

12-year trend shows steady rise in acute care hospital administrative and general costs

Hospitals have made tremendous efforts in recent years to reduce costs and achieve new levels of efficiency. Numerous studies have been written and programs initiated to contain costs across the continuum of care, while simultaneously improving the quality of care being delivered. Much of this effort has been driven by payer initiatives such as the Hospital Value-Based Purchasing (VBP) program administered by the Centers for Medicare & Medicaid Services. Less emphasis and attention has been given to costs not directly associated with patient care—administrative and general costs.

A broad look at the national trend in nonclinical administrative and general costs affecting the nation's acute care providers offers some interesting insights. To identify this trend, we examined Medicare cost report data for acute care hospitals filed for periods ending between 2004 and 2016 and grouped them by calendar year. Administrative and general costs as well as total costs were obtained from Worksheet A, and net patient revenues were obtained from Worksheet G-3. The accompanying exhibit summarizes these numbers at the national level.

ACUTE CARE HOSPITAL ADMINISTRATIVE AND GENERAL COST GROWTH, 2004-16

| Year | Number of Facilities | Total Cost Growth Versus Prior Year | Administrative and General Costs | | |
|------|----------------------|-------------------------------------|----------------------------------|-----------------------------------|--------------------------------|
| | | | As a Percentage of Total Costs | Percentage Growth Over Prior Year | As a Percentage of Net Revenue |
| 2004 | 3,142 | | 17.97% | | 17.29% |
| 2005 | 3,177 | 7.50% | 18.10% | 8.92% | 17.40% |
| 2006 | 3,192 | 6.78% | 18.00% | 6.69% | 17.28% |
| 2007 | 3,219 | 6.64% | 18.04% | 7.31% | 17.39% |
| 2008 | 3,238 | 7.15% | 18.28% | 9.12% | 17.94% |
| 2009 | 3,266 | 4.76% | 18.64% | 7.11% | 17.86% |
| 2010 | 3,274 | 3.73% | 19.13% | 6.56% | 18.39% |
| 2011 | 3,284 | 4.01% | 19.59% | 6.70% | 18.39% |
| 2012 | 3,319 | 4.31% | 20.32% | 8.41% | 19.55% |
| 2013 | 3,330 | 3.46% | 20.51% | 4.52% | 19.87% |
| 2014 | 3,344 | 3.02% | 20.58% | 3.49% | 19.58% |
| 2015 | 3,334 | 5.03% | 20.86% | 6.73% | 19.95% |
| 2016 | 3,342 | 5.71% | 20.51% | 4.27% | 19.82% |

The data show administrative and general costs represent a growing share of total hospital operating costs and that there has been a steady increase over the study period to the point that these costs now represent nearly 20 percent of all costs. Notably, the rate of growth for administrative and general costs outpaces total cost growth in all but two periods studied, indicating that the increasing share of administrative and general costs is not simply the result of efficiencies gained elsewhere in operations.

Because not all hospitals categorize their costs the same way (e.g., costs assigned to a home office and overhead allocations), it is difficult to pinpoint a specific, universal cause. The increase in administrative and general costs more likely is due to various causes.

For example, it may be the result of efforts to ensure compliance and manage performance in

response to initiatives such as the VBP program, to respond to shifts in commercial insurer and government payer mandates, to enhance front-line collection efforts, and to undertake other revenue cycle improvements that require additional staff and resources. Certainly, in many cases, these added costs are improving the bottom line, which makes them necessary and valuable to overall operations.

The findings also suggest, however, that hospitals should examine their own rates of growth for administrative and general costs to identify and understand the specific drivers of any added costs and the degree to which they support the hospital's central mission of delivering high-quality patient care. ■

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