

What is an Uncompensated Care Pool?

Uncompensated care pools (UC pools, or UCPs) are one strategy used by states in order to fund care for the uninsured and the underinsured. The pools are primarily used to pay providers for a portion of the free care they provide, thereby ensuring access to critical inpatient hospital and other provider services. UC pools, also called “Low Income Pools,” leverage 1115 Medicaid demonstration waiver authority to fund hospitals and health systems that:

1. Care for a large number of uninsured patients,
2. Provide a disproportionate amount of charity care,
3. Have incurred “bad debt” from unpaid bills, and/or
4. Serve a disproportionately large number of Medicaid beneficiaries whose care is reimbursed at a lower rate than privately insured individuals.

This blog provides an overview of the seven states that use Medicaid 1115 demonstration waivers to fund their Uncompensated Care: California, Florida, Kansas, Massachusetts, New Mexico, Tennessee, and Texas. We also include information on two states—Arizona and Hawaii—with recently expired 1115 waivers that formerly were used to fund UC pools.

Table 1 provides specifications of the UC pools that have operated in these nine states under 1115 waiver authority. Initial waivers were approved over a period from 2002 (TN) to 2014 (NM). For context, the Patient Protection and Affordable Care Act (ACA), enacted in 2014, changed the role of 1115 waivers by allowing states to cover childless adults without applying for an 1115 waiver.³ The intent of this change as well as the additional coverage provisions under the ACA was to increase the number of people with health insurance, which would reduce uncompensated care delivered in hospitals.⁴ Based on data from 2017, uninsured rates for nonelderly adults in these states range from an estimated 3.8% (MA) to 23.5% (TX).⁵ In order to reduce uninsured rates, some states have expanded Medicaid eligibility to 138% of the Federal Poverty Level for childless adults, while others have leveraged alternative strategies through 1115 waiver authority. Half of the states with UC pools (listed above) are Medicaid expansion states while the other half are not.

Uncompensated Care pools are often one component of a broader reform strategy funded through a more comprehensive 1115 demonstration waiver. Some state waivers use both UC pools and Delivery System Reform Incentive Payment (DSRIP) Programs to reform their health care delivery system and offset the cost of uncompensated care (e.g., CA, KS, MA, and TX). Other states set aside UC pool funding as part of their transition to a Medicaid managed care model (e.g., KS and TX). Some UC pools have even been in place since before the ACA was implemented in 2014 (e.g., CA, MA, and TN), though most were approved after full implementation.

How are Uncompensated Care Pools funded? Where does this money go?

States differ in how their UC pools are funded and how the funds are distributed. A common funding strategy is the reallocation of Medicaid Disproportionate Share Hospital (DSH) funds. In some states, UC pool dollars may be combined with other funding sources to create larger “safety net” pools. For example, in its most recent waiver renewal (2015-2020), California, under its “Global Payment Program,” combined the uncompensated care funding sources in a previous version of its 1115 waiver with reallocated DSH funds to compensate designated public hospitals providing a high volume of care to uninsured patients.

DEFINITIONS

Uncompensated Care:¹ Care for the uninsured or underinsured delivered in hospitals that is not fully reimbursed. Costs associated with uncompensated care include charity care when patients do not have the ability to pay, and/or bad debt from unpaid bills, and/or Medicaid shortfall (the difference between a hospital's cost for providing care to Medicaid beneficiaries and total Medicaid payments for services received).

Delivery System Reform Incentive Payment (DSRIP) Program:² This program provides states with funding to support hospitals and other providers to change care delivery for Medicaid beneficiaries. Implemented under Section 1115 waiver authority, funding is tied to provider performance on metrics.

Disproportionate Share Hospitals (DSH): Hospitals that provide care to a disproportionate number of uninsured, underinsured, or Medicaid beneficiary patients. These hospitals qualify for federal payments to defray uncompensated care costs.

While some states' UC pools reimburse providers for a range of uncompensated care, others cover just a small subset of a provider's uncompensated care costs or divert funding to other non-provider entities. In Arizona, the UC pool covered a portion of the UC costs of just one children's hospital in Phoenix. New Mexico's UC pool reimburses the uncompensated care for a state teaching hospital and designated sole community provider hospitals.¹ Massachusetts uses UC pool funds to cover uncompensated care in its critical access hospitals, but it also diverts funding to public health entities like the Department of Public Health and the Department of Mental Health.

Funding for UC pools varies widely, both in total dollars allocated (referenced above) and dollars per uninsured individual in the state. The range of annual funding per uninsured, nonelderly adult begins at \$192 per person in California up to \$1,312 per person in Tennessee. This wide variation in funding is linked to states' historical approaches to uncompensated care and generally fluctuates year-to-year based on changes in the cost of furnishing uncompensated care, annual inflation rates, and changing state priorities.

How has the use of Uncompensated Care Pools changed over time? How might the 2020 election influence future approval and use of Uncompensated Care Pools?

As with all 1115 demonstration waivers, renewal of provisions such as UC pools is based on evaluation of the program's outcomes, as well as current priorities of CMS, which may change with Presidents and their administrations.⁶ For example, under the Obama administration, an assessment of the trends in waiver approvals indicated a reduction in funding and expiration of uncompensated care pools. Specifically, CMS rejected both Hawaii and Arizona's requests to extend their respective waivers in 2016 and 2017.^{7,8} Under the Trump administration, CMS has either approved or extended funding for the seven state 1115 waivers that currently fund UC pools. With waiver renewal durations averaging about five years, all existing UC pools have been approved until after the 2020 election cycle. Because waiver approval criteria can change based on administration policy priorities, results of the 2020 election may determine the future availability and acceptable uses for these pools.

¹ Hospitals which "by reason of factors such as isolated location, weather conditions, travel conditions, or absence of other hospitals, is the sole source of inpatient hospital services reasonably available in a geographic area." (Sole Community Hospital Program of 1983)

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Table 1. Using 1115 Waivers to Fund State Uncompensated Care Pools

State	Waiver Description	Waiver Demonstration Years (DY)	UC Pool Funding & Federal Medical Assistance Percentage (FMAP)	Percent & Number of Uninsured Non-Elderly Adults ¹⁰	Medicaid Expansion
			Funding information found in state's waiver documentation.		
ACTIVE					
California¹	Medi-Cal: Uncompensated Care Payments housed under Global Payment Program (includes DSH payments for public health care systems + Uncompensated Care Payments at these hospitals), additional funding for Indian Health Services (IHS) uncompensated care (\$1,550,000/Demonstration Year). UC Pool in conjunction with DSRIP.	Initial Waiver: 8/31/2005 - 10/30/2010 Waiver Extensions: 11/1/2010 - 10/31/2015 11/1/2015 - 12/31/2020	\$472 mil. annually \$192/Uninsured Non-Elderly Adult FMAP: 50%	10.1% 2,452,138	YES
Florida²	Florida Managed Medical Assistance Program: Low Income Pool (LIP) provides government support for safety-net hospitals for the costs of uncompensated charity care for low-income individuals who are uninsured. Uncompensated care (UC) includes charity care for the uninsured but does not include UC for insured individuals, "bad debt," or Medicaid and CHIP shortfall.	Initial Waiver: 12/16/2011 - 6/30/2014 Waiver Extensions: 7/31/2014 - 6/30/2017 Temporary Extensions: 08/03/2017 - 6/30/2022	\$1.5 bil. annually \$653/Uninsured Non-Elderly Adult FMAP: 61.47%	18.9% 2,296,906	NO
Kansas³	KanCare: Safety Net Care Pool (SNCP) designated to cover uncompensated care and Delivery System Reform Incentive Payment (DSRIP) (only waiver demonstration year 7 and 8 [2019 and 2020], expires in demonstration year 9). UC pool is made up of Health Care Access Improvement Program (HCAIP) and Large Public Teaching Hospital/Border City Children's Hospital Pool (LPTC/BCCH).	Initial Waiver: 01/01/2013 - 12/31/2017 Waiver Extensions: 01/01/2018 - 12/31/2018 01/01/2019 - 12/21/2023	\$50.9 mil. annually \$253/Uninsured Non-Elderly Adult FMAP: 59.16%	11.9% 201,275	NO
Massachusetts⁴	MassHealth: UC Pool covers expenditures for additional Health Safety Net payments to hospitals that reflect care provided to certain low-income, uninsured patients; and Department of Public Health (DPH) and Department of Mental Health (DMH) hospital expenditures for care provided to uninsured patients. UC Pool in conjunction with Massachusetts DSRIP.	Initial Waiver: 07/01/2005 (SNCP Approval) Waiver Extensions: 12/20/2011 - 06/30/2014 Temporary Extensions: 10/30/2014 - 06/30/2019, 07/01/2019 - 06/30/2022	\$100.4 mil. annually \$621/Uninsured Non-Elderly Adult FMAP: 50%	3.8% 161,581	YES
New Mexico⁵	Centennial Care 2.0: extended as of December 2018. It includes approval for one more year of UC Pool funding with additional funding contingent upon reporting to CMS. UC pool payments is limited to sole community provider (SCP) hospitals and the state teaching hospital.	Initial Waiver: 01/01/2014 - 12/31/2018 Waiver Extension: 12/14/2018 - 12/21/2023	\$68.9 mil. annually \$433/Uninsured Non-Elderly Adult FMAP: 72.71%	13.3% 159,073	YES
Tennessee⁶	TennCare II: Total Uncompensated Care Payment fund consists of Charity Care and Payment to Disproportionate Share Hospitals (DSH) who provide care to Medicaid beneficiaries and uninsured patients. Beginning July 1, 2017, the state began a transition period to "phase down" its uncompensated care pools to more closely match real costs for charity care and costs incurred by DSH for Medicaid/uninsured patients. Annual funding calculated from past year's payments.	Initial Waiver: 07/01/2002 - 06/30/2007 Waiver Extensions: 07/01/2007 - 06/30/2010 07/01/2010 - 06/30/2013 07/01/2013 - 06/30/2016 07/01/2016 - 06/30/2021	\$627 mil. annually \$1,312/Uninsured Non-Elderly Adult FMAP: 65.21%	13.7% 546,237	NO
Texas⁷	Texas Healthcare Transformation and Quality Improvement Program: Through September 30, 2019, payments from the pool can be used to cover the cost of uncompensated care provided to Medicaid eligible or uninsured individuals. After this point, can only cover the cost of uninsured. UC Pool in conjunction with Texas DSRIP.	Initial Waiver: 12/12/2011 - 09/30/2016 Waiver Extensions: 10/01/2016 - 12/31/2017 01/01/2018 - 09/30/2022	\$3 bil. annually \$762/Uninsured Non-Elderly Adult FMAP: 60.89%	23.5% 3,938,938	NO

EXPIRED					
Arizona^a	Arizona Health Care Cost Containment System: Safety Net Care Pool (SNCP) designated to cover uncompensated care by the Phoenix Children's Hospital (PCH). Payments for each Calendar Year computed based on PCH's previous year's uncompensated care costs. Part of larger Cost Containment Waiver, including work requirements. At the end of 2017, SNCP funds no longer cover uncompensated care costs.	Initial Waiver 10/21/2011 - 09/30/2016 Waiver Extension 10/01/2016 - 09/30/2021 UC Pool Expired 12/31/2017 & transitioned to SNCP.	\$90 mil. (2017) \$165/Uninsured Non-Elderly Adult FMAP: 70.02%	13.6% 545,854	YES
Hawaii^a	Hawaii QUEST: UC payments made to governmentally-operated hospitals, governmentally-operated nursing facilities, and private hospitals to cover uncompensated care costs for hospital and long-term care services to both the uninsured and to cover Medicaid short-fall. The majority of funding across care locations covers Medicaid shortfall.	Initial Waiver 12/18/2012 - 12/31/2013 Waiver Extension & Amendment 10/01/2013 - 12/31/2018 UC Pool Expired 06/30/2016	\$95 mil. (2015) \$1,802/Uninsured Non-Elderly Adult FMAP: 53.47%	3.7% 52,709	YES

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