

**Statewide Hospital Indigency
Policy for North Carolina:
Fairer and More Fiscally Prudent**

Presented to

North Carolina Medical Care Commission

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Hospital Care: The Unaffordable Necessity

Hospital costs are unlike any other consumer purchases

- » Product/service is not optional
- » Credit is automatic, not tied to ability to pay
- » Retail is artificially inflated to reflect heavy discounting, yet retail never goes on sale

The cost of hospital encounters is beyond the immediate resources of most Americans

- » Obvious for uninsured
 - » Increasingly clear for underinsured
 - » Becoming an issue for “fully insured”
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Kaiser Health Tracking Poll:

Election 2008 finds more people are reporting problems with health care bills, and paying for health care retains a solid hold on the public's list of their top economic concerns.

About one in three Americans now report their family has had problems paying medical bills in the past year, up from about a quarter saying the same two years ago. Almost one in five (18%) of Americans report household problems with medical bills amounting to more than \$1,000 in the past year.

Nearly half (47%) of the public reports someone in their family skipping pills, postponing or cutting back on medical care they said they needed in the past year due to the cost of care. For example, just over one-third say they or a family member put off or postponed needed care and three in ten say they skipped a recommended test or treatment – increases of seven percentage points from last April's tracking poll which asks the same question.

Plight of the Patient

- » Unavoidable need for hospital care
- » No price competition in most situations
- » Pricing cannot be explained except in relation to elaborate formulas designed to maximize “cost reimbursement” from group purchasers
- » No such thing as an inexpensive hospital stay
- » Insured market increases prices for uninsured market and exacerbate affordability issues
- » Fully insured – no longer guarantees financial protection

Plight of the Hospitals

- » Must provide:
 - » Emergency care, by law
 - » Non-elective care, by community standard and to preserve non-profit status
- » Every patient, even “fully insured,” is advanced credit
- » Many purchasers pay less than cost for many services
- » To be viable, must offer many unprofitable services, such as emergency room
- » Many efficiencies impossible, unachievable
- » Vicious pricing cycle: charges inflate faster than costs

Plight of the State

- » Guarantor of access, quality, cost through Medicaid
 - » To protect access, must care about economic viability of hospitals
 - » To protect quality, must enforce rigorous, often expensive standards
 - » To protect cost, must stretch state dollars, both Medicaid & SCHIP and hospital subsidies
- » Can only get two out of three, e.g. accessible, high quality care can not be obtained cheaply
- » Weakening economy – state budget cuts worsen problem
- » Health care is #2 spending item behind education

Headlines from Around the States

South Carolina Faces \$160M Budget Cut

South Carolina Gov. Mark Sanford must decide by Thursday whether to sign a budget that would slash \$160 million in health care, including an 8.1% cut to Medicaid and a 10.8% cut to the Department of Mental Health. Programs to help autistic children, the elderly who need prescription drugs and low-income workers may be hit.

Illinois Hospital fights for non-profit status

"The Illinois Constitution and years of case law make clear that tax-exempt hospitals have a legal obligation to provide significant charity care in return for their tax exemption," said Madigan in a statement. "The Department of Revenue carefully and correctly applied this Constitutional standard and concluded that Provena fell far short of meeting its obligation to provide this care to the poor, and thus should not hold tax-exempt status."

Headlines from Around the States

University of Iowa Hospitals to cut \$25 million in expenses

Increased costs are due, in part, to expanded units, such as the neonatal intensive care. The hospital has seen more indigent patients, for whom it doesn't get full reimbursement from the state. Iowa Care, a program for low-income people without health insurance, saw an 11.4 percent quarterly increase.

Officials seek help for Pontiac, MI-based hospital

Some 800 employees worked at the hospital, the oldest in Oakland County. It opened in 1910. It has struggled for years as Pontiac's population has shifted to a poorer, more uninsured community.

Hawaii's Hard Health-Care Lesson

Hawaii dropped universal health care for children after discovering that newly-eligible families (\$73,000 + in income) were dropping private coverage to join.

Headlines Close to Home

N.C. workers losing insurance (News-Observer)

The report found that the proportion of employees in the state with job-based insurance fell 6.7 percentage points between 2002 and 2004, leaving the work force with 559,000 fewer people with employer-sponsored health coverage.

But the same story seemed even worse as reported elsewhere

Workers losing health benefits rapidly in North Carolina (Triangle Business Journal)

The percentage of people covered by employer-sponsored health insurance in North Carolina in 2006-07 was 59.1 percent, which was 2.8 percentage points lower than the national average and 7.6 percentage points below where the state's rate was in 2000-01... And those numbers are likely to have declined even further...the current economic mess and higher unemployment rates will push down the percentage of workers with employer-sponsored health plans.

Hospital Solvency

- » Hospitals and other health care providers are increasingly saddled with more bad debt and uncompensated care, a trend that hospitals say can't continue indefinitely without destroying the system.
- » It has an impact on everyone in the community because hospitals have to turn around and charge more to people with insurance.

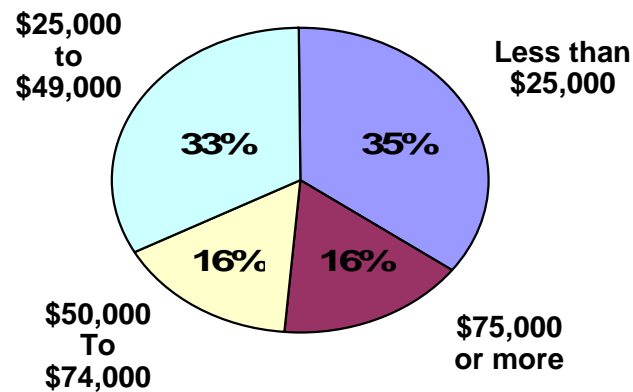
“The level of charity care is so expensive for our hospitals and our clinics that it's unsustainable. We have to find every last dollar that's available.”

-----community leader in Texas

Many Uninsured Can Pay All or Part of Their Bills

Uninsured by income level

The 47 million Americans who lack health insurance span a wide range of incomes. Percentage breakdown, by household income.



Sources: U. S. Census Bureau; NIHCM Foundation

Rolling the dice and foregoing insurance is something a growing number of middle-class people with incomes of \$50,000 a year or greater are trying. That segment is the fastest-growing group among the nation's 47 million people without health insurance.

Illinois' Bold Initiative

- » Hospitals must discount uninsured to: cost + 35%
 - » Urban uninsured to 6x FPL (\$124,000/family of 4)
 - » Rural uninsured to 3x FPL (\$63,600/family of 4)
 - » Annual cost for uninsured limited to 25% of gross income
- » Governor vetoed bill; wanted higher eligibility limits; legislature unanimously overrode Governor's veto
- » Questions:
 - » Does this adversely impact the underinsured?
 - » Will co-pays be higher for insured families?
 - » Why should families with \$100K plus assets get discounts?
 - » What about families that can't pay "cost plus?"
 - » Will employees drop their employer coverage?

Well-Meaning Plan; Unfair Results

Defining indigency, as Illinois does, by:

- » uninsured
- » multiples of FPL (Federal poverty level)
- » percentage of gross income

Assures that public policies will be blunt instruments that maximize neither revenue nor fairness

Example: uninsured family of 4 with \$60,000 income, \$75,000 equity in home, \$50,000 in retirement funds and no other assets:

With a \$5,000 hospital bill, they can pay over time (no discount)

With a \$12,500 hospital bill, they will need some discount or reduction

With a \$25,000 hospital, they can afford to pay only a portion of the cost

Multi-variable Indigency Policy Needed

- » Indigency is completely situational, varying by:
 - » Insurance coverage (none, partial, full)
 - » Income
 - » Assets
 - » Size of bill
 - » Other debts
 - » Family size
 - » Eligibility for public programs
 - » Timeframe for payment
 - » With similar variables, financial services industry routinely determines “ability to pay” every day
-

Hospital Revenue Matters ...and Fairness Matters, Too

- » Indigency policies require tools that:
 - » are multi-variable
 - » are applied to all patients
 - » are applied prospectively and with consistent
 - » are transparent and can be explained
 - » are easily and completely auditable
 - » facilitate full and partial payments over time
 - » rationalize bad debt, charity care, discounts
- » Public policy needs to be based on tools that promote fair indigency policies and maximize hospital revenue in situations where patients have the ability to pay

Equality of Treatment Is Not Always the Same as Fairness

The law, in its majestic equality, forbids the rich as well as the poor to sleep under bridges, to beg in the streets, and to steal bread.

---Anatole France

Final Thought:

Have we really done what is in the best interest of the patient:

.....if we heal them medically.....
but we break them financially?

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