

Patients with surgical complications provide greater hospital profit-margins

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Privately insured surgical patients who had a complication provided hospitals with a 330% higher profit margin than those without a complication, according to new research from Ariadne Labs, a joint center for health system innovation at Brigham and Women's Hospital (BWH) and Harvard School of Public Health (HSPH), Boston Consulting Group, Texas Health Resources, and Massachusetts Eye and Ear Infirmary. Medicare patients with a complication produced a 190% higher margin. The findings mean that, for hospital managers, efforts to reduce surgical complications could result in substantially worsened financial performance.

The study appears in the April 17, 2013 issue of the *Journal of the American Medical Association (JAMA)*.

"We found clear evidence that reducing harm and improving quality is perversely penalized in our current health care system," said Sunil Eappen, MD, the lead author and chief medical officer of Massachusetts Eye and Ear Infirmary.

"It's been known that hospitals are not rewarded for quality. But it hadn't been recognized exactly how much more money they make when harm is done," said senior author Atul Gawande, MD, director of Ariadne Labs, professor in the Department of Health Policy and Management at HSPH and a surgeon at BWH.

An estimated \$400 billion is spent on surgical procedures each year in

the U.S. While effective methods to reduce [complications](#) have been identified, hospitals have been slow to implement them. [Financial incentives](#) may be a reason. The goal of the study was therefore to evaluate the [hospital](#) costs and revenues associated with having one or more major complications with surgical patients covered by four primary insurance types—private insurance, Medicare, Medicaid, and self-payment.

The researchers analyzed data from 34,256 surgical inpatients discharged in 2010 in a non-profit, 12-hospital system in the southern U.S. They looked at ten severe, preventable [surgical complications](#) and the contribution margin—revenue minus variable expenses—per patient. A total of 1,820 procedures were identified with at least one complication.

The results showed that, for privately insured patients, complications were associated with a \$39,017 higher contribution margin per patient (\$55,953 vs. \$16,936). For [Medicare patients](#), the contribution margin per patient was higher by \$1,749 (\$3,687 vs. \$1,880). For Medicaid and self-payment, complications were associated with significantly lower contribution margins than those without complications.

What that means, say the researchers, is that who pays for patients' care determines the financial implications of surgical complications. In this hospital system, private insurers covered 40% of patients, Medicare covered 45%, Medicaid covered 4% and 6% were self-pay, a breakdown that is comparable to the average U.S. hospital in 2010. Overall in this hospital system, complications were associated with a more than \$8,000 higher contribution margin per patient.

At safety-net hospitals, which treat [patients](#) primarily covered by Medicaid or self-pay, reducing complications could improve financial performance. However, the study shows that at most U.S. hospitals,

programs to reduce complications would worsen their financial performance.

"This is clear indication that health care payment reform is necessary," said Gawande. "Hospitals should gain, not lose, financially from reducing harm."

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More information: "The relationship between occurrence of surgical complications and hospital finances," Sunil Eappen, Bennett Lane, Barry Rosenberg, Stu Lipsitz, David Sadoff, Dave Matheson, William Berry, Mark Lester, Atul Gawande, *JAMA*, April 17, 2013—Vol. 309, No. 15

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