

## **Local Implications of Changes in Healthcare Coverage and Financing August 2014**

The purpose of this brief is to a) summarize some of the local implications of current and impending changes in healthcare finance and coverage that will likely be considered in the 2015 legislative session and b) pose considerations and questions regarding local financing of healthcare that presently, do not have clear answers.

These developments include:

- I. Reconsideration of Medicaid expansion or a Texas alternative
- II. Increasing uncompensated care costs for Travis County hospitals due to cuts to DSH payments
- III. Developments regarding ACA coverage expansion

### **I. Reconsideration of Medicaid expansion or a Texas alternative**

The Senate Health and Human Services Committee has named as an interim charge the consideration of alternatives to Medicaid expansion, which could provide coverage of up to 88,728 Travis County residents who are currently uninsured, according to the 2012 American Community Survey.<sup>1</sup> In states electing to expand Medicaid and to run their own exchange, reduction in uninsurance rates are three times larger than those in states such as Texas that have declined to run their own exchange or expand Medicaid.<sup>2</sup>

Some models for expansion being considered are the Health Insurance Premium Payment program (HIPP) as well as the Arkansas model - both of which use Medicaid funds to purchase insurance on the private market. The HIPP model requires that providing coverage be budget neutral for the state.

Considerations:

- There is some evidence of short-term increases in ER use and in health care usage overall among Medicaid expansion populations as the newly insured gain experience and knowledge of their new policy. Many communities experienced this initial uptick in usage followed by a leveling off.
- Medicaid expansion via the private sector may be more costly than traditional Medicaid, as Medicaid typically pays doctors and hospitals much less (less than 50%) than average cost of care. Dr. Kyle Janek, HHSC Commissioner, stated at an August 2014 Senate hearing that local governments will have to pick up increased costs of this more expensive model.<sup>3</sup>

### **II. Increasing uncompensated care costs for Travis County hospitals due to cuts to DSH payments**

In Texas and across the nation, every person, business and local government bears extra costs to pay for uncompensated care provided in hospitals. When uninsured persons are cared for in the hospital, most of this care is uncompensated and therefore paid by local taxpayers through local property taxes.

Hospitals shift these costs to insurers in the form of higher bills, driving up the cost of health insurance for both employers and employees.<sup>4</sup>

Uncompensated care costs exceeded \$1 Billion in 2012 in Travis County acute care hospitals. Disproportionate Share Hospital (DSH) payments, along with other supplemental payments compensate hospitals treating large numbers of Medicaid and uninsured patients. Because the original intent of The Affordable Care Act was to expand healthcare coverage via both private sector coverage purchased on health insurance exchanges and through Medicaid expansion, the Act made cuts to DSH payments, as uncompensated care was expected to fall. But the Supreme Court ruled in June of 2012 that Medicaid expansion was optional. In states that have expanded Medicaid, uncompensated care costs are on a downward trend. DSH cuts under Medicaid were delayed earlier this year but are impending (2016) and will be in the billions of dollars. Medicare DSHs cuts have already been made. Central Health (CH) uses tax funds to provide local match for federal hospital payment programs for Travis County hospitals.

As a result of these shortfalls and in preparation for impending cuts, many hospitals in states (such as Texas) in which Medicaid was not expanded are curtailing charity care requirements as a way to incentivize those eligible for ACA subsidies to apply for them. Some are charging co-pays to uninsured patients.<sup>5</sup>

Considerations:

- What will be the effect of cuts to DSH payments to Travis County hospitals and other programs serving the Travis County community funded with local tax dollars, such as MAP and DSRIP?
- In an effort to better understand local impact of changes in healthcare financing, we need to understand more about how low-income, uninsured and underinsured<sup>6</sup> patients are being served in Travis County, what gaps there are in services, and what opportunities there may be to streamline local service environments toward efficient allocation of resources and care. Some important questions regarding this consideration might be: What are the funding streams comprising expenditures to care for the uninsured and underinsured, particularly in inpatient and outpatient ER settings in Travis County hospitals? What are the top ten admitting diagnoses in the ER and inpatient care for uninsured Travis County residents and how does utilization among this group compare with other payer groups?

### **III. Developments regarding ACA coverage expansion**

In July of 2014, appeals court rulings challenged subsidy and cost-sharing eligibility for Texans who enrolled in plans through the ACA marketplace. This decision is being challenged by the Obama administration. This ruling could nullify the many thousands of subsidized policies low- and moderate income Travis County residents purchased to comply with the individual mandate. Local enrollment numbers in ACA Marketplace plans are not available at this time, but we know that more than 700,000 Texans bought insurance through the ACA marketplace.

Other threats to expansion include lack of citizenship or immigration documentation for enrollees and failure to pay premiums, as well as lack of knowledge and understanding of what insurance is and how it works. Education and outreach is needed.

Another development resulting from the ACA is possible changes to our county indigent healthcare program's (MAP) eligibility. Across the state and the nation, locally funded indigent care programs are taking steps to change their eligibility programs to exclude anyone that could be eligible for subsidized private healthcare coverage through ACA marketplaces. Many county indigent care programs in the state are reporting that persons eligible for both county coverage and ACA marketplace coverage are opting to remain on locally-funded programs because of lower out of pocket costs.

Considerations:

- If policies purchased through exchanges are nullified by court rulings, what will be the local effect?
- What is the effect on local ACA plan enrollment and coverage status of premium non-payment, lack of experience with insurance plans, and gaps in documentation for enrollees?
- If MAP eligibility changes to maximize federal subsidy resources coming into the community, what is the effect on local resources currently allocated for care for low-income uninsured and underinsured populations? What are the implications for care for these populations?

If you have comments, corrections or questions, please contact Elizabeth Vela at [Elizabeth.vela@co.travis.tx.us](mailto:Elizabeth.vela@co.travis.tx.us) or 512.854.3745.

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<sup>1</sup> This is the impact of expansion up to 138% of the FPL, which is the eligibility criterion per the ACA. ACS 2012 1 Year Estimates, C27016.

<sup>2</sup> Witters, Dan, "Arkansas, Kentucky, Report Sharpest Drops in Uninsured Rate", Gallup Well-Being, August 5, 2014, <http://www.gallup.com/poll/174290/arkansas-kentucky-report-sharpest-drops-uninsured-rate.aspx>, accessed August 19, 2014.

<sup>3</sup> McSwane, David, "'Texas way' sought to bring health care to poor", *Austin American Statesman*, A1, August 15, 2014.

<sup>4</sup> Texas Comptroller, "Texas in Focus: A Statewide View of Opportunities", Window on State Government, <http://www.window.state.tx.us/specialrpt/tif/healthcare.html>, accessed August 25, 2014

<sup>5</sup> Goodnough, Anny, "Hospitals Look to Health Law, Cutting Charity", *New York Times*, May 25, 2014, <http://www.nytimes.com/2014/05/26/us/hospitals-look-to-health-law-cutting-charity.html?action=click&contentCollection=Opinion&module=RelatedCoverage&region=Marginalia&pgtype=article>.

<sup>6</sup> The Commonwealth Fund defines underinsured as those meeting one of three conditions: 1) out of pocket medical expenses amount to 10% or more of income, 2) among low-income adults – or those under 200% of the FPL – out of pocket medical expenses amount to 5% of income or 3) health plan deductibles equal or exceed 5% of income.