

Revenue Cycle Performance by Medicaid Expansion Status

2017 Benchmarks for Hospitals in Expansion vs. Non-Expansion States

Highlights

- **With fewer uninsured, expansion state hospitals fare better on bad debt.** Providers in Medicaid expansion states saw a decline in patient bad debt over the past four years and reported substantially lower levels in 2017 than their non-expansion counterparts. Unfortunately, hospitals may have already reached the limits of the gains from coverage expansion and now face a new challenge: the rise in unpaid obligations from patients with HDHPs.
- **Growing write-offs threaten savings from the Medicaid expansion.** While the median hospital in an expansion state reduced bad debt by 1.3% of NPR since 2013, denial write-offs increased by 0.9% of NPR during the same time period. Hospitals will need to prioritize denials prevention to receive appropriate reimbursement for all patients.
- **Collection costs remain unchanged, even in hospitals with fewer uninsured.** Median cost to collect in our survey has remained stable at around 3.0% of net patient revenue since 2013. While self-pay collection costs have likely decreased for hospitals in expansion states, providers may have shifted staffing and resources to processes such as eligibility verification and denials management.

Background

Since 2014, 32 states and the District of Columbia have expanded their Medicaid programs under the Affordable Care Act (ACA), reducing the number of uninsured and improving access to care. We have received several questions from hospital finance leaders on the potential impact of Medicaid expansion status on organizations' revenue cycle performance. This research briefing analyzes our 2017 hospital revenue cycle benchmarks separately for hospitals in expansion and non-expansion states. For more information on the Hospital Revenue Cycle Benchmarking Initiative, visit advisory.com/rcbenchmarks.

Key Insights

Noticeable cash acceleration for low and median performing hospitals in expansion states.

While most providers in our 2017 survey reported fewer net days in accounts receivable (AR) than prior cohorts, the improvement was most marked among hospitals in states that expanded Medicaid. Best performers, however, achieved the same reductions in AR regardless of expansion status.

Hospitals in non-expansion states report higher upfront collections.

The median non-expansion state hospital in our survey reported point-of-service collections, as a percentage of net patient revenue, two times greater than its expansion counterpart. As high deductibles become more prevalent and financial responsibility increasingly shifts to patients, all providers will need to prioritize financial engagement and front-end collections.

Levels of charity care decrease with expanded Medicaid coverage.

On average, hospitals in states with Medicaid expansion reported 50% lower charity care, as a percentage of gross revenue, in 2017 than in 2013. In contrast, the equivalent organization in a state without coverage expansion saw charity care increase by 60% during the same time period.

Improved Overall Margins for Hospitals in Medicaid Expansion States

Several studies have reported the substantial positive impact of the 2014 Medicaid expansion on overall hospital margins, mainly through a reduction in uncompensated care and an increase in Medicaid revenue.¹ The benefits of the Medicaid expansion have been strongest for small and safety-net hospitals, who deliver significant care to low-income and uninsured patients.

In light of recent discussions regarding the future of the Affordable Care Act, it is important to examine Medicaid expansion's impact not only on overall hospital margins, but more specifically on the hospital revenue cycle. This research note therefore provides a deeper analysis of revenue cycle performance among hospitals in states that expanded Medicaid versus hospitals in states that did not.

Hospital Margin Impact Associated with Medicaid Expansion

2.5 Percentage point increase in annual **operating margins**

1.7 Percentage point increase in annual **excess margins**

Source: Urban Institute analysis of Medicare Cost Reports Data, FY 2011 – FY 2015. Results from fully adjusted difference-in-difference regression analyses of hospitals in expansion vs. non-expansion states.

Medicaid Expansion Results in Lower Patient Bad Debt, Reduced Charity Care

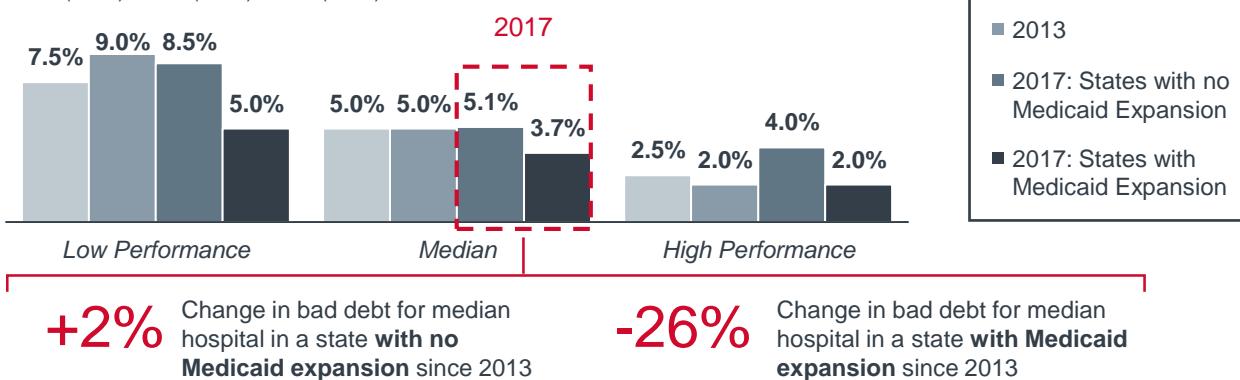
Research has indicated that the majority of hospitals in Medicaid expansion states have seen improvements in their bad debt since 2014.² Our survey shows a similar trend. Over the past four years, median performers reduced their bad debt by 26% and low performers by 44%. In contrast, hospitals in non-expansion states generally saw increases in bad debt during the same time period.

Still, even for providers in expansion states, the growing prevalence of high deductible health plans and the rise in patient financial obligations are likely to introduce new challenges in collections. Already hospitals in our survey with the lowest levels of bad debt have been unable to achieve further gains over the past four years, and 2% of net patient revenue has remained as the high performance benchmark.

Patient Bad Debt, by Medicaid Expansion Status³

Percentage of Net Patient Revenue

n=79 (2011); n=43 (2013); n=67 (2017)

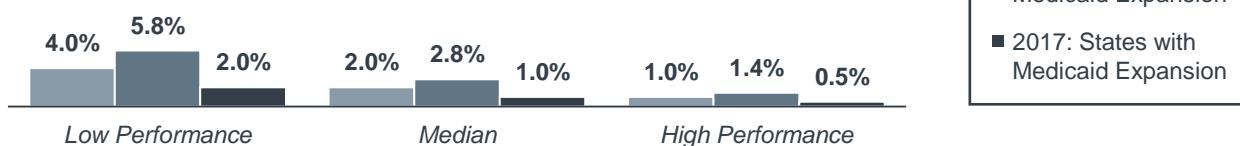


The impact of coverage expansion on charity care levels is also evident. While charity care as a percentage of gross revenue increased for non-expansion state hospitals since 2013, hospitals in expansion states reported the opposite trend: a 50% reduction in charity care levels for top, median, and low performers.

Charity Care, by Medicaid Expansion Status³

Percentage of Gross Revenue

n=41 (2013); n=46 (2017, non-Medicaid expansion state); n=65 (2017, Medicaid expansion state)



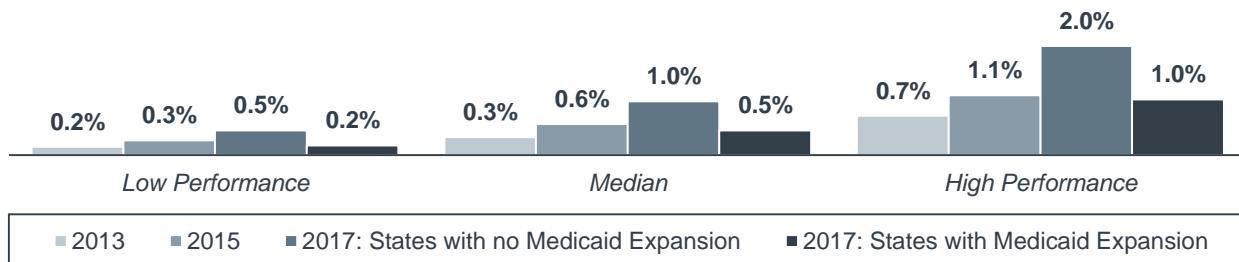
Hospitals in Non-Expansion States More Than Double Point-of-Service (POS) Collections

Non-expansion state hospitals in our survey dramatically increased their POS collections, as a percentage of NPR, since 2013, while levels remained stable in expansion state hospitals. It is unclear whether this is a reflection of higher patient obligations or of an increased focus on POS payments. Regardless, all providers will need to prioritize engaging patients at the point of service as patient financial obligations continue to grow.

Point-of-Service Collections³

Percentage of Net Patient Revenue

n=72 (2011); n=38 (2013); n=54 (2015); n=41 (2017, non-Medicaid expansion states); n=42 (2017, Medicaid expansion states)



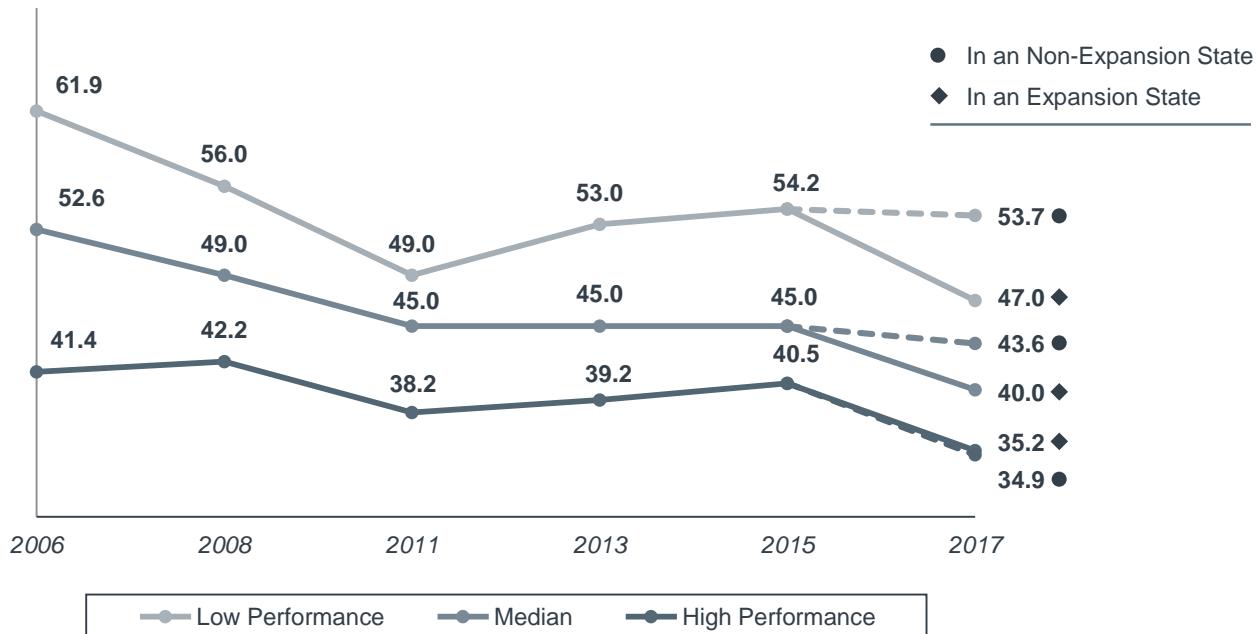
Net AR Days: In Medicaid Expansion States, Narrower Gap Between the Best and the Rest

While most providers in this year's cohort reported fewer net days in AR compared to 2015, the improvement was greatest among hospitals in states that expanded Medicaid, who saw the lowest levels of net AR days since this survey's inception.

Hospitals with the most days in AR in particular experienced the greatest benefits from the Medicaid expansion: Low performers in expansion states achieved a 13.3% reduction in net AR days over the past two years, compared to 0.9% in non-expansion states. Effectively, coverage expansion allowed low and median performers in our survey to close the gap with high performing hospitals, presumably as a result of fewer uninsured patients and improved collections.

Trended Net AR Days from 2006 to 2017, by Medicaid Expansion³

n=60 (2006); n=35 (2008); n=98 (2011); n=47 (2013); n=58 (2015); n=154 (2017)



Collection Costs Remain Stable for Most Providers

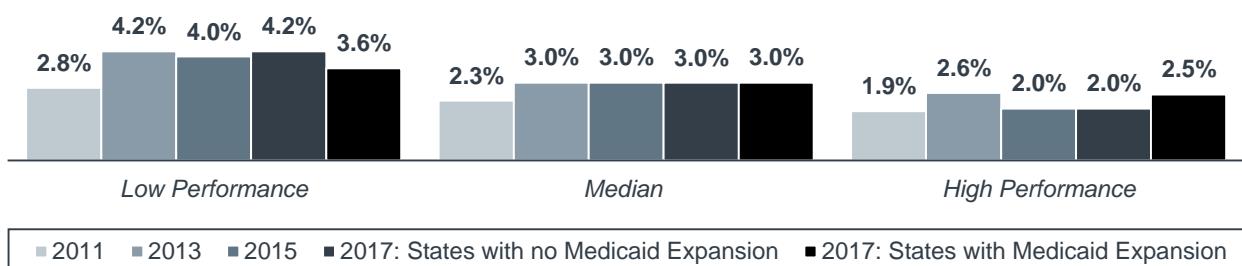
Despite lower numbers of uninsured patients and improvements in efficiency discussed earlier, the median cost to collect for hospitals in expansion states has remained unchanged since 2015 and on par with non-expansion hospitals, at 3.0% of net patient revenue.

One potential explanation could be that the composition of cost to collect has shifted for providers in expansion states. For example, fewer resources may be devoted to self-pay collections and are instead being allocated towards eligibility and insurance verification.

Trended Full Cost to Collect from 2011 to 2017, by Medicaid Expansion Status³

Percentage of Net Patient Revenue

n=51 (2011); n=31 (2013); n=59 (2015); n=21 (2017, non-Medicaid expansion states); n=26 (2017, Medicaid expansion states)



Increase in Denial Write-Offs Threatens Gains from Coverage Expansion

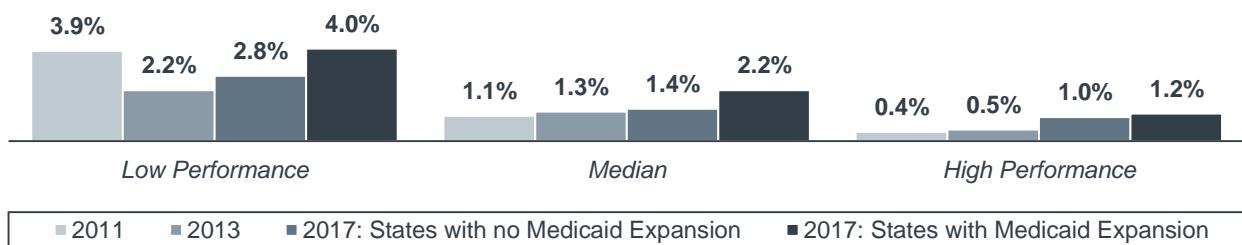
Many hospitals achieved important reductions in bad debt and charity care since the Medicaid expansion, but they now face a growing challenge to reimbursement in the form of denials. In 2017, the median hospital in an expansion state lost the equivalent of 2.2% of NPR to denial write-offs, a 70% increase from pre-ACA levels. For some providers, this increase in denial write-offs could have nearly offset the gains in uncompensated care achieved over the same time period, during which the median hospital reduced patient bad debt by 1.3% of NPR and charity care by 1.0% of NPR.

Undoubtedly, with both government and private payers increasing their scrutiny on claims, all providers will need to increase their focus on denials prevention and management to receive appropriate reimbursement for all patients.

Denial Write-Offs, by Medicaid Expansion Status³

Percentage of Net Patient Revenue

n=72 (2011); n=33 (2013); n=18 (2017, non-Medicaid expansion state); n=37 (2017, Medicaid expansion state)



Methodology

The Hospital Revenue Cycle Benchmarking Initiative has assessed revenue cycle performance biennially since 2006. The 2017 benchmarks are the product of a six-month collaboration with over 350 hospitals and health systems across the country. For more information on the survey methodology and results, visit [advisory.com/rcbenchmarks](https://www.advisory.com/rcbenchmarks). In this analysis, we did not differentiate between states implementing traditional Medicaid expansions and states expanding Medicaid through waivers.

- 1) "How Has the ACA Changed Finances for Different Types of Hospitals? Updated Insights from the 2015 Cost Report Data," *Urban Institute*, April 2017; "Comparing the Affordable Care Act's Impact on Safety-Net Hospitals in States That Expanded Medicaid and Those That Did Not," *The Commonwealth Fund*, Dobson A. et al., November 2017.
- 2) "Affordable Care Act's Medicaid expansion linked with decline in US hospitals' bad debt," *Moody's*, "Medicaid Expansion State Hospitals Report Less Bad Debt," *Health Leaders Media*, June 2015; Dranove D, Garthwaite C, Ody C, "The Impact of the ACA's Medicaid Expansion on Hospitals' Uncompensated Care Burden and the Potential Effects of Repeal," *The Commonwealth Fund*, May 2017.
- 3) Low, median, and high performance categories correspond to 25th, 50th, and 75th percentiles, respectively.

! The information in this note is accurate as of its publishing date but is subject to change. If a change should occur, an updated note will be published.

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