



CENTER *for* RURAL AFFAIRS

## **STRONGER HEALTH CARE INFRASTRUCTURE & HEALTHIER NEBRASKANS: MEDICAID EXPANSION IN NEBRASKA**

**JON M. BAILEY**

**DIRECTOR, RURAL PUBLIC POLICY PROGRAM**

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### **KEY FINDINGS**

- Medicaid expansion in Nebraska will address health care cost-shifting and reduce the “hidden health tax” to individuals. The cost shift results from increased health insurance premiums and higher taxes needed to address the bad debt/charity care of health care providers. Medicaid expansion in Nebraska will directly reduce this cost shifting by \$30.6 million in 2015-16 and by a total of \$156.1 million by 2019-20., according to a recent University of Nebraska at Kearney study (see Introduction below).
- If Medicaid were expanded in Nebraska, health care provider bad debt/charity care would be lowered by \$94.8 million in 2015-16, and a total of \$483.5 million through 2019-20. This reduction directly benefits the financial stability of health care providers, particularly in rural Nebraska. It will indirectly benefit all Nebraskans by beginning to alleviate medical care cost-shifting.
- Medicaid expansion will lead to better health and better labor productivity. For low-income workers, lack of access to health care – one issue Medicaid expansion would resolve – leads to increased absenteeism, reduced productivity, and vulnerability to frequent job loss, the cycle of perpetual poverty.
- Better health leading to better job longevity and longer job tenure will lead to an additional \$15.5 million in additional wages for low-income workers in Nebraska in 2015-16, and a total of \$236.1 million in additional wages from 2015-126 through 2019-20.
- Medicaid expansion in Nebraska is a policy and economic winner for the state and those who benefit from the additional health insurance coverage it provides.

## INTRODUCTION

On April 1, 2015, Dr. Allan Jenkins, Professor of Economics at the University of Nebraska at Kearney, and Dr. Ron Konecny, Professor of Management at the University of Nebraska at Kearney, released *Nebraska Medicaid Expansion: Protecting a Critical Infrastructure, Supporting Main Street, Improving Worker Health and Productivity* (henceforth referred to as the “UNK Report”). The UNK Report is an extensive benefit-cost analysis of several factors that should be considered in the debate on LB 472, the Medicaid Redesign Act, and Medicaid expansion in Nebraska.

This brief is part of a series to examine findings of the UNK Report, their implication on LB 472, and their significance to rural Nebraska. This brief examines basic economic and income issues for all Nebraskans connected to expanding Medicaid.

## REDUCTION IN PROVIDER BAD DEBT/CHARITY CARE AND REDUCTION IN COST-SHIFTING TO TAXPAYERS AND THE INSURED

One of the significant consequences of a large segment of the population being without health insurance is that health care providers have to incur large amounts of bad debt or charity care. Without an insurance payer or the ability of the individual to pay for their care, health care providers have to write off the costs of care as either bad debt or charity care. Bad debt or charity care, of course, affects the bottom line of providers by providing less revenue for services rendered.

Bad debt and charity care affects consumers as well. It is the cost-shifting issue for which the American health care system is infamous. Costs for services provided to uninsured patients or those unable to pay for services are shifted to insurers or those able to pay privately for their medical services or to taxpayers for those on public health insurance programs. Insurers ultimately shift the cost to their policyholders through higher premiums.

Consumers pay a “hidden health tax” on their insurance premiums to cover a portion of the

bad debt and charity care for the health care services provided others. In 2009, the “hidden health tax” was estimated at over \$1,000 annually for family health care coverage<sup>1</sup>; that is, a family’s health insurance premium was \$1,000 greater due to bad debt and charity care cost-shifting by health care providers.

The UNK Report estimates Medicaid expansion in Nebraska will reduce the “hidden health tax” to individuals that results from increased health insurance premiums and higher taxes to address bad debt/charity care. The UNK Report states that Medicaid expansion in Nebraska will directly reduce this cost shifting by \$30.6 million in 2015-16 and by a total of \$156.1 million by 2019-20.

The bad debt/charity care facing Nebraska could be partially resolved by expanding Medicaid. One of the outcomes of the Affordable Care Act and Medicaid expansion in states that accepted it is the significant reduction in the uninsured population. Reducing the number of people without health insurance will begin to address the bad debt/charity care issue by a providing insurance payer for more people, either private insurance or Medicaid. During the second quarter of 2013 (immediately before the health insurance marketplaces started) the national uninsured rate for adults 18 to 64 was 18 percent. By the first quarter of 2015 the national uninsured rate had dropped to 11.9 percent, or a 34 percent decline.<sup>2</sup>

Data show that bad debt/charity care has declined by 16 percent in Medicaid expansion states. The total bad debt/charity care for Nebraska hospitals and other health care providers was \$592 million in 2013. Using the evidence from Medicaid expansion states about the reduction in bad debt/charity care for health care providers, the UNK Report finds that if Medicaid were expanded in Nebraska, bad debt/charity care would be lowered by \$94.8 million in 2015-16, and a total of \$483.5

1 Families USA. *Hidden Health Tax: Americans Pay A Premium*. 2009. Washington, DC: Families USA.

2 Levy, Jenna. “In U.S., Uninsured Rate Dips to 11.9% in First Quarter.” April 13, 2015. Gallup. [http://www.gallup.com/poll/182348/uninsured-rate-dips-first-quarter.aspx?utm\\_source=health\\_insurance&utm\\_medium=search&utm\\_campaign=tiles](http://www.gallup.com/poll/182348/uninsured-rate-dips-first-quarter.aspx?utm_source=health_insurance&utm_medium=search&utm_campaign=tiles)

million through 2019-20.3

This nearly half a billion dollar reduction in bad debt/charity care by 2020 from Medicaid expansion will directly provide more financial sustainability for hospitals and other health care providers. This is particularly true in rural Nebraska, where residents have greater rates of uninsurance and generally higher poverty rates. These combine to put rural health care providers (particularly hospitals) at greater fiscal risk.

The bad debt/charity care reduction from Medicaid expansion would also begin to alleviate medical care cost-shifting. With more patients insured, hospitals and other health care providers can now get more payment directly from health insurance sources rather than write off costs as bad debt or charity care. And they will shift less costs to other patients.

### BETTER HEALTH, INCREASED PRODUCTIVITY

The UNK Report outlines the connection between income, health and productivity, particularly for low-income workers who would be eligible for benefits under an expanded Medicaid program. In general, healthier workers are more productive workers. For low-income workers, lack of access to health care – one issue Medicaid expansion would resolve – leads to increased “absenteeism, reduced productivity, and vulnerability to frequent job loss,” the cycle of perpetual poverty.<sup>4</sup>

Better health leading to better job longevity and longer job tenure will lead to an additional \$15.5 million in additional wages for low income workers in Nebraska in 2015-16, and a total of \$236.1 million in additional wages from 2015-126 through 2019-20.5

It’s important to note that evidence from expansion states shows Medicaid expansion leads to better health in myriad ways. States that have opted into the Medicaid expansion

3 Jenkins, A. and Konecny, R. 2015. *Nebraska Medicaid Expansion: Protecting a Critical Infrastructure, Supporting Main Street, Improving Worker Health and Productivity*. University of Nebraska Kearney: Kearney, NE, pp. 31 and 40.

4 *Id.* at p. 33.

5 *Id.* at pp. 35 and 40.

have demonstrated more diabetes diagnoses, better diabetic treatment, higher rates of mammograms, higher rates of pap smears, and better mental health screening and treatment.<sup>6</sup> Together enhanced access to health care and these services will lead to better health and more productivity for Nebraska’s workers.

### CONCLUSION

As we stated in the first brief on the UNK Report (*Saving Families From the Financial Ledge: Medicaid Expansion in Nebraska*), the data clearly shows significant economic benefits from expanding Medicaid flows to families throughout the state and to the state’s economy as a whole. The benefits explored in this brief are not different. Medicaid expansion in Nebraska will make health care providers, particularly those in rural Nebraska, fiscally stronger, thus ensuring access to health care for all Nebraskans, while also beginning to alleviate health care cost shifting that affects all Nebraskans and Nebraska families.

Medicaid expansion will also create a healthier work force in Nebraska. Evidence from states that have expanded their Medicaid programs show that access to health care by expanding Medicaid leads to better health in numerous ways. For low-income workers, lack of access to health care – one issue Medicaid expansion would resolve – leads to issues that affect their ability to work, decreases their productivity, negatively effects employers and their businesses, and contributes to the cycle of poverty for individuals and families. Expanding Medicaid will make people healthier, make them more productive workers, and enhance their workforce longevity. Employers and businesses will also benefit from a healthier and more stable labor force.

Medicaid expansion in Nebraska is a policy and economic winner for the state and those who would benefit from the health insurance coverage offered by it. Nebraska policymakers must act on expanding its Medicaid program or leave all these positive benefits unrealized.

6 Dickman, S., Hillestein, D. McCormick, D. and Wollhandler, S. “Opting out of Medicaid Expansion: The Health and Financial Impacts.” January 2014. *Health Affairs*.

### ABOUT THE CENTER FOR RURAL AFFAIRS

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.