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findings brief

key findings

- In 1997, the amount California hospitals billed uninsured patients was more than twice the amount hospitals received from Medicare for the same services. By 2010, billed charges had grown to be five times what Medicare paid, which translated into a gap of more than $10,000 per day in the hospital.
- Five years after the passage of the state's Hospital Fair Pricing Act, most California hospitals had financial assistance policies in place to make care more affordable for the state's uninsured population.
- As of 2011, 81 percent of California hospitals reported charging low-income uninsured patients prices that were at or below Medicare rates.
- While not required by the law, nearly all California hospitals reported offering free care to uninsured patients with incomes at or below 100 percent of poverty.

Robert Wood Johnson Foundation

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Protecting Uninsured Patients from High Hospital Charges: Lessons from California

Overview

For millions of uninsured Americans, hospital emergency departments (EDs) are one of the few options for medical care, both urgent and non-urgent. Yet this care may come at a significant price. Unlike their insured counterparts, uninsured and other "self-pay" patients receive hospital bills based on "billed charges." These charges have risen rapidly over time and now bear little relationship to the actual market prices paid by insured patients.[1] For the uninsured, high billed charges may translate into a potentially overwhelming financial burden, particularly for low-income patients who may face massive medical debt and even financial ruin as they seek the care they need.

The Patient Protection and Affordable Care Act (ACA) addresses this issue to some degree through coverage expansions that will reduce the number of uninsured. In addition, the law requires tax-exempt nonprofit hospitals to establish written financial assistance policies for uninsured patients. This provision, however, applies only to nonprofit hospitals and does not mandate specific levels of financial assistance, dictate eligibility rules, or define a process for determining patient charges. Given these limited protections, unaffordable hospital bills are likely to remain a challenge for the millions of Americans who remain uninsured after health reform is fully implemented.

A handful of states have already adopted their own policies for protecting uninsured patients from high hospital charges. In a HCFO-funded study, Glenn Melnick, Ph.D., professor at the University of Southern California, and colleagues assessed the responses of California hospitals to the state's Hospital Fair Pricing Act, legislation passed in 2006 that requires hospitals to develop financial assistance policies to make care more affordable for the state's uninsured population.[2] The law also restricts hospitals' bill collection practices and limits the amounts they can collect from uninsured and low-income patients. As the researchers note, California's approach offers a promising policy option for other states as they consider how best to assist the millions of people who will remain uninsured during and after the implementation of health reform.

California's Hospital Fair Pricing Act

California's law regulating hospital charges is among the most far-reaching in the country. Key provisions include:

- Hospitals must develop formal, written financial assistance policies and post them in visible on-site locations and on a State of California website;
- Hospitals must limit the amounts they collect from patients who are uninsured, patients who have incomes below 350 percent of the federal poverty level, or patients who are insured but have annual medical expenses exceeding 10 percent of family income. For eligible patients, a hospital's maximum prices cannot exceed the payment amount the hospital would receive from any government program, including Medicare and the state's Medicaid program and Children's Health Insurance Program;
- Hospitals cannot charge interest when they work out payment plans with low-income uninsured or underinsured patients;
- In cases when a hospital bill goes to collection, the debt collector is not allowed to garnish a patient's wages except by court order.[3]

Sample and Methods

For their analysis, the researchers examined all California general acute care hospitals with emergency departments, excluding county hospitals, specialty hospitals, and hospitals that are part of the Kaiser Permanente system, which do not report financial data. The 300 hospitals in the study sample provided 80 percent of all emergency care to California's uninsured patients. Using documents submitted by hospitals to the California Office of Statewide Health Planning and Development for the 2010-11 reporting period, the researchers constructed a standardized profile for each hospital that showed its financial assistance policies with respect to the prices charged to uninsured patients at different income levels, relative to the federal poverty level.

Because the California law gives hospitals some flexibility in the structure and reporting of their policies, the researchers developed algorithms to calculate standardized prices for the uninsured at each hospital relative to its Medicare rates at different income points. For hospitals that did not report prices in terms of standard income brackets, the researchers created synthetic income brackets and calculated prices for the middle values of each bracket. They also created an algorithm for imputing missing values when hospitals did not provide detailed information on their prices for the uninsured or omitted price information for some income levels.

The researchers then used 2010 American Community Survey data, California Health Interview Survey data, and ED encounter and hospital discharge data from the state to estimate the number and distribution of uninsured ED patients at each hospital. Based on these distributions, the researchers assigned the number of uninsured ED encounters at each hospital to the discounts for which they would be eligible, according to patients' income levels. The researchers then calculated total visits by income and price across the state and estimated prices for the uninsured population at different income levels across the state. The result was approximate estimates of the aggregate effects of hospital policies across the state.

Results

The researchers found that the gap between hospital billed charges and the amounts paid by Medicare increased substantially between 1997 and 2010. In 1997, billed charges were 237 percent of Medicare payments, while in 2010 that number was more than 500 percent. By 2010, the difference between full billed charges and the amount paid by Medicare was more than $10,000 per hospital day.

In another key finding, the researchers found that most California hospitals adopted fair pricing policies in compliance with the state law, with some hospitals implementing policies that were more generous than required. Eighty-one percent of hospitals reported charging prices that were at or below Medicare rates when an uninsured patient's income was 301-350 percent of the federal poverty level. Thirty-two percent of hospitals reported charging prices at or below Medicare rates when an uninsured patient had an income above 350 percent of poverty. Importantly, while the state's fair pricing law did not require hospitals to provide any free care, 97 percent of all California hospitals reported offering free care to uninsured patients with incomes at or below 100 percent of poverty. Ownership status made little difference in hospitals' policies for free care, though for-profit hospitals tended to charge higher prices when the uninsured had higher incomes.

Limitations

The researchers note that their analysis relied on documents submitted to the state that summarized each hospital's financial assistance policies. In some cases, hospitals did not provide enough detail to assess their compliance with the Hospital Fair Pricing Law. In addition, because the state does not monitor the implementation of hospitals' policies and has limited authority to discipline noncompliant organizations, it is unclear to what extent hospitals' stated policies correlate with the actual prices paid by uninsured patients. Site visits by a coalition of consumer groups in 2008 indicated that nearly half of hospitals surveyed were unable or unwilling to produce their financial assistance policies on request, and 30 percent of the hospitals posted their policies in English only. However, the researchers note that since then, there has been increased media attention to the availability of financial assistance policies, as well as new initiatives by the state and consumer groups to help uninsured patients understand their rights under the law.

Discussion and Policy Implications

The study results provide several insights into how California hospitals responded to state-level government regulation of prices for the uninsured. Five years after passage of the state's Hospital Fair Pricing Act, among the most far-reaching legislation of its kind, California hospitals had developed financial assistance policies that offered the uninsured substantial protection from high prices based on billed charges. Eighty-one percent of hospitals reported billing uninsured patients at or below Medicare rates when their incomes were below 350 percent of the federal poverty level—a key requirement of the law. In addition, while the law does not require hospitals to provide free care, nearly all reported offering free care to uninsured patients with incomes at or below 100 percent of poverty. According to the researchers, the financial assistance policies spurred by the law make it possible for nearly four million uninsured Californians to be eligible for free care, while another 1.3 million uninsured individuals are eligible to receive care at or below Medicare rates.

Study findings also highlight ongoing challenges for uninsured patients with somewhat higher incomes. The researchers found that charges for this population were noticeably higher: 40 percent of hospitals reported charging prices at more than 200 percent of Medicare rates when a patient's income was 351-400 percent of poverty. The researchers estimate that more than 1.3 million uninsured Californians across income levels remain at risk for prices above Medicare rates.

In another important observation, the researchers note that the Hospital Fair Pricing Act regulates only the charges for hospital services. Uninsured patients visiting the ED are also billed for physician services, and may also be billed for radiology, laboratory, or ambulance services, among others. This non-hospital portion generally amounts to 20 to 50 percent of the hospital bill, if not more. California lawmakers subsequently passed legislation that extended the fair pricing requirements to ED physicians. Uninsured patients in other states who do not receive similar protections will continue to face potentially unaffordable bills in connection with ED care.

Conclusion

Despite some protections provided by the ACA, the financial burden associated with high hospital charges is likely to remain a significant challenge for large numbers of uninsured patients. California's fair pricing law, which prompted most hospitals to evaluate their prices for the uninsured, provides a promising model for policymakers in other states looking to implement financial protections for their uninsured and low-income populations.

For More Information

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Endnotes

1 Anderson GF. From "soak the rich" to "soak the poor": recent trends in hospital pricing. Health Aff. 2007; 26 (3):780-9.

2 For complete findings, see Melnick G, Fonkych K. Fair pricing law prompts most California hospitals to adopt policies to protect uninsured patients from high charges. Health Aff. 2013; 32 (6):1101-08.

3 For additional information, see Families USA. Medical debt: what states are doing to protect consumers. November 2009. Available at http://www.familiesusa.org/assets/pdfs/medical-debt-state-protections.pdf