CHRT

Hospital Uncompensated Care, 2014

COVER MICHIGAN

Introduction

2014 marked the launch of the health insurance marketplaces and Medicaid expansion under the Affordable Care Act (ACA). These programs expanded health insurance coverage to many previously uninsured residents, resulting in sharp decreases in the uninsured rate both nationwide and in Michigan.[1] Expanded access to health insurance can benefit health care providers, such as hospitals, financially through reducing their uncompensated care burden.

Hospitals have traditionally provided care for free and/or at reduced prices to indigent and uninsured patients as part of their own social mission and to meet regulatory requirements. For example, non-profit hospitals are required to participate in community benefit activities, such as providing charity care, in order to maintain their tax-exempt status, a financial benefit for hospitals. Tax exempt status for hospitals nationwide was valued at over $24 billion in 2011.[2]

Hospitals have two forms of uncompensated care: charity care and bad debt.[3] Charity care is delivered without the expectation of receiving payment, and bad debt occurs when a hospital bills for but is unable to collect the entire amount due from a patient.[4] In order to see if hospitals have benefited from the ACA coverage expansion, particularly the optional Medicaid expansion, CHRT examined uncompensated care trends and other indicators for hospitals in Michigan and other states.

Key Findings:

- Uncompensated care costs for Michigan hospitals decreased by almost 23 percent from 2013 to 2014, with most of the decrease occurring for charity care.
- Hospitals in Medicaid expansion states experienced much sharper decreases in uncompensated care costs from 2013 to 2014 (27 percent) compared to those in non-expansion states (3 percent).
- In Michigan, uncompensated care's share of operating expenses fell in 2014, and operating margins also improved from 2013 levels. However, operating margins varied by location.
- The number of Medicaid inpatient days and outpatient visits at Michigan hospitals increased by almost 8 percent in 2014, while other patient volume fell by almost 3 percent. Overall, patient volume was relatively stable from 2013 to 2014.

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1 Fangmeier, Joshua; Udow-Phillips, Marianne. *The Uninsured in Michigan, 2014. Cover Michigan 2016* (Ann Arbor, MI: Center for Healthcare Research and Transformation, 2016).

2 S. Rosenbaum, D.A. Kindig, J. Bao, M.K. Byrnes, and C. O'Laughlin. *The Value Of The Nonprofit Hospital Tax Exemption Was $24.6 Billion In 2011.* Health Affairs. July 2015. **http://content.healthaffairs.org/content/early/2015/06/18/hlthaff.2014.1424.abstract** (accessed 6/18/15).

3 Broader definitions of uncompensated care may include underpayments from Medicare and Medicare, but underpayments were not included in this analysis.

4 Hospitals have different procedures and qualifications for how patients can apply for charity care assistance, which is a limitation on comparing charity care and bad debt measures across hospitals.

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Health Insurance Coverage Expansions and Uncompensated Care

Several prior studies have examined the connection between health insurance coverage expansions and decreases in hospital uncompensated care. Prior to the ACA coverage expansion in 2014, coverage expansions in certain states led to fewer uninsured admissions and less uncompensated care compared to states that did not expand coverage. Coverage expansion under Massachusetts health reform in 2006 resulted in a 26 percent decrease in uncollectible hospital bills relative to other states.[5] Connecticut's early ACA Medicaid expansion in 2010 to childless adults up to 56 percent of the federal poverty level was estimated to have resulted in one-third less uncompensated care than would have occurred otherwise.[6]

Since 2014, studies have found larger decreases in uncompensated care in states that expanded Medicaid under the ACA, compared to non-expansion states. Using state hospital association surveys and financial reports, the U.S. Department of Health and Human Services found that many hospital systems in Medicaid expansion states had large decreases in the number of uninsured admissions and emergency department visits compared to hospitals in non-expansion states in early 2014.[7]

A study of hospitals in the Ascension Health system, the largest non-profit health system in the United States, found that hospitals in expansion states had a 7.4 percent increase in Medicaid discharges from 2013 to 2014 and a 32.3 percent decrease in uninsured/self-pay discharges. Hospitals in expansion states experienced larger improvements in operating margins than in non-expansion states and charity care costs decreased by 40.1 percent.[8] A separate study on a broader set of hospitals found that Medicaid's share of total hospital discharges increased 7 percentage points and uninsured discharges decreased by 6 percentage points in expansion states in the first half of 2014, while changes in non-expansion states were not significant.[9]

The American Hospital Association (AHA) found that uncompensated care costs for hospitals nationwide decreased from $46.4 billion in 2013 to $42.8 billion in 2014. The ratio of uncompensated care to total expenses also fell to the lowest level since AHA began reporting this information in 1990.[10] In a report prepared by the University of Michigan Institute for Healthcare Policy & Innovation, researchers used Michigan Medicaid cost reports submitted to the state to examine uncompensated care trends. Although about half of the available reports had data for only the first six months or less of 2014, they found that hospitals with reports covering more time after the state's Medicaid expansion began on April 1, 2014 had decreases in uncompensated care.[11]

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5 A. Arrieta. *The Impact of the Massachusetts Health Care Reform on Unpaid Medical Bills.* Inquiry. 2013. **http://inq.sagepub.com/content/50/3/165.full.pdf** (accessed 3/17/16).

6 S. Nikpay, T. Buchmueller, and H. Levy. *Early Medicaid Expansion In Connecticut Stemmed The Growth In Hospital Uncompensated Care.* Health Affairs. July 2015. **http://content.healthaffairs.org/content/34/7/1170.abstract** (accessed 3/17/16).

7 T. DeLeire, K. Joynt, and R. McDonald. *Impact of Insurance Expansion on Hospital Uncompensated Care Costs in 2014.* U.S. Department of Health and Human Services. September 2014. **https://aspe.hhs.gov/pdf-report/impact-insurance-expansion-hospital-uncompensated-care-costs-2014** (accessed 3/17/16).

8 P. Cunningham, R. Garfield, and R. Rudowitz. *How Are Hospitals Faring Under the Affordable Care Act? Early Experiences from Ascension Health.* Henry J. Kaiser Family Foundation. April 2015. **http://kff.org/health-reform/issue-brief/how-are-hospitals-faring-under-the-affordable-care-act-early-experiences-from-ascension-health/** (accessed 3/17/16).

9 S. Nikpay, T. Buchmueller, and H.G. Levy. *Affordable Care Act Medicaid Expansion Reduced Uninsured Hospital Stays In 2014.* Health Affairs. January 2016. **http://content.healthaffairs.org/content/35/1/106.abstract** (accessed 3/17/16).

10 American Hospital Association. *Uncompensated Hospital Care Cost Fact Sheet.* January 2016. **http://www.aha.org/content/16/uncompensatedcarefactsheet.pdf** (accessed 3/17/16).

11 University of Michigan Institute for Healthcare Policy & Innovation. *2014 Report on Uncompensated Care and Insurance Rates.* December 2015. **https://www.michigan.gov/documents/mdhhs/105d8-9-2013_PA_107-Report_12-31-15_512683_7.pdf** (accessed 3/17/16).

Michigan Hospital Characteristics

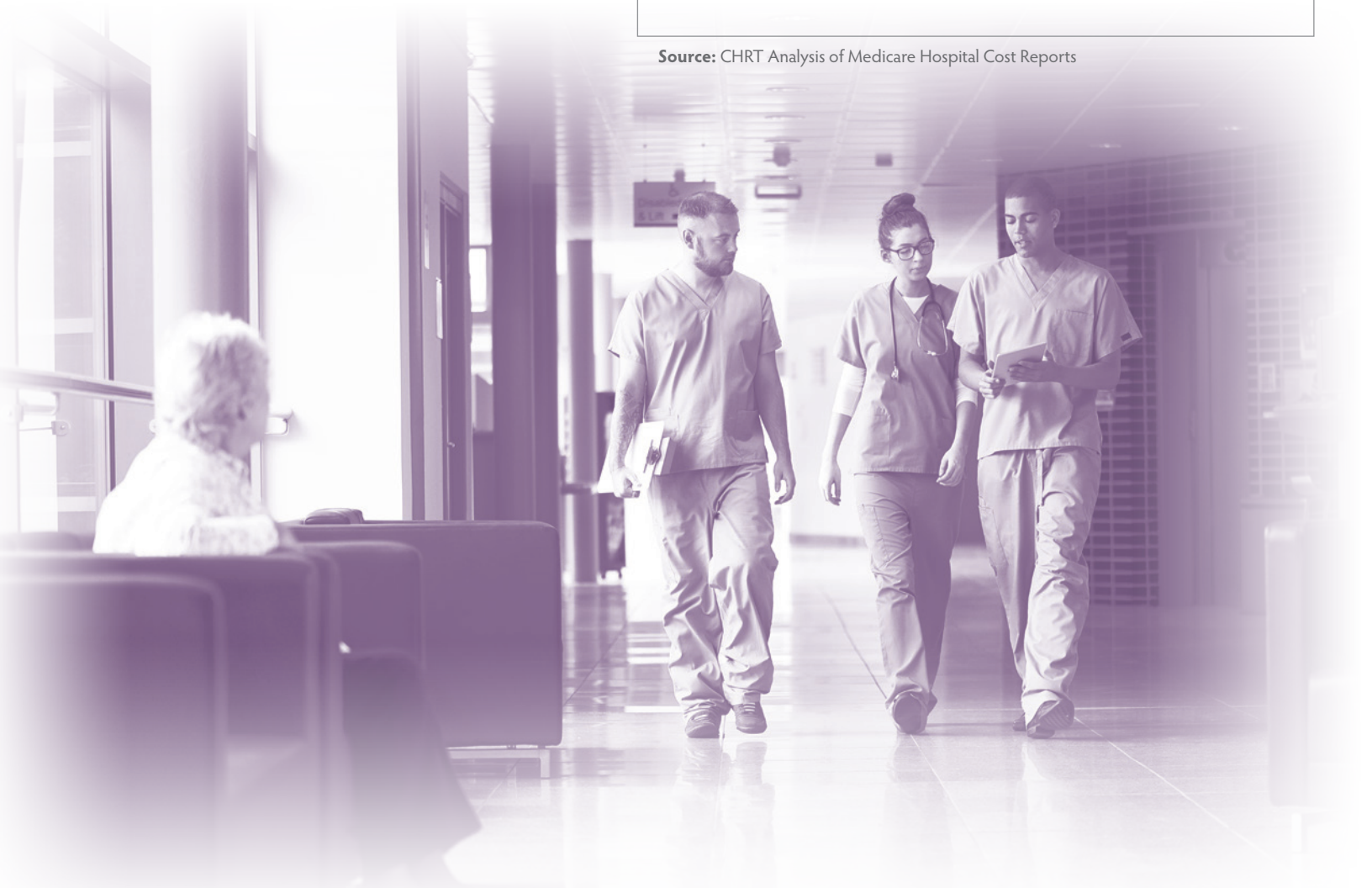
In this study, CHRT used Medicare cost reports to examine the financial characteristics of 107 Michigan hospitals and 3,578 hospitals nationwide from 2011 to 2014. FIGURE 1 Compared to hospitals nationwide, Michigan hospitals tend to be larger, in terms of the number of beds, and have more patient volume in inpatient and outpatient settings.

More than 60 percent of Michigan hospitals are located in a metropolitan area, and fewer than 24 percent have a critical access designation as a rural provider. Michigan hospitals are twice as likely as hospitals nationwide to have a teaching program for the graduate medical education of medical residents, but they are less likely to be part of investor-owned, for-profit companies compared to hospitals in other states. As of 2013, only seven Michigan hospitals in our study were owned by a for-profit company.

FIGURE: 1
Characteristics of Michigan and U.S. Hospitals, 2013

Characteristic	Michigan Hospitals	U.S. Hospitals
Metropolitan Area	60.7%	58.8%
Non-profit or Government Owned	93.5%	83.0%
Critical Access Designation	23.4%	27.7%
Teaching	46.7%	23.3%
Median Number of Beds	99	85
Median Discharges	3,728	3,193
Median Inpatient Days and Outpatient Visits	15,053	12,300
Hospitals in Study	107	3,578

Source: CHRT Analysis of Medicare Hospital Cost Reports



Hospital Uncompensated Care and Financial Trends

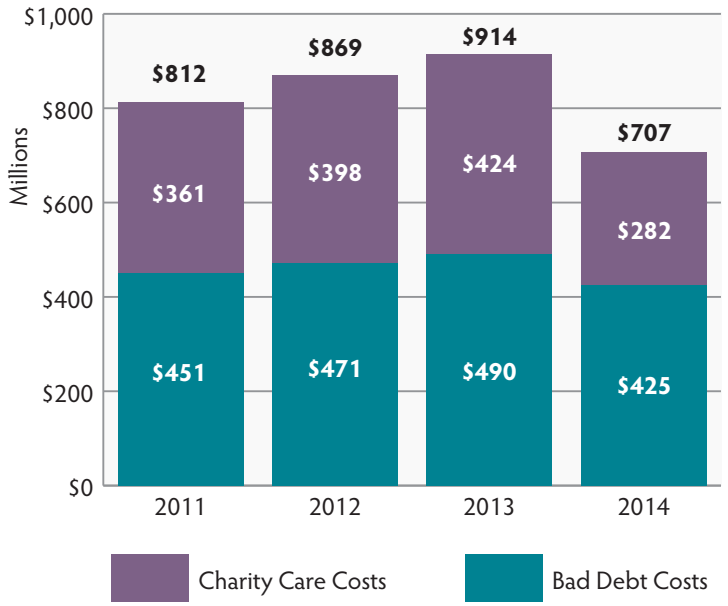
Prior to the ACA's coverage expansion, from 2011 to 2013, uncompensated care costs for Michigan hospitals in the study increased by over 12 percent ($812 million to $914 million). FIGURE 2 In 2014, uncompensated care costs for Michigan hospitals decreased by 22.6 percent to $707 million. Most of the uncompensated care decrease in Michigan occurred for charity care, which fell by 33.4 percent. However, bad debt also decreased by 13.3 percent.

Nationwide, uncompensated care costs for hospitals decreased 15 percent from 2013 to 2014. In Medicaid expansion states, uncompensated care decreased by 26.9 percent, but only by 3 percent in non-expansion states. Effects were also uneven across states. APPENDIX FIGURE 2 *(page 8)*.

Before 2014, uncompensated care costs accounted for a growing share of operating expenses for hospitals in Michigan, rising from a median of 3.1 percent in 2011 to 3.7 percent in 2013. FIGURE 3 In 2014, the median uncompensated care to operating expense ratio fell to 3 percent, below 2011 levels. However, hospitals had varying uncompensated care levels before the ACA coverage expansion, and the changes in uncompensated care also varied from 2013 to 2014 across hospitals.

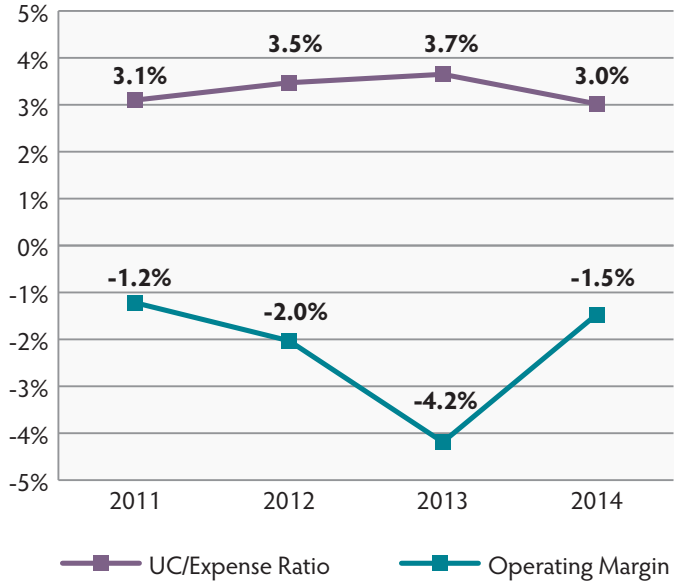
Coinciding with the decline in uncompensated care costs, the median hospital operating margin (net profits from patient care services) increased from -4.2 percent in 2013 to -1.5 percent in 2014. The ACA includes several quality improvement programs, such as penalties for excess readmissions, which change hospital reimbursement for Medicare services. While these programs may have had a negative effect on profitability for certain hospitals, many hospitals experienced substantial gains in profitability from patient care in 2014.

FIGURE:2
Hospital Uncompensated Care Costs in Michigan, 2011-2014



Source: CHRT Analysis of Medicare Hospital Cost Reports

FIGURE:3
Median Hospital Financial Indicators in Michigan, 2011-2014



Source: CHRT Analysis of Medicare Hospital Cost Reports

Hospital Uncompensated Care and Financial Trends *(continued)*

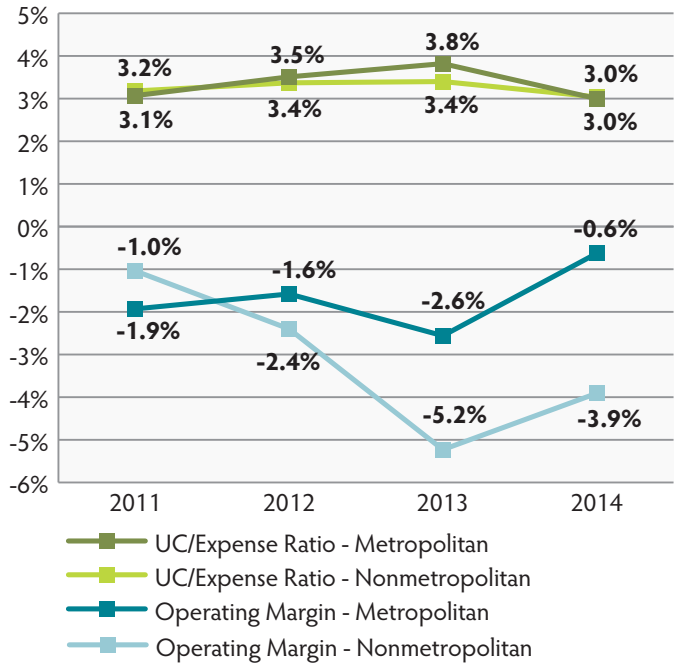
The financial characteristics of Michigan hospitals varied by location, reflecting the different challenges of serving urban and rural populations. Among metropolitan hospitals, the median uncompensated care to operating expense ratio was slightly greater than for nonmetropolitan hospitals in 2013. However, nonmetropolitan hospitals had much poorer median operating margins. FIGURE 4 Nonmetropolitan hospitals include critical access hospitals and other acute care hospitals. Critical access hospitals are facilities in rural communities that are declared as a "necessary provider" and receive greater reimbursement from Medicare for outpatient and inpatient services.[12]

In 2014, median uncompensated care to operating expense ratios converged for metropolitan and nonmetropolitan hospitals in Michigan at 3 percent, and median operating margins improved across hospitals. Though, the relative disparity in operating margins between metropolitan and nonmetropolitan hospitals continued in 2014. However, these effects cannot be solely attributed to location, since they are not controlled for other relevant characteristics. Changes from 2013 to 2014 also varied by teaching status and other facility characteristics. APPENDIX FIGURE 1 *(page 7)*

From 2011 to 2013, the number of inpatient days and outpatient visits at Michigan hospitals decreased from 4.73 million to 4.51 million. FIGURE 5 In 2013, Medicaid comprised 21.7 percent of total patient volume.[13] In 2014, the Medicaid volume increased by 7.7 percent to 1.05 million inpatient days and outpatient visits, but volume for other payers decreased 2.8 percent. Overall volume was nearly unchanged from 2013 to 2014. Medicaid's share of total patient volume increased from 21.7 percent in 2013 to 23.5 percent in 2014.

FIGURE:4

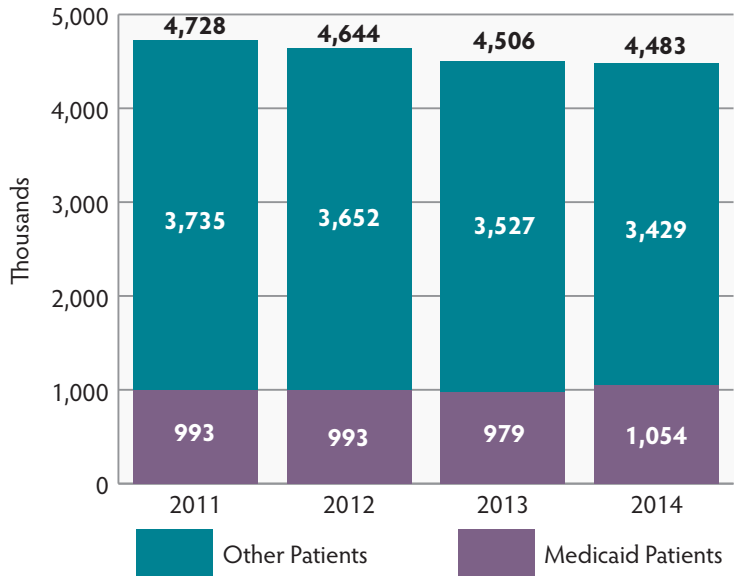
Median Hospital Financial Indicators in Michigan by Location, 2011-2014



Source: CHRT Analysis of Medicare Hospital Cost Reports

FIGURE:5

Hospital Inpatient Days and Outpatient Visits for Michigan Hospitals by Payer, 2011-2014



Source: CHRT Analysis of Medicare Hospital Cost Reports

[12] MedPAC. *Critical Access Hospitals Payment System.* October 2014. **http://www.medpac.gov/documents/payment-basics/critical-access-hospitals-payment-system-14.pdf** (accessed 3/22/16).

[13] This total does not include observation days.

Conclusion

Medicaid expansion states, like Michigan, experienced a sharp drop in hospital uncompensated care costs in 2014. With more time passing after the launch of the ACA's coverage expansion in 2014, it will be important to monitor the future impacts of expanded coverage on hospitals, including the effects on uncompensated care costs, Medicaid patient volume, and the profitability of delivering patient care. The effects of coverage expansion did not affect all hospitals equally in 2014, and it will also be important to monitor these different effects across hospitals in the coming years.

[14] J. Stensland, D. Zabinski, and A. Winter. *Assessing Payment Adequacy and Updating Payments: Hospital Inpatient and Outpatient Services.* MedPAC. January 2016. **http://www.medpac.gov/documents/january-2016-meeting-presentation-assessing-payment-adequacy-and-updating-payments-hospital-inpatient-and-outpatient-services.pdf?sfvrsn=0** (accessed 3/17/16).

[15] American Hospital Association. *Annual Survey Database.* **http://www.aha.org/research/rc/stat-studies/data-and-directories.shtml** (accessed 3/17/16).

[16] US Department of Agriculture – Economic Research Service. *Rural-Urban Continuum Codes.* **http://www.ers.usda.gov/data-products/rural-urban-continuum-codes.aspx** (accessed 3/17/16).

Data and Methodology

We extracted hospital data on uncompensated care and other facility characteristics from publicly available cost reports submitted by hospitals to the Centers for Medicare and Medicaid Services (CMS) via the Healthcare Cost Report Information System (HCRIS). Data include reports collected by December 31, 2015 that were released on January 27, 2016. For this analysis, we restricted the set of hospitals to short-term acute and critical access hospitals who submitted complete reports for each year from 2011 through 2014. This eliminated rehabilitation, long-term, psychiatric, children's, and other specialty hospitals that have high nonresponse rates or are not largely affected the ACA's Medicaid expansion. The resulting data set includes 3,578 hospitals nationwide and 107 in Michigan.

Beginning in 2010, CMS revised its cost report forms, including major changes in how hospitals report the amount of uncompensated care they provided to patients. Hospitals submit worksheet S-10 as part of their cost report that breaks down their uncompensated care costs into their separate sources. In our analysis, we define uncompensated care as the sum of charity care (care delivered with no expectation of payment) and bad debt (care that is billed for but no payment is received), but underpayments from public payers (Medicare, Medicaid, and the Children's Health Insurance Program) were excluded. The use of cost report data for uncompensated care research is still relatively new, and not all responses from hospitals are audited by CMS. However, MedPAC has supported using worksheet S-10 to directly measure uncompensated care costs.[14] Data for inpatient days and outpatient visits were extracted from worksheet S-3, part 1, and data on operating margins were extracted from worksheet G-3 of the cost reports.

Cost reports submitted to hospitals are based on each hospital's own fiscal year, which have varying beginning and end dates. To generate comparable time-series measures, we converted hospital fiscal year measures to calendar year estimates by combining the portion of each fiscal year that fell within a given calendar year. Uncompensated care amounts were converted from charges to costs using hospital-specific cost-to-charge ratios calculated in the cost reports, and all financial measures were adjusted for inflation to 2014 dollars. Facilities that reported outlier uncompensated care amounts compared to their historic trend were dropped from the study.

Hospitals were identified as for-profit, non-profit, or government-owned based on control status data from the 2013 American Hospital Association annual survey.[15] Metropolitan status was determined based on the U.S. Department of Agriculture's urban-rural continuum codes for 2013,[16] and hospitals were identified as teaching institutions if they indicated in their cost reports that they train residents as part of an approved graduate medical education program.

Appendix 1

FIGURE: A-1
Median Financial Indicators for Michigan Hospitals by Select Characteristics, 2011-2014

	Uncompensated Care to Patient Expenses Ratio				Operating Margin			
	2011	2012	2013	2014	2011	2012	2013	2014
Facility Type								
Short-term (General and Specialty) Hospitals	3.1%	3.3%	3.6%	2.9%	-1.0%	-1.9%	-4.3%	-1.3%
Critical Access Hospitals	3.2%	3.7%	3.8%	3.5%	-2.1%	-2.0%	-4.2%	-2.5%
Hospital Control Status in 2013								
Non-profit or government	3.2%	3.5%	3.7%	3.0%	-1.1%	-2.0%	-3.9%	-1.8%
For-profit	2.3%	2.8%	2.6%	1.4%	-1.9%	-3.1%	-7.2%	-0.3%
Location								
Metropolitan Area	3.1%	3.5%	3.8%	3.0%	-1.9%	-1.6%	-2.6%	-0.6%
Nonmetropolitan Area	3.2%	3.4%	3.4%	3.0%	-1.0%	-2.4%	-5.2%	-3.9%
Teaching Status								
Not teaching	3.2%	3.6%	3.6%	3.2%	-1.2%	-2.1%	-4.6%	-2.7%
Teaching	3.0%	3.2%	3.7%	2.9%	-1.5%	-1.6%	-3.5%	-1.2%
All Hospitals	**3.1%**	**3.5%**	**3.7%**	**3.0%**	**-1.2%**	**-2.0%**	**-4.2%**	**-1.5%**

Source: CHRT Analysis of Medicare Hospital Cost Reports

Appendix 2

FIGURE: A-2
Uncompensated Care Trends by State, 2011-2014

State	Hospitals in Study	Uncompensated Care Costs ($ millions)				2013-2014 Change
		2011	2012	2013	2014	
Expansion States	**1,704**	**$15,132**	**$15,577**	**$14,963**	**$10,938**	**-26.9%**
AR	57	$257	$285	$290	$208	-28.2%
AZ	52	$414	$601	$674	$479	-28.9%
CA	238	$2,934	$2,927	$2,668	$1,680	-37.0%
CO	61	$335	$331	$321	$241	-24.9%
CT	24	$123	$124	$130	$137	5.5%
DC	5	$58	$59	$56	$50	-10.9%
DE	2	$21	$20	$18	$17	-4.8%
HI	13	$42	$40	$38	$38	0.2%
IA	109	$282	$288	$281	$217	-22.6%
IL	149	$1,541	$1,696	$1,512	$1,083	-28.3%
KY	73	$383	$387	$352	$210	-40.4%
MA	53	$525	$517	$518	$437	-15.7%
MD	36	$575	$634	$632	$556	-11.9%
MI*	107	$812	$869	$914	$707	-22.6%
MN	104	$312	$297	$257	$231	-10.4%
ND	31	$39	$42	$47	$45	-4.2%
NH*	19	$156	$150	$151	$134	-11.2%
NJ	39	$1,011	$1,036	$1,082	$757	-30.0%
NM	27	$269	$286	$293	$213	-27.1%
NV	27	$280	$286	$274	$177	-35.2%
NY	150	$2,190	$2,059	$1,949	$1,752	-10.1%
OH	141	$1,253	$1,307	$1,248	$833	-33.3%
OR	51	$433	$431	$403	$218	-46.0%
RI	10	$80	$83	$78	$46	-40.6%
VT	14	$51	$50	$47	$39	-15.9%
WA	73	$532	$537	$499	$289	-42.1%
WV	39	$222	$235	$231	$141	-38.9%

State	Hospitals in Study	Uncompensated Care Costs ($ millions)				2013-2014 Change
		2011	2012	2013	2014	
Non-Expansion States	**1,874**	**$14,132**	**$14,877**	**$14,921**	**$14,470**	**-3.0%**
AK	15	$87	$100	$96	$90	-5.9%
AL	62	$335	$449	$460	$436	-5.3%
FL	146	$2,819	$2,754	$2,500	$2,326	-7.0%
GA	104	$912	$1,110	$1,152	$1,157	0.5%
ID	32	$148	$142	$137	$135	-1.3%
IN	107	$779	$938	$914	$855	-6.4%
KS	107	$170	$164	$169	$168	-0.4%
LA	79	$388	$372	$392	$487	24.2%
ME	30	$146	$155	$164	$160	-2.7%
MO	80	$676	$694	$731	$712	-2.7%
MS	69	$347	$364	$341	$291	-14.7%
MT	41	$94	$95	$102	$107	5.4%
NC	81	$964	$1,039	$1,018	$1,016	-0.2%
NE	72	$137	$132	$153	$155	1.2%
OK	82	$364	$357	$364	$350	-3.8%
PA	122	$511	$590	$595	$545	-8.3%
SC	52	$588	$593	$614	$605	-1.5%
SD	37	$78	$89	$94	$91	-2.8%
TN	81	$508	$573	$555	$497	-10.4%
TX	264	$2,843	$2,964	$3,100	$3,076	-0.8%
UT	37	$162	$169	$171	$155	-8.9%
VA	63	$668	$639	$658	$676	2.7%
WI	93	$310	$313	$358	$303	-15.2%
WY	18	$97	$81	$84	$77	-8.6%
Total	**3,578**	**$29,264**	**$30,454**	**$29,884**	**$25,408**	**-15.0%**

Source: CHRT Analysis of Medicare Hospital Cost Reports

* Medicaid expansion began in Michigan on 4/1/2014 and in New Hampshire on 8/15/2014

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