

Understanding Various Measures to Assess Hospital Finances: A Cheat Sheet

Profit margins are the most common measure of financial performance. They can be positive (if the hospital earns a profit) or negative (if the hospital loses money). Reported margins vary depending on the measure used, how the measure is calculated, the data, accounting decisions, and how data are summarized (e.g., averages vs medians). Several other measures are also useful for understanding a hospital's financial position, such as days cash on hand. Comparing measures across hospitals can be difficult due to a [lack of standardized reporting](#) requirements.

Examples	What does this measure?	What does it show? What does it not show?	Other considerations?
Profit margins			
Operating margin	Operating profits (revenue minus expenses) divided by operating revenues. Includes patient care and other core activities, like research and gift shops.	Shows the extent to which a hospital (or group of hospitals) is earning a profit or losing money on its core activities. Operating margins do not take into account all revenues and expenses.	Calculations may or may not include government grants (such as forthcoming rural funds), and appropriations for public hospitals, which can make margins appear stronger but may also be temporary.
Total margin	Similar to operating margins but includes non-operating activities—like the sale of assets and income from investments—reflecting all revenues and expenses.	Gives a more complete picture of a hospital's finances but obscures the profitability of its core activities and may be skewed by one-time events (like the sale of a building).	Calculations may or may not include unrealized gains or losses from financial investments—such as changes in the value of stock portfolios—which can have a large effect on reported margins.
Medicare margin	Similar to operating margins but limited to revenues and expenses related to patient care for Medicare beneficiaries.	Used by MedPAC (along with other measures) to assess Medicare payment rates but gives a limited picture of the whole hospital's finances.	Hospitals with negative Medicare margins may still have an incentive to treat Medicare patients based on other measures, and may have positive total or operating margins.
Other measures of hospital financial well-being			
Days cash on hand (DCOH)	An estimate of the days that an entity could cover their cash expenses using available, unrestricted financial reserves.	Gives a sense of the hospital's ability to weather financial challenges, such as having negative margins.	May be measured for a health system or member hospital. Reserves are often held at the system level so cash on hand for a hospital can be misleading.
Payer mix	The share of services, patients, revenues, or charges, by different types of payers (like commercial, Medicare, and Medicaid).	Useful for understanding if a hospital treats more profitable patients (like commercial patients) and how much policy changes (such as Medicaid reductions) could affect the hospital.	May be calculated based on revenue (which tend to skew towards commercial patients), inpatient days (which tend to skew towards higher volume payers like Medicaid), or other measures.
Uncompensated care	The sum of charity care (free or discounted care) and bad debt incurred by patients.	A measure of the financial burden from caring for under or uninsured patients. Used by Medicare to target funds to safety-net hospitals.	Definitions of uncompensated care may vary, which can make it difficult to compare estimates across data sources; for example, some include revenue losses for Medicaid patients (relative to their costs).