Estimating the Impact of Repealing the Affordable Care Act on Hospitals

Executive Summary

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The Federation of American Hospitals (FAH)
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Background

Dobson DaVanzo & Associates was commissioned by the Federation of American Hospitals (FAH) and the American Hospital Association (AHA) to estimate the financial impact on hospitals of repealing the Affordable Care Act (ACA) without any implementation of a replacement for the Act.

For this analysis, we based our specifications for ACA repeal on H.R. 3762, the Restoring Americans' Healthcare Freedom Reconciliation Act over the period 2018 – 2026[1]. That bill, which passed Congress under budget reconciliation rules and was vetoed by the President:

- Repeals ACA policies that expand coverage without offering a replacement;
- Repeals ACA taxes intended to help finance that coverage;
- Yet retains all ACA reductions in hospital payments that were intended to finance that coverage except for the Medicaid Disproportionate Share Hospitals (DSH) reductions. DSH payments provide vital financial support to hospitals that serve the nation's most vulnerable populations – Medicaid beneficiaries, low-income Medicare beneficiaries, the uninsured and underinsured.

Findings

In modeling the repeal of the ACA as laid out in H.R. 3762, we found that between 2018 and 2026:

- **The loss of coverage would have a net impact on hospitals of $165.8 billion with the restoration of Medicaid DSH reductions;**
- **The ACA Medicare reductions are maintained and hospitals will suffer additional losses of $289.5 billion from reductions in their inflation updates**;

[1] 2026 is the end of the ten-year budget window.

- **Full restoration of Medicare and Medicaid Disproportionate Share Hospital (DSH) payment reductions embedded in ACA would amount to $102.9 billion.**

As discussed below, these findings suggest that any repeal bill that does not replace coverage also should reverse hospital payment reductions, particularly those for the Medicare and Medicaid DSH programs as well as those in the inflation updates.

Model

Our model relied on assumptions, estimates, and findings from a number of studies including the Congressional Budget Office (CBO) estimates of budgetary and economic effects of repealing the ACA,[2,3,4,5] the Office of Assistant Secretary for Planning and Evaluation (ASPE) study of the impact of insurance expansion on hospital uncompensated care costs;[6] and the Urban Institute's recently published work on the cost of ACA repeal.[7] Each step in the model development included review of all available research to develop assumptions and validate results.

Our estimates of ACA repeal are based on the premise that the Medicaid expansion, premium tax credits, cost-sharing subsidies and penalties established under the ACA were the primary drivers of the reduction in the number of uninsured, which is projected by CBO to be 24 million people by 2026. Individuals moving from their existing commercial plans into subsidized Marketplace coverage or the Medicaid expansion that was adopted in 31 states and the District of Columbia also played a role. Therefore, if these provisions are repealed, we assume that health insurance coverage would return to near pre-ACA levels, resulting in a loss of coverage for a large number of individuals who had only recently gained coverage under ACA implementation.

Below is an outline of the rigorous, multi-step process we used to develop our model.

[2] Congressional Budget Office. Federal Subsidies for Health Insurance Coverage for People under age 65: Tables from CBO's March 2016 baseline. March 2016.

[3] Congressional Budget Office. Updated Budget Projections: 2016 to 2026. March 2016.

[4] Congressional Budget Office. Budgetary and Economic Effects of Repealing the Affordable Care Act. June 2015.

[5] Congressional Budget Office. Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act. April 2014.

[6] ASPE Issue Brief. DeLeire et al. Impact of Insurance Expansion on Hospital Uncompensated Care Costs in 2014. Sept 2014.

[7] Urban Institute. Buettgens et al. The Cost of ACA Repeal. June 2016.

ES-1: Five Steps used to Estimate ACA Effects on Hospitals

Step 1: Determine changes in health insurance coverage under the ACA;
Step 2: Estimate hospital costs associated with the newly insured;
Step 3: Estimate change in hospital revenues for the newly insured;
Step 4: Estimate the impact of movement from commercial insurance to Medicaid and Marketplaces (Crowd-out); and
Step 5: Estimate impact on hospital revenues and net income due to the ACA.

Implications

If the ACA is repealed, we estimate that the number of uninsured would increase by 22 million people by 2026 -- from a projected 28 million under the ACA to 50 million with repeal.[8] This reversal of coverage would represent an unprecedented public health crisis as individuals would lose their insurance coverage and no longer be able to follow their prescribed regimen of care. In addition, reduced Medicare and Medicaid DSH payments, if not restored in a repeal bill, would present serious challenges to hospitals, which would have to absorb the cost of uncompensated care associated with these newly uninsured individuals who need and receive hospital care.

The possible ACA coverage repeal and the resulting increase in uncompensated care, combined with the remaining ACA reductions in hospital payments, comes at a challenging time for hospitals. Hospitals are being asked or even mandated to invest heavily in a variety of alternative payment models (APMs) as Medicare steers providers toward a value-based purchasing model. Yet Medicare does not otherwise pay for the expenses required to implement APMs, such as Accountable Care Organizations (ACOs) or the various mandated payment bundling programs, and does not compensate for the increased financial risk to the hospital industry as it accepts more operational risk under APMs. The lost revenue associated with ACA repeal could well be counter-productive to the overarching goal of "bending the cost curve" in order to reduce the impact of the Medicare program on the federal deficit going forward. Moreover, CMS's Office of the Actuary has cautioned that ACA's reductions to hospitals on their own could create access issues for Medicare's beneficiaries.

[8] The one exception would be for new Medicaid enrollees who were currently eligible for Medicaid and gained coverage due to increased awareness and coordination between the Marketplaces and Medicaid (wood-work effect). We estimated 2 million individuals who enrolled prior to 2018 would continue to be eligible for Medicaid and would not be affected by repeal. Thus, our estimate is slightly below the CBO estimate.

To put the level of these reductions into historical perspective, the 1997 Balanced Budget Act, which included the largest reduction to date in Federal hospital payments levied a 5-year payment reduction on hospitals of 10.5 percent of expected payments.[9] Congress later reduced this amount through the Balanced Budget Refinement Act (BBRA) of 1999 and the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act (BIPA) of 2000 when it realized the BBA reductions were not sustainable. The impact of the reduction of coverage to the field from the repeal of the ACA, on top of other Medicare payment reductions that were embedded in the original Act, would be nearly 100 percent more than those in the BBA as a percent of projected Medicare hospital expenditures. This magnitude of reductions would threaten hospitals' ability to serve their patients and communities.

[9] The Lewin Group: Dobson A, et al. *The Balanced Budget Act and Hospitals: The Dollars and Cents of Medicare Payment Cuts.* May 10, 1999.