ISSUE BRIEF: CONNECTICUT ACUTE CARE HOSPITAL UNCOMPENSATED CARE TRENDS (FISCAL YEARS 2006-2008)

Introduction

According to the American Hospital Association's latest fact sheet (November 2009), uncompensated care in hospitals across the nation has risen in nearly every year since 1980 (2001 being the exception) and now accounts for $36.4 billion dollars in cost, nearly ten times the amount recorded in 1980 ($3.9 billion). In Connecticut, uncompensated care costs grew by 34% from $191 million in Fiscal Year (FY) 2006 to $257 million in FY 2008.[1]

Uncompensated care, which is defined in more detail below, includes both a hospital's "bad debt" and the charity care it provides. A hospital may incur bad debt when patients are unable to pay their bills but do not apply for charity care, or are unwilling to pay their bills. It should be noted that uncompensated care is not generated solely by uninsured patients. Insured patients may have difficulty meeting co-pay, deductible or co-insurance obligations, which may ultimately become bad debt. Consequently, some portion of services provided by hospitals to both uninsured and insured patients may ultimately become uncompensated care.

Uncompensated care is an issue that has surfaced in recent health care reform discussions. Differences of opinion exist about health care reform and its impact on hospitals. Some think that health care reform will help contain the rise in uncompensated care costs due to fewer uninsured patients, while others are skeptical of its immediate and ultimate impact. In both the House and Senate bills now under consideration, the numbers of uninsured patients are projected to be significantly reduced, perhaps helping to ease some uncompensated care costs for hospitals. It should be noted however, that under either proposal, between 18 and 24 million individuals are still projected to be uninsured at the end of the next decade.[2]

There are also concerns that health care reform may negatively impact hospitals' financial viability. Hospitals incur losses from underpayments driven primarily by non-managed care government programs (Medicare, Medicaid) that often provide reimbursement levels below the cost of providing care. Funding additional coverage may necessitate the need to extract additional cost savings from Medicare and Medicaid prior to achieving the targeted coverage levels. If this occurs, hospitals could face even lower Medicare/Medicaid reimbursement rates, while continuing to provide services to the remaining uninsured. These potential changes will be of critical importance to Connecticut hospitals as more than half of all inpatient discharges had Medicare or Medicaid as their primary coverage type in Fiscal Year (FY) 2008.

[1] Fiscal year runs from October 1 through September 30.
[2] The House bill estimates that 18 million people would remain uninsured; the Senate bill estimates 24 million.

This brief provides an overview of the issue of uncompensated care and examines recent trends in Connecticut. It focuses solely on uncompensated care and excludes government program underpayments. Charity care and bad debt have been combined unless otherwise indicated.

First, what is uncompensated care? Uncompensated care is a term used to identify losses that can result from charity care and bad debt. In a hospital setting, charity care is health care provided without expectation of payment. Bad debt, on the other hand, is determined after the service has been provided and payment is deemed unrecoverable. Hospitals have not been required to report charity care on external financial statements since 1990 but instead, account for it internally as a deduction from gross revenue. Bad debt is reported as an expense item (either separately or with administrative services). Hospitals in Connecticut submit charity care amounts to the Office of Heath Care Access as a note to their financial statements; bad debt is reported as a line item under operating expenses.

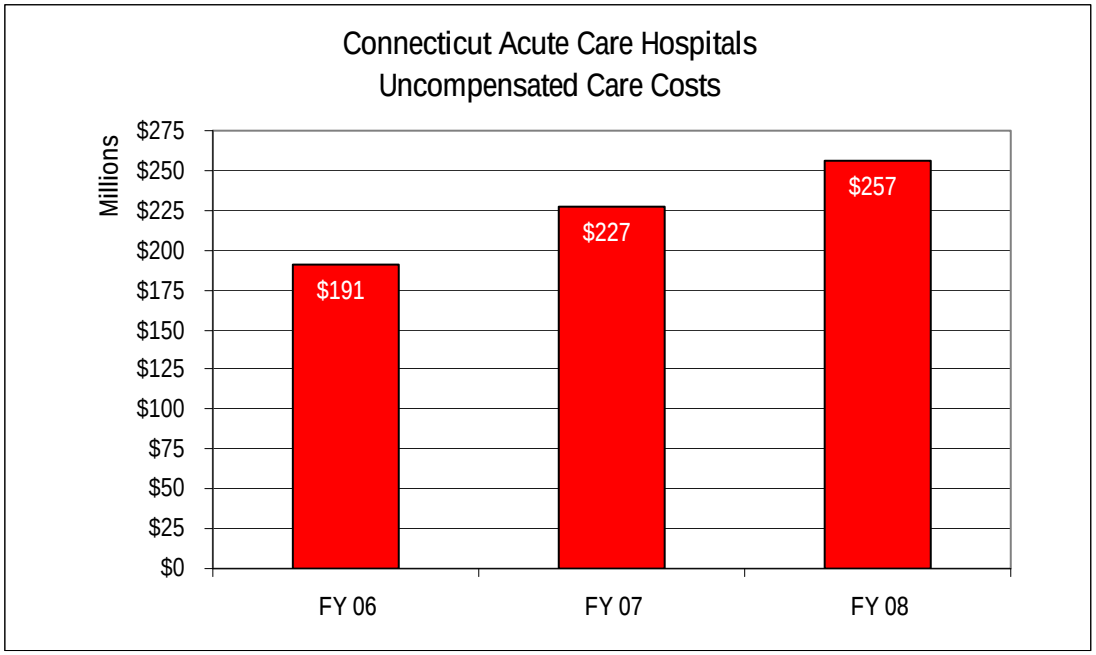
Uncompensated care cost figures in this brief include inpatient (37% of charges), outpatient (33%) and emergency department (30%) services at Connecticut's 30 acute care hospitals. In FY 2008, Connecticut's acute care hospitals provided $256.8 million dollars in uncompensated care (see Appendix 1 for detail by hospital), providing more than 60,000 patients with charity care. Even though only 3% of Connecticut acute care hospital inpatient discharges were uninsured, 84% of uncompensated care costs were associated with uninsured patients.

Is uncompensated care provided to the uninsured alone? Uncompensated care is often associated as health care provided only to the uninsured, however patients with health insurance also contribute to uncompensated care costs. For example, poor economic times have reduced many families' incomes, making it increasingly difficult for patients seeking treatment to meet their co-payments, deductibles and/or co-insurance obligations, all of which can contribute to increased uncompensated care costs for hospitals.

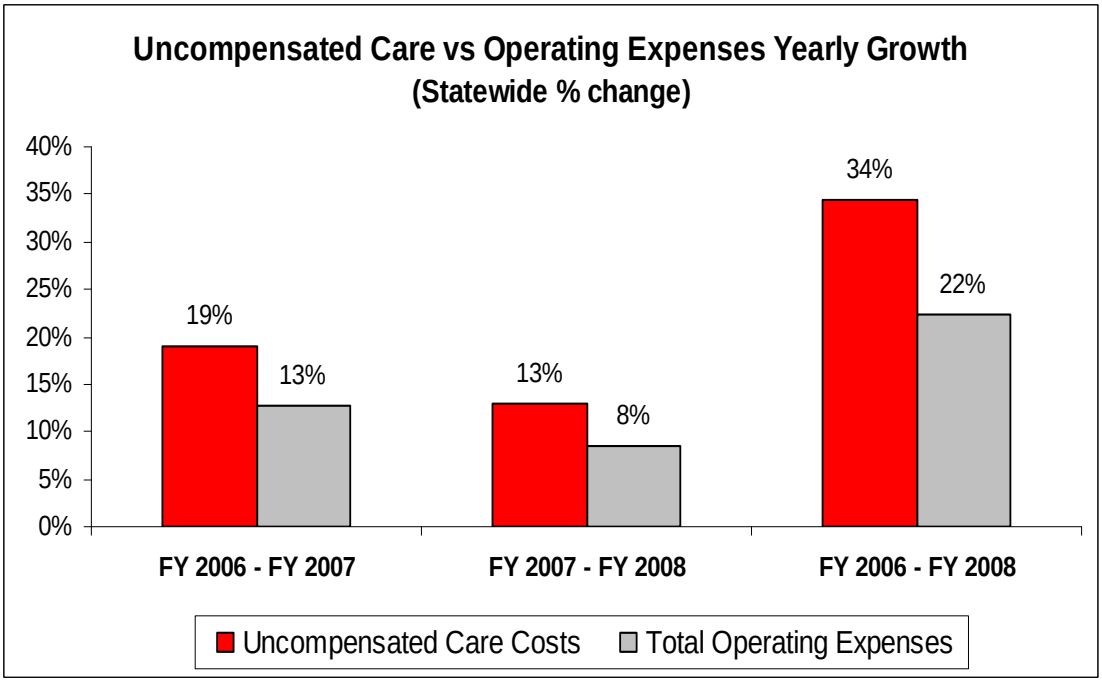
Do hospitals have additional means to provide free/charity care to patients? Hospitals also provide charity care to patients using free bed funds. Free bed funds are donations provided by benefactors to hospitals that enable patients who can't afford treatment and meet certain criteria to receive care. In FY 2008, approximately $23.7 million of health care services were provided using these funds (see Appendix 2 for a complete listing of hospital bed funds). However, it should be noted that these funds may have restricted use and/or be limited to only the interest generated from an individual fund's principal.

Uncompensated Care Costs

From FY 2006 to FY 2008, Connecticut's hospitals experienced a 34% increase in uncompensated care costs, accounting for approximately an additional $66 million in costs.



Uncompensated care grew at a faster pace than operating expenses in each of the three time frames depicted below (approximately 12 percentage points more from FY 2006 to FY 2008).



From FY 2006 to FY 2008, each of Connecticut's 30 acute care hospitals experienced an increase in uncompensated care costs. Slightly fewer than half (14) reported an increase from 20% to 39% (see table below). Essent-Sharon (+176%) and Johnson Memorial (+92%) hospitals experienced the largest cost increases, while Waterbury (+8%), Windham (+2%), Connecticut Children's Medical Center (+1%) and Manchester Memorial (+1%) hospitals reported the smallest increases.

Connecticut Acute Care Hospitals Uncompensated Care Costs FY 2006 - FY 2008 (% Change)	
Range	Frequency
< 10%	4
10 - 19%	3
20 - 29%	9
30 - 39%	5
40 - 49%	3
50 - 59%	4
60% +	2
Total	30

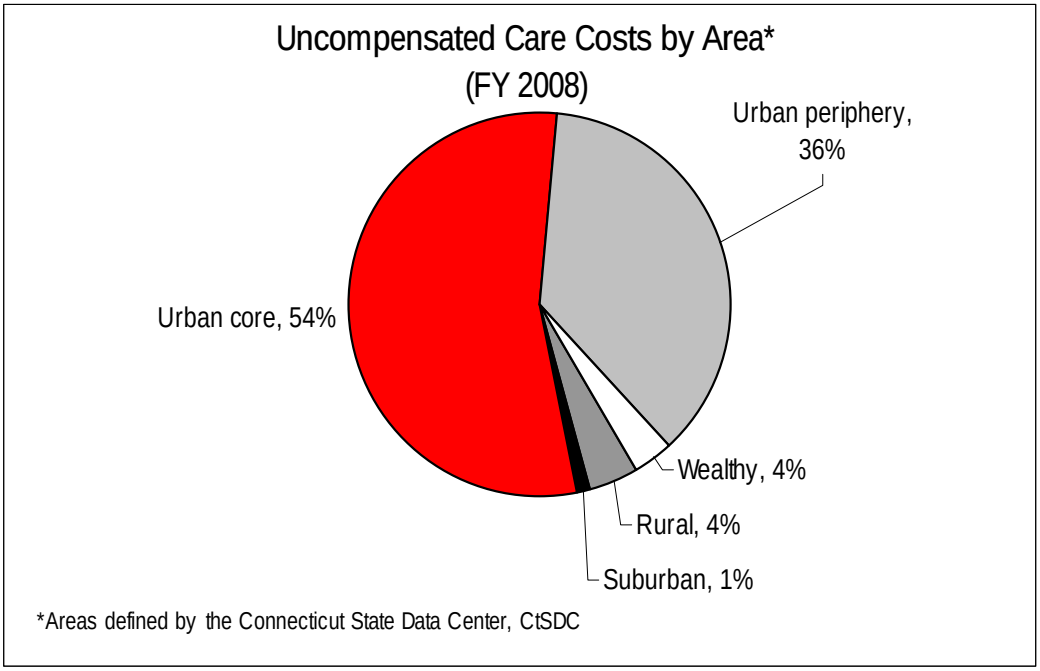
A commonly used measure to determine the magnitude of uncompensated care is to compare uncompensated care cost with operating expenses. By this measure, Stamford Hospital's uncompensated care costs ($23.3 million) represented 6.0% of its operating expenses, the highest in the state. Norwalk (5.5%), St. Vincent's (4.4%), Bridgeport (4.2%) and Backus (4.0%) hospitals were all significantly higher than the statewide average of 3.2%. However, it is interesting to note that in spite of having the highest ratios of uncompensated care to operating expenses, all five hospitals had total margins that were higher than the statewide average.

Fiscal Year 2008				
TOP 5 HOSPITALS	UNCOMPENSATED CARE COSTS	TOTAL OPERATING EXPENSES	UCC % OF OPERATING EXPENSES	TOTAL MARGIN
STAMFORD	$23,253,123	$389,133,838	6.0%	4.21%
NORWALK	$16,348,982	$295,277,484	5.5%	2.63%
ST. VINCENT'S	$13,269,472	$302,743,318	4.4%	8.19%
BRIDGEPORT	$14,002,199	$333,443,334	4.2%	1.62%
BACKUS	$9,061,214	$225,599,529	4.0%	3.18%
STATEWIDE	$256,780,057	$7,923,352,615	3.2%	1.49%

Uncompensated Care Costs by Area

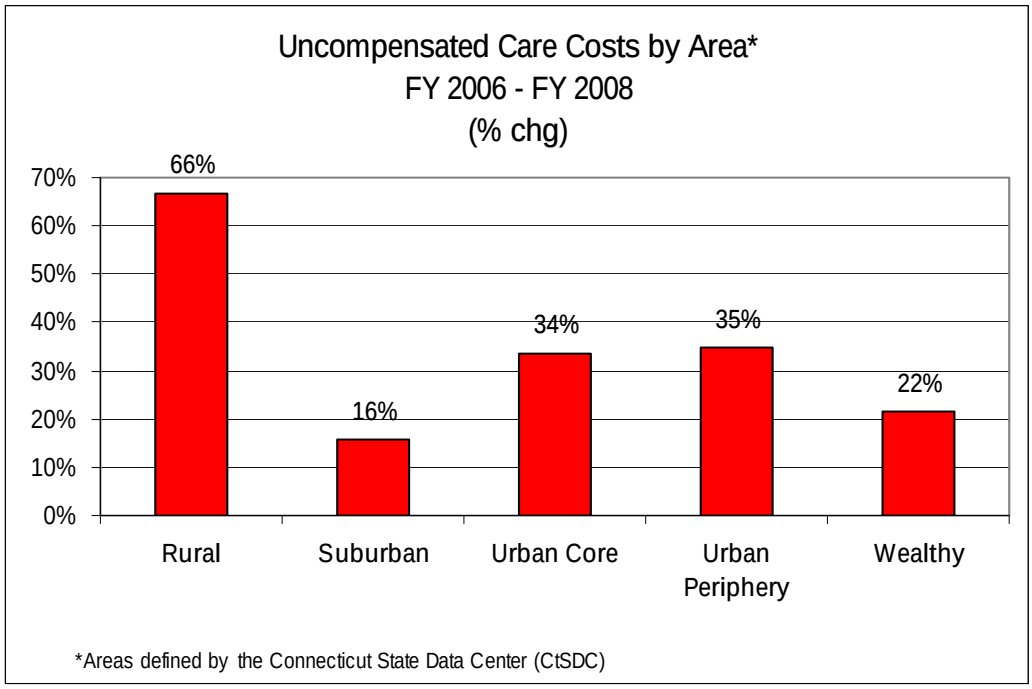
For the purposes of analyzing uncompensated care costs in this publication, the Office of Health Care Access (OHCA) utilized demographic area categories developed by the University of Connecticut State Data Center (CtSDC). Based on three socioeconomic variables (population density, median family income and poverty), CtSDC assigned each of the state's 169 towns to one of five town groups. These five town groups reflect separate and distinct categories reflecting population distributions in the state that allow for analyzing socioeconomic trends.[3]

More than half (54%) of uncompensated care costs were generated in urban core hospitals for FY 2008. This is not unexpected, as Connecticut's urban hospitals treated a high volume of inpatients (61% of statewide discharges in FY08), over 7,000 of whom were uninsured. Eleven hospitals comprise CtSDC's urban core definition: Bridgeport, CT Children's, Hartford, Hospital of Central Connecticut, Lawrence and Memorial, St. Francis, St. Mary's, St. Raphael, St. Vincent's, Waterbury and Yale-New Haven hospitals.



[3] The groups defined by the University of Connecticut State Data Center (CtSDC) are:
• **Wealthy --** Exceptionally high income, low poverty, and moderate population density. Westport is the most representative of this group.
• **Suburban** -- Above average income, low poverty, and moderate population density. Towns in this group are best distinguished as suburbs of more densely populated urban areas. Cheshire is the most representative of this group.
• **Rural --** Average income, below average poverty, and the lowest population density. North Stonington is the most representative of this group.
• **Urban Periphery --** Below average income, average poverty, and high population density. These towns are best described as transitional towns between the urban cores and the suburbs. Norwich is the most representative of this group.
• **Urban Core** -- Lowest income, highest poverty, and the highest population density. Bridgeport is the most representative of this group.

Although urban core hospitals reported the highest uncompensated care costs, it was rural hospitals (Day Kimball, Essent-Sharon, Johnson Memorial, and New Milford) that experienced the strongest growth (+66%) in uncompensated care costs from FY 2006 to FY 2008.



Summary

In FY 2008, Connecticut's 30 acute care hospitals provided almost $257 million dollars in uncompensated care to more than 60,000 patients. From FY 2006 to FY 2008, all of the state's acute care hospitals experienced an increase in uncompensated care costs, resulting in a 34% or $66 million increase. Uncompensated care grew at a faster pace than operating expenses in each of the three fiscal years. More than half of the state's uncompensated care originated in urban hospitals, which treated a high volume of Connecticut's inpatients (7,000 were uninsured). Urban hospitals had the highest uncompensated care costs, while rural hospitals reported the largest growth in uncompensated care costs, up 66% from FY 2006 to FY 2008.

This issue and its impact on Connecticut hospitals must continue to be monitored by the Office of Health Care Access. This report does not include FY09 data, which was a challenging year for hospitals due to possible decreased utilization and non-operating revenues. When FY09 data is available, additional analysis can be performed.

Appendix 1: Uncompensated Care Costs

Hospital	Uncompensated Care Costs[1]		
	FY 06	FY 07	FY 08
BACKUS	$6,518,570	$7,260,956	$9,061,214
BRIDGEPORT	$11,167,718	$11,959,917	$14,002,199
BRISTOL	$3,154,274	$3,929,667	$3,891,013
CT CHILDREN'S	$2,312,466	$2,100,336	$2,346,998
DANBURY	$8,926,518	$9,919,306	$10,675,330
DAY KIMBALL	$2,242,552	$2,442,527	$2,780,816
DEMPSEY	$2,497,178	$3,309,932	$2,890,877
ESSENT-SHARON	$739,690	$1,357,809	$2,044,048
GREENWICH	$7,878,263	$8,412,549	$9,588,769
GRIFFIN	$2,935,445	$3,629,172	$3,467,095
HARTFORD	$19,451,086	$22,272,022	$25,355,190
HOSPITAL OF CENTRAL CT[2]	$6,293,014	$9,438,991	$9,641,415
HUNGERFORD	$1,583,287	$2,038,883	$2,056,204
JOHNSON	$1,473,703	$2,902,401	$2,835,685
LAWRENCE	$7,522,247	$8,722,241	$10,460,923
MANCHESTER	$3,116,397	$3,303,619	$3,153,040
MIDDLESEX	$6,692,149	$8,364,034	$9,432,675
MIDSTATE	$4,432,370	$4,575,133	$6,173,100
MILFORD	$1,316,851	$1,928,821	$1,928,106
NEW MILFORD	$2,003,285	$2,302,322	$3,093,425
NORWALK	$10,827,274	$14,904,837	$16,348,982
ROCKVILLE	$1,356,123	$1,511,074	$1,632,207
ST. FRANCIS	$11,553,395	$12,487,008	$14,964,636
ST. MARY'S	$4,083,006	$4,423,166	$4,906,173
ST. RAPHAEL	$7,989,906	$9,687,040	$10,059,117
ST. VINCENT'S	$9,691,054	$12,688,863	$13,269,472
STAMFORD	$16,045,997	$19,424,296	$23,253,123
WATERBURY	$5,894,939	$7,696,214	$6,390,261
WINDHAM	$2,598,523	$2,568,964	$2,644,909
YALE-NEW HAVEN	$18,715,926	$21,814,064	$28,433,056
STATEWIDE TOTAL	$191,013,203	$227,376,163	$256,780,057

Source: Audited Financial Statements data from Hospital Reporting System Report 550 & 185, Schedule UCA

[1] Estimated: (Charity care charges + Bad debt charges) x RCC (ratio of cost to charges). Charges can vary widely among hospitals, so to make uncompensated care amounts comparable across hospitals, this formula is used to control for variations and to standardize values for comparison purposes. RCC is hospital-specific.

[2] Data from Bradley Memorial and New Britain General Hospitals were combined under this heading for 2006

Note: It cannot be determined if bed fund payments have been included in the charity care amounts reported by hospitals to OHCA.

Appendix 2: Acute Care Hospital Bed Funds

HOSPITAL	FY 2008	
	Free Bed Fund Expenditures[1]	Free Bed Fund Ending Balance[2]
BACKUS	$298,388	$527,060
BRIDGEPORT	$240,074	$13,213,721
BRISTOL	$63,093	$1,368,741
CT CHILDREN'S	$2,962	$90,161
DANBURY	$0	$0
DAY KIMBALL	$0	$0
DEMPSEY	$0	$0
ESSENT-SHARON	$0	$0
GREENWICH	$1,633,029	$12,270,000
GRIFFIN	$13,709	$148,346
HARTFORD	$16,590,935	$46,677,720
HOSPITAL OF CENTRAL CT	$29,340	$711,237
HUNGERFORD	$53,522	$292,061
JOHNSON	$0	$0
LAWRENCE	$55,937	$1,809,864
MANCHESTER	$0	$606,055
MIDDLESEX	$61,475	$1,619,770
MIDSTATE	$134,135	$1,205,312
MILFORD	$0	$0
NEW MILFORD	$0	$0
NORWALK	$0	$0
ROCKVILLE	$0	$239,070
ST. FRANCIS	$5,926	$469,797
ST. MARY'S	$1,567	$0
ST. RAPHAEL	$94,334	$479,395
ST. VINCENT'S	$0	$209,175
STAMFORD	$0	$273,534
WATERBURY	$607,015	$6,725,449
WINDHAM	$1,069	$19,486
YALE-NEW HAVEN	$3,901,514	$11,321,005
STATEWIDE TOTAL	$23,788,025	$100,276,958

Source: Office of Health Care Access (OHCA)

[1] HRS Report 17A

[2] HRS Report 17B

Note: It cannot be determined if bed fund payments have been included in the charity care amounts reported by hospitals to OHCA.