The Impact of Medicaid Reform on Shelby County

The Supreme Court ruled in June that the new health reform law permits, rather than requires, states to reform their Medicaid programs to cover people with incomes up to 138 percent\(^1\) of the federal poverty level. Now, Tennessee must choose whether to reform Medicaid. Shelby County stands to benefit significantly from Medicaid reform, not just because more Shelby County residents will be covered by expanded Medicaid eligibility, but also because the reform will stimulate the county’s economy and create thousands of badly-needed jobs.

- Approximately 61,000 residents of Shelby County who currently lack health insurance would be eligible for Medicaid if the State reforms the program.\(^2\)

- The federal government will pick up all of the cost of Medicaid reform for the first three years (2014-2016). This will bring an estimated $352,254,439 federal dollars to Shelby County between 2014 and 2016 at no cost to the state.\(^3\) The federal government will continue to cover at least 90 percent of the cost of reform after that. This will bring over a billion additional federal dollars to Shelby County between 2014 and 2020, at a cost to the state of less than $50 million.

- As the medical hub of the mid-South, Shelby County stands to reap significant economic benefits from Medicaid reform. The additional federal and state funding for Medicaid reform will increase incomes for all types of health care service providers, including hospitals and their employees, doctors and nurses, nursing homes, and medical suppliers. Health care providers and businesses will spend large portions of their revenues and salaries at businesses in Shelby County. As a result, Medicaid expansion will create thousands of jobs in Shelby County.\(^4\)

- The 11 acute-care, general hospitals in Shelby County provided $822 million in uncompensated care in 2009.\(^5\) Most of these hospitals now receive subsidies known as disproportionate share hospital (DSH) payments to offset the costs of providing this uncompensated care to people without insurance. These subsidies will be reduced under the Affordable Care Act. In a world where almost everybody had insurance, as envisioned by the law, hospitals could afford to take those cuts. If hospitals lose those payments, and the loss is not made up by the reform of Medicaid, many hospitals will not be viable and will close, taking jobs with them. Moreover, providers will pass along some of the costs of uncompensated care to their insured patients, driving up premiums for everyone.

- The ACA does not require businesses to provide health insurance to their workers. Starting in 2014, however, employers with at least 50 full-time employees\(^6\) will face tax penalties if they do not offer affordable insurance to their employees and one or more full-time employees receive a premium tax credit on the “exchange.” The ACA was designed with the expectation that employers would not face penalties for declining to offer health coverage to low-wage workers because these workers would be covered by Medicaid. The Supreme Court decision has undermined this design, allowing states to choose whether to reform their Medicaid programs. If Tennessee does not reform its Medicaid program as anticipated, many large employers in Shelby County will face substantial tax penalties.
The health reform law provides for expansion of Medicaid eligibility to individuals up to 133 percent of the federal poverty level (FPL), but also includes a standard 5 percent deduction from income, raising the effective eligibility floor to 138 percent of the FPL.

Shelby County population data are derived from the United States Census Bureau’s Small Area Health Insurance Estimates, available at http://www.census.gov/did/www/sahie/data/interactive/.

Note on method: The increase in Medicaid spending as a result of expansion is calculated by multiplying the number of newly eligible individuals expected to enroll in the program by the average annual cost per enrollee. While approximately 61,000 residents of Shelby County would be eligible for the expanded program, not all of them will enroll. Participation rates assumed in this analysis are 45% in 2014, 75% in 2015, and 95% thereafter. See Office of the Actuary, Centers for Medicare and Medicaid Services (CMS), 2011 Actuarial Report on the Financial Outlook for Medicaid, at 31, available at https://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/downloads/MedicaidReport2011.pdf. The Bureau of TennCare uses $3656.39 as the average annual cost per enrollee for pharmacy, MCO and dental services. See TennCare Quarterly Report, July 13, 2012, at 12 n. 14, available at http://www.tn.gov/tenncare/forms/leg0712.pdf. According to the CMS Office of the Actuary, however, the per enrollee costs of new enrollees who were formerly uninsured and are without other forms of insurance are estimated to be about 70 percent of those for current beneficiaries enrolled for the entire year by eligibility group. 2011 Actuarial Report on the Financial Outlook for Medicaid, at 32.

Cyril Chang, John Guschke, et al., “Impacts of Health Reform on Shelby County, Tennessee,” at 26, The Methodist Le Bonheur Center for Healthcare Economics and Sparks Bureau of Business and Economic Research (December 2010). This study estimates the impact of the entire Affordable Care Act on Shelby County in 2014, as opposed to the Medicaid expansion alone.

“Full-time employees” are non-seasonal employees working 30 or more hours per week. The hours worked by part-time employees are included in the calculation of a large employer, on a monthly basis, by taking their total number of monthly hours worked divided by 120.