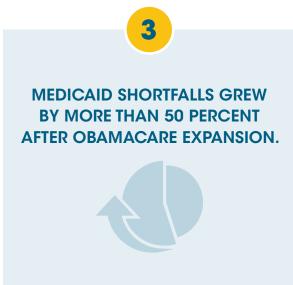


KEY FINDINGS









BOTTOM LINE:

OBAMACARE EXPANSION IS NOT THE CURE FOR HOSPITALS.

Overview

ObamaCare proponents have long promised that expanding Medicaid to a new class of able-bodied adults would save struggling hospitals, create new hospital jobs, and improve hospitals' overall financial health. The reality is that these false promises have never materialized.

Hospitals in expansion states have continued to struggle with closures, layoffs, financial losses, and even capacity shortages. ¹⁻² As a result, expansion states have experienced the exact opposite of what they were promised by ObamaCare proponents. This is due in part to ObamaCare lobbyists only looking at one side of the ledger—how much new Medicaid revenues hospitals will receive—without looking at what hospitals' offsetting Medicaid costs will be. The truth is that these Medicaid losses more than outweigh any savings from expansion.

On top of the existing overwhelming evidence suggesting that Medicaid expansion has not materially helped hospitals, never-before-released data reveals that hospitals in expansion states have experienced severe financial shortfalls—both in raw numbers and relative to their non-expansion counterparts. In addition to the documented closures, capacity shortages, and layoffs, this new information further underscores the harmful impact that Medicaid expansion can have on hospitals. And for later adopters of Medicaid expansion—including states contemplating expansion right now—the picture could be even worse.

These empty promises made by ObamaCare advocates have created disastrous results in many states. Lawmakers that are considering expansion should not only scrutinize the arguments of these activists but should also consider the indisputable and all-too-real costs of deciding to expand.



MEDICAID COSTS
OUTWEIGH
OBAMACARE
REVENUES

HOFGA Ord



Despite the ObamaCare lobbyists' promises that expansion would usher in an economic boom for hospitals, hospitals in expansion states continue to struggle.³⁻⁴ In many cases, the challenges hospitals face have only been exacerbated by expansion.⁵

Proponents of expansion frequently promise that expanding Medicaid to a new class of able-bodied adults will immediately create thousands of hospital jobs, spurring economic growth.⁶ But these promised jobs never materialize.⁷ In fact, two out of five expansion states actually *lost* hospital jobs after expanding Medicaid, while non-expansion states were growing hospital jobs at a far higher rate.⁸

Hospitals in expansion states are also suffering significant financial losses. These expansion-state hospitals are slashing services, missing payroll, seeking bailouts, and even shuttering their doors entirely. 9-10 Medicaid expansion states have also experienced a six percent decline in hospital bed capacity, while non-expansion states actually added capacity over the same period. 11

No matter how you slice the data, the results are clear: Hospitals' struggles in Medicaid expansion states have persisted and, in many cases, have even accelerated.



TWO OUT OF FIVE EXPANSION STATES
LOST HOSPITAL JOBS
AFTER EXPANDING
MEDICAID

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Proponents of expansion only look at one side of the ledger

When ObamaCare advocates lobby lawmakers to expand Medicaid, they frequently promise that it will boost hospitals' bottom lines. But these false promises are based on assumptions that only look at one side of the ledger: possible reductions to uncompensated care and higher Medicaid revenues. But these analyses never account for higher Medicaid costs or the effect of shifting able-bodied adults out of private coverage and into Medicaid.

While these studies eagerly report the revenues gained from treating new Medicaid enrollees, they fail to adequately compare them with the cost to deliver such treatments. This is like trying to run a small business by only looking at the revenues coming in, without considering the expenses going out the door.

The reality is hospitals themselves report that Medicaid reimbursement rates are far lower than the actual cost to treat those patients. 13-15 These new able-bodied adults on Medicaid may generate more revenue on one side of the ledger for hospitals, but they come at a far higher cost. By expanding Medicaid, states are ultimately bringing hospitals more patients on which they reportedly lose money.

This problem is further exacerbated by the fact that Medicaid expansion crowds out private insurance. ¹⁶⁻¹⁸ In the remaining non-expansion states, most able-bodied adults who would become eligible for Medicaid expansion already have private coverage. ¹⁹ But ObamaCare expansion would force millions of those Americans out of their current private insurance and onto the Medicaid rolls. ²⁰ Because Medicaid pays hospitals roughly 60 percent of what private insurance pays, hospitals suffer massive financial losses for every new Medicaid enrollee shifted out of private coverage. ²¹

By looking only at half of the ledger, ObamaCare lobbyists hope to convince policymakers that Medicaid expansion will be a silver bullet for struggling hospitals. But considering both sides of the ledger reveals that those new revenues and promised "savings" are dwarfed by massive new Medicaid shortfalls.

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Medicaid pays hospitals roughly 60 percent of what private insurance pays, hospitals suffer massive financial losses for every new Medicaid enrollee shifted out of private coverage.



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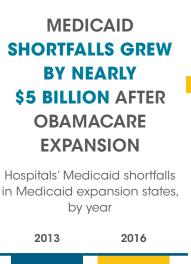
Medicaid shortfalls grew by more than 50 percent after ObamaCare expansion

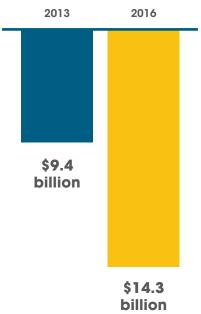
If the countless closures, layoffs, and constraints on space were not enough, new financial data from more than 2,200 hospitals in Medicaid expansion states further validates these fears.

Between 2013 and 2016, hospitals in Medicaid expansion states saw Medicaid revenues increase by 42.5 percent—comparable to what other studies suggest.²²⁻²⁴ But new Medicaid revenues only reflect half of the ledger. A look at the other side of the ledger reveals that the cost to treat Medicaid patients grew by more than 50 percent—or nearly \$24 billion—over the same time.²⁵

Altogether, hospitals' Medicaid shortfalls grew by nearly \$5 billion after Medicaid expansion, more than outweighing the declines in uncompensated care costs.²⁶ For context, those higher shortfalls are the equivalent of nearly 75,000 hospital jobs.²⁷

Skyrocketing Medicaid shortfalls translated into lower profit margins for hospitals in expansion states. Between 2013 and 2016, hospitals in expansion states saw margins plummet by more than \$2 billion—a drop of 10 percent. Meanwhile, hospitals in non-expansion states saw their profit margins grow over this time. 29







CALIFORNIA

When California expanded ObamaCare, state officials predicted expansion enrollment would top out at 910,000 able-bodied adults.³⁰ That "maximum" projection was shattered in less than a month, with 1.1 million able-bodied adults enrolling in January 2014.³¹ By July 2017, enrollment had reached a staggering 3.8 million adults.³² The actual cost to taxpayers was nearly four times what was expected, leading to an overrun of \$32 billion in the first two and a half years.³³

Despite this massive surge in Medicaid spending, hospitals' Medicaid shortfalls have skyrocketed. Between 2013 and 2016, California hospitals saw Medicaid revenues grow by more than \$4 billion.³⁴ But those new revenues came with new Medicaid costs of nearly \$7 billion.³⁵ Altogether, California hospitals' Medicaid shortfalls grew by more than 83 percent over that time.³⁶ These new losses far outweighed reductions in uncompensated care, leading California hospitals' profit margins to drop by nearly 90 percent.³⁷

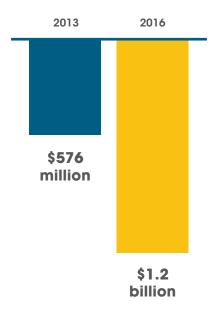
MEDICAID SHORTFALLS GREW BY MORE THAN 83 PERCENT AFTER CALIFORNIA EXPANDED OBAMACARE Hospitals' Medicaid shortfalls in California, by year 2013 2016 \$3.0 billion

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MEDICAID SHORTFALLS MORE THAN DOUBLED

AFTER ILLINOIS EXPANDED OBAMACARE

Hospitals' Medicaid shortfalls in Illinois, by year



Source: Authors' calculations



ILLINOIS

As officials from then-Governor Pat Quinn's administration lobbied Illinois legislators to expand Medicaid under ObamaCare, they promised low and predictable enrollment. The Department of Healthcare and Family Services promised that no more than 380,000 able-bodied adults would ever be eligible, with just 342,000 enrolling in the program. But in less than three months, enrollment shattered the state's projections. March 2017, more than 655,000 able-bodied adults had signed up for the state's ObamaCare expansion. That means nearly twice as many able-bodied adults than the state thought would ever even be eligible have enrolled in the expansion. The actual cost to taxpayers was twice what was promised, leading to an overrun of nearly \$5 billion in the first three years alone.

Despite the influx of more taxpayer funds, Illinois hospitals saw their Medicaid shortfalls skyrocket. Illinois hospitals' Medicaid revenues grew by nearly \$875 million between 2013 and 2016.⁴² But those new revenues came with new Medicaid costs of nearly \$1.5 billion.⁴³ Altogether, Illinois hospitals' Medicaid shortfalls more than doubled over that time, with the new losses equivalent to nearly 10,000 hospital jobs.⁴⁴



WEST VIRGINIA

In West Virginia, then-Governor Earl Ray Tomblin unilaterally expanded Medicaid through executive order, predicting 95,000 able-bodied adults would ever enroll in the program. But actual enrollment shattered that expected maximum in just three months. By December 2016, more than 181,000 able-bodied adults had signed up for the state's ObamaCare expansion—nearly twice as many as the state said would ever enroll. Cost overruns mounted as a result, with costs during the first two and a half years coming in nearly \$600 million more than expected.

But millions of dollars in new Medicaid revenue didn't help put West Virginia hospitals on better financial footing. In fact, their finances deteriorated rapidly. Between 2013 and 2016, West Virginia hospitals saw their Medicaid revenues grow by nearly \$180 million—an increase of more than 30 percent. 49 But those new revenues came with new Medicaid costs of nearly \$380 million. 50 Altogether, West Virginia hospitals' Medicaid shortfalls grew by more than 95 percent over that time. 51 These new losses far outweighed reductions in uncompensated care, leading West Virginia hospitals' profit margins to plummet. 52 By 2016, the average West Virginia hospital was in the red. 53

The situation is likely even worse for states that expanded later, as these expansions shifted even more able-bodied adults out of private coverage and into Medicaid.⁵⁴ Indiana, for example, implemented its ObamaCare expansion in February 2015—more than a year after most expansion states.⁵⁵ But between 2014 and 2016, Indiana hospitals' Medicaid shortfalls more than doubled, reaching nearly \$475 million—the equivalent of 9,000 lost hospital jobs.⁵⁶

Across the country, Medicaid expansion states have seen skyrocketing costs, increasing shortfalls, and plummeting profit margins. This is directly attributable to their decision to shift a new class of able-bodied adults out of private insurance and into Medicaid, resulting in payments to hospitals that do not even cover the cost of care.

MEDICAID SHORTFALLS NEARLY DOUBLED AFTER WEST VIRGINIA EXPANDED OBAMACARE Hospitals' Medicaid shortfalls in West Virginia, by year 2013 2016 \$210 million

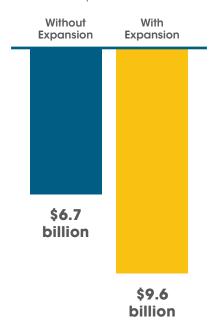
\$411

million

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MEDICAID SHORTFALLS COULD GROW BY NEARLY \$3 BILLION IF OTHER STATES EXPAND OBAMACARE

Estimated Medicaid shortfalls in non-expansion states



Source: Authors' calculations

Expanding could put another 53,000 hospital jobs in jeopardy

States that have thus far resisted expansion would experience the same trends that Medicaid expansion states have already realized, should they choose to go down that path. Hospitals in non-expansion states already have Medicaid shortfalls totaling nearly \$7 billion.⁵⁷ Based on the experiences in expansion states, that could grow by yet another \$3 billion if these states decided to expand Medicaid—equivalent to nearly 53,000 lost hospital jobs.⁵⁸⁻⁵⁹

From North Carolina to Wyoming, the cost of expansion on hospital finances cannot be underscored enough.

MEDICAID EXPANSION WOULD HURT EVEN MORE HOSPITALS

Medicaid shortfall projections in selected non-expansion states

	KS	MO	NC	ОК	WY
CURRENT MEDICAID SHORTFALL	\$28.2M	\$351.3M	\$766.7M	\$241.3M	\$36.8M
PROJECTED TOTAL MEDICAID SHORTFALL	\$40.7M	\$506.4M	\$1.1B	\$347.8M	\$53.1M
PROJECTED HOSPITAL JOB LOSS EQUIVALENT	235 jobs	2,780 jobs	6,031 jobs	2,036 jobs	300 jobs

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Despite being touted as the cure for hospital finances, Medicaid expansion would drive hospitals deeper into debt—and likely push many over the edge.



Bottom Line: ObamaCare expansion is not the cure for hospitals

Whether it is hospital closures, job losses, shortfalls, or capacity limits, Medicaid expansion has proven to be the furthest thing from a cure-all for struggling hospitals. While studies cited by advocates suggest modest improvements in hospital health, this research ignores half of the ledger. The latest data suggests hospitals have suffered billions in cost increases, skyrocketing shortfalls, and job losses after expanding Medicaid to this new class of able-bodied adults.

States contemplating expansion would face similarly grim results for their hospitals if they decided to expand. A decision to expand would mean a decision to further reduce profit margins, drive up costs, and cut more hospital jobs. Struggling hospitals simply cannot bear the consequences of these decisions.

Lawmakers in non-expansion states should look to the evidence. Despite being touted as the cure for hospital finances, Medicaid expansion would drive hospitals deeper into debt—and likely push many over the edge.

APPENDIX 1

HOSPITALS IN NON-EXPANSION STATES ALREADY FACE NEARLY \$7 BILLION IN MEDICAID SHORTFALLS

Hospitals' current Medicaid shortfalls in non-expansion states

STATE	CURRENT MEDICAID REVENUE	CURRENT MEDICAID COSTS	CURRENT MEDICAID SHORTFALL
Alabama	\$747.3 million	\$983.7 million	\$236.4 million
Florida	\$3.7 billion	\$5.4 billion	\$1.6 billion
Georgia	\$2.1 billion	\$2.3 billion	\$251.0 million
Kansas	\$566.4 million	\$594.7 million	\$28.2 million
Missouri	\$1.8 billion	\$2.1 billion	\$351.3 million
North Carolina	\$2.2 billion	\$3.0 billion	\$766.7 million
Oklahoma	\$799.3 million	\$1.0 billion	\$241.3 million
South Carolina	\$1.1 billion	\$1.2 billion	\$94.3 million
South Dakota	\$221.0 million	\$263.4 million	\$42.4 million
Tennessee	\$1.7 billion	\$2.3 billion	\$566.6 million
Texas	\$4.1 billion	\$5.7 billion	\$1.6 billion
Wisconsin	\$1.3 billion	\$2.1 billion	\$800.3 million
Wyoming	\$84.0 million	\$120.8 million	\$36.8 million
TOTAL	\$20.4 billion	\$27.1 billion	\$6.7 billion

APPENDIX 2

HOSPITALS IN NON-EXPANSION STATES COULD SEE MEDICAID SHORTFALLS RISE BY ANOTHER \$3 BILLION AFTER OBAMACARE EXPANSION, THE EQUIVALENT OF EARLY 75,000 LOST JOBS

Hospitals' projected Medicaid shortfalls and job loss equivalents in non-expansion states if expansion were enacted

STATE	ADDITIONAL MEDICAID SHORTFALL	JOB LOSS EQUIVALENT
Alabama	\$104.4 million	2,248
Florida	\$727.9 million	13,324
Georgia	\$110.8 million	2,033
Kansas	\$12.5 million	235
Missouri	\$155.1 million	2,780
North Carolina	\$338.4 million	6,031
Oklahoma	\$106.5 million	2,036
South Carolina	\$41.6 million	773
South Dakota	\$18.7 million	364
Tennessee	\$250.1 million	4,393
Texas	\$719.7 million	11,926
Wisconsin	\$353.3 million	6,532
Wyoming	\$16.3 million	300
TOTAL	\$3.0 billion	52,974

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- 23. For purposes of this analysis, Medicaid expansion states are defined as states with Medicaid expansion in place as of January 1, 2014. States that expanded after January 1, 2014 had similar trends post-expansion but have a different baseline period and the crowd-out levels are more pronounced, as the exchanges were already operating when the later expansions were implemented.
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