When the Supreme Court ruled that the Patient Protection and Affordable Care Act (ACA) was unconstitutionally coercive in June of 2012, it effectively created two paradigms of health care reform in the U.S.—reform in states that accepted the Medicaid expansion and reform in states that did not. A look at recent data helps illuminate which paradigm appears to be working better for hospitals.

On Jan. 1, 2014, the ACA expanded Medicaid eligibility limits so that adults earning up to 138% of the federal poverty level (FPL) would be eligible for coverage. The limit was 100% prior to the change. The ACA calls for federal funding to cover 100% of the Medicaid expansion through 2016 and slowly decrease to 90% by 2020. Originally, the ACA required all states to cover eligible citizens or lose federal funding for Medicaid. However, as a result of the Supreme Court’s ruling, states are free to opt in or opt out of the Medicaid expansion.

Figure 1 depicts that 27 states and the District of Columbia have expanded Medicaid to low-income adults as of Nov. 1, 2014. Preliminary 2014 year-to-date data shows that Medicaid expansion has unquestionably provided greater access to care for the uninsured and underinsured population located in states that opted into the program. However, is it good for hospital bottom lines?

To better understand the impact of Medicaid expansion on hospital financial performance, we will take a closer look at the expanded population demographics and their health care needs. Additionally, we will explore trends in hospital volumes, payor mix, case mix and uncompensated care costs so that hospitals can be prepared to navigate the changing landscape initiated by the ACA.

According to the American Hospital Association (AHA), hospitals of all types have provided more than $654 billion in uncompensated care (bad debt and charity care) to their patients over the 33-year period spanning from 1980 to 2013. About 63% of this total, or $413 billion, has been incurred since 2000, which is a concern for hospitals as it shows these costs are growing at an increasing rate. Uncompensated costs are often generated by the uninsured or underinsured population, which has increased from 38 million individuals in 2000 to 42 million individuals by the end of 2013.

While these are daunting statistics for hospitals, a Gallup poll of more than 45,000 individuals shows that there has been a noticeable reversal in the upward trend in the uninsured and underinsured population since the initiation of Medicaid expansion. As shown in Figure 2, prior to the start of Medicaid expansion, the uninsured population in the U.S. was estimated to be 17.1%. However, in a matter of six months, the uninsured population has decreased by 3.7 percentage points to 13.4%. This decrease is consistent across each major age group as of July 1, 2014. Based on the historical connection between the uninsured population and uncompensated care costs, we would expect this paradigm shift to provide relief to hospitals in the form of lower bad debt and charity care.

Expansion vs. Non-Expansion States

Full year data for 2014 is not yet available; however, a study by the Colorado Hospital Association (CHA) suggests that the decrease in the uninsured population directly correlates

to Medicaid expansion. In the study, the CHA collected financial and volume data for hospitals across the country from 30 states, 15 of which expanded Medicaid and 15 that did not. Based on the findings, it is clear that hospitals in Medicaid expansion states are benefitting from the decrease in the uninsured population as evident by a more favorable payor mix and a decrease in uncompensated care costs.

As Figure 3 shows, the percent Medicaid charges in expansion states has increased dramatically relative to the percent self-pay charges, which experienced a 34% decrease year-over-year. Specifically, in expansion states, the Medicaid proportion increased by 3.5 percentage points, or 23%, to 18.8% by the end of the first quarter in 2014. However, in non-expansion states, the Medicaid proportion remained unchanged year-over-year. At the same time, hospitals in Medicaid expansion states experienced a significant decrease in charity care of 32% from $2.8 million to $1.9 million. In contrast, non-expansion states experienced a 10.5% increase in charity care from $3.8 million to $4.2 million. Also, the changes occurred in the first quarter of 2014, when Medicaid expansion began, which further supports that the changes are attributed to the expansion. This suggests that the expansion program is strengthening the financial performance of hospitals by reducing the proportion of self-pay patients, which historically have been a large contributor to uncompensated care costs. As such, hospitals in expansion states should experience higher insured volumes and lower uncompensated care costs.

Credit Ratings

All of the major credit rating agencies have begun to take notice of the diverging paths of hospitals located in expansion states versus non-expansion states. According to Fitch Ratings, nonprofit hospitals and health care systems in states that have expanded their Medicaid coverage under the ACA have realized improved payor mix and reductions in bad debt through the first half of 2014. As of July 2014, Fitch had downgraded ten entities split evenly between expansion and non-expansion states. However, Fitch states the decline in operating performance related to funding and reimbursement pressures could have been lessened by Medicaid expansion. On the flip side, since Jan. 1, 2014, Fitch upgraded nine hospitals, eight of which were located in expansion states. It expects this trend to continue into 2015. In one example, Standard & Poor’s and Fitch upgraded MetroHealth System’s (Cuyahoga County, Ohio) financial outlook from negative to stable citing sharp decreases in the number of uninsured patients due to Medicaid expansion efforts, which resulted in a decrease in uncompensated care costs from $268 million to $132 million year over year. In another example, Moody’s Investor Services raised St. Joseph’s Health Care System (Passaic County, N.J.) rating to investment grade for the first time, citing several factors but primarily pointing towards a reduction in uninsured patients and uncompensated care costs.

Unintended Consequences?

There is a difference between those who are eligible and those who actually sign up for coverage. Eligible individuals who actually enroll may be older with more complex health care needs than the existing Medicaid population due to undiagnosed conditions. Nationwide data is not yet available; however, some reports indicate that the ACA may have attracted sicker people into Medicaid. For example, the CHA tracks two metrics for patients, concurrent diagnoses and case mix index, which quantifies the complexity of a patient’s health care needs. Their findings show that through the first half of 2014, the average number of conditions and complexity of cases increased significantly faster for inpatients with Medicaid than those with Medicare.

A separate report by the CHA suggests that hospitals in expansion states should be prepared for an increase in emergency department (ED) visits. The report said the average number of ED visits to hospitals in expansion states increased 5.6% from second quarter 2013 to second quarter 2014. In comparison, non-expansion states only reported an increase of 1.8% during the same period. These new trends suggest hospitals should be prepared for higher ED visits as well as a Medicaid population with a higher acuity case mix.

As we near the end of the first full year of Medicaid expansion, it’s clear that the program is changing the landscape of the uninsured population in the U.S. and the financial outlook for hospitals. Specifically, expansion state hospitals are experiencing increasing insured volumes and rapidly decreasing uncompensated care costs, which has driven many credit rating upgrades. The positive outlooks by all of the major credit rating agencies mean that hospitals in expansion states may have stronger financial positions and more borrowing power heading into 2015.


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