

**The Safety-Net Association of Pennsylvania Speaks Out On...
Counting “Bad Debt” Toward Hospitals’ Community Benefit Requirements
April 2007**

Our Position

The Safety-Net Association of Pennsylvania believes that non-profit hospitals’ bad debt should be considered when quantifying the benefits these hospitals provide to the community.

Background

Under Act 55, the Institutions of Purely Public Charities Act of 1997, non-profit hospitals in Pennsylvania must meet a community benefit standard to retain their non-profit status – a standard those hospitals currently meet. The Rendell administration’s “Prescription for Pennsylvania” health care proposal calls for changing this standard significantly by excluding hospitals’ bad debt from the quantification of their contribution to their communities. Under current law, hospital bad debt is recognized as an important part of that contribution.

“Charity Care” and “Bad Debt” are Typically Indistinguishable

In Pennsylvania today, hospital charity care is defined, according to the *Pennsylvania Bulletin* (Volume 32, Number 30, July 27, 2002, pp. 3623-3686), as “the cost of care for which a hospital ordinarily charges a fee but which is provided free or at a reduced rate to patients who cannot afford to pay but who are not eligible for public programs and from whom the hospital did not expect payment in accordance with the hospital’s charity care policy.” “Bad debt,” on the other hand, is defined as “the cost of care for which a hospital expected payment from the patient or a third-party payor, but which the hospital subsequently determines to be uncollectible.”

While in theory there appears to be a major distinction between these two components of what is more broadly known as hospital “uncompensated care,” in the vast majority of cases there is little difference, if any at all. While some people who have the means to pay their hospital bills refuse to do so – and hospitals make every effort to collect from them – most people who do not pay their hospital bills lack the means to do so. Most are among the 900,000 Pennsylvanians today who have no health insurance, and these are the people who are primarily responsible both for hospitals’ charity care and their bad debt.

Who are these people? Seventy-one percent of the uninsured in Pennsylvania are employed. Seventy-six percent of them have incomes below 300 percent of the federal poverty level. Nearly one-third of them are adults living in families with incomes less than 200 percent of the federal poverty level. Nearly 20 percent of them are children who live in families with incomes less than 200 percent of the poverty level. These are not people who are “gaming” the system to get free medical care: they are poor people – people who work at low wages for companies that do not provide access to affordable health insurance and who cannot afford such

insurance on their own. They become sick or injured, they seek care from hospitals, and no matter how hard they try or how favorably payment terms can be structured, they cannot possibly afford to pay for this care. They receive this care because non-profit hospitals do not, either by mission or by law, turn away sick or injured people who need their help. Disproportionate numbers of them live in communities served by Pennsylvania's safety-net hospitals, and many receive care for which they cannot pay from those same safety-net hospitals.

For the most part, uninsured Pennsylvanians who do not pay their hospital bills fail to do so because they are poor and lack the means to do so, not because they lack the desire to do so. While formal accounting standards may compel the formal classification of their unpaid bills as "bad debt," these bills typically are indistinguishable from the millions that the same hospitals – especially safety-net hospitals – provide in charity care. Such care is an integral part of the benefits that non-profit hospitals provide to their communities in return for their legal status as non-profit organizations, and it should count as part of the benefits that non-profit hospitals provide to their communities. The state should not attempt to create an arbitrary boundary between charity care and bad debt and then compel hospitals, under threat of penalty, to pursue payment from people who clearly lack the means to pay. Hospitals already have every incentive to pursue payment from those who have the means to pay because failure to secure payment means a loss of money. They alone are in the best position to determine which patients are simply avoiding their financial obligations and which cannot possibly afford to meet them.

Conclusion

Cover All Pennsylvanians is an ambitious proposal with much to offer Pennsylvania and Pennsylvanians. The concept of a community benefit standard, already well-established and working effectively in Pennsylvania, should be retained because non-profit hospitals truly do owe something additional, something special to Pennsylvania in exchange for the benefits they enjoy as a result of their non-profit status. Nevertheless, numerous academic studies have demonstrated that most hospital bad debt is incurred on behalf of patients who truly lack the means to pay for their care, and the profile of the typical uninsured Pennsylvanian whose hospital bills end up being classified as bad debt is consistent with that conclusion. Hospital bad debt truly is, in the vast majority of cases, indistinguishable from charity care and should be treated as such as part of any effort to quantify the financial benefits that hospitals provide to their community in exchange for their non-profit status. Pennsylvania already has a community benefit standard for non-profit hospitals, that standard works, and it should not be changed.

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