HEALTH CAPITAL Topics
Volume 11
Issue 3
March 2018
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The Implications of Medicaid Expansion on Hospital Finances and Viability

Four years after the implementation of *Medicaid Expansion* under the *Patient Protection and Affordable Care Act of 2010* (ACA), researchers are now able to utilize available post-expansion data to evaluate its impact on hospitals and patients. Accordingly, several studies have been released over the last few months. One study published in the January 2018 issue of *Health Affairs* found that hospitals in Medicaid Expansion states were 84 percent *less likely* to close and had a significantly better payor mix, i.e., a higher ratio of Medicaid to uncompensated care patients, than hospitals in Non-Expansion states.[1] This same study further found that hospitals in areas with the highest rates of uninsured individuals prior to the ACA, particularly rural hospitals, benefited the most, financially, from the Expansion.[2] Another study, released in January 2018 in *Health Services Research*, found that the proportion of inpatient stays covered by Medicaid significantly *increased*, while the proportion of uninsured visits significantly *decreased*, for both safety net and non-safety net hospitals in nine Medicaid Expansion states.[3]

These findings are particularly relevant given the current healthcare environment. The U.S. has over 4,000 identified medically underserved areas,[4] and 53 rural hospitals across the U.S. have closed since the 2014 implementation of Medicaid Expansion[5] (79 percent of which closures occurred in Non-Expansion states).[6] Rural and safety net hospitals are important links in the healthcare delivery system for those patients that experience difficulty accessing health services, and hospital closures not only reduce access to care, but result in the migration of skilled healthcare labor to urban areas, exacerbating the disparity of physician supply in urban and rural areas.[7] As such, the findings from these recent studies may have far reaching implications for both patients and healthcare providers, regardless of their state's Medicaid Expansion status.

Medicaid was established in 1965 and is jointly funded by federal and state governments as the primary source of health insurance for low-income Americans.[8] While eligibility for Medicaid has traditionally varied by state,[9] the ACA—in an attempt to reduce the number of uninsured Americans—established mandatory Medicaid coverage for all individuals under the age of 65 living in households with an income up to 138 percent of the federal poverty level.[10] However, since the U.S. Supreme Court ruled that Medicaid Expansion would be *optional* for states in June 2012,[11] 33 states, including the District of Columbia, have chosen to expand Medicaid coverage, to varying degrees, in accordance with the ACA.[12] As a result, enrollment in Medicaid and the *Children's Health Insurance Program* (CHIP) has grown to more than 74 million individuals as of October 2017, an increase of almost 20 million since its 2014 implementation (84 percent of which are located in Medicaid Expansion states).[13] While federal funding for Medicaid Expansion has decreased (from 100 percent coverage from 2014 to 2016, to 90 percent through 2020), the generous allowance has caused some Non-Expansion states to take a serious look at adopting some semblance of Medicaid Expansion measures to take advantage of federal funding while benefiting their underserved patient population.[14] However, despite this allowance, and the recent reprieve for CHIP funding passed by Congress in 2018,[15] continuing uncertainty regarding future federal funding for Medicaid Expansion has caused states to reconsider their stance on eligibility requirements, e.g., increasing the federal poverty limit and adding work restrictions.[16]

These new studies that focus on the impact of Medicaid Expansion have shown that Medicaid Expansion states have a better payor mix, and consequently, increased revenues; higher profit margins; and, decreased costs for uncompensated care.[17] However, some studies have also found drawbacks to the Medicaid Expansion. A January 2018 analysis by *Avalere Health* found that the average Medicaid claims cost has grown by 20 percent over the course of three years.[18] In addition, while a goal of Medicaid Expansion was specifically to increase the number of insured childless young adults, over the 30 months of the study, enrollment by adults aged 19 to 29 years of age decreased by seven percent, while enrollment for adults aged 50 to 64 grew by five percent;[19] this age disparity, and the consequent increase in covered patients with more complex and chronic co-morbidities, is thought to be the underlying reason for the increase in claims cost over time.[20] There are also concerns for providers regarding the potential "*crowding out*" of the more profitable private insurance patients by Medicaid patients; this type of payor mix shift theoretically has the potential to negatively impact a facility's bottom line, though it is estimated that a 70 percent "*crowd out*" would be required to decrease inpatient revenue.[21] It is important to note, however, that although the new Medicaid demographic and claims have shifted in a possibly undesirable financial direction, no

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studies to date have substantiated a negative impact to hospitals' bottom lines.

At a time when hospitals have been forced to consolidate to acquire the requisite economies of scope and scale to survive; keep pace with rapidly changing regulatory requirements; and, meet the increasing patient demand for services in the communities they serve, these findings should urge hospitals to reconsider both the benefits and potential drawbacks of Medicaid Expansion. It is unknown how the December 2017 repeal of the ACA's *Individual Mandate* (effective as of 2019),[22] and the consequent estimated increase in uninsured individuals,[23] as well as the possible implementation of work requirements for Medicaid eligibility,[24] may have further fiscal impact via altering hospitals' payor mixes. As hospitals are the primary providers of care in a community, they consequently have a responsibility to the community for their continued financial viability. In light of these findings, policymakers in Non-Expansion states may want to reevaluate the efficacy and fiscal responsibility of Medicaid Expansion, and consider strategies for continued success, as well as the impact of their decision on access to care for patients in rural and underserved areas, and the sustainability of hospitals in their state. Hospitals should consider seeking guidance from their legal counsel and business consultants to determine the appropriate structure and fiscal feasibility of the various strategic financial and business options available to them in the context of both their federal and respective state Medicaid environments.

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