

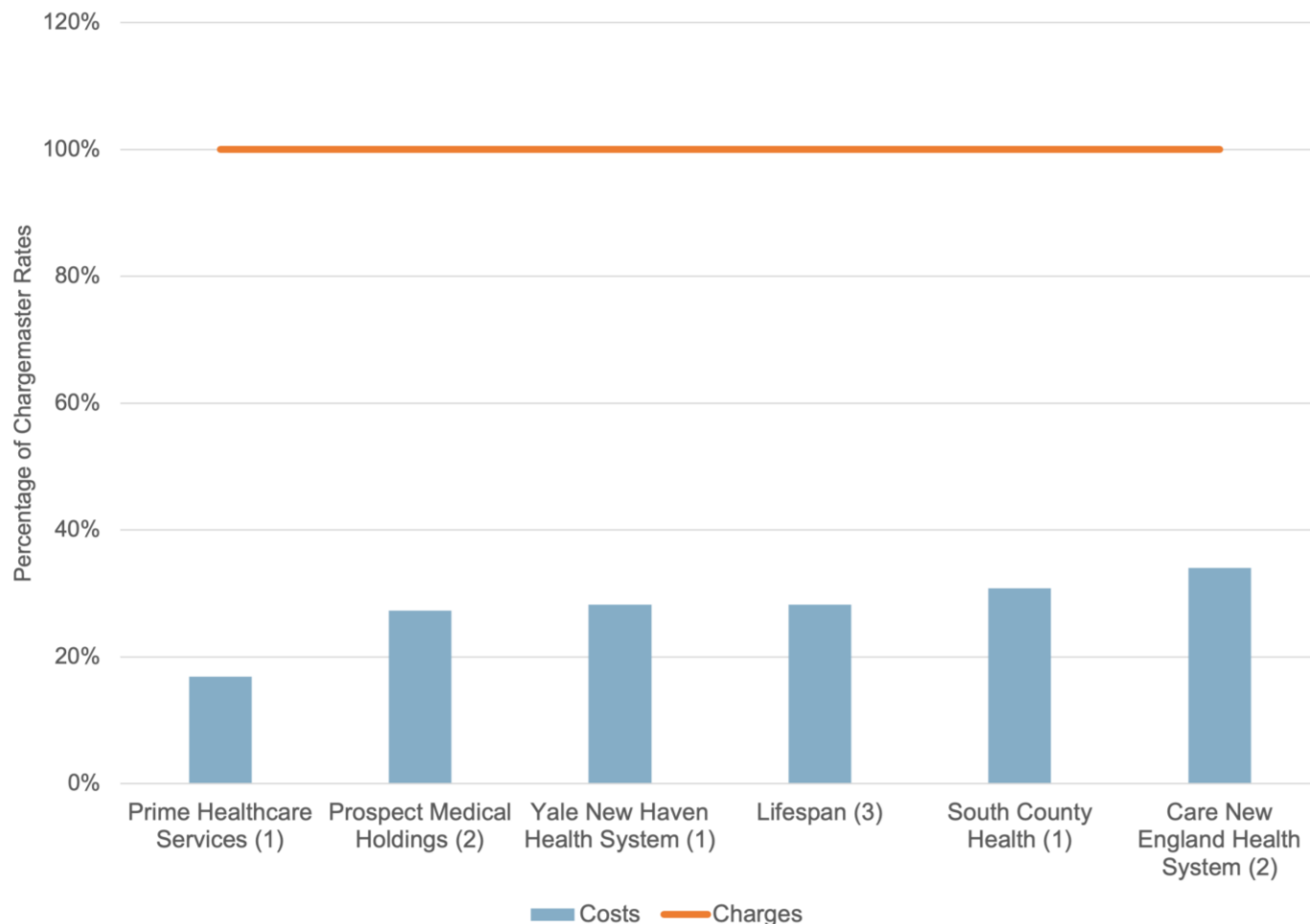
NASHP Hospital Cost Calculator Analysis of Short-Term Acute Care and Critical Access Hospitals in Rhode Island

May 2022

What is NASHP's Hospital Cost Calculator?

- **A downloadable calculator health purchasers, including state officials, can use to better understand and address hospital costs**
 - For example, the calculator can help inform hospital rate negotiations or demonstrate hospital finances pre- and post- merger/ acquisition
- **The calculator identifies costs using data that hospitals report annually to the federal government**
 - Each hospital that serves Medicare patients must annually submit, and verify the accuracy of, a Medicare Cost Report (MCR) to the Centers for Medicare & Medicaid Services (CMS)
 - MCRs provide hospital level data and are the only national, public source of hospital costs
- **The Hospital Cost Calculator was developed by the National Academy for State Health Policy (NASHP) alongside Rice University, with support from Arnold Ventures**

Rhode Island Health Systems' Cost-to-Charge Ratios, 2019
(number of hospitals in system noted in parentheses)



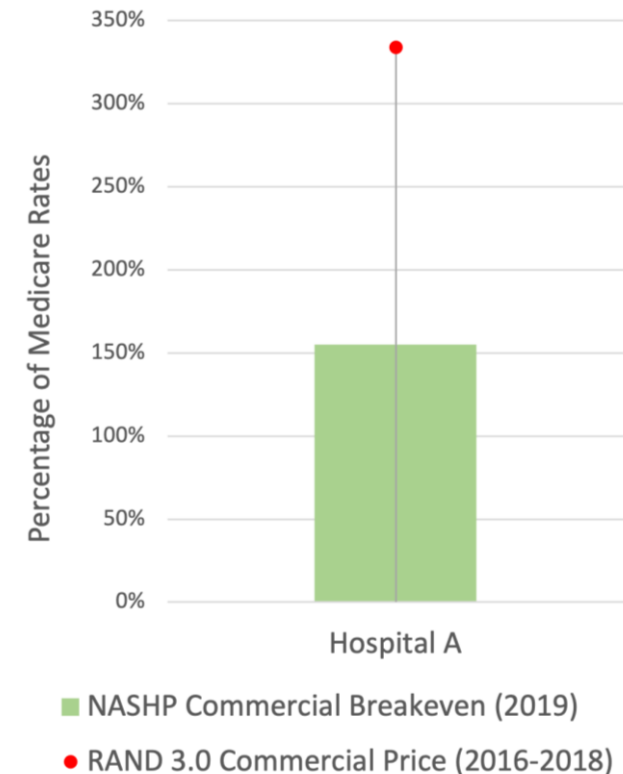
Cost to Charge Ratio

- **Charges:** the 'sticker price' set by the hospital for services
- **Costs for Hospital services:**
 - a. Salaries & Benefits;
 - b. Contracted Services;
 - c. Equipment and Supplies;
 - d. Rent, Interest, Depreciation, etc.
- **The lower a hospital's Cost-to-Charge Ratio, the less its charges reflect its costs**

Breakeven Analysis

- **NASHP's Hospital Cost Calculator determines a hospital's breakeven point: $\text{Revenue} = \text{Expenses}$**
 - Revenue includes payments from all sources. Expenses include hospital operations, administration, ancillary services, & non-operating expenses.
- **NASHP Commercial Breakeven** – how much a hospital needs to be reimbursed by commercial payers in order to cover its expenses
- **RAND 3.0 Commercial Price** – how much a hospital was reimbursed by commercial payers in aggregate from 2016 to 2018
 - Calculated using data from the RAND Corporation's [Nationwide Evaluation of Health Care Prices Paid by Private Health Plans](#)
- **Breakeven and Price expressed as multiples of the individual hospital's Medicare rates for comparability purposes.**

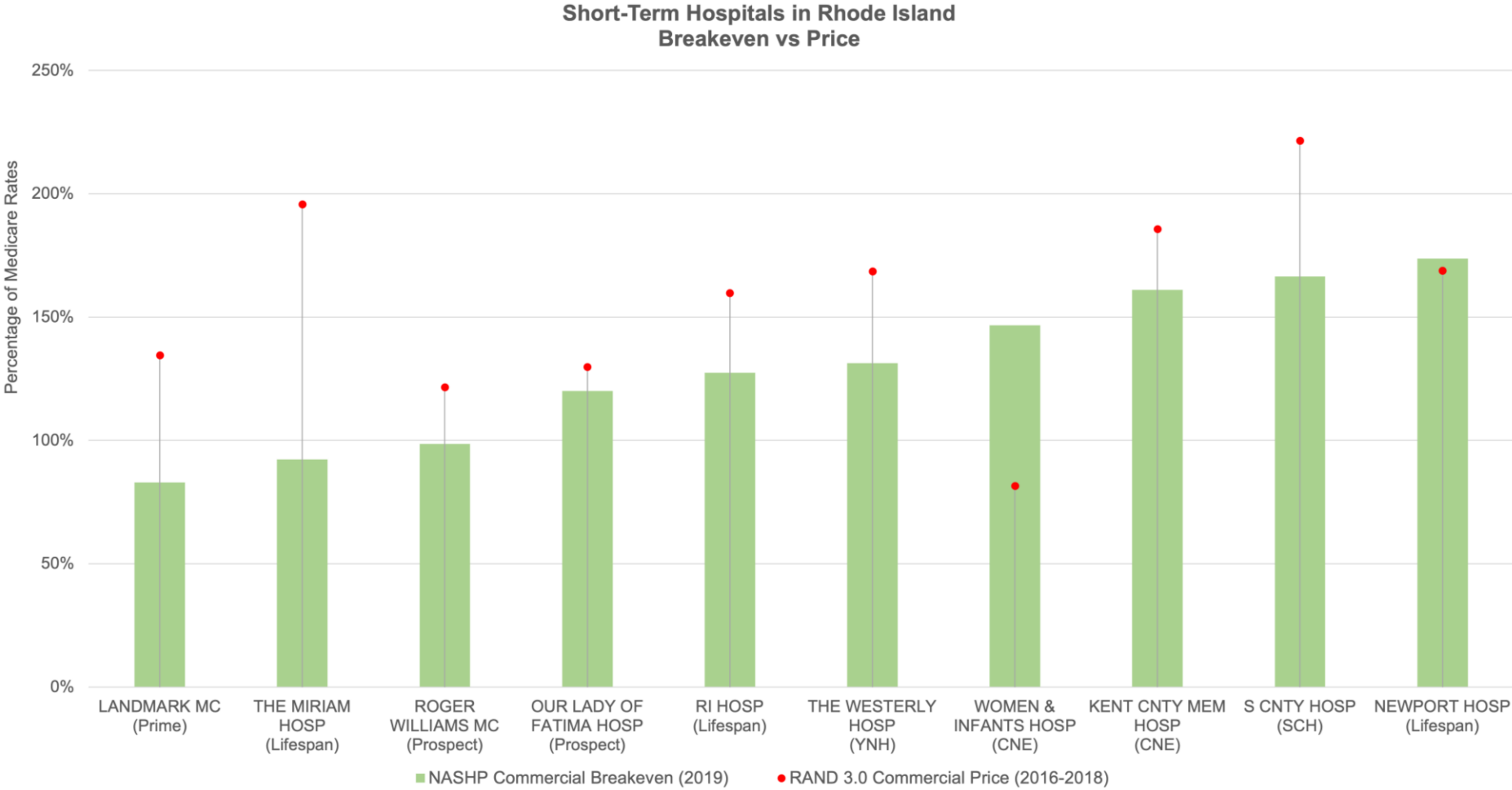
Example: Hospital A could afford a commercial price of **155 percent** of Medicare. However, in 2018, its commercial price was **334 percent** of Medicare.



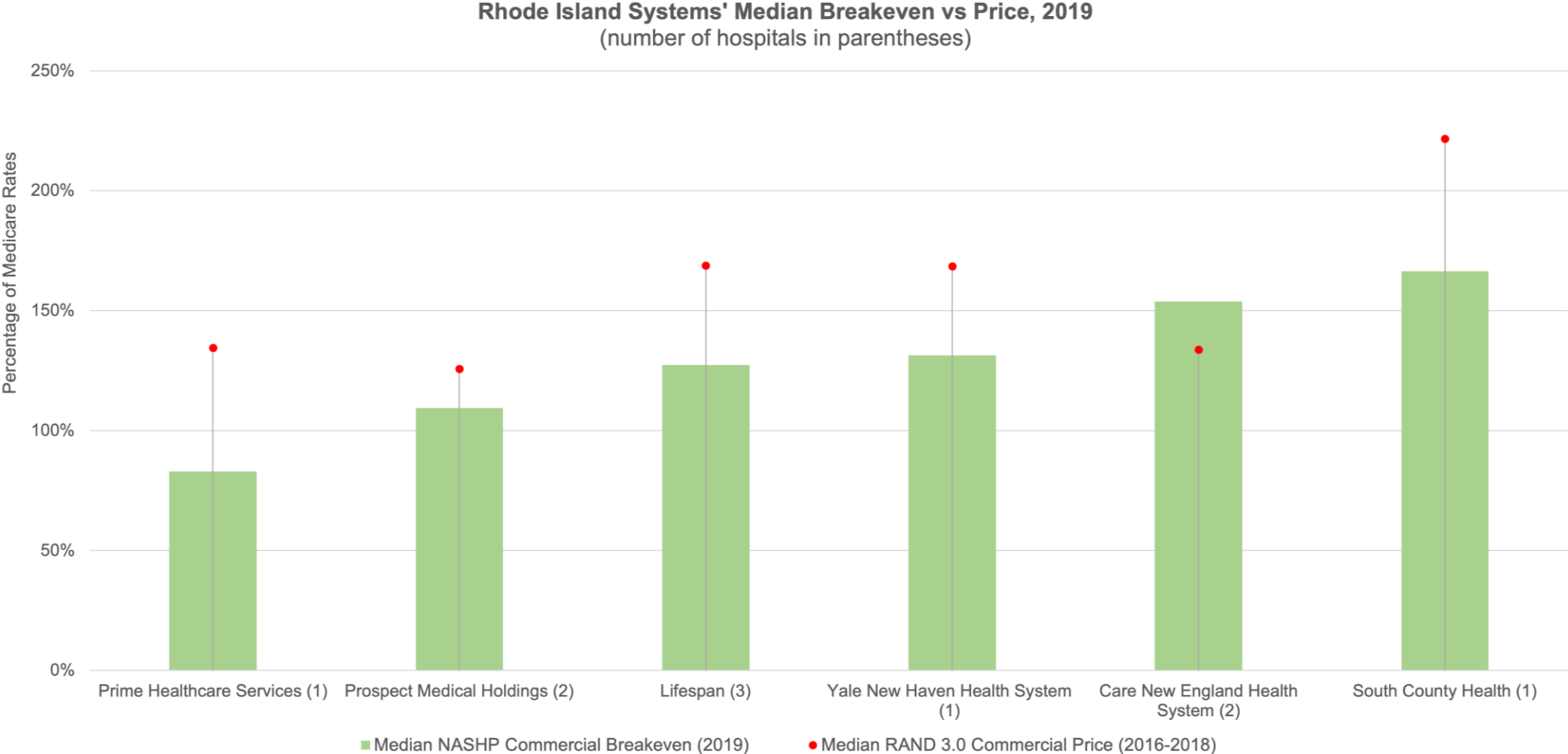
Factors That May Impact Breakeven

- **Medicare Payment rate** – A hospital's Breakeven is based on its own Medicare reimbursement rates. If a hospital is paid by Medicare in excess of its Medicare-related expenses, Breakeven would be lower.
- **Hospital Other Income** – If a hospital receives significant other income (e.g., return on investments, federal relief payments), the payment required from a commercial payer to Breakeven would be lower.
- **Reimbursement from Other Payers** – The hospital payer mix adjusted profits and losses from other payers (Medicaid, Medicare, CHIP and other local/state programs, Medicare Advantage) are reflected in the commercial payer Breakeven calculation.
- **Reporting Error** – Medicare Cost Reports are completed by the hospital or their contractor and may contain reporting errors, impacting Breakeven calculations.

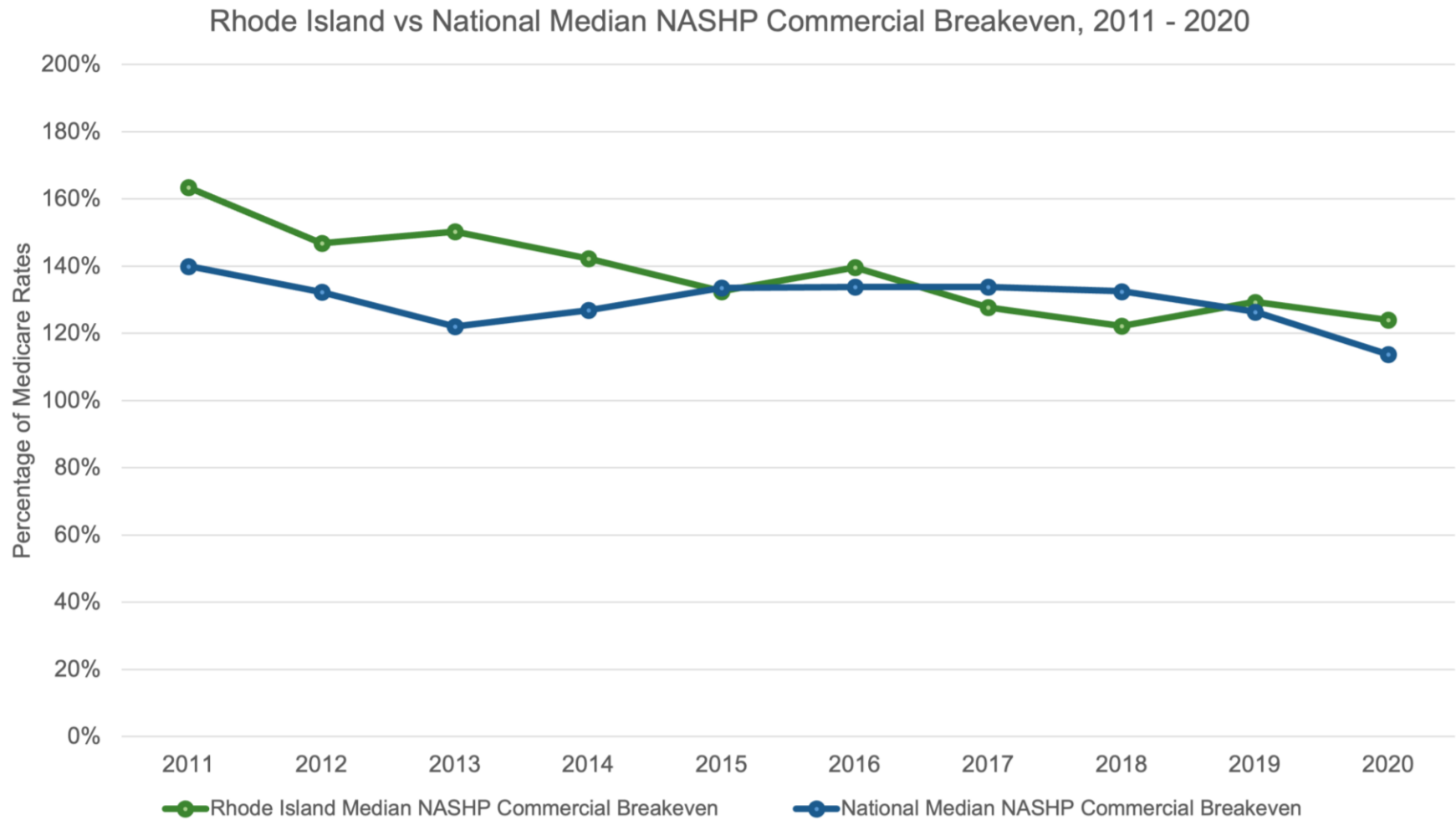
Rhode Island Hospitals' Breakeven vs Price



Rhode Island Systems' Breakeven vs Price



Rhode Island vs National Median Breakeven



Note: Hospitals nationwide continue to submit and update 2020 data.



A more complete picture of a hospital's profit (loss) on a payer can be seen by factoring payer mix into payer-specific profit/loss.

Roger Williams Medical Center (Prospect Medical Holdings)

Payer Mix Metrics

Payer Mix (left chart): Percentage of total hospital services provided to the payer mix (i.e. Medicaid) patients, as measured by Hospital Charges.

Operating Profit Margin (middle chart): Operating Profit (Loss) divided by Net Patient Revenue.

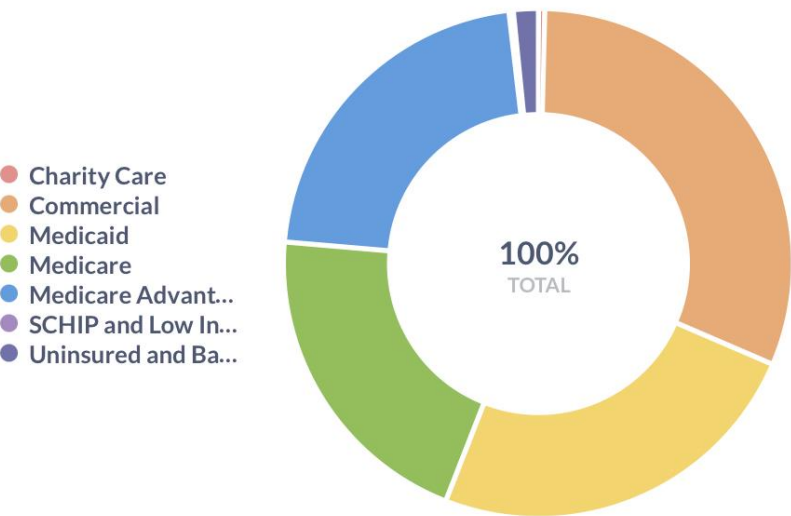
Adjusted Profit (Loss) (right chart): Operating Profit Margin multiplied by Payer Mix, which represents the payer's impact on the hospital's financial performance.

NASHP Commercial Breakeven (2019): 99%

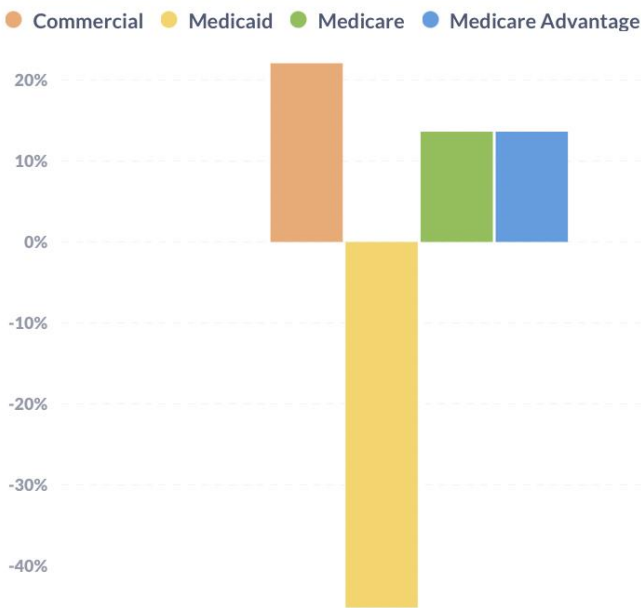
RAND 3.0 Commercial Price (2016-2018): 122%

Net Profit Margin (2019): 1.9%

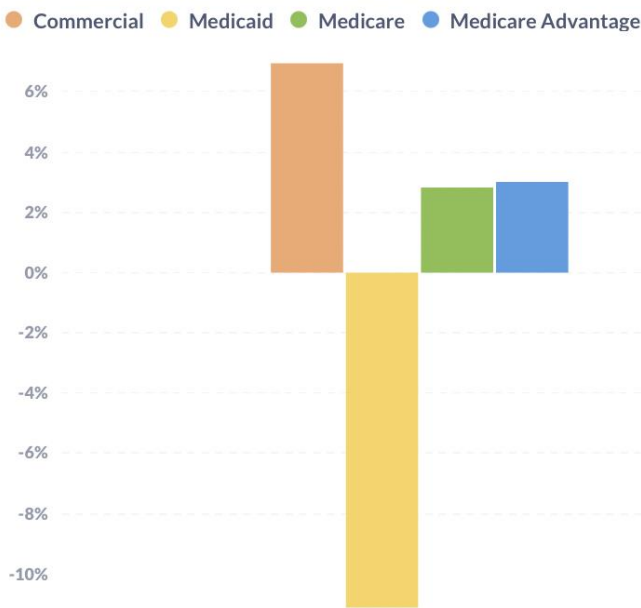
Payer mix for the selected year



Operating profit margin by payer type for the selected year



Payer mix adjusted profit (loss) for the selected year



Our Lady of Fatima Hospital (Prospect Medical Holdings)

Payer Mix Metrics

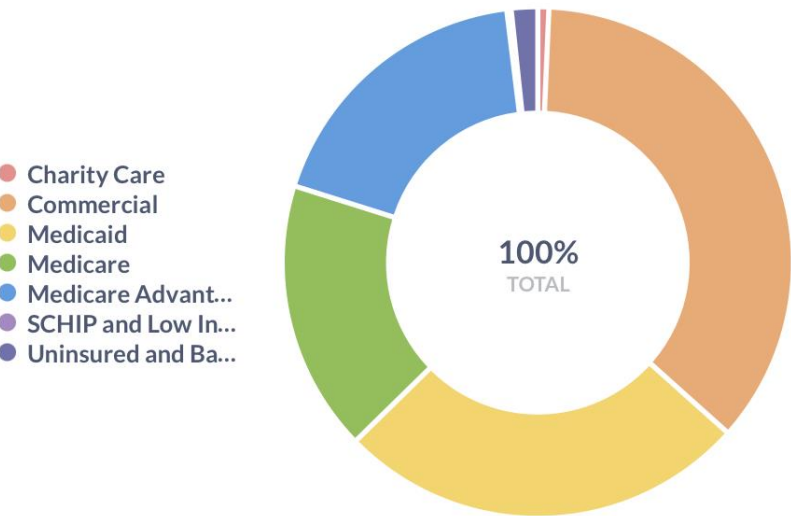
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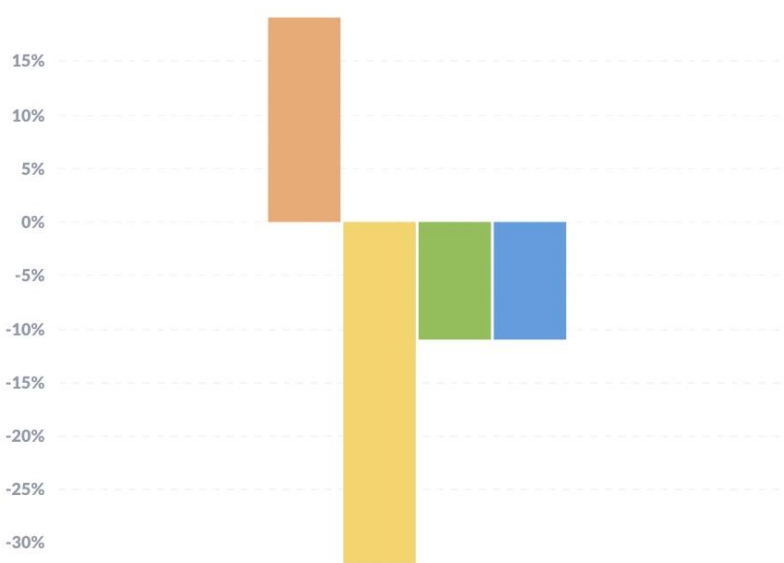
NASHP Commercial Breakeven (2019): 120%
RAND 3.0 Commercial Price (2016-2018): 130%
Net Profit Margin (2019): 2.1%

Payer mix for the selected year



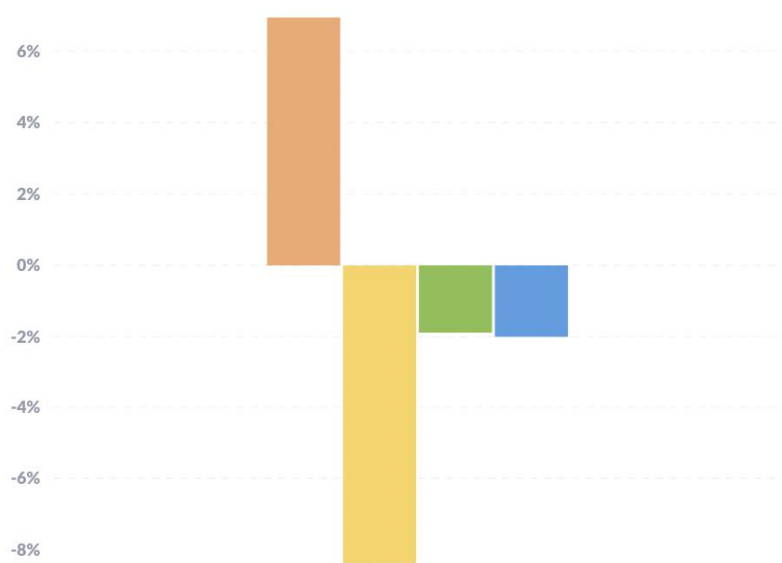
Operating profit margin by payer type for the selected year

Commercial Medicaid Medicare Medicare Advantage



Payer mix adjusted profit (loss) for the selected year

Commercial Medicaid Medicare Medicare Advantage



Newport Hospital (Lifespan)

Payer Mix Metrics

Payer Mix (left chart): Percentage of total hospital services provided to the payer mix (i.e. Medicaid) patients, as measured by Hospital Charges.

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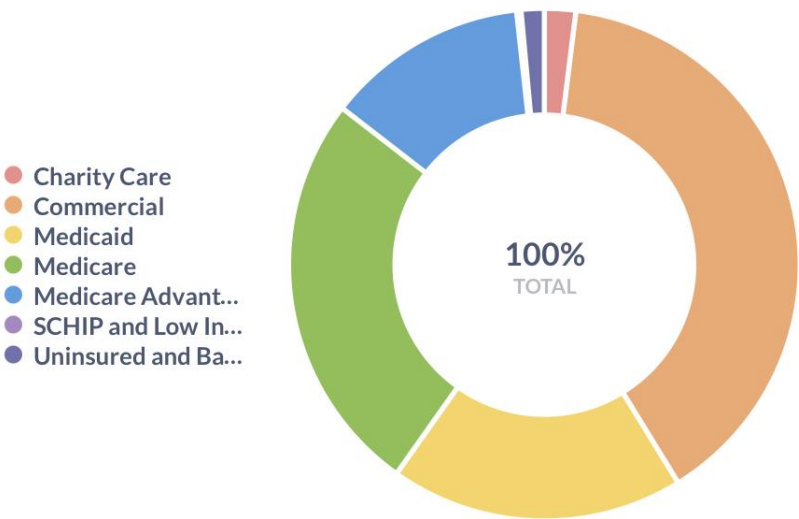
Adjusted Profit (Loss) (right chart): Operating Profit Margin multiplied by Payer Mix, which represents the payer's impact on the hospital's financial performance.

NASHP Commercial Breakeven (2019): 174%

RAND 3.0 Commercial Price (2016-2018): 169%

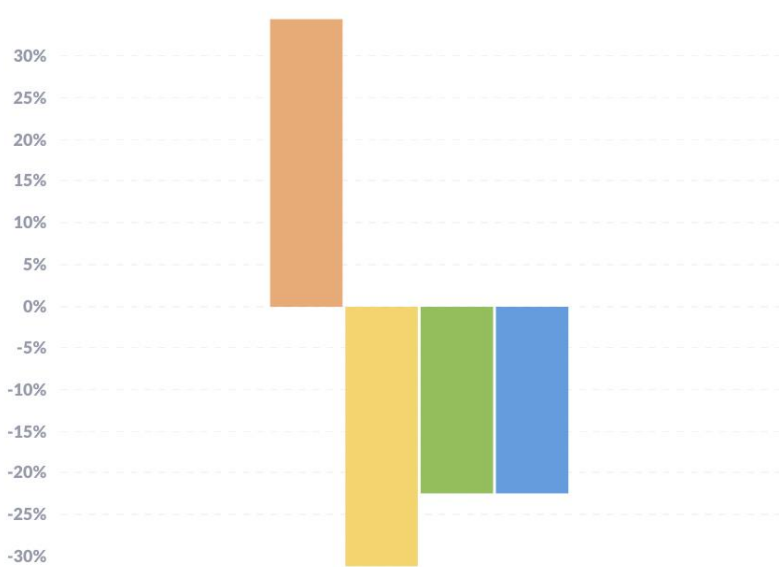
Net Profit Margin (2019): -1.1%

Payer mix for the selected year



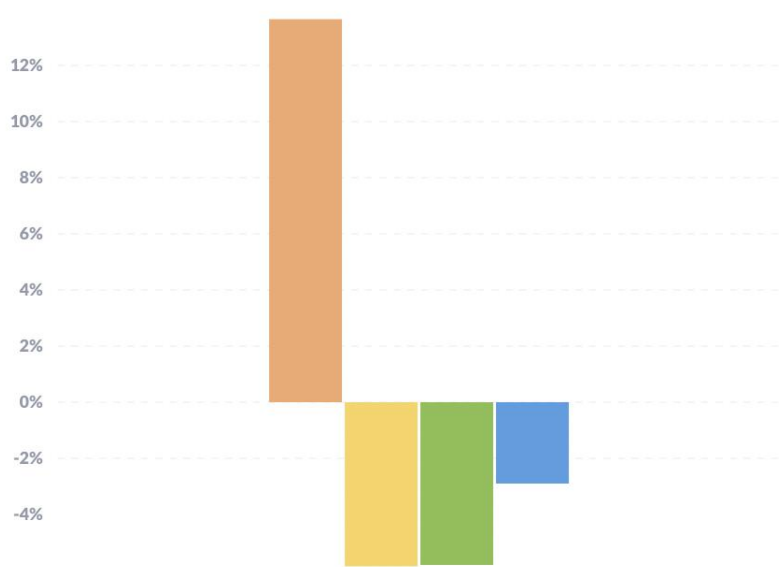
Operating profit margin by payer type for the selected year

Commercial Medicaid Medicare Medicare Advantage



Payer mix adjusted profit (loss) for the selected year

Commercial Medicaid Medicare Medicare Advantage



Rhode Island Hospital (Lifespan)

Payer Mix Metrics

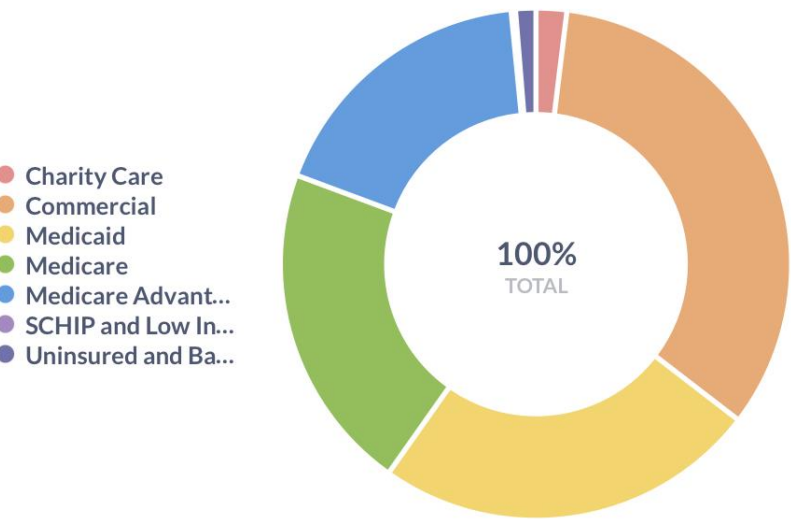
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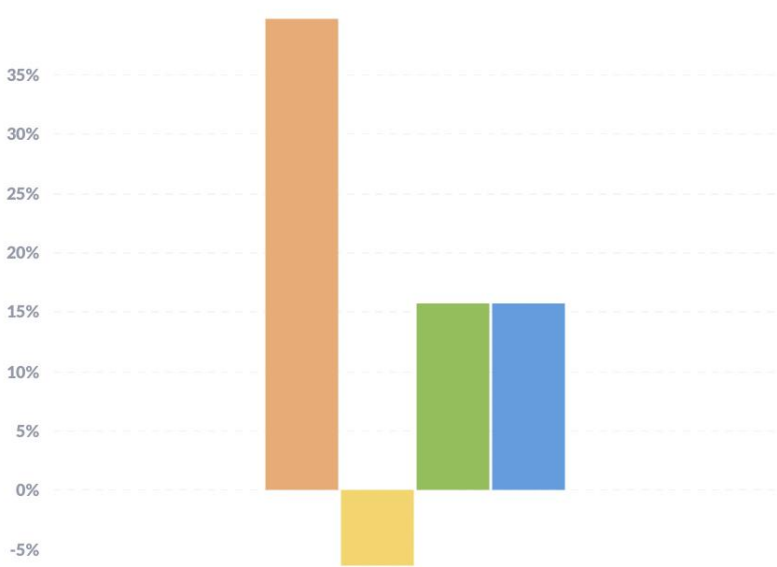
NASHP Commercial Breakeven (2019): 127%
RAND 3.0 Commercial Price (2016-2018): 160%
Net Profit Margin (2019): -3.6%

Payer mix for the selected year



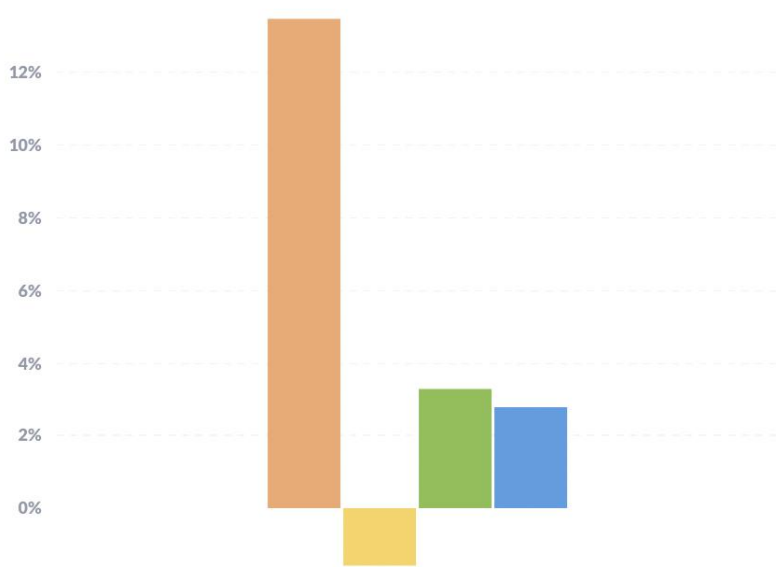
Operating profit margin by payer type for the selected year

Commercial Medicaid Medicare Medicare Advantage



Payer mix adjusted profit (loss) for the selected year

Commercial Medicaid Medicare Medicare Advantage



The Miriam Hospital (Lifespan)

Payer Mix Metrics

Payer Mix (left chart): Percentage of total hospital services provided to the payer mix (i.e. Medicaid) patients, as measured by Hospital Charges.

Operating Profit Margin (middle chart): Operating Profit (Loss) divided by Net Patient Revenue.

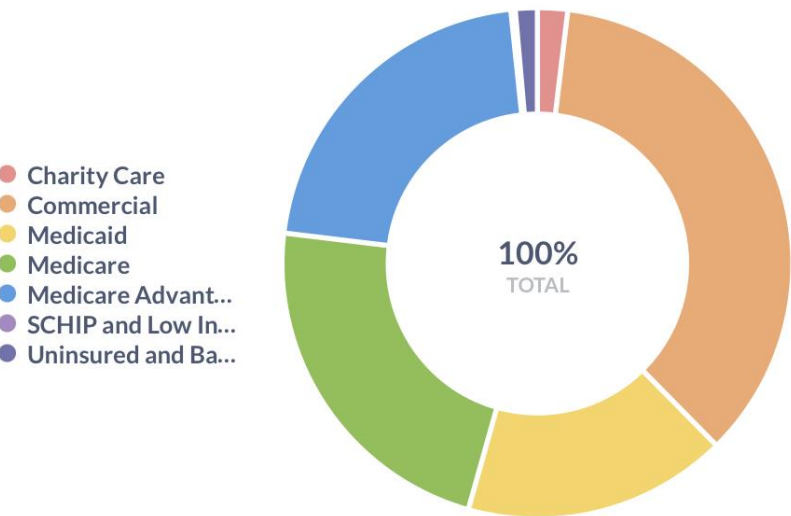
Adjusted Profit (Loss) (right chart): Operating Profit Margin multiplied by Payer Mix, which represents the payer's impact on the hospital's financial performance.

NASHP Commercial Breakeven (2019): 92%

RAND 3.0 Commercial Price (2016-2018): 196%

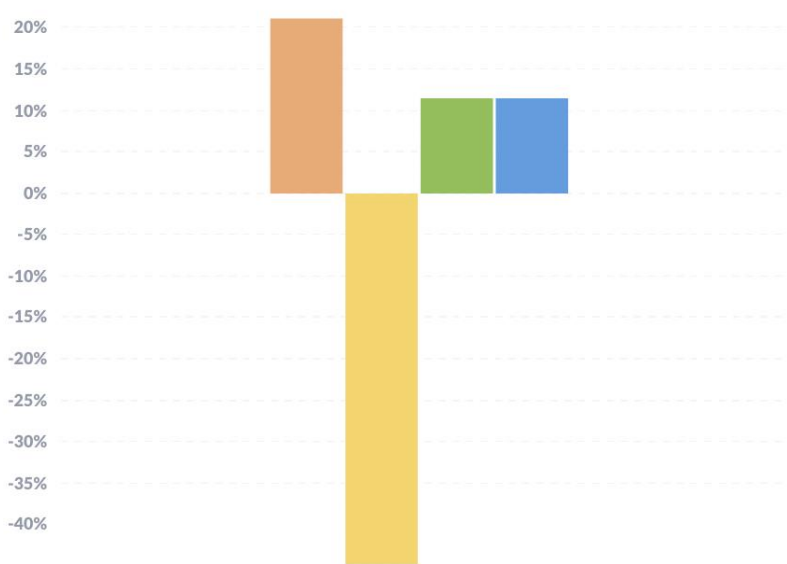
Net Profit Margin (2019): 0.1%

Payer mix for the selected year



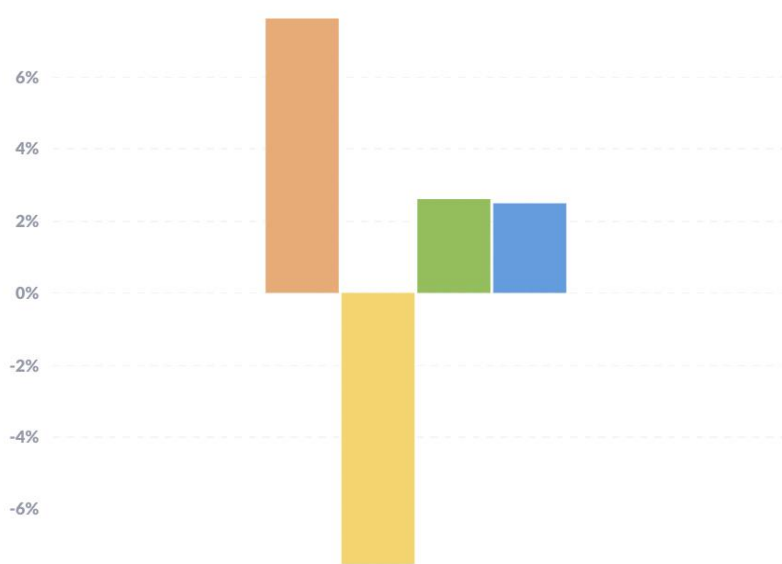
Operating profit margin by payer type for the selected year

Commercial Medicaid Medicare Medicare Advantage



Payer mix adjusted profit (loss) for the selected year

Commercial Medicaid Medicare Medicare Advantage



South County Hospital

Payer Mix Metrics

Payer Mix (left chart): Percentage of total hospital services provided to the payer mix (i.e. Medicaid) patients, as measured by Hospital Charges.

Operating Profit Margin (middle chart): Operating Profit (Loss) divided by Net Patient Revenue.

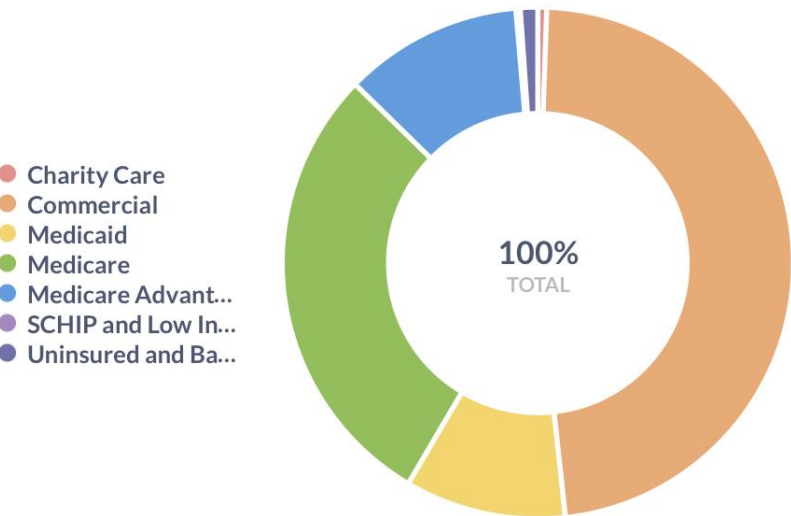
Adjusted Profit (Loss) (right chart): Operating Profit Margin multiplied by Payer Mix, which represents the payer's impact on the hospital's financial performance.

NASHP Commercial Breakeven (2019): 166%

RAND 3.0 Commercial Price (2016-2018): 222%

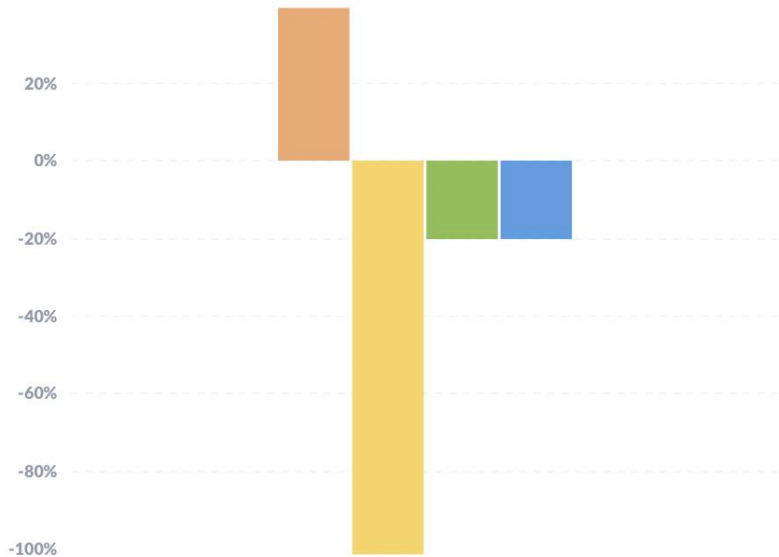
Net Profit Margin (2019): -5.2%

Payer mix for the selected year



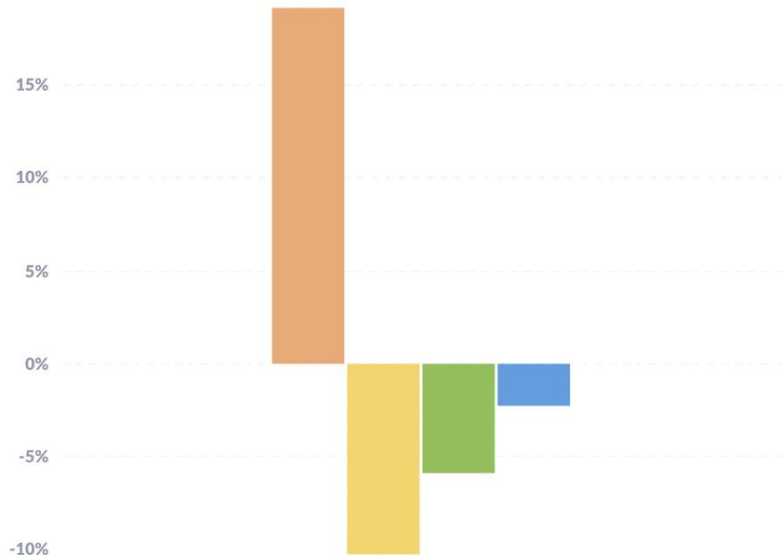
Operating profit margin by payer type for the selected year

Commercial Medicaid Medicare Medicare Advantage



Payer mix adjusted profit (loss) for the selected year

Commercial Medicaid Medicare Medicare Advantage



Kent County Memorial Hospital (Care New England Health System)

Payer Mix Metrics

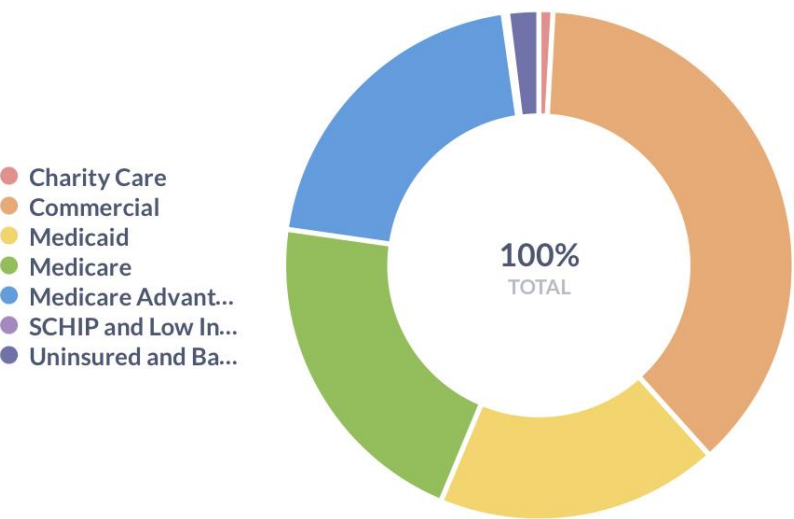
Payer Mix (left chart): Percentage of total hospital services provided to the payer mix (i.e. Medicaid) patients, as measured by Hospital Charges.

Operating Profit Margin (middle chart): Operating Profit (Loss) divided by Net Patient Revenue.

Adjusted Profit (Loss) (right chart): Operating Profit Margin multiplied by Payer Mix, which represents the payer's impact on the hospital's financial performance.

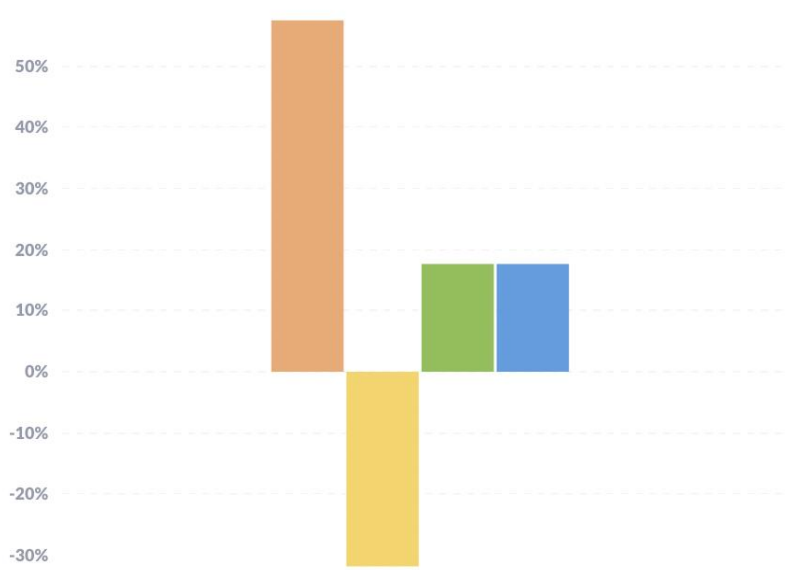
NASHP Commercial Breakeven (2019): 161%
RAND 3.0 Commercial Price (2016-2018): 186%
Net Profit Margin (2019): 1.8%

Payer mix for the selected year



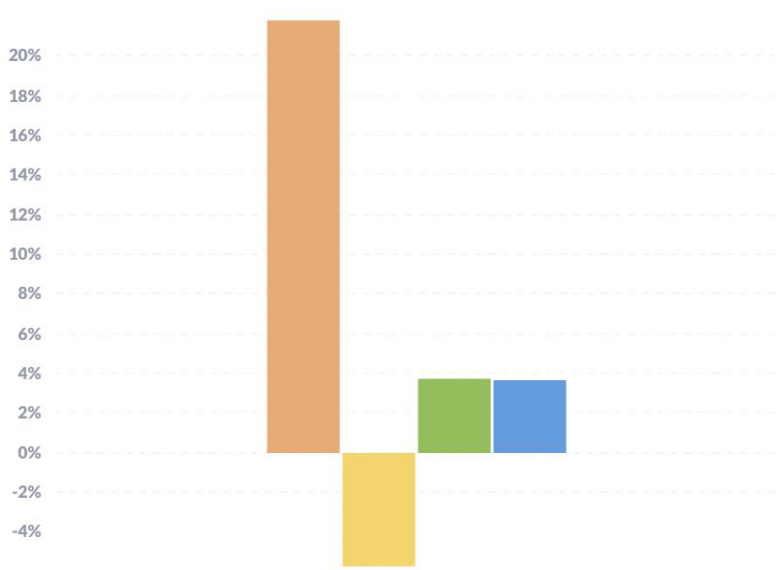
Operating profit margin by payer type for the selected year

Commercial Medicaid Medicare Medicare Advantage



Payer mix adjusted profit (loss) for the selected year

Commercial Medicaid Medicare Medicare Advantage



Women & Infants Hospital (Care New England Health System)

Payer Mix Metrics

Payer Mix (left chart): Percentage of total hospital services provided to the payer mix (i.e. Medicaid) patients, as measured by Hospital Charges.

Operating Profit Margin (middle chart): Operating Profit (Loss) divided by Net Patient Revenue.

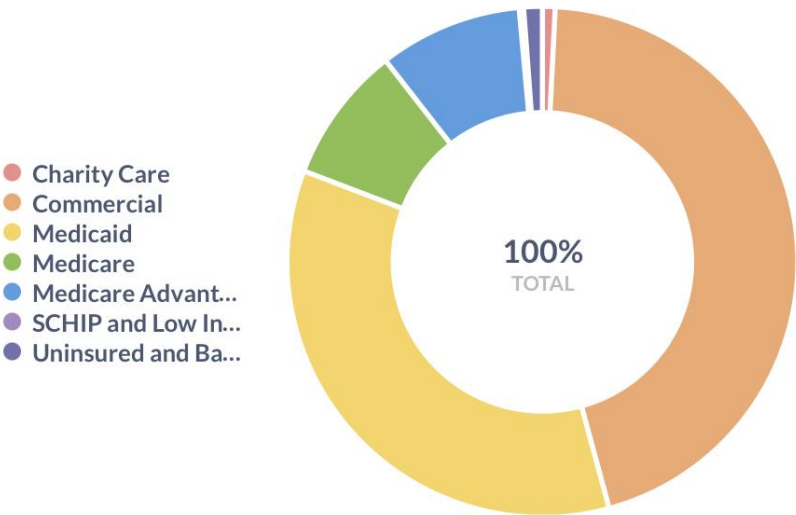
Adjusted Profit (Loss) (right chart): Operating Profit Margin multiplied by Payer Mix, which represents the payer's impact on the hospital's financial performance.

NASHP Commercial Breakeven (2019): 147%

RAND 3.0 Commercial Price (2016-2018): 82%

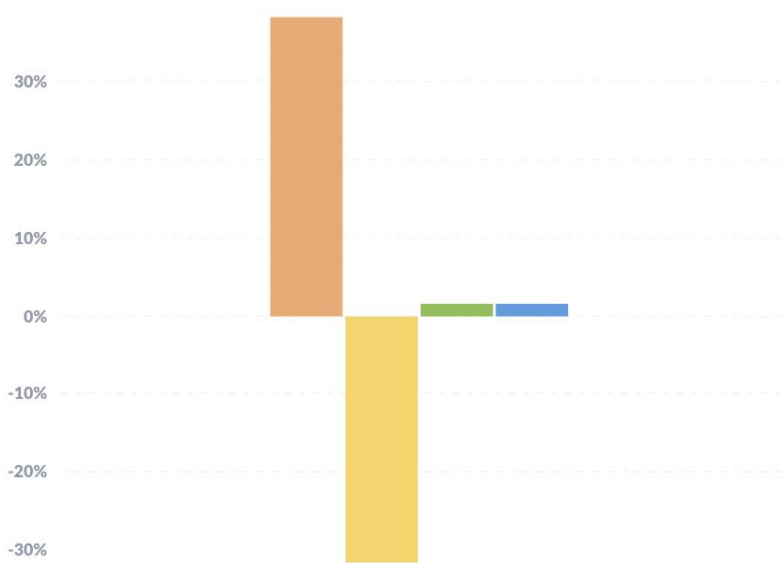
Net Profit Margin (2019): -1.5%

Payer mix for the selected year



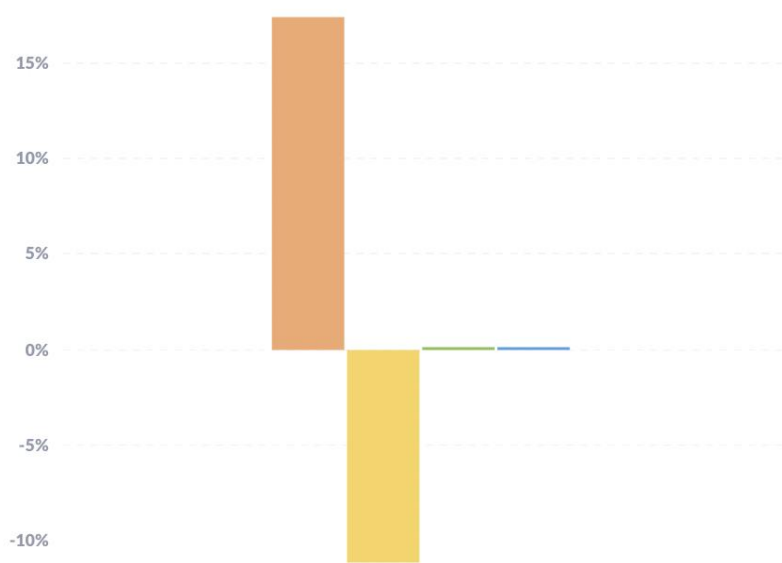
Operating profit margin by payer type for the selected year

Commercial Medicaid Medicare Medicare Advantage



Payer mix adjusted profit (loss) for the selected year

Commercial Medicaid Medicare Medicare Advantage



Landmark Medical Center (Prime Healthcare Services)

Payer Mix Metrics

Payer Mix (left chart): Percentage of total hospital services provided to the payer mix (i.e. Medicaid) patients, as measured by Hospital Charges.

Operating Profit Margin (middle chart): Operating Profit (Loss) divided by Net Patient Revenue.

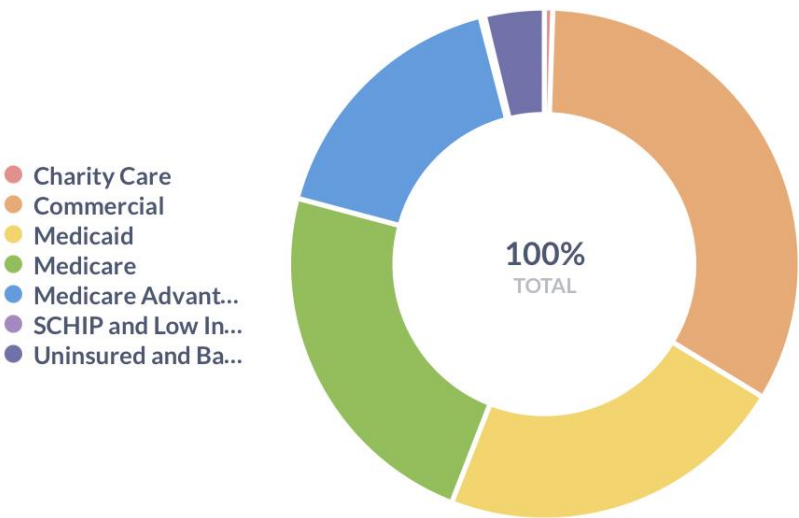
Adjusted Profit (Loss) (right chart): Operating Profit Margin multiplied by Payer Mix, which represents the payer's impact on the hospital's financial performance.

NASHP Commercial Breakeven (2019): 83%

RAND 3.0 Commercial Price (2016-2018): 135%

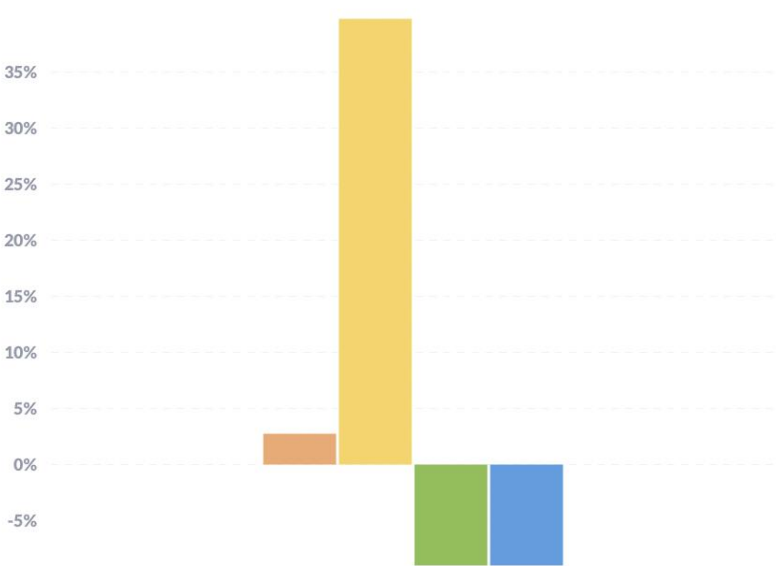
Net Profit Margin (2019): 4.2%

Payer mix for the selected year



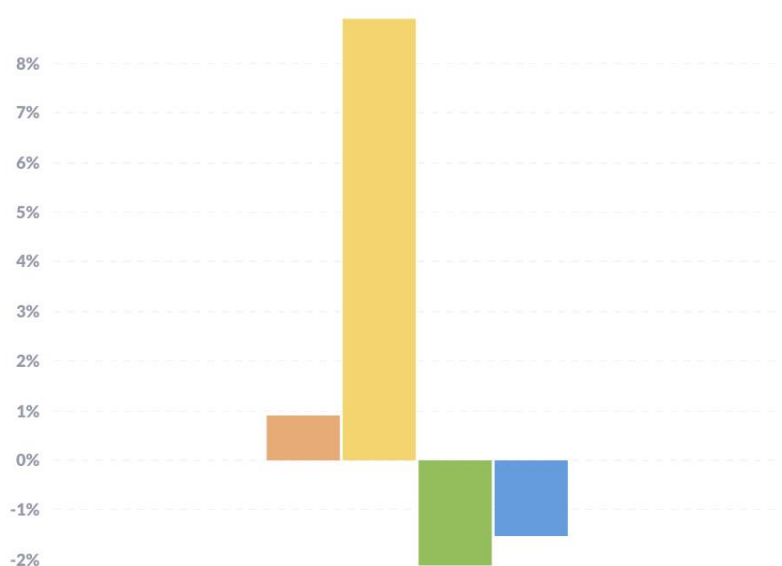
Operating profit margin by payer type for the selected year

Commercial Medicaid Medicare Medicare Advantage



Payer mix adjusted profit (loss) for the selected year

Commercial Medicaid Medicare Medicare Advantage



The Westerly Hospital (Yale New Haven Health System)

Payer Mix Metrics

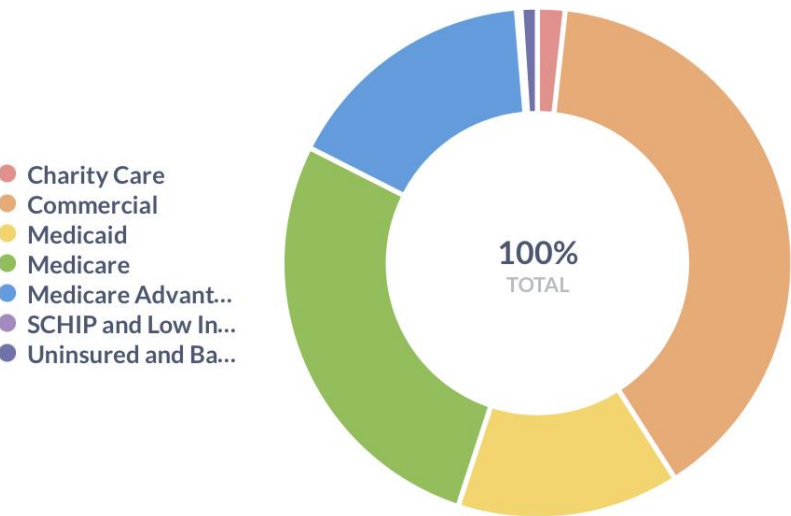
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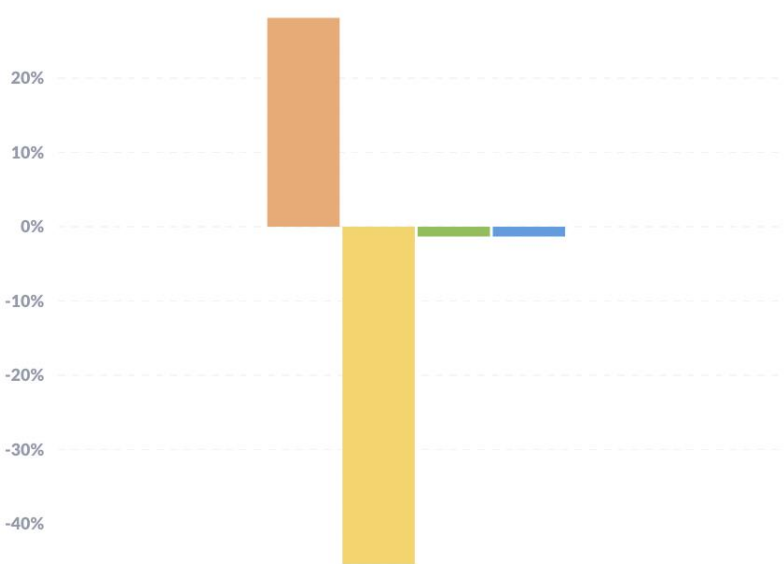
NASHP Commercial Breakeven (2019): 131%
RAND 3.0 Commercial Price (2016-2018): 169%
Net Profit Margin (2019): 0.4%

Payer mix for the selected year



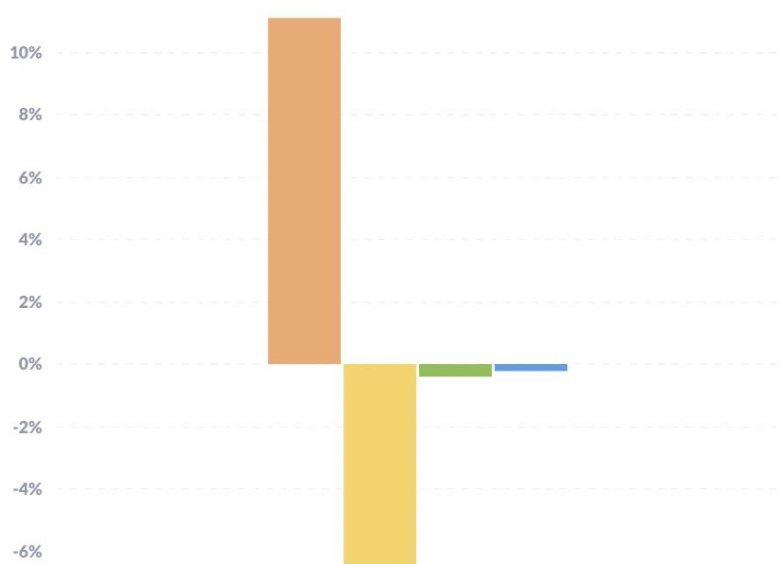
Operating profit margin by payer type for the selected year

Commercial Medicaid Medicare Medicare Advantage

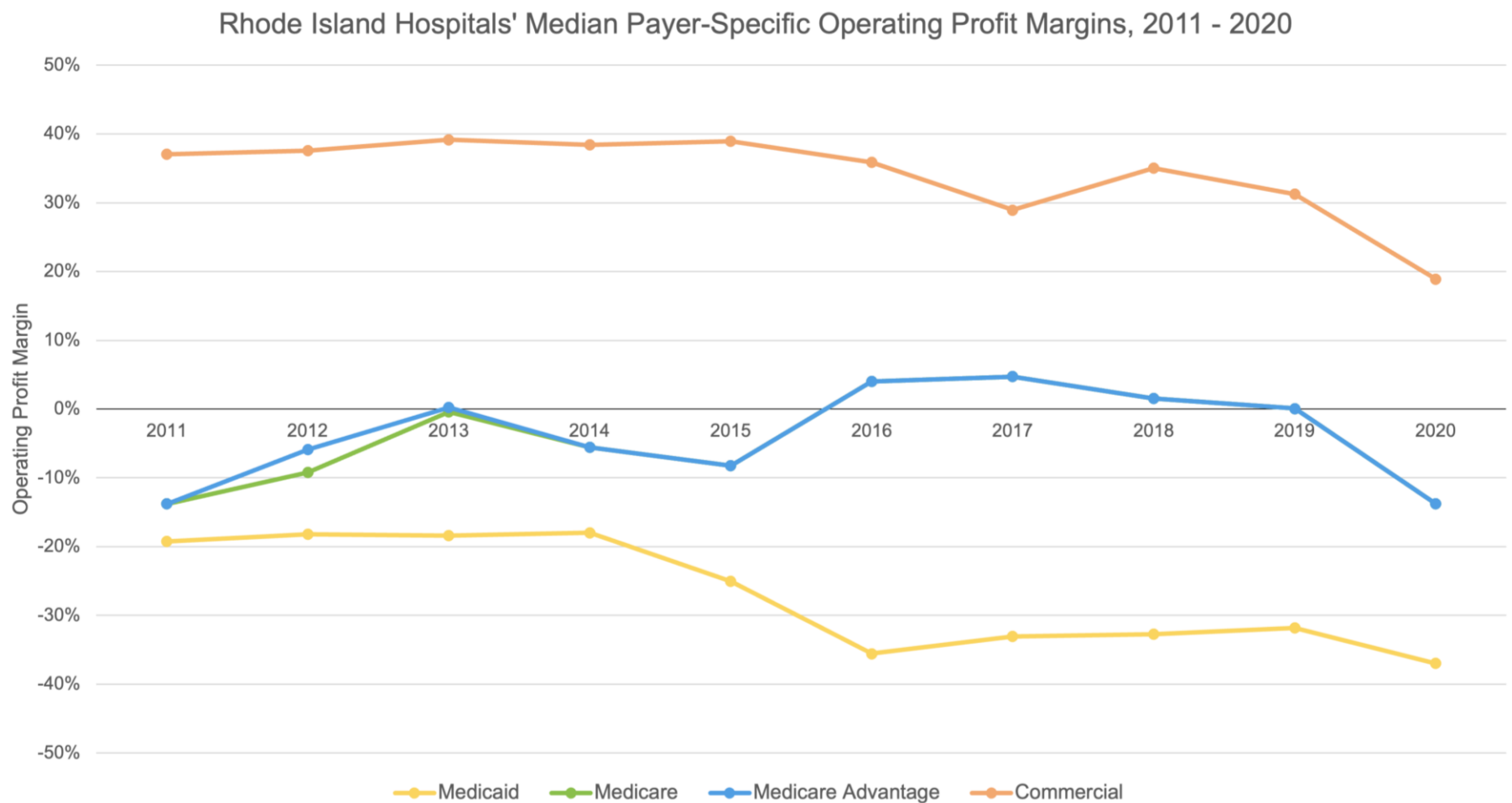


Payer mix adjusted profit (loss) for the selected year

Commercial Medicaid Medicare Medicare Advantage



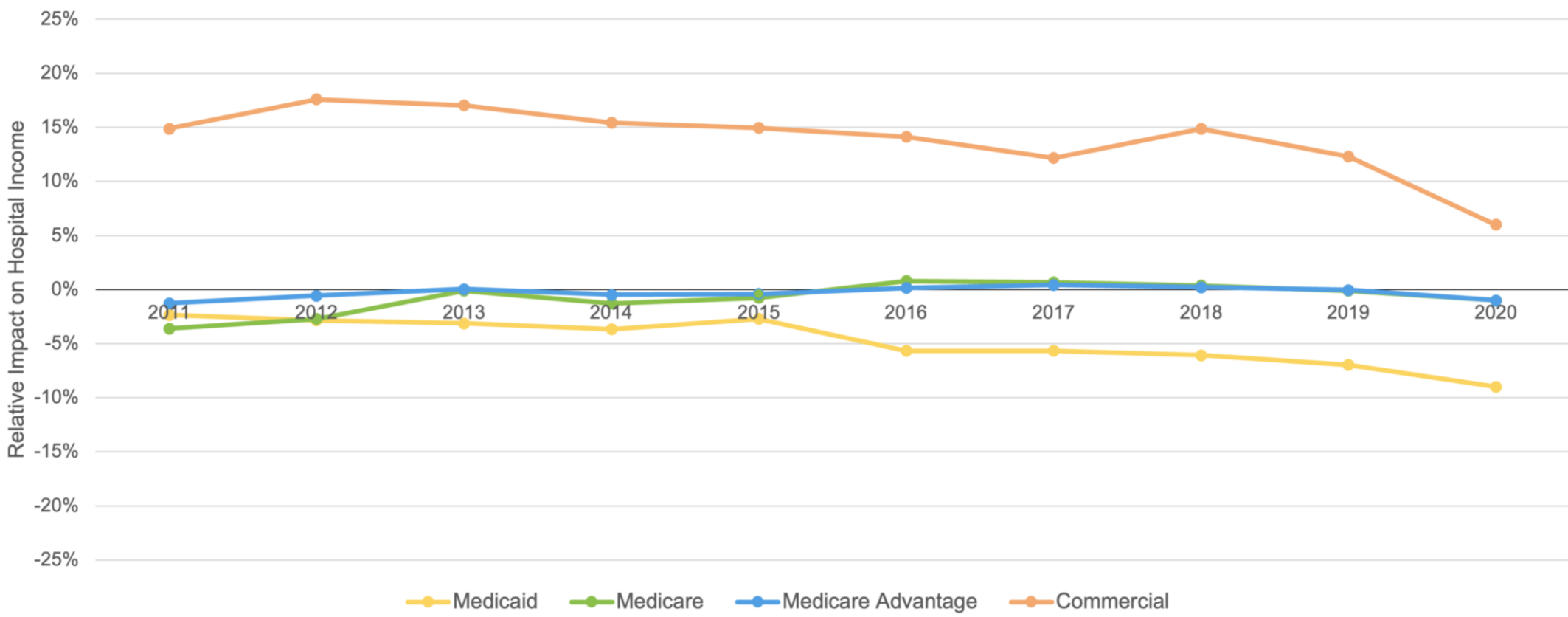
Rhode Island Median Payer-Specific Operating Profit Margin Over Time



Note: COVID-19 Public Health Emergency relief funds **NOT** included in hospital's "net patient revenue," in 2020.

Rhode Island Median Payer-Specific Relative Impact Over Time

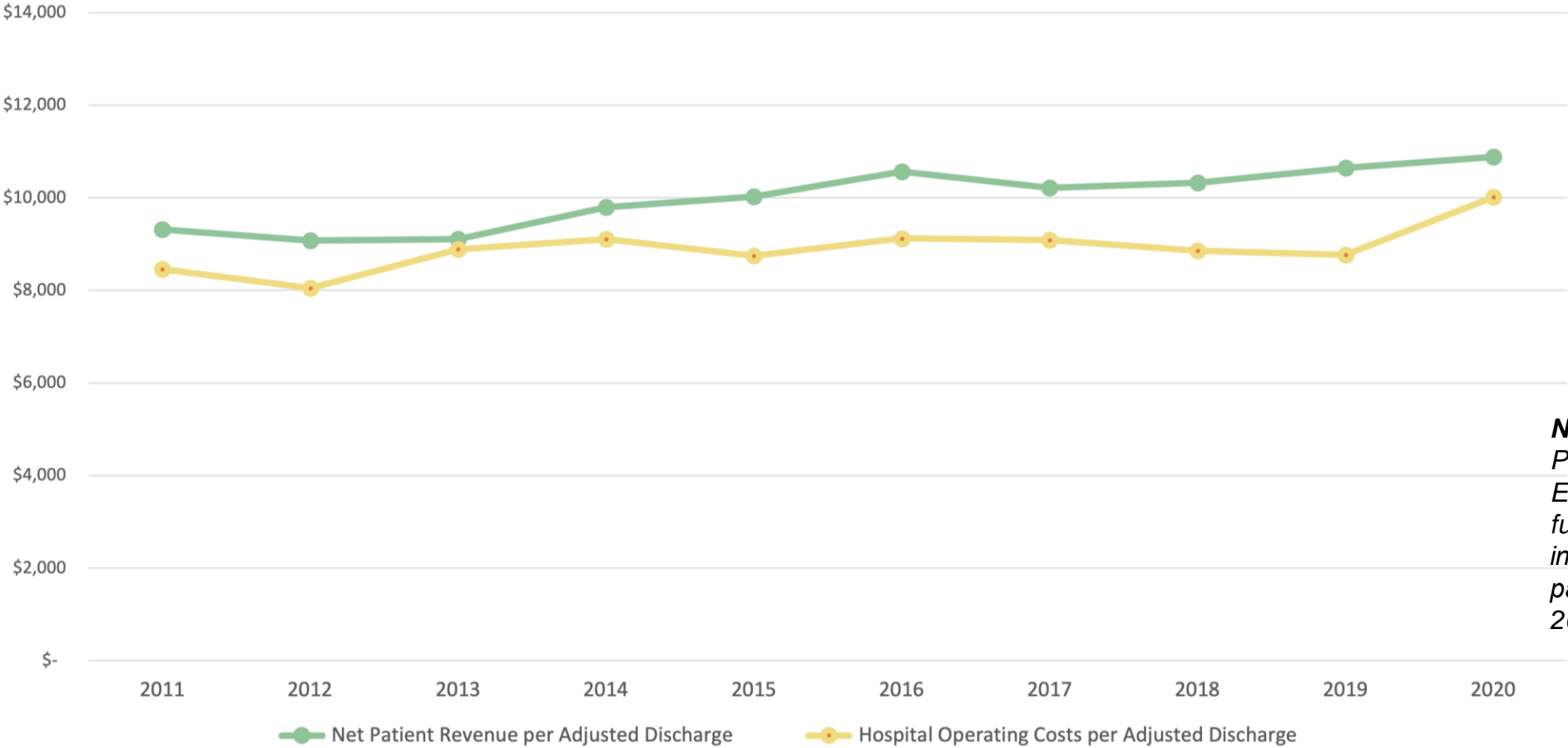
Rhode Island Hospitals' Median Payer-Specific Relative Impact on Hospital Operating Income, 2011 - 2020



Note: COVID-19 Public Health Emergency relief funds **NOT** included in hospital's "net patient revenue," in 2020.

Rhode Island Revenue vs Costs

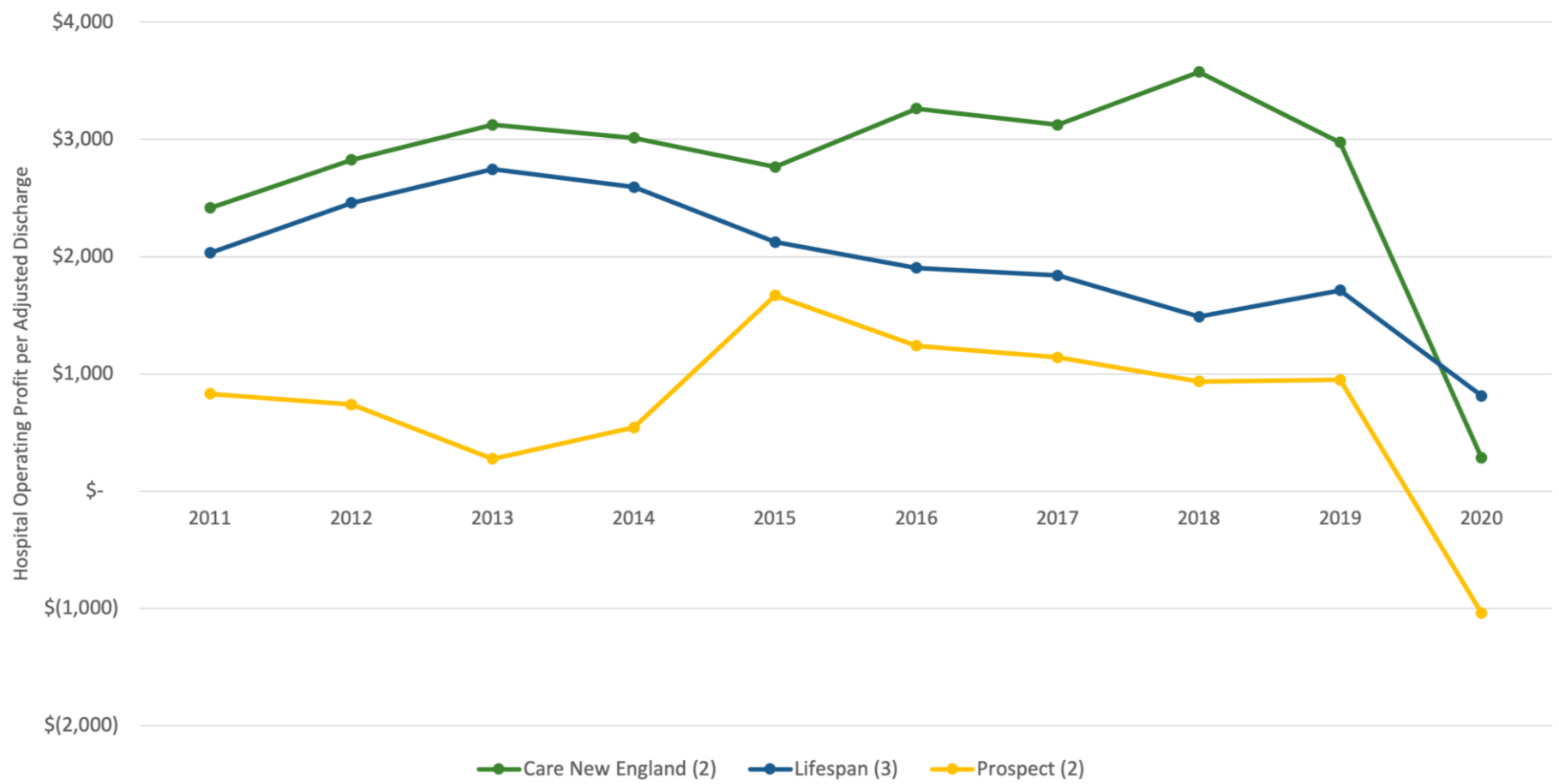
Rhode Island Median Net Patient Revenue vs Costs, 2011-2020



Note: COVID-19 Public Health Emergency relief funds **NOT** included in hospital's "net patient revenue," in 2020.

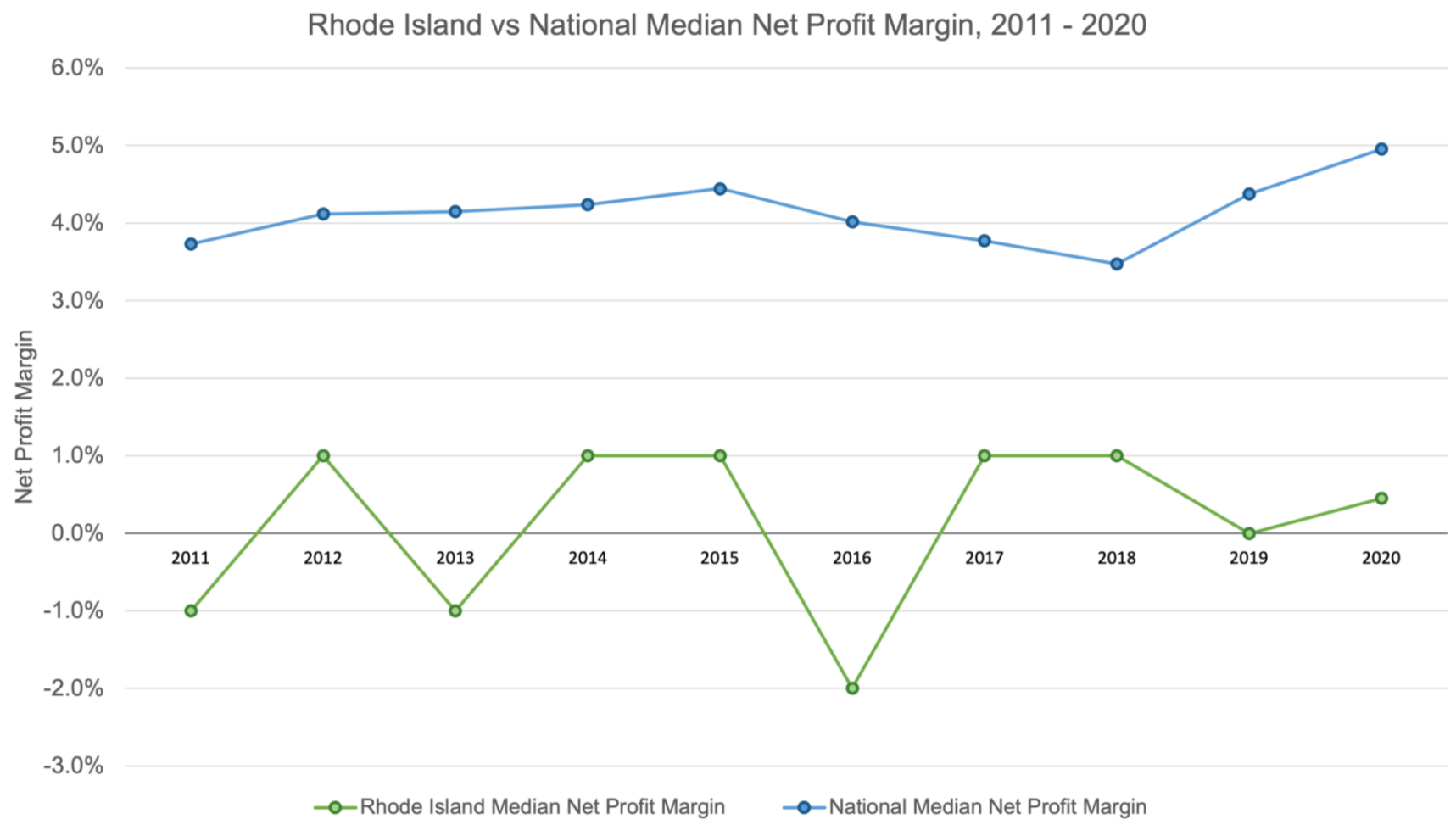
Rhode Island Major Systems Operating Profit

Rhode Island Systems' Operating Profit per Adjusted Discharge, 2011 - 2020
(number of hospitals in parentheses)



Note: COVID-19 Public Health Emergency relief funds **NOT** included in hospital's "net patient revenue," in 2020.

Rhode Island vs National Median Net Profit Margin



Note: Hospitals nationwide continue to submit and update 2020 data.

COVID-19 Public Health Emergency relief funds **NOT** included in hospital's "net patient revenue," in 2020.

Thank you!

NASHP's Health System Costs Resources:

- Written research and analysis & state legislative tracking
- Model legislation & regulation to address consolidation and more
- Hospital Cost Calculator & hospital financial transparency reporting template
- Available Now! The Hospital Cost Tool (Online Searchable Database)
- <https://www.nashp.org/policy/health-system-costs/>



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