



Performance Trends Report

Market Analysis and
Hospital & Patient
Volume Benchmarks

Second Quarter 2024



Key findings from our latest data



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The following report combines financial, operational, and claims data from hospitals, health systems, and other healthcare organizations across the country. Key findings include:



Larger health systems recovered more quickly from February payment shortfalls, with most largely caught up by the end of Q2, but progress was slower for the nation's smallest health systems.



Hospitals nationwide are stepping up recruitment and retention efforts, as evidenced by a decrease in use of contract labor and corresponding increases in employees' hourly pay.



Margins for certain outpatient procedures have surpassed inpatient procedures, allowing hospitals to see some gains from shifts in care from inpatient to outpatient care settings.



Health system operating margins held steady to close Q2, with the median, year-to-date health system operating margin at 2.3% for a second consecutive month in June.



Patient volumes were down across most measures in June, representing a reversal after increasing year-over-year across most metrics each month from January through May.

Market Analysis

Smaller health systems still missing payments

During the first half of 2024, many U.S. health systems felt the reverberations of a large-scale disruption to payment processing services that occurred in February of this year. By the close of the second quarter, however, most organizations had largely closed gaps in missing payments. Notably, the nation's largest health systems — which felt the biggest percentage impacts in the months immediately following the incident — were also among the fastest to recover.

The nation's smallest health systems are feeling more prolonged impacts. The latest data indicate that small health systems are still missing approximately 3% to 5% of expected net revenue for patient encounters from February.

Looking back at data from the end of the first quarter, payment shortfalls for the month of February ranged from 18.2% for health systems with \$1 billion to \$2.5 billion in annual operating expenses to 20.3% for the largest health systems with more than \$2.5 billion in operating expenses. Those figures encompassed both Medicare and commercial payments, as reported in the [Q1 Strata Performance Trends](#) report.

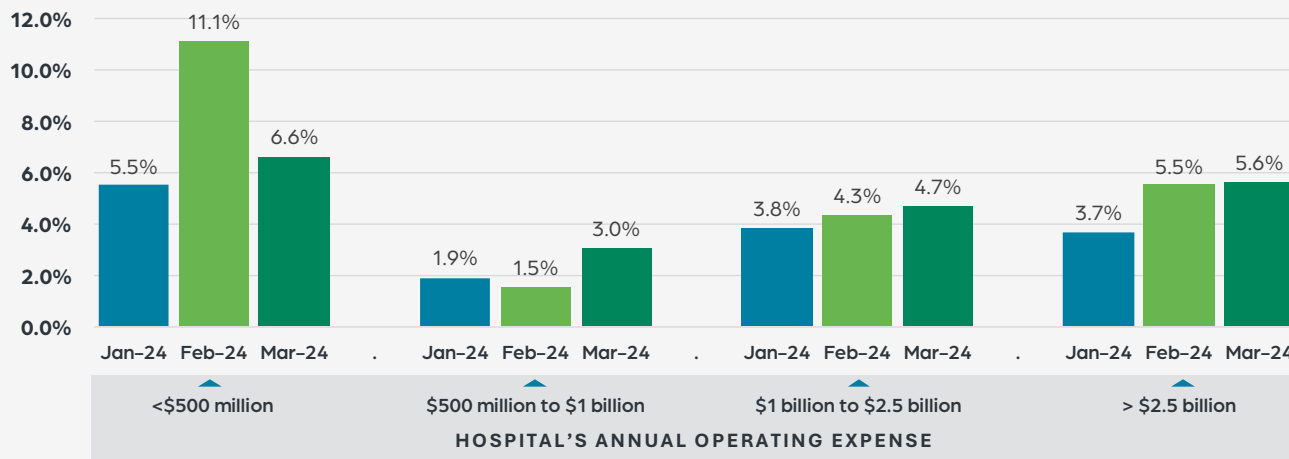
Data from June 30 show missing payments narrowed in Q2. Mid-sized health systems with annual operating expenses of \$500 million to \$1 billion fared best in terms of recovering missing payments from the incident, with a shortfall of just 1.5% in Medicare inpatient payments for February. Those with \$1 billion to \$2.5 billion in operating expenses had a shortfall of 4.3% for February, while those with more than \$2.5 billion in operating expenses had a shortfall of 5.5%.

Meanwhile, the smallest health systems with operating expenses of less than \$500 million had the largest remaining shortfall of 11.1% for Medicare inpatient services provided in February.

Trends were similar when looking at data on inpatient encounters for privately insured patients. The share of missing payments for February ranged from a low of 6.7% for mid-sized health systems with \$500 million to \$1 billion in annual operating expenses to a high of 11.1% for the smallest health systems.

Smallest Health Systems Slower to Recover Missing Payments

Percent of estimated missing dollars compared to total payments for Medicare inpatient claims



*Data as of June 30, 2024

Source: StrataSphere® Data



Use of contract labor declines, employees' pay rises

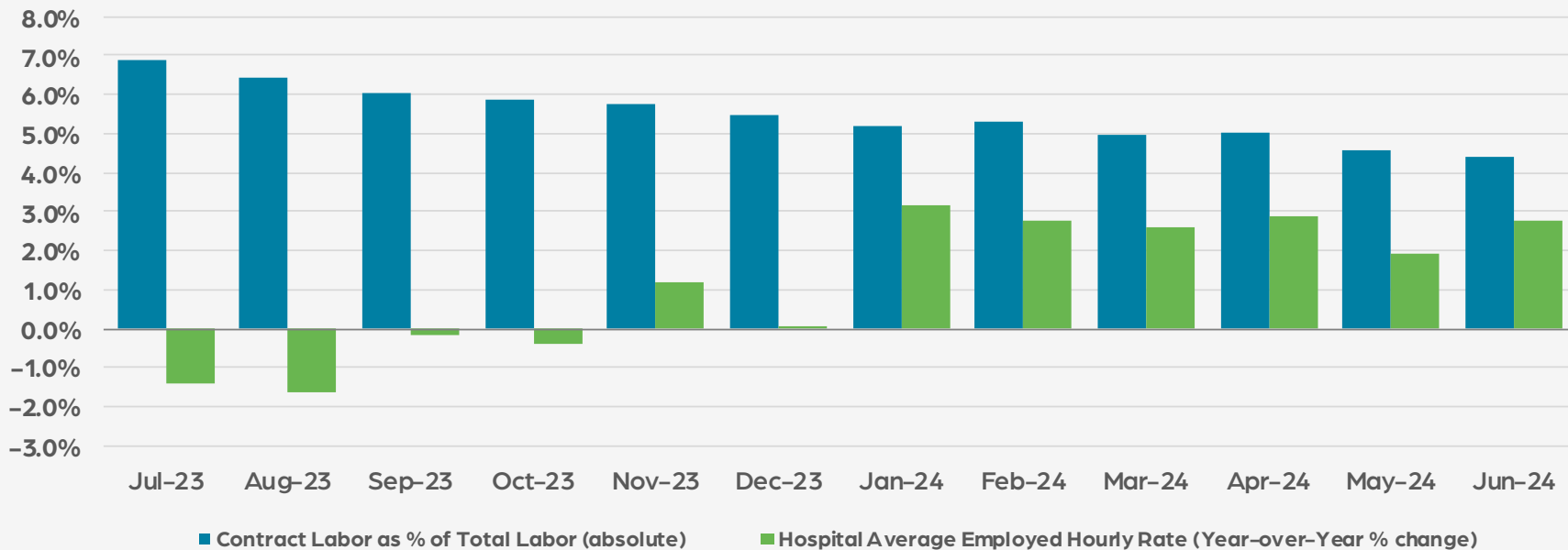
Hospitals and health systems saw consistent growth in both labor and non-labor expenses throughout the first half of the year. The latest data from June showed year-over-year (YOY) growth in labor expenses outpaced non-labor expenses (see Hospital KPIs section of this report). Inflation contributed to the reverse being true for four of the six months in Q1 and Q2, however, with non-labor expenses growing faster than labor expenses.

Hospitals saw some relief with steady declines in contract labor expenses over the past year, but pay rates for employed personnel rose. Together, the trends suggest that organizations are prioritizing higher pay as one means to recruit and retain employed staff members.

Contract labor as a share of total labor expenses decreased from 6.9% in July 2023 to 4.4% as of June 2024 for hospitals nationwide. At the same time, the average hourly rate hospitals paid to employed workers increased YOY for each of the past six months. Increases ranged from a low of 1.9% YOY in May 2024 to a high of 3.1% YOY in January. That is up from YOY decreases in the metric from July to October 2023.

Contract Labor Expense Shrinking While Employed Hourly Rates Increase

Hospitals Nationally



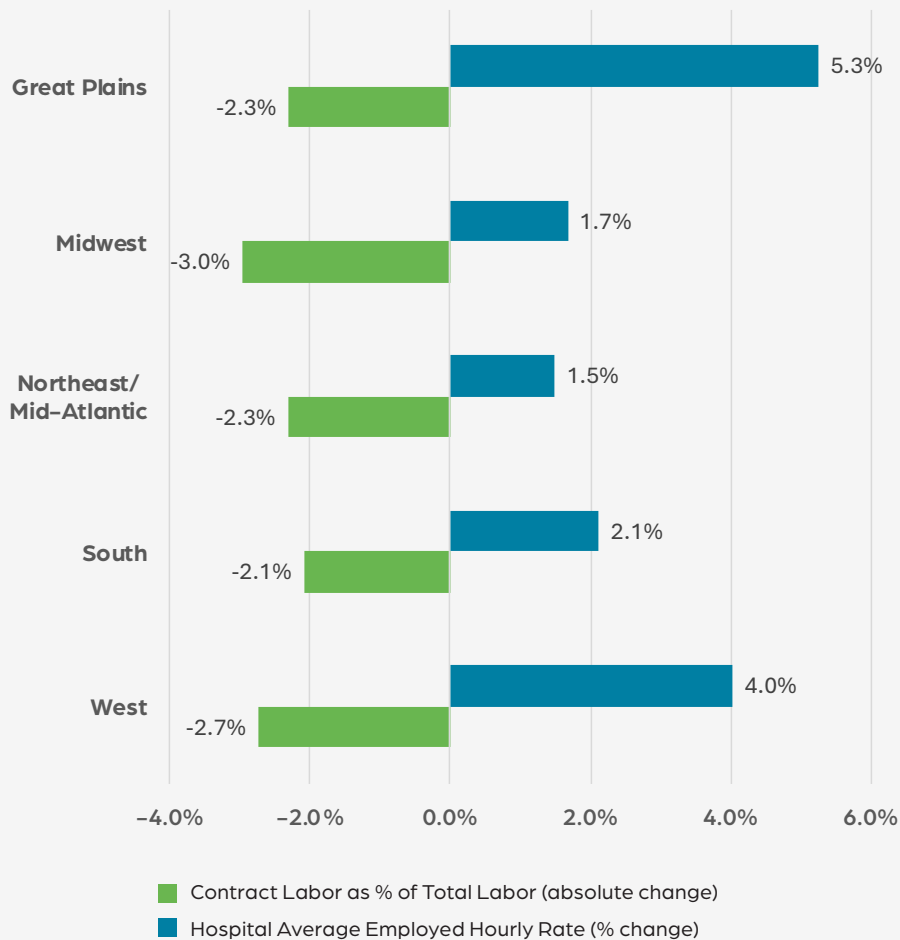
Source: Comparative Analytics

Declines in the use of contract labor and increases in employed pay rates varied significantly for hospitals in different regions. Decreases in contract labor expenses as a share of overall labor expenses ranged from 2.1% for hospitals in the South to 3.0% for those in the Midwest from June 2023 to June 2024. Meanwhile, YOY increases in the average hourly rate paid to employed personnel ranged from 1.5% for hospitals in the Northeast/Mid-Atlantic to 5.3% for those in the Great Plains.

As a specific example, the data show that hospitals are both using fewer registered nurses (RNs) on a contract basis while also paying them less compared to just one year ago. The number of hours worked by contract nurses as a percent of employed RN hours decreased from 11.2% in July 2023 to 7.8% in June 2024. Hourly rates paid to contract nurses declined over the same period from an average of \$96.78 in July 2023 to \$90.81 in June 2024.

Contract Labor Employed Hours Rates

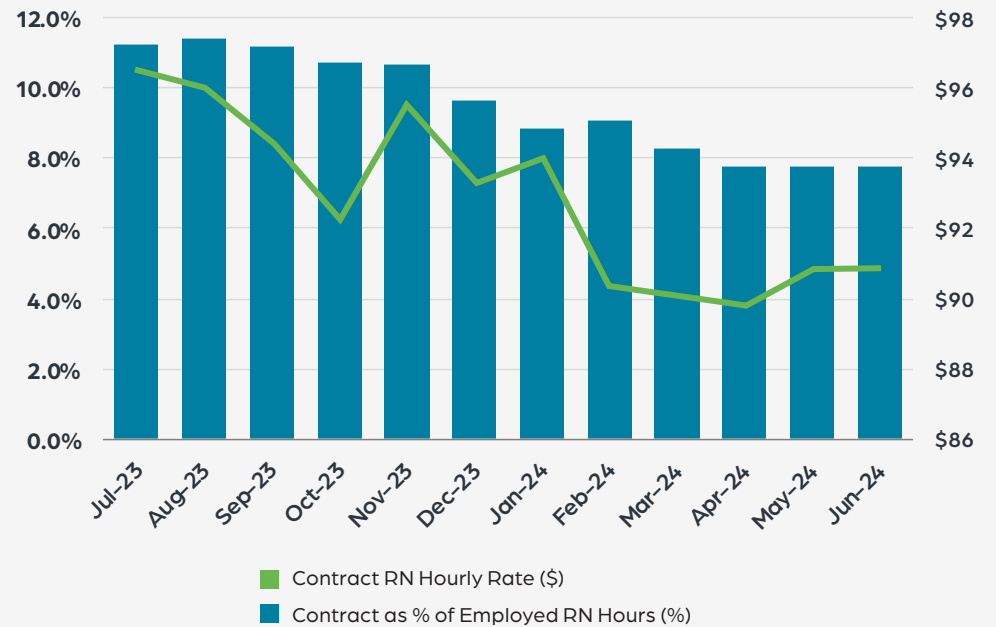
Hospitals by Region - Jun-23 vs. Jun-24



Source: Comparative Analytics

Contract RN Utilization and Hourly Rate are Decreasing

Hospitals Nationally



Source: Comparative Analytics

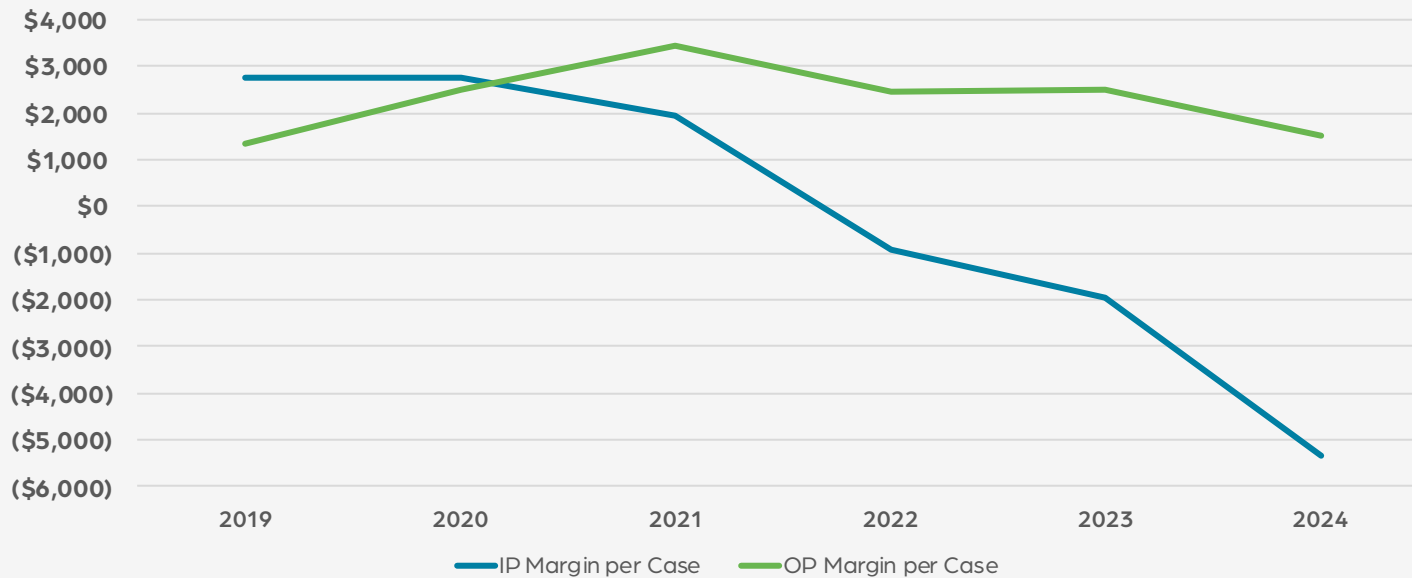
Outpatient procedures have higher margins than inpatient

Hospitals and health systems have seen significant shifts in where patients are going for care in recent years, after the Centers for Medicare and Medicaid Services removed certain procedures — such as hip and knee replacement surgeries — from its inpatient-only list and allowed them to be covered in outpatient surgical centers.

While overall margins for both inpatient and outpatient hip and knee replacement surgeries have declined, outpatient procedures now have higher margins than inpatient procedures. Consequently, hospitals are seeing some financial benefits from the shifts in care sites.



Average Total Cost Margin per Case – Primary Knee Replacements



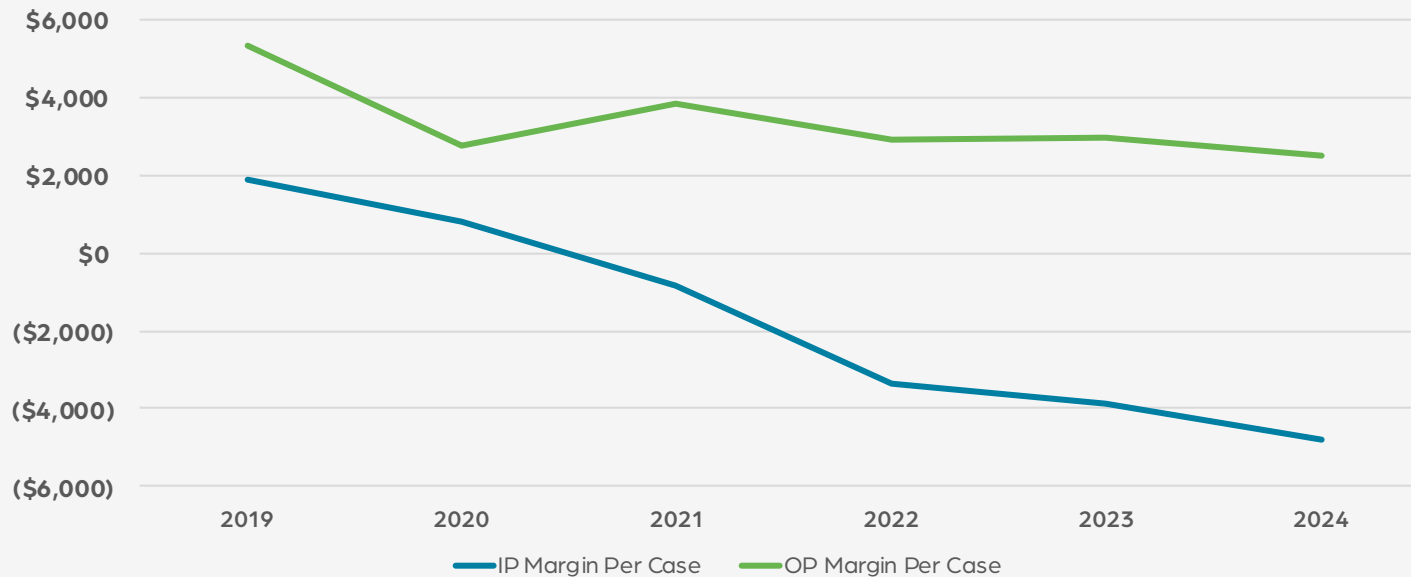
Source: StrataSphere® Data

Outpatient procedures have higher margins than inpatient continued

Looking first at knee replacements, the percent of such surgeries performed on an outpatient basis rose precipitously from 30.3% in 2019 to 88.3% in 2024. At the same time, the average total cost margin per case for inpatient knee replacement surgeries decreased from \$2,762 per case in 2019 to -\$5,325 per case in 2024. The opposite was true for outpatient knee replacement surgeries, which saw the average total cost margin increase from \$1,318 per case in 2019 to \$1,513 per case in 2024.

Hip surgeries show similar trends. The percent of primary hip replacement surgeries performed in outpatient settings rose from 2.4% in 2019 to 62.8% in 2024. Over that same period, the average total cost margin for primary hip replacement surgeries decreased from \$1,865 to -\$4,817 per case for inpatient procedures. For outpatient primary hip replacement surgeries, the average total cost margin decreased at a slower rate, from \$5,305 per case in 2019 to \$2,501 per case in 2024.

Average Total Cost Margin per Case – Hip Replacement



Source: StrataSphere® Data

Hospital KPIs

JUNE 2024

The top financial KPIs for U.S. hospitals and health systems for June 2024 versus June 2023 are:

Operating Margin:

+0
PERCENTAGE POINTS

Total Expense:

+4.8%

Total Labor Expense:

+5.2%

Inpatient Revenue:

+4.7%

Operating margins stabilize somewhat in Q2

The nation's hospitals ended the first half of 2024 on positive ground, as median operating margins remained above 4.5% for six straight months. The median year-to-date (YTD) hospital operating margin was 4.9% for June, down just slightly from 5.0% in May. For health systems, the median YTD operating margin increased from 1.5% in January to 2.3% in both May and June.

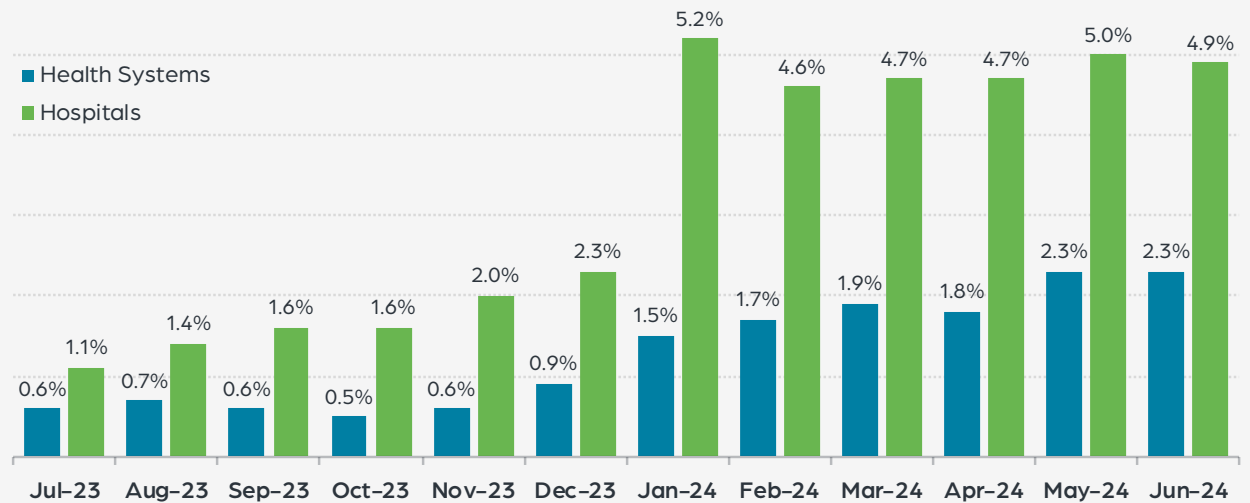
Looking at changes in margins over time, the median change in hospital operating margin was flat from June 2023 to June 2024, but decreased 0.5 percentage point from May to June 2024. Results varied for hospitals in different regions. Those in the Midwest and Great Plains saw the median YOY

change in operating margin decrease at 3.8 and 2.7 percentage points, respectively. Other regions saw increases in June ranging from just 0.1 percentage point for hospitals in the Northeast/Mid-Atlantic, to 2.4 percentage points for those in the South.

At a national level, the median change in hospital operating earnings before interest, taxes, depreciation, and amortization (EBITDA) margin decreased just 0.3 percentage point both YOY and month-over-month in June. By region, median changes in the metric ranged from a decrease of 4 percentage points for hospitals in the Midwest to an increase of 2.8 percentage points for those in the West.

Median Hospital Operating Margins

Nationally, Year-to-Date



Source: Comparative Analytics

Labor and non-labor expenses continue to climb

As mentioned in the Market Analysis section, hospital labor and non-labor expenses rose YOY each month from January through June. YOY growth in labor expenses outpaced non-labor expenses in June, but inflation contributed to the reverse being true as non-labor expenses rose faster than labor expenses for four of the first six months of 2024.

From June 2023 to June 2024, total labor expense was up 5.2% while total non-labor expense increased 3.3%, leading to a 4.8% increase in total expense over the same period. Hospitals saw some easing of expenses month-over-month. Total expense was down 2.8%, total labor expense decreased 3.0%, and total non-labor expense was down 2.7% from May to June 2024.

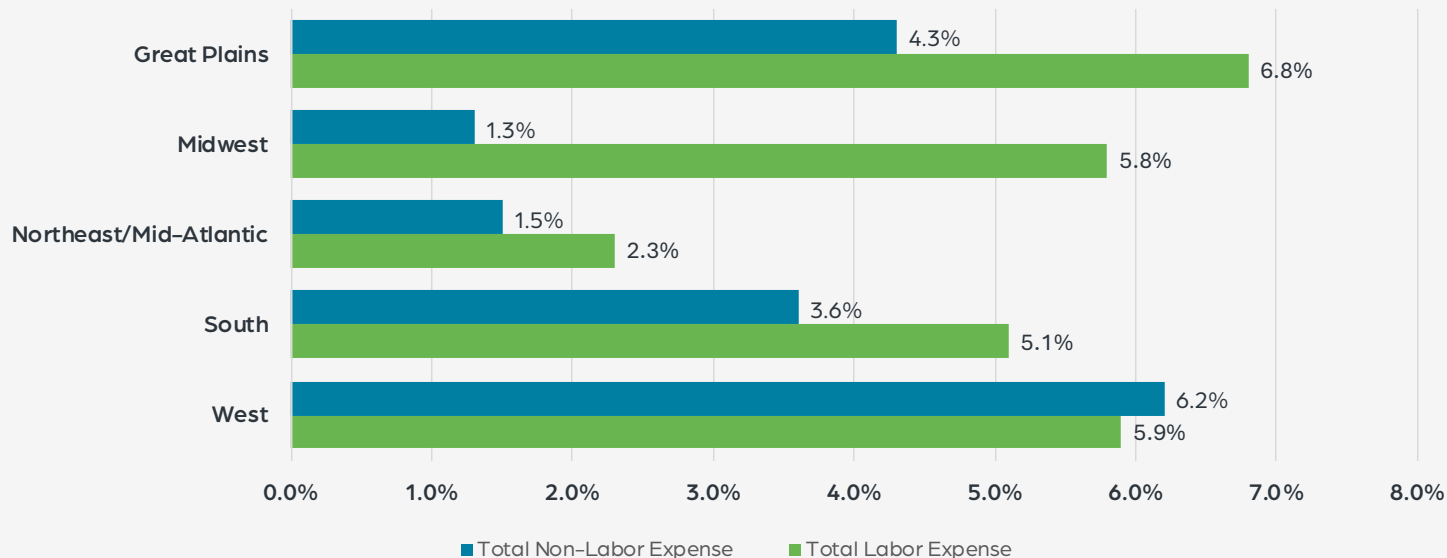
By region, YOY increases in total labor expense ranged from 2.3% for hospitals in the Northeast/Mid-Atlantic to 6.8% for those in the Great Plains, while YOY

increases in total non-labor expenses ranged from 1.3% for hospitals in the Midwest to 6.2% for those in the West.

Drugs expense was down both YOY and month-over-month for hospitals nationwide, reversing trends in recent months. The metric dropped 5.4% YOY and 10.5% versus May 2024. Supply expense also decreased, down 2% versus June 2023 and 7.2% versus the prior month. It was the first YOY decrease in supply expense and only the second YOY decrease in drugs expense so far in 2024.

Expenses rose on a volume-adjusted basis. Total expense per adjusted discharge increased 4.2% YOY and 2.3% month-over-month. Labor expense per adjusted discharge was up 4% YOY and 3.1% month-over-month, and non-labor expense per adjusted discharge increased 3.8% versus June 2023 and 2.5% versus May 2024.

Total Labor and Total Non-Labor Expense Growth for U.S. Hospitals, by Region
June 2024 Year-Over-Year Change



Source: Comparative Analytics

Gross revenues rise for the 14th month

June marked the 14th consecutive month of YOY growth for inpatient, outpatient, and overall gross operating revenues. Growth in inpatient revenues outpaced outpatient revenue increases, with inpatient revenue up 4.7% and outpatient revenue up 1.8% YOY. Gross operating revenue was up 3.6% from June 2023 to June 2024.

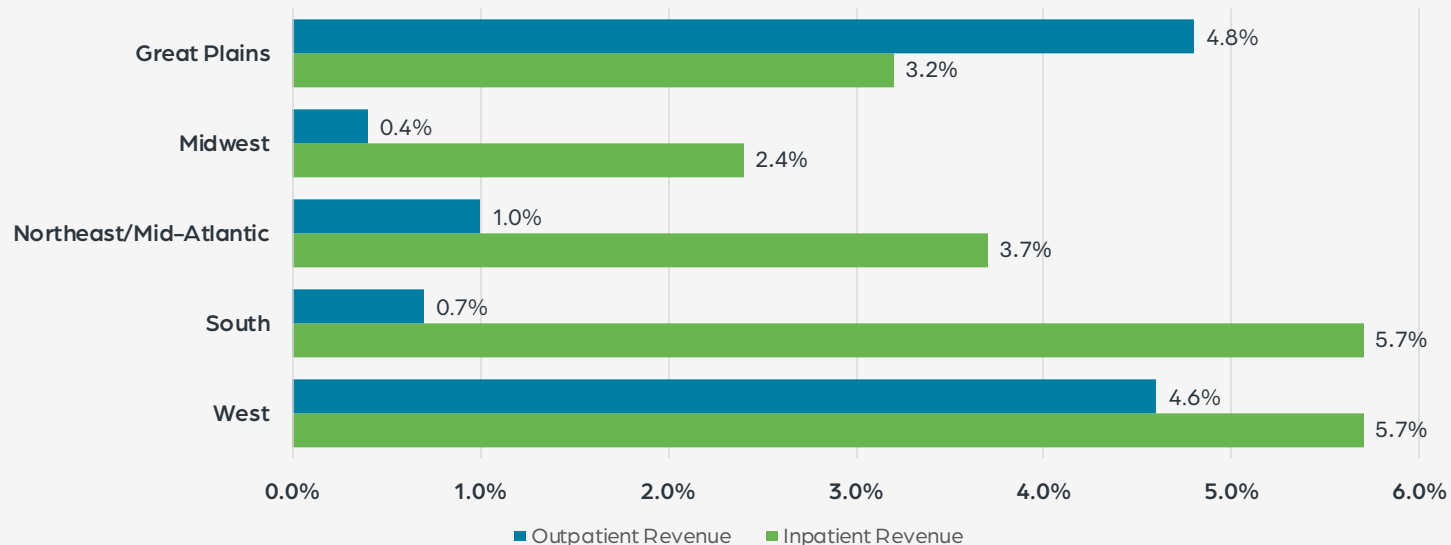
By region, YOY inpatient revenue increases ranged from 2.4% for hospitals in the Midwest to 5.7% for those in the South and West. Outpatient revenue increases ranged from 0.4% in the Midwest to 4.8% in the Great Plains over the same period.

Month-over-month, however, revenues were down for hospitals nationally. Gross operating revenue dropped 6.5%, inpatient revenue decreased 5.4%, and outpatient revenue was down 7.6% from May to June 2024.

Adjusted revenue results were mixed. Net patient service revenue (NPSR) per adjusted discharge rose 3% YOY and 0.5% month-over-month, while NPSR per adjusted patient day increased 3.5% YOY but decreased slightly at 0.3% from May to June 2024.

Inpatient and Outpatient Revenue Growth for U.S. Hospitals, by Region

June 2024 Year-Over-Year Change



Source: Comparative Analytics

Patient volumes decline across most measures

Patient volumes shifted at the end of the first half of 2024, decreasing YOY across most metrics in June after increasing YOY across most metrics each month from January to May. Outpatient visits and observation visits had the biggest declines at 4.2% from June 2023 to June 2024, while emergency visits were down 3.2%. Inpatient admissions saw an increase at 1.4% YOY. Compared to two years ago in June 2022, however, inpatient admissions were up 4.9% for the month.

Decreases were more significant month-over-month. Outpatient visits had the steepest drop at 10.2%, followed by emergency visits at 9.5%. Observation visits decreased 6.3% and inpatient admissions were down 5.5% from May to June 2024.

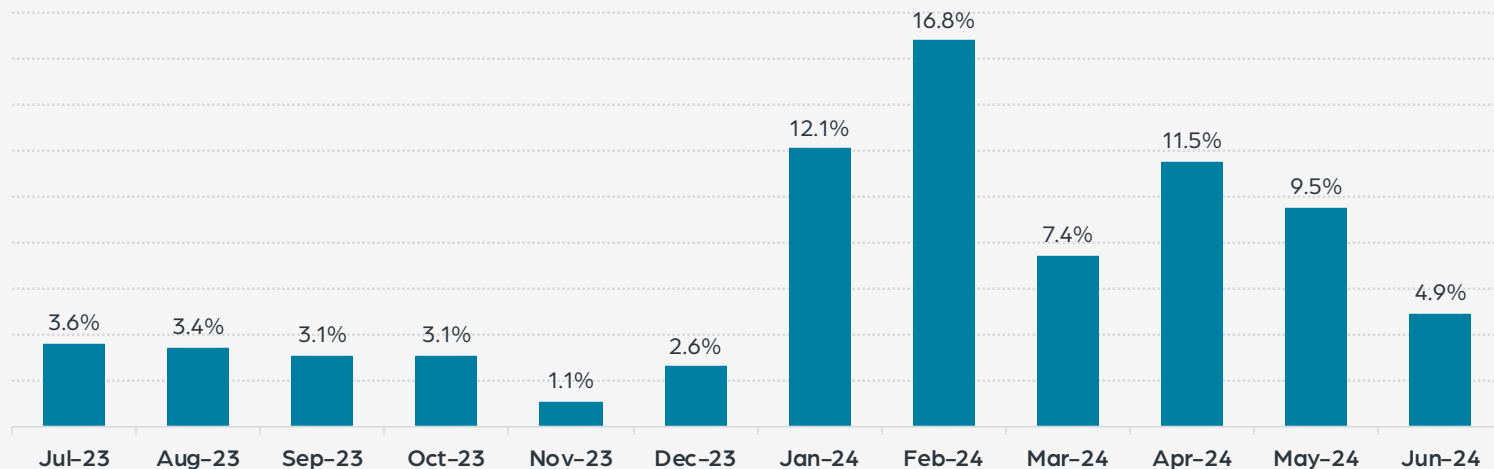
YOY changes were mixed across various service lines when looking at combined inpatient and outpatient volumes. Rheumatology had the biggest increase at

5.7% from June 2023 to June 2024, while ear, nose, and throat (ENT) had the biggest decrease with volumes down 7.9% over the same period, according to the latest service line data from May.

YOY changes in patient volumes also were mixed across 15 common procedure types, with increases across seven and decreases for eight. Outpatient positron emission tomography (PET) again had the biggest YOY increase at 10.3% while inpatient primary knee replacement surgeries had the biggest decrease at 13.3%.

Patient volumes at children's hospitals decreased across most measures for a second consecutive month. Outpatient visits had the biggest YOY decline, with volumes down 9.8% from June 2023 to June 2024. Inpatient admissions had the only increase, with volumes up 0.9% YOY.

Inpatient Admissions
Monthly Volume Changes vs. 2022



Source: StrataSphere Research Report: [National Patient and Procedure Volume Tracker™](#), Data as of June 30, 2024.

*Note: The Leap Year contributed to the sizable increase in inpatient admissions in February 2024, which added an extra day of admissions compared to February 2022.

For more detailed data on recent patient volume trends, please see our latest issue of the [National Patient and Procedure Volume Tracker™](#).

For the latest financial performance data on U.S. hospitals and physician groups, please see our [Monthly Healthcare Industry Financial Benchmarks](#).



About the data

This report uses data from Strata's Comparative Analytics solution, which offers access to near real-time data drawn from more than 135,000 physicians from over 10,000 practices and 139 specialty categories, and from 500+ unique departments across more than 1,600 hospitals. Comparative Analytics also provides data and comparisons specific to a single organization for visibility into how their market is evolving.

In addition, the report includes data from Strata's StrataSphere database. StrataSphere is a unique and comprehensive data-sharing platform that helps providers leverage the power of a network that represents approximately 25% of all provider spend in U.S. healthcare. The data presented in this report were pulled from the StrataSphere encounter data set, which aggregates hospital billing data from across the U.S. As such, all reported metrics are from the hospital setting, and encounters were categorized by patient type depending on the presence of particular UB revenue codes. Procedures were identified using the Sg2 CARE Grouper. Depending on the specific data requirements for each section, different hospital inclusion criteria were applied.



