

# Hospitals in states that refuse Medicaid expansion shoulder billions in uncompensated care costs

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Twenty-one states have opted not to expand Medicaid under the Affordable Care Act (ACA), arguing that the expansion would be too expensive. But according to new research, the cost to hospitals from uncompensated care in those states roughly equals the cost of Medicaid expansion.

The study, "Hospitals as Insurers of Last Resort," by economists at Northwestern University and Columbia University's Mailman School of Public Health is released online today as a National Bureau of Economic Research working paper.

By analyzing 28 years of previously confidential, [hospital](#)-level financial data made available by the American Hospital Association, the researchers found that each uninsured person costs states' hospitals about \$900 in uncompensated care—defined as the cost of hospital visits for which the uninsured don't pay.

In states that do not expand Medicaid, hospitals will provide \$6.4 billion in uncompensated medical care. By comparison, the Kaiser Family Foundation has estimated that implementing the Affordable Care Act's Medicaid expansion would cost these states about \$6.25 billion.

"Our results make it very hard for a governor or other policymaker to claim that the Affordable Care Act's Medicaid Expansion will cost their

state 'too much' money," said Craig Garthwaite, assistant professor of strategy at Northwestern's Kellogg School of Management. "Hospitals in those states already spend more providing uncompensated care to uninsured that would be covered by the expansion than the state would spend on expanding Medicaid. Ignoring these costs doesn't make them go away.

Hospitals are the insurers of last resort. By law, they are required to care for patients with or without the means to pay. Garthwaite said an interesting finding of the study is that the hospital sector as a whole serves this insurance role. When one hospital closes, uncompensated care at its competitors increases.

"The uncompensated care 'spills over' to the other hospitals, which raises their costs," Garthwaite said. "In most markets, the closure of a competitor is good for business, but in the case of hospitals it depends on the mix of patients who were treated at the hospital that's closing."

## **Cost of uninsured reduces hospital profits**

Approximately 5.2 million individuals in non-expanding states will not receive coverage under the ACA. While hospitals receive some compensation for uninsured care, mainly from Disproportionate Share payments, in practice, payments are much lower than the cost of uncompensated care provided by hospitals. In 2012, uncompensated care exceeded \$46 billion, approximately 28 percent of Medicaid payments for inpatient and outpatient spending.

The researchers found that hospitals absorb between half and three-quarters of the costs from uncompensated care. Non-profit hospitals bear the burden of serving as insurers of last resort; for-profit hospitals are largely unaffected.

"Policymakers frequently assume that hospitals simply pass along the cost of uncompensated care by raising prices, but our evidence suggests that hospitals actually absorb most of the costs themselves through lower profits," said Matt Notowidigdo, co-author, associate professor of economics in the Weinberg College of Arts and Sciences at Northwestern and a faculty fellow at the University's Institute for Policy Research. "This is actually fairly intuitive to us. If hospitals could have raised profits by increasing prices for privately insured patients, we would have expected many hospitals to have already done so."

Garthwaite said hospitals have become informal insurers as a result of deliberate policy decisions that leave a portion of the low-income population without health insurance and secondly, require hospitals to treat patients regardless of their ability to pay.

"This means that policy decisions that affect the uninsured—such as a state's decision to expand or not to expand Medicaid—will directly affect hospital finances," Garthwaite said.

## **On the plus side**

As a result of the ACA, 25 million more Americans are projected to be insured, reducing uncompensated care costs of hospitals by \$19 billion, approximately 40 percent of the 2012 level.

"Medicaid directly benefits not only the citizens it covers but also the hospitals they visit," said Tal Gross, a co-author of the paper and assistant professor of health policy and management at Columbia's Mailman School of Public Health. "Given that hospitals are an important political force at all levels of government, the factors requiring hospitals to provide uncompensated care may thus have unintentionally assured Medicaid's long-term political stability."

Gross adds that money that states save by deciding to not implement the Medicaid expansion achieves savings for the government at the expense of local hospitals.

Provided by Northwestern University

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