



Policy Research Perspectives

Medical Care for the Uninsured: Who Pays for it and How Will Spending Change Under Universal Coverage?

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Introduction

A recent *Health Affairs* web exclusive examines how medical care received by the uninsured is financed, and how the value of care received by that population would change under full coverage. The authors estimate that the uninsured will consume \$176.1 billion in medical care during 2008, and that between \$54.3 and \$57.4 billion of it will be uncompensated. If insured, medical spending on this population would increase by \$122.6 billion to \$298.7 billion. This increase would amount to 5.1% of national health spending and 0.8% of GDP. This Policy Research Perspective provides a summary of the paper, and contrasts its estimate of physician provided uncompensated care to the uninsured with American Medical Association (AMA) estimates of uncompensated care to the patient population at large, both insured as well as uninsured.

Uncompensated Care

Hadley et al (2008) rely on budgetary information on federal health programs and surveys of hospitals and physicians to estimate the amount of uncompensated care provided to the uninsured by those three sources. The authors project that such uncompensated care in 2008 will be \$57.4 billion. The greatest amount of care is provided by the hospital sector, \$35.0 billion, followed by community providers, \$14.6 billion, and private office-based physicians, \$7.8 billion.

The AMA estimates that physicians will provide uncompensated care valued at \$48.9 billion in 2008, about half from charity care and half from care which results in bad debt.¹ This is obviously much larger than the \$7.8 billion estimate in the article by Hadley et al. Although there are a number of factors that contribute to this difference, there are two main reasons that account for it. First, while the AMA's estimate is based only on AMA data, the estimate by Hadley et al is based on two sources, one the AMA and the other the Center for Studying Health System Change (CSHSC). Because of different survey methodologies, the CSHSC estimates are smaller than the AMA's, which causes the estimate by Hadley et al to be smaller as well. Second, while

¹ Charity care is care provided for free or at a reduced fee due to the financial need of the patient. It excludes care provided to Medicaid and Medicare patients.

the focus of the article is on the uninsured, physicians actually provide uncompensated care to a broader set of persons including the insured as well as the uninsured. The AMA measure focuses on that broader set. The following section examines the differences between the estimates in greater detail.

Using data from the AMA's Socioeconomic Monitoring System Survey (SMS), Emmons (1995) showed that the 68% of physicians who provided charity care in their most recent week of practice in 1994 provided an average of 7.2 hours per week. In contrast, using CSHSC data, Reed, Cunningham, and Stoddard (2001) estimated that over the 1996-1999 period, the 75% of physicians who provided charity care in the prior month provided an average of 11 hours per month. Dividing this by 4, this is approximately 2.6 hours per week. AMA data from 1999 are similar to that from 1994, suggesting that the AMA-CSHSC difference is due to the different time frames asked about, week vs. month, not the year of the survey.

Combining the information on charity care hours (7.2 per week) with that on physician earnings and the number of physicians, Emmons estimated that physicians provided \$11.3 billion in charity care in 1994. In their earlier work, the Health Affairs authors (Hadley and Holahan 2003) used this AMA estimate, and assumed that just under two-thirds of physician charity care was provided to the uninsured.² This works out to \$7.3 of the \$11.3 billion. Adjusting the \$7.3 billion for inflation, they valued physician provided charity care to the uninsured at \$9.1 billion in 2001. Using the CSHSC estimate for the 1996-1999 period (2.6 hours per week), they applied the same methodology as Emmons to account for earnings and number of physicians, and after adjusting for inflation arrived at an estimate of \$4.5 billion for 2001. The AMA-based estimate is twice as large as the CSHSC-based estimate because of the different reference periods with which charity care was asked about. Hadley and Holahan averaged the two estimates to get \$6.8 billion. As in their 2008 paper they also estimated care provided to the uninsured by hospitals or federally funded community health clinics. They recognized that some physicians who provide charity care are employees of those organizations and in order not to "double count" the value of their uncompensated care, they reduced the amount of physician provided charity care by 25%, to arrive at a final 2001 value of \$5.1 billion for physicians. Inflated to 2008, this is \$7.8 billion.

This estimate would be larger if it were based only on the AMA data from the 1990s, and if the care provided by employed physicians were attributed to them rather than to their employers. These two changes would result in \$13.9 billion of physician provided charity care to the uninsured in 2008, rather than \$7.8 billion.³ It's important to recognize that physicians also provide charity care to *insured* persons. This could take the form of waived copayments, coinsurance amounts, or reduction in fees for non-covered services. Including the value of charity care for insured persons adds another \$7.7 billion, for a total of \$21.6 billion in charity care in 2008.⁴ Using more recent AMA data on charity care from 2001 rather than carrying forward the AMA data from the 1990s, this estimate is slightly different, \$24.4 billion.

Physicians also incur bad debt in their practices. Bad debt is payment that was expected, but not received. It is distinct from charity care (where full payment is not expected) and does not include the difference between the full charge for a service, and the fee schedule amount from a payer. Similarly, it does not include the difference between the fee schedule amount from a

² They assume that 100% of free charity care, and 1/3 of reduced fee charity care, is provided to the uninsured. This is equivalent to 2/3 of all charity care.

³ \$7.3 billion adjusted for inflation to 2008 is \$13.9 billion.

⁴ \$4.0 billion (\$11.3 - \$7.3 billion) in charity care was provided to the insured in 2001. Adjusted for inflation to 2008, this is \$7.7 billion).

private payer and the (lower) amount from Medicare or Medicaid. Self-employed physicians incurred an average of \$58,180 in bad debt in 2001.⁵ Adjusting this for inflation and the number of self employed physicians leads to an estimated \$24.5 billion in bad debt in 2008. Combined, therefore, we estimate that physicians provided \$48.9 billion in uncompensated care in 2008, split about equally between charity care (and about half of that to the uninsured) and bad debt.

Insuring the Uninsured

Using 2002-2004 Medical Expenditure Panel Survey (MEPS) data, Hadley et al estimate 2008 total medical spending and spending per capita for various segments of the population: full-year insured, part-year insured, and full-year uninsured.⁶ On a per-capita basis, the full-year uninsured consume less than half as much care as the full-year insured, \$1686 compared to \$4463 per person. Thirty-five percent of the value of medical care received by full-year uninsured persons, \$583 per person, is paid out-of-pocket and the rest is uncompensated. The authors estimate that adding in uncompensated care received by part-year insured persons while they are uninsured leads to a total of \$54.3 billion in uncompensated care to the uninsured in 2008—close to the \$57.4 billion estimate based on budgetary data and hospital and physician surveys.

Using econometric models to account for the influence of demographic, health, and socioeconomic characteristics, Hadley et al estimate how much medical care the uninsured would consume if they were fully insured. Care for the full-year uninsured would more than double, increasing by \$1987 to \$3673 per capita. Care for the part-year insured would increase by \$1146 to \$4129. In total, the authors estimate that spending on the uninsured—full-year and part-year—would increase by \$1595 per capita or by \$122.6 billion in the aggregate.

Discussion

The updated work of Hadley et al (2008) is timely. As we near the 2008 election, an increasing amount of discussion is focused on the cost of funding health insurance expansion. In contrast, Hadley et al address the issue of how health insurance expansion will affect the consumption of medical care. They value that additional consumption at \$122.6 billion, or 5.1% of current total health care spending. The authors point out that the 5.1% increase is smaller than the average annual increase in health care spending since 2000. The additional resource cost of insuring the uninsured is not out of bounds.

This estimate assumes that the uninsured's new coverage is similar to that of current lower- and lower-middle-income insured people in terms of benefits and cost structure. If new coverage were to differ on those or other dimensions, additional consumption could either be higher or lower. This, of course, depends on the details of health reform package that is enacted.

Hadley et al also estimate that the uninsured will consume approximately \$56 billion in uncompensated care in 2008, \$7.8 billion of that from private practice physicians. Data from AMA physician surveys suggests this is a lower-bound. First, it is partially based on data that underestimates the number of hours physicians spend providing charity care to their patients. Second, it counts the contributions of employed physicians toward their employers. Third, the

⁵ Emmons, David W. and Carol K. Kane in *Uncompensated Physician Care*, Economic and Health Policy Research, American Medical Association, January 2007.

⁶ Projections to 2008 were made using the National Health Expenditure Accounts and data from the Current Population Surveys.

authors' estimate should not be misconstrued as the amount of total uncompensated care provided by physicians, who provide uncompensated care to the insured as well as the uninsured. AMA data suggest that physicians will provide \$48.9 billion in uncompensated care in 2008, split about equally between charity care (and about half of that to the uninsured) and bad debt.

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⁷ All sources with a web address were last accessed on September 26, 2008.