



**BACKGROUND** Adding work requirements to Medicaid through Section 1115 waivers is likely to reduce the number of people with Medicaid coverage. It can also harm the financial viability of some hospitals by reducing their Medicaid revenues and increasing uncompensated care costs, resulting in lower operating margins.

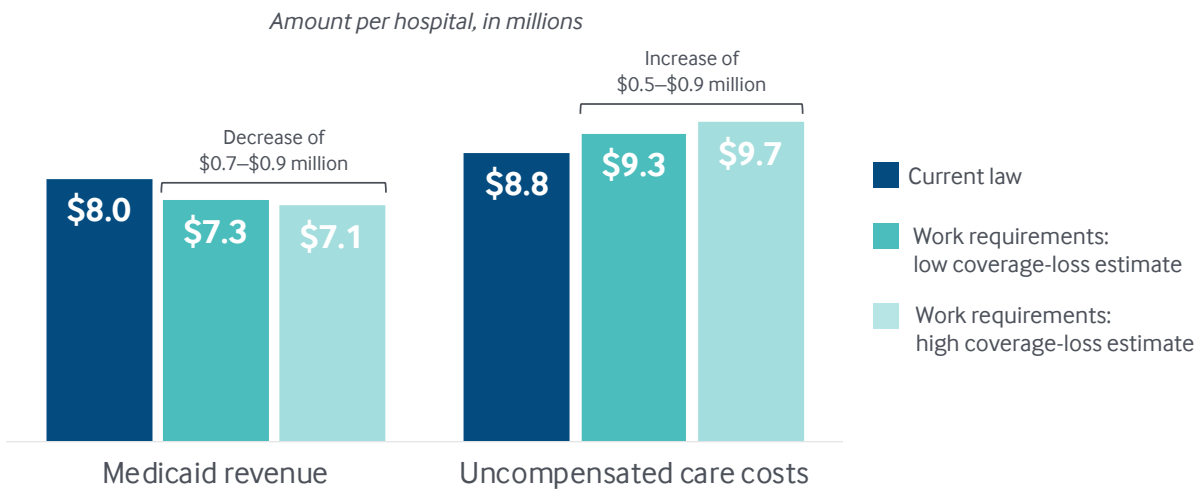
Alabama’s 1115 Medicaid waiver is pending approval (as of January 2020) from the U.S. Department of Health and Human Services. The application includes a provision for implementing work requirements for the traditional Medicaid-eligible population between ages 18 and 59. Alabama has not expanded Medicaid under the Affordable Care Act.

**ENROLLMENT IMPACT** We estimate 32,000 to 39,000 current Medicaid enrollees could lose coverage.<sup>1</sup>

**ESTIMATED REDUCTION IN MEDICAID REVENUE** Alabama hospitals will receive \$8.0 million in Medicaid revenues per hospital in 2019. Assuming statewide implementation of work requirements, we estimate the average Alabama hospital’s Medicaid revenues will decline \$700,000 to \$900,000 (9%–10%) in 2019.

**INCREASE IN UNCOMPENSATED CARE COSTS** Alabama hospitals will provide \$8.8 million in uncompensated care costs per hospital in 2019. Assuming statewide implementation of Medicaid work requirements, we estimate the average Alabama hospital’s uncompensated care costs will increase \$500,000 to \$900,000 (6%–10%) in 2019.

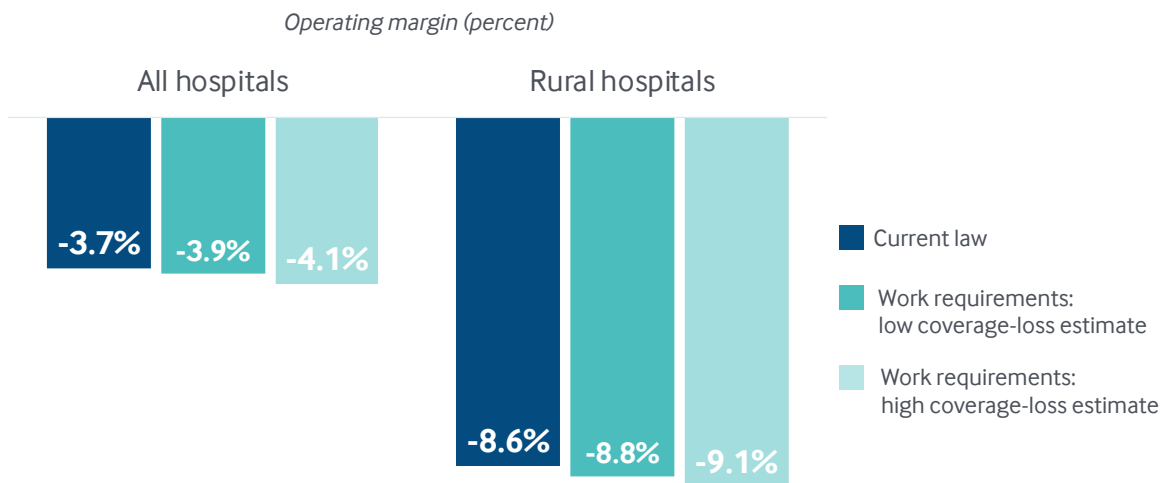
## Estimated Impact of Work Requirements on Medicaid Revenue and Uncompensated Care Costs per Hospital, 2019



Data: Dobson | DaVanzo analysis using the Hospital Financial Simulation Model based on Medicare hospital cost reports for 2017.

**REDUCTION IN HOSPITAL OPERATING MARGIN** Operating margins for Alabama hospitals in 2019 will be -3.7%, on average, without Medicaid work requirements. Work requirements will reduce operating margins to between -3.9% and -4.1% assuming statewide implementation in 2019. Rural hospitals in Alabama will have a -8.6% margin in 2019, which could further decline to between -8.8% and -9.1% upon implementation of work requirements.

## Estimated Impact of Work Requirements on Hospital Operating Margins, 2019



Data: Dobson | DaVanzo analysis using the Hospital Financial Simulation Model based on Medicare hospital cost reports for 2017.

**DISCUSSION** Medicaid work requirements could weaken hospitals’ financial position, affecting not only hospitals and Medicaid patients but their surrounding communities. The impact may be especially severe in rural communities. Many rural hospitals already experience negative operating margins, and 21 rural hospitals in Alabama are currently at high financial risk of closing.<sup>2</sup> The increased pressure of further reducing Medicaid revenue and increasing uncompensated care could exacerbate closures.

The effects of closing a hospital can ripple through the community. The economic effects are felt immediately, with per capita income falling and unemployment rising.<sup>3</sup>

### NOTES

1. Based on methodology developed by Leighton Ku and Erin Brantley. See Leighton Ku and Erin Brantley, “Medicaid Work Requirement in Nine States Could Cause 600,000 to 800,000 Adults to Lose Medicaid Coverage,” *To the Point* (blog), Commonwealth Fund, June 21, 2019.
2. David Mosley and Daniel DeBehnke, *Rural Hospital Sustainability: New Analysis Shows Worsening Situation for Rural Hospitals, Residents* (Navigant, Feb. 2019).
3. George M. Holmes et al., “The Effect of Rural Hospital Closures on Community Economic Health,” *Health Services Research* 41, no. 2 (Apr. 2006): 467–85.