The Impact of Health Care Reform and Medicaid Expansion in Rural Pennsylvania

Testimony Provided to the Pennsylvania House of Representatives' Human Services Committee

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Dear Chairman DiGirolamo, Chairman Cruz, and members of the Human Services Committee,

Thank you for the opportunity to provide this testimony of the impact on rural Pennsylvania of health care reform, changes to the Patient Protection and Affordable Care Act (ACA), and modifications to funding to the Medicaid program. My name Lisa Davis and I am the Director of the Pennsylvania Office of Rural Health and Outreach Associate Professor of Health Policy and Administration at Penn State. The Pennsylvania Office of Rural Health is one of 50 state offices of rural health in the nation dedicated to ensuring access to high quality, affordable health care services in rural areas and to enhancing the health status of rural residents. Since our inception in 1992, we have focused our efforts on increasing access to health care providers across the state and to assuring that mechanisms are in place to support rural residents' access to care. Our office is located at the Penn State University Park campus. I work closely with the state's small rural hospitals, most specifically the 15 Critical Access Hospitals that serve the most geographically isolated areas of the state and some of the most vulnerable populations.

My office appreciates the focus on today's hearing and also appreciates the interest in the health care needs of rural Pennsylvanians.

1. Introduction To Rural Pennsylvania

As you may know, according to the 2010 U.S. Census, Pennsylvania boasts the third largest rural population in the United States; approximately 3.5 million of the state's 12.7 million residents (about 27 percent) live in rural communities (Center for Rural Pennsylvania, 2014a; Forrest & Lin, 2010). Pennsylvania's rural population grew two percent between 2000 and 2010 and is expected to increase another three percent, to approximately 3.57 million people, by 2030 (Center for Rural Pennsylvania, 2014a). Projections indicate that Pennsylvania's total population over the next two decades will remain fairly stagnant. By 2030, Pennsylvania's total population is expected to increase 0.5 percent to approximately 12.77 million people (Pennsylvania Department of Aging, 2015).

Pennsylvanians living in rural communities are more likely to have unmet heath needs and have poorer access to health care than those in urban communities. A 2012 report from the Pennsylvania Department of Health found that individuals living in rural communities had higher rates for cancer, obesity, heart disease, and diabetes (Henry J. Kaiser Family Foundation, 2015a).

Pennsylvania's rural residents are, on average, older than their urban counterparts. According to the 2010-2014 American Community Survey, 17.6 percent of Pennsylvania's rural population is 65 years old and older compared to 14.5 percent of its urban population (Center for Rural Pennsylvania, 2015a). The rate at which rural Pennsylvania is getting older is greater as well; the number of rural seniors increased by five percent between 2000 and 2010, while the number of urban seniors increased by one percent (Center for Rural Pennsylvania, 2014a).

Improved medical care and prevention efforts have contributed to dramatic increases in life expectancy in the United States over the past century. They also have produced a major shift in the leading causes of death for all age groups, including older adults, from infectious diseases and acute illnesses to chronic diseases and degenerative illnesses. For a variety of reasons, older

adults may experience the effects of health disparities more dramatically and for longer periods than any other population group (Centers for Disease Control and Prevention and Merck Company Foundation, 2007). This will have a significant influence on the health status of rural residents of Pennsylvania age 65 and over.

The income level of rural Pennsylvanians is lower and the poverty rate in rural Pennsylvania is higher than it is among urban residents of the state (Center for Rural Pennsylvania, personal communication, June 9, 2017). The economic status of rural Pennsylvanians impacts their health status. Rural Pennsylvanians are more likely to defer care and suffer from more acute and chronic health conditions due to higher out-of-pocket costs and a reduced ability to pay for care.

Demographic, geographic, economic, and quality-of-life issues unique to rural areas can have a significant impact on the health status of rural Pennsylvanians. For example, mountainous terrain and winding roads create issues for rural health systems. Ready access to referral facilities and ambulance transportation is critical, but become especially significant when ice and snow make driving hazardous. Travel time to health care providers is generally longer in rural areas. Unlike the public transit systems that serve urban communities, public transportation is either sporadic or non-existent in rural Pennsylvania (Pennsylvania Rural Health Association, 2017).

Approximately 42 acute care hospitals are located in rural Pennsylvania and of those, 15 are federally designated as Critical Access Hospitals. To be eligible for this designation, a hospital must have 25 or fewer beds, maintain an annual average length of stay of 96 hours or less for acute care patients, and provide 24/7 emergency care services. These hospitals serve a high proportion of Medicare and Medicaid patients and also provide high rates of uncompensated care.

2. Impact of the ACA and Medicaid Expansion in Rural Pennsylvania

As a result of Medicaid expansion, more than 700,000 Pennsylvanians gained coverage, many of whom suffer from significant chronic conditions. During a recent period, approximately a third of Medicaid expansion enrollees were diagnosed with and treated for substance use and/or mental health illnesses (Pennsylvania Department of Human Services, 2017). Medicaid enrollment in five rural counties: Armstrong, Bedford, Cameron, Fayette, and Forest, increased by at least 10 percent. Only two other counties, both urban, had similar results: Delaware and Philadelphia (Transforming Health, 2017). According to data provided by the Center for Rural Pennsylvania, the percent of the state's rural residents enrolled in Medicaid rose from 16.3 percent in April 2009 to 18.9 percent in 2015. During the two years since Medicaid expansion, the enrollment rate increased to 21.6 percent for a total percentage increase of more than 16 percent. During that same eight-year time period, the total percentage increase in urban areas increased by less than seven percent (Center for Rural Pennsylvania, personal communication, June 9, 2017). With Medicaid expansion, the uninsured rate in Pennsylvania has dropped from 10.2 to 6.4 percent, representing a reduction of the uninsured by nearly 40 percent (Office of Pennsylvania Governor Wolf, 2016).

In 2016, three percent of the state's rural residents enrolled in health insurance plans through the

ACA. Eighty (80) percent of those who enrolled were eligible for the Advanced Premium Tax Credit (APTC) and nearly 53 percent were eligible for the Cost-Sharing Reduction (CSR). The percentage of eligibility for the APTC and CSR in rural Pennsylvania exceeded that of urban areas (Center for Rural Pennsylvania, personal communication, June 9, 2017).

One significant benefit of Medicaid expansion and the ACA in the state has been realized by the 15 Critical Access Hospitals. Hospitals with this designation receive 101 percent reimbursement for the inpatient and outpatient services they provide to Medicare beneficiaries. In many states, the Medicaid program also provides that level of reimbursement at the time services are provided. In Pennsylvania, Critical Access Hospitals receive a supplemental payment from the Medicaid program in the following year, based on cost reports submitted to the Pennsylvania Department of Human Services. That payment fills the shortfall between the paid and full reimbursement. Historically, annual payments to the state's Critical Access Hospitals have totaled approximately $15 million and can mean the difference between financial solvency and collapse. This year, due to the increases in Medicaid coverage, that amount increased to $21 million. Not only does this supplemental funding provide additional revenue for the hospitals but has other benefits as well in lower numbers of uninsured patients, and as a result, a reduction in total uncompensated care provided, which in turn can lower the cost of insurance for employers.

3. Impact of the American Health Care Act (AHCA) on Pennsylvania

Changes to the proposed American Health Care Act (AHCA) are necessary to protect Pennsylvania citizens who would be disproportionately affected by the current bill, as well as the Pennsylvania economy and state budget which could be devastated by the abrupt loss of Medicaid funding included in the existing version of the bill. It is critical that any changes to the ACA maintain coverage for low-income Pennsylvanians, and protect Medicaid from harmful structural changes. It also is critical that leadership in Pennsylvania have a comprehensive knowledge of how the AHCA will impact the state and work collaboratively with our federal elected officials to ensure that the health care needs of the state's residents are met.

The AHCA proposes to phase out enhanced funding for Medicaid expansion beginning in 2020. The Pennsylvania Department of Human Services has estimated that this funding reduction would create a $2.5–$3 billion annual funding gap, a crippling blow on top of the state's $3 billion structural deficit (Office of Pennsylvania Governor Wolf, 2017). The abrupt funding cliff would force deep cuts to services, and could end Medicaid expansion in the state. Because of the cost effectiveness of Medicaid in providing care for low-income Pennsylvanians, as well as the importance of Medicaid's role in providing services for people with disabilities, mental illness and/or substance use disorders (such as opioid use disorder), ongoing enhanced federal support is critical.

The financial assistance in the bill passed by the U.S. House of Representatives is not adequate for very low-income consumers. In addition, due to the increase in the age rating band (from 3:1 to 5:1 or higher) in the House bill, people aged 50 to 64 will likely see the largest price increases under the AHCA (Henry J. Kaiser Family Foundation, 2017d). Adequate subsidies must be established to ensure that low-income individuals can reasonably afford insurance.

A higher proportion of rural vs. urban residents are covered by Medicaid. For rural hospitals, Medicaid accounts for 15 percent of gross revenues (Henry J. Kaiser Family Foundation, 2017a). Restructuring Medicaid with reduced federal funding will force states to prioritize the needs of vulnerable populations, including children, individuals with disabilities, pregnant women, and older adults. In lieu of per capita caps, the U.S. Senate bill should focus on incentivizing states to continue to move away from fee-for-service and implement managed care models and value-based payment reforms, as well as provide additional flexibility to allow states to innovate within their Medicaid programs. These reforms can help to address the underlying causes of escalating cost increases.

The AHCA has the potential to erode consumer protections and fundamental health services. For example, state waivers of the essential health benefit standards may reduce the price of premiums, but only because health plans would cover fewer services. Proposed waivers to the community rating rules for health status could price many consumers out of the market. While insurers may be required to sell coverage, the cost of that coverage would likely be unaffordable. It is hoped that the bill proposed by the U.S. Senate will maintain appropriate consumer protections, including protections that benefit children and young adults covered by private insurance.

Pennsylvania ranks 5th in the country in the percent of its population in the "old-old" category (i.e., people aged 85 and older) (U.S. Census Bureau, 2015) and seniors in this age cohort incur average Medicaid costs more than 2.5 times higher than younger seniors (Henry J. Kaiser Family Foundation, 2017c). In 2015, 2.6 percent of the population (or 333,828 residents) were considered to be "old-old" (Center for Rural Pennsylvania, personal communication, June 9, 2017). According to population projections reported by the Center for Rural Pennsylvania, that age cohort will reach 4.3 percent of the population (or nearly 610,000 people) by 2040 (personal communication, May 31, 2017). As a result, the current Medicaid per capita financing approach would severely underfund Pennsylvania's Medicaid program as more seniors transition to the "old-old" category over time.

The proposed tax credits to purchase health insurance represent an enormous decrease to existing ACA subsidies, especially for older Pennsylvanians. For example, a sixty-year old Pennsylvanian with an income of $30,000 would be responsible for $10,280 more annually for health insurance under the AHCA. This would have a disproportionate impact on Pennsylvania, due to its aging population and could result in higher numbers of under-insured patients (Henry J. Kaiser Family Foundation, 2017d.)

Despite the fact that a great majority of Pennsylvanians (nearly 75 percent of the population, or 9 million people) reside in counties with fewer than three exchange plans (Henry J. Kaiser Family Foundation 2015b)., Pennsylvania would receive less Patient and State Stability Fund resources on a per-member per month basis than the national average.

The lack of insurance plan competition in rural markets; high premiums, deductibles and co-pays; and Medicare cuts have exacerbated health care access and coverage challenges in rural America. Across the country, rural residents' average per monthly cost for health insurance

exceeds urban ($569.34 for small town rural vs. $415.85 for metropolitan areas) and as market competition decreases, these costs will rise further (National Rural Health Association, personal communication, May 31, 2017).

Across the country, 80 rural hospitals have closed since 2010 and several hospitals in rural Pennsylvania are at financial risk. Across the country, additional closures would result in 11.7 million patients losing access to their local emergency room; 99,000 direct health care jobs will be lost in rural communities; and $277 billion in GDP to rural communities will be lost, exacerbating rural America's economic decline (National Rural Health Association, personal communication, May 31, 2017). While those are national estimates, they reflect the impact of Medicaid and insurance changes in our state.

4. Recommendations

In light of the importance of expanded Medicaid coverage to the newly eligible population, as well as the positive impact on the state economy, provider community, and those they serve, the following recommendations have been offered by provider organizations in the state and by national rural policy advocates.

- Medicaid expansion should not be eliminated without simultaneously providing similar coverage options.

- Proposed changes to the Medicaid financing model using a per capita approach should be removed from the AHCA or any other proposed health care reform bills.

- Fundamental changes to Medicaid that potentially would reduce coverage, decrease access to care, and shrink provider reimbursement rates should not be made.

- Health care reform must protect the rural safety net by providing an option to states to receive an enhanced reimbursement to account for the cost of providing care in a rural area. This will help maintain access to care for rural communities by limiting the loss to the hospital of providing care to the most vulnerable patients.

- Profitable insurance companies should be required to provide services in rural and underserved communities. Health care reform must address the fact that insurance providers are withdrawing from rural markets. This is especially concerning since rural Pennsylvanians are more likely to need to purchase insurance on the individual market. Despite record profit levels, insurance companies are permitted to choose profitable markets for participation and are currently not mandated to provide service to rural populations.

- It is essential that the state and federal governments work together to ensure continuation of health care coverage for this population and that Medicaid is protected from harmful changes. Changes to the ACA are necessary to sustain affordable health coverage, enhance access to care, and control costs. Medicaid expansion, as included in the ACA, has expanded access to care to more than 700,000 Pennsylvanians, and improved their quality of life and financial security.

In summary, Medicaid expansion and the ACA have provided significant benefits to rural health care providers and to rural residents. Medicaid expansion is of high importance to rural populations in Pennsylvania and should not be eliminated without providing similar coverage options. Proposed changes to the Medicaid financing model using a per capita approach should be eliminated from the AHCA or any other proposed health care reform bill. Fundamental changes to Medicaid that have the potential to reduce coverage, decrease access to care, and shrink provider reimbursement rates should not be made. Health care reform also must protect the rural safety net by providing an option for states to receive an enhanced reimbursement to account for the cost of providing care in a rural area. This will limit loss to the hospital of providing care to vulnerable patients. Lastly, it is necessary for health care reform to address the fact that insurance providers are withdrawing from rural markets. With low market competition, the average cost of health care for rural Americans remains high. Profitable insurance companies should be required to provide services in rural and underserved communities.

Thank you for your service to our state and for your thoughtful consideration of these comments. It has been an honor and a privilege to participate in this hearing and to provide this testimony on behalf of rural Pennsylvanians. The Pennsylvania Office of Rural Health is proud to represent the needs of rural Pennsylvanians and those who provide high quality health care. We stand ready to assist you and the other members of the Pennsylvania General Assembly on designing a health care system that best serves the Commonwealth. I will be pleased to answer any questions you may have. Thank you.

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