

POLICY ANALYSIS



• A STATEWIDE SURVEY •

Uncompensated Care in Oklahoma Hospitals



COST OF
UNCOMPENSATED
\$515 HOSPITAL CARE
million

PURPOSE

This report analyzes the cost of uncompensated care absorbed by acute care hospitals in Oklahoma. The study builds upon and updates a similar study using data from 2002 and published by the Oklahoma Hospital Association in 2003.

The 2003 report was limited to an analysis of indigent care—the cost of charity care services and the shortfall between the cost of care and payments received for Medicaid and legislated care services. This 2006 study addresses “uncompensated care” by expanding the study of indigent care to include the cost of care absorbed by hospitals resulting from bad debts. As noted in the 2003 study, reporting only indigent care services significantly underreports the cost of uncompensated care absorbed by Oklahoma hospitals.

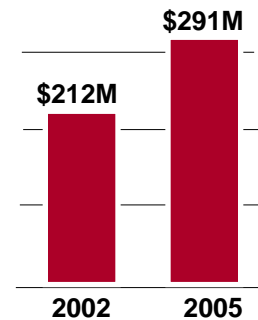
DATA

The data was gathered by the Oklahoma Hospital Association (OHA) from 77 hospitals, representing 67% of acute care hospitals and 90% of staffed acute care hospital beds across the state. Collected data is based upon cost reports for fiscal years ending prior to September 2005.

FINDINGS

- The unreimbursed cost of indigent care (not including bad debt) in 77 hospitals in Oklahoma increased over \$79 million from 2002 to 2005. The indigent care costs (not including bad debt) were \$212 million in 2002 and almost \$291 million in 2005... or an increase of 37%.

INDIGENT CARE LOSSES



- The 2005 amounts of reported uncompensated care (indigent care plus bad debt losses) were \$515 million, or 9.4% of hospital operating revenues; and over \$55,000 per staffed hospital bed.

REPORTING

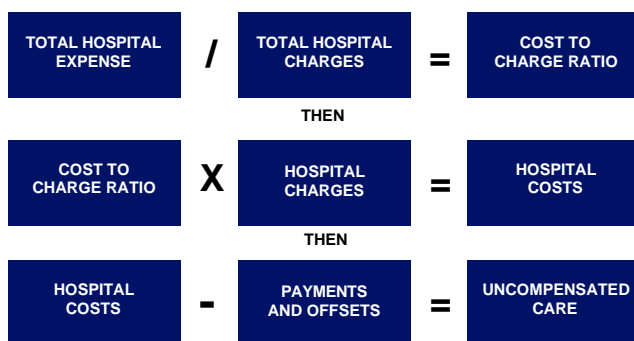
The report presents information on an aggregated basis with no individual hospital identification. Individual hospital data has been provided to each participating hospital.

The report describes the cost, payments and the net uncompensated cost of care for indigent care provided (i.e. charity care, Medicaid services and legislated care), as well as for total uncompensated care (the total of indigent care plus the cost of bad debt).

METHOD

The analysis methodology was developed by the staff of the OHA based on industry guidelines. The data has been analyzed by staff from the OHA and the University of Oklahoma Center for Health Policy Research at the College of Public Health. The methodology was developed so that most data was available from audited financial statements and the most recent cost reports filed with the Centers for Medicare & Medicaid Services.

The methodology employed hospital specific cost-to-charge ratios using data as described in the adjacent chart. Total hospital expense reported to CMS (which excludes bad debt expense) was divided by the total patient charges reported to CMS. This hospital-specific ratio was applied to the hospital charges for charity care, Medicaid services, legislated care services and bad debts. The payments received for these services were then offset against the calculated cost of care, yielding the total uncompensated cost of care.



DEFINITIONS

Principles of accounting require that hospitals separate bad debt from charity care in their financial reports. In theory there is a clear distinction between “charity care” and “bad debt.” In practice, the two are blurred.

Charity care means “care rendered to a patient with no expectation of payment because the patient is unable to pay.” Bad debt means “care rendered with an expectation of payment but for which no payment was received.” While hospitals make a distinction between the two for purposes of reporting, analysts have routinely combined these two amounts to create an estimate of “uncompensated care” for which hospitals receive no direct payment from patients or third-party insurers. The following definitions explain how terms have been used in this report.

Charity Care

A measure of the costs absorbed by hospitals for services provided to patients identified as unable to pay for their hospital care after offsetting payments received on their behalf. For this study, charity payments received by hospitals have been offset against charity care costs. Charity payments include those from the State Trauma Fund, the state appropriation of \$14.2 million to the OU Medical Center for indigent care services, and any other funds identified by individual hospitals as payments on accounts identified as charity care.

Medicaid Underpayments

A measure of the costs absorbed by hospitals due to Medicaid payments falling below the estimated cost of care provided to Medicaid patients. Supplemental payments received by some, but not all, hospitals are used in this calculation and include Medicaid Graduate Medical Education (GME) payments, Medicaid Disproportionate Share Hospital (DSH) payments and Medicaid Upper Payment Limit (UPL) program payments.

Legislated Care Underpayments

A measure of the costs absorbed by hospitals due to payments for legislated care services (primarily care provided to prisoners) falling below the estimated cost of care provided.

Indigent Care

The sum of charity care, Medicaid underpayments and legislated care underpayments.

Bad Debt

A measure of the costs absorbed by hospitals for care provided to patients from whom payment was expected but no payment was received.

Uncompensated Care

The sum of indigent care and bad debt. A measure of the costs absorbed by hospitals as the result of providing care and receiving no payment or payments that are significantly less than the cost of care.



STATE MEDICAID EXPENDITURES

In the period of time between OHA's 2003 Indigent Care Analysis and this year's Uncompensated Care Survey, Medicaid expenditures have experienced dramatic changes. Not surprisingly, these changes have mirrored, in large part, the state's overall economic health.

State budget shortfalls in FY '03 and '04 resulted in major reductions in state appropriations to the Medicaid program and, consequently, the loss of federal matching funds (approximately \$2.40 added to each state dollar).

Equally not surprising, during these economic downturns, Medicaid enrollments swelled. This resulted in less money for Medicaid services and more demand due to increased numbers of people eligible for Medicaid.

The federal government provided the Medicaid program with one-time Federal Medicaid Assistance Percentage (FMAP) stabilization funds passed through to providers in June 2003. However, many programs were cut or reduced to meet budgetary shortfalls.

For example, hospital paid days for Medicaid were reduced from 24 to 15 per year, the medically needy program was eliminated, and Part B co-pays for senior citizens were reduced by 50%. These payment and program reductions are reflected in the higher uncompensated care costs reported in this study.

On a positive note, Oklahoma voters approved an increase in the tobacco tax in November 2004 to provide much needed funds to stabilize, at current levels, the existing Medicaid program, and to provide additional funds for trauma care, an uninsured insurance program, and other worthwhile health initiatives.

Collections for these programs began in 2005 and are not reflected in this report.

Note: This study was purposely initiated before significant changes in Medicaid payments to hospitals and physicians were implemented in October 2005, resulting from an additional appropriation of \$63 million by the state Legislature enacted in May 2005. Hospitals received \$38 million of this total new appropriation.

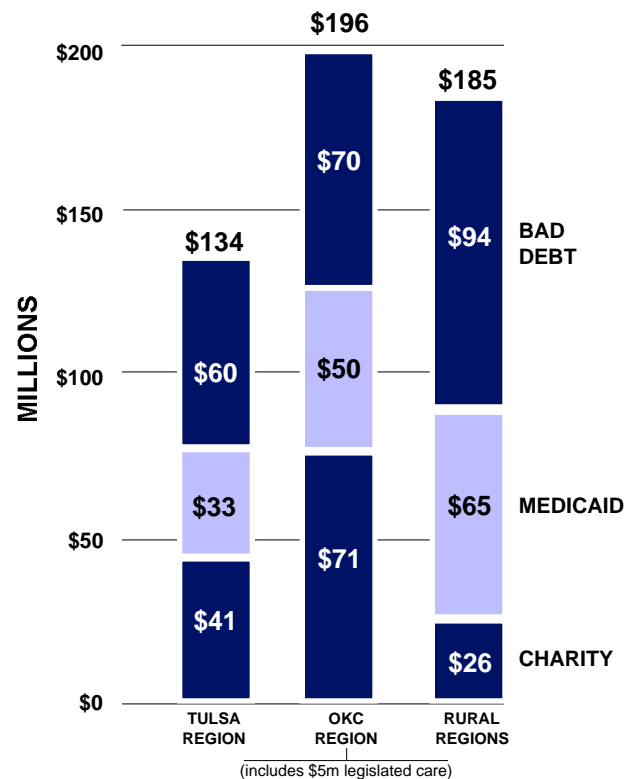
PUBLIC POLICY IMPLICATIONS

The high cost of health care is of concern to all. The state of Oklahoma has the responsibility to administer the Medicaid program for the most vulnerable of our population, poor children, pregnant women, the blind, disabled, and elderly.

The state and federal governments have legislated eligibility standards and benefit requirements. However, there is no provision in state statute to cover the cost of providing the care to this population, despite Oklahoma's opportunity to garner a 2:1 match from the federal government by doing so.

Oklahoma's existing levels of Medicaid reimbursement do not cover the cost of care incurred by hospitals. This shortfall must be "cost-shifted" to insurance companies, self-insured businesses and others who pay for health care services. As long as Medicaid pays less than cost, business and others with private insurance will continue to subsidize the costs of care the state chooses not to fund. This issue is further aggravated by the fact that Oklahoma has approximately 700,000 people who have no insurance. Together, Medicaid enrollees and the uninsured account for 1 in 3 Oklahomans.

**OHA REGIONS - OKLAHOMA 2005
COMPONENTS OF UNCOMPENSATED CARE**



2005 UNCOMPENSATED CARE IN OKLAHOMA

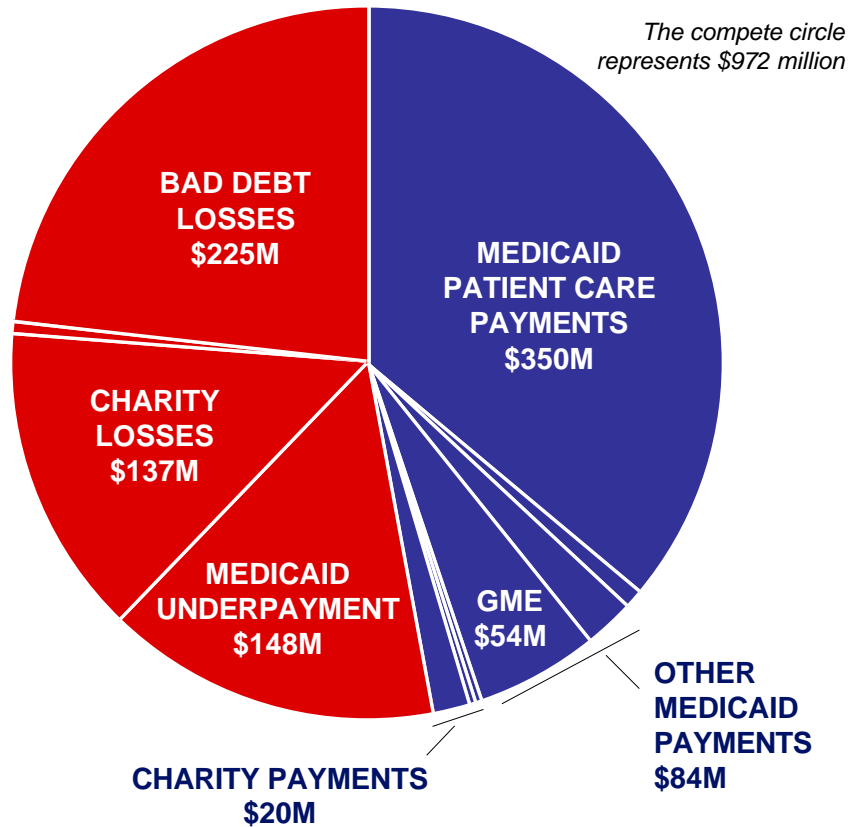
COST OF CARE **\$971,571,024**
(includes bad debt)

PAYMENTS

Medicaid Services	\$349,776,639
Medicaid-UPL	\$8,418,300
Medicaid-DSH	\$22,323,107
Medicaid-GME	\$53,962,518
Legislated	\$1,812,429
Trauma Fund	\$4,225,402
Charity-Special	\$15,841,165
TOTAL	\$456,359,559

UNCOMPENSATED

Medicaid	\$147,954,183
Charity	\$137,112,315
Legislated	\$4,907,970
Bad Debt	\$225,236,996
TOTAL	\$515,211,465



NET COST OF INDIGENT CARE IN OKLAHOMA

2002 COMPARED TO 2005

	2002	2005	Change	Pct
Reporting Hospitals	74	77	3	4%
Staffed Beds	9,765	9,286	(479)	-5%
Charity	\$115,802,840	\$157,178,882	\$41,376,042	36%
Medicaid	\$460,868,462	\$582,434,747	\$121,566,285	26%
Legislated Care	\$10,116,482	\$6,720,399	(\$3,396,083)	-34%
COST OF CARE	\$586,787,784	\$746,334,028	\$159,546,244	27%
Medicaid Services	\$285,696,787	\$349,776,639	\$64,079,852	22%
Upper Payment Limit Program, Net	\$0	\$8,418,300	\$8,418,300	
Medicaid DSH	\$19,375,803	\$22,323,107	\$2,947,304	15%
Medicaid GME	\$50,138,436	\$53,962,518	\$3,824,082	8%
State Trauma Fund	\$2,488,618	\$4,225,402	\$1,736,784	70%
Charity	\$17,600,000	\$15,841,165	(\$1,758,835)	-10%
Legislated Embedded		\$1,812,429		
PAYMENTS/OFFSETS	\$375,299,644	455,608,747	\$80,309,103	21%
LOSSES (1)	(\$211,488,140)	(\$290,725,281)	(\$79,237,141)	37%
Per Staffed Bed	(\$21,658)	(\$31,308)	(\$9,650)	45%

(1) Medicare DSH payments (\$59,260,094) were used in 2002 but not in 2005. Subtracting the \$59 million from the \$211 million yields the reported 2002 loss of \$152,228,046.



HOSPITALS BY BED SIZE IN 2005

OKLAHOMA HOSPITAL ASSOCIATION

BED SIZE GROUPS	Under 100	100-300	Over 300	Total
Reported Staffed Beds	1,946	3,356	3,984	9,286
Reporting Hospitals	50	19	8	77

ESTIMATED COST OF CARE

Charity	\$10,913,704	\$32,489,175	\$113,776,003	\$157,178,882
Medicaid	\$83,812,853	\$178,728,308	\$319,893,586	\$582,434,747
Legislated	\$22,049	\$62,138	\$6,636,212	\$6,720,399
Indigent Care Sub-Total	\$94,748,606	\$211,279,621	\$440,305,801	\$746,334,028
Add: Bad Debt	\$54,642,855	\$88,570,124	\$82,024,017	\$225,236,996
Total Costs	\$149,391,461	\$299,849,745	\$522,329,818	\$971,571,024

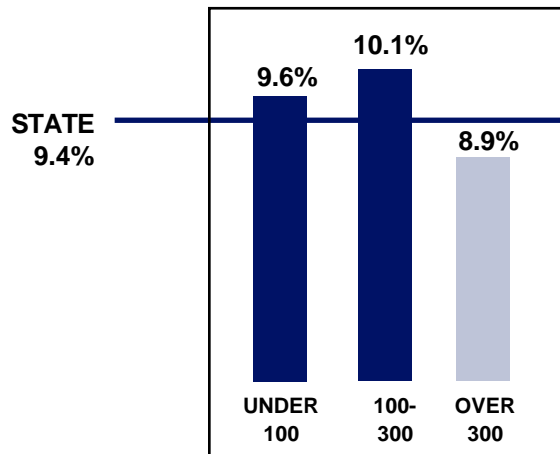
PAYMENT OFFSETS

Medicaid Services	\$52,289,123	\$104,964,433	\$192,523,083	\$349,776,639
Upper Payment Limit Program, Net	\$2,747,910	\$4,152,098	\$1,518,292	\$8,418,300
Medicaid DSH	\$144,562	\$17,109	\$22,161,436	\$22,323,107
Medicaid GME	\$0	\$5,524,761	\$48,437,757	\$53,962,518
State Trauma Fund	\$71,741	\$211,542	\$3,942,119	\$4,225,402
Charity	\$219,766	\$427,465	\$15,193,934	\$15,841,165
Legislated	\$16,419	\$45,000	\$1,751,010	\$1,812,429
Total Payments	\$55,489,521	\$115,342,408	\$285,527,631	\$456,359,559

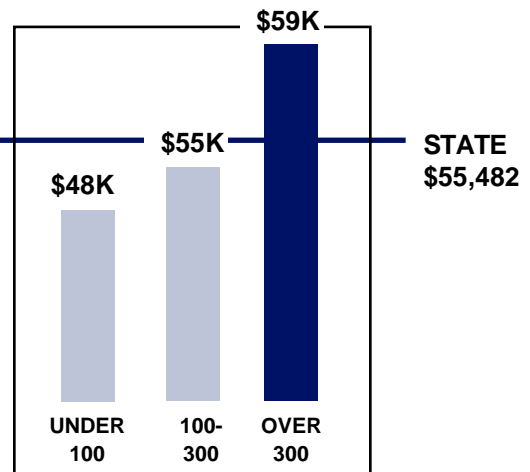
NET COST OF UNCOMPENSATED CARE

Charity	\$10,622,197	\$31,850,168	\$94,639,950	\$137,112,315
Medicaid	\$28,631,258	\$64,069,907	\$55,253,018	\$147,954,183
Legislated	\$5,630	\$17,138	\$4,885,202	\$4,907,970
Indigent Care Sub-Total	\$39,259,085	\$95,937,213	\$154,778,170	\$289,974,469
Add: Bad Debt	\$54,642,855	\$88,570,124	\$82,024,017	\$225,236,996
Total Uncompensated	\$93,901,940	\$184,507,337	\$236,802,187	\$515,211,465

**UNCOMPENSATED CARE
PCT OF NET OPERATING REVENUE**



**UNCOMPENSATED CARE
PER STAFFED BED**



HOSPITALS IN RURAL REGIONS IN 2005

OKLAHOMA HOSPITAL ASSOCIATION

OHA REGION	NE	NW	SE	SW	RURAL
Reported Staffed Beds	1,155	527	1,058	877	3,617
Reporting Hospitals	18	8	17	12	55

ESTIMATED COST OF CARE

Charity	\$6,981,681	\$2,268,870	\$12,656,185	\$4,212,124	\$26,118,859
Medicaid	\$53,236,735	\$17,752,470	\$55,647,203	\$51,223,251	\$177,859,660
Legislated	\$22,049	\$0	\$0	\$62,138	\$84,187
Indigent Care Sub-Total	\$60,240,465	\$20,021,340	\$68,303,388	\$55,497,513	\$204,062,706
Add: Bad Debt	\$30,637,273	\$8,803,479	\$28,094,561	\$26,834,729	\$94,370,042
Total Costs	\$175,863,236	\$273,377,971	\$515,478,769	\$964,719,975	\$298,432,748

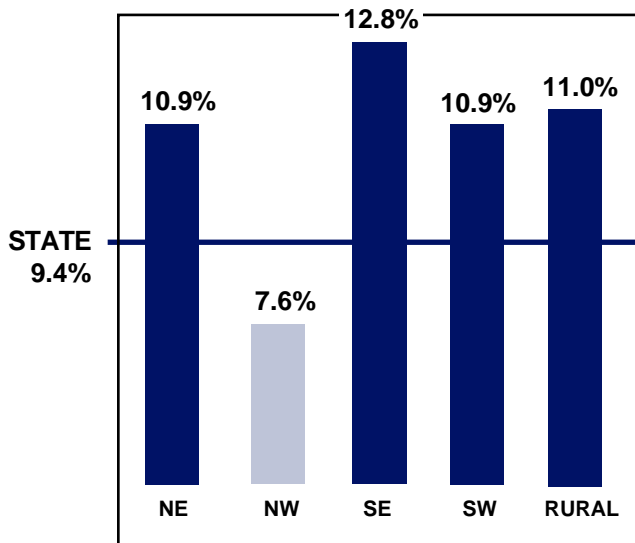
PAYMENT OFFSETS

Medicaid Services	\$31,369,157	\$12,104,825	\$35,392,774	\$27,181,039	\$106,047,796
Upper Payment Limit Program, Net	\$2,739,389	\$197,768	\$1,636,090	\$1,949,386	\$6,522,633
Medicaid DSH	\$0	\$17,109	\$144,562	\$0	\$161,671
Medicaid GME	\$11,030	\$0	\$92,363	\$65,799	\$169,192
State Trauma Fund	\$89,738	\$10,392	\$78,806	\$75,954	\$254,890
Charity	\$86,561	\$128,830	\$0	\$0	\$215,391
Legislated	\$16,419	\$0	\$0	\$45,000	\$61,419
Total Payments	\$34,312,295	\$12,458,924	\$37,344,595	\$29,317,178	\$113,432,992

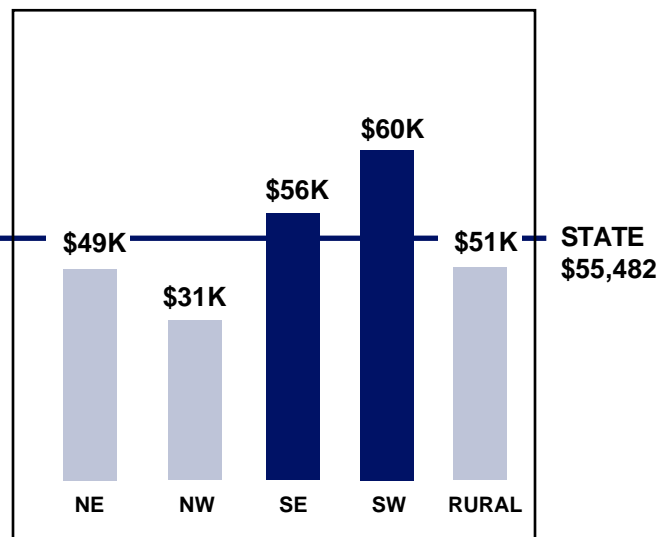
NET COST OF UNCOMPENSATED CARE

Charity	\$6,805,381	\$2,129,647	\$12,577,379	\$4,136,170	\$25,648,578
Medicaid	\$19,117,159	\$5,432,768	\$18,381,414	\$22,027,028	\$64,958,369
Legislated	\$5,630	\$0	\$0	\$17,138	\$22,768
Indigent Care Sub-Total	\$25,928,171	\$7,562,416	\$30,958,793	\$26,180,336	\$90,629,715
Add: Bad Debt	\$30,637,273	\$8,803,479	\$28,094,561	\$26,834,729	\$94,370,042
Total Uncompensated	\$56,565,443	\$16,365,895	\$59,053,354	\$53,015,064	\$184,999,757

**UNCOMPENSATED CARE
PCT OF NET OPERATING REVENUE**



**UNCOMPENSATED CARE
PER STAFFED BED**



HOSPITALS IN URBAN REGIONS IN 2005

OKLAHOMA HOSPITAL ASSOCIATION

OHA REGION	TULSA	OKC	URBAN	STATEWIDE
Reported Staffed Beds	2,219	3,450	5,669	9,286
Reporting Hospitals	8	14	22	77

ESTIMATED COST OF CARE

Charity	\$44,346,930	\$86,713,093	\$131,060,023	\$157,178,882
Medicaid	\$158,681,173	\$245,893,914	\$404,575,086	\$582,434,747
Legislated	\$0	\$6,636,212	\$6,636,212	\$6,720,399
Indigent Care Sub-Total	\$203,028,103	\$339,243,219	\$542,271,321	\$746,334,028
Add: Bad Debt	\$60,531,481	\$70,335,474	\$130,866,954	\$225,236,996
Total Costs	\$263,559,583	\$409,578,692	\$673,138,276	\$971,571,024

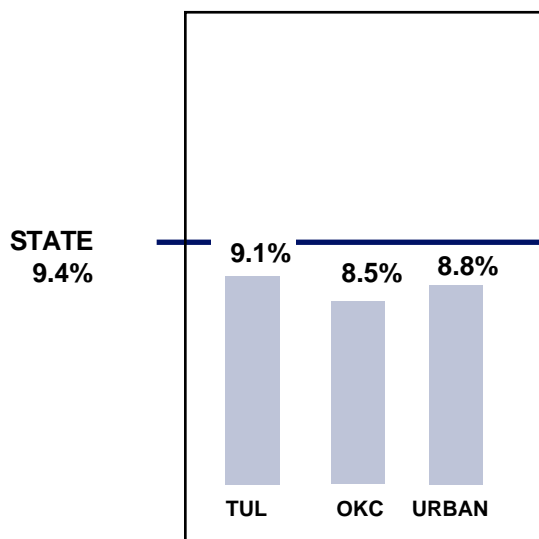
PAYMENT OFFSETS

Medicaid Services	\$108,707,567	\$135,021,276	\$243,728,843	\$349,776,639
Upper Payment Limit Program, Net	\$0	\$1,895,667	\$1,895,667	\$8,418,300
Medicaid DSH	\$0	\$22,161,436	\$22,161,436	\$22,323,107
Medicaid GME	\$17,251,024	\$36,542,302	\$53,793,326	\$53,962,518
State Trauma Fund	\$2,256,946	\$1,713,565	\$3,970,511	\$4,225,402
Charity	\$1,451,976	\$14,173,798	\$15,625,774	\$15,841,165
Legislated	\$0	\$1,751,010	\$1,751,010	\$1,812,429
Total Payments	\$129,667,513	\$213,259,054	\$342,926,567	\$456,359,559

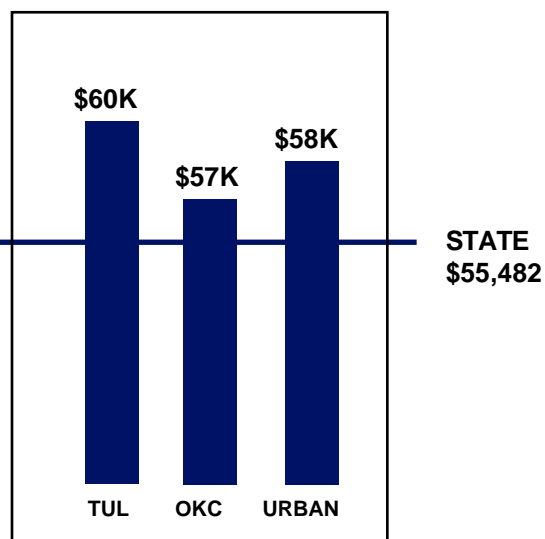
NET COST OF UNCOMPENSATED CARE

Charity	\$40,638,008	\$70,825,730	\$111,463,738	\$137,112,315
Medicaid	\$32,722,581	\$50,273,233	\$82,995,814	\$147,954,183
Legislated	\$0	\$4,885,202	\$4,885,202	\$4,907,970
Indigent Care Sub-Total	\$73,360,589	\$125,984,164	\$199,344,754	\$289,974,469
Add: Bad Debt	\$60,531,481	\$70,335,474	\$130,866,954	\$225,236,996
Total Uncompensated	\$133,892,070	\$196,319,638	\$330,211,708	\$515,211,465

UNCOMPENSATED CARE
PCT OF NET OPERATING REVENUE



UNCOMPENSATED CARE
PER STAFFED BED



**RESPONDING HOSPITALS
BY OHA REGION, STAFFED BED SIZE AND FINANCIAL DATA YEAR END**

NORTHEAST REGION

HOSPITAL	BEDS	FYE
Bristow Medical Center	17	12/31/04
Cleveland Area Hospital	15	12/31/04
Cushing Regional Hospital	75	12/31/04
Fairfax Memorial Hospital	15	12/31/04
Henryetta Medical Center	42	12/31/04
Integrus Baptist Regional Health Center	93	6/30/05
Integrus Grove General Hospital	40	6/30/05
Jane Phillips Memorial Medical Center, Inc.	121	9/30/05
Jane Phillips Nowata Health Center	10	9/30/04
Muskogee Regional Medical Center	162	9/30/05
Okmulgee Memorial	35	12/31/04
Pawnee Municipal Hospital	20	12/31/04
Perry Memorial Hospital	26	6/30/05
St. John Sapulpa	24	9/30/05
Stillwater Medical Center	109	12/31/04
Tahlequah City Hospital	82	6/30/05
Via Christi Oklahoma Regional Medical Ctr	77	9/30/04
Wagoner Community Hospital	100	12/31/04

NORTHWEST REGION

HOSPITAL	BEDS	FYE
Harper County Community Hospital	16	9/30/04
Integrus Bass Baptist Health Center	175	6/30/05
Kingfisher Regional Hospital	25	6/30/05
Newman Memorial Hospital	27	12/31/04
Roger Mills Memorial Hospital	15	4/30/05
Share Medical Center	31	6/30/05
St. Mary's Regional Medical Center	160	12/31/04
Woodward Regional Hospital	78	5/31/05

SOUTHWEST REGION

HOSPITAL	BEDS	FYE
Carnegie Tri-County Municipal Hospital	12	4/30/05
Comanche County Memorial Hospital	238	6/30/05
Cordell Memorial Hospital	15	6/30/05
Duncan Regional Hospital, Inc.	110	6/30/05
Grady Memorial Hospital	50	12/31/04
Great Plains Regional Medical Center	66	6/30/05
Integrus Clinton Regional Hospital	49	6/30/05
Jackson County Memorial Hospital	101	6/30/05
Memorial Hospital & Physician Group	25	9/30/04
Sayre Memorial Hospital	30	6/30/05
Southwestern Medical Center	165	12/31/04
Southwestern Memorial Hospital	16	9/30/04

OKLAHOMA CITY REGION

HOSPITAL	BEDS	FYE
Bone & Joint Hospital	64	12/31/04
Deaconess Hospital	278	10/31/04
Edmond Medical Center	87	12/31/04
Integrus Baptist Medical Center	560	6/30/05
Integrus Canadian Valley Regional Hospital	40	6/30/05
Integrus Southwest Medical Center	339	6/30/05
Lakeside Women's Hospital	16	12/31/04
Mercy Health Center	297	6/30/05
Midwest Regional Medical Center	212	6/30/05
Norman Regional Hospital	337	6/30/05
Oklahoma Heart Hospital	78	12/31/04
OU Medical Center	574	12/31/04
Park View Hospital	25	6/30/05
St. Anthony Hospital	543	12/31/04

SOUTHEAST REGION

HOSPITAL	BEDS	FYE
Choctaw Memorial Hospital	34	6/30/05
Eastern Oklahoma Medical Center	84	6/30/05
Haskell County Hospital	29	6/30/05
Holdenville General Hospital	15	6/30/05
Integrus Marshall County Medical Center	21	6/30/05
Mary Hurley Hospital	20	6/30/05
McAlester Regional Health Center	163	6/30/05
McCurain Memorial Hospital	79	6/30/05
Medical Center of Southeastern Oklahoma	120	9/30/04
Mercy Memorial Hospital	140	6/30/05
Pauls Valley General Hospital	50	6/30/05
Purcell Municipal Hospital	30	6/30/05
Pushmataha Hospital	12	3/31/05
Sequoyah Memorial Hospital	11	3/31/05
Stilwell Medical Center	25	6/30/05
Unity Health Center	74	9/30/04
Valley View Regional Hospital	151	9/30/04

TULSA REGION

HOSPITAL	BEDS	FYE
Hillcrest Medical Center	425	12/31/04
Saint Francis Heart Hospital	52	12/31/04
Saint Francis Hospital	666	6/30/05
Saint Francis Hospital at Broken Arrow	64	6/30/05
SouthCrest Hospital	159	12/31/04
St. John Medical Center	557	9/30/05
Tulsa Regional Medical Center	303	12/31/04
Tulsa Spine & Specialty Hospital	10	12/31/04

