Why Major Hospitals Are Losing Money By The Millions

Forbes
Contributor

November 9, 2017

A strange thing happened last year in some the nation's most established hospitals and health systems. Hundreds of millions of dollars in income suddenly disappeared.

This article, part two of a series that began with a look at primary care disruption, examines the economic struggles of inpatient facilities, the even harsher realities in front of them, and why hospitals are likely to aggravate, not address, healthcare's rising cost issues.

According to the Harvard Business Review, several big-name hospitals reported significant declines and, in some cases, net losses to their FY 2016 operating margins. Among them, Partners HealthCare, New England's largest hospital network, lost $108 million; the Cleveland Clinic witnessed a 71% decline in operating income; and MD Anderson, the nation's largest cancer center, dropped $266 million.

How did some of the biggest brands in care delivery lose this much money?

The problem isn't declining revenue. Since 2009, hospitals have accounted for half of the $240 billion spending increase among private U.S. insurers. It's not that increased competition is driving price wars, either. On the contrary, 1,412 hospitals have merged since 1998, primarily to increase their clout with insurers and raise prices. Nor is it a consequence of people needing less medical care. The prevalence chronic illness continues to escalate, accounting for 75% of U.S. healthcare costs, according to the CDC.

Part Of The Problem Is Rooted In The Past

From the late 19th century to the early 20th, hospitals were places the sick went to die. For practically everyone else, healthcare was delivered by house call. With the introduction of general anesthesia and the discovery of powerful antibiotics, medical care began moving from people's homes to inpatient facilities.

And by the 1950s, some 6,000 hospitals had sprouted throughout the country.

For all that expansion, hospital costs remained relatively low. By the time Medicare rolled out in 1965, healthcare consumed just 5% of the GDP. Today, that number is 18%.

Hospitals have contributed to the cost hike in recent decades by: (1) purchasing redundant, expensive medical equipment and generating excess demand, (2) hiring highly paid specialists to perform ever-more complex procedures with diminishing value, rather than right-sizing their work forces, and (3) tolerating massive inefficiencies in care delivery.

More Articles

Obamacare Today

Why Investing In Better Primary Care Failed To Save Money

We have a huge healthcare problem in the U.S., spending way more than other wealthy countries

Featured

Drinking A Lot Has Been Linked to Cancer, Doctors Warn

Leading oncologists issued a warning about the connection between drinking and cancer in a new statement.

MORE ARTICLES

Popular

News

Anesthesiologist Arrested for Assault On U.S. Senator Rand Paul

Featured

Why Major Hospitals Are Losing Money By The Millions

Drugs and Research

How Doctors Are Getting Rich on Urine Tests for Opioid Patients

Private Practice

The Case Against Hospital Beds

Featured

How Medicare's Flawed Physician Fee Schedule Harms Patients

Contact

Unsubscribe