

HRI's *closer look*



Medicaid 2.0

Health system haves and have nots

At a glance

Medicaid expansion under the Affordable Care Act has delivered higher volumes and increased revenue to providers across the 26 states and the District of Columbia that expanded the program, while dramatically reducing the amount of care that goes unpaid. Hospitals in states that did not expand have seen the opposite.

The health system haves and have nots of ACA expansion

Introduction

More than four years after it was enacted, the Affordable Care Act (ACA) remains a subject of intense debate, legal challenges and regulatory hurdles. But one thing is clear: newly-released earnings and patient volume data reveal a distinct financial split between healthcare providers in states that have expanded their Medicaid programs and those that have not.

Physicians, hospitals and health systems operating in the 26 states and the District of Columbia that pursued the option to broaden Medicaid coverage with federal dollars have seen a significant rise in paying customers and volume, while dramatically reducing uncompensated care levels. This year alone LifePoint Hospitals has seen a 30.3% reduction in its uninsured and charity care patients, according to reports filed with the US Securities and Exchange Commission (SEC) and data released during their second quarter earnings call.

For-profit health systems, operating more than 500 hospitals in the US, report far better financial returns through the first half of the year

than expected, owed in large part to expanded Medicaid, according to quarterly earnings reports filed this summer with the SEC.

The growth in Medicaid expansion states starkly contrasts the experience in the 24 states that did not expand the joint federal-state health program. In those states, hospitals continued to see flat or sagging admission rates and little reduction in the number of uninsured, largely non-paying patients.

While these trends were expected, the gap in Medicaid enrollment between expansion and non-expansion states is greater than most industry analysts predicted. After a strong start to the year, health systems have recalculated their previous estimates to adjust for higher than expected enrollment and revenues. Many have projected a strong finish to the year.

As written, the ACA extended Medicaid benefits to every American earning less than 138% of the federal poverty threshold—about \$16,105 for an individual and \$32,913 for a family of four.¹ The US Supreme Court, however, made expansion optional, creating a patchwork of coverage. In turn,

health systems in states that chose not to expand are under added financial pressure. Between 2014 and 2020, federal support to hospitals serving the uninsured will decline by more than \$39 billion.

Since the ruling in 2012, state and national hospital groups have urged lawmakers in non-expansion states to reconsider. Most recently, federal health officials approved Pennsylvania's proposal to expand Medicaid beginning in 2015. One overarching reason is the imbalance in Medicaid payment between expansion and non-expansion states. The federal government covers the cost of expansion for all new enrollees through 2017. While the government's share eventually tapers off to 90%, the infusion of Medicaid dollars has been a boon for healthcare providers, patients and state budgets.

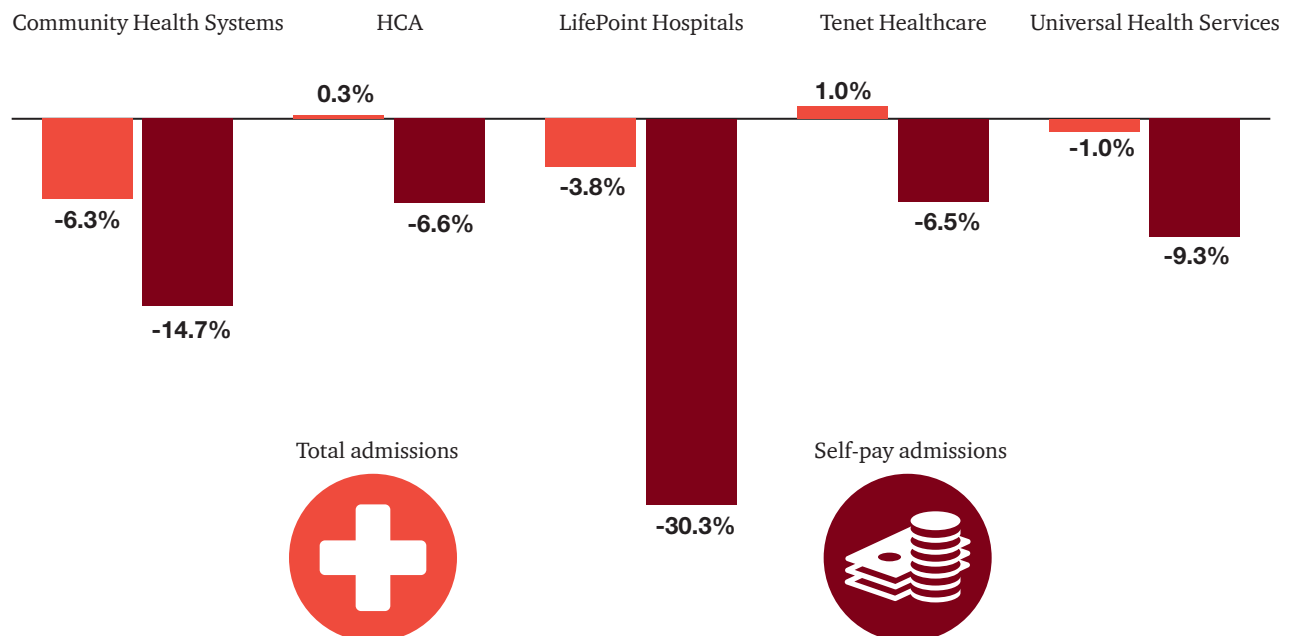
The impact is only now becoming clear. If left unchanged, about 6.7 million people would remain uninsured in 2016 across the 24 non-expansion states, according to estimates by the Robert Wood Johnson Foundation and Urban Institute.² Those same states would give up about \$423 billion in federal Medicaid dollars through 2022. What's more, health systems located in non-expansion states could lose about \$167 billion in enhanced Medicaid payments used to offset reductions in federal reimbursement.³

Even so, many governors in non-expansion states see a different calculus, often citing Medicaid's strain on state budgets and concerns over how the program is managed at the federal level. Texas Gov. Rick Perry, for instance, said Medicaid expansion would cost \$15.6 billion over the next

decade.⁴ Other governors say they are uneasy about relying on the federal government for payments to offset the cost of the expansion population.

To assess the impact of Medicaid expansion, PwC's Health Research Institute (HRI) analyzed financial data from the nation's five largest for-profit health systems—HCA Holdings, LifePoint Hospitals, Tenet Healthcare, Community Health Systems and Universal Health Services, representing 538 hospitals in 35 states. Combined with information from several mid-sized hospitals, government reports, industry surveys and executive interviews, the data present a fuller picture of how the largest expansion of coverage in a generation is impacting the nation's \$2.8 trillion health sector.

Figure 1. Admissions for self-pay patients were down for these hospitals through the first half of 2014



Note: Same facility admissions (first half 2014 vs first half 2013)
Source: PwC Health Research Institute analysis

Hospitals split between haves, have nots

Insurance coverage for virtually all Americans is at the core of an agreement hospital executives made with the Obama administration when the ACA was being written. Create a clear path for Americans to gain coverage—either through the expansion of Medicaid or new public exchanges—and hospitals would agree to more than \$150 billion in reduced Medicare payments to help pay for the law.

There's evidence the tradeoff is working. Medicaid admissions in expansion states increased by a range of 10.4% to 32.0% across the country's three largest health systems since the start of

the year. Those double-digit percentage increases were met with corresponding declines of about 47% over the first half of the year in uninsured or self-pay admissions, which typically include a large portion of uncompensated care.

Approximately 7.2 million Americans enrolled in Medicaid and its children's health component since October 2013, according to the Centers for Medicare and Medicaid Services (CMS). Those sign-ups mark a 12.4% overall increase over average monthly enrollment prior to the ACA changes.⁵ Expansion states saw enrollment increase 18.5%. States that declined to expand Medicaid also saw a 4% increase in enrollment, in part due to a greater awareness around

new coverage options and a simplified path to enrollment.⁶

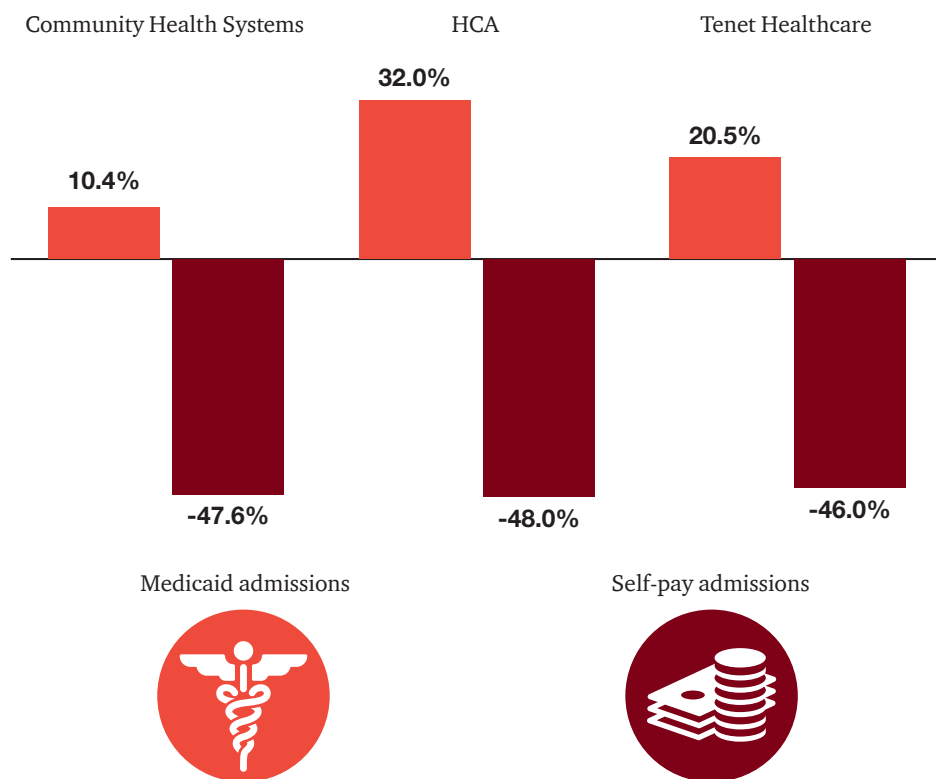
Education efforts around the ACA's coverage expansion played a key role in driving-up coverage rates. Dallas-based Tenet Healthcare, for instance, held more than 350 events to raise awareness of exchange health plans and new Medicaid thresholds. Tenet President and Chief Executive Trevor Fetter said the effort lead to "tens of thousands" of newly-enrolled Medicaid recipients.⁷

Tenet operates hospitals in five states that expanded Medicaid. Across those states, Tenet saw uninsured and charity care admissions decline by 46%, coupled with a 20.5% increase in Medicaid admissions in those same states, according to an HRI analysis. In the second quarter alone, Tenet saw a \$78 million reduction in unpaid care.⁸

Newly covered Medicaid enrollees helped buoy hospital earnings elsewhere, too. Franklin, Tenn.-based Community Health Systems operates hospitals in 29 states, including 12 that expanded the program. Those states account for just under a quarter, 23%, of Community Health's overall revenue yet provided a major financial lift, in part because self-pay emergency room visits declined 41%. Community Health has seen a corresponding 10.4% increase in Medicaid admissions through the first half of this year compared to the same period in 2013.⁹

The surge in new paying customers under the ACA's coverage expansion, and subsequent reduction in uninsured patients, accounts for about \$40 million to \$45 million of Community Health's earnings, company executives said, adding that they expect another \$40 million benefit through the second half of the year.¹⁰

Figure 2. In Medicaid expansion states, the shifts between Medicaid and self-pay admissions were dramatic through the first half of 2014



Note: Same facility admissions (first half 2014 vs first half 2013)
Source: PwC Health Research Institute analysis

The country's largest hospital chain, HCA Holdings, revised its earnings outlook to account for better-than-expected revenue from health reform. The company operates in five Medicaid expansion states. Within their expansion states, Medicaid admissions increased 32%, with a corresponding 48% decline in uninsured admissions through the first half of the year, according to an HRI analysis. Uninsured volume also declined in non-expansion states, though much less rapidly at 2%.¹¹

And LifePoint Hospitals operates in 20 states—seven of which expanded Medicaid. The health system saw second-quarter earnings of about \$158.7 million, a 35.8% increase over the same span in 2013. Of that, LifePoint executives attribute about \$13 million to the ACA's coverage expansion. About 80% of LifePoint's newly-covered admissions came from Medicaid in the second quarter.¹²

Similarly, Pennsylvania-based Universal Health Services reported a 30% increase in second-quarter adjusted net income, to \$155.6 million compared to \$118.9 million during the same period a year ago.¹³

"We knew there would be movement from uninsured to insured," said Chris Tholen, vice president of financial policy at the Colorado Hospital Association. Researchers at the association analyzed Medicaid coverage data over the first three months of 2014 for more than 400 hospitals across 30 states—half of which expanded the program. The study revealed a 29% increase in Medicaid volume in expansion states. "Everybody expected the increases, but I would say that these are bigger overall than what we would have thought."¹⁴

Doctors experience an expansion "bump"

The expansion had a similar impact on doctors. Primary care physicians, surgeons and other specialists in expansion states saw a higher percentage of Medicaid patients during the first three months of 2014 than were seen in non-expansion states.¹⁵

Tholen said another lasting effect of states that do not expand Medicaid could be a legacy of unhealthier patients. "Take away the finance for a second and think about the mission of hospitals, which is to improve the health of a population," he said. "An insured community is a healthier community. I don't want to lose sight of that either."

In Arkansas, which is using a federal waiver to apply Medicaid dollars to subsidize individuals purchasing on the state exchange, the coverage expansion also has boosted physician office volume, said Jodiane Tritt, vice president for government relations at the Arkansas Hospital Association. "We expected our emergency rooms to uptick," she said. "They didn't."

In a statewide survey of 42 hospitals, the association found a 2% decline in emergency department visits. Patients that were admitted, however, increasingly had coverage. Arkansas hospitals saw about a 30% decline in uninsured patients.

"These folks have private insurance, and they're going to primary care physicians around the state," said Tritt, adding that the higher-paying option means fewer doctors turning away from Medicaid because of its low reimbursement rates.

"That means our emergency rooms are not getting overcrowded, doctors are finally getting paid—particularly in rural Arkansas for seeing patients who now have a payment source they never had before—and the folks that really do need inpatient care are coming to us at the appropriate time, and they have a paying source," she added.

At the same time, Arkansas is considering proposals to require low income beneficiaries to contribute \$5 to \$25 each month to a health savings account, which will then be used to pay deductibles, copays and co-insurance. Those who don't make the payments will be subject to copayments when they receive care.

Conclusion

In states that have expanded Medicaid, an influx of newly insured patients has helped reverse long-running hospital trends such as declining admissions and a rise in uncompensated care. Given the emerging picture of health system haves and have nots, it is understandable why many hospital executives continue to urge state lawmakers to expand Medicaid where they haven't already.

Hospitals in expansion states have already seen a pick-up in volume. As more and more people seek out routine primary care, a community's overall health should improve. But in non-expansion states, lower-income individuals may continue to have limited access to care and strain the safety net.

"I think it speaks for itself—it's logical," said Chip Kahn, president of the Federation of American Hospitals. "It says that the expansion has had a material effect on those areas."

Endnotes

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