



The Council for Affordable Health Insurance's ISSUES & ANSWERS

Solutions for Today's Health Policy Challenges

No. 122

February 2004

Profiting from the Uninsured

Currently, 43.6 million Americans lack health insurance. When the uninsured are treated in a hospital, most are charged significantly more than patients with Medicare, Medicaid or private health coverage. Yet the uninsured tend to be lower-income working Americans, especially minorities.

While hospitals often claim they are losing millions of dollars a year providing unreimbursed care, the evidence suggests that some hospitals are profiting handsomely from overcharging the uninsured.

The Cost-to-Charge Ratio. Every hospital has a "chargemaster," a master file of all charges for every hospital service, drug or procedure. The chargemaster is used to generate each hospital invoice as well as the standard required federal UB-92 form that accounts for all inpatient or outpatient hospital procedures.

The Center for Medicare and Medicaid Services (CMS), the federal agency that oversees the Medicare program, compiles all of this information annually in its Medicare Cost Reports. The reports detail every hospital's costs and charges by department and cost centers. Thus Medicare knows each hospital's average daily costs, or operating expenses, for providing patient care. Moreover, Medicare knows what every hospital collects from Medicare, managed care and the "self-pay" (i.e., the uninsured). The ratio between what a day in the hospital costs and what the hospital charges is called the "cost-to-charge ratio" (i.e., the cost divided by what the hospital charges; the closer a cost-to-charge ratio moves to 1, the less difference exists between the cost the hospital incurs to provide care and the hospital's gross charge; and the lower the cost-to-charge ratio the higher the price is inflated).

The Uninsured Can Add to the Bottom Line

- **Catholic Healthcare West (41 Hospitals, 2001)**
Total operating profit: \$50,650,003
Profit from the uninsured: \$38,757,354
Uninsured make up 2.6% of all patients, but 77% of the total profits.
- **Catholic Healthcare West (33 Hospitals, 2002)**
Total operating profit: \$103,018,190
Profit from the uninsured: \$43,829,993
Uninsured make up 2.6% of all patients, but 42.5% of the total profits.
- **Tenet Healthcare (39 Hospitals, 2001)**
Total operating profit: \$629,485,091
Profit from the uninsured: \$220,733,188
Uninsured make up 1.5% of all patients, but 35% of the total profits.
- **Tenet Healthcare (38 Hospitals, 2002)**
Total operating profit: \$811,270,441
Profit from the uninsured: \$200,756,573
Uninsured make up 1.25% of all patients, but 25% of the total profits.
- **Sutter Health (26 Hospitals, 2001)**
Total operating profit: \$117,853,678
Profit from the uninsured: \$52,896,751
Uninsured make up 3.4% of all patients, but 45% of the total profits.
- **Sutter Health (25 Hospitals, 2002)**
Total operating profit: \$97,531,926
Profit from the uninsured: \$45,174,527
Uninsured make up 3.3% of all patients, but 46% of the total profits.

According to CMS, Nevada hospitals, with a statewide average cost-to-charge ratio of .282 — or 3.6 times their cost — charges more than any other state, followed by California (.328) and Alabama (.338). Maryland has the best (i.e., lowest price inflation) cost-to-charge ratio, .769, which translates into charging 1.3 times (that is, 30 percent more) the actual cost, while North Dakota is .609 (i.e., average mark-up of 64.2 percent above cost).

But those percentages are averages across an entire state. Information also is available on some individual hospitals. For example, the average operating cost per patient per day at St. Louise Regional (Catholic) Hospital in Gilroy, California, is \$1,376. An uninsured patient would be billed \$5,508 (2001).

Insured patients do not pay the full charge because of Medicare, Medicaid or managed care discounts. The only ones paying the gross charge are the uninsured, who are typically poor minorities, especially Hispanics.

But Don't Hospitals Lose Money on the Uninsured? Some hospitals have dismissed criticisms of overcharging the uninsured by asserting that the uninsured don't pay their bills anyway. So what's the big deal?

Again, government figures tell a different story. Some hospitals collect as much as 95 percent of the gross charges they impose on the uninsured — often by using very aggres-

sive collection practices. For example, in 2001 St. Louise Regional Hospital (cited above) collected 96 percent of what it billed the uninsured.

Hospitals Profiting from the Uninsured. The truth is that many hospitals have profited handsomely from the uninsured, even some not-for-profit hospitals (which earn profits but don't pay taxes). Indeed, some hospitals make about as much from their uninsured populations as they do from all of their insured patients combined. Some make even more.

The evidence for this claim comes from the California Office of Statewide Health Planning and Development (OSHPD), which requires hospitals to make this information available. Since many of the hospital systems based in California have operations in other states, it may be fair to assume that what we know is happening in California is happening in other states as well.

As the Table shows, in 2001:

- The uninsured made up 2.6 percent of all patients for Catholic Healthcare West's 41 hospitals, but 77 percent of the total profits.
- While the uninsured were 1.5 percent of all patients in Tenet Healthcare's 39 hospitals, they kicked in 35 percent of the total profits.
- And the uninsured were 3.4 percent of all patients in Sutter Health's 26 hospitals, but they contributed 45 percent of the total profits.

It's Not What, It's Who and How. Hospitals have to make money to stay in business. The fact that some hospitals are very profitable is not the issue; the issue is who they are profiting from and how they are getting the money.

Prior to the explosion of managed care in the late 1980s and early 1990s, most health care providers charged a fee for their services and fully expected patients — or their insurers — to pay it. However, they also were committed to helping the poor and frequently reduced their bills or provided the care free of charge.

Eventually Medicare began demanding discounts off the hospitals' standard charge, and managed care networks soon followed. As a result, the health care system flip-flopped from one in which insured workers and the wealthy paid the most to one in which they get the lowest prices — which they don't have to pay anyway because of their insurance — while the lower-income uninsured workers are stuck with the highest bills.

In addition, some hospitals have turned to very aggressive collection tactics. For example:

- The Wall Street Journal reported that the husband of an uninsured cleaning woman who was treated for throat cancer in 1982 at Yale-New Haven Hospital in Connecticut paid on her bill for 20 years, even though she died in 1993. The hospital seized \$10,000 from his bank account and placed a lien on his home, imposed 10 percent interest on the unpaid balance, plus legal fees and other expenses, which meant the bill was increasing faster than he could pay it. Once the Journal publicized the story and

readers expressed their outrage, the hospital decided to forgive the debt he had been paying on his deceased wife's bill in its entirety.

- The Star Journal in Peoria quotes the Illinois attorney general as saying, "Not only are some hospitals apparently charging [the uninsured] exorbitant rates, but they allegedly are using aggressive collection tactics that may force Illinois residents to choose between seeking health care and saving their homes."

The American Hospital Association was so concerned about the practices that it released an "Alert" to its members urging them to stop engaging in collection practices that could reflect badly on the industry.

The Will to Reform. By inflating their chargemasters, the hospitals may never have intended to profit from the uninsured, but that's what's happening.

Fortunately, many hospitals and their trade associations recognize that these practices cannot and should not continue. The American Hospital Association has announced that the industry will consider making broad price cuts for the uninsured. Although it has not yet begun doing so, Tenet Healthcare has said that it will charge the uninsured the same prices it charges its managed care patients.

That's a start. In addition, hospitals need to be more open and consistent about their pricing structures. Everyone in the health care industry knows that hospital prices are simply a ruse, bearing no relation to the cost of actually providing care.

Finally, CMS needs to clarify or rewrite federal regulations that imply a hospital must charge everyone the same price, except for the negotiated discounts for Medicare, Medicaid and health insurers, which collectively cover about 85 percent of the population. That is the excuse hospitals have been using to say they must charge the uninsured the full price. CMS can ensure that federal regulations do not stand in the way of hospitals charging a reasonable price to the uninsured.

It is fair to ask the uninsured to pay for the cost of their care, plus a small profit. It is not fair to make them the hospital's leading profit center.

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