

Hospitals and the Uninsured: One Hemorrhage at a Time, Please

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Hospitals' promise to the uninsured: our open-to-everyone doors will never close on you. The bleeding reality: the closing doors of other providers and the narrowing reimbursement streams threaten hospital services, not only for the uninsured, but also for the insured.

North Carolina's safety net hospitals are straining under the weight of the rapidly rising numbers of uninsured and climbing demands and shrinking Medicare and Medicaid reimbursements. In addition to facing higher treatment costs, hospitals today are further stretched when other providers either cannot or elect not to continue services to specific populations. Hospitals are *their* safety net also.

One Hospital's Story

Centered in the state's southeastern coastal plain, Duplin county is agrarian, home to more than 50,000 residents. Agricultural jobs here make up over 16% of the workforce, a rate 23 times higher than the state average. Unemployment has fallen in recent years, but residents vividly recall 2000 and 2001 when the county's 23.1% and 24.8% respective joblessness rate ranked worst and next-to-worst in the state. The county also has one of the state's fastest growing immigrant populations. Hispanics, the majority of whom are uninsured, comprised 15.1% of Duplin county residents in 2000 and 18.6% in 2004, numbers that—like farm jobs—are several multiples higher than the state's 4.7% average.

Duplin General Hospital in Kenansville attempts to serve everyone. Eighty-nine of its 101 licensed beds are staffed and open. Twenty of those are for mental health patients, 20 are for those needing skilled nursing care, and nine are for intensive care patients. The hospital's emergency department welcomes 15,000 visitors annually. The surgery suites see 2,200 cases. The hospital discharges 4,200 patients annually and serves 48,000 outpatient visitors—almost one visit for every county

resident each year. A more classic example of a "safety net hospital" does not exist.

Two categories of hospital services reveal distinctly different problems facing this hospital. Duplin General delivers between 600 and 700 babies each year. Obstetrics services seldom cover their costs. The percentage of births from the largely uninsured Hispanic population has mushroomed. In 2001, 33% of births at Duplin General were Hispanic. Births to the Hispanic population surpassed 40% in 2002. Over the past three years, more than half of the deliveries were by Latino mothers.

Meanwhile, Medicare and Medicaid patients are turning to

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the hospital's emergency department in greater numbers. Physician reimbursement rates that have either declined or failed to keep pace with rising costs are constricting access to primary care for these populations. These older, poorer, often sicker patients turn to hospital emergency departments when other healthcare options are closed. In the past year at Duplin General, Medicare patients accounted for 27% of emergency department visits; Medicaid patients 20%; and self-pay patients—the hospital field's euphemism for the uninsured—counted for 24%.

Similar percentages are setting off alarms all over the state. In the aggregate, North Carolina hospital emergency departments

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saw Medicare visits climb to 24%; Medicaid to 22%; and uninsured to 22%. All three groups' usage of emergency departments grew markedly—Medicare by 11%, Medicaid by 6%, and the uninsured by 10%. Combined, Medicare, Medicaid, and uninsured patients accounted for 2,169,006 of 3,432,486 emergency department visits in North Carolina hospitals last year.

For Duplin General, these numbers reflect not only growth among the county's uninsured population, but rising percentages of patients on Medicaid. The hospital's payer mix is over 40% Medicare, and Medicaid patients have reached or surpassed 20% each of the past five years. The hospital receives just over 85 cents on each dollar of its costs from these federal-state-local partnership payers. In one recent year, Medicaid reimbursement to the hospital was more than \$750,000 below the incurred treatment cost for Medicaid patients. Statewide, hospital payments from Medicaid in 2005 fell almost \$300 million below hospitals' costs. The estimated Medicare reimbursement shortfall ranges from slightly higher than the Medicaid shortfall to more than double that amount.

And, while government payments falter, Duplin General is seeing its totals for the conjoined twins of bad debt and charity care skyrocket. In 2000, their combination was more than \$4 million. Bad debt and charity care totals surpassed \$5 million the following year, eclipsed \$6 million in 2003 and \$7 million in 2004. This year the hospital expects bad debt and charity care to total \$7.5 million. Statewide, hospitals provided more than \$350 million in charity care in 2005 and estimated that bad debt costs were more than \$530 million.

The combination of these losses has devastated the hospital's financial picture, drowning the \$1.5 million excess of revenues over expenses in 2000 under a four-year pool of red ink. In 2003 and 2004, the hospital lost \$2.2 million and \$2.4 million, respectively. The depth of red ink decreased in 2005 before plunging to a loss of more than \$600,000 through the first half of this fiscal year.

For Duplin General, the dollars are the easily countable portions of the effects of rising numbers of uninsured patients and inadequate government payments for Medicare and Medicaid patients. Harder to enumerate are the uninsured patients who do not have a family physician, although most will come to the hospital's emergency department for primary care. This inappropriate use overcrowds the facility and frustrates emergent patients, increasing dissatisfaction and fueling more liability cases. The low physician reimbursement rates, combined with climbing liability insurance coverage costs, push physicians away from private practice. The hospital finds itself forced to employ physicians, lose money, cut margins, and eliminate services. Some of the costs get shifted to other payers, making

premiums spike and prompting employers to drop coverage for their workers. More people without insurance are the result. Not fixing one problem makes another accelerate exponentially.

The cascading financial woes that attend high Medicare, Medicaid, and uninsured populations push hospital trustees into difficult decisions regarding which services to continue and which to eliminate. Duplin General Chief Executive Officer Doug Yarbrough revealed his hospital has already dropped its physician clinic and its diabetes program. They are now squinting suspiciously at any other non-emergent service that does not cover expenses.

Widespread Misery

Duplin General is neither alone nor the worst case. Consider two measures of utilization for uninsured patients—the percentage of hospital charges in the self-pay category and the percentage of patient days in self-pay. Tracking those measures through general acute care patients and for all patients reveals how remarkably representative of North Carolina hospitals Duplin General is. Responses to the North Carolina Hospital Association's Advocacy Needs Data Initiative Survey indicate that 24 of 103 other hospitals in the state had greater percentages of charges in the self-pay category for general acute care and 32 others of 106 had greater percentages of charges for self-pay across all care. Duplin General is even more mainstream when viewed through the percentage of patient days prism. Forty-nine of 102 other hospitals had greater percentages of self-pay patient days for general acute care and 70 of 105 other hospitals had greater percentages of self-pay patient days for all categories of care.

The impact on a hospital's operating margin from high Medicare, Medicaid, and uninsured percentages is not subtle. In 2003, North Carolina hospitals with these high percentages averaged -0.6% from operations. The year 2004 was drastically worse, with a -3.3% average operating margin. Thanks to voluntary reporting of quality indicators opening access to a full market basket update on Medicare payments, 2005 average operating margins for hospitals with these high percentages were -0.5%. Hospitals with moderate percentages of Medicare, Medicaid, and uninsured patients averaged positive but narrow margins, while hospitals with the lowest percentages of these patients averaged operating margins of almost 5% or greater.

Such widespread misery—brought on by government underpayment for Medicare and Medicaid and government indifference toward the uninsured and those who serve them—jeopardizes care for all North Carolinians. **NCMedJ**