



THE KAISER COMMISSION ON
Medicaid and the Uninsured

**The Cost of Care for the Uninsured:
What Do We Spend, Who Pays,
and What Would Full Coverage Add to Medical Spending?**

Issue Update

2004

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Prepared for the Kaiser Commission on Medicaid and the Uninsured
May 10, 2004

The Cost of Care for the Uninsured: What Do We Spend, Who Pays, and What Would Full Coverage Add to Medical Spending?

Today, there are nearly 44 million Americans without health insurance coverage. A substantial body of research shows that there are serious health and financial consequences associated with being uninsured. Moreover, research shows that leaving a large share of the population without health insurance affects not only those who are uninsured, but also the health and economic well-being of the nation. Yet, despite these findings, the number of uninsured Americans continues to grow. Although the national debate over ensuring health coverage for more Americans periodically gains momentum, it then stalls—perhaps in part because not enough is known about both the benefits and the costs of expanding coverage to more, if not all, of the uninsured.

This issue update contains findings from a new study examining the cost of medical care for the uninsured and how much care the uninsured receive compared to fully insured people. In addition, the study measures the cost of additional medical care if all the uninsured were provided coverage and used the health system at rates comparable to the insured population. By estimating how much medical care the uninsured use and who pays for it, the study identifies the resources that are already in the medical care system and potentially available to help pay for expanded insurance coverage.

This issue update addresses the following questions:

- How much uncompensated care is provided to the uninsured each year?
- Who provides uncompensated care and how is it funded?
- Does uncompensated care fully make up for the lack of health insurance?
- How much more would it cost to cover all of the uninsured?
- How do the costs of expanding health coverage compare to the benefits?

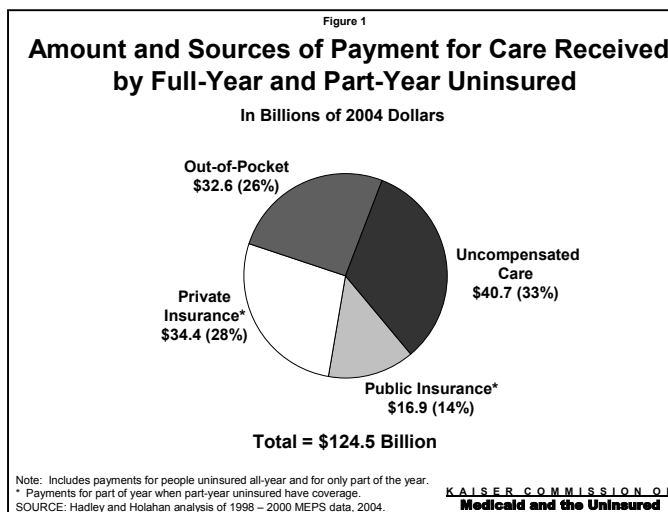
How much uncompensated care is provided to the uninsured each year?

Uncompensated care is medical care received, but not fully paid for, either out-of-pocket by individuals or by a private or public insurance payer. The cost of unpaid care is estimated by using the benchmark of what would have been paid for the services by private insurance.

Total medical care expenditures among all of the uninsured in 2004 (including both those without coverage for all or part of the year) are almost \$125 billion. Individuals may be without health insurance for long periods of time or for a matter of months. In the survey years (1998-2000) used to project current costs for this analysis, over 60 million were uninsured for either all or part of a year—with just a little over half being uninsured for the full year.

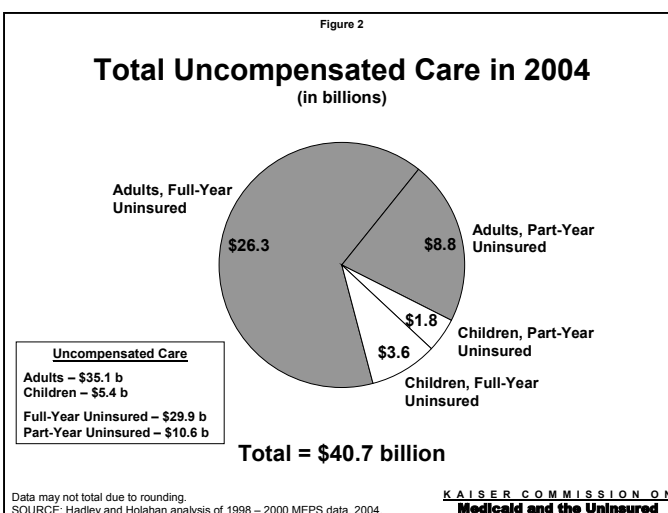
A third of the medical costs for the uninsured are uncompensated.

About a quarter of the total medical care costs are paid directly by the uninsured out-of-pocket, however people who are uninsured for the full year pay for over a third of their care (35%) out-of-pocket—a considerably higher share than paid by either the full-year or part-year insured populations, who paid for just under 20% of their care out-of-pocket.



In 2004, uncompensated care is estimated to be \$40.7 billion. Adults uninsured for the full year receive the majority of uncompensated care, \$26.3 billion (65% of the total amount). Children are less likely to be uninsured and their average health care costs are less than adults as well.

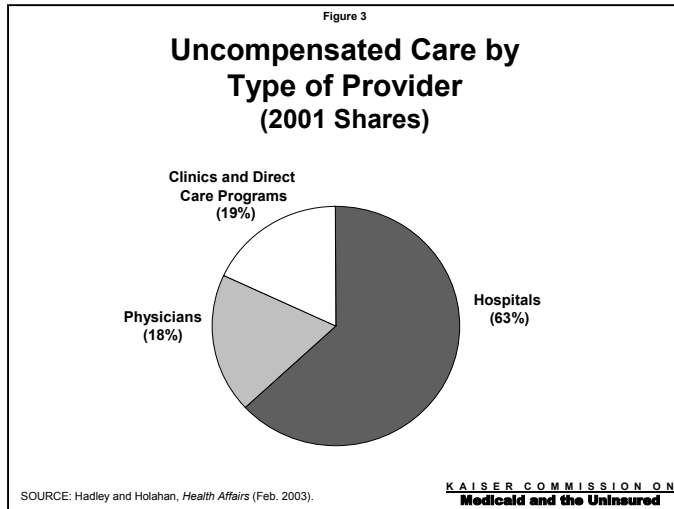
Uncompensated care represents 2.7% of the projected total personal health care spending for 2004 of \$1.5 trillion.



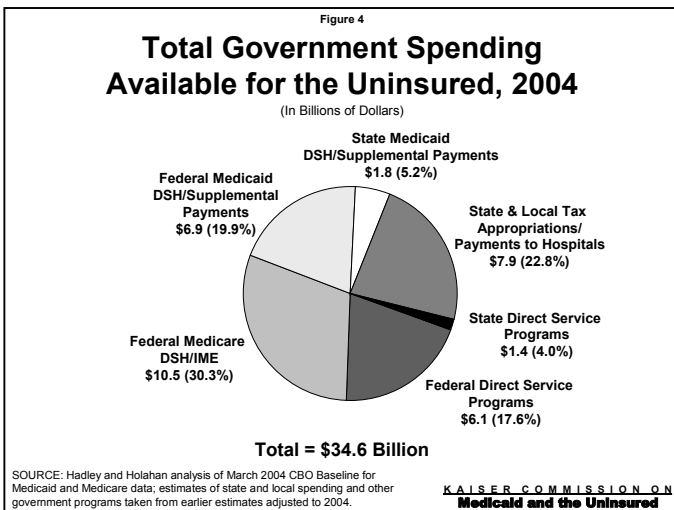
Who provides uncompensated care and how is it funded?

Most uncompensated care dollars are incurred by hospitals, where services are most costly. In 2001 hospitals accounted for over 60% of uncompensated care dollars; office-based physicians' share and that of direct care programs/clinics accounted for just under 20% each.

Physicians' uncompensated care is generally not subsidized through government dollars unless they are providing care in community health clinics or service programs (e.g., Bureau of Primary Care programs, the Indian Health Service, and Veteran's Affairs programs) that largely care for uninsured Americans. Direct service programs are partly supported by government funds—but their subsidy relative to hospitals is considerably smaller, less than \$8 billion in 2004.



The primary source of funding for uncompensated care is government dollars. Projected federal, state, and local spending available to pay for the care of the uninsured in 2004 is **\$34.6 billion**—about 85% of the total uncompensated care bill.



Over two-thirds of government spending for uncompensated care comes from the federal government, most of which goes toward payments to hospitals in the form of disproportionate share hospital (DSH) payments—payments intended to offset losses hospitals incur when large shares of their patients are unable to pay their hospital bills.

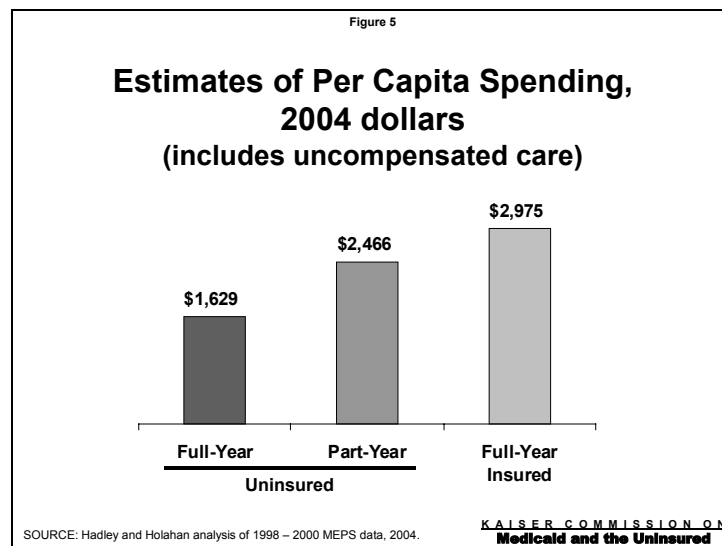
Does uncompensated care fully make up for the lack of health insurance?

The uninsured who are without coverage for the full year receive about half (55%) of the medical care per person compared to those who have health coverage for the entire year, even after taking uncompensated care into account.

Per capita medical spending for persons uninsured for the full year in 2004 is \$1,629 compared to \$2,975 by persons who are insured for the full year. This spending gap holds for both adults (\$1,864 compared to \$3,653) and children (\$802 compared to \$1,640).

Health services research has consistently documented an insurance disparity in access to and use of medical services. Compared to persons who have health insurance, the uninsured:

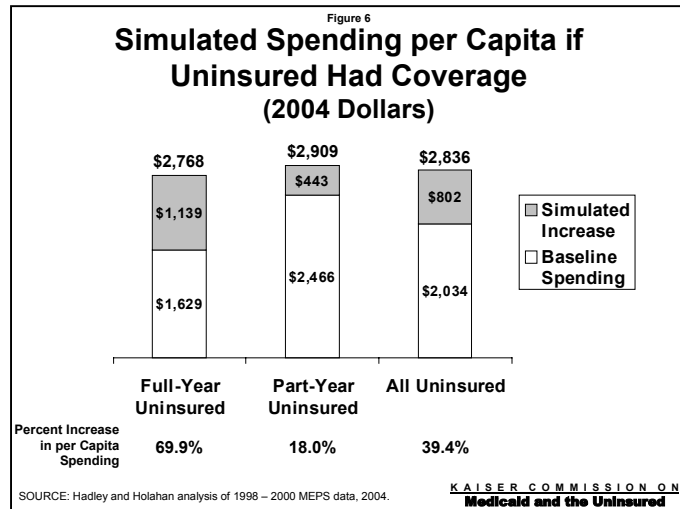
- receive less preventive care,
- are diagnosed at more advanced disease states,
- and once diagnosed, tend to receive less therapeutic care and have higher mortality rates.



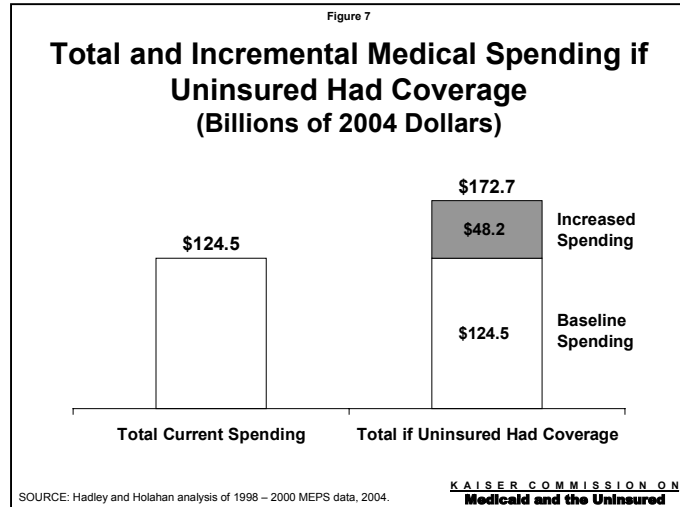
How much more would it cost to cover all of the uninsured?

Having health insurance increases medical care use, and so an important question in the ongoing national debate over whether and how to extend insurance to people who are uninsured is—how much more will it cost, over and above what is currently being spent on the cost of their medical care?

Extrapolating from the experience and behavior of people who are insured for the full year and have incomes in the low and lower-middle income range (under 400% of the poverty level), **if the uninsured had full-year coverage, their per person spending would increase from \$2,034 to \$2,836—a 39% rise.** The increase would of course be greater for those who had been uninsured for the full-year, growing by nearly 70%, from \$1,629 to \$2,768.



Total spending for those who would gain coverage under a universal expansion would increase by \$48 billion. Added to the current spending level of almost \$125 billion (which includes all uncompensated care, out-of-pocket payments, and insurance payments for those covered for part of the year) the new dollars would bring the total to \$173 billion if coverage were similar to the average low to middle income person with health insurance. It reflects the potential increase in overall health spending directly attributable to the uninsured, but does not take into account the additional costs associated with major health coverage proposals.



A benefit of a comprehensive rather than an incremental approach to covering all of the uninsured is that some of the public money already being used to pay for care received by the uninsured could be reallocated towards the cost of insurance. However providers caring for the uninsured now, primarily hospitals that now receive the largest subsidies for uncompensated care, may be reluctant to relinquish their existing subsidies unless assured that all people will have health insurance.

How do the costs of expanding health coverage compare to the benefits?

Research showing that having health insurance positively affects the use of health services is clear and widely accepted—and the case has also been made that having health insurance leads to improved health and longer lives by means of better access to medical care.

- A conservative estimate based on the full range of studies is that a reduction in mortality of 5-15% could be expected if the uninsured were to gain continuous health coverage.¹
- It has been estimated that the number of excess deaths among uninsured adults age 25-64 is in the range of 18,000 a year.²
- The annual economic value of foregone health among the 40 million uninsured in 2000 has been estimated to be between \$65 and \$130 billion in that year.³ If the middle of that range (\$97.5 billion) is inflated to 2004 dollars, the annual economic value of the foregone health of those 40 million uninsured increases to \$103 billion—a sum considerably larger than the \$48 billion in increased costs of expanding coverage to all of them.

The additional \$48 billion/year of medical spending needed to provide universal coverage, beyond what is currently being spent, can be viewed from several broader perspectives:

- Relative to current government spending for public health insurance programs and the subsidization of private insurance in 2004, the additional spending to cover the uninsured is relatively small.
 - Medicare will cost \$266.4 billion;
 - Medicaid will cost \$280.7 billion;⁴ and
 - the tax subsidy for private insurance will be \$188.5 billion⁵
- The new dollars would constitute less than 3% of total personal health care spending in this country.
- The \$48 billion would increase the share of GDP going to health care by 0.4%.

¹ Hadley, J. "Sicker and Poorer – The Consequences of Being Uninsured" *Medical Care Research and Review* (60:2), June 2003.

² Institute of Medicine. 2002. *Care Without Coverage, Too Little, Too Late*. Washington, DC. p. 161-165.

³ Institute of Medicine. 2003. *Hidden Costs, Value Lost*. Washington, DC, p. 112.

⁴ Medicare and Medicaid budget projections are from <http://www.cms.hhs.gov/statistics/nhe/projections-2002/t5.asp>.

⁵ Sheils and Haught, *Health Affairs*, (Web Exclusive), Feb. 25, 2004, <http://www.healthaffairs.org/WebExclusives.ph>, p. w4-106.

Table 1
Uncompensated Care^a Received by the Uninsured
(2004 \$s)

| | All Uninsured | Full-Year Uninsured | Part-Year Uninsured |
|--|------------------|------------------------|------------------------|
| Cost of Uncompensated Care (billions) | \$40.7 | \$30.1 | \$10.6 |
| Adults | 35.1 | 26.3 | 8.8 |
| Children | 5.4 | 3.6 | 1.8 |
| Uncompensated Care as a Share of Total Care | 32.7% | 58.6% | 14.5% |
| Adults | 33.1 | 57.7 | 14.6 |
| Children | 29.3 | 63.2 | 14.2 |

Notes:

^a Sum of Other Public Sources, Other Private Sources, and Donated In-Kind care from Table 3.

Source: Hadley and Holahan analysis of 1998 - 2000 MEPS.

Table 2
Total and Per Capita Medical Care Spending,
By Insurance Status
(2004 \$s)

| Insurance Status | Population | | Total Spending ^b (\$ billions) | Per Capita Spending ^b (\$) |
|--|-----------------|--------|---|---|
| | N (millions) | (%) | | |
| <u>All Nonelderly Adults and Children</u> | | | | |
| Full-Year Insured | 175.7 | 74.2% | \$522.7 | \$2,975 |
| Total Uninsured (full and part year) | 61.2 | 25.8 | 124.5 | 2,034 |
| Uninsured, Full Year | (31.6) | (13.3) | (51.4) | (1,629) |
| Uninsured, Part Year | (29.6) | (12.5) | (73.1) | (2,466) |
| Total Population ^a | 236.9 | 100.0 | 647.1 | 2,732 |
| <u>Nonelderly Adults</u> | | | | |
| Full-Year Insured | 116.5 | 72.5% | \$425.6 | \$3,653 |
| Total Uninsured (full and part year) | 44.3 | 27.5 | 106.0 | 2,394 |
| Uninsured, Full Year | (24.5) | (15.2) | (45.6) | (1,864) |
| Uninsured, Part Year | (19.8) | (12.3) | (60.4) | (3,047) |
| Total | 160.8 | 100.0 | 531.6 | 3,306 |
| <u>Children</u> | | | | |
| Full-Year Insured | 59.2 | 77.8% | \$97.1 | \$1,640 |
| Total Uninsured (full and part year) | 16.9 | 22.2 | 18.4 | 1,087 |
| Uninsured, Full Year | (7.1) | (9.3) | (5.7) | (802) |
| Uninsured, Part Year | (9.8) | (12.9) | (12.7) | (1,293) |
| Total | 76.1 | 100.0 | 115.5 | 1,518 |

Notes:

^a Civilian, non-institutionalized population under age 65, excluding those with any Medicare coverage.

^b Includes uncompensated care for the uninsured.

Source: Hadley and Holahan analysis of 1998 - 2000 MEPS.

Table 3
Total Medical Care Spending,
By Insurance Status and Source of Payment
(2004 \$s, billions)

| Insurance Status | (1) Self | (2) Private^a | (3) Public^b | (4) Other Public^c | (5) Other Private^d | (6) Donated In-Kind^e | (7) Total Spending |
|-----------------------------------|---------------------|------------------------------------|-----------------------------------|---|--|--|-----------------------------------|
| Full-Year Insured | \$104.0 (19.9%) | \$345.6 (66.1%) | \$53.9 (10.3%) | \$10.6 (2.0%) | \$8.5 (1.6%) | \$0.0 (0.0%) | \$522.6 (100.0%) |
| Uninsured, Full-year | 18.1 (35.2) | 3.3 (6.4) | 0.0 (0.0) | 9.3 (18.1) | 10.0 (19.5) | 10.7 (20.7) | 51.4 (100.0) |
| Uninsured, Part-year | 14.5 (19.8) | 31.1 (42.5) | 16.9 (23.1) | 2.4 (3.3) | 2.8 (3.8) | 5.4 (7.4) | 73.1 (100.0) |
| All Nonelderly^f | 136.6 (21.1) | 380.0 (58.7) | 70.8 (10.9) | 22.3 (3.4) | 21.3 (3.3) | 16.1 (2.5) | 647.1 (100.0) |

Notes:

^a Includes Tricare/CHAMPVA and workers' compensation.

^b Medicaid and Medicare.

^c VA, other federal, state and local, and public programs.

^d Other private sources and unknown sources

^e Estimated from data on charges and expected payments if privately insured.

^f Civilian, non-institutionalized population under age 65, excluding those with any Medicare coverage.

Source: Hadley and Holahan analysis of 1998 - 2000 MEPS.

Table 4
Sources of Funding Available to Providers
for Uncompensated Care of the Uninsured
(2004 \$s, billions)

| | Federal | State/Local | Total |
|--|-----------------------------------|-------------|--------|
| Government Funds Available for Uncompensated Care | | | |
| | <u>Billions of dollars (2004)</u> | | |
| State/Local Government | | | |
| Tax appropriations to hospitals | -- | 3.3 | 3.3 |
| Payments to hospitals from indirect care programs | -- | 4.6 | 4.6 |
| Medicare | | | |
| DSH payments | 7.6 | -- | 7.6 |
| Share of Indirect Medical Education | 2.9 | -- | 2.9 |
| Medicaid | | | |
| DSH payments | 6.2 | 1.6 | 7.8 |
| Supplemental provider payments | 0.7 | 0.2 | 0.9 |
| Other Government Programs^a | 6.1 | 1.4 | 7.5 |
| All Government Spending | \$23.5 | \$11.1 | \$34.6 |
| Estimated Cost of Uncompensated Care | -- | -- | \$40.7 |

Notes:

^a Includes Bureau of Primary Care Programs, National Health Service Corps, Maternal and Child Health, Indian Health Service, and Veterans Affairs Programs.

Sources:

Medicare and Medicaid estimates derived from CBO March 2004 Baseline with same assumptions about share of payments attributable to uncompensated care as described in Jack Hadley and John Holahan, "How Much Medical Care do the Uninsured Use, and Who Pays for It?", *Health Affairs* Web exclusive, February 12, 2003. Estimates of state local spending and other government programs taken from earlier estimates (*Health Affairs*, February 12, 2003) and adjusted to 2004 using the Consumer Price Index.

Table 5
Simulated Per Capita Spending If Uninsured Were Fully Insured,
By Baseline Insurance Status and Age
(2004 \$s)

| Insurance Status | Percent with any spending | | Spending per capita | |
|---------------------------|---------------------------|------------------------------------|-----------------------|------------------------------------|
| | Baseline | Simulated, Full-Year Insured | Baseline ^a | Simulated, Full-Year Insured |
| All Uninsured | 66.7% | 79.9% | \$2,034 | \$2,836 |
| Full-Year | 56.4 | 77.0 | 1,629 | 2,768 |
| Part-Year | 77.7 | 83.0 | 2,466 | 2,909 |
| Uninsured Adults | 65.9 | 79.5 | 2,394 | 3,388 |
| Full-Year | 56.0 | 76.5 | 1,864 | 3,188 |
| Part-Year | 78.1 | 83.2 | 3,047 | 3,634 |
| Uninsured Children | 69.0 | 80.9 | 1,087 | 1,367 |
| Full-Year | 58.0 | 78.7 | 802 | 1,296 |
| Part-Year | 76.9 | 82.6 | 1,293 | 1,419 |

Notes:

^a Includes uncompensated care.

Source: Hadley and Holahan analysis of 1998 - 2000 MEPS.

Table 6
Cost of Covering the Uninsured:
Simulated Total and Incremental Spending
If Uninsured Were Fully Insured
(2004 \$s, billions)

| Insurance Status | Baseline Spending ^a (billions) | Simulated Spending | | |
|---------------------------|--|--------------------|----------------------|--------------------------|
| | | Total Spending | Incremental Spending | % Increase over Baseline |
| All Uninsured | \$124.5 | \$172.7 | \$48.2 | 38.7 % |
| Full-Year | 51.4 | 87.0 | 35.6 | 69.2 |
| Part-Year | 73.1 | 85.7 | 12.6 | 17.3 |
| Uninsured Adults | 106.0 | 150.0 | 44.0 | 41.5 |
| Full-Year | 45.6 | 78.0 | 32.4 | 71.0 |
| Part-Year | 60.4 | 72.1 | 11.6 | 19.3 |
| Uninsured Children | 18.4 | 22.7 | 4.3 | 23.5 |
| Full-Year | 5.7 | 9.0 | 3.3 | 58.5 |
| Part-Year | 12.7 | 13.7 | 1.0 | 7.8 |

Notes:

^a Includes uncompensated care.

Source: Hadley and Holahan analysis of 1998 - 2000 MEPS.

APPENDIX

Methods Used in Updating the Estimates to 2004

Previously, the costs of medical care provided to the uninsured, the costs of uncompensated care, who bears those costs, and how much more it would cost to cover all of the uninsured were estimated—largely based on household data from the 1996-1998 Medical Expenditure Panel Surveys (MEPS). Estimates were then inflated to 2001 dollars. In order to make this work more germane to the current political debate over the costs and value of covering the uninsured, the researchers updated both the underlying data sources and extended the projections from these sources to 2004 health care costs.

Estimates of care used by the uninsured, sources of payment, and the effects of insurance coverage on the amount of medical care received were derived from the 1998-2000 MEPS household surveys. Rather than estimating separate models of the effects of full-year coverage based on Medicaid and lower-middle income private insurance as previously done, a single model that combined the uninsured with all people with full-year coverage with family incomes less than 400% of the poverty level was estimated. This choice reflects the assumptions that extending Medicaid-like coverage to all uninsured would increase political pressure to make program payments more generous and closer to rates paid by private insurance and that, as a result, making separate projections based only on the Medicaid experience would be unrealistic.

As with the 2001 estimates, all spending estimates from the MEPS data are limited to the nonelderly civilian noninstitutionalized population excluding any people who have Medicare coverage because of either disability or end-stage renal disease. All dollar values in the 1998-2000 MEPS were expressed in 2004 dollars using the annual percentage change in total personal health care spending as inflators. Actual data were used through 2001 and CMS projections for 2002-2004 (National Health Expenditures Projections, <http://www.cms.hhs.gov/statistics/nhe/projections-2002/t5.asp>).

More recent estimates of spending for uncompensated care by Medicare and Medicaid were obtained from the March 2004 CBO Baseline budget estimates. Other data on government spending from 2001 were trended forward to 2004 by the annual change in the Consumer Price Index.

THE COST OF NOT COVERING THE UNINSURED PROJECT

While the national debate over ensuring health coverage for more Americans continues, the number of uninsured is growing. The debate periodically gains momentum, then stalls—perhaps in part because not enough is known about both the benefits and the costs of expanding coverage to more, if not all, of the uninsured.

The Kaiser Family Foundation initiated *The Cost of Not Covering the Uninsured Project* to explore what is known and what needs to be known about the costs society incurs when so many have no health insurance coverage. Under this initiative, we convened an expert advisory group that worked with staff of the Kaiser Commission on Medicaid and the Uninsured to plan and oversee new analyses and reports that would further the understanding of this critical issue.

Three major reports have been issued from the project thus far (all of which can be found on our website, as well as in journal publications). In order to make these reports more germane to the current debate over the costs and value of covering the uninsured, two of the reports concerning the costs of uncompensated care, who bears those costs, and how much more would it cost to insure all Americans were updated to provide 2004 estimates and the results are summarized here.

The project's major reports, published in 2003, include:

“Sicker and Poorer – The Consequences of Being Uninsured: A Review of the Research on the Relationship between Health Insurance, Medical Care Use, Health, Work, and Income.”

Hadley, Jack. *Medical Care Research and Review*, 60(2) Supp. June 2003
Available at: <http://www.kff.org/content/2003/4115/>

“How Much Medical Care Do the Uninsured Use, and Who Pays for It?”

Hadley Jack and John Holahan. *Health Affairs* (Web Exclusive). Feb. 12, 2003
Available at: <http://www.healthaffairs.org/WebExclusives/2202Hadley.pdf>

“Covering the Uninsured: How Much Would It Cost?”

Hadley, Jack and John Holahan. *Health Affairs* (Web Exclusive). June 4, 2003.
Available at: http://www.healthaffairs.org/WebEXclusives/Hadley_Web_Excl_060403.htm

The Kaiser Commission on Medicaid and the Uninsured provides information and analysis on health care coverage and access for the low-income population, with a special focus on Medicaid's role and coverage of the uninsured. Begun in 1991 and based in the Kaiser Family Foundation's Washington, DC office, the Commission is the largest operating program of the Foundation. The Commission's work is conducted by Foundation staff under the guidance of a bipartisan group of national leaders and experts in health care and public policy. The Kaiser Family Foundation is a non-profit, private operating foundation dedicated to providing information and analysis on health care issues to policymakers, the media, the health care community, and the general public. The Foundation is not associated with Kaiser Permanente or Kaiser Industries.