WASHINGTON STATE HEALTH SERVICES RESEARCH PROJECT

Hospital Uncompensated Care and Medicaid Shortfall Following Affordable Care Act

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Background

About 78% of hospitals in the US operate as non-profit organizations (1). These hospitals are granted tax-exempt status in recognition of the benefit they provide to the community in which they are located. Primarily, hospital community benefit has been rendered in the form of charity care – free or reduced cost medical care for people who are unable to afford it. The Affordable Care Act (ACA) included provisions to increase transparency and accountability of hospital community benefit. Though it did not establish specific minimum standards, part of the intent of the ACA was that, as more of the population gained health insurance, hospitals would reinvest their savings in charity care into investments in community based prevention. However, national data suggest that this has not yet happened, as savings in charity care have been offset by increased shortfall associated with low Medicaid reimbursement (1) (2) (3) (4). In this report, we examine trends in hospital charity care, bad debt (unrecovered charges that do not qualify as charity care) and Medicaid shortfall in Washington state from 2007 – 2017, and consider possible impacts of the ACA. Mirroring the national trend, charity care and bad debt declined following implementation of the ACA, but increased Medicaid shortfall soon eliminated any net savings to hospitals.

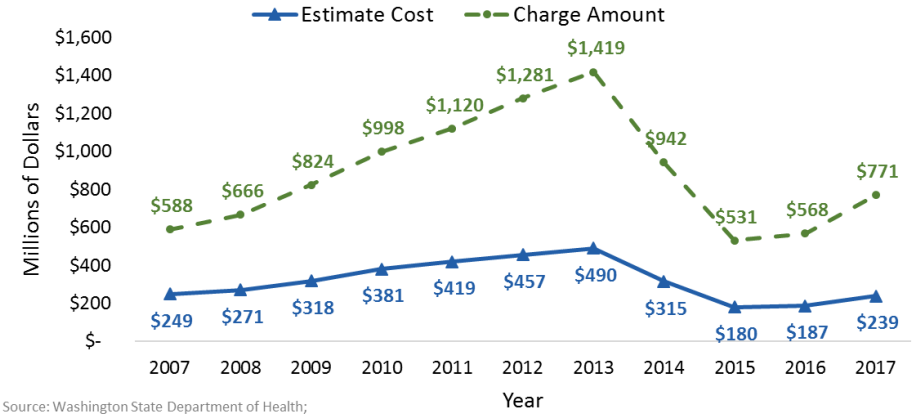
In Washington state, hospitals cannot deny patients access to care based on inability to pay, nor adopt admission policies that significantly reduce charity care (RCW 70.170). Charity care is defined to be "medically necessary hospital health care rendered to indigent persons when third-party coverage, if any, has been exhausted, to the extent that the persons are unable to pay for the care or to pay deductibles or coinsurance amounts required by a third-party payer." (5) Hospitals must maintain a charity care policy that ensures access to appropriate medical services for indigent patients, defined by WAC 264-453-040 to be persons with family income below 200% of the federal poverty level. Hospitals submit financial data regarding charity care to the Washington State Department of Health. Hospitals report total billed charges, and the amount written off as charity care, as well as bad debt – failure to pay by patients not classified as charity care. The Department of Health produces annual publicly available reports to the Legislature summarizing charity care in Washington state (5).

Results and Discussion

In this report, we present charity care charges for acute care hospitals as reported by Washington State Department of Health (5). Because billed charges are typically higher than the amount hospitals actually receive from insurance, we also present estimated cost based on hospital cost-to-charge ratios produced by the Healthcare Cost and Utilization Project (HCUP) (6). Charity care in Washington state increased rapidly from $249 million estimated cost ($588 million billed charges) in 2007 to $490 million estimated cost ($1.4 billion billed charges) in 2013 – a nearly 200% increase in six years. Following the implementation in 2014 of key provisions of the ACA – the individual mandate, Medicaid expansion, and the creation of health benefit exchanges – charity care cost decreased substantially to $180 million estimated cost ($531 million billed charges) by 2015.

Charity care comprised nearly 3% of total hospital costs in 2013, declining to under 1% in 2015 and 2016. There are signs that charity care may be trending back up again, with $239 million in estimated cost ($771 million billed charges) in 2017. In 2017, charity care amounted to 1.2% of total cost (Figure 1, Table 1).

Figure 1. Charity care in Washington State 2007-2017
Total charges and Estimated Cost Based on Cost-to-Charge Ratio

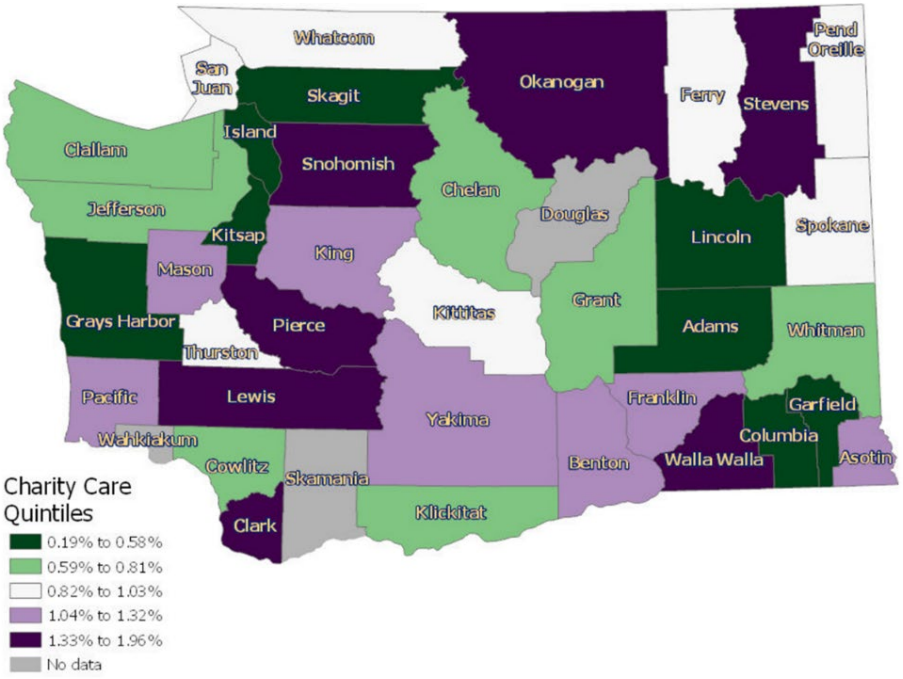


Source: Washington State Department of Health; Health Care Utilization Project Cost-toCharge Ratios

In 2018, the uninsured population in Washington state increased for the first time since 2014, from 5.5% in 2017 to 6.2% in 2018 (3). Effective January 1, 2019, Congress removed the fiscal penalty for lack of health insurance, effectively eliminating the individual mandate. Ongoing economic impact of the COVID-19 epidemic is also impacting uninsured rates as laid-off workers lose employer-based insurance. The full impact of these and other changes are still uncertain, but we are likely to see further increase in the uninsured population together with rising charity care costs.

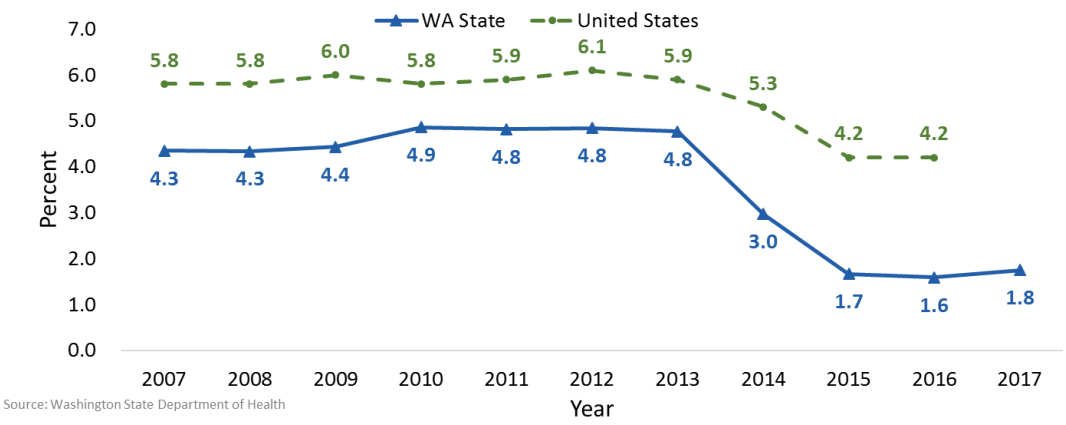
Charity care costs vary widely among hospitals, ranging from 0 – 7% of total billed charges in 2017. Variation in charity care among hospitals is reflected by geographic variation across Washington state (Figure 2). In 2017, charity care as a percentage of total cost was highest in Lewis, Pierce, Clark, Snohomish, Okanogan, Stevens and Walla Walla counties, and lowest in Grays Harbor, Kitsap, Island, Skagit, Lincoln, Adams, Columbia and Garfield counties. Charity care could not be determined for Wahkiakum, Skamania and Douglas counties (Figure 2, Table 2).

Figure 2. Charity care as percent of total estimated cost in Washington State, 2017
Displaying Quintiles by County



The second component of uncompensated care is bad debt. Bad debt consists of unrecoverable charges incurred by patients who are not classified as charity care. Bad debt follows a similar trend as charity care, increasing through 2013, then declining following implementation of the ACA. Bad debt continued to decline in 2017, while charity care increased in that year. Combining bad debt with charity care, total uncompensated care cost reached a maximum of $815 million in 2013, and a minimum of $321 million in 2016 (Table 1). Uncompensated care increased slightly in 2017 to $339 million. Uncompensated care as a percentage of total cost in Washington state is lower than the national percentage (Figure 3).

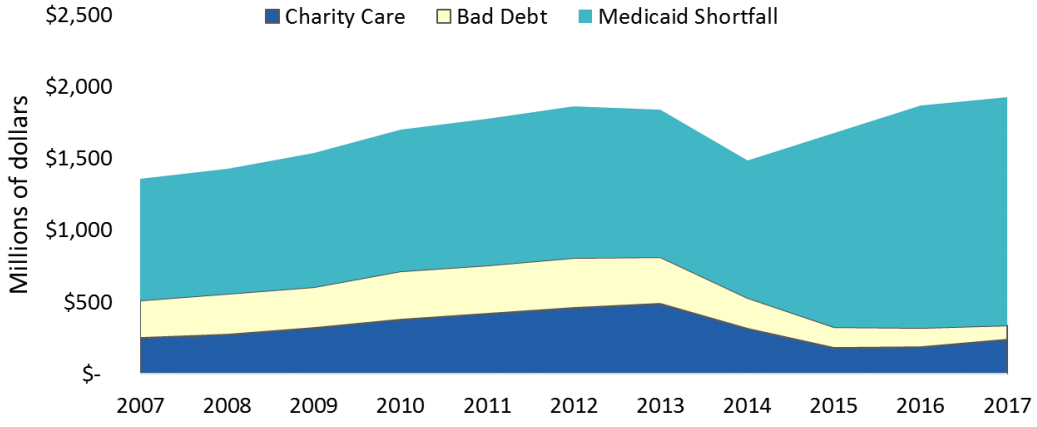
Figure 3. Uncompensated care as percentage of total cost,
Washington state and the United States



The third component to be considered is the shortfall due to lower payment rates from Medicaid compared with other payers. Though not explicitly considered as community benefit, Medicaid shortfall, together with charity care and bad debt, is reported to the Internal Revenue Service by non-profit hospitals, and significantly constrains the a hospital's capacity to provide community benefit. One of the aims of the ACA was to encourage hospitals to invest the savings from reduced uncompensated care into community-directed prevention efforts. Nationally, however, direct community spending has changed little, as reduction in uncompensated care was accompanied by increases in Medicaid shortfall (1) (2) (3) (4).

To assess Medicaid shortfall in Washington state, we calculated average cost-to-charge ratios for Medicaid inpatient claims in the Washington All-Payer Claims Database, and applied them to the total Medicaid billed charges as reported to the Department of Health. We compared the resulting estimated cost using Medicaid specific cost-to-charge ratios with the estimated cost using the HCUP hospital cost-to-charge ratios (Table 2). Estimated Medicaid shortfall cost increased steadily from 2007-2013. After a brief dip in 2014, Medicaid shortfall cost quickly rebounded to well above its pre-ACA level. The total cost of uncompensated care plus Medicaid shortfall rebounded to above pre-ACA levels by 2016 (Figure 4, Table 3).

Figure 4. Total ACA Impact in Washington State, 2007-2017
Estimated Cost of Charity Care, Bad Debt and Medicaid Shortfall



Source: Washington State Department of Health; Health Care Utilization Project Cost-to-Charge Ratios; Washington All-Payer Claims Data

Taken together, our results indicate that, while the ACA has changed the relative proportions of charity care, bad debt and Medicaid shortfall, it has not reduced the net financial liability for hospitals in Washington state.

References

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(2) Stoecker, C., M. Demsthenidy, Y. Shao, and H Long. Association of Nonprofit Hospitals' Charitable Activities With Unreimbursed Medicaid Care After Medicaid Expansion. JAMA Network Open.2020;3(2):e200012. doi:10.1001/jamanetworkopen.2020.0012

(3) K. H. Chaiyachati, Qi, M., and Werner, R. M. Non-profit hospital community benefit spending based on local sociodemographics. J Health Care Poor Underserved. 2018 ; 29(4): 1259–1268. doi:10.1353/hpu.2018.0093

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(5) Department of Health, "2017 Charity Care in Washington Hospitals" Pub #346-084 https://www.doh.wa.gov/DataandStatisticalReports/HealthcareinWashington/HospitalandPatientData/HospitalPatientInformationandCharityCare/CharityCareinWashingtonHospitals

(6) Healthcare Cost and Utilization Project (HCUP) Cost-to-Charge Ratio https://www.hcup-us.ahrq.gov/db/state/costtocharge.jsp

(7) Yen, W. and T. Mounts. Washington State's Uninsured Rate Increased Significantly in 2018 for the First Time Since 2014. Washington State Office of Financial Management, Research Brief N0. 95, December 2019.

Appendix

Table 1. Components of Uncompensated Care in Washington State, 2001-2017l

Year	Total billed charges	Total estimated cost*	Charity care billed charges	Charity care Estimated cost*	Bad debt billed charges	Bad debt Estimated cost**	Uncompensated care estimated cost
2007	27,189,500,262	11,424,540,246	588,484,448	249,178,390	629,817,779	264,638,132	513,816,522
2008	30,591,471,858	12,561,475,509	665,589,952	271,285,275	695,657,552	285,651,025	556,936,300
2009	34,821,810,171	13,392,574,002	824,227,527	317,692,939	751,167,471	288,901,292	606,594,231
2010	38,051,880,096	14,407,180,417	998,285,793	380,995,113	882,455,547	334,114,799	715,109,912
2011	41,051,889,975	15,383,264,502	1,120,484,699	419,274,825	889,289,103	333,240,918	752,515,743
2012	44,563,231,188	16,554,994,772	1,280,625,235	456,649,709	947,332,934	351,928,964	808,578,673
2013	48,339,413,347	16,978,099,699	1,419,203,354	490,334,054	924,508,845	324,712,326	815,046,381
2014	51,768,273,112	17,082,823,970	942,378,653	314,725,023	644,260,796	212,597,275	527,322,298
2015	56,486,491,794	18,909,609,305	530,682,582	180,162,819	437,247,659	146,374,507	326,537,326
2016	61,661,271,199	20,014,602,672	567,607,801	187,056,865	411,623,938	133,608,818	320,665,683
2017	65,170,743,995	20,483,021,903	770,745,647	238,598,171	318,899,748	100,229,491	338,827,662

* Cost-to-charge ratios applied at the hospital level.
** Hospital level bad debt data not available. Overall cost-to-charge ratios for the state were applied to total bad debt charges.

Table 2. Charity Care as Percent of Total Estimated Cost by County in Washington State, 2017

County	Charity care - percent total cost	County	Charity care - percent total cost	County	Charity care - percent total cost
Adams	0.41	Grays Harbor	0.32	Pierce	1.40
Asotin	1.22	Island	0.24	San Juan	0.93
Benton	1.24	Jefferson	0.69	Skagit	0.45
Chelan	0.72	King	1.26	Skamania	--
Clallam	0.78	Kitsap	0.58	Snohomish	1.49
Clark	1.48	Kittitas	0.84	Spokane	0.85
Columbia	0.32	Klickitat	0.60	Stevens	1.56
Cowlitz	0.81	Lewis	1.66	Thurston	1.03
Douglas	--	Lincoln	0.37	Wahkiakum	--
Ferry	1.02	Mason	1.33	Walla Walla	1.38
Franklin	1.29	Okanogan	1.87	Whatcom	0.96
Garfield	0.19	Pacific	1.15	Whitman	0.57
Grant	0.80	Pend Oreille	1.03	Yakima	1.18

Table 3. Estimated Medicaid Shortfall in Washington State, 2007-2017

Year	Medicaid Billed Charges	Overall Cost -to-Charge Ratio (HCUP)	Medicaid Cost-to-Charge Ratio (WA-APCD)*	Estimated Shortfall	Uncompensated Care + Medicaid Shortfall
2007	4,221,913,025	0.4202	0.2196	846,840,014	1,360,656,537
2008	4,570,070,929	0.4106	0.2196	872,975,746	1,429,912,046
2009	5,642,765,744	0.3846	0.2196	931,073,494	1,537,667,725
2010	6,196,593,350	0.3786	0.2196	985,378,623	1,700,488,535
2011	6,607,721,094	0.3747	0.2196	1,025,038,031	1,777,553,774
2012	6,958,855,464	0.3715	0.2196	1,057,011,791	1,865,590,463
2013	7,774,579,601	0.3512	0.2196	1,023,343,394	1,838,389,774
2014	10,102,715,600	0.3300	0.2351	958,609,902	1,485,932,200
2015	11,978,270,104	0.3348	0.2220	1,350,710,306	1,677,247,631
2016	13,081,984,142	0.3246	0.2062	1,548,769,876	1,869,435,560
2017	13,683,543,541	0.3143	0.1984	1,585,892,685	1,924,720,347

* Average Medicaid cost-to-charge ratio from 2014-2017 was used for all years prior to 2014.