

Thomas M. Schuhmann



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national trends in uncompensated care and profitability

Despite a 28 percent rise in the average cost of uncompensated care over five years, hospitals have thus far been able to maintain their margins.

AT A GLANCE

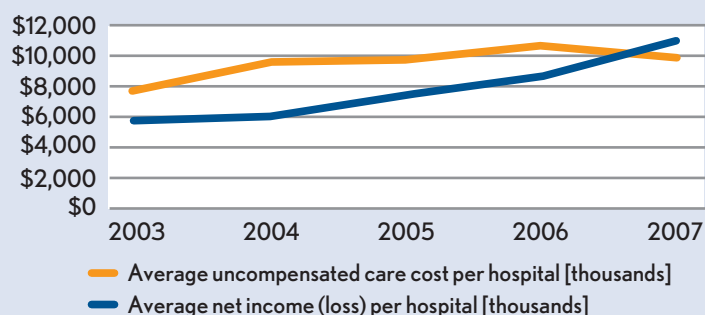
- > The nation's short-term acute care hospitals (STACHs) have reported nearly \$124 billion in uncompensated care costs since federal fiscal year 2003.
- > Although Medicare requires acute care hospitals to report uncompensated care costs, more than 20 percent of Medicare cost reports submitted by STACHs over the past five years have not complied fully with that requirement.
- > Although increased costs of uncompensated care have affected different types of hospitals in different ways, virtually all STACHs have been challenged by these costs.

U.S. hospitals have seen a steady rise in uncompensated care over the past five years. From federal fiscal year (FFY) 2003 through FFY07, short-term acute care hospitals (STACHs) that are subject to the Medicare inpatient prospective payment system (IPPS) reported nearly \$124 billion in uncompensated care costs, while reporting more than \$100 billion in total net income from all activities. The average amount of uncompensated care costs reported per hospital rose steadily from FFY03 (the first year that IPPS hospitals were required to report such costs) to plateau during FFY06 and FFY07. During the same period, the average net income per hospital has also steadily increased. An analysis of Medicare cost report data submitted during this five-year period provides some insight into the forces underlying these trends.

Reporting of Uncompensated Care Required Since April 2003

The Balanced Budget Refinement Act of 1999 (BBRA) mandated that the Centers for Medicare and Medicaid Services (CMS) collect data on

U.S. SHORT-TERM ACUTE CARE HOSPITALS' AVERAGES PER HOSPITAL OF UNCOMPENSATED CARE COSTS AND NET INCOME, 2003-07

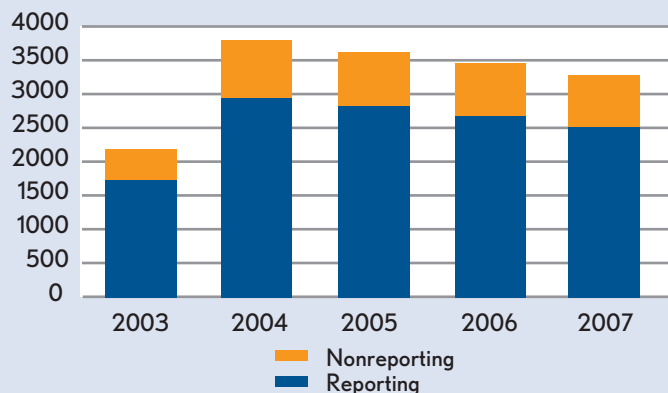


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uncompensated care from all IPPS hospitals. To comply, CMS established the requirement that IPPS hospitals must report uncompensated care costs as part of their Medicare cost report starting with periods ending on or after April 30, 2003. CMS added Worksheet S-10 to the cost report forms for this purpose.

Since April 30, 2003, more than 16,000 cost reports have been filed subject to this requirement. More than 12,000 of these reports complied by reporting uncompensated care costs on Worksheet S-10. More than 3,600 reports, however, were not in compliance, with no uncompensated care cost reported, and more than 20 percent of reporting

COMPARISON OF HOSPITALS REPORTING UNCOMPENSATED CARE COSTS ON WORKSHEET S-10 WITH THOSE NOT REPORTING SUCH COSTS



NET INCOME ANALYSIS BY HOSPITAL TYPE OF CONTROL

	Governmental	For-Profit	Not-For-Profit	Total All Hospitals
Net Income from Patient Care (Dollars in Millions)				
Net Revenue from Patient Care	\$278,768	\$244,111	\$1,323,378	\$1,846,258
Cost of Patient Care—Compensated	\$256,610	\$217,461	\$1,278,707	\$1,752,777
Cost of Patient Care—Uncompensated	\$50,521	\$10,366	\$63,006	\$123,894
Total Patient Care Costs	\$307,131	\$227,827	\$1,341,713	\$1,876,671
Net Income from Patient Care	-\$28,362	\$16,284	-\$18,335	-\$30,413
Net Income from Other Sources (Dollars in Millions)				
Contributions, Donations, Bequests	\$1,424	\$84	\$3,543	\$5,050
Income from Investments	\$3,463	\$335	\$15,990	\$19,788
Government Appropriations	\$16,407	\$218	\$3,936	\$20,561
Other Nonpatient Care Net Income	\$19,242	\$331	\$66,099	\$85,672
Net Income from Other Sources	\$40,536	\$968	\$89,567	\$131,071
Net Income from All Sources (Dollars in Millions)	\$12,173	\$17,252	\$71,232	\$100,658
Net Income from Patient Care (% Net Patient Revenue)				
Net Revenue from Patient Care	100.0%	100.0%	100.0%	100.0%
Cost of Patient Care—Compensated	92.1%	89.1%	96.6%	94.9%
Cost of Patient Care—Uncompensated	18.1%	4.2%	4.8%	6.7%
Total Patient Care Costs	110.2%	93.3%	101.4%	101.6%
Net Income from Patient Care	-10.2%	6.7%	-1.4%	-1.6%
Net Income from Other Sources (% Net Patient Revenue)				
Contributions, Donations, Bequests	0.5%	0.0%	0.3%	0.3%
Income from Investments	1.2%	0.1%	1.2%	1.1%
Government Appropriations	5.9%	0.1%	0.3%	1.1%
Other Nonpatient Care Net Income	6.9%	0.1%	5.0%	4.6%
Net Income from Other Sources	14.5%	0.4%	6.8%	7.1%
Net Income from All Sources (% Net Patient Revenue)	4.4%	7.1%	5.4%	5.5%

hospitals did not complete the worksheet. CMS has not yet implemented an enforcement mechanism to ensure that all hospitals subject to the reporting requirement actually comply.

Focus on Uncompensated Care Costs and Profitability

Despite the high level of noncompliance among hospitals in filing information on uncompensated care, there are sufficient data to study recent trends and variations among types of hospitals. In particular, focused analyses of the cost report data can provide insight into how various categories of hospitals have been able to absorb the costs of uncompensated care and still make an overall profit from all activities. Key categories that warrant a closer analysis are:

- > Type of control (i.e., governmental versus not-for-profit versus for-profit)
- > Urban versus rural
- > Nonteaching versus teaching

Type of Control

Medicare cost report data from FFY03 through FFY07 disclose that governmental hospitals have the highest level of uncompensated care costs (18.1 percent of net revenue from patient care services). In combination with a high level (92.1 percent) of other patient care costs (costs of caring for patients with some level of private insurance or governmental program like Medicaid or Medicare), governmental hospitals also suffered the worst overall net losses from providing patient care (−10.2 percent). These

NET INCOME ANALYSIS, URBAN VERSUS RURAL

	Rural	Urban	Total All Hospitals
Net Income from Patient Care (Dollars in Millions)			
Net Revenue from Patient Care	\$213,418	\$1,632,839	\$1,846,258
Cost of Patient Care—Compensated	\$191,561	\$1,561,216	\$1,752,777
Cost of Patient Care—Uncompensated	\$20,717	\$103,177	\$123,894
Total Patient Care Costs	\$212,278	\$1,664,394	\$1,876,671
Net Income from Patient Care	\$1,141	−\$31,554	−\$30,413
Net Income from Other Sources (Dollars in Millions)			
Contributions, Donations, Bequests	\$562	\$4,489	\$5,050
Income from Investments	\$2,747	\$17,041	\$19,788
Government Appropriations	\$1,302	\$19,259	\$20,561
Other Nonpatient Care Net Income	\$6,562	\$79,109	\$85,672
Net Income from Other Sources	\$11,172	\$119,899	\$131,071
Net Income from All Sources (Dollars in Millions)	\$12,313	\$88,344	\$100,658
Net Income from Patient Care (% Net Patient Revenue)			
Net Revenue from Patient Care	100.0%	100.0%	100.0%
Cost of Patient Care—Compensated	89.8%	95.6%	94.9%
Cost of Patient Care—Uncompensated	9.7%	6.3%	6.7%
Total Patient Care Costs	99.5%	101.9%	101.6%
Net Income from Patient Care	0.5%	−1.9%	−1.6%
Net Income from Other Sources (% Net Patient Revenue)			
Contributions, Donations, Bequests	0.3%	0.3%	0.3%
Income from Investments	1.3%	1.0%	1.1%
Government Appropriations	0.6%	1.2%	1.1%
Other Nonpatient Care Net Income	3.1%	4.8%	4.6%
Net Income from Other Sources	5.2%	7.3%	7.1%
Net Income from All Sources (% Net Patient Revenue)	5.8%	5.4%	5.5%

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hospitals more than made up for such losses, however, through other sources of income, such as government appropriations (5.9 percent) and other nonpatient care activity (6.9 percent). As a result, governmental hospitals enjoyed an overall net income percentage from all sources of 4.4 percent during the period studied.

Not-for-profit hospitals have a much lower percentage of uncompensated care costs (4.8 percent) but a much higher percentage of other patient care costs (96.6 percent), and as a result, they also incurred a loss from patient care services (−1.4 percent). Yet like governmental hospitals, not-for-profit hospitals more than made up for the losses from patient care through nonpatient care activities (overall 6.8 percent). As a result, these hospitals enjoyed a

For-profit hospitals have the highest overall percentages of net income from all sources compared with the other groups studied.

5.4 percent positive net income from all sources during the period studied.

For-profit hospitals have been more successful at controlling their costs related to patient care.

NET INCOME ANALYSIS, NONTEACHING VERSUS TEACHING

	Nonteaching	Teaching	Total All Hospitals
Net Income from Patient Care (Dollars in Millions)			
Net Revenue from Patient Care	\$717,563	\$1,128,694	\$1,846,258
Cost of Patient Care—Compensated	\$670,747	\$1,082,030	\$1,752,777
Cost of Patient Care—Uncompensated	\$33,820	\$90,074	\$123,984
Total Patient Care Costs	\$704,567	\$1,172,104	\$1,876,671
Net Income from Patient Care	\$12,997	−\$43,419	−\$30,413
Net Income from Other Sources (Dollars in Millions)			
Contributions, Donations, Bequests	\$1,818	\$3,233	\$5,050
Income from Investments	\$7,047	\$12,741	\$19,788
Government Appropriations	\$2,210	\$18,350	\$20,561
Other Nonpatient Care Net Income	\$17,370	\$68,301	\$85,672
Net Income from Other Sources	\$28,446	\$102,625	\$131,071
Net Income from All Sources (Dollars in Millions)	\$41,442	\$59,215	\$100,658
Net Income from Patient Care (% Net Patient Revenue)			
Net Revenue from Patient Care	100.0%	100.0%	100.0%
Cost of Patient Care—Compensated	93.5%	95.9%	94.9%
Cost of Patient Care—Uncompensated	4.7%	8.0%	6.7%
Total Patient Care Costs	98.2%	103.8%	101.6%
Net Income from Patient Care	1.8%	−3.8%	−1.6%
Net Income from Other Sources (% Net Patient Revenue)			
Contributions, Donations, Bequests	0.3%	0.3%	0.3%
Income from Investments	1.0%	1.1%	1.1%
Government Appropriations	0.3%	1.6%	1.1%
Other Nonpatient Care Net Income	2.4%	6.1%	4.6%
Net Income from Other Sources	4.0%	9.1%	7.1%
Net Income from All Sources (% Net Patient Revenue)	5.8%	5.2%	5.5%

DATA SOURCES AND METHODOLOGY

The Centers for Medicare and Medicaid Services' Healthcare Cost Report Information System (HCRIS) dataset contains the most recent version (i.e., as submitted, settled, reopened, etc.) of each cost report filed with the agency since federal fiscal year (FFY) 1996. The most recent HCRIS dataset available at the time of this study was for the cutoff at March 31, 2008, and it contained about 28,000 cost reports, with periods ending on or after April 30, 2003. About 18,000 of those cost reports were for short-term acute care hospitals (STACHs).

For purposes of this study, hospital cost reports were assigned to FFYs based on their period end dates. Cost reports were excluded if they represented fewer than nine months or more than 15 months. Similarly, reports were excluded if they contained missing or unreasonable data—for example, if a report did not include net revenue, total costs, or net income. About 1,400 cost reports (8 percent) were excluded due to these factors leaving roughly 16,000 cost reports appropriate for this study.

Data from two cost report worksheets were used: Worksheets S-10 and G-3.

Worksheet S-10: Hospital Uncompensated Care

As previously mentioned, CMS added Worksheet S-10 to the cost report forms to comply with the BBRA, which mandated that the CMS collect data on uncompensated care from all IPPS hospitals. CMS established the requirement that IPPS hospitals must report uncompensated care costs as part of their Medicare cost report starting with periods ending on or after April 30, 2003.

The CMS instructions for Worksheet S-10 define *uncompensated care* as a combination of *charity care* and *bad debt*.

CMS defines *charity care* as health services for which hospital policies determine the patient is unable to pay. Charity care results from a provider's policy to provide healthcare services free of charge (or where only partial payment is expected not to include contractual allowances for otherwise insured patients) to individuals who meet certain financial criteria. For the purpose of uncompensated care, charity care is measured on the basis of revenue forgone, at full-established rates. Charity care does not include contractual write-offs.

For the purpose of uncompensated care, CMS defines *bad debt* as the unpaid dollar amount for services rendered from a patient or third-party payer, for which the provider expected payment, excluding Medicare bad debt.

The first 16 lines of Worksheet S-10 were used for only one year and have not been required for cost reporting periods ending after April 30, 2004. These lines required the hospital to answer questions about charity care and bad debt financial policies and procedures. For the most part, they were "yes" or "no" questions.

Lines 17 through 32 require the hospital to report gross charges and average costs for indigent care, Medicaid, SCHIP care, and other uncompensated care. Average costs are computed using an overall hospital cost-to-charge ratio developed from Worksheet C, Part I, column 3, line 103 divided by column 8, line 103.

On line 25, the hospital must calculate the average cost of state and local indigent care programs. On line 31, the hospital must calculate the average costs of other uncompensated care. For purposes of this study, *total uncompensated care cost* was defined as the addition of these two lines. This is

Their uncompensated care costs, at 4.2 percent, were just slightly lower than the uncompensated care costs for not-for-profit hospitals, at 4.8 percent. However, for-profit hospitals' other patient care costs were significantly lower than those for not-for-profit and governmental hospitals. The result was a healthy 6.7 percent overall net income from patient care services. That's

fortunate for for-profit hospitals, because their nonpatient care activities are insignificant compared with similar activities of the other hospitals studied. Nonetheless, for-profit hospitals have the highest overall percentages of net income from all sources compared with the other groups studied.

sometimes referred to in this article as “Cost of Patient Care—Uncompensated.”

For this study, neither total SCHIP cost (line 27) nor total Medicaid cost (line 29) was included in the definition of total uncompensated care cost because these are government programs that pay a hospital a program amount to render services to program beneficiaries. The difference in gross program charges versus the amount received by the hospital from the program is written off as a contractual allowance and is therefore not an “uncompensated cost” as defined by CMS instructions and as defined in this study.

An example of Worksheet S-10 is included on page VII. The data fields used in this study (lines 25 and 31) are highlighted. Lines 1 through 16 are removed because CMS has not required them since April 30, 2004.

Worksheet G-3: Statement of Revenues and Expenses

Worksheet G-3 has been an integral part of the Medicare cost report for nearly 40 years. It is a summary statement of net income for all of a hospital's operations. The worksheet is divided into two sections. The first section (lines 1 through 5) summarizes net income from providing service to patients. The second section (lines 6 through 30) details other income and expenses from nonpatient care activities. Line 31 shows the net income or loss from all activities (patient care or otherwise).

Levels of uncompensated care provided by a hospital would naturally affect profitability. Net income from both patient care and nonpatient care activities are reported along with uncompensated care to provide a corollary indicator of financial effects on hospital operations.

An example of Worksheet G-3 is shown on page VIII, with the data fields used in this study highlighted. Data from line 3 (net patient revenues), line 4 (total operating expenses), and line 5 (net income from service to patients) were used to measure net income from patient care services. To measure the contribution of key nonpatient care activities, the data were drawn from line 6 (contributions, donations, bequests, etc.), line 7 (income from investments), and line 23 (government appropriations). And to measure the overall contribution of nonpatient care activities to the hospital's total net income, the data sources were line 25 (total other income), line 30 (total other expenses), and line 31 (net income or loss for the period).

Net Income Analysis

For purposes of this study, a net income analysis methodology was developed using the following combination of data chosen from Worksheets S-10 and G-3 (with cost report references shown in parentheses):

- > *Net income from patient care*
 - Net revenue from patient care (G-3, Line 3)
 - Cost of patient care—compensated ([G-3, Line 4] minus [S-10, Line 25 + Line 31])
 - Cost of patient care—uncompensated (S-10, Line 25 + Line 31)
 - Total patient care costs (G-3, Line 4)
 - Net income from patient care (G-3, Line 5)
- > *Net income from other sources*
 - Contributions, donations, bequests (G-3, Line 6)
 - Income from investments (G-3, Line 7)
 - Government appropriations (G-3, Line 23)
 - Other nonpatient care net income (G-3, Line 6)
 - Net income from other sources (G-3, Line 25 - Line 30)
- > *Net income from all sources* (G-3, Line 31)

Urban Versus Rural

Rural hospitals had a much higher percentage of uncompensated care costs (9.7 percent of net patient revenue) than did urban hospitals (6.3 percent), but the rural hospitals seemed to do a much better job of controlling their other costs of patient care (89.8 percent of net patient revenue for rural hospitals versus 95.6 percent

for urban hospitals). The result is that rural hospitals roughly broke even in the provision of patient care (0.5 percent positive margin), while the urban hospitals suffered a negative margin (–1.9 percent).

On the other hand, when it came to offsetting uncompensated care through nonpatient care

EXAMPLE OF WORKSHEET S-10: HOSPITAL UNCOMPENSATED CARE

Hospital Uncompensated Care	Provider No: XX-XXXX	Period: From: 07/01/2006 To: 06/30/2007	Worksheet S-10
Uncompensated Care Information (Note: Lines 1 through 16 no longer required after April 30, 2004, per CMS instructions.)			
Uncompensated Care Revenues			
17	Revenues from uncompensated care	\$6,684,692	17
17.01	Gross Medicaid revenues	\$39,422,134	17.01
18	Revenues from state and local indigent care programs		18
19	Revenues related to SCHIP (see instructions)	\$782,060	19
20	Restricted grants		20
21	Nonrestricted grants		21
22	Total gross uncompensated care revenues	\$46,888,886	22
Uncompensated Care Costs			
23	Total charges for patients covered by state and local indigent care programs	\$1,930,369	23
24	Cost-to-charge ratio (Wkst C, Part I, column 3, line 103, divided by column 8, line 103)	0.227066	24
25	Total state and local indigent care program cost (line 23 x line 24)	\$438,321	25
26	Total SCHIP charges from your records	\$2,502,752	26
27	Total SCHIP cost (line 24 x line 26)	\$568,290	27
28	Total gross Medicaid charges from your records	\$157,917,027	28
29	Total gross Medicaid cost (line 24 x line 28)	\$35,857,588	29
30	Other uncompensated care charges from your records (see instructions)	\$63,413,566	30
31	Uncompensated care cost (line 24 x line 30)	\$14,399,065	31
32	Total uncompensated cost to the hospital (sum of lines 25, 27, and 29)	\$36,864,199	32

activities, urban hospitals performed better than rural hospitals (overall 7.3 percent versus 5.2 percent, respectively). The result is that both groups enjoyed similar overall net income profit margins from all activities (5.8 percent for rural hospitals versus 5.4 percent for urban hospitals).

Teaching Versus Nonteaching

Teaching hospitals had a higher percentage of uncompensated care costs (8.0 percent) and a

higher percentage of other patient care costs (95.9 percent) than did nonteaching hospitals. (These percentages for the latter were 4.7 percent and 93.5 percent, respectively.) Not surprisingly, teaching hospitals suffered a negative margin (−3.8 percent) from patient care services during the period studied, while nonteaching hospitals enjoyed a positive margin (1.8 percent) from patient care services.

Also not surprisingly, teaching hospitals were better able to offset their negative margins by nonpatient care activities (overall 9.1 percent) than were nonteaching hospitals (overall only 4.0 percent). As a result, both groups were able to achieve similar overall net income margins (5.2 percent for teaching hospitals versus 5.8 percent for nonteaching hospitals).

The Bottom Line

For the nation's STACHs, average costs of uncompensated care increased more than 28 percent during the five-year period studied. Fortunately,

If these costs continue to rise, hospitals will need to continue to shift revenue from sponsored patient care and find additional sources of nonpatient revenue.

EXAMPLE OF WORKSHEET G-3: STATEMENT OF REVENUES AND EXPENSES

Statement of Revenues and Expenses		Provider No: XX-XXXX	Period: From 01/01/2006 To 12/31/2006	Worksheet G-3
Description				
1	Total patient revenues (from Worksheet G-2, Part I, column 3, line 25)		\$2,569,661,837	1
2	Less contractual allowances and discounts on patients' accounts		\$1,450,302,264	2
3	Net patient revenues (line 1 minus line 2)		\$1,119,359,573	3
4	Less total operating expenses (from Worksheet G-2, Part II, line 40)		\$1,117,329,196	4
5	Net income from service to patients (line 3 minus line 4)		\$2,030,377	5
Other Income				
6	Contributions, donations, bequests, etc.		\$5,655,860	6
7	Income from investments		\$112,700,229	7
8	Revenues from telephone and telegraph service			8
9	Revenue from television and radio service			9
10	Purchase discounts			10
11	Rebates and refunds of expenses			11
12	Parking lot receipts		\$3,934,895	12
13	Revenue from laundry and linen service			13
14	Revenue from meals sold to employees and guests		\$11,383,005	14
15	Revenue from rental of living quarters			15
16	Revenue from sale of medical and surgical supplies to other than patients		\$3,906	16
17	Revenue from sale of drugs to other than patients		\$136,783	17
18	Revenue from sale of medical records and abstracts		\$877,788	18
19	Tuition (fees, sales of textbooks, uniforms, etc.)		\$7,050,797	19
20	Revenue from gifts, flowers, coffee shops, and canteen		\$9,298,162	20
21	Rental of vending machines		\$1,158	21
22	Rental of hospital space		\$123,330	22
23	Governmental appropriations		\$1,000,000	23
24	Other (specify)		\$6,750,445	24
25	Total other income (sum of lines 6-24)		\$158,916,358	25
26	Total (line 5 plus line 25)		\$160,946,735	26
27	Other expenses (specify)		\$281,894	27
28				28
29				29
30	Total other expenses (sum of lines 27-29)		\$281,894	30
31	Net income (or loss) for the period (line 26 minus line 30)		\$160,664,841	31

however, total net income from all activities showed a corresponding increase that offset these increased costs. Although the extent of these effects differs among types of hospitals, virtually all hospitals have been challenged by the increased costs of uncompensated care. If these costs continue to rise, hospitals will need to continue to shift revenue from sponsored patient care and find additional sources of nonpatient revenue. ●

About the author



Thomas M. Schuhmann, JD, CPA, is senior vice president, finance, Cost Report Data Resources, LLC, Louisville, Ky. (tschuhmann@costreportdata.com).

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