

Congressional Action Poses Risks for States and Hospitals

September 2017

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The U.S. Congress failed in its efforts to repeal and replace the Affordable Care Act (ACA) this year. Nevertheless, there is still the possibility of incremental changes to the ACA. Moreover, as long as Republicans retain control of both chambers of Congress, there remains the possibility that sweeping health-care reform could be revisited. It therefore remains prudent to consider the risks facing state GO and health-care credits.

The primary concern for states remains the transformation of Medicaid from an open-ended federal-state partnership to either a block grant or per capita program. In both cases, states would face lower federal support for Medicaid over time compared to what they receive under the current program, creating additional budgetary pressure as they confront rising unfunded pension obligations. As an open-ended entitlement program, Medicaid remains a prime target for spending constraints to address the federal deficit. States face varying levels of fiscal pressure under a per capita system (see Table 1). While this table provides the estimated additional cost under the now-defunct Affordable Health Care Act, any future Medicaid reform proposals would have a similar impact on state spending. For example, for Kentucky to maintain current Medicaid services and payments to hospitals under a per capita system,

Table 1. Additional State Medicaid Spending, 2019-2028

	Per Year (\$ bil)	% of State Budget (2016)
National	\$37.1	
Kentucky	1.4	14.1%
New Jersey	2.8	7.6%
New York	4.6	7.4%
Ohio	1.8	5.3%
Illinois	2.0	4.9%
California	3.7	3.3%
Massachusetts	1.0	2.9%
Pennsylvania	1.6	2.8%
Texas	0.7	0.7%

Source: Holahan, J., Blumberg, L., Buettgens, M, & Pan, C. "U.S. Health Reform—Monitoring and Impact." *The Urban Institute, June 2017; Table 3; Various 2016 State Financial Statements*

the Commonwealth would have to spend an additional \$1.4 billion a year—or 14% of its general fund expenditures—between 2019 and 2028 in order to replace lost federal funding.

For hospitals, the ACA has resulted in higher insured patient volumes. However, hospital operating expenses have also risen, pressuring operating margins. Uncertainty about the long-term stability of the insurance exchanges has prompted insurers to institute steep increases in premiums, making it more difficult for patients to afford out-of-pocket costs. Revenue pressures also remain a concern as more of the hospitals' revenues come from Medicaid, whose reimbursement rates are lower than Medicare and commercial insurers. Under a Medicaid per capita program, hospitals in states with higher exposure to Medicaid are more at risk for lower payments and higher bad-debt expense should those states decide to cut eligibility or reimbursement rates in response to a cut in federal funding (see Table 2).

Hospitals are at risk for weaker performance as any future ACA reform bills could increase the number of uninsured patients and depress Medicaid reimbursement rates. Any attempt to predict legislative outcomes and the impact on states and hospitals—positive

or negative—at this point is pure speculation. Regardless of these headwinds, there are hospital systems that have seasoned management teams, strong operating performance, and quality balance sheets, putting them in position to remain stable in any operating environment. We also feel that states with large fund balances and a demonstrated ability to manage their long-term obligations are best-positioned to maintain their ratings even if reform at the federal level results in incremental unfunded spending mandates at the state level.

Table 2. Select State Exposure to Medicaid, 2016 (National average is 21%)

	% of Population Covered by Medicaid	Representative Hospital Systems
New Mexico	40	Presbyterian Health
New York	34	Northwell Health, Memorial Sloan Kettering
California	34	Kaiser Foundation, Cedars-Sinai
Massachusetts	30	Partners Health, Tufts Medical Center
Kentucky	29	St Elizabeth Medical Center
Ohio	27	OhioHealth, Cleveland Clinic
Illinois	24	Advocate Health, Carle Foundation
Pennsylvania	21	UPMC, Univ. Pennsylvania Health
New Jersey	18	Virtua, RWJ Barnabas Health
Texas	16	Baylor, Scott & White, Memorial Hermann

Source: U.S. Census, Kaiser Family Foundation

Past performance is no guarantee of future results.



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