



## Medicaid Work Requirements Could Weaken Hospital Finances, Local Economies

### *Analysis of Medicaid Coverage Loss from Arkansas Experience Shows Potential Impact from Revenue Loss, Uncompensated Care in 15 States*

A move in more than a dozen states to impose work requirements as a condition of Medicaid coverage could not only result in people losing health insurance, but could also impact hospitals' revenue, increase uncompensated care costs, and have a detrimental economic effect on local communities, according to a new Commonwealth Fund report.

Researchers Randy Haught, Allen Dobson, and Phap-Hoa Luu examined the potential impact on hospital finances in states that have approved or pending waiver applications for implementing work requirements in their Medicaid programs. Under such waivers, Medicaid beneficiaries lose health insurance coverage if they cannot find work, are unable to document the required number of hours of work activity, or cannot document an exemption. The analysis is based on early results of Medicaid coverage loss from Arkansas's implementation of work requirements, as well as other recent studies.

Key findings from the report, [\*How Will Medicaid Work Requirements Affect Hospitals' Finances?\*](#), released today:

- ▶ **The loss of Medicaid coverage in states that implement work requirements will have a significant impact on Medicaid revenues for hospitals.** Medicaid work requirements could contribute to a loss in revenue for hospitals across all states that implement the requirements, totaling between \$3.7 billion and \$4.1 billion in 2019 alone. The impacts vary across states, depending upon how the work requirement programs are designed. For example, Medicaid revenues could decline by 20 percent to 22 percent on average for Kentucky hospitals and between 18 percent and 20 percent for hospitals in Indiana. Those states apply work requirements to both traditional Medicaid beneficiaries and to those who became eligible through the Affordable Care Act (ACA) Medicaid expansion. In contrast, Arizona, Arkansas, and Ohio would see Medicaid revenues decline by 10 percent to 14 percent because those states will apply work requirements only to the Medicaid expansion population, up to age 49.

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*The Commonwealth Fund is a private, nonprofit foundation supporting independent research on health policy reform and a high-performance health system.*

- ▶ **Medicaid beneficiaries who lose coverage become uninsured, increasing hospitals' uncompensated care costs.** Medicaid work requirements could contribute to an increase in uncompensated care costs for all hospitals across states that implement them, totaling between \$2.5 billion to \$3.7 billion in 2019. Because most people who lose Medicaid coverage are ineligible for premium subsidies in the health insurance marketplaces and would not have jobs that offer employer-sponsored insurance, many would become permanently or temporarily uninsured. As in the case with Arkansas, Medicaid beneficiaries who lose coverage due to work requirements may be “locked out” of reenrolling for a certain time period. Even after this period, they will need to prove they are working the required number of hours to regain Medicaid coverage. This leads to permanent uninsurance or extended gaps in coverage, increasing hospital uncompensated care costs.

Hospitals in states that expanded Medicaid will experience the largest increases in uncompensated care. For example, hospitals in Kentucky could see the largest uncompensated care increases due to applying work requirements to both traditional and expansion eligible beneficiaries, up to age 64.

- ▶ **Lower Medicaid revenues and increased uncompensated care costs will reduce hospital operating margins.** For example, hospital operating margins — a measure of hospitals' profitability on the income or losses from patient care — for Alabama hospitals would be -2.3 percent in 2019 without Medicaid work requirements. With work requirements, hospital margins would be reduced by up to 0.6 percentage points, meaning that for every dollar of revenue from patient care, the hospital would lose 0.6 cents. Implementing work requirements will impact hospitals differently across states based on hospital payer mix, the portion of total Medicaid enrollees subjected to work requirements, and the proportion of those who lose Medicaid coverage and become uninsured.
- ▶ **Hospitals in rural areas could be the hardest hit.** Medicaid work requirements would further reduce operating margins for rural hospitals that are already operating at a loss on patient care. For example, hospitals in Kentucky, which applies work requirements to both traditional and expansion eligible beneficiaries up to age 64, could see a change in operating margins of between -1.7 and -3.1 percent.

## From the experts:

David Blumenthal, M.D., Commonwealth Fund President

*“This analysis demonstrates that imposing Medicaid work requirements could have a detrimental effect not only for people who could lose their health care coverage, but on hospital finances. The way that states design these work requirements will play a big role in the severity of the loss.”*

Allen Dobson, Ph.D., cofounder and president of Dobson DaVanzo & Associates, LLC, and an author of the paper

*“At a time when many rural hospitals throughout the nation have shuttered, the move to impose work requirements on Medicaid beneficiaries ultimately weakens hospitals. Because hospitals are often a major economic engine in a community, these work requirements can hurt the entire local economy.”*

## IMPLICATIONS

The authors conclude that while Medicaid work requirements could weaken hospitals' financial positions, the design of states' work requirement programs will play a key role in how many beneficiaries lose coverage and the resulting financial impact on hospitals.

Following the coverage expansion from the ACA, many hospitals saw improved financial stability, allowing hospitals to hire new staff and maintain or offer new services to the communities they serve. This could be jeopardized if other states experience Medicaid coverage losses of the magnitude seen in Arkansas's implementation of work requirements. The financial impact on hospitals will affect patients and the entire community served by these hospitals.

## HOW THIS STUDY WAS CONDUCTED

The analysis extrapolates the early results of Medicaid coverage loss from Arkansas's implementation of work requirements and information from other recent studies to estimate the financial impact that work requirements may have on hospitals using a Hospital Finance Simulation Model. To estimate the number of Medicaid enrollees in each state that would be subject to work requirements, researchers used data from the March Supplement of the Current Population Survey (CPS) that is annually conducted by the U.S. Bureau of the Census.

## ADDITIONAL PERTINENT RESEARCH

<https://www.commonwealthfund.org/blog/2018/potential-financial-impact-medicaid-work-requirement-kentucky-hospitals>

<https://www.commonwealthfund.org/publications/issue-briefs/2017/nov/comparing-affordable-care-acts-financial-impact-safety-net>

<https://www.commonwealthfund.org/publications/maps-and-interactives/2019/feb/status-medicaid-expansion-and-work-requirement-waivers>