2013 Kentucky Hospitals Community Benefits Report

Frequently Asked Questions:

**Background**

The Kentucky Hospital Association’s 2013 *Community Benefits Report* demonstrates the many ways hospitals contribute to their communities.

Kentucky hospitals recently participated in an effort through KHA to quantify both traditional and non-traditional benefits provided to the community. Traditional community benefits are uncompensated care, which includes health care services provided to patients who are unable to pay and the unreimbursed costs of government programs such as Medicare and Medicaid. Non-traditional community benefits are programs and services offered by hospitals in the community to improve the health status or increase access to care.

**Frequently Asked Questions**

The frequently asked questions (FAQs) are designed to help hospitals address and respond to questions and concerns from patients, their communities and members of the news media about hospitals’ community benefit.

The FAQs are organized in the following categories: background, economic impact, community activities, Medicare and Medicaid losses, bad debt, charity care, financial assistance/charity care and data.

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**BACKGROUND**

Q: **What data is included in the report?**

A: Kentucky hospitals’ total community benefit includes community benefit activities, Medicaid losses and charity care. In order to capture the full scope of hospitals’ contributions to their communities, Medicare losses and bad debt are also included in the total statewide community benefit figure. The report also includes the economic impact data for Kentucky’s hospitals.

Q: **Is the report a complete picture of hospitals’ community benefit?**

A: This report understates the amount of community benefit provided by Kentucky hospitals. Some hospitals are further along than others in collecting and reporting their actual costs of community activities. Community benefit is also understated when hospitals rely on Medicare and Medicaid cost reports to determine charity care and Medicaid losses, since cost reports do not cover all the costs hospitals incur. While hospitals have long offered community benefits as part of their charitable missions, many are just beginning to document and consistently report those activities, so data for community benefits provided in 2013 are not available from every hospital. *(See also, “Does the report fully capture the benefits Kentucky hospitals provide to their communities?”)*

Q: **What hospitals are included in the report?**

A: The KHA 2013 Community Benefits Report includes data on the community benefits of all Kentucky short-term, acute care hospitals including specialty hospitals like rehabilitative and psychiatric/chemical dependency hospitals. Due to their ownership, some hospitals, such as federally-funded veterans’ hospitals and state-owned psychiatric hospitals fall outside the scope of this report.

Q: **How can I learn about an individual hospital’s community benefit?**

A: KHA’s statewide community benefit report contains aggregate data only. KHA will direct individuals seeking community benefit information about a particular hospital to the hospital directly. KHA encourages hospitals to be prepared to share their community benefit data, or explain why that information is not available.

Q: **Why do some hospitals provide more charity care than others?**

A: The benefits hospitals provide to the community are as diverse as the communities they serve and differ from hospital to hospital. Although all hospitals provide charity care, some may provide more than others because of the socioeconomic factors in their geographic location and the charity care policies of their medical staff.

Q: **Why are health care systems included in this report?**

A: Many of Kentucky’s multihospital systems provide benefits to their communities that are not affiliated with a specific hospital. For example, many medical service clinics are operated by the system. This information is part of the total community benefit contributions provided by the health care system.

Q: **How** **do hospitals decide what community benefit activities are needed?**

A: Hospitals are governed by a board of community members who are held accountable for taking action in the best interest of the community. KHA urges hospitals to work in collaboration with their communities. Additionally, a Joint Commission standard requires that a hospital demonstrate a commitment to its community by providing essential services in a timely manner.

Q: **What time period does the data cover?**

A: Data is from each hospital’s 2013 fiscal year. By asking hospitals to report the data based on their fiscal year allows hospitals to report data that coincides with their audited annual financial statements and cost reports.

Q: **Why are hospitals issuing this report?**

A: Kentucky hospitals are committed to providing benefits to their communities and the report reflects hospitals’ charitable missions to care for their communities. KHA’s purpose in producing and distributing a statewide hospital community benefit report is to document, in a consistent, credible manner, information about the value Kentucky hospitals provide to their communities and to the state.

Q: **Who will receive the report?**

A: KHA is sharing the report with Kentucky hospital chief executive officers, chief financial officers, public relations, community outreach, and advocacy staff.

Q: **Can hospitals share KHA’s report and data with local media?**

A: Yes. Hospitals are also invited to share their individual community benefit reports or community benefit data with the local community, media representatives and elected officials.

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**ECONOMIC IMPORTANCE**

Q: **What is economic importance?**

A: Economic importance is the combination of:

1. Hospitals’ financial impact on the community — directly through the purchase of goods and services and indirectly through wages paid to employees, who purchase goods and services within the community, and
2. The number of jobs created by hospitals — directly through hospital employment and indirectly through the jobs created when hospitals purchase goods and services from other employers within the community.

Q: **What is the total economic importance of Kentucky’s hospitals?**

A: Hospitals’ combined spending on staff salaries and purchases of supplies and services totaled nearly $7 billion in 2013. These dollars created a ripple effect as they moved through the larger economy, supporting other businesses and jobs in the community as well as generating tax revenue used to fund state programs.

* Kentucky hospitals are responsible for generating approximately $4.8 billion in local economic activity from the purchases they make and those made by their employees
* Kentucky hospitals purchase many goods and services and generate $3 billion annually in purchases from local companies
* The employees of Kentucky hospitals spend an estimated $1.8 billion in local purchases

*(Source: KHA Economic Impact Report derived from the latest Medicare Cost Reports; State Utilization Reports and Disproportionate Share Reports.)*

**Q: Does this report fully capture all of the benefits Kentucky hospitals provide to their communities?**

A: No. While hospitals have long offered community benefits as part of their charitable missions, many are just beginning to document and consistently report those activities, so data for community benefits provided in 2013 are not available from every hospital. *(See also “Is the report a complete picture of the hospitals’ community benefit?”)*

Q: **What would happen if hospitals lost their tax-exempt status?**

A: First, not every hospital in Kentucky is tax-exempt. There are 29 for-profit hospitals in the state. The remaining hospitals are not-for-profit. If tax-exempt hospitals lost their not-for-profit status, the additional cost of doing business would be passed on to consumers. A loss of tax-exempt status would also mean higher costs to insurance companies and self-pay patients to enable hospitals to make ends meet. Government payers (Medicare and Medicaid) dictate what they will reimburse hospitals; therefore other payers would be called upon to make up the financial gap. If hospital finances were stretched tight enough, some hospitals would close.

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**COMMUNITY ACTIVITIES**

Q: **What are community activities?**

A: According to the Catholic Health Association model, a community benefit activity meets at least one of the following criteria:

* Generates a low or negative margin
* Responds to needs of special populations, such as persons living in poverty and other disenfranchised persons
* Supplies services or programs that would likely be discontinued, or would need to be provided by another not-for-profit or government provider, if the decision was made on a purely financial basis
* Responds to public health needs
* Involves education or research that improves overall community health

Q: **How are community activities calculated?**

A: Community activities provided by hospitals are grouped into six categories, such as community health improvement services and community benefits operations or community building activities. Each category is further broken down to allow reporting of an activity or an event at a detailed level by each hospital. The cost of the activity or event is determined on the basis of the number of employees and their “worked” hours as well as the costs of supplies, equipment and overhead used in providing the activity. It does not include the “volunteer” hours of hospital employees or members of the community. Costs are then offset by revenue, if any, so that activity is shown as a net benefit.

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**MEDICARE AND MEDICAID LOSSES**

Q: **Why do hospitals lose money on Medicare and Medicaid patients?**

A: Medicare and Medicaid pay hospitals a fixed payment based on the diagnosis and treatment of the patient. Hospitals lose money because the cost of treating the patient exceeds the payments from Medicare or Medicaid. In State Fiscal Year 2013, Kentucky hospitals incurred an estimated $1.7 billion in costs to deliver inpatient services to Medicaid patients. Because Medicaid only reimburses hospitals, on average 75 percent of their actual costs (not charges) to deliver inpatient services, hospitals were shouldered with $300 million in unpaid costs.

The government reimbursement that Kentucky hospitals receive for treating Medicare patients in less than the cost hospitals incur to treat them. Medicare’s annual rate updates had not kept up with inflation prior to the passage of the Affordable Care Act (ACA), and beginning in 2010, the AVA further reduced annual rate updates. Medicare payments to hospitals will be cut by $4.6 billion from 2010 to 2024 to help finance health reform. The Medicare shortfall is expected to exceed $852 million by 2019.

Q: **What is meant by the unpaid costs of Medicare and Medicaid beneficiaries?**

A: Beneficiaries are the individuals covered under an insurance plan. Because government health insurance programs don’t pay hospitals the actual costs of delivering care to their beneficiaries, hospitals must write-off a portion of those bills which is the unpaid cost.

Q: **Is Medicare disproportionate share hospital (DSH) reimbursement included as Medicare revenue?**

A: Yes.

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**BAD DEBT**

Q: **Why is bad debt noted in the report? Don’t hospitals aggressively try to collect?**

A: In practice, hospitals often have difficulty distinguishing bad debt from charity care. Bad debt is the cost hospitals incur as a result of services provided to patients from who payment was expected but not received, even after making attempts to collect the amount due.

KHA includes bad debt expense in its report because Kentucky hospitals absorb a large magnitude of losses due to patient non-payment of their medical care and this represents a significant benefit to the communities which hospitals serve.

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**DATA**

Q: **Why are some hospitals issuing community benefit reports with 2013 data when KHA’s report is based on 2013 data?**

A: Hospitals have different financial reporting periods. Because of that, KHA’s statewide report uses 2013 data to ensure all hospitals included have parallel data from the same reporting period.

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**HOSPITAL SPECIFIC**

Q: **Can you please share the community benefits information that your hospital provided for the KHA Community Benefits Report?**

A: [HOSPITAL OR HEALTH SYSTEM] provided [$NUMBER] in community benefits [to more than NUMBER of residents — *optional; insert if available*] in the 2013 fiscal year.

Q: **Can you list some of the non-traditional programs and services your hospital provides that are considered community benefits?**

A: [CUSTOMIZE TO FIT YOUR HOSPITAL, i.e., health screenings, immunizations, free and reduced-cost clinics].

Non-traditional programs and services fall into these categories:

* Community Education and Outreach
* Health Screenings
* Support Groups
* Counseling
* Self-help
* Immunizations
* Other non-billed services (family support, meals, transportation, etc.)