment every three years and show how it will improve health. Adopt clear financial assistance policies for emergency care.
- Limit charges to uninsured patients to amounts billed on behalf of insured patients.
- Follow proper debt collection practices.

MAKE IT LOCAL

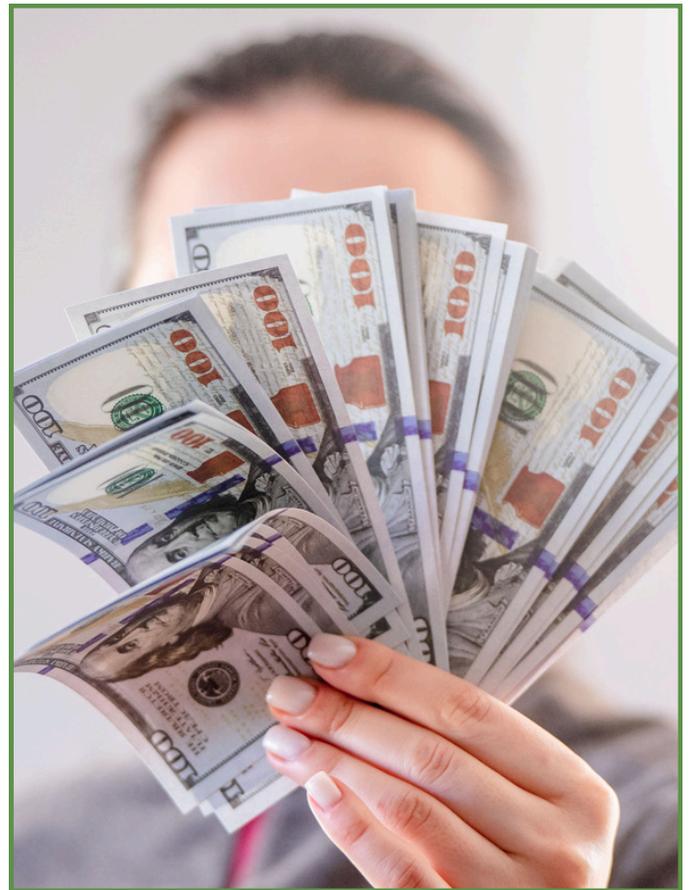
Remember: For every national story you see, there is often a local angle waiting to be explored in your own backyard. Here are four main types of hospital stories you may dig into.

OVERALL HOSPITAL PERFORMANCE

People will want to know if their hospital is dying or flourishing. Or is it somewhere in the middle? A new building or emergency room is a good opportunity to evaluate a hospital's performance. Hospitals are often adding and cutting services to improve their finances. They face lots of new competition from surgery centers to minute clinics. They're also likely to be clobbered by any deal to cut the federal deficit.

SALARIES

The IRS Form 990 has lots of new information on salaries and benefits for top executives. Compare the salaries to those in similar institutions, and see if the performance is consistent with any pay increases. 990s commonly list board members whose firms get work from the hospital. Some doctors may also get a housing stipend in addition to their salaries.

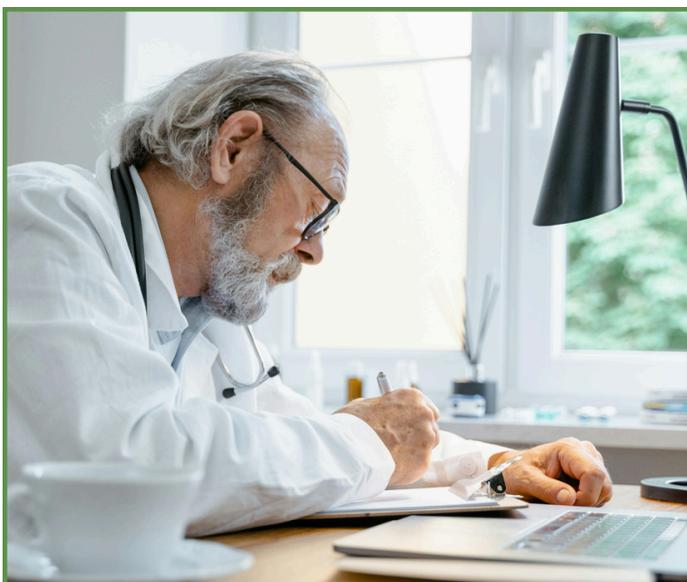


IS YOUR NONPROFIT HOSPITAL "EARNING" ITS TAX-FREE STATUS?

The latest 990 form enables you to compare your hospital's community benefit spending to others. Check on how the uninsured are being treated. Are their numbers rising? Are they paying more for care? Are people being improperly charged by the hospital and forced into bankruptcy?

FRAUD

Hospitals are often the target of government fraud investigations and accused of overbilling. For-profit organizations in particular have been accused of overbilling in the past. These probes may be acknowledged in various documents that hospitals file.



KEY DOCUMENTS TO DIG INTO

There are six key documents that will help get you started on understanding the economics of local hospitals and unearthing some good stories. They are:

AUDITED FINANCIAL STATEMENTS

These are the gold standard for assessing a hospital's overall finances. Hospitals give these documents to banks, bondholders, suppliers, and government agencies – but rarely to reporters. That doesn't mean you can't ask the hospital to give them to you. They may also be available on the SEC's Electronic Municipal Market Access (EMMA) website.

The drawback to these statements is that you will likely need an expert to help you interpret them, especially when you are first starting out.

BOND PROSPECTUS

This is the best document to get if budgets scare you. When a nonprofit sells bonds to raise money and modernize its facilities, it gives a prospectus to potential investors. This document summarizes the risks of the hospital repaying those bonds. It discusses a hospital's market position, financial performance, and future prospects, and it often discloses major litigation.

You can get these documents straight from the hospital, a well-connected bond/stock broker, the Bloomberg Terminal on occasion, and the SEC's EMMA site.

The drawback of these documents is that they are issued only when the bonds are to be sold so they may be out of date. Also, they are issued by nonprofits and public hospitals, not for-profits.

BOND RATING REPORTS

Bond ratings evaluate a hospital's ongoing business and gauge investors' risk of being repaid.

Rating agencies, such as S&P and Moody's Investors Service, typically give the most recent hospital reports free to the media. Search their websites for "media relations." They will have updated emails and phone numbers for their media relations departments. LexisNexis may also have these reports.

A drawback to this approach is that rating firms are often paid by hospitals, or they can miss stuff entirely or even be lied to. These rating agencies essentially missed the mortgage meltdown of 2008 and had AAA ratings on thousands of near-worthless subprime securities way late in the game.



IRS FORM 990

Nonprofit hospitals file these public documents annually to justify their tax-free status. The forms are useful for salaries, lists of board members, and many leads. The IRS made a major update to this form in 2007 that added significant disclosures to these documents. Schedule H set the first national criteria for disclosing charity care and community benefits, and Schedule J indicates if anyone got first-class charter travel, travel for companions, housing allowance, residence for personal use, and health or social club dues.

You can locate these forms directly from the IRS website or from [GuideStar.org](https://www.guidestar.org). GuideStar is good for quick looks but doesn't always capture all the schedules. By law, the hospital must give their last three 990 forms to anyone for inspection. However, 990s tend to be much older than the most recent financial statements.

MEDICARE COST REPORTS

Nearly every hospital files one with Medicare. They are helpful for gauging the performance of nearly all hospitals, including for-profits. Schedule G focuses on finances and shows total profit margin.

You can get these forms from the hospital, the Medicare Fiscal Intermediary (a private company contracted by the government to handle Medicare and Medicaid billing), or from firms that collect them, such as Solucient and Cleverley & Associates. The American Hospital Directory's Cost Report Data will often give them to reporters for free in return for citing them as the source.

SEC DOCUMENTS

SEC documents include the 8-K (unscheduled material events filings), 10-Q (quarterly filings), 10-K (annual report filings) and DEF 14A (proxy statements). These can help illuminate more aspects of for-profit hospitals. Quarterly earnings calls can be helpful if the issues are big enough. For more on how to understand and use the information within these filings, please refer to Chapters 19 - 21.



CHALLENGES AND PITFALLS

Some issues to keep in mind on the hospital beat are:

TRY TO AVOID NUMBERS-ONLY STORIES

Find people who are affected. The ultimate point is how finances are affecting patients and their caregivers. Tell the story behind the numbers to explain to your audience the real-life impact. Hospital stories should always center around the people in the community.



NEVER RELY ON DOCUMENTS ALONE FOR A STORY

Interview! A big gain or loss usually has many factors. Use the documents you gather to inform your reporting, and use reporting to illuminate the facts within those documents.

DON'T TRY TO FIGURE OUT AUDITED FINANCIAL STATEMENTS BY YOURSELF

It's a recipe for failure, especially when you are just getting started on this beat. Obtain the documents, and find independent academic experts who can review them and teach you what questions you should be asking. These experts can also be quoted.



OVERLOOKING THE PR TEAM

Hospital public relations personnel may not be much help on difficult stories, but they can still be helpful on smaller pieces. Also, after you get information out of financial documents, it may compel the PR team to release more information. Don't hesitate to reach out to them even if you think they can't help you.

RESOURCES

FINDING SOURCES

The best hospital sources tend to be academic experts at business schools and schools of health policy or public health. These people can help you evaluate key documents and develop a list of questions for administrators.

Other helpful sources include bond analysts, state regulators, former hospital administrators, board members (past and present), union leaders, and medical staff presidents. Healthcare consultants may be helpful too, but bear in mind that they earn a living by working for hospitals.

ASSOCIATION OF HEALTH CARE JOURNALISTS (AHCJ)

healthjournalism.org

Consider joining the AHCJ, the nation's leading group of health reporters. The AHCJ has strict rules on not taking money from the industries that health reporters cover. The group's listserv can pick the brains of over 1,500 journalists on deadline. AHCJ also offers tip sheets and conference sessions on hospital finances that can deepen your reporting. It's the quickest, most cost-effective support out there.

The AHCJ also has published a great [glossary](#) of terms on their website that can be a useful reference.

This chapter is based on the "Beats Basics" Hospitals section, originally published in 2012 and written by Karl Stark, who was a reporter at the Philadelphia Inquirer for over thirty years.

