Hospital Payment and Billing

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Hospital billing and payment is confusing, for patients and even those in the health care industry. For now, it is the system we have. In the future, payment reform may change our fragmented system, but that change will not happen overnight. Across the country, hospitals deal with hundreds of insurers. Each has different plans and multiple and often unique requirements for hospital bills. Add to that decades of government regulations, which have made a complex billing system even more cumbersome and frustrating for everyone involved. In fact, Medicare rules and regulations alone top more than 130,000 pages, much of which is devoted to submitting bills for payment.

Charges vs. Payments

Federal laws and regulations require hospitals to maintain uniform charge structures. Payments, however, do not correspond to those charges. What a hospital actually receives in payment for care is very different. That is because:

- For Medicare patients, about 42 percent of the typical hospital's volume of patients, the U.S. Congress sets hospital payment rates.
- For Medicaid patients, about 16 percent of the typical hospital's volume of patients, state governments set hospital payment rates.
- Private insurance companies negotiate payment rates with hospitals. Privately insured patients make up 32 percent of the typical hospital's volume of patients. Private insurance company payment rates vary widely. Larger insurance companies typically are better positioned to demand bigger discounts.
- Tax-exempt hospitals are prohibited from billing gross charges for those eligible for financial assistance. Under the ACA, tax-exempt hospitals are required to have a written financial assistance policy that is widely distributed in the community. Care is either provided for free, or based wholly or partly on Medicare rates under the Internal Revenue Service (IRS) regulations.
- Those insured patients who are seeking care at a hospital outside their insurance company's network, as well as patients whose care is paid for by some other types of insurance, are billed full charges.

Payments vs. Costs

How do these government-set and insurance company-negotiated payments compare to the actual cost of providing hospital care to patients? Medicare and Medicaid pay at or less than cost, the uninsured pay little or nothing, and others must make up the difference.

- Medicare and Medicaid pay at or less than the cost of caring for program beneficiaries – an annual shortfall of $51 billion (American Hospital Association, 2015) borne by hospitals.
- Hospital uncompensated care, both free care and care for which no payment is made by patients, makes up about 6 percent of the average hospital's costs. For Alaska hospitals, Medicaid expansion has reduced this number by more than half. Most hospitals receive no government financial support at all to provide this care, though some hospitals owned by local governments receive tax subsidies from state or local governments to help offset some of the costs of care for poor populations. Overall these payments represent 10 cents per dollar of cost.
- Privately insured patients and others often make up the difference.
- Payments relative to costs vary greatly among hospitals depending on the mix of payers.

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Medicaid in Alaska

Medicaid is a voluntary state/federal program that finances health care for low income individuals. It is the largest source of funding for health care services for the poor. The federal government provides eligibility guidelines and states have some discretion regarding which services to provide. States contract with providers to deliver those services.

- 166,289 Alaskans are covered by Medicaid
- 79,835 are children under the age of 18
- 24,354 Alaskans are eligible for Medicaid because of Medicaid expansion

Recognizing the high cost of delivering health care in Alaska, the Medicaid program pays inpatient hospital and skilled nursing facilities a daily rate based on the actual cost of operation. Every four years, facilities go through a rebasing cycle, where costs are analyzed and a new rate is developed based on those costs. In the years between rebasing cycles, hospitals used to receive an inflation-adjusted rate. However, these inflationary adjustments have been suspended for the last two years so in the intervening years Medicaid reimburses facilities at less than the cost to provide services. Some facilities receive more than 85% of their revenue from Medicaid. These facilities cannot operate long-term in an environment where they are paid less than the cost of operating the facility.