New Medicaid Initiative in Nebraska: The Rural Implications

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Background

The Affordable Care Act (ACA) contained a provision that expanded the Medicaid program to cover non-elderly individuals with income up to 133 percent of the federal poverty level. With a five percent income disregard[1] contained in the ACA provision, eligibility for the Medicaid expansion is actually 138 percent of the federal poverty level.[2]

Medicaid is the joint federal-state health insurance program that covers needy and low-income individuals, including children, people with disabilities, and the elderly. The newly Medicaid eligible would be primarily low-income working adults not currently eligible for Medicaid.

The ACA required states to implement this expansion of Medicaid or risk losing funding for the federal share of the current Medicaid program. In its June 28, 2012, ruling upholding the constitutionality of the ACA, the U.S. Supreme Court ruled that the new eligibility for Medicaid is, in fact, a new program and that the ACA Medicaid penalty was an unconstitutional infringement on state authority. States are thus given the option of accepting and implementing this new Medicaid initiative with the federal funding contribution outlined in the ACA.

Outcomes for Nebraska

On August 21, 2012, the Center for Health Policy at the University of Nebraska Medical Center (UNMC) released *Medicaid Expansion in Nebraska under the Affordable Care Act*.[3] Recently, two other studies have estimated the number of Nebraskans who would become new Medicaid enrollees under the new Medicaid initiative in the Affordable Care Act. Those estimates are outlined in the following table.

[1] A disregard is an amount of income, assets or expenses that does not count to decide eligibility. For various policy reasons, state Medicaid plans disregard select amounts of income or expenses for certain Medicaid eligible groups. The Affordable Care Act contains a 5 percent income disregard for the new Medicaid initiative.

[2] 138 percent of the 2012 federal poverty level translates to: $15,415 for a one person household; $20,879 for a household of two persons; and $31,809 for a household of four persons. By comparison, one full-time worker at the national minimum wage (currently $7.25 per hour) earns $15,080 per year.

[3] Stimpson JP. *Medicaid Expansion in Nebraska under the Affordable Care Act.* Omaha, NE: UNMC Center for Health Policy. 2012.

Source	Low Range	High Range
Center for Health Policy (UNMC) (2014-2020)	90,021	108,025
Urban Institute/Robert Wood Johnson (2014-2019)[4]	83,898	110,820
Milliman (2014-2020)[5]	107,903	145,297

Naturally, the findings of each study are based on certain assumptions. For example, the Milliman study includes children in its estimate (which the others do not and which appears to be inconsistent with the new Medicaid initiative in the Affordable Care Act that was the subject of the U.S. Supreme Court Ruling and the initiative the state must decide whether to implement). The Milliman study also assumes a higher participation rate than either of the other studies. The high range in the Milliman study assumes a 100 percent participation rate that has never occurred in a Nebraska public program. The UNMC report employs more recent data than the Urban Institute study, and both the Center for Health Policy and the Urban Institute studies adjust for population growth and economic factors such as unemployment; it is not clear if the Milliman study uses such adjustments in its estimates. For these reasons, we think it is fair to conclude that the study of Center for Health Policy at the University of Nebraska Medical Center uses a conservative approach and has developed a conservative estimate of the number of Nebraskans who would become new Medicaid enrollees under the new Medicaid initiative in the Affordable Care Act.

Each study also estimates state spending for the new Medicaid initiative. Those figures are outlined in the table below (dollar figures are in millions).

Source	Low Range	High Range
Center for Health Policy (UNMC) (2014-2020)	$140	$168
Urban Institute/Robert Wood Johnson (2014-2019)[4]	$106	$155
Milliman (2014-2020)[5]	$526	$766

The Urban Institute and UNMC estimates are similar, though the UNMC estimate is a slightly higher annual increase in Nebraska Medicaid spending. The significant difference in the Milliman estimate is due to that study including costs not associated with the population in the new Medicaid initiative.

The UNMC report also detailed the benefits and costs to Nebraska of taking up the option to implement the

[4]Genevieve M. Kenney, Stephen Zuckerman, Micheal Huntress, Victoria Lynch, Jennifer Haley and Nathanial Anderson. Urban Institute and Robert Wood Johnson Foundation. *Opting in to the Medicaid Expansion under the ACA: Who Are the Uninsured Adults Who Could Gain Health Insurance Coverage?* August 2012.

[5]Milliman. "Patient Protection and Affordable Care Act with House Reconciliation—Financial Analysis—Update." In letter to Vivianne Chaumont, Nebraska Department of Health and Human Services, letter dated November 10, 2010.

new Medicaid initiative. The summary of the report outlines its findings:

- The estimated revenue from the federal government coming to the State of Nebraska from the new Medicaid initiative ranges from $2.9 billion to $3.5 billion through 2020.
- Without the new Medicaid initiative, more than $1 billion in uncompensated care through 2019 would be incurred in Nebraska. With the new Medicaid initiative, health care providers would save at least $163 million and as much as $325 million from costs associated with uncompensated care.
- Spending by the federal government on the new Medicaid initiative would generate $700 million to $849 million in new economic activity every year in Nebraska, which could finance 10,770 to 13,044 jobs each year through 2020.

Implications for Rural Nebraska

Opting into the new Medicaid initiative in the ACA has considerable implications for rural Nebraska and rural Nebraskans. Those implications are outlined below.

- **Health Insurance Coverage.** Nationally, it is estimated that 20 percent of Medicaid recipients reside in rural areas.[6] However, in Nebraska that rate may be higher. In the most recent data available from the Nebraska Department of Health and Human Services, Medicaid average monthly eligible persons are split almost evenly between urban and rural counties.[7] Using that data and the UNMC report, between 45,000 and 54,000 uninsured rural adults would gain health insurance coverage under the ACA Medicaid expansion. Estimates from the Urban Institute and Milliman studies show between 42,000 and 72,000 rural Nebraskans would be new Medicaid enrollees.
- **Reduction in Health Insurance Hidden Tax.** It is estimated the average Nebraska family with health insurance coverage pays a "hidden tax" of $1,107 (based on 2008 data) to compensate for health care for the uninsured.[8] These costs for services to the uninsured are called "uncompensated care." The UNMC report finds $1.069 billion in uncompensated care for the uninsured would exist without the Medicaid expansion. If the state opts to implement the new ACA Medicaid initiative, uncompensated care would decline by 61 percent (to $419 million). That would reduce the "hidden

[6]See, for example, Pam Silberman, Stephanie Poley, Kerry James and Rebecca Slifkin. "Tracking Medicaid Managed Care in Rural Communities: A Fifty-State Follow-Up." *Health Affairs*, 2, no. 4 (2002): 255-263.

[7]Nebraska Health and Human Services System. 2007. *Nebraska Medicaid General Information: Fiscal Year 2006*. For the purposes of this report "urban" is considered Douglas, Lancaster and Sarpy Counties (and out-of-state Medicaid eligible persons), while "rural" is considered all other counties. Other reports using this same data consider "urban" as metropolitan counties and "rural" as non-metropolitan counties. But some Nebraska metropolitan counties are, in reality, quite rural for all practical purposes. So we choose to include them with other non-metropolitan counties.

[8] Kathleen Stoll and Kim Bailey. 2009. *Hidden Health Tax: Americans Pay a Premium.* Washington, DC: Families USA; "Hidden Health Tax for Family Health Coverage Climbed to $1,107 in 2008," Families USA, May 28, 2009.

tax" for each Nebraska family with health insurance by $620 per year, reducing each family health insurance premium by that amount. For rural families who rely on more expensive non-group or small group health insurance, these savings would be substantial.

- **Protection of the rural health system.** While those with health insurance ultimately pay the price for uncompensated care of the uninsured through higher insurance premiums, the initial burden is borne by health care providers. Medicaid is legitimately seen as an inadequate payor because of low reimbursement rates to rural health care providers. But a rural health insurance market that leaves more rural people without insurance or without adequate insurance also leaves rural providers without payment for the services provided to many of their patients. Medicaid payment rates may be insufficient but represent an important share of provider revenue.

  Rural hospitals in Nebraska are in need of the new Medicaid initiative. The Affordable Care Act also phases out the Medicaid Disproportionate Share (DSH) allotments to hospitals. DSH payments are meant to financially assist hospitals that treat a large number of low-income patients. Currently, Nebraska receives $29 million in Medicaid DSH payments annually.

  The ACA Medicaid expansion was meant to cover the uncompensated care costs of hospitals, making the DSH allotments unnecessary. Without the new Medicaid initiative, rural hospitals will be left with significant uncompensated care costs without a means to pay for them. In that scenario, many rural hospitals will be in dire financial circumstances.

  Physicians in rural areas receive almost 20 percent of their patient revenue from Medicaid.[9] Nationally, 56 percent of all rural physician income and 60 percent of all rural hospital cash flow is tied to Medicare and Medicaid, the major public health insurance programs.[10] Medicaid is also vital for the type of health care services that exist in rural areas. Medicaid is particularly important for long-term care providers. The most recent data show that Medicaid was responsible for 43 percent spent nationally on long-term care, making Medicaid the primary payer for long-term care services.[11] For the group receiving old age (65+) long-term care, Medicaid spends more per recipient than for any other group.[12] Nursing facility beds are more plentiful in rural areas, and a higher percentage of rural elderly are admitted to long-term care facilities.[13]

  With the high costs of long-term care many elderly eventually have no choice but to enroll in

[9] Rural Policy Research Institute. 2006. *Medicaid and Its Importance to Rural Health*. Columbia, Missouri: University of Missouri.

[10] Ziller, Erika C., Coburn, Andrew F. and Yousefian, Anush E. 2006. "Out-of-pocket Health Spending and the Rural Underinsured," *Health Affairs*, Vol. 25, No. 6, 1688-1699, 2006.

[11] Kaiser Commission on Medicaid and the Uninsured. *Medicaid and Long-Term Care Services and Supports*. June 2012.

[12] National Care Planning Council, "About Medicaid Long Term Care." http://www.longtermcarelink.net/eldercare/medicaid_long_term_care.htm, accessed September 7, 2012.

[13] Id.

Medicaid. Reducing the amount of uncompensated care borne by rural health care providers is critical to providing long-term care services to the rural elderly and in keeping rural health care facilities viable.

- **Rural economic development and jobs.** The UNMC report's conclusions on the economic impact of the new Medicaid initiative are important for rural communities. Because rural areas are disproportionately dependent on Medicaid, the economic effect in rural areas is likely a significant portion of the $701 million to $849 million annual economic impact found by UNMC. This economic impact also represents a significant return to the state on its estimated investment in the new Medicaid initiative. The UNMC report estimated state spending to range from $140 million to $168 million for the 2014-2020 period. The annual economic impact found by the UNMC report represents a $35 return for every dollar spent by the state.[14]

  The UNMC report also finds the new Medicaid initiative would finance 10,770 to 13,044 jobs per year. These jobs are important to rural communities, and the potential for job creation is vital for rural Nebraska. Nationally, "America's rural areas are considered critical health care hot spots these days due to a lack of physicians, other primary care providers including physician assistants, and health care workers in general who can staff the numerous community clinics that serve rural populations."[15]

  The health care workforce needs in rural Nebraska are much greater. In a 2009 report it was found:[16]

  - 51 of Nebraska's 93 counties are currently federally designated primary care Health Professional Shortage Areas (HPSAs).
  - 45 of Nebraska's 93 counties have some level of RN shortage.
  - 25 of Nebraska's counties are currently federally designated dental HPSAs.
  - All of Nebraska's counties, with the exception of Cass, Dodge, Douglas, Sarpy, and Washington counties, are federally designated mental health HPSAs.

  The Nebraska Office of Rural Health has also found 63 counties in the state—all rural—to be family practice shortage areas and 71 counties—all rural—to be entirely or partially general surgery shortage areas.[17]

  Clearly, rural Nebraska is in need of health care workforce development and the resources to make it happen. Nebraska's economic developers recognize the need, too. In a 2010 study commissioned by

[14] $35.04 on the low end estimate ($140 million state spending and $4,906,000,000 annual economic impact) and $35.38 on the high end estimate ($168 million state spending and $5,943,000,000 annual economic impact). All figures for the 2014-2020 period.

[15] "Health Care Workers Needed in Rural Areas." www.healthcarebuilder.com/blog. Accessed September 7, 2012.

[16] Mueller, Keith et al. 2009. *"A Critical Match": Nebraska's Health Workforce Planning Project*. Omaha, Nebraska: Nebraska Center for Rural Health Research. College of Public Health, University of Nebraska Medical Center.

[17] Nebraska Department of Health and Human Services, Office of Rural Health. State and Federal Shortage Areas. http://dhhs.ne.gov/publichealth/Pages/hew_orh_samaps.aspx.

the Nebraska Department of Economic Development health services was recognized as a "primary industry cluster" that the state should focus on growing.[18] The economic and employment impact of the new Medicaid initiative will allow Nebraska to meet its need for health care workforce growth throughout the state.

[18]Battelle Technology Partnership Practice. 2010. *Growing Jobs, Industries, and Talent: A Competitive Advantage Assessment and Strategy for Nebraska.*

ABOUT THE AUTHOR

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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.

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