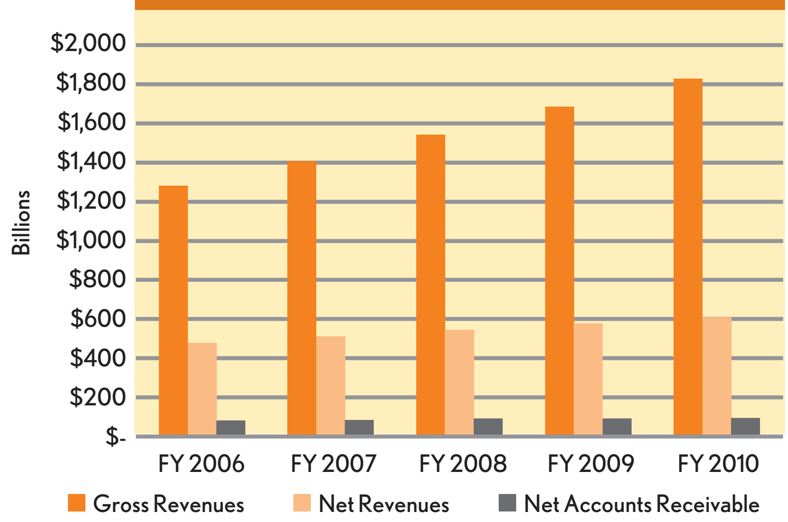
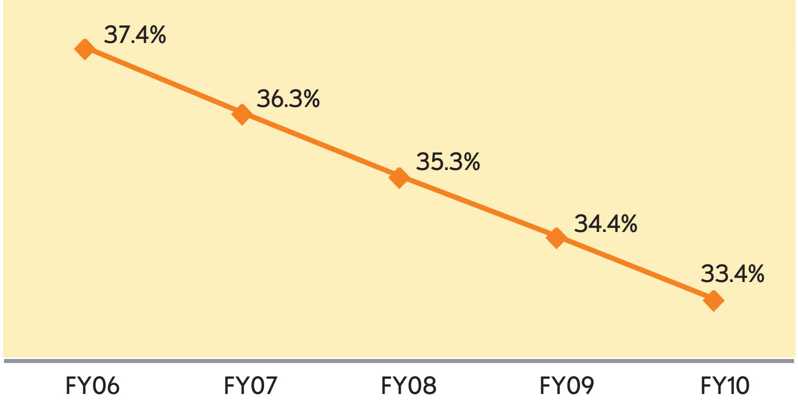
the dollar trends of hospital revenue cycle management

Hospitals are often measured in terms of how much revenue they are able to generate (gross revenues), how much of that revenue they are contractually entitled to collect (net revenues), and how much of that net revenue is tied up in accounts receivable (net A/R). A recent study of the dollar trends in revenue cycle management of short-term acute care hospitals found that measuring gross revenue is becoming increasing less reliable as an indication of how well hospitals are doing in their revenue cycle management activities.

REVENUE CYCLE TRENDS IN DOLLARS: SHORT-TERM ACUTE CARE HOSPITALS



NET REVENUES AS A PERCENTAGE OF GROSS REVENUES



During the study period, gross revenues increased 42.8 percent, from $1,281 billion in FY06 to $1,829 billion in FY10. However, net revenues increased by only 27.3 percent, from $479 billion in FY06 to $610 billion in FY10. Because gross revenues increased dramatically faster than net revenues over this period, there does not appear to be a direct relationship between the two trends.

In FY06, net revenues of $479 billion were 37.4 percent of gross revenues of $1,281 billion. By FY10, the net revenues percentage of gross revenues had fallen to 33.4 percent ($610 billion/ $1,829 billion). That means that hospitals have been forced to write-off much of the dramatic increases in gross revenue dollars over the study period because of the continued efforts by Medicare, Medicaid, and other payers to limit average annual increases in payments to hospitals. This finding suggests that measuring gross revenue trends is becoming increasingly less important in hospital revenue cycle management.

During the study period, net A/R increased by 17.5 percent, from $80 billion in FY06 to $94 billion in FY10. Because net revenues increased by 27.3 percent over the same period, as discussed above, the percentage of net accounts receivable to net revenues (i.e., the amount of net revenues tied up in accounts receivable) decreased from 16.7 percent in FY06 to 15.4 percent in FY10. This finding suggests that hospitals have done a much better job collecting net revenues over the past several years of the study period. ●

This study is based on Medicare cost report data in the Centers for Medicare & Medicaid Services Healthcare Cost Report Information System file as of March 31, 2012. The following fields (with cost report worksheet references) were compiled for 3,038 short-term acute care hospitals on a same-store basis for the five-year period of FY06 through FY10:

* Gross revenues—G-3, line 1
* Net revenues—G-3, line 3
* Net accounts receivable—G, line 4 + line 5 – line 6

This analysis was developed by CostReportData Resources LLC, Louisville, Ky. For more information, contact Thomas Schuhmann, JD, CPA, at support@costreportdata.com.

NET REVENUES AS A PERCENTAGE OF GROSS REVENUES