

Bacon's Rebellion

Reinventing Virginia for the 21st Century

Virginia Hospital profits in 2015: \$1.89 billion

Posted on [January 11, 2017](#) by [James A. Bacon](#) | [12 Comments](#)

The Virginia hospital industry remained highly profitable in fiscal 2015, according to a [report](#) issued yesterday by the Thomas Jefferson Institute for Public Policy (TJI). Although profit margins were not as juicy as the previous year, the absolute level of profits remained stable, declining a mere 0.6% to \$1.89 billion.

Thanks to the reinvestment of profits, or “surplus” in the case of non-profit enterprises, the combined net worth of Virginia’s hospitals increased by \$1.1 billion to a total of \$17.8 billion.

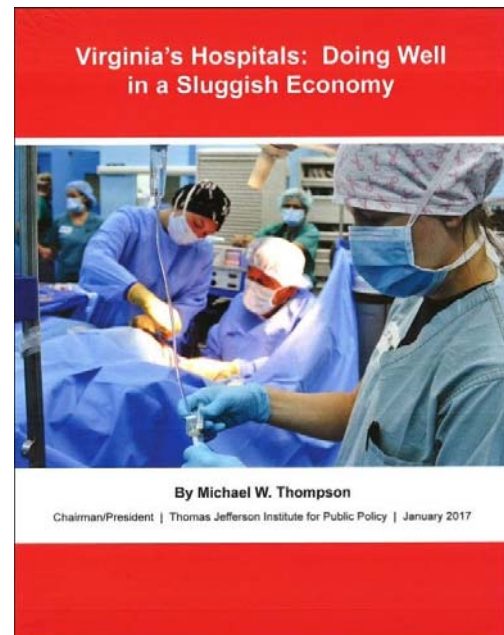
“Last year our report showed a year-over-year profit of 8.6% for our hospitals statewide,” states Michael W. Thompson, author of the report. “This is on top of the 10.7% profit in the previous year. Not bad for an industry bemoaning its financial troubles.”

TJI has been publishing the hospital data, compiled from the Virginia Health Information website, for several years. Hospital profits are an especially contentious issue in the 2017 General Assembly session as legislators push to roll back the Certificate of Public Need (COPN) law, which requires state approval of major capital investments by hospitals and surgical centers.

Critics say the law restricts competition and preserves monopoly profits. Hospitals say they need COPN in order to continue providing charity care to hundreds of thousands of Virginians. The question inevitably arises: Are Virginia hospitals profitable enough that they could continue providing charity care even without COPN protections?

The Virginia Hospital and Healthcare Association (VHHA) objects to TJI’s methodology for tabulating profits, arguing that the fiscally conservative/free market think tank skews its numbers by counting surgical centers and non-hospital affiliates of hospital companies. Also, the association contends that average profits obscure differences between hospitals, some of which are very healthy and others of which earn less than the 4% profit margin to maintain reserves, cover depreciation and invest in growth. Half the state’s rural hospitals operate at margins below that level, according to the VHHA’s own spin on the Virginia Health Information numbers.

However, TJI has found that the number of money-losing hospitals has declined in recent years — from 42 in 2012 to 27 in 2015. “Clearly, when the numbers are reviewed, the hospital industry is once again substantially healthier than it was a year previously,” says Thompson.



Virginia hospital profits remained stable in 2015, down only a smidgeon from the previous year.

The hospital association responds that the current level of profitability may not last. Congressional threats to repeal Obamacare, or at least to roll it back, create enormous uncertainty. "Cuts related to the Affordable Care Act ... are forecast to deprive Virginia's local hospitals and health systems of roughly \$1 billion annually by 2022," stated a VHHA press release commenting upon the 2015 numbers.

Bacon's bottom line: Everybody wants profitable hospitals, even if they are "non-profits." The HCCA says 4% operating profit margins is a reasonable standard for hospitals to maintain their financial health while continuing to invest in their operations. While many hospitals fall short of that goal, several exceed it — by a wide margin.

The public needs to know the level of hospital profits. It also needs to know what hospitals are doing with those profits. I have reviewed the annual reports of the big health care systems — Inova, Sentara, Carilion — and find them uniformly unhelpful. All corporate annual reports are P.R. pieces, but those of Virginia's health care systems have more fluff than a down pillow.

We know that Virginia hospitals are plagued by hospital-acquired infections, which afflict one out of twenty-five patients entering a hospital nationally. How much money are Virginia's big hospitals investing in controlling those infections? Hospital annual reports won't tell you. By comparison, how many millions are hospitals pouring into prestige-building medical research programs like Inova's center for personalized medicine that may be great for humanity but are being funded, at least in part, by profits derived from patients? The annual reports don't tell us that either.

If you count only hospital profits over and above the VHHA's recommended 4% margin, that still leaves about \$1 billion sloshing around, mostly generated by non-profit hospitals. Where is that money going? What are hospitals doing to justify their non-profit status? Does anyone really know? Where's the accountability?

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