



# Medicaid Expansion

2018



## Hospital Issues

# Hospitals Support Responsible Implementation of Medicaid Expansion

Maine hospitals believe the state can and must responsibly implement Medicaid expansion.

**Help for the Uninsured.** Expansion will provide health insurance to between 70,000 to 90,000 Mainers. The vast majority of these individuals are uninsured and have no realistic alternatives—it's either Medicaid or nothing. This is the most important element of expansion; providing coverage to those who need it.

**Most Costs Covered by Federal Government.** The LePage administration released its revised estimate of expansion costs in January. The administration's numbers show that the federal government will cover at least 85% of the total costs of expansion through SFY 2023. The Legislature's numbers, presented by Office of Financial & Program Review, basically agree that the state's share of expansion is never higher than 15%. This is an unusually good deal for Medicaid.

**Financial Relief for Hospitals.** There are three components to how hospitals are financially affected by Medicaid expansion.

- **Reduced Charity Care.** Because individuals covered by expansion are below 138% of the federal poverty level, they are all eligible for charity care at hospitals under the state's mandatory charity care law. As currently uninsured individuals gain coverage, the hospital charity care burden will be reduced. Currently, hospitals incur approximately \$120 million in charity care costs each year.
- **Increased Medicaid Revenues.** Medicaid revenues will increase as these individuals seek care at hospitals. The accounting on the net impact is tricky since hospitals on average only receive 70-cents for each dollar of care provided to Medicaid patients. That said, the marginal loss from additional Medicaid patients is typically less than the overall Medicaid loss.
- **Negative Financial Implications.** The most significant negative implication from expansion is that a certain number of individuals who are currently insured through the exchanges (with commercial insurance) will be forced to give-up that commercial insurance and will be put into Medicaid. This greatly reduces the revenue hospitals and other providers receive from treating these individuals.

**Net Impact.** Our best estimate is that Maine hospitals will see a net positive impact of \$60 million to \$80 million per year from expansion.

**Positive Financial Impact for Maine.** The LePage administration and the Legislature each estimate that Maine will receive \$450 million to \$550 million per year in additional federal revenue.

**State Challenge.** Even though the state must cover only 15% of the cost of expansion, in real dollars this amounts to \$75 million to \$100 million per year. There may be some state budgetary savings resulting from expansion, but even after accounting for those savings, real costs to the state budget remain. How the state ultimately finances those costs matters a great deal to hospitals.

*Maine hospitals and MHA look forward to working with the Legislature on a responsible implementation plan.*

## Uncompensated Care in Maine Hospitals

Maine's hospitals are committed to helping all patients regardless of their ability to pay. They are also committed to use fair and reasonable collection practices. These two commitments contribute to Maine hospitals incurring over \$250 million per year in uncompensated care costs. (See graph on back cover.)

**Charity Care.** Charity care, or free care, is medically necessary care provided to patients where the hospital has no expectation of receiving payment. Patients need to complete financial assistance applications to qualify for free care, but once qualified, the hospital agrees not to seek reimbursement for medically necessary care.

Unlike many states, Maine requires all hospitals to provide charity care to any Maine resident with an income below 150% of the federal poverty level. Many states and the federal government have an expectation that non-profit hospitals provide charity care in exchange for their exempt status, but they do not generally impose a regulatory mandate on how much charity care to provide.

Several hospitals provide charity care to people beyond the state mandate (for example, up to 175% of the federal poverty level). However, the recent cuts to Medicaid eligibility have forced many hospitals to reduce their extra charity care.

The amount of charity care provided in Maine is approximately \$120M per year when the care is valued at "cost." It has levelled off a bit over the past few years, but it is still growing.

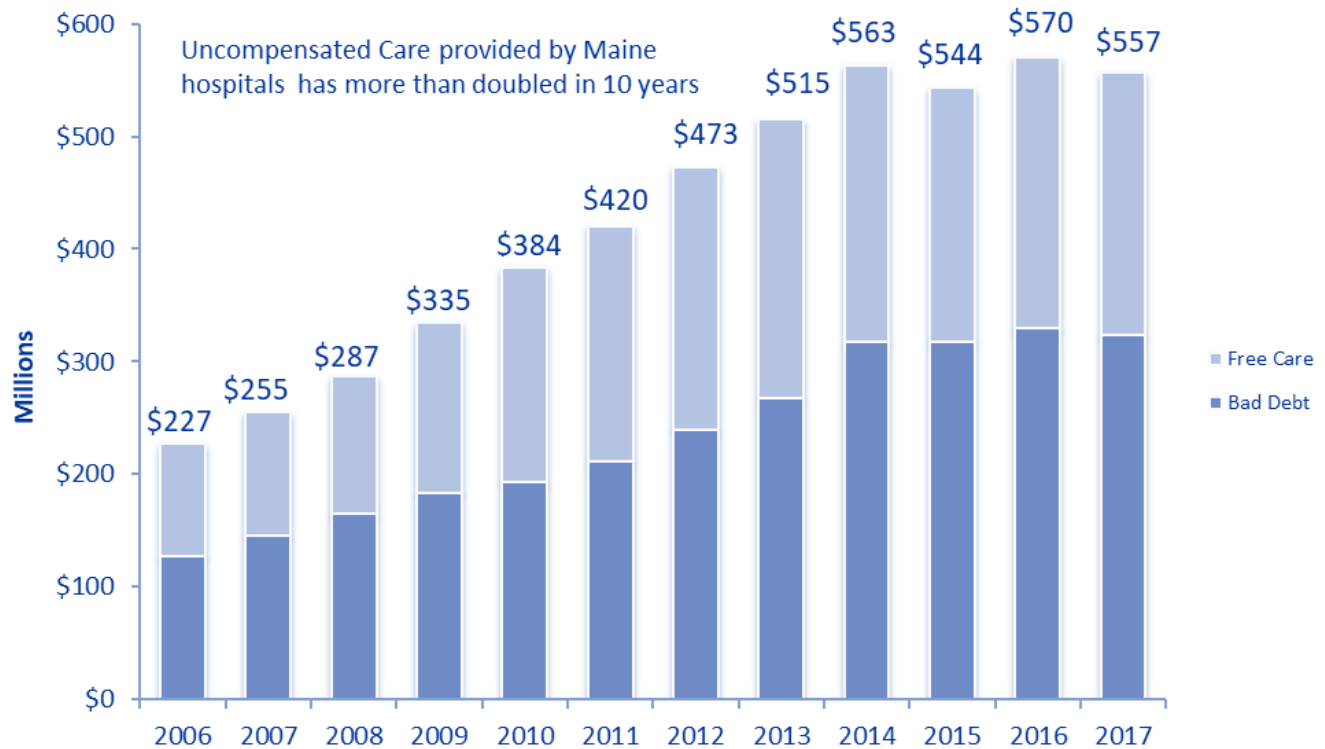
**Bad Debt.** Bad debts occur when a patient is sent a bill for care provided but does not pay the bill. While there are instances of some people just trying to cheat the system, most patients who don't pay have very limited financial means. Bad debts occur in every business, not just healthcare. Bad debts amount to approximately \$170 million per year.

Hospitals are obligated by federal law to attempt to collect bills from patients who don't qualify for charity care. The challenge is always knowing how zealously to pursue payment. If hospitals don't try hard enough, other patients and payers have to pay a little more to make up the loss. If they try too hard, patients can be pushed into bankruptcy and personal distress.

We believe Maine hospitals have a long track record of being reasonable in their pursuit of payment. Some may allege that incurring bad debts is purely a discretionary choice of the hospitals and that they could push patients harder and collect every penny. Our experience tells us that this thinking is wrong.

**Bottom Line:** *For the past several years hospitals have devoted 5% of their resources to uncompensated care and 0-2% to their own bottom lines. This is out of balance and unsustainable. Medicaid expansion should help reduce uncompensated care costs and modestly contribute to lifting hospital operating margins.*

## Maine Hospitals' Uncompensated Care



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