ASSESSMENT OF MEDICAID WORK REQUIREMENTS ON HOSPITAL FINANCES IN

Indiana

The Commonwealth Fund

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.

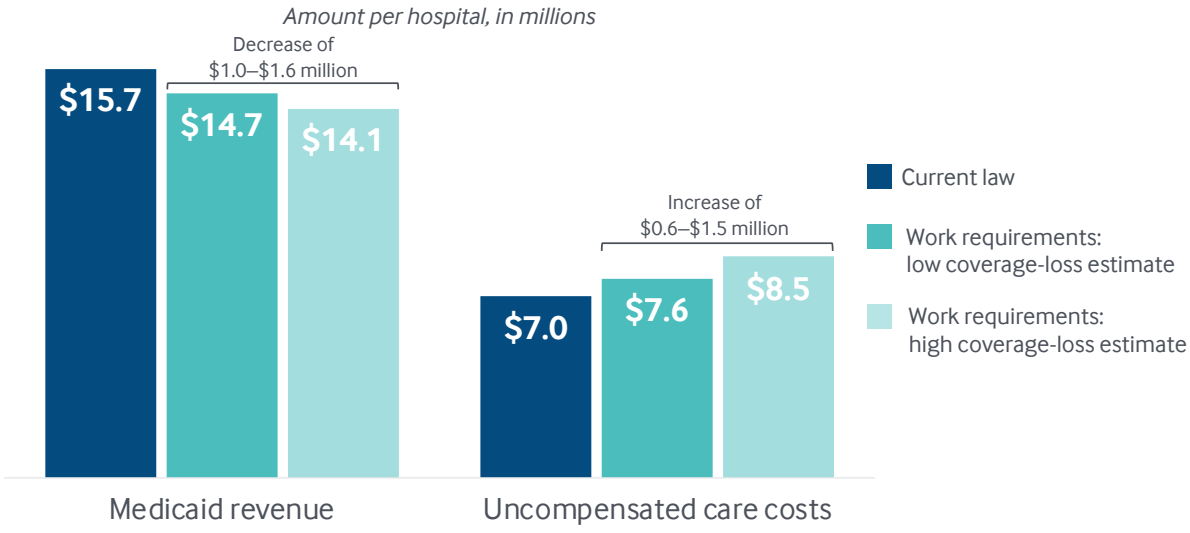
Indiana's 1115 Medicaid waiver was approved by the U.S. Department of Health and Human Services, but its implementation was halted by the state. The application includes a provision for implementing work requirements for the traditional Medicaid population, as well as those who became eligible through the Affordable Care Act's Medicaid expansion and are between ages 18 and 59.

ENROLLMENT IMPACT We estimate 60,000 to 100,000 current Medicaid enrollees could lose coverage.[1]

ESTIMATED REDUCTION IN MEDICAID REVENUE Indiana hospitals will receive $15.7 million in Medicaid revenues per hospital in 2019. Assuming statewide implementation of work requirements, we estimate the average Indiana hospital's Medicaid revenues will decline $1.0 million to $1.6 million (6%–10%) in 2019.

INCREASE IN UNCOMPENSATED CARE COSTS Indiana hospitals will provide $7.0 million in uncompensated care costs per hospital in 2019. Assuming statewide implementation of Medicaid work requirements, we estimate the average Indiana hospital's uncompensated care costs will increase $600,000 to $1.5 million (10%–22%) in 2019.

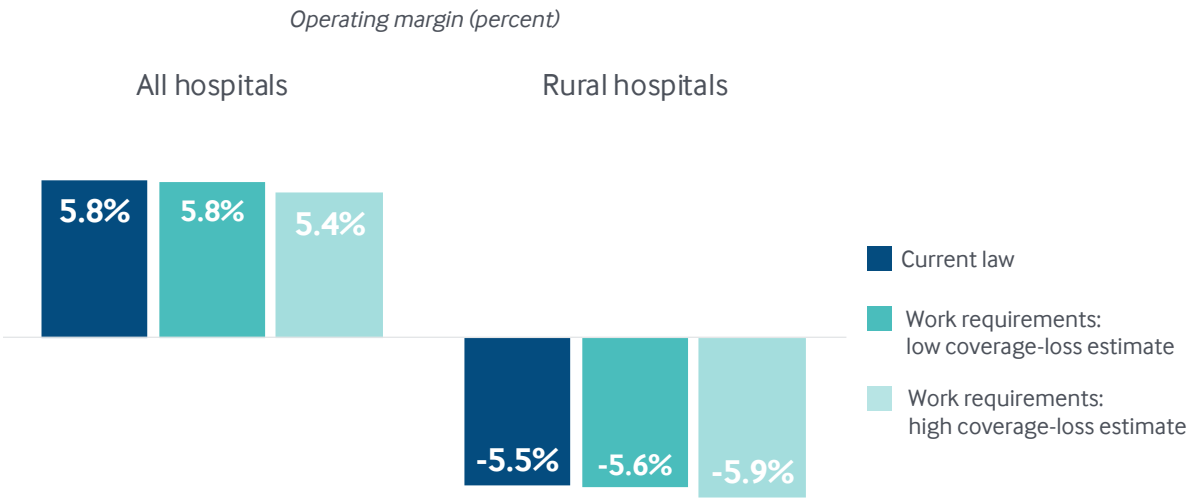
Estimated Impact of Work Requirements on Medicaid Revenue and Uncompensated Care Costs per Hospital, 2019



Source: 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 Indiana hospitals in 2019 will be 5.8%, on average, without Medicaid work requirements. Work requirements will reduce operating margins to between 5.8% and 5.4% assuming statewide implementation in 2019. Rural hospitals in Indiana will have a −5.5% margin in 2019, which could further decline to between −5.6% and −5.9% upon implementation of work requirements.

Estimated Impact of Work Requirements on Hospital Operating Margins, 2019



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

DISCUSSION Medicaid work requirements could undo some of the benefits realized by hospitals from Medicaid expansion and weaken hospitals' financial position, affecting not only hospitals and Medicaid patients but their surrounding communities.[2] The impact may be especially severe in rural communities. Many rural hospitals already experience negative operating margins, and nine rural hospitals in Indiana are currently at high financial risk of closing.[3] 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.[4]

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. Fredric Blavin, *How Has the ACA Changed Finances for Different Types of Hospitals? Updated Insights from 2015 Cost Report Data* (Urban Institute, Apr. 2017).
3. David Mosley and Daniel DeBehnke, *Rural Hospital Sustainability: New Analysis Shows Worsening Situation for Rural Hospitals, Residents* (Navigant, Feb. 2019).
4. 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.