NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

NEWS RELEASE

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Special Notes to Reporters and Editors: (1) Second in a series of four articles; (2) Data for 14 specific hospitals are in attached tables.

FOR-PROFIT HOSPITALS CHARGE MORE THAN NOT-FOR-PROFITS, STUDY FINDS

For-profit hospitals in North Carolina charge more than not-for-profits, says the N.C. Center for Public Policy Research in a report comparing the performance of the two types of hospitals. While room rates are about the same, charges for services can run much higher at for-profit hospitals.

The Center recommends that the N.C. Medical Database Commission in the Department of Insurance undertake a variety of efforts to help consumers become better informed when they face difficult and often costly decisions about hospital care in particular and health care in general. The Center also recommends that the N.C. Office of State Budget and Management calculate and publish a consumer price index for North Carolina, comparable to the federal CPI, which would include information on rises in health care costs.

"With health care costs going up higher and higher these days, consumers need to know that the type of hospital they go to can make a big difference in what they pay for their care," says Marianne Kersey, Center researcher and one of three authors of the report.

For-profits have higher charges generally than comparable not-for-profits, particularly for what are called ancillary services. Ancillary services are those which are not included in the room rate, such as x-rays, drugs, anesthesiology, and laboratory services. The Center says that gross inpatient revenue per day from ancillary services was almost 30 percent higher at investor-owned hospitals. This finding follows on the heels of yesterday's release which noted that for-profit hospitals also provide less indigent care than their not-for-profit counterparts.

ROOM RATES ALMOST IDENTICAL

But the Center found that charges for room rates were almost identical in the for-profit and not-for-profit hospitals examined in the study. The average room rate in the for-profit hospitals in 1986 was $147, while the average in not-for-profits was $148. Again in 1987, there was little difference in room rates. "Both types of hospitals keep room rates -- the most visible routine service -- competitive, because consumers usually compare only room rates," Kersey says. "Hospitals of both ownership types thus keep this service priced artificially low and try to recoup any losses through higher prices on ancillary services."

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HIGHER COSTS, HIGHER CHARGES, HIGHER MARKUP

In comparing costs and charges, the Center matched seven investor-owned hospitals with seven not-for-profit hospitals of similar (1) size (number of beds), (2) number of employees, (3) number of admissions, and (4) occupancy rates. Using audited 1983 Medicare Cost Reports -- financial reports filed annually with the federal Health Care Financing Administration --the Center then compared costs (to the hospital) and charges (to the patient) between for-profits and not-for-profits.

The Center compared costs and charges for patient care -- both routine and ancillary -- and for nonpatient care areas, such as administration. The costs at for-profit hospitals and their charges to patients were consistently higher.

For example, total patient care costs were approximately 16 percent higher per day and 14 percent higher per admission at investor-owned for-profit hospitals than at not-for-profit hospitals. And even greater differences were found in two ancillary departments. For-profit hospitals had higher operating room costs (38 percent higher) and costs of drugs charged to patients (25 percent higher).

When hospitals have higher costs, it follows that they need to charge more. So it is not surprising that the Center also found statistically significant higher -- more than 25 percent higher -- net patient service revenue at for-profits. Dwight Gentry, formerly associate director of the not-for-profit New Hanover Memorial Hospital in Wilmington, puts it bluntly in the report. "They [for-profit hospitals] pump up high the I-V [intravenous solution] and all the ancillary charges -- sky high." And investor-owned hospitals as a group had higher profits than comparable not-for-profits.

Asked if new federal Medicare reimbursement policies implemented since the research was conducted were likely to have closed the gap, Center researcher Kersey says, "It's not likely. If anything, the gap may actually have widened because of tighter federal reimbursement policies."

PREVIOUS STUDIES CONCLUDED THE SAME

"Our findings are consistent with those of other studies nationally," says Kersey. "In our study and six other studies, for-profit hospitals had higher charges."

The only previous study on hospital charges in North Carolina was done by Blue Cross and Blue Shield of North Carolina. This study compared the charges to Blue Cross subscribers in 1981-82 for three commonly performed procedures -- hysterectomies, gall bladder removals, and normal baby deliveries at investor-owned and not-for-profit hospitals. Blue Cross and Blue Shield found that charges at the six investor-owned chain hospitals in their sample were higher than those at the not-for-profit hospitals with which they were compared, with one exception. One investor-owned hospital had lower charges for normal deliveries than the not-for-profit hospitals.

Still, John Currin, administrator at Alamance County Hospital in Burlington, points out that charges are not all that patients consider when making decisions about hospital care. "I don't think price is foremost in the minds of people when they are sick or when their child, mother, father, or spouse is really ill. When decisions are made about treatment, it has been my experience that patients or others making the decision will most often choose what they perceive to be the best available treatment and not the lowest available price."

RECOMMENDATIONS

Kersey agrees that price isn't the only consideration in patients' choices, but says one reason such decisions are difficult is that information on health care costs is not readily available to consumers. More should be available, she says. The Center's report does not, however, recommend that the state get into the business of regulating hospital rates, as 12 other states have done.

Nor does the Center advocate that the state regulate hospital profits, as Nevada does. Nevada Gov. Richard Bryan was so angered by high hospital charges and profits that he pushed through a law which sharply curtails profits and revenues at hospitals with profit margins exceeding 17 percent. This was the situation at three investor-owned hospitals in Las Vegas.

The Center recommends that the N.C. Medical Database Commission collect and publish data on hospitals' costs as well as their charges to patients. Coupled with the charge data the commission is already collecting, this would allow consumers and health insurance companies to compare markups on various services at hospitals across North Carolina. The Center presented its recommendations to the commission at its February 17th meeting. Janis Curtis, executive director of the commission, says, "The commission is considering the Center's recommendations and welcomes the Center's input on what financial information should be collected for the state's data base."

Not everyone agrees with the Center's suggestion. John Taft, administrator of the not-for-profit Grace Hospital in Morganton, contends, "The resources needed to report cost information may actually result in higher charges or prices for patients -- the thing hospitals are trying to avoid."

However, Kersey argues, "Consumers, insurance companies, businesses, the news media, and state and local governments need clear, comprehensive information about hospital costs in the state. Even hospitals can benefit from such information in their management and planning efforts." Maryland and West Virginia, for example, report that their hospitals use the data in planning, she says.

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Next: Comparing the Range of Services at For-Profit and Not-For-Profit Hospitals

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The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit organization created to examine state government programs and important issues of public policy in North Carolina. The Center is supported in part by grants from the Z. Smith Reynolds and Mary Reynolds Babcock Foundations, both in Winston-Salem. This study was also supported by the Kate B. Reynolds Health Care Trust of Winston-Salem and the Henry J. Kaiser Family Foundation of Menlo Park, California. Other funding comes from 111 corporate contributors and 730 individual members. In addition to its quarterly magazine, North Carolina Insight, the Center also publishes rankings of the effectiveness of all state legislators and book-length research reports. Recent studies have been issued on the need for a State Environmental Index, poverty in North Carolina, and the rise of the two-party system in North Carolina.

Copies of the 214-page report Comparing the Performance of For-Profit and Not-for-Profit Hospitals in North Carolina are available for $40.00 (plus $2.00 tax and $2.50 postage and handling) from the N.C. Center for Public Policy Research, P.O. Box 430, Raleigh, NC 27602, or call (919) 832-2839.

For more information, call Marianne Kersey or Ran Coble at the N.C. Center for Public Policy Research at (919) 832-2839.

Comparison of Daily Charges for Semi-Private Room for Seven Matched Pairs of Investor-Owned and Not-For-Profit Hospitals in North Carolina

Investor-Owned Hospital	Rates per day 1986	1987	Not-For-Profit Hospital	Rates per day 1986	1987
1. Raleigh Community Hospital (Raleigh)	$155	$155	Grace Hospital* (Morganton)	$175	$175
2. Frye Regional Medical Center (Hickory)	150	156	Margaret R. Pardee Memorial Hospital (Hendersonville)	137	143
3. Medical Park Hospital [a] (Winston-Salem)	124	135	Alamance County Hospital (Burlington)	172	172
4. Humana Hospital Greensboro[b]	155	155	Cape Fear Memorial Hospital (Wilmington)	124	141
5. Central Carolina Hospital (Sanford)	155	155	Stanly Memorial Hospital* (Albemarle)	139	169
6. Gordon Crowell Memorial Hospital (Lincolnton)	closed		Park Ridge Hospital* (Fletcher)	149	156
7. Community Hospital of Rocky Mount	143	143	J. Arthur Dosher Hospital (Southport)	139	139
Average daily room rate for investor-owned hospitals:	$147	$150	*Average* daily room rate for not-for-profit hospitals:	$148	$156
Median room rate for investor-owned hospitals:	$153	$155	*Median* room rate for not-for-profit hospitals:	$139	$156
* = rates available for private rooms only					

[a] Medical Park Hospital was purchased by Carolina Medicorp, Inc. in 1986 and is now a private, not-for-profit hospital.
[b] Humana Hospital was purchased by Moses Cone Memorial Hospital, a private, not-for-profit hospital, in 1988.

Source: Telephone interviews with hospitals on November 6, 1986 and November 2, 1987 by N.C. Center for Public Policy Research staff.

Comparisons of Revenues/Charges to Patients Between Investor-Owned and Not-For-Profit Hospitals

Measure	N (Pairs in sample)	Average Percentage Difference Between Investor-Owned and Not-For-Profit Hospitals	P(t), or Level of Significance (*** = highly significant)
A. *Charge Payers* — self-pay, private insurance, Blue Cross (ipf)			
1. **Gross** inpatient revenue per day	7	+ 18.1 %	**
2. Gross inpatient revenue per admission	7	+ 16.0	*
Routine Care Service			
3. Gross inpatient routine revenue per day	7	- 13.7	N/A
4. Gross inpatient routine revenue per admission	7	- 15.7	N/A
5. **General** inpatient routine care service revenue per day	7	- 13.6	N/A
6. General inpatient routine care service revenue per admission	7	- 15.7	N/A
7. **Special** inpatient care service revenue per day	6	- 4.9	N/A
8. Special inpatient care service revenue per admission	6	- 5.8	N/A
Ancillary Services			
9. Gross inpatient ancillary revenue per day	6	+ 29.6	**
10. Gross inpatient ancillary revenue per admission	6	+ 27.6	*
11. Gross inpatient ancillary revenue as percentage of total inpatient revenue	6	+ 7.5	*
B. *Cost Payers* — Medicare and Medicaid (expf)			
12. Inpatient allowable costs (plus return on equity for investor-owned hospitals) per day	7	+ 21.5	***
C. *Net Patient Revenue* (ipf)			
13. Adjusted net patient service revenue per day	7	+ 27.4	***
14. Adjusted net patient service revenue per admission	7	+ 25.3	***

ipf = including professional fees
expf = excluding professional fees
\+ = investor-owned hospitals as a group had higher values on this measure
– = not-for-profit hospitals as a group had higher values on this measure
*** = $p(t) \leq .05$
** = $.05 < p(t) \leq .1$
* = $.1 < p(t) \leq .2$
N/A = percentage difference on this measure was not statistically significant

Comparisons of Costs/Expenses Between Investor-Owned and Not-For-Profit Hospitals

Measure	N (Pairs in sample)	Average Percentage Difference Between Investor-Owned and Not-For-Profit Hospitals	P(t), or Level of Significance (*** = highly significant)
A. ***Total Operating Costs***			
1. Total operating costs per adjusted day	7	+ 20.0 %	***
B. ***General Service (Nonpatient) Costs***			
2. General service costs per adjusted day	7	+ 26.9	***
3. Administrative and general costs per adjusted day	7	+ 48.1	***
4. Building and fixture depreciation per adjusted day	7	+ 59.1	**
5. Movable equipment depreciation per adjusted day	6	+ 6.6	N/A
6. Plant operation, laundry service, and housekeeping costs per adjusted day	7	- 1.2	N/A
C. ***Patient Care Costs***			
7. Total patient care costs per adjusted day (ipf)	7	+ 15.9	***
8. Adjusted total patient care costs per admission (ipf)	7	+ 13.8	*
9. Total inpatient care costs per inpatient day (ipf)	7	+ 14.3	**
10. Total inpatient care costs per admission (ipf)	7	+ 12.3	*
11. Total inpatient care costs per inpatient day (expf)	7	+ 16.5	***
12. Total inpatient care costs per admission (expf)	7	+ 14.4	*
13. Routine inpatient service costs per inpatient day (expf)	7	+ 19.5	***
14. Routine inpatient service costs per admission (expf)	7	+ 17.3	*
D. ***Ancillary Department Costs***			
15. Total inpatient ancillary costs per day (expf)	7	+ 13.2	*
16. Operating room inpatient costs per day (expf)	7	+ 38.5	***
17. Drugs charged to patients costs per day (expf)	7	+ 25.2	**
18. Delivery and labor room inpatient costs per day (expf)	3	+123.8	***
19. Electrocardiology inpatient costs per day (expf)	5	- 52.3	*
20. Anesthesiology inpatient costs per day (expf)	7	- 3.5	N/A
21. Radiology inpatient costs per day (expf)	7	- 2.1	N/A
22. Medical supplies costs per day (expf)	7	- 4.5	N/A

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