NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

NEWS RELEASE

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Special Note to Reporters and Editors: Third in a series of four articles.

MEDIUM-SIZED FOR-PROFIT HOSPITALS SKIM THE CREAM; SMALL FOR-PROFITS DON'T

Do for-profit hospitals "skim the cream" by providing money-making services while dodging less lucrative services? Research by the N.C. Center for Public Policy Research indicates in some cases, the answer is yes. The Center's findings show that medium-sized for-profit hospitals (100-399 beds) offer a narrower range of services than not-for-profits.

"The Center's research on medium-sized hospitals confirms the fears of those who believe for-profits avoid offering unprofitable services, leaving not-for-profits with the financial burden of offering less lucrative services," says Marianne Kersey, one of three Center staffers who authored the report.

Small for-profit hospitals (fewer than 100 beds), however, offer more services than not-for-profits. The Center recommends that all hospitals be required to hold a public hearing when they plan to eliminate a service or reduce the volume of a service permanently.

STANDARD SERVICES, REGARDLESS OF SIZE OR OWNERSHIP

The Center's research included four major findings. First, using data from 1985 hospital licensure reports filed with the state, the Center found that there are four services that can be considered standard at all N.C. hospitals, regardless of size or ownership. General medicine, general surgery, pharmacy, and emergency room services were offered at almost all of the 125 general acute care hospitals in the Center's data set. And medium-sized and large hospitals also had three additional standard services --physical therapy, outpatient surgery, and urology -- regardless of ownership type. "These findings are consistent with a national study by the Institute of Medicine," says Kersey.

Second, some service offerings seemed to depend on hospital size more than ownership type or management status. The most notable example in North Carolina was a neonatal intensive care unit (ICU), which was offered at 10 of the 13 large hospitals (77 percent), but at only four of the 62 medium-sized hospitals (6.5 percent), and at none of the 50 small hospitals.

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MEDIUM-SIZED FOR-PROFITS SKIM THE CREAM

Third, the Center's findings on whether for-profits offer a narrower range of services or avoid unprofitable ones were mixed, depending on hospital size. Among medium-sized hospitals -- the grouping which contains the largest number of hospitals in North Carolina -- the findings indicate that for-profit hospitals offered a narrower range of services than not-for-profit hospitals. Both private not-for-profit and public hospitals as a group offered 10 services more frequently than the for-profit hospitals. The largest percentage differences were found for obstetrics and newborn nursery. And investor-owned hospitals were less likely than investor-managed hospitals to offer these services.

"Services like thoracic (chest) surgery and psychiatry have been increasingly profitable in recent years," says Kersey. "Our research shows that for-profits offer those services more than not-for-profits. On the other hand, not-for-profits offer obstetrics, a money loser, more frequently than for-profit hospitals in North Carolina."

While most analysts generally agree that emergency room and obstetrical services are unprofitable for a hospital, some hospital administrators say other factors need to be considered. Alice Hammond of Randolph Hospital in Asheboro points out, "The emergency room is the portal of entry for 10-20 percent of inpatients. This is one illustration of how the emergency room is not a revenue loser in every case."

A similar observation can be made concerning the fact that fewer medium-sized for-profit hospitals offered obstetrical and newborn nursery services. In Raleigh, for example, although Raleigh Community Hospital (owned by for-profit Hospital Corporation of America) does not have these services, Rex Hospital and Wake Medical Center, also in Raleigh, do offer them. Kersey says, "It can be argued that the absence of these services at Raleigh Community Hospital is not necessarily a drawback, because the community does have access to them."

SMALL FOR-PROFITS DON'T SKIM

By contrast, at small hospitals, (fewer than 100 beds) the Center found that for-profit hospitals offered a broader range of services than not-for-profit hospitals. Small investor-owned, -managed, and -leased hospitals offered 11 services more frequently than small not-for-profit hospitals. In this case, the largest percentage differences were found for outpatient clinic services. Moreover, small for-profit hospitals also offered outpatient surgery and psychiatric outpatient services more frequently than not-for-profits. "Clearly, for-profit hospitals recognize that outpatient services generate profits," says Kersey.

Similar to the findings at medium-sized hospitals -- small investor-managed hospitals offered a broader range of services than small investor-owned hospitals. On the other hand, three services -- gynecology, medical/surgical intensive care units, and eye, ear, nose and throat (EEN&T) were offered more frequently by small not-for-profit hospitals. Four other services were offered by the same percentage of for-profit and not-for-profit hospitals.

FOR-PROFITS USUALLY LOCATE IN WEALTHY URBAN AREAS

The fourth major research finding concerned the location of for-profit hospitals. In terms of targeting and attracting the best-paying patients, additional research by the Center indicates that investor-owned corporations tend to purchase, build, or manage hospitals in wealthier urban areas. Twenty-three of the 44 hospitals owned, managed, or leased by a for-profit chain as of June 1987 were located in the 25 wealthiest of North Carolina's 100 counties, and 20 of these 23 hospitals were also in the top 25 counties in terms of urbanization.

In describing the decision-making process used by one hospital chain in siting hospitals, Fortune magazine concluded, "Humana prefers to own facilities in suburbs where young working families are having lots of babies. Though young people use hospitals less than the elderly, they are more likely to be privately insured and in need of surgery, which makes the most money. The babies provide a second generation of customers." Until last year, Humana owned a hospital in Greensboro.

While the Center's findings comparing the range of services between for-profit and not-for-profit medium-sized hospitals differed from a similar comparison among small hospitals, there were a few consistent differences which showed up, regardless of hospital size. In both small and medium-sized hospitals, for-profit hospitals offered outpatient clinics, psychiatry, and thoracic surgery more frequently than private and public not-for-profits, while not-for-profit hospitals offered gynecology and eye, ear, nose & throat (EEN&T) more frequently than for-profit hospitals. While it is difficult to evaluate the profitability of various hospital services, Robert Fitzgerald, assistant director of the Division of Facility Services in the N.C. Department of Human Resources points out, "Outpatient clinic, psychiatry, and thoracic surgery generally are profitable hospital services."

At the time the research was conducted, there were 62 medium-sized (100-399 beds) hospitals in North Carolina, 12 of which were for-profit, and 50 small (fewer than 100 beds) hospitals, including 10 for-profits. Currently, a total of 46 hospitals (including psychiatric and specialty hospitals) are owned, leased, or managed at least in part by for-profit hospital corporations.

RECOMMENDATIONS

Kersey says the Center does not recommend that the state get into the business of regulating what services should be offered in North Carolina hospitals. She says hospitals need flexibility in deciding the best mix of services which will both satisfy the needs of the community and keep the hospital financially viable.

However, Kersey says that all hospitals should be required to hold a public hearing when they plan to eliminate a service or reduce the volume of a service permanently. "People affected by changes in hospital services need to be aware of the change so they can assess the impact on their community," she says. "In turn, the hospital may use the public hearing to seek community support for its decision to cut the service. In fact, by getting the word out that it can no longer offer obstetrics-gynecology due to a physician shortage, for example, the hospital may advertise its need to a doctor who could help remedy the situation by assisting with physician recruiting or expanding the hospital's resources to continue the service." As John Taft, administrator of Grace Hospital in Morganton, says, if a hospital should decide to eliminate a service, it should have to "demonstrate that it has made a substantial effort to assure that availability and accessibility to that service will not be significantly compromised" in the community.

Kersey says current state law is written in such a way that only three hospitals in the state -- Franklin Memorial in Louisburg, Hamlet Hospital, and Lake Norman Regional Medical Center in Mooresville -- must notify the public if they decide to eliminate a service. The limited scope of the Municipal Hospital Act needs the attention of the 1989 General Assembly, she says.

The Center recommends that the General Assembly enact legislation requiring any hospital -- public or private, not-for-profit or investor-owned -- to give notice and hold a public hearing in any of the following instances:

a. If the hospital plans to eliminate permanently or even indefinitely any health care service;

b. If the hospital plans to reduce permanently the volume of a service to the extent that the hospital plans to treat fewer patients than used the same service the year before; or

c. If a hospital has temporarily eliminated or reduced a service for more than 30 days.

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Next: For-Profits Pay Taxes While Not-For-Profits Are Tax-Exempt

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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.

Standard Services (7) at Medium-Sized N.C. Hospitals

	Percentage of all medium-sized hospitals with service
1. general medicine	100 %
2. general surgery	100
3. pharmacy	100
4. physical therapy	100
5. outpatient surgery	100
6. urology	98.4
7. emergency room	98.4

Standard Services (4) at Small N.C. Hospitals

	Percentage of all small hospitals with service
1. general medicine	100 %
2. pharmacy	100
3. emergency room	100
4. general surgery	98

Comparisons of Services Offered More Frequently by *Medium-Sized* For-Profit and Not-For-Profit N.C. Hospitals in 15 Non-Standard Services†

(Ranked in order of greatest percentage difference)

A. Services offered more frequently by all Medium-Sized Not-For-Profit Hospitals (10)

1. obstetrics
2. newborn nursery
3. cardiac ICU
4. eye, ear, nose, and throat (EEN&T)
5. orthopedics
6. gynecology
7. pediatrics
8. cardiology*
9. psychiatric outpatient*
10. neurosurgery*

B. Services offered more frequently by all Medium-Sized For-Profit Hospitals (5)

1. outpatient clinic
2. psychiatry
3. medical/surgical ICU*
4. neonatal ICU*
5. thoracic surgery*

† Non-standard services are those *not* offered by *all* medium-sized hospitals.
* Percentage difference between hospital types was 10% or less.

Comparisons of Services Offered More Frequently by *Small* For-Profit and Not-For-Profit N.C. Hospitals in 18 Non-Standard Services†

(Ranked in order of greatest percentage difference)

A. Services offered more frequently by all Small For-Profit Hospitals (11)

1. outpatient clinic
2. thoracic surgery
3. outpatient surgery
4. cardiac ICU
5. obstetrics*
6. psychiatric outpatient*
7. psychiatry*
8. neurosurgery*
9. orthopedics*
10. newborn nursery*
11. physical therapy*

B. Services offered more frequently by all Small Not-For-Profit Hospitals (3)

1. gynecology
2. medical/surgical ICU*
3. eye, ear, nose, and throat (EEN&T)*

C. Services offered by same percentage of Small For-Profit and Not-for-Profit Hospitals (4)

1. urology (80%)
2. pediatrics (60%)
3. cardiology (10%)
4. neonatal ICU (0%)

† Non-standard services are those *not* offered by *all* small hospitals.
* Percentage difference between hospital types was 10% or less.