

South Dakota Community Hospital Cost-Based Uncompensated Care 1995-2005

<u>Year</u>	<u>Number of Hospitals</u>	<u>Cost-Based Bad Debt</u>	<u>Cost-Based Charity</u>	<u>Total Cost-Based Uncompensated Care</u>	<u>Total Expense</u>
1995	50	\$11,956,240	\$6,973,885	\$18,930,125	\$743,643,421
1996	49	\$12,371,356	\$6,898,945	\$19,270,302	\$793,001,666
1997	49	\$14,949,022	\$6,565,288	\$21,514,310	\$847,774,854
1998	49	\$15,520,498	\$7,466,541	\$22,987,039	\$923,990,512
1999	48	\$16,988,864	\$7,912,385	\$24,901,249	\$942,471,403
2000	48	\$18,223,446	\$8,923,964	\$27,147,410	\$1,058,129,155
2001	50	\$19,929,573	\$9,303,490	\$29,233,063	\$1,106,276,599
2002	51	\$24,585,710	\$8,533,056	\$33,118,766	\$1,195,193,697
2003	50	\$26,489,425	\$12,810,432	\$39,299,857	\$1,340,422,400
2004	51	\$28,670,755	\$13,674,707	\$42,345,462	\$1,439,580,152
2005	52	\$30,814,997	\$19,092,412	\$49,907,409	\$1,537,687,771
% change 1995-2005		157.7%	173.8%	163.6%	106.8%

SOURCE: Health Forum, AHA Annual Survey of Hospitals 1995-2005

Totals are for South Dakota registered community hospitals and include both reported and estimated data.

Uncompensated care is the estimated cost of bad debt and charity care to the hospital. This figure is calculated for each hospital by multiplying uncompensated care charge data by the ratio of total expenses to gross patient and other operating revenue.

The uncompensated care figure does not include Medicaid or Medicare underpayment costs, or other contractual allowances.



American Hospital Association

AMERICAN HOSPITAL ASSOCIATION UNCOMPENSATED HOSPITAL CARE COST FACT SHEET

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Each year, the American Hospital Association (AHA) publishes aggregate information on the level of uncompensated care delivered in U.S. hospitals. The data used to generate these numbers come from the AHA's Annual Survey of Hospitals, which is the nation's single most comprehensive source of hospital financial data. This fact sheet provides the definition of uncompensated care and technical information on how this figure is calculated on a cost basis. It also describes how the American Institute of Certified Public Accountants (AICPA) accounting changes to bad debt and free care are currently handled in the Survey to ensure continuity of uncompensated care numbers.

Please note, this information includes only two components within the universe of benefits that hospitals provide to their communities. In a separate fact sheet, AHA has calculated the cost of underpayment by Medicare and Medicaid. While these two fact sheets contain important information, they do not account for the many other services and programs that hospitals provide at little or no cost to their communities or for those benefits that cannot adequately be quantified.

DEFINING UNCOMPENSATED CARE COSTS

What is Uncompensated Care?

Uncompensated care is an overall measure of hospital care provided for which no payment was received from the patient or insurer. It is the sum of a hospital's "bad debt" and the charity care it provides. Charity care is care for which hospitals never expected to be reimbursed. A hospital incurs bad debt when it cannot obtain reimbursement for care provided. This happens when patients are unable to pay their bills, but did not apply for charity care, or are unwilling to pay their bills. Uncompensated care excludes other unfunded costs of care, such as underpayment from Medicaid and Medicare.

Bad Debt and Charity Care

AHA combines the hospital's bad debt and charity care costs to arrive at the hospital's total costs of unreimbursed care provided to the medically indigent and underinsured. In terms of accounting, **bad debt** consists of services for which hospitals anticipated but did not receive payment. **Charity care**, in contrast, consists of services for which hospitals neither received, nor expected to receive, payment because they had determined the patient's inability to pay. In practice, however, hospitals have difficulty in distinguishing bad debt from charity care.

Hospitals provide varying levels of charity care, which must be budgeted for and financed by the hospital depending on the hospital's mission, financial condition, and other factors. Hospitals typically use a process to identify who can and cannot afford to pay, in advance of billing, in order to anticipate whether the patient's care needs to be funded through an alternative source, such as a charity care fund. Hospitals also identify patients who are unable to pay during the billing and collection process. Depending on a variety of factors, including whether a patient self-identifies as medically indigent or underinsured in a timely manner, care may be classified as either charity care or bad debt. Bad debt is often generated by the medically indigent and uninsured, making the distinctions between the two categories arbitrary at best. Therefore, it is reasonable to consider bad debt as a component of hospitals' total cost of care to the medically indigent and underinsured.

Generally, uncompensated care data are expressed in terms of hospital charges, but charge data can be misleading, particularly when comparisons are being made among types of hospitals, or hospitals with very different payer mixes. **For this reason, AHA data on hospitals' uncompensated care are expressed in terms of costs.** It should be noted that the uncompensated care figures do not include Medicaid or Medicare underpayment costs.

CALCULATING UNCOMPENSATED CARE COSTS

Uncompensated care is first calculated on a hospital by hospital basis. Bad debt and charity care are reported as charges in the Annual Survey. These two numbers are added together and then multiplied by the hospital's cost to charge ratio, or the ratio of total expenses to gross patient and other operating revenue.

- $\text{Bad Debt charges} + \text{charity care charges} = \text{uncompensated care charges}$
- $\frac{\text{Total expenses exclusive of bad debt}}{\text{Gross patient revenue} + \text{other operating revenue}} = \text{cost-to-charge ratio}$
- $\text{Uncompensated care charges} \times \text{cost-to-charge ratio} = \text{uncompensated care costs}$

Combining bad debt and charity care to arrive at the hospital's total uncompensated care value allows for comparability across hospitals. While the 1990 (AICPA) accounting changes used to classify these costs (described below) result in some shifting between bad debt and charity care, they are not expected to influence the total reported cost of uncompensated care. The total reported national uncompensated care cost value is calculated by summing the individual uncompensated care cost values across all hospitals.

AICPA CHANGES AND THE ANNUAL SURVEY

In 1990, the American Institute of Certified Public Accounts made important changes to its Audit and Accounting Guide, which impact bad debt and charity care. The Guide is the industry standard for health care financial reporting and audits.

Prior to 1990, hospitals reported both bad debt and charity care as deductions from revenue. The new rules require different reporting of the two items. For purposes of external financial statements, charity care is no longer a reported item. Hospitals must now report only net revenue. It is presumed that hospitals will continue to internally account for charity care as a deduction from gross revenue. Bad debt, in contrast, must be reported as an expense item (it may be either separately reported or reported with administrative services or other adjustments) and is no longer deducted from gross revenue. The AHA uncompensated care data is processed to assure its comparability to data presented before the 1990 AICPA changes.

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