



Executive Summary

Charity Care at Missouri Hospitals: 2004 to 2006

Introduction

In 2005, the Missouri legislature approved significant cuts to the state's Medicaid program. More Missouri families joined the ranks of the uninsured in 2006. The percentage of uninsured increased from 13.6 percent in 2004 to 15.3 percent in 2006, primarily from the loss of Medicaid and State Children's Health Insurance Program (SCHIP) coverage and to a lesser extent from the loss of employer-sponsored coverage. The percentage of uninsured in low income families increased the most from 25.3 percent in 2004 to 28.2 percent in 2006.

While many studies have examined the effect of the 2005 Medicaid cuts on the newly uninsured, there has been little research on how this loss of coverage impacted hospitals. This report from a multi-year study examines whether hospitals suffered an increased financial burden, how hospital utilization patterns changed, and the ability of one hospital to meet the challenge with an innovative strategy to improve service to the uninsured in its area.

Rising Charity Care, Bad Debt

Charity care at study hospitals increased from \$73.8 million in 2005 to \$113.8 million in 2006. Aggregate hospital charity care accounted for 1.3 percent of total operating revenue in 2006, up from 0.9 percent in 2005. Charity care has grown steadily since 2004. Variation was dramatic across hospitals and some, but not all of the variation, could be explained by racial and income disparities in hospital service areas. About 44 percent of the hospitals provided charity care as a percentage of operating revenue in the low range, from 0 to 1 percent. About 46 percent of hospitals provided charity care in the mid-range, from 1 to 2 percent. Only 10 percent provided charity care in the highest range, at or above 2 percent of operating revenue. Clearly, the charity care burden is not spread equally within regions or across the state.

Bad debt expense at study hospitals jumped in 2006 to \$219 million, up from \$163.8 million the prior year. Hospital bad debt expense accounted for 2.5 percent of operating revenue, up from 2 percent in 2005. Since 2004, bad debt has grown, and overall, continues to outpace reported charity care by more than 50 percent. Interestingly, hospitals reporting the lowest charity care, reported high and rising amounts of bad debt. Designating services as bad debt rather than charity care previously gave hospitals the opportunity to collect on past due accounts or sell them to a financial services company.

Reporting Policies in Transition

Recent controversy over non-profit hospitals' tax-exempt status has resulted in revised charity care and bad debt policies, especially for large urban hospitals. Many now utilize better methods to determine upon admission if a patient qualifies for charity care. At the same time, some hospitals have adopted more conservative bad debt classification methods or moved expenses initially accounted for as bad debt to charity care. Since policies and practices related to charity care and bad debt are in flux, it is difficult to evaluate the significance of large, year-to-year changes. Variation in reporting is expected to diminish in 2009 when non-profit hospitals transition to new Internal Revenue Service guidelines for community benefit reporting.

Hospital Utilization Patterns Change

More patients sought care in the emergency department (ED) in Missouri in 2006, an increase of 7 percent from 2004. The insured used the ED the most at 36 percent, followed by Medicaid at 28 percent, the uninsured at 16 percent, and Medicare at 15 percent in 2006. Uninsured ED visits sustained the largest increase (28 %) of any group during the period. The change in overall hospital discharges was relatively flat for all payors during the period with the exception of the uninsured that increased 23 percent. On average, uninsured discharges represented only a small portion (5%) of all discharges at Missouri hospitals in 2006.¹ Patients had more than twice as many urgent (non-emergent) care visits to the ED as compared to emergent care visits for study hospitals during the most recent years available, 2005 and 2006. Medicaid urgent and emergent ED use fell slightly in 2006 while uninsured use of the same services increased.

The Haves, The Have Nots

Aggregate financial results for study hospitals from 2004 to 2006 were relatively stable. Although average operating and profit margins dipped slightly in 2005, they recovered in 2006 to about the same level as 2004, and generally outperformed Missouri and national averages.² Urban hospitals typically fared better than rural hospitals. Though most were profitable, charity care and bad debt increases from 2004 to 2006 contributed to a rise in expenses that resulted in serious financial pressure for certain hospitals and regions.

Audrain Medical Center in Audrain County was profoundly affected by the loss of a large local employer in the last 10 years. The 2005 Medicaid cuts caused further sharp increases in uncompensated care. Despite these challenges, Audrain has made significant long-term investments to better cope with the increase in the number of uninsured seeking care.

This study sheds more light on the effects of the 2005 Medicaid cuts on the level of uncompensated care at study hospitals from 2004 to 2006. During the period, uncompensated care rose and remained unevenly distributed. Yet, on average, Missouri hospitals' uncompensated care burdens were relatively low. Meanwhile, hospital policies related to classifying uncompensated care were in transition. Most of the hospitals were financially stable through 2006. Increases in uncompensated care from lower Medicaid enrollment and the weakening economy are expected to put more financial pressure on hospitals in 2007 and 2008.

Findings

- Hospitals provided more uncompensated care, as defined by charity care and bad debt, following the Medicaid cuts. However, for most hospitals, this increase did not significantly jeopardize the institution's overall financial health.
- Hospital utilization patterns changed with more patients seeking care from the emergency department. While this increase in emergency department usage was most pronounced among the uninsured, it occurred across payors.
- For a few Missouri hospitals, many of which already faced high levels of charity care and bad debt, the Medicaid cuts resulted in significant financial hardship.

Endnotes

1. S. Zuckerman, D.M. Miller, E.S. Pape, "Missouri's 2005 Medicaid Cuts: How Did They Affect Providers?," *Health Affairs*, 28, no. 2 (2009): w335 – w345 (published online 18 February 2009; 10.1377/hlthaff.2.w335).
2. Average operating margins for Missouri hospitals were obtained from the following report: "Analyzing the Impact of the 2005 Medicaid Changes on the Financial and Service Health of Missouri Hospitals," Missouri Foundation for Health, 2009. Source for Missouri hospitals average profit margins: Missouri Department of Health and Senior Services (DHSS) and Missouri Hospital Association (MHA). Profit margins exclude Government, Psychiatric, and Rehabilitation hospitals.