Nonprofit hospitals earn substantial profits

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Seven of the 10 most profitable hospitals in the United States in 2013 - each earning more than $163 million in profits from patient care services—were nonprofit hospitals, according to new research from the Johns Hopkins Bloomberg School of Public Health and Washington and Lee University.

The findings, reported in the May issue of the journal *Health Affairs*, show that while the majority of U.S. hospitals lost money caring for patients, a small percentage earned large profits. The results raise questions about whether peculiarities in the payment systems or some other factors are creating these outsized winners.

In the fiscal year ending Sept. 30, 2013, for example, the 239-bed nonprofit Gundersen Lutheran Medical Center in La Crosse, Wisconsin, was the most profitable [hospital](#) in the U.S., earning a profit of $302.5 million, or $4,241 per patient.

"A small subset of nonprofit hospitals are earning substantial profits," says study leader Gerard F. Anderson, PhD, a professor in the Department of Health Policy and Management at the Bloomberg School. "Either they're doing something right or they are taking advantage of a flawed payment system. Perhaps the most important question is what are they doing with all of that money?"

Anderson, who authored the study with Ge Bai, PhD, CPA, an assistant accounting professor at Washington and Lee University, believes that the most profitable hospitals have monopolies, or near monopolies, in their

communities. This allows these hospitals to charge very high rates to private insurers, which are in a bind because they must have these hospitals in their networks in order to attract customers.

"All hospitals should make a little profit," Bai says, "but some hospitals are obtaining outrageous profits."

For their study, Bai and Anderson analyzed fiscal year 2013 for about 3,000 acute care hospitals of which 59 percent were nonprofit, 25 percent were for profit and 16 percent were public. To measure profitability, they used net income from patient care services, leaving out profits from non-patient care activities such as investments, charitable contributions, tuition, parking fees, the hospital cafeteria and rental space.

Overall, Bai and Anderson found that more than half of all hospitals incurred small losses from patient care services for each patient (a median loss of $82). Hospitals that were part of a hospital system were more profitable, perhaps because they could use their weight to negotiate higher prices from insurers. Hospitals with the highest price markups earned the largest profits. Rural hospitals, those with 50 or fewer beds and major teaching hospitals tended to lose more than urban hospitals, larger hospitals and those with minor or no teaching component.

In 2013, Medicare and Medicaid payments were primarily based on the fee-for-service model, which incentivizes hospitals and physicians to conduct more tests and procedures in order to earn more money. The new model, a value-based model, under development will reward hospitals whose patients have the best outcomes. Bai says it isn't clear how the new system, being phased in over the next several years, will alter the landscape of hospital profitability. It is possible, she says, that different hospitals will become the most profitable under the new system.

"The system is broken when nonprofit hospitals are raking in such high profits," Anderson says. "The most profitable hospitals should either lower their prices or put those profits into other services within the community. We need to develop incentives that allow all hospitals to make a fair profit while at the same time keeping prices reasonable."

"A More Detailed Understanding of Factors Associated with Hospital Profitability" was written by Ge Bai and Gerard Anderson.

Ten U.S. Hospitals with Highest Profit from Patient Care Services

1. Gunderson Lutheran Medical Center, La Crosse, WI
Nonprofit
Profit: $302.5 million

2. Sutter Medical Center, Sacramento, CA
Nonprofit
Profit: $271.9 million

3. Stanford Hospital and Clinics, Palo Alto, CA
Nonprofit
Profit: $224.7 million

4. Norton Hospital, Louisville, KY
Nonprofit
Profit: $211.2 million

5. Medical City Dallas Hospital, Dallas, TX
For profit
Profit: $210.3 million

6. Swedish Medical Center, Englewood, CO
For profit
Profit: $192.5 million

7. Hospital of the University of Pennsylvania, Philadelphia, PA
Nonprofit
Profit: $184.5 million

8. Methodist Hospital, San Antonio, TX
For [profit](link)
Profit: $172.4 million

9. Sacred Heart Medical Center, Riverbend, Springfield, OR
Nonprofit
Profit: $171.2 million

10. Carle Foundation Hospital, Urbana, IL
Nonprofit
Profit: $163.5 million

Provided by Johns Hopkins University Bloomberg School of Public Health