

# HOSPITAL OPERATING TRENDS QUARTERLY

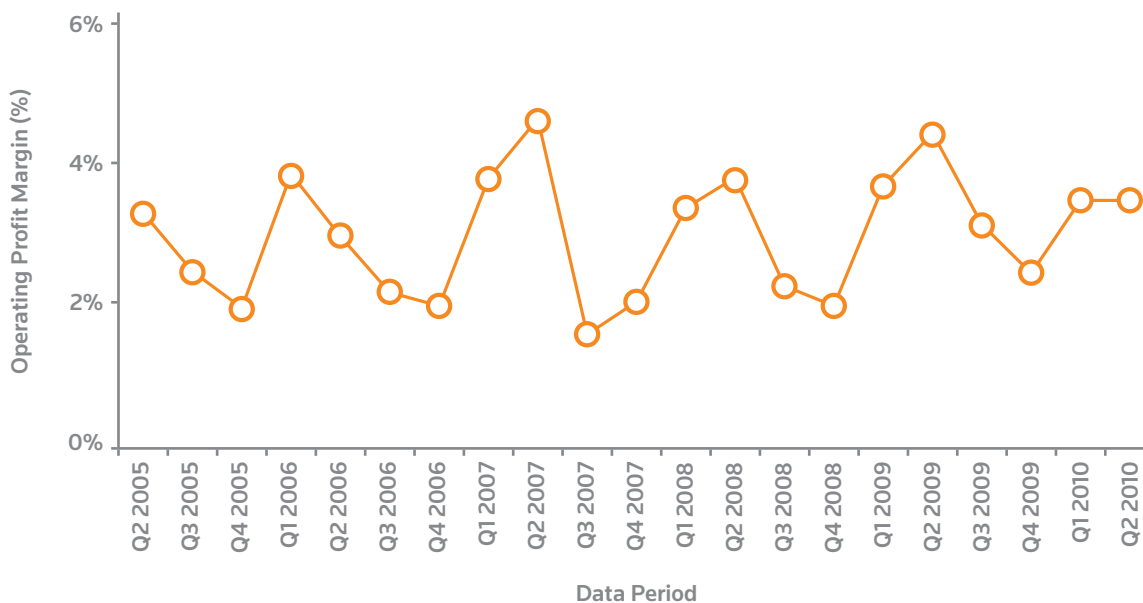
DECEMBER 2010

*This is the first in a series of quarterly reports on hospital operating trends from Thomson Reuters. The series uses data from our client-supported ActionOI® database, containing operational and financial data from more than 750 healthcare organizations across the U.S. In this issue, the research reveals that hospital operating margins increased slightly in the first half of 2010, although the number of hospitals with negative profit margins remained high.*

## HOSPITAL PROFIT MARGINS INCREASE IN FIRST HALF OF 2010, MAJOR TEACHING HOSPITALS MAKE GREATEST GAINS

Hospital operating margins have remained steady over the last several years, following a cyclic pattern of increases in the first half of the year and decreases in the second half (Figure 1).

**FIGURE 1: Operating Profit Margin, All Hospitals, Long-Term**



Source: Thomson Reuters ActionOI data

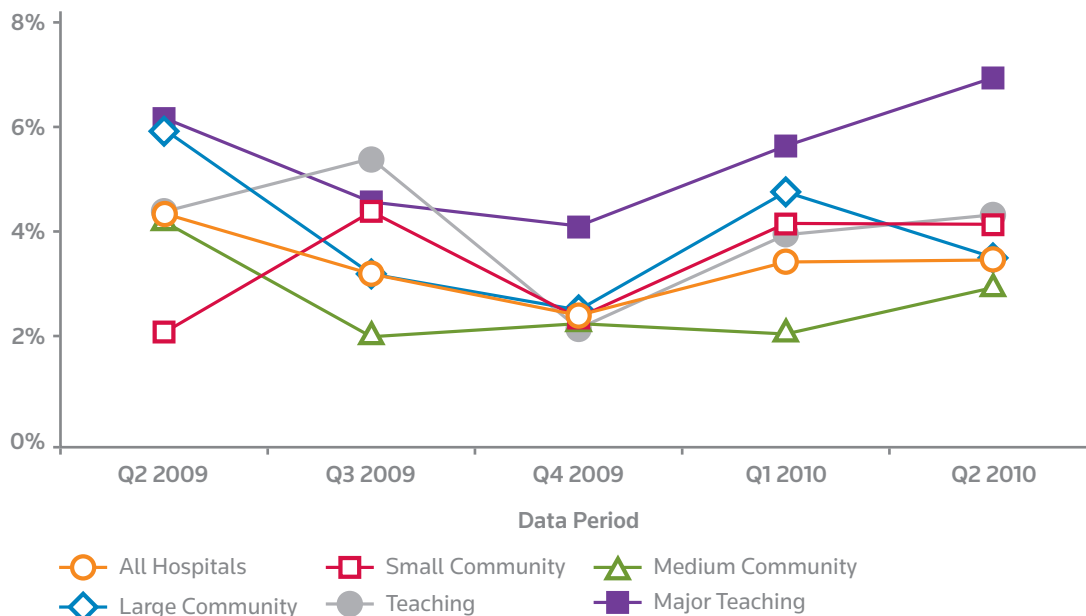


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The first half of 2010 was no different. At the end of the second quarter of 2010, hospital margins had risen to 3.5 percent, up from only 2.4 percent at the end of 2009 (Figure 2). As of the second quarter 2010, all classes of hospitals that we studied (major teaching; teaching; and large, medium, and small community hospitals) posted operating margins between 2.9 and 6.8 percent. Major teaching hospitals enjoyed the highest margins.

Compared with the same quarter a year earlier, margins remained relatively steady for most groups — dropping just slightly for all groups except small community and major teaching hospitals, where they increased.

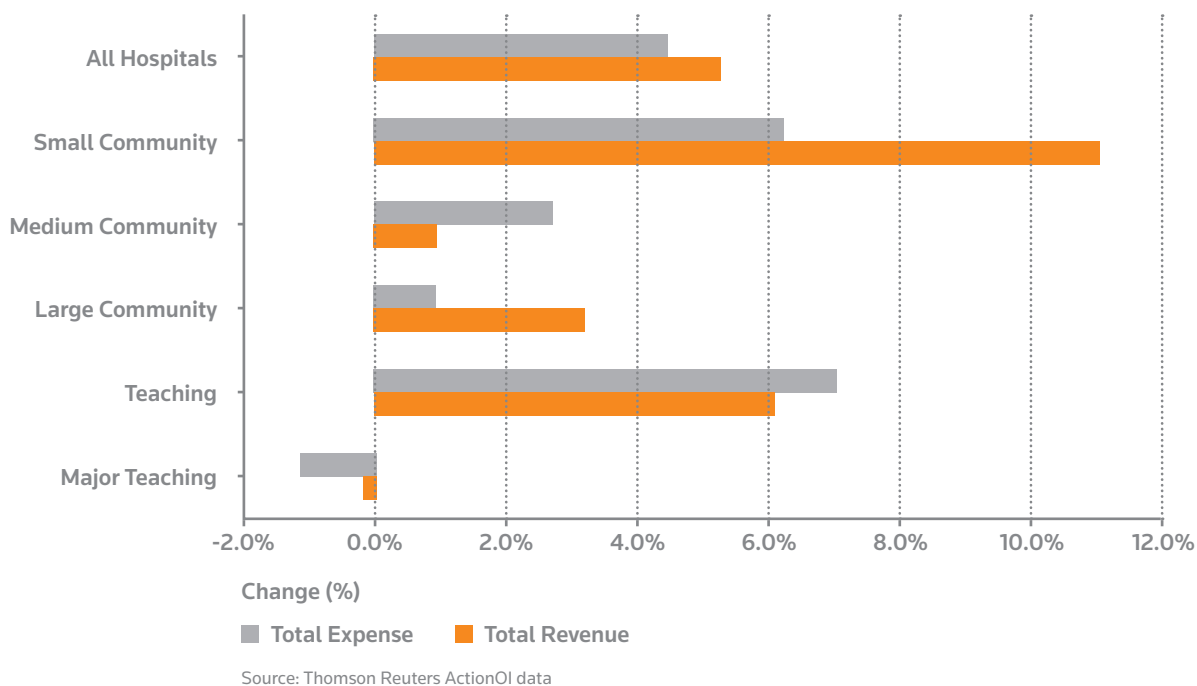
**FIGURE 2: Hospital Operating Profit Margin by Class**



Source: Thomson Reuters ActionOI data

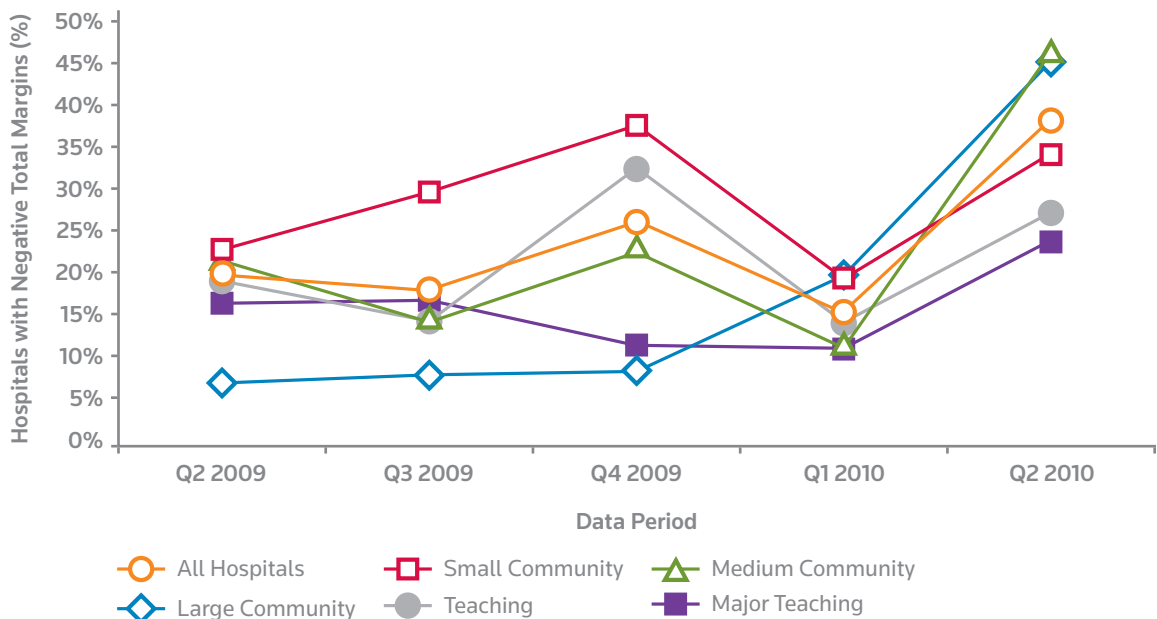
These relatively steady profits are likely tied to hospitals' ability to control expenses to match fluctuations in revenues. Figure 3 tracks median net patient revenue and expense per adjusted discharge. Revenue numbers are average wage index (AWI)-adjusted and expense numbers are AWI and case mix-adjusted. For all hospitals, revenues increased 5.4 percent, and expenses increased more slowly, at 4.5 percent. For the hospital classes, results were more mixed. Small and large community hospitals increased revenues more than expenses, while medium community and teaching hospitals suffered higher expense than revenue increases. Major teaching hospitals were the only group to actually decrease expenses, but their revenues also declined slightly.

**FIGURE 3: Annual Change in Revenue and Expenses, 2009–2010**



Despite the good news on steady operating margins and balanced revenues and expenses, the percentage of hospitals with negative total margins is still growing. In the second quarter of 2010, this number grew to 38 percent for all U.S. hospitals. Between 2009 and 2010, this number grew for every hospital class.

**FIGURE 4: Percentage of Hospitals with Negative Total Margins by Class**



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