

## Covering the Uninsured in 2008: Key Facts about Current Costs, Sources of Payment, and Incremental Costs

Nearly 77 million people will go without health insurance coverage in 2008 for all or part of the year. That number has been growing steadily, driven largely by unchecked and escalating health care costs. In order to address these synergistic problems, presidential candidates and members of Congress are proposing major changes in health care's financing—and as a country, many believe we are on the brink of national health reform.

The costs to individuals, families, and communities are enormous when the consequences of forgoing unaffordable health care are fully tallied. Lost health, decreased workforce productivity, developmental and educational losses among children, and shorter life spans have all been linked to being uninsured. These indirect costs are steep; with an estimated annual cost to the U.S. economy of between \$100 and \$200 billion in 2006 (Axeen and Carpenter, 2008). This report focuses on the direct costs, specifically on the costs of health care the uninsured receive, and who is paying those costs in 2008.

### Key Facts

- On average, a person who is uninsured for the entire year will spend considerably less on health care—38% of what a person who has health insurance for the full year will spend in 2008.
- People who are uninsured (for all or part of the year) will spend about \$30 billion out of pocket for health care and receive about \$56 billion in uncompensated care while they are uninsured this year. Uncompensated care will make up just 2% of total health care spending in the U.S. in 2008.
- Federal and state government dollars will cover at least 75% of uncompensated care, streaming almost \$43 billion through health providers and programs for care of the uninsured. Private sources of charity care cover the rest, with little evidence of cost-shifting to the privately insured.
- If all the uninsured were to gain health coverage in 2008 and use similar amounts of health care as those with insurance, their health care costs this year would increase from a total of \$176 billion to almost \$300 billion. Put in perspective, this additional \$123 billion would increase the share of GDP going to health care by 0.8%, from 16.5% to 17.3%.

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*The full report was authored by Jack Hadley, John Holahan, Teresa Coughlin, and Dawn Miller for the Kaiser Commission on Medicaid and the Uninsured and can be found at <http://www.kff.org/uninsured/7809.cfm>. A shorter version has been published in the journal, *Health Affairs*, and can be found at <http://content.healthaffairs.org/cgi/content/abstract/hlthaff.27.5.w399>*

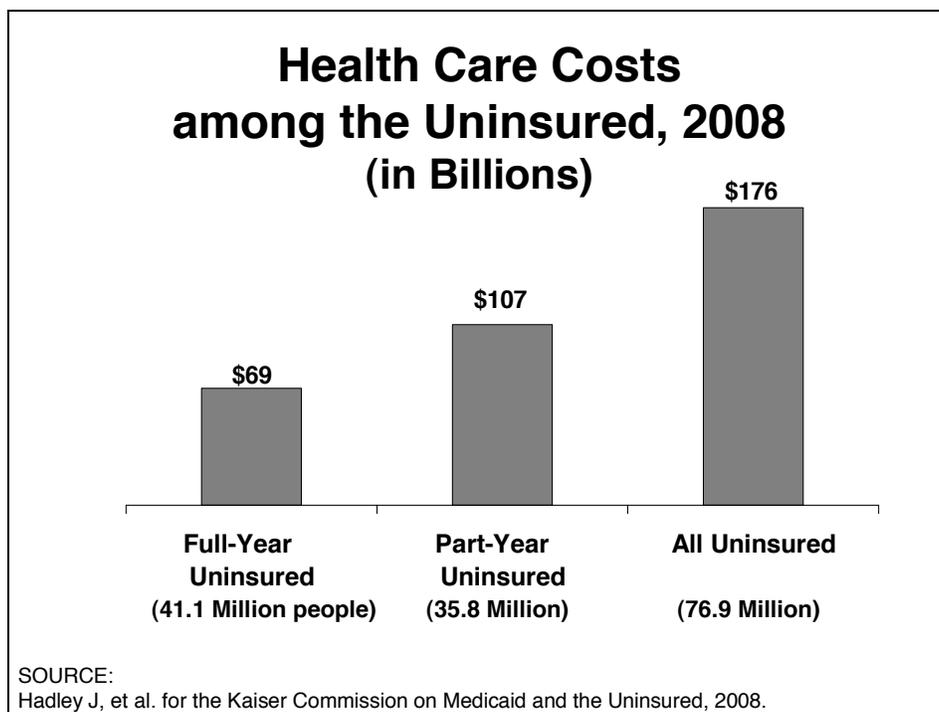
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## ***How much will health care for the uninsured cost in 2008?***

In 2008, 77 million people will go without health insurance coverage for all or part of the year. The majority (53%) will be uninsured for the entire year.

Health care costs for both the full-year and part-year uninsured will total \$176 billion dollars this year—\$86 billion of which will be incurred when they are uninsured.

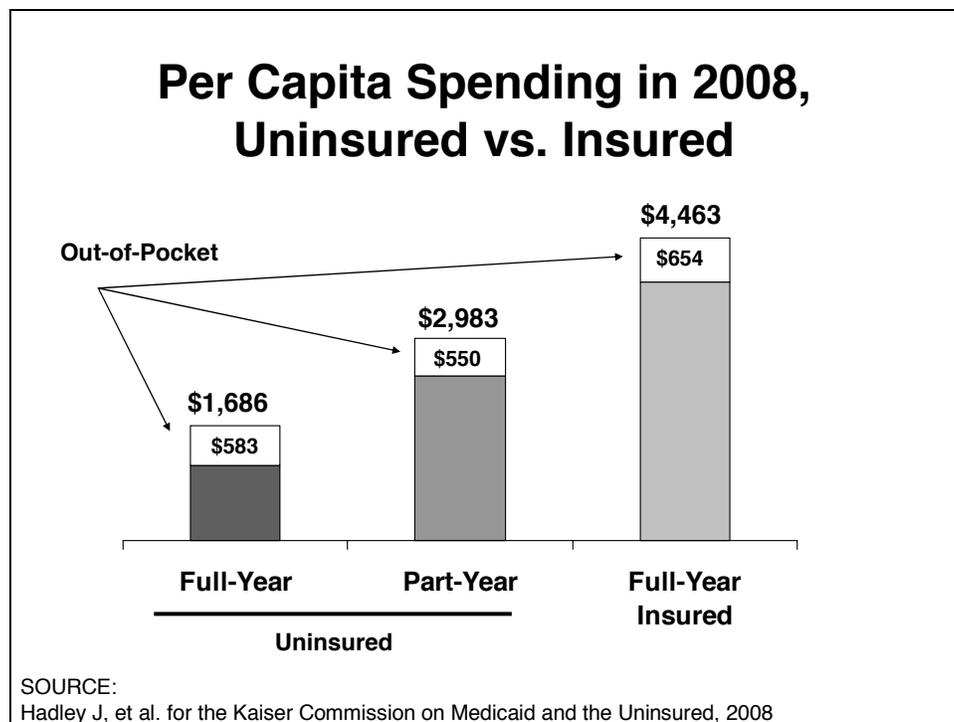
Those who are uninsured for only part of the year spend more on health in the months that they have health coverage, so their total spending over the course of 2008 is much greater than those who are uninsured for the entire year.



Those who are uninsured for the full year receive much less health care and so as individuals will spend a little over a third (38%) of what the insured will spend in 2008 (\$1,686 vs. \$4,463).

The uninsured without coverage for the entire year pay for over a third (35%) of their care directly out-of-pocket, compared to only 15% for people with full-year insurance coverage. Interestingly, the amount of out-of-pocket spending for health care by the uninsured is close to that of the insured.

Summing these per capita amounts for all persons uninsured for any part of the year, the uninsured will pay \$30 billion out of pocket for their care in 2008.



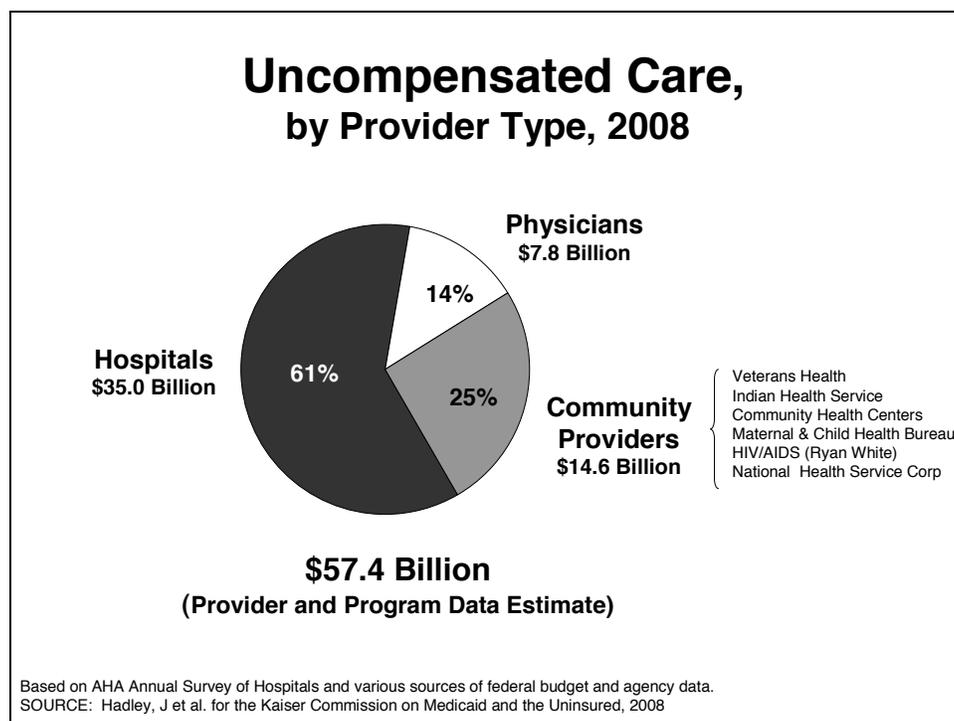
## *How much of the uninsured's care will be uncompensated—and who is providing it?*

Uncompensated care is health care that is not fully paid for, either directly out of pocket by individuals or by an insurance payer. Two different sources of data yield very similar estimates of the amount of uncompensated care in 2008: \$57.4 billion (from provider and government program data) and \$54.3 billion (from national household survey data)—leading to the conclusion that the total is most likely about \$56 billion.

Hospitals, community providers, and physicians all provide care to the uninsured. While physicians and community clinics see more uninsured patients, over 60% of uncompensated care is generated in hospitals because medical needs requiring hospitalization are the most expensive.

Indirect funds from governments for uncompensated care flow to hospitals and community providers, but none of these dollars go directly to physicians in private practice.

Community providers serve the low-income population, both the uninsured and insured. Uncompensated care provided by them is estimated here based on the share of their patients who are uninsured.



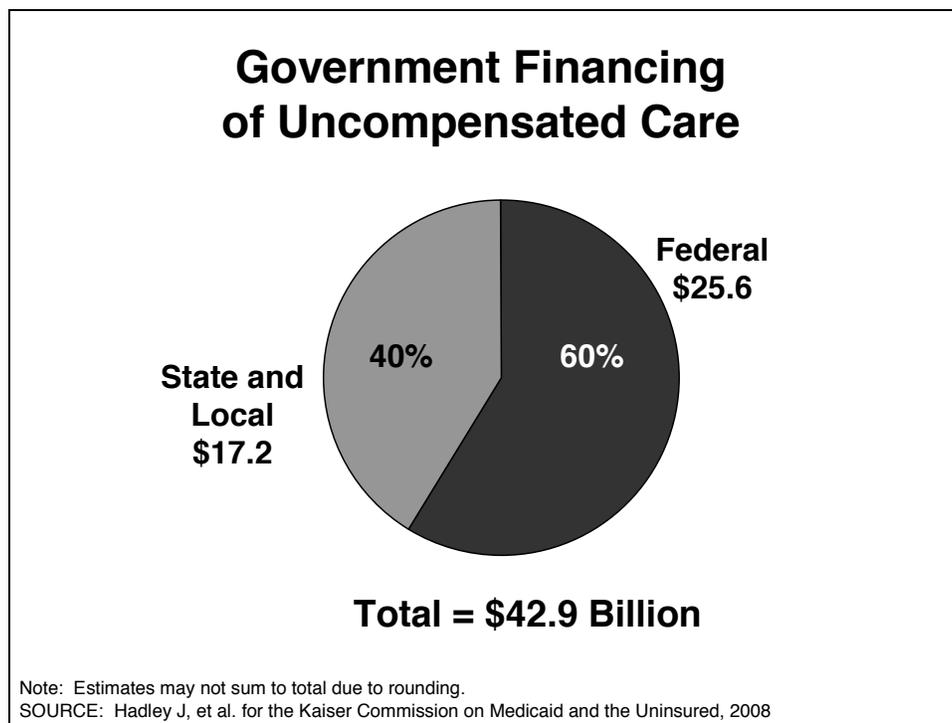
## *Who pays for uncompensated care?*

Federal and state government dollars are the primary source of funding for uncompensated care of the uninsured.

Combining federal, state, and local funding streams, \$42.9 billion dollars will be used for uncompensated care for the uninsured in 2008 – which will cover at least 75% of the total uncompensated care amount this year.

Federal dollars, largely flowing through the Medicare and Medicaid programs, account for 60% of these government dollars.

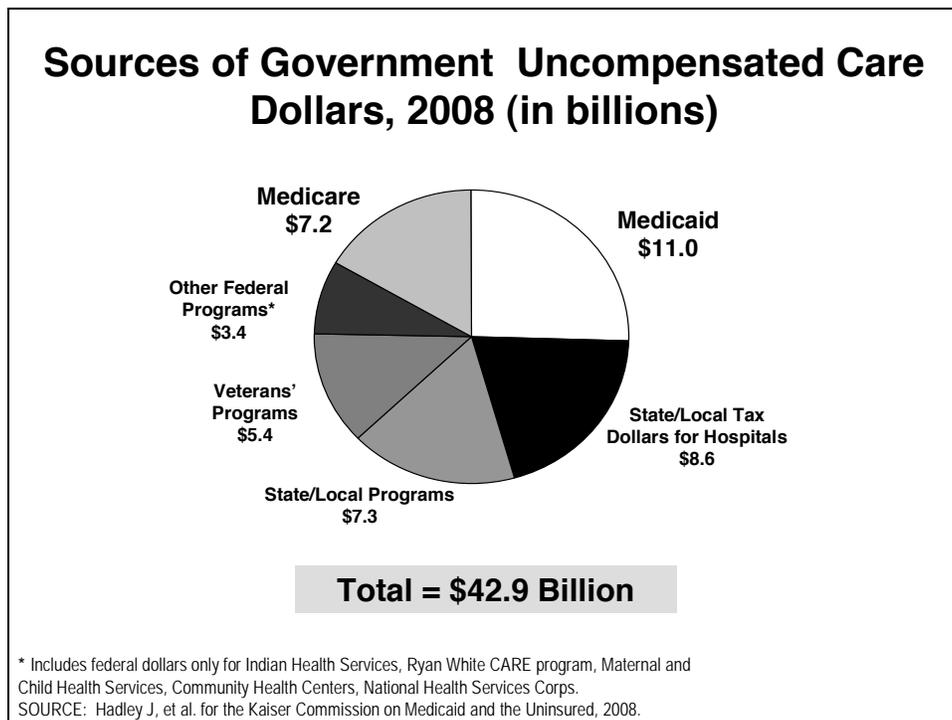
Two-thirds of government spending for uncompensated care goes to hospitals—paying for nearly \$29 billion of the \$35 billion they will incur.



Both the Medicare and Medicaid programs make extra payments to hospitals for uncompensated care. These payments come mostly from federal dollars (93%) through mechanisms that pay hospitals more if they care for a disproportionate share (DSH) of the uninsured. While DSH payments comprise over half of all public dollars for hospital uncompensated care (\$15.7 billion of \$28.7 billion), they are not well-targeted to hospitals caring for more of the uninsured.

In contrast to hospital funding, uncompensated care costs paid through federal programs (including Veterans programs, the Indian Health Service, Community Health Centers, and others) are smaller, making up about a fifth of government dollars going for uncompensated care.

State governments contribute to uncompensated care primarily through separate tax appropriations for hospitals and to direct care programs.

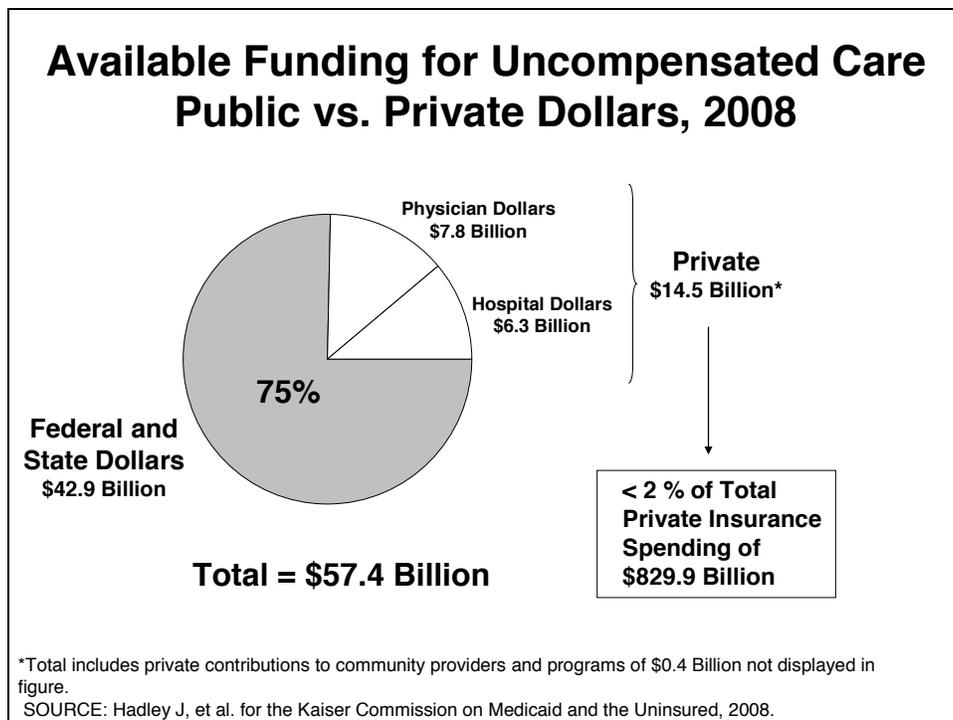


## How much of uncompensated care costs could be shifted to the privately insured?

Government dollars will reimburse the large majority of uncompensated care in 2008, at least 75%. The remainder of uncompensated care left to be covered by private dollars is relatively small compared to the \$830 billion that will be spent by the privately insured this year (< 2%).

The remaining \$14.5 billion in uncompensated care not paid by government sources could potentially be financed by hospitals and physicians raising their rates, which might in turn, increase private health premiums.

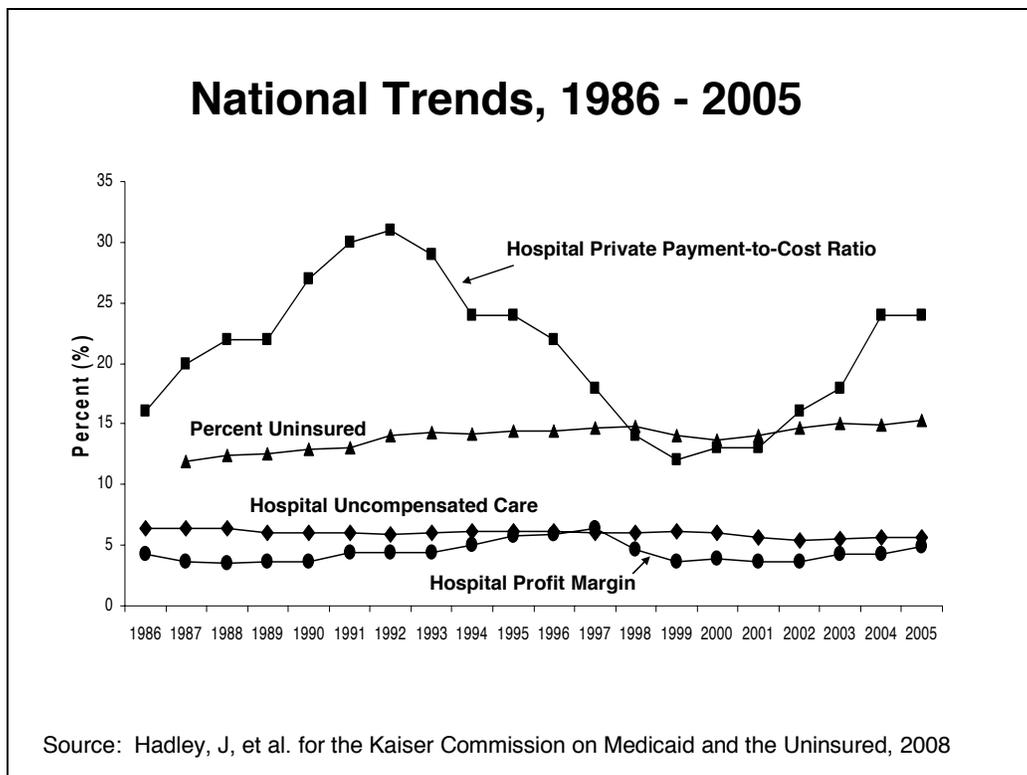
However, physicians in private practice, who donate nearly \$8 billion in care, have little leverage to negotiate fees with health plans, so only a small amount of their charity care costs are likely shifted to private payers.



Only hospitals are likely to have sufficient bargaining power to negotiate payment levels with health plans. Hospital uncompensated care that is not being reimbursed with federal or state funds (\$6.3 billion in 2008) could potentially be shifted to private payers.

However, there is little evidence that this is actually occurring. As the share of the population that is uninsured has steadily grown, uncompensated care as a share of hospital costs has not changed.

Substantial increases over time in hospitals' payment-to-cost ratio for privately insured patients—an accepted measure of the extent of cost shifting to private payers—are unrelated to increases in either the percent uninsured or uncompensated care costs. Hospital profit margins are also not correlated with uncompensated care costs.

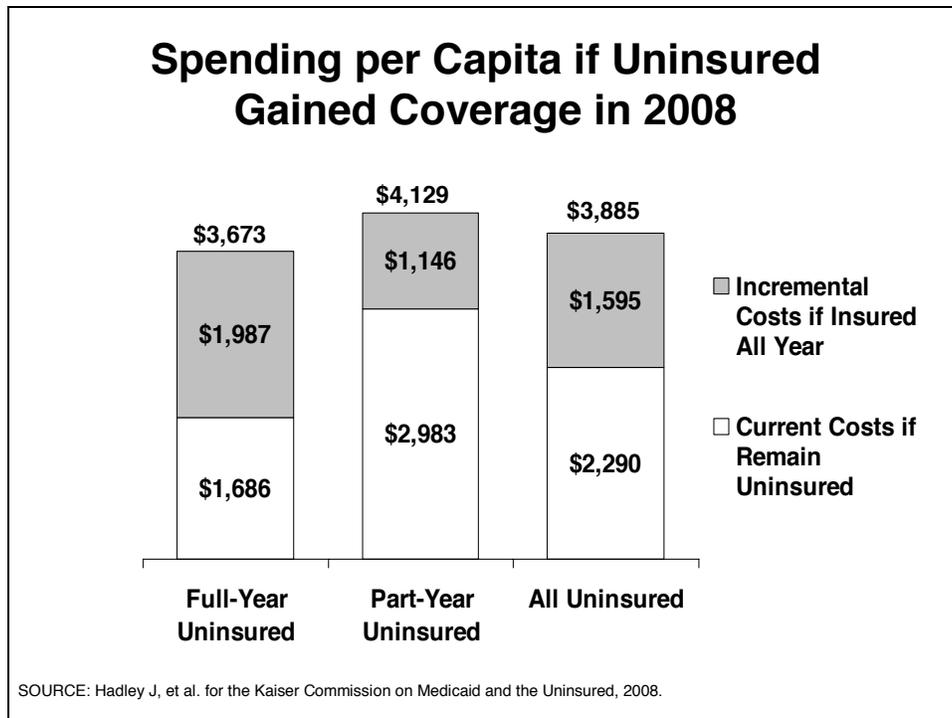


## How much more would it cost if all the uninsured gained health coverage in 2008?

Because the uninsured forgo and postpone necessary care, spending on health care would likely increase among the uninsured once they gained coverage.

If the uninsured were to require and use the same amount of health services as those with low and middle incomes who had health insurance, individual spending on health care would increase by about 70%, growing from \$2,290 to \$3,885 a year—slightly less than spending by someone with private insurance coverage. (These estimates were adjusted to account for differences in other social and health factors that also affect health care use and costs.)

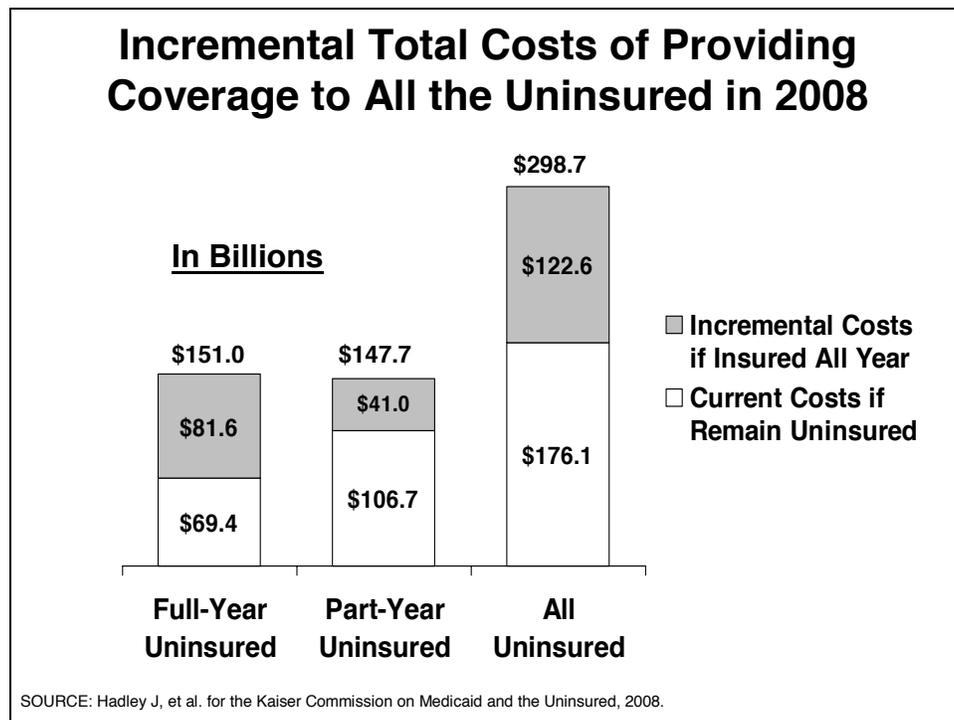
Among the uninsured who would have been without coverage for the entire year, health spending would more than double, growing from \$1,686 to \$3,673 per person in 2008.



If all the uninsured were to gain health coverage their combined costs would increase by \$122.6 billion, totaling \$298.7 billion in 2008.

Those who would have been uninsured for the full year have the most to gain and account for two-thirds of the increased spending (\$81.6 billion out of \$122.6 billion).

These additional costs are not the same as the cost to the government of a health reform expansion. They are only the costs for the additional services the uninsured would receive once they were fully covered. The \$122.6 billion does not include any costs for the reform itself, such as providing low-income subsidies, the costs of a new administrative structure, or costs that might occur if people were to transfer from one health plan to another. Nor do the additional costs imply anything about sources of financing, including any premiums or out-of-pocket spending paid by the newly insured themselves.



## *Putting the costs into perspective*

Uncompensated care will make up a little over two percent of total health care spending in the United States in 2008 (about \$56 billion out of \$2,420 billion).

With so much uncompensated care being paid by government sources already (\$43 billion), some of these dollars could potentially be redirected when universal coverage was achieved. Indirect Medicare and Medicaid payments to providers now used for uncompensated care might be the most likely to be used instead to pay for insurance coverage.

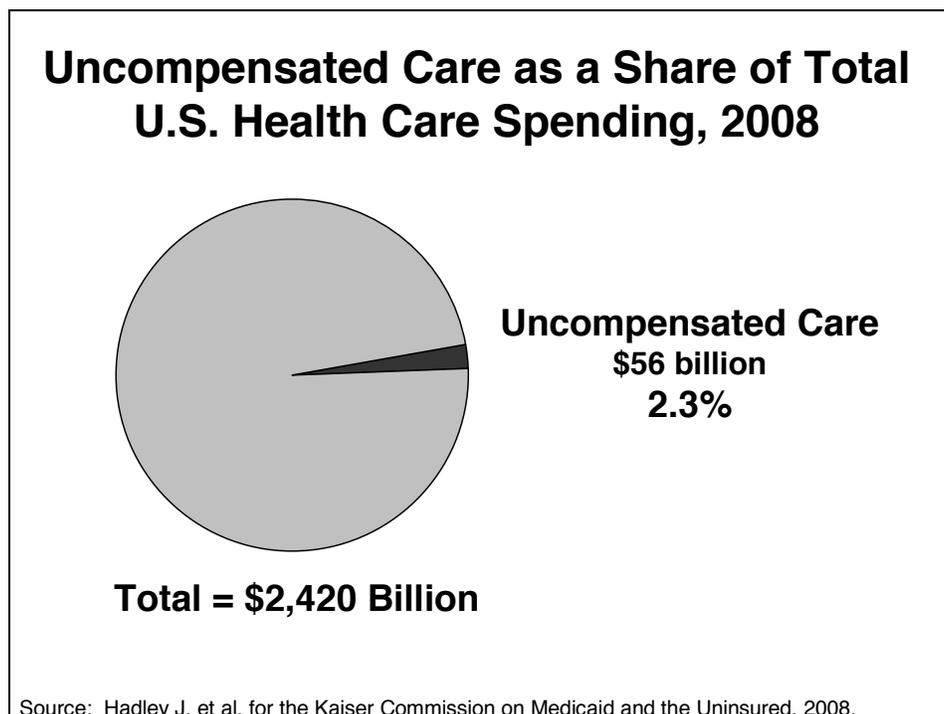
If all the uninsured were to gain health coverage their costs for health services would increase by \$122.6 billion totaling \$298.7 billion in 2008, less than:

- Medicare spending of \$454 billion and
- Medicaid spending of \$365 billion.

The increased cost of medical care used by the uninsured would be less than:

- the annual increase in national health spending, which has averaged \$147 billion (in 2008 dollars) over the last several years, and
- current tax subsidies for private insurance each year of about \$200 billion.

The additional spending for health services that would occur if all the uninsured were to gain coverage would increase the share of GDP going to health care from 16.5% to 17.3%.





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