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Moody's: Affordable Care Act's Medicaid Expansion Linked with Decline in U.S. Hospitals' Bad Debt.

New York, June 03, 2015 — Unpaid bills — better known as “bad debt” — at US non-profit hospitals declined in states that expanded Medicaid during 2014, Moody’s Investors Service says in “Medicaid Expansion Linked to Lower Bad Debt Amid Improving Hospital Financials.”

The hospitals in 29 states and Washington, D.C. that expanded Medicaid experienced an average reduction in bad debt of 13%. The expense reduction was over 40% in some cases. Concurrently, these hospitals in Medicaid expansion states benefited from declines in charity care, where charges are voluntarily waived for medical care.

In contrast, hospitals in non-expansion states saw bad debt increase through much of the year before dropping slightly in the fourth quarter, and the payor mix was largely unchanged as compared to 2013.

“Bad debt represented only 4.8% of median hospital revenue in 2013 in Medicaid expansion states, so big drops in bad debt do not necessarily lead to big improvements in operating performance,” author of the report and Moody’s VP — Senior Analyst Daniel Steingart says.

During 2014, hospitals in Medicaid expansion states saw bad debt expense sharply decrease by the end of the year, Moody’s says, following increases in the first quarter where there was volatility in the roll out of healthcare exchanges.

However, the report notes that other factors like macroeconomic conditions and an industry-wide push by non-profit hospitals to cut expenses and productivity also had a positive impact on the sector’s overall financial improvement. In fact, financial performance in the sector improved nationwide and the Medicaid expansion states did not outperform hospitals in non-expansion states.

Moody’s says the decline in bad debt is credit positive, but hospitals in the expansion states have not comprehensively shifted this lessened exposure into higher cash flow, or materially better financial results than non-expansion states.

“A reduction in bad debt will not result in stronger margins by itself. Other factors, particularly the overall economic environment and hospitals’ ability to control other expenses, has a larger impact on financial performance,” Steingart says.

The report is available to Moody’s subscribers here.