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Uncompensated Care: Prepare to Tell Your Story

Consistent Reporting Can Help Protect Your Reimbursement Dollars

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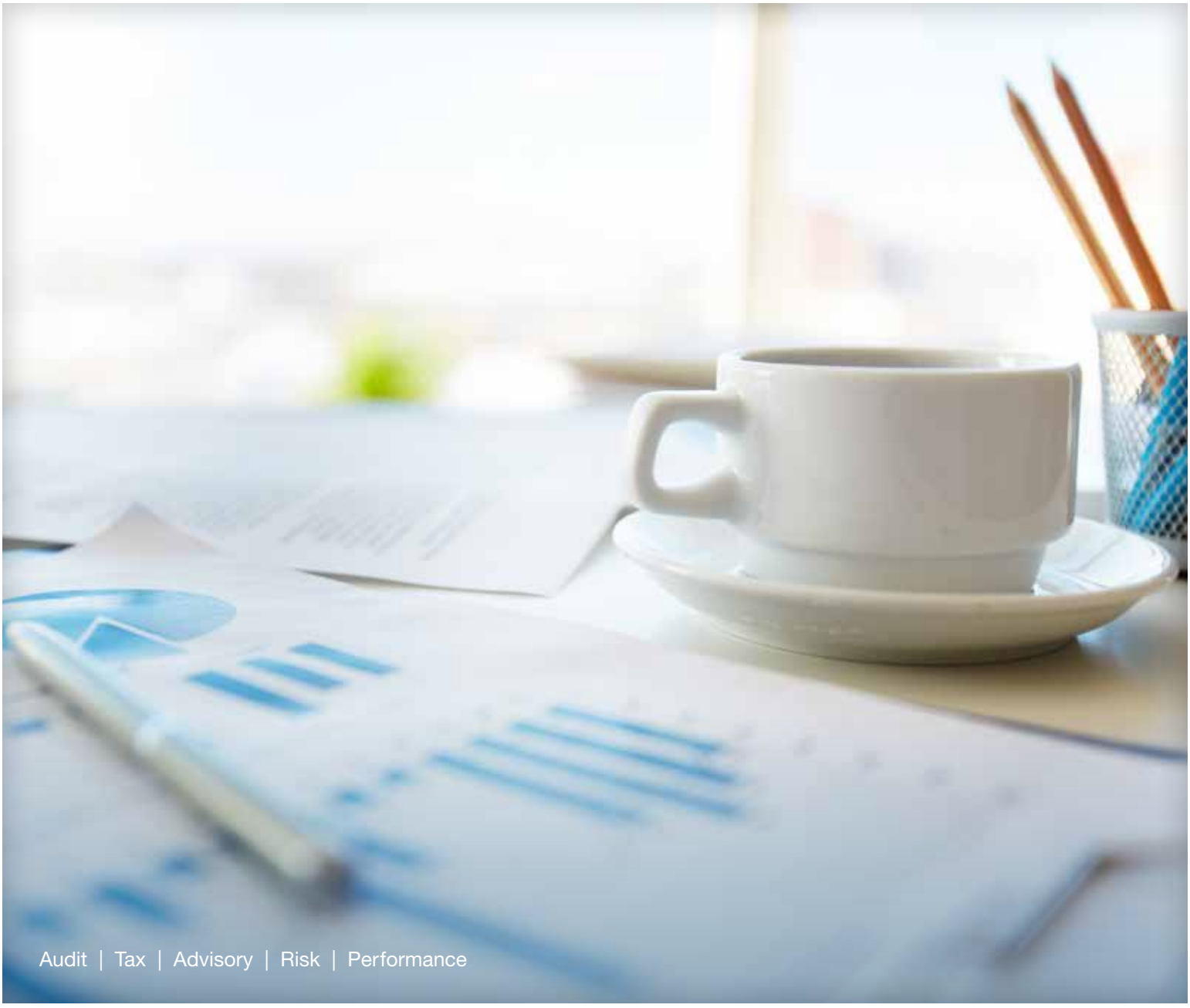

There is no question that changes brought about by the Affordable Care Act (ACA) are reshaping providers' experiences with uncompensated care, including both bad debt and charity care. These changes are affecting how not-for-profit hospitals and health systems must monitor financial performance and document compliance with the regulations governing their tax-exempt status.

Hospitals, particularly in states with expanded Medicaid benefits, are likely to experience an increase in uncompensated care as well as a change in how uncompensated care manifests.

The introduction of health insurance exchanges and the expansion of Medicaid in 30 states as a result of the ACA have increased the number of insured patients. However, many of these newly insured patients are enrolled in high-deductible health plans (HDHPs). The shift puts significantly more financial responsibility for healthcare expenditures on patients themselves.

As a result, an increasing proportion of uncompensated care can be attributed to patients who are enrolled in HDHPs and are unable to shoulder their share of the responsibility – rather than to uninsured patients.

To ensure that they receive all of the reimbursements they are entitled to, hospitals must implement improvements to monitor these shifts through effective data capture and reporting that accurately reflects the changes. Uncompensated care will influence incentive payments for the meaningful use of electronic health records and will be used to determine future Medicaid Disproportionate Share Hospital (DSH) payments as well.

Look Carefully at Data

Many of the improvements hospitals can make involve looking more carefully at their data. A common problem that holds many institutions back is a lack of coordination and communication among the various functions that prepare the organization's cost reports, tax returns, and financial statements.

Each of these functions has some responsibility for reporting on uncompensated care. However, their reports are filed at different times of the year and often are based on disparate data sources. As a result, hospitals frequently find themselves with several different sets of numbers for uncompensated care. These discrepancies can draw unwanted attention and put the organization at risk for reduced reimbursement and not being able to demonstrate the amount of uncompensated care being provided.

Increased scrutiny by the Internal Revenue Service, the Centers for Medicare & Medicaid Services, and the news media necessitates that hospitals get ahead of this issue. Hospitals must define a cohesive information path, establish a single data set for uncompensated care reporting, understand the underlying data, and isolate this data so that bad debt and charity can be reported consistently across the organization.

Increase Communication and Coordination

The first step in making improvements that will lead to full reimbursement is increasing communication and coordination among the accounting, reimbursement, and tax functions. A significant aspect of this communication includes education in patient accounting to make sure the individuals who support these functions recognize the evolving distinctions between contractual allowances and uncompensated care, and that they understand how best to use transaction codes for contractual allowances, bad debt, and charity care.

Next, hospitals should establish a mechanism to segregate data on HDHPs. In many cases, patient accounting specialists may not be aware that a write-off that appears to be contractual because it is related to an insurance plan is actually bad debt because it is part of a deductible for which the patient is responsible. What should be categorized as bad debt or charity might be mapped incorrectly to a contractual allowance and be lost in the patient accounting detail. As a result, it could appear that the hospital is providing less uncompensated care than it actually is.

The timing of financial statements, cost reports, and tax returns also can create confusion in the uncompensated care domain. Financial statements often are prepared a month or two after the end of the fiscal year, while cost reports are due five months and tax reports nine months after year-end. Thus, the numbers for uncompensated care will be different for each of these reports and require reconciliation.

In addition, the time required for resolving uncompensated care information can yield different numbers at different points in time. It might take three or four months before an account runs through the patient accounting cycle and is written off. Hospitals must create a single process to refresh their data for the different types of filings in order to capture the most current information.

Be Ready to Explain

In light of recent court rulings in which hospitals in Illinois and New Jersey1 lost their exemptions from property taxes due to the value of the exemptions exceeding expenditures for charity care, it is essential for providers to understand how the nature of and reporting for uncompensated care is changing in the ACA era. They must be prepared to use effective data capture and accurate reporting to tell their story of uncompensated care and demonstrate their support for the communities they serve.

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