American Hospital Association™

Advancing Health in America

AMERICAN HOSPITAL ASSOCIATION
UNCOMPENSATED HOSPITAL CARE COST FACT SHEET

Since 2000, hospitals of all types have provided more than $620 billion in uncompensated care to their patients.

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Each year, the American Hospital Association (AHA) publishes aggregate information on the level of uncompensated care – care provided for which no payment is received – delivered by all types of U.S. hospitals. The data used to generate these numbers come from the AHA's Annual Survey of Hospitals, which is the nation's most comprehensive source of hospital financial data. This fact sheet provides the definition of uncompensated care and technical information on how this figure is calculated on a cost basis.

Please note, this information includes only two components within the universe of benefits that hospitals provide to their communities. While this fact sheet contains important information, it does not account for the many other services and programs that hospitals provide to meet identified community needs. It also may not fully account for other ways in which hospitals provide financial assistance to patients of limited means.[i]

DEFINING UNCOMPENSATED CARE COSTS

What is Uncompensated Care?

Uncompensated care is an overall measure of hospital care provided for which no payment was received from the patient or insurer. It is the sum of a hospital's bad debt and the financial assistance it provides. Financial assistance includes care for which hospitals never expected to be reimbursed and care provided at a reduced cost for those in need. A hospital incurs bad debt when it cannot obtain reimbursement for care provided; this happens when patients are unable to pay their bills, but do not apply for financial assistance, or are unwilling to pay their bills. Uncompensated care excludes other unfunded costs of care, such as underpayment from Medicaid and Medicare.

Bad Debt and Financial Assistance

The AHA combines the hospital's bad debt and financial assistance costs to arrive at the hospital's total costs of unreimbursed care provided to patients. In terms of accounting, **bad debt** consists of services for which hospitals anticipated but did not receive payment. **Financial assistance**, in contrast, consists of services for which hospitals neither received, nor expected to receive, payment because they had determined the patient's inability to pay. In practice, however, hospitals often have difficulty in distinguishing bad debt from financial assistance.

Hospitals provide varying levels of financial assistance, which must be budgeted for and financed by the hospital depending on the hospital's mission, financial condition, geographic location and other factors. Hospitals have processes in place to identify who can and cannot afford to pay, in advance of billing, in order to anticipate whether the patient's care needs to be funded through an alternative source. Hospitals also continue efforts to identify patients who are unable to pay during the billing and any collection process. Depending on a variety of factors, including whether a patient completes an application for financial assistance, care may be classified as either financial assistance or bad debt. Bad debt is often generated by medically indigent and/or uninsured patients, making the distinctions between the two categories arbitrary at best.

Uncompensated care data are sometimes expressed in terms of hospital charges, but charge data can be misleading, particularly when comparisons are being made among types of hospitals, or hospitals with very different payer mixes. **For this reason, the AHA data on hospitals' uncompensated care are expressed in terms of costs not charges.** It should be noted that the uncompensated care figures do not include Medicaid or Medicare underpayment costs.

CALCULATING UNCOMPENSATED CARE COSTS

Uncompensated care is first calculated on a hospital by hospital basis. Bad debt and charity care are reported as charges in the AHA Annual Survey. These two numbers are added together and then multiplied by the hospital's cost-to-charge ratio, or the ratio of total expenses to gross patient and other operating revenue.

- Uncompensated Care Charges = Bad Debt Charges + Financial Assistance Charges
- Cost-to-Charge Ratio = $\dfrac{\text{Total Expenses Exclusive of Bad Debt}}{\text{Gross Patient Revenue + Other Operating Revenue}}$
- Uncompensated Care Costs = Uncompensated Care Charges x Cost-to-Charge Ratio

Combining bad debt and financial assistance to arrive at the hospital's total uncompensated care cost allows for comparability across hospitals.

Please refer questions regarding this fact sheet to: Aaron Wesolowski, AHA Policy Division, at awesolowski@aha.org or (202) 626-2356.

National Uncompensated Care Based on Cost[ii]: 1995-2017 (in Billions), Community Hospitals[iii]

Year	Hospitals	Uncompensated Care Cost
1995	5260	$17.4
2000	5012	$21.6
2001	4986	$21.5
2002	5020	$22.4
2003	5018	$24.9
2004	5104	$27.0
2005	5374	$29.3
2006	5350	$31.6
2007	5322	$34.4
2008	5396	$36.8
2009	5362	$39.5
2010	5371	$39.8
2011	5376	$41.6
2012	5367	$46.3
2013	5359	$46.8
2014	5308	$43.2
2015	5280	$36.1
2016	5267	$38.4
2017	5262	$38.4

Source: AHA Annual Survey Data, 1995-2017

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[i] Financial assistance is included as a community benefit that non-profit hospitals and health systems report on IRS Form 990 Schedule H. Other Schedule H community benefit activities include: participation in means-tested government programs, like Medicaid; health professions education; health services research; subsidized health services; community health improvement activities; and cash or in-kind contributions to other community groups. A 2017 Ernst & Young study analyzed Schedule H filings to estimate the federal revenue foregone due to the tax exemption of non-profit hospitals as well as the community benefits they provide. The analysis found that in 2013 the estimated tax revenue foregone due to the tax exempt status of non-profit hospitals was $6.0 billion, but that the associated community benefit provided by those hospitals was $67.4 billion – 11 times greater than the value of tax revenue foregone. (https://www.aha.org/system/files/2018-02/tax-exempt-hospitals-benefits.pdf)

[ii] The above uncompensated care figures represent the estimated cost of bad debt and charity care to the hospital. This figure is calculated for each hospital by multiplying uncompensated care charge data by the ratio of total expenses to gross patient and other operating revenues. The total uncompensated care cost is arrived at by adding together all individual hospital values. The uncompensated care figure does not include Medicaid or Medicare underpayment costs, or other contractual allowances. Moreover, the figure does not take into account the small number of hospitals that derive the majority of their income from tax appropriations, grants and contributions.

[iii] This analysis uses a revised methodology for defining hospitals. The AHA previously employed its own methodology to classify hospitals as "registered". Going forward, the AHA will use the more generally known and accepted definition: "An institution is a hospital if it is licensed as a general or specialty hospital by the appropriate state agency and accredited by one of the following organizations: the Joint Commission Healthcare Facilities Accreditation Program, DNV Health Accreditation, Center for Improvement in Healthcare Quality Accreditation, or Medicare certified as a provider of acute services under Title 18 of the Social Security Act." As a result of the application of the new, broader hospital definition, the number of hospitals included in this analysis increased by approximately 700, with 400 of those being community hospitals.