Uncompensated Care and Related Issues

- Overview
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Uncompensated Care: Overview

- Uncompensated care – charges for which hospitals do not receive reimbursement:
  - Includes charity care and bad debt.
  - Sometimes includes undercompensated care associated with government payers.

- Connecticut law and regulations require hospitals to report uncompensated care information (charity care and bad debt) to the Office of Health Care Access (OHCA).

CT Hospital Uncompensated Care Costs (UCC), 2010-2013

YEAR	TOTAL STATEWIDE UCC*	UCC % OF TOTAL HOSPITAL EXPENSES
FY 10	$ 249,782,666	2.8%
FY 11	$ 221,419,111	2.4%
FY 12	$ 233,601,390	2.3%
FY 13	$ 217,388,515	2.2%

* UCC includes charity care and bad debt

(Source: OHCA data)

History: Uncompensated Care Pool

- Created in 1991; originally funded by a mandatory assessment (almost 31%) on payments to hospitals by private payers.
- The monies received were then redistributed to hospitals as disproportionate share (DSH) payments in proportion to the individual level of un- and under-compensated care they provided. This entitled the state to federal matching funds.
- Several legislative changes in 1992 and 1993
  - Part of the assessment was converted to a sales tax (to allow pool to continue to pay for government underpayments)
  - Assessment amount decreased to 12.6% (plus 6% sales tax)

History: Uncompensated Care Pool cont.

- In 1992, a health care employees union filed a federal lawsuit arguing that under the Employee Retirement Income Security Act (ERISA), it was illegal for the state to collect an uncompensated care surcharge on hospital bills covered under an employee welfare benefit plan.

- In 1994, the Federal District Court (Judge Cabranes) held the pool was preempted by ERISA.

History: State Response and Additional Litigation

- 1994 legislation terminated the pool and replaced it with a General Fund appropriation for uncompensated care.
  - Maintained 6% sales tax on hospital services; established 11% tax on hospital gross earnings.

- Connecticut Hospital Association sued, alleging this law was also preempted by ERISA. The Federal District Court (Judge Covello) held that it was preempted.

History: 1995 U.S. Supreme Court Case

- Concerned New York statute imposing surcharges on hospital bills paid by commercial insurers and HMOs, in order to compensate hospitals for state-imposed limits on what they could charge patients covered by Blue Cross and Blue Shield plans.

- Court held that the surcharge provision was not preempted, as it did not "relate to" employee benefits plan within the meaning of ERISA preemption.

History: Case's Impact on Connecticut

- Shortly after the Supreme Court's decision, the Connecticut legislature restored the uncompensated care program.

- Later that year, the Second Circuit reversed the earlier District Court decisions on Connecticut's uncompensated care statutes, and held that ERISA did not preempt these laws.

Later Developments

- Hospital gross earnings tax rate phased out between 1996 and 2000.
- Sales tax rate on patient care services reduced; tax suspended for FY 02 and FY 03, then eliminated.
- Some small funding programs for hospitals.
- State continued to receive a federal match on certain hospital appropriations.

Current Hospital User Fee

- Quarterly fee on hospital net patient revenue, administered by the Dept. of Social Services.
- Applies to all short-term general hospitals except Connecticut Children's Medical Center and John Dempsey Hospital.
- Took effect July 1, 2011 (PA 11-6, as amended by PA 11-44 and PA 11-61).
- Initial rate was 5.5% of inpatient revenues and 3.83% of outpatient revenues (some financially distressed hospitals are exempt from the outpatient portion).

Current Hospital User Fee cont.

- According to OFA, the fee was expected to raise about $349.1 million annually.
- The proceeds would be returned to hospitals under the DSH program.
- The state was then able to claim a 50% federal match on this amount plus $50.4 million in supplemental Medicaid payments.
- These federal matching funds ($199.75 million) resulted in gains of:
  - $149.4 million for the state and
  - $50.4 million for hospitals (hospitals with a higher % of Medicaid patients had larger net gain; some net losers).

Current Hospital User Fee cont.: Later Developments

- DSH account phased out from FY 13 to FY 15
  - $268 million to $134 million to 0.
- No more federal match.
- Effect: Hospital user fee no longer produces net revenue gain for hospitals.
- Current legislative proposals to change user fee.

More Information

- Kaiser Family Foundation, *Uncompensated Care for the Uninsured in 2013: A Detailed Examination*
- OLR Reports
  - 2004-R-0169: *Hospital Uncompensated Care and Related Issues*
  - 2013-R-0407: *Hospital Funding in Other States*