



What is a Safety Net Hospital?

1301 Pennsylvania Ave. NW, Suite 950
Washington, DC 20004

202 585 0100 tel / 202 585 0101 fax
www.naph.org

Larry S. Gage / PRESIDENT
Christine Capito Burch / EXECUTIVE DIRECTOR

A safety net hospital or health system provides a significant level of care to low-income, uninsured, and vulnerable populations. Safety net hospitals are not necessarily distinguished from other providers by ownership – some are publicly owned and operated by local or state governments and some are non-profit. Rather, they are distinguished by their commitment to provide access to care for people with limited or no access to health care due to their financial circumstances, insurance status, or health condition.

The Institute of Medicine's 2000 report, *America's Health Care Safety Net: Intact But Endangered*, defines "core safety net providers" as having two distinguishing characteristics:

- (1) By legal mandate or explicitly adopted mission, they maintain an "open door," offering patients access to services regardless of their ability to pay; and
- (2) A substantial share of their patient mix is uninsured, Medicaid, and other vulnerable patients.¹

Defining "substantial share" becomes key when trying to identify a safety net hospital. They cannot be distinguished by the fact that they receive disproportionate share hospital (DSH) payments because 64 percent of all hospitals receive Medicare DSH payments, and in some states, all hospitals are designated as Medicaid DSH hospitals.

There are several alternatives:

Federal minimum criteria for designating a Medicaid DSH hospital. Hospitals must be

designated as Medicaid DSH hospitals if they meet one of the following criteria:

- A low-income utilization rate (LIUR)² of 25 percent or more; or
- A Medicaid utilization rate³ more than one standard deviation above the mean Medicaid utilization rate in the state.

The number of hospitals that meet the LIUR criterion varies from year to year, but approximately 800 (out of 5,200) hospitals meet this minimum criterion.

The low-income cost ratio criteria for designating a Medicare DSH hospital. For purposes of designating Medicare DSH hospitals, the Medicare Payment Advisory Commission (MedPAC) recommends a variable called the low-income cost ratio, which includes the costs of all low-income patients, including Medicaid, poor Medicare patients, patients financed by state or local indigent care programs, and uncompensated care (as a way to incorporate uninsured patients). While there are no statutory thresholds using the low-income cost ratio, approximately 700 hospitals have a low-income cost ratio of 35 percent or more.

Uncompensated care. Measuring uncompensated care as a percent of total costs is another way to identify providers with a strong commitment to serving the uninsured and under-insured. On average, uncompensated costs as a percent of total costs represent 5.5 percent for hospitals in the U.S. Certain types of hospitals provide significantly more uncompensated care. For urban government hospitals, 15.7 percent of costs are for uncompensated care patients; for teaching hospitals (both public and private) 10 percent of costs are for uncompensated care.⁴ For NAPH members, the level of uncompensated care as a percent of total costs is considerably higher at 21 percent.⁵

Notes

¹ Marion Lewin and Stuart Altman, eds. Institute of Medicine, *America's Health Care Safety Net: Intact but Endangered* (Washington, DC: National Academy Press, March 2000).

² LIUR is calculated by adding the ratio of Medicaid revenues divided by total revenues to the ratio of inpatient charity charges divided by total charges.

³ The Medicaid utilization rate equates to Medicaid days divided by total days.

⁴ MedPAC Analysis of 2000 AHA Annual Survey as reported by Jack Ashby, "Hospital Uncompensated Care Issues." Medical Payment Advisory Commission, 2002.

⁵ J. Huang, J. Silbert, M. Regenstien, *America's Public Hospitals and Health Systems, 2003: Results of the NAPH Annual Hospital Characteristics Survey* (Washington, DC: National Association of Public Hospitals and Health Systems, 2005).