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## Affordable Care Act's Medicaid Expansion Benefits Hospitals, Particularly in Rural America

By Matt Broaddus

Hospitals in states that expanded Medicaid coverage to low-income adults under the Affordable Care Act (ACA), particularly those in rural areas, have fared significantly better than hospitals in non-expansion states, based on recent published and unpublished research by the Urban Institute.<sup>1</sup> Since 2013, uncompensated care costs have fallen by 1.7 percentage points more, and Medicaid revenue as a share of total revenue has risen by 2.9 percentage points more, in hospitals in expansion states than those in non-expansion states. The Medicaid expansion also improved hospitals' operating margins by 2.5 percentage points.<sup>2</sup> The impact on rural hospitals<sup>3</sup> operating margins was even stronger — a 4.0 percentage-point improvement, compared to 1.0 percentage point for urban hospitals.<sup>4</sup>

### Medicaid Expansion Led to Large Coverage Gains in Rural Areas

Medicaid has long played a greater role in providing health coverage in rural areas than in urban areas, and the ACA has made Medicaid even more vital to rural America. Nearly 1.7 million rural

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<sup>1</sup> We thank Fredric Blavin, Senior Research Associate at the Urban Institute, for his assistance in providing data for this analysis.

<sup>2</sup> Frederic Blavin, "How Has the ACA Changed Finances for Different Types of Hospitals? Updated Insights from 2015 Cost Report Data," Urban Institute, April 2017, <http://www.urban.org/sites/default/files/publication/89446/2001215-how-has-the-aca-changed-finances-for-different-types-of-hospitals.pdf>.

<sup>3</sup> Rural hospitals are defined as those in non-metropolitan counties as designated by the Office of Management and Budget. Non-metropolitan counties include micropolitan statistical areas and noncore areas, open countryside, rural towns (with populations below 2,500), and areas with populations of 2,500 to 49,999 that are not part of larger metropolitan area labor markets.

<sup>4</sup> Analysis of unpublished data from the Urban Institute's April 2017 analysis. Both published and unpublished results are based on data from the American Hospital Association annual survey for non-federal general or surgical hospitals merged with data from the Centers for Medicare & Medicaid Services Healthcare Cost Report Information System. All data are for 2011 through 2015, with comparisons made between the 2011-2013 and 2014-2015 periods. Medicaid expansion states are the 19 states that implemented the expansion to low-income adults as of January 1, 2014. The Urban analysis compares results in expansion states to those in non-expansion states, controlling for hospital characteristics including organizational status, system status, hospital size, metro/non-metro designation, provision of burn services, provision of chemical dependency services, and county unemployment rate.

Americans have gained coverage through the Medicaid expansion. In at least eight expansion states, more than one-third of expansion enrollees live in rural areas: Alaska, Arkansas, Iowa, Kentucky, Montana, New Hampshire, New Mexico, and West Virginia. Moreover, in expansion states overall, rural residents make up a larger share of expansion enrollees than of the states' combined populations.<sup>5</sup>

Like the rest of the country, rural America has enjoyed large gains in health coverage since the ACA's major coverage expansions took effect in 2014. The uninsured rate among rural non-elderly individuals plummeted by nearly one-third between 2013 and 2015, from 17 percent to 12 percent, the Kaiser Family Foundation estimates.<sup>6</sup> Over the same period, the insured rate rose by 7.2 percentage points among rural individuals, compared to 6.3 percentage points for individuals in urban areas, the Urban Institute's Health Reform Monitoring Survey found.<sup>7</sup>

States that expanded Medicaid have made especially large gains in rural health coverage. The uninsured rate among rural, non-elderly individuals dropped much more in states that expanded Medicaid (from 16 percent in 2013 to 9 percent in 2015) than in non-expansion states (from 19 percent to 15 percent).

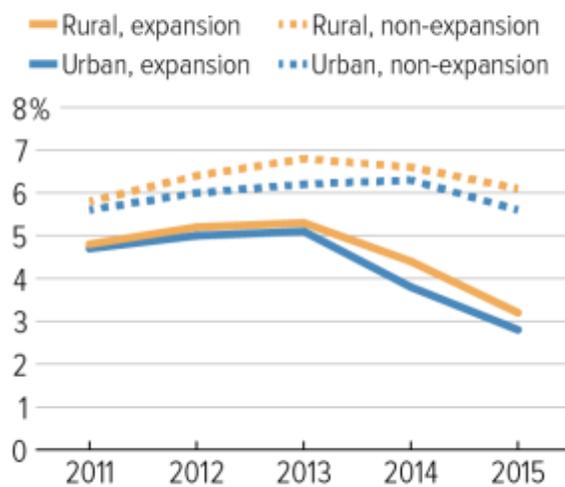
## Coverage Gains Improve Rural Hospitals' Finances

Health coverage gains in states that expanded Medicaid to low-income adults have substantially improved rural hospitals' finances. First, the Medicaid expansion significantly reduced rural hospitals' uncompensated care costs — services for which hospitals are not reimbursed by an insurer or the patient. Between 2013 and 2015, rural hospitals' uncompensated care costs fell 43 percent in Medicaid expansion states, compared to 16 percent in non-expansion states. Uncompensated care costs among rural hospitals declined as a share of total costs from 5.3 percent to 3.2 percent in expansion states, while only declining from 6.8

FIGURE 1

### Medicaid Expansion Reduces Hospitals' Uncompensated Care Burden

Uncompensated care as share of total hospital expenses, by state Medicaid expansion status



Note: Under the Affordable Care Act, 31 states and Washington, D.C. have expanded their Medicaid programs.

Source: Unpublished Urban Institute data

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<sup>5</sup> Jesse Cross-Call *et al.*, "House-Passed Bill Would Devastate Health Care in Rural America," Center on Budget and Policy Priorities, May 16, 2016, <http://www.cbpp.org/research/health/house-passed-bill-would-devastate-health-care-in-rural-america>.

<sup>6</sup> Julia Foutz, Samantha Artiga, and Rachel Garfield, "The Role of Medicaid in Rural America," Kaiser Family Foundation, April 25, 2017, <http://kff.org/medicaid/issue-brief/the-role-of-medicaid-in-rural-america>.

<sup>7</sup> Michael Karpman *et al.*, "Substantial Gains in Health Insurance Coverage Occurring for Adults in Both Rural and Urban Areas," Urban Institute, April 16, 2015, <http://hrms.urban.org/quicktakes/Substantial-Gains-in-Health-Insurance-Coverage-Occurring-for-Adults-in-Both-Rural-and-Urban-Areas.html>.

percent to 6.1 percent in non-expansion states (see Figure 1). Uncompensated care costs have been shown to strain hospital budgets, reduce profit margins, and contribute to hospital closings.<sup>8</sup>

The Medicaid expansion also significantly increased Medicaid revenue among rural hospitals. Since 2013, Medicaid revenue as a share of total hospital revenue rose by 33 percent in rural hospitals in expansion states, compared to just 1.1 percent among rural hospitals in non-expansion states (see Figure 2). That 33 percent increase equates to \$2 million in higher annual revenue to the average rural hospital due to the Medicaid expansion.

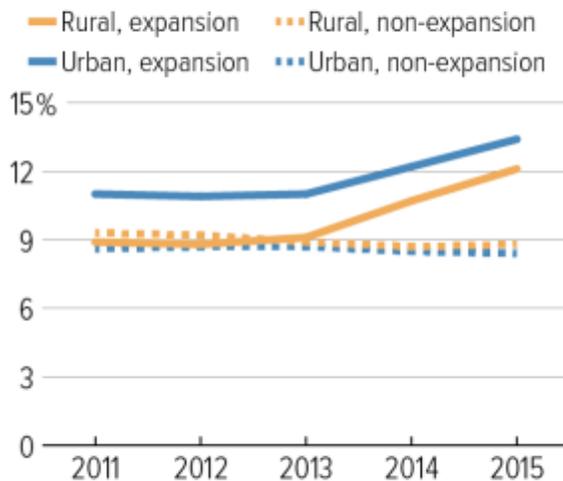
The Medicaid expansion improved all hospitals' operating margins (i.e., the difference between their revenue from providing services to patients and their total operating expenses) and excess margins (the difference between revenue from all sources, including donations, parking fees, vending machines, etc., and total operating expenses), but the effect was particularly pronounced in rural areas.<sup>9</sup> (See Figure 3.) Rural hospitals in expansion states increased their operating margins by 4.0 percentage points more, and their excess margins by 2.3 percentage points more, than rural hospitals in non-expansion states. Gains were particularly pronounced among small rural hospitals with fewer than 100 beds in expansion states, where operating margins rose by 4.5 percent. The Medicaid expansion led to smaller gains in operating and excess margins in urban areas, of 1.0 percentage points and 0.9 percentage points, respectively (see Table 1).

Earlier research showed that rural areas have enjoyed larger declines in the uninsured rate under the ACA than other areas; the more recent Urban data discussed here confirm the benefits of the ACA's Medicaid expansion for rural residents and the hospitals that serve them — and contradict Administration claims that Medicaid serves mostly urban areas.<sup>10</sup> Provisions in the House-passed

FIGURE 2

## Medicaid Expansion Increases Hospitals' Medicaid Revenue

Medicaid revenue as share of total hospital revenue, by state Medicaid expansion status



Note: Under the Affordable Care Act, 31 states and Washington, D.C. have expanded their Medicaid programs.

Source: Unpublished Urban Institute data

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<sup>8</sup> Craig Garthwaite, Tal Gross, and Matthew Notowidigdo, "Hospitals as Insurers of Last Resort," National Bureau of Economic Research, NBER Working Paper No. 21290, June 2015, <http://www.nber.org/papers/w21290.pdf>.

<sup>9</sup> A hospital's operating margin is a good measure of how much it earns providing care to patients. A hospital's excess margin is good measure of its bottom line.

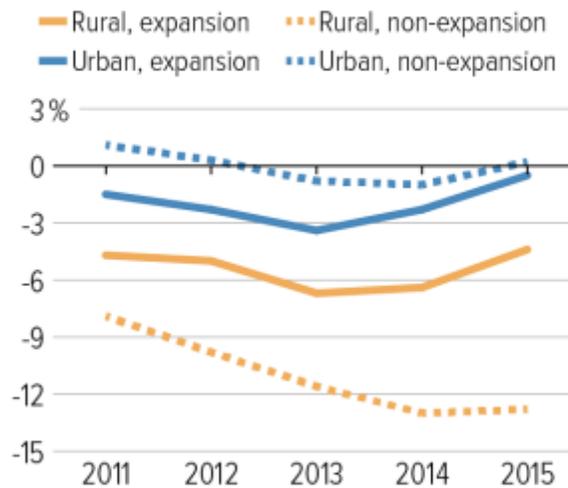
<sup>10</sup> Jesse Cross-Call, "House-Passed Bill Would Undermine Medicaid's Critical Role in Rural America," Center on Budget and Policy Priorities, June 7, 2017, <http://www.cbpp.org/blog/house-passed-bill-would-undermine-medicoids-critical-role-in-rural-america>.

American Health Care Act, as well as the Senate version just introduced,<sup>11</sup> would force the collapse of the Medicaid expansion, causing severe harm both to low-income individuals who've gained coverage through the expansion and to the hospitals that serve them in rural areas.<sup>12</sup>

FIGURE 3

### Medicaid Expansion Increases Hospitals' Operating Margins

Hospital operating margin, by state Medicaid expansion status and hospital location



Note: Operating margin = difference between revenue from providing services to patients and total operating expenses. Under the Affordable Care Act, 31 states and Washington, D.C. have expanded their Medicaid programs.

Source: Unpublished Urban Institute data

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<sup>11</sup> Center on Budget and Policy Priorities, “Tracking Reports About the Emerging Senate Bill to Repeal the Affordable Care Act,” June 22, 2017, <http://www.cbpp.org/research/health/tracking-reports-about-the-emerging-senate-bill-to-repeal-the-affordable-care-act>.

<sup>12</sup> For more information on the House bill’s impact on the Medicaid expansion population, see Matt Broaddus and Edwin Park, “House Republican Health Bill Would Effectively End ACA Medicaid Expansion,” Center on Budget and Policy Priorities, June 2017, <http://www.cbpp.org/sites/default/files/atoms/files/6-6-17health.pdf>.

TABLE 1

## Medicaid Expansion Benefits All Hospitals But Rural Hospitals Most

	Pre-2014 Averages		Impact of Expansion in 2015	Impact Statistically Significant?
	Non-expansion States	Expansion States		
<b>Rural Hospitals, 2015</b>				
Uncompensated care costs as percent of total expenses	6.5%	5.2%	-1.7%	Yes
Medicaid revenue as percent of total revenue	9.5%	9.2%	3.1%	Yes
Operating margin	-9.8	-5.4	4.0	Yes
Excess margin	3.0	3.4	2.3	Yes
<b>Urban Hospitals, 2015</b>				
Uncompensated care costs as percent of total expenses	6.0%	5.0%	-1.7%	Yes
Medicaid revenue as percent of total revenue	9.0%	11.3%	2.7%	Yes
Operating margin	0.2	-2.4	1.0	No
Excess margin	7.2	4.8	0.9	Yes

Source: Unpublished Urban Institute data. Impact of expansion is estimated based on a regression model that controls for many hospital characteristics, as well as urban/rural status and local unemployment rate; impact refers to the Medicaid expansion's effect on the selected measures, controlling for all other factors that could affect these measures.