The major transformation now under way in American health care financing poses challenges for the nation's safety net and teaching hospitals. The growth of managed care and the spread of competition among providers may ultimately deprive safety net and teaching institutions of the support that has traditionally allowed them to provide health care to the uninsured. An analysis of current circumstances and trends can move the understanding of the situation beyond anecdotes and allegations.

Two strong trends are shaping the future of indigent care provision by safety net and teaching hospitals. First, the movement of Medicaid patients into managed care seems to be accompanied by a tendency among plans to shift patients and revenues away from traditional safety net hospitals, especially those with substantial academic missions. Second, uncompensated care is increasingly becoming concentrated in public hospitals. Under pressure from managed-care plans to reduce their charges, many hospitals have scaled back their commitment to uncompensated care, leaving public hospitals to treat patients with more-complex illnesses. For hospitals that serve both safety net and teaching functions, this creates an agonizing double bind: forced to assume greater responsibility for uncompensated care, these same institutions face the loss of a significant portion of their paying Medicaid patients.

Major safety net hospitals serve a higher percentage of uncompensated care and Medicaid patients than other hospitals. (Uncompensated care includes both charity care to the uninsured and "bad debt" care for patients who are underinsured or who for some reason do not pay for all their care.) Although major safety net hospitals comprise only 5% of all hospitals, more than half of their patients are either uncompensated care patients or Medicaid beneficiaries (Fig. [Dr. Biles is Senior Vice President and Ms. Abrams is a Program Associate of The Commonwealth Fund, Harkness House, 1 East 75th Street, New York, NY 10021–3825.]
FIG. 1 Share of hospitals' discharges that are uncompensated care and Medicaid, by safety net role, 1994. Source: Gaskin D, Hadley J. Georgetown University analysis using 1994 hospital discharge data from 8 states.

1) This is more than 2½ times the total share for hospitals with a minor safety net role. Medicaid revenues are especially important to major safety net institutions, accounting for an average of 41% of patients.

Major safety net hospitals are also teaching hospitals. Of hospitals with a major safety net role, 82% are teaching hospitals, compared to only 21% of facilities having a minor safety net role (Fig. 2). Targeted Medicare payments show the overlap between safety net and teaching hospitals (Fig. 3). Hospitals that treat a relatively large volume of low-income patients are paid under Medicare's Prospective Payment System (PPS) and Medicaid with a special disproportionate share adjustment (DSH). Sixty-four percent of all DSH payments go to teaching hospitals, indicating that a large proportion of safety net institutions train medical