



Uncompensated Care Costs Expected to Increase More Than 60 Percent

Uncompensated care (UC) is the unreimbursed or uncollectible costs hospitals incur for providing healthcare services to patients who cannot or will not otherwise pay. UC is comprised of charity care and bad debt. In 2010, Arizona’s hospitals provided approximately **\$412 million** in UC. Based on preliminary data provided by Arizona hospitals,¹ the Arizona Hospital and Healthcare Association (AzHHA) estimates UC costs will increase between **\$217 and \$274 million** over the next 12 months—a **61 to 67 percent** increase relative to 2010.

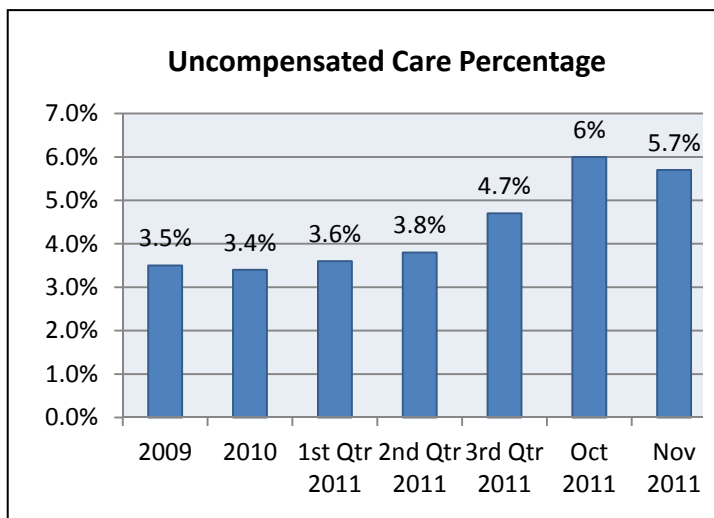


Figure 1

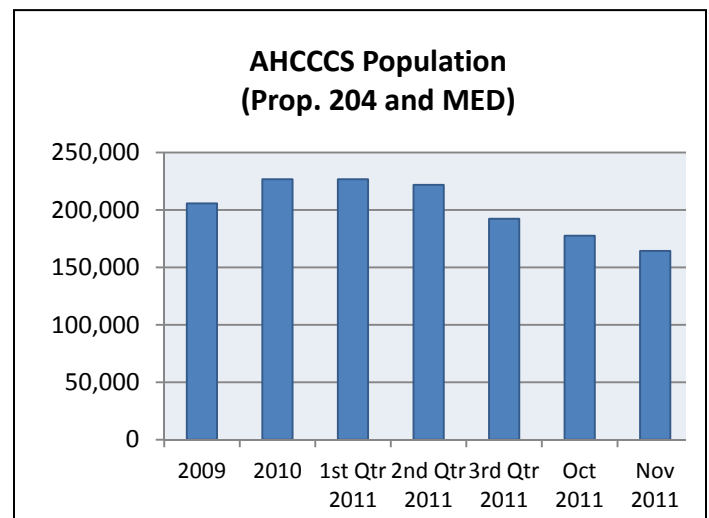


Figure 2

As illustrated in Figure 1, the cost of hospital UC remained fairly steady between 2008 and the second quarter of 2011, ranging from 3.5 to 3.8 percent of charges. UC increased to 4.7 percent during the third quarter of 2011 and then spiked to 6 percent in October—a 71 percent increase in four months. In November, UC flattened out to 5.7 percent, with 90 percent of hospitals reporting an increase in UC. Without any policy changes, AzHHA anticipates UC will continue on this trend line.

The growth in UC has had a direct impact on hospital operating margins. For every dollar increase in UC cost, there is a corresponding dollar decrease in hospital margins. For the month of October, the overall operating margin for Arizona hospitals was *negative* 1.2 percent, with 41 percent of hospitals reporting an operating loss. In November, 48 percent of hospitals reported an operating loss with an overall operating margin of zero. In rural Arizona, where the situation is even grimmer, hospitals reported an average margin of *negative* 4.8 percent. Hospitals cannot sustain these losses and continue to provide medical services for their communities.

¹ Uncompensated care data is compiled from monthly financial surveys of Arizona Hospital and Healthcare Association members. Eighty-six percent of hospitals reported financial data for the month of October; eighty-seven percent reported for November.

As illustrated by Figures 1 and 2, the sharp increase in UC costs corresponds to the enrollment freeze on new childless adults into the Arizona Health Care Cost Containment System (AHCCCS) and the phase-out of the medical expense deduction program, both which were implemented last summer. These changes have resulted in 68,000 fewer individuals qualifying for and enrolling in AHCCCS since July 2011.² As fewer adults qualify for AHCCCS and enrollment drops, hospitals are experiencing a dramatic increase in UC.

Causes of Hospital Uncompensated Care

Arizona hospitals have an ethical and legal duty to care for the sick and injured. The federal **Emergency Medical Treatment and Labor Act (EMTALA)** requires hospitals to screen and treat anyone needing emergency medical treatment regardless of ability to pay. However, the law does not include a reimbursement provision, so hospitals are oftentimes left unreimbursed for care provided to uninsured patients. Even identifying whether a patient has an emergency medical condition can be costly due to necessary diagnostic testing. Without such testing, hospitals may run afoul of EMTALA and be subject to substantial penalties.

The high rate of the uninsured is also a contributing factor to UC in Arizona. A recent report by the U.S. Census Bureau concluded that Arizona has the 5th highest rate of uninsured individuals. Nearly 1.3 million Arizonans—or 20 percent—are living without healthcare coverage. This places a heavy burden on the healthcare delivery system. Without healthcare coverage, the uninsured are likely to:

- seek care in hospital emergency departments, the most expensive healthcare setting in which to deliver care;
- forego preventive care which is important to remaining healthy as well as being cost effective; and
- wait to seek medical care until they are very ill, thus increasing the cost of care.

Underpayments by Government-Sponsored Programs

While technically not a component of uncompensated care, hospitals also experience significant financial losses due to underpayment by government-sponsored programs. AzHHA estimates that Arizona's hospitals are currently paid **67 percent** of the cost of caring for AHCCCS patients. These underpayments, in conjunction with high levels of uncompensated care, can threaten the viability of small rural and other hospitals operating on razor-thin margins. While hospitals with healthy operating margins can absorb a portion of unreimbursed costs, some losses cannot be absorbed and are inevitably passed on to private payors—businesses, commercial health plans and healthcare consumers—in the form of higher health insurance premiums.

AzHHA urges lawmakers to support funding to offset the rising cost of hospital uncompensated care.

² The Arizona Health Care Cost Containment System Population by Category (agency official report)