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United States General Accounting Office

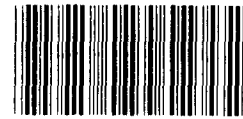
GAO

Briefing Report to the Honorable
Jim Kolbe, House of Representatives

January 1988

MEDICARE

Share of Hospitals' Inpatient Use and Revenue



134841



United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-229420

January 15, 1988

The Honorable Jim Kolbe
House of Representatives

Dear Mr. Kolbe:


On May 12, 1987, you expressed your concern to us about the effects of Medicare's prospective payment system (PPS) on the financial status of rural hospitals and asked for information on this. (We used Medicare's definition of rural hospital; that is, any hospital not located in a standard metropolitan area was considered a rural hospital.) We agreed with your office to provide data on Medicare's share of inpatient use and revenues for rural and urban hospitals.

Using the latest data available, we computed Medicare's share of total inpatient days, discharges, and revenues for 1985. The data were obtained from the cost report tapes maintained by the Health Care Financing Administration, which administers the Medicare program. This briefing report provides statistical data on 4,977 PPS hospitals nationwide and separately for 59 Arizona hospitals.

In summary, the data show that Medicare is an important source of business for hospitals, representing an average 31.5 percent of revenues, 32.3 percent of discharges, and 42.0 percent of inpatient days. While the program is important to all hospitals, it is more important to rural hospitals as a source of payment, and to those rural hospitals with less than 50 beds in particular. As is the case nationwide, Medicare is important to Arizona hospitals in terms of inpatient hospital use and revenues. However, in Arizona, Medicare is slightly more important to urban hospitals than to rural hospitals.

We are sending copies of this briefing report to the Department of Health and Human Services and will make copies available to other interested parties upon request. Should you need additional information on the matters discussed in this report, please call me on 275-6195.

Sincerely yours,


Michael Zimmerman
Senior Associate Director

MEDICARE: SHARE OF HOSPITALS'
INPATIENT USE AND REVENUES

This briefing report provides data related to the percentage of hospital inpatient days, discharges, and revenues represented by Medicare. In September 1987, we obtained from the Health Care Financing Administration (HCFA) its computerized file of 1985 Medicare cost reports. This file included information for hospital cost reporting years ended between October 1, 1984, and September 30, 1985, and represents the latest hospital cost data available. The file included data for 4,977 hospitals¹ paid under Medicare's prospective payment system (PPS), including 59 Arizona hospitals.

HCFA used seven classes of hospitals when it established limits that would be paid for hospital inpatient routine operating costs. Hospitals were classified by their bed size and their urban (i.e., in a standard metropolitan area) or rural location. We added one classification (rural less than 50 beds) for our analysis because our earlier work related to hospitals indicated that the smallest rural hospitals tended to differ from other hospital classes. The number of hospitals in each class is shown in table 1.

Table 1: Number of Hospitals by Bed Size and Urban/Rural Location

<u>Class</u>	<u>Number of hospitals</u>	
	<u>All hospitals</u>	<u>Arizona</u>
Rural less than 50 beds	1,227	16
Rural 50 to 99 beds	707	5
Rural 100 to 169 beds	396	6
Rural 170 or more beds	226	1
Urban less than 100 beds	577	3
Urban 100 to 404 beds	1,394	25
Urban 405 to 684 beds	357	3
Urban 685 or more beds	<u>93</u>	<u>0</u>
Total	<u>4,977</u>	<u>59</u>

For each hospital, we extracted from the computerized file total revenues, number of inpatient days, and number of discharges as well as the portion of these items represented by the Medicare program. We then combined the data for each hospital class and computed averages for them. About 92 percent (4,596) of the cost reports on the tape file used to develop this data were unaudited.

¹We eliminated 98 hospitals from the file because there were problems with their data, such as a lack of revenue information.

Tables 2, 3, and 4 present nationwide data from the 1985 cost report file by class of hospital on total revenues, discharges, and inpatient days, respectively. Each table also shows the portion of the applicable item represented by Medicare.

These tables show that Medicare is an important source of business for hospitals, representing on average 31.5 percent of revenues, 32.3 percent of discharges, and 42.0 percent of inpatient days. While Medicare was important to all the hospital classes, it was more important to rural hospitals and the smallest rural hospitals in particular. For rural hospitals with less than 50 beds, Medicare represented 36.3 percent of revenues, 42.3 percent of discharges, and 50.7 percent of inpatient days. Each of these percentages was the highest for any hospital class.

Table 2: Percentage of Hospital Revenues Represented by Medicare Nationwide, Fiscal Year 1985

(Dollars in millions)

<u>Class</u>	<u>Medicare revenue</u>	<u>Total revenue</u>	<u>Percentage of Medicare revenue</u>
Rural less than 50 beds	\$806	\$2,223	36.3
Rural 50 to 99 beds	1,315	3,823	34.4
Rural 100 to 169 beds	1,527	4,652	32.8
Rural 170 or more beds	1,885	5,607	33.6
Rural subtotal ^a	<u>\$5,535</u>	<u>\$16,305</u>	33.9
Urban less than 100 beds	1,287	4,156	31.0
Urban 100 to 404 beds	14,254	45,256	31.5
Urban 405 to 684 beds	8,987	28,977	31.0
Urban 685 or more beds	4,119	13,989	29.4
Urban subtotal ^a	<u>\$28,647</u>	<u>\$92,378</u>	31.0
Grand total ^a	<u>\$34,182</u>	<u>\$108,682</u>	31.5

^aMay not total due to rounding.

Table 3: Percentage of Discharges Represented by Medicare Nationwide, Fiscal Year 1985

<u>Class</u>	<u>Medicare discharges</u>	<u>Total discharges</u>	<u>Percentage of Medicare discharges</u>
Rural less than 50 beds	443,328	1,047,282	42.3
Rural 50 to 99 beds	591,304	1,554,835	38.0
Rural 100 to 169 beds	607,117	1,666,436	36.4
Rural 170 or more beds	<u>646,647</u>	<u>1,880,311</u>	34.4
Rural subtotal	<u>2,288,396</u>	<u>6,148,864</u>	37.2
Urban less than 100 beds	370,196	1,074,729	34.4
Urban 100 to 404 beds	3,312,360	10,362,690	32.0
Urban 405 to 684 beds	1,724,855	5,802,079	29.7
Urban 685 or more beds	<u>704,254</u>	<u>2,611,496</u>	27.0
Urban subtotal	<u>6,111,665</u>	<u>19,850,994</u>	30.8
Grand total	<u>8,400,061</u>	<u>25,999,858</u>	32.3

Table 4: Percentage of Inpatient Days Represented by Medicare Nationwide, Fiscal Year 1985

<u>Class</u>	<u>Medicare days</u>	<u>Total days</u>	<u>Percentage of Medicare days</u>
Rural less than 50 beds	2,650,240	5,222,445	50.7
Rural 50 to 99 beds	3,725,975	7,720,761	48.3
Rural 100 to 169 beds	4,243,621	9,025,345	47.0
Rural 170 or more beds	<u>4,900,057</u>	<u>10,790,885</u>	45.4
Rural subtotal	<u>15,519,893</u>	<u>32,767,436</u>	47.4
Urban less than 100 beds	2,523,699	5,905,799	42.7
Urban 100 to 404 beds	26,928,837	63,191,987	42.6
Urban 405 to 684 beds	15,429,473	39,959,060	39.6
Urban 685 or more beds	<u>6,593,940</u>	<u>18,545,536</u>	35.6
Urban subtotal	<u>51,475,949</u>	<u>126,602,382</u>	40.7
Grand total	<u>66,995,842</u>	<u>159,369,818</u>	42.0

Tables 5, 6, and 7 show the national distribution of hospitals by class for the portion of revenues, discharges, and inpatient days, respectively, represented by Medicare. These tables provide a breakdown by various percentages of Medicare use of the data in tables 2, 3, and 4, and further illustrate

Medicare's importance to hospitals in general and the smallest rural hospitals in particular.

Table 5: Distribution of Hospitals by Class and Percentage of Revenues Coming From Medicare Nationwide, Fiscal Year 1985

Class	Percentage of hospitals with Medicare revenues				
	Less than 25 percent	25 to 34 percent	35 to 44 percent	45 to 54 percent	Greater than 54 percent
Rural less than 50 beds	10.4	19.2	30.5	23.7	16.1
Rural 50 to 99 beds	9.1	35.4	36.6	14.3	4.7
Rural 100 to 169 beds	13.1	40.7	36.4	8.8	1.0
Rural 170 or more beds	6.2	47.3	39.4	4.9	2.2
Urban less than 100 beds	21.8	17.3	31.5	20.6	8.7
Urban 100 to 404 beds	19.6	34.0	33.0	10.0	3.4
Urban 405 to 684 beds	18.8	40.3	31.9	7.6	1.4
Urban 685 or more beds	21.5	45.2	25.8	7.5	0.0

Table 6: Distribution of Hospitals by Class and Percentage of Discharges Coming From Medicare Nationwide, Fiscal Year 1985

Class	Percentage of hospitals with Medicare discharges				
	Less than 25 percent	25 to 34 percent	35 to 44 percent	45 to 54 percent	Greater than 54 percent
Rural less than 50 beds	7.3	15.1	27.5	28.9	21.2
Rural 50 to 99 beds	6.1	24.2	41.4	22.5	5.8
Rural 100 to 169 beds	4.8	36.3	40.7	13.4	4.8
Rural 170 or more beds	4.0	43.3	39.8	10.2	2.7
Urban less than 100 beds	20.1	23.1	29.1	17.0	10.7
Urban 100 to 404 beds	21.4	34.6	28.0	10.2	5.7
Urban 405 to 684 beds	22.4	46.8	24.1	4.5	2.2
Urban 685 or more beds	25.8	52.6	14.0	5.4	2.2

Table 7: Distribution of Hospitals by Class and Percentage of Inpatient Days Coming From Medicare Nationwide, Fiscal Year 1985

Class	Percentage of hospitals with Medicare inpatient days				
	Less than 25 percent	25 to 34 percent	35 to 44 percent	45 to 54 percent	Greater than 54 percent
Rural less than 50 beds	5.9	8.1	14.7	28.4	42.9
Rural 50 to 99 beds	2.0	6.1	24.3	37.3	30.3
Rural 100 to 169 beds	1.5	6.8	32.1	37.9	21.7
Rural 170 or more beds	0.4	6.2	37.6	41.2	14.6
Urban less than 100 beds	13.5	12.3	19.2	26.9	28.1
Urban 100 to 404 beds	8.5	14.7	30.0	29.9	16.9
Urban 405 to 684 beds	7.8	18.0	37.0	30.5	6.7
Urban 685 or more beds	12.9	17.2	46.2	19.4	4.3

Tables 8, 9, and 10 list data for Arizona hospitals on total revenues, discharges, and inpatient days, respectively, and Medicare's portion of them. As is the case nationwide, Medicare is important to Arizona hospitals. However, in Arizona, Medicare is slightly more important to urban hospitals than to rural hospitals. This may result from the large number of retired persons living in Arizona's metropolitan areas.

Table 8: Percentage of Hospital Revenues Represented by Medicare Payments in Arizona, Fiscal Year 1985

(Dollars in thousands)

Class	Medicare revenue	Total revenue	Percentage of Medicare revenue
Rural less than 50 beds	\$15,977	\$49,861	32.0
Rural 50 to 99 beds	8,923	31,654	28.2
Rural 100 to 169 beds	17,796	66,595	26.7
Rural 170 or more beds	11,158	30,168	37.0
Rural subtotal ^b	\$53,854	\$178,278	30.2
Urban less than 100 beds	5,043	15,200	33.2
Urban 100 to 404 beds	362,720	899,330	40.3
Urban 405 to 684 beds	91,748	350,763	26.2
Urban 685 or more beds ^a	N/A	N/A	N/A
Urban subtotal ^b	\$459,511	\$1,265,293	36.3
Grand total ^b	\$513,365	\$1,443,570	35.6

^aNo Arizona hospitals in this bed size were in the data base.

^bMay not total due to rounding.

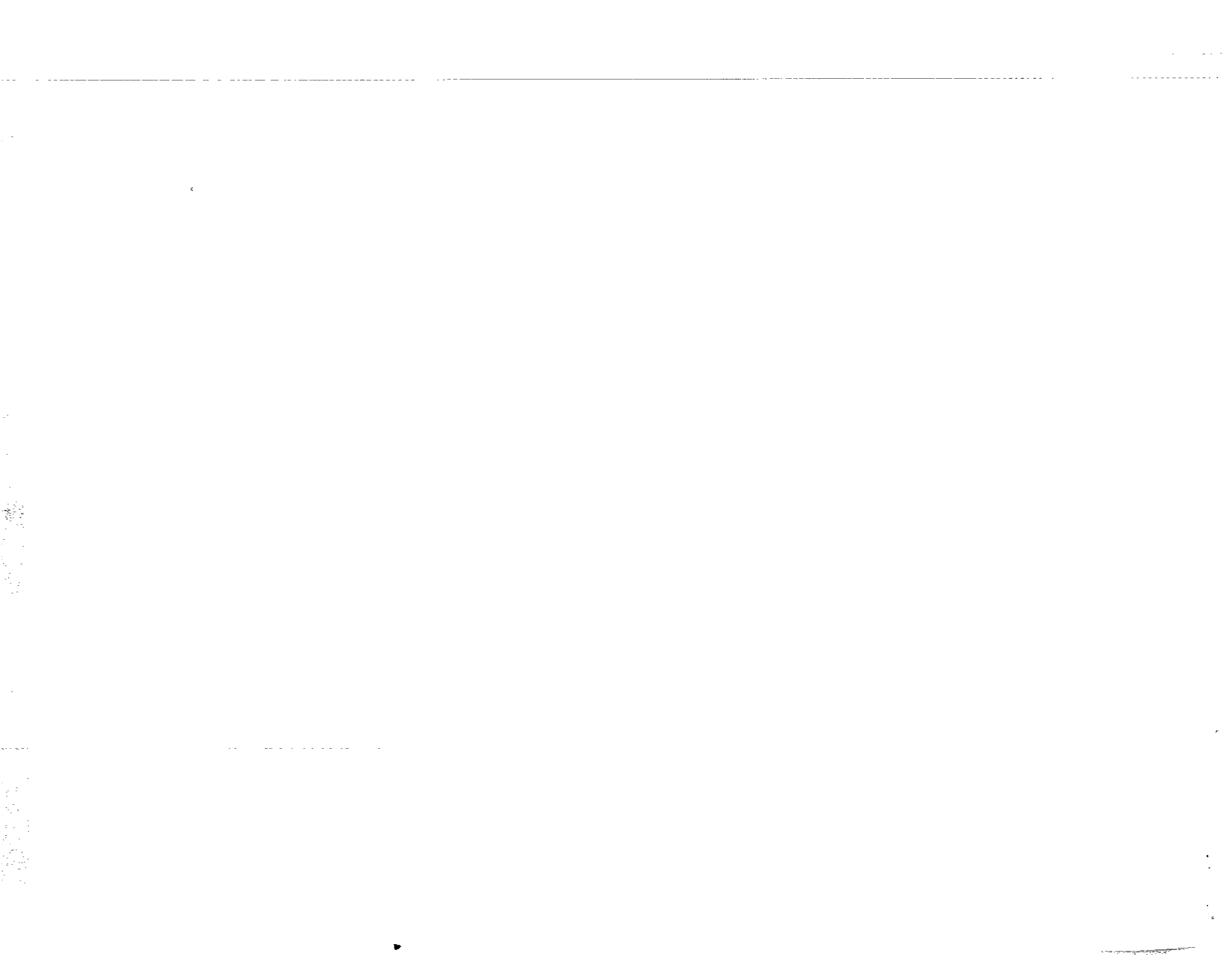
Table 9: Percentage of Discharges Represented by Medicare in Arizona, Fiscal Year 1985

<u>Class</u>	<u>Medicare discharges</u>	<u>Total discharges</u>	<u>Percentage of Medicare discharges</u>
Rural less than 50 beds	6,613	17,939	36.9
Rural 50 to 99 beds	3,713	11,818	31.4
Rural 100 to 169 beds	6,913	20,671	33.4
Rural 170 or more beds	<u>3,270</u>	<u>10,330</u>	31.7
Rural Subtotal	<u>20,509</u>	<u>60,758</u>	33.8
Urban less than 100 beds	1,375	3,344	41.2
Urban 100 to 404 beds	77,231	195,014	39.6
Urban 405 to 684 beds	17,100	73,309	23.1
Urban 685 or more beds	<u>N/A</u>	<u>N/A</u>	N/A
Urban subtotal	<u>95,706</u>	<u>272,267</u>	35.2
Grand total	<u>116,215</u>	<u>333,025</u>	34.9

Table 10: Percentage of Inpatient Days Represented by Medicare in Arizona, Fiscal Year 1985

<u>Class</u>	<u>Medicare days</u>	<u>Total days</u>	<u>Percentage of Medicare days</u>
Rural less than 50 beds	35,586	79,929	44.5
Rural 50 to 99 beds	19,990	48,312	41.4
Rural 100 to 169 beds	41,217	92,724	44.5
Rural 170 or more beds	<u>23,063</u>	<u>53,504</u>	43.1
Rural subtotal	<u>119,856</u>	<u>274,469</u>	43.7
Urban less than 100 beds	6,221	12,483	49.8
Urban 100 to 404 beds	573,616	1,132,039	50.7
Urban 405 to 684 beds	140,461	435,476	32.3
Urban 685 or more beds	<u>N/A</u>	<u>N/A</u>	N/A
Urban subtotal	<u>720,298</u>	<u>1,579,998</u>	45.6
Grand total	<u>840,154</u>	<u>1,854,467</u>	45.3

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