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Since 1995, uncompensated care provided by Tennessee hospitals has increased by 118% to over \$1 billion. Not-for-profit and municipal hospitals provide a disproportionately large share of uncompensated care in relation to their overall market share. Changes in the number of uninsured can be expected to substantially increase the volume of uncompensated care, resulting in increased burdens on both hospitals and governments.

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**UNCOMPENSATED CARE IN TENNESSEE HOSPITALS:
HOW MUCH AND WHO PROVIDES IT?**

Citizens without health insurance utilize health care services but do not have insurance coverage to pay for them. Because many of these patients do not have adequate resources to pay for the care they receive, most of the care provided to these persons is uncompensated, that is, provided without direct payment. Studies suggest that approximately 60% of the care received by persons without insurance is uncompensated care (1).

Although the uninsured do not pay for most of the care they receive, someone does pay for these services. Approximately 65% of total uncompensated care is paid for by hospitals, although as much as 80-85% of uncompensated costs are indirectly provided by a complex maze of governmental grants and special programs aimed at providing funds for the poor and uninsured (1).

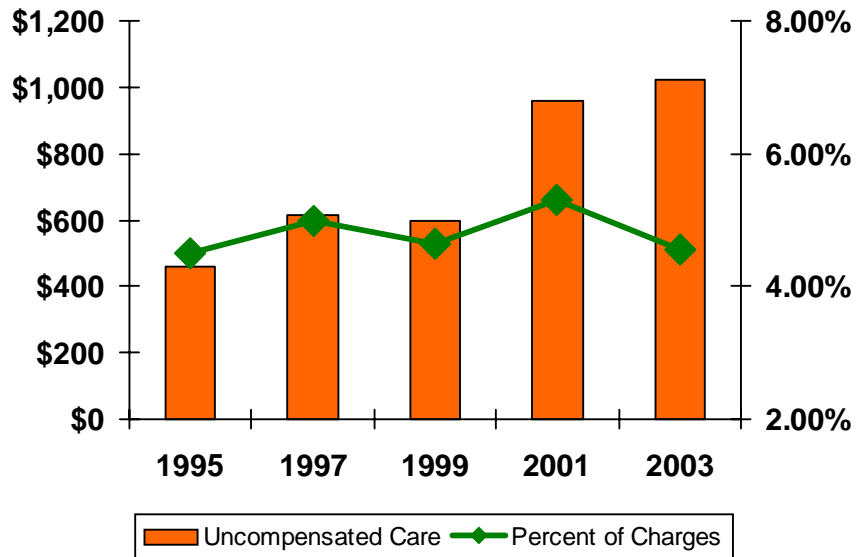
This study was undertaken to assess the level of uncompensated care in Tennessee. These data are important because of their impact on the private health care system as well as on governmental healthcare budgets. Also, changes in public policy, including changes that impact insurance coverage, can have substantial impacts on the amount of uncompensated care. The two specific aims were to identify trends in uncompensated care over the past decade and to assess the contribution of various hospital types to the overall uncompensated care load in Tennessee.

How Was The Study Conducted? Only uncompensated care provided by nonfederal general medical and surgical (GMS) hospitals was evaluated. Hospitals in Tennessee are required to report financial data including patient care charges and revenues and estimated values of charity care, bad debt and indigent care provided without charge. Data are compiled by the Tennessee Department of Health as the Joint Annual Report of Hospitals (JAR). Data for this *Special Bulletin* were abstracted from the JARs for 1995 through 2003. Total uncompensated care was computed as the sum of charity care, bad debt and indigent care.

What Were The Results? The total amount of uncompensated care provided by Tennessee GMS hospitals is shown in Figure 1, left axis. The total amount of uncompensated care increased from \$462.1 million in 1995 to \$1.0 billion in 2003, an overall increase of 118% and an average annual increase of 10.1% per year.

The amount of uncompensated care may be expressed as the percent of total patient charges to reflect the proportion of total patient care that is uncompensated. As shown on the right axis of Figure 1, this proportion varied little over the study period, averaging approximately 4.8%, indicating that hospitals provided a relatively stable proportion of their total services as uncompensated care.

Figure 1: Trends in uncompensated care reported by Tennessee hospitals from 1995 through 2003. The left axis represents total uncompensated care (in thousands of dollars) and the right axis represents total uncompensated care as a percent of total patient charges.



GMS hospitals were subdivided based on inclusion in a hospital network, by for-profit vs. not-for-profit status and by type of ownership (municipal, church, corporate or other not-for-profit). The amount of uncompensated care provided by each subset is shown in Figure 2 and the proportions of total uncompensated care provided by hospitals by ownership type are depicted in Figure 3. The findings indicate the following:

- Not-for-profit hospitals provided the largest proportion of uncompensated care of all hospital types (Figure 3). They provided 4.25 times as much uncompensated care as did for-profit ones.
- Nonmunicipal (other) not-for-profit hospitals provided more uncompensated care than did hospitals with municipal, corporate or church governance (Figure 2).
- Municipal hospitals contributed the largest proportion of their total patient care services (6.0%) as uncompensated care, as measured by the percent of total patient charges (Figure 4).
- Hospitals that were part of networks contributed a smaller amount and a lower proportion of overall services as uncompensated care than did those that were not part of networks.

The disproportionate contribution of municipal hospitals to overall uncompensated care is also seen in Figure 5.

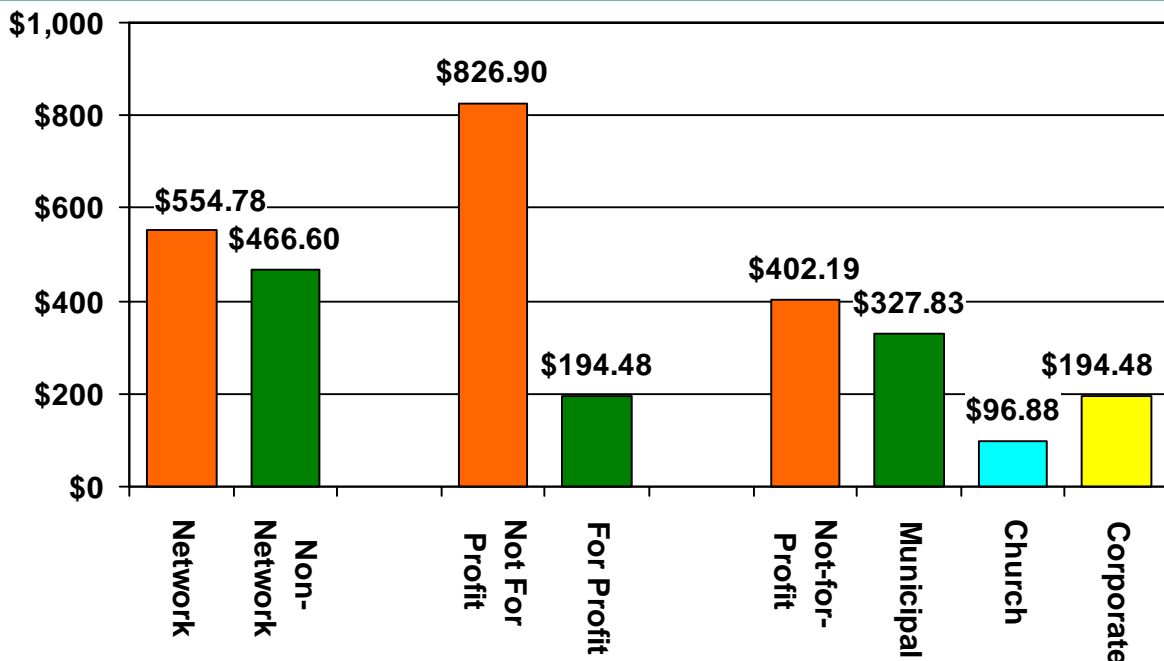


Figure 2: Uncompensated care by hospital type in 2003 (in thousands of dollars).

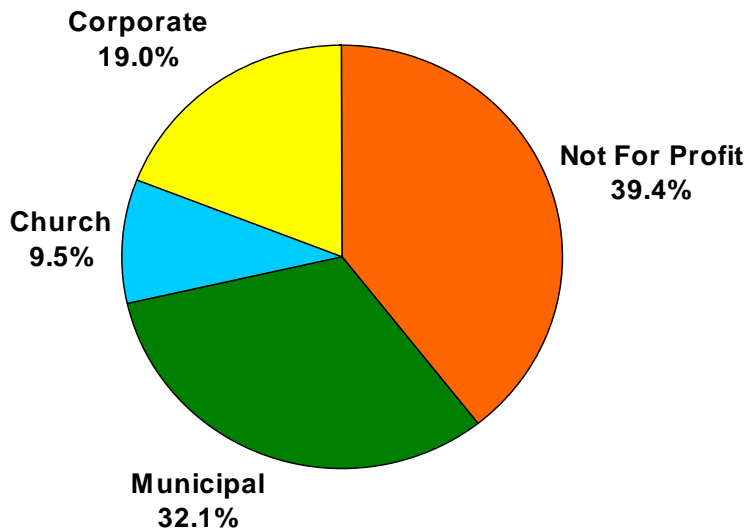


Figure 3: Proportion of all uncompensated care provided by not-for-profit, municipal, church and corporate hospitals in 2003.

Municipal hospitals accounted for only 17.3% of overall patient charges in the state but contributed almost one-third (32.1%) of all uncompensated care. For all other hospital types, the proportion of statewide uncompensated care they provided was smaller than their proportion of total patient care charges.

What Do These Results Suggest?

These data indicate that uncompensated care in Tennessee has increased substantially in absolute volume over the past decade but reflects a relatively stable proportion of overall hospital charges (Figure 1). The largest proportion of uncompensated care is provided by not-for-profit hospitals, while municipal hospitals shoulder a disproportionately large proportion of the burden in comparison to their overall market share (Figures 2-5). These findings should be interpreted in the context of the many confounding issues, including variations in charge structures and aggressiveness of billing, that may alter the relationships among hospital groups.

Because uncompensated care is linked to the number of persons without health insurance, any change in public policy that impacts insurance coverage will have a direct impact on uncompensated care. Based on calculations published by Jack Hadley, John Holahan and associates of the Urban Institute (1), the uninsured utilize approximately 50% of the health care resources as do the insured (\$2592 person in 2004), 60% of that care is uncompensated and 65% of uncompensated care is borne by hospitals. Thus, an increase in the number of uninsured

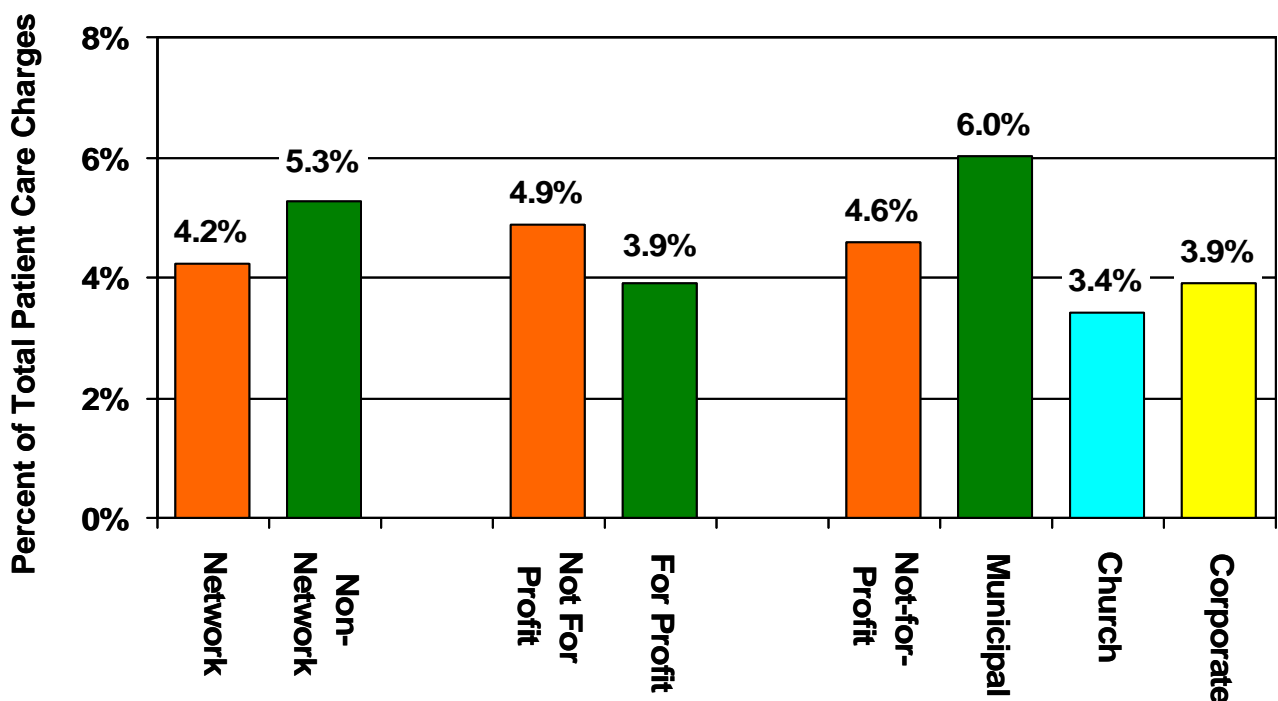
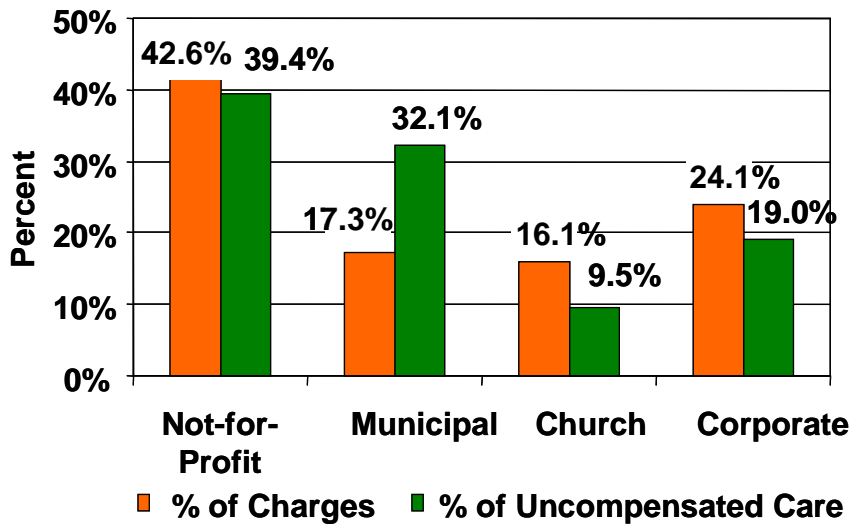


Figure 4: Uncompensated care as percent of total patient charges in 2003, by hospital type.

Figure 5: Percent of all patient charges collected by (orange bars) and of uncompensated care provided by (green bars) Tennessee hospitals by type of ownership.



by 100,000 would be expected to increase the volume of total uncompensated care by hospitals, if no other change in healthcare financing occurred, by \$10.1 million. Governmental sources might provide some of these additional funds, although the relation between the number of uninsured and the uncompensated costs they generate and the level of governmental funding, especially federal and state sources, for their care is very indirect. Thus, most of the increased costs would be borne by hospitals, especially not-for-profit and municipal hospitals and, secondarily, on local governments. These estimates, although rough, do illustrate the impact of changes in insurance coverage on overall health system finances.

1. Hadley J, Holahan J: How much medical care do the uninsured use, and who pays for it? Health Affairs Web Exclusive, February 12, 2003.

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and Who Provides It?
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