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Fitch: End of Continuous Medicaid Enrollment Negative for NFP Hospitals

Fitch Ratings-New York-12 April 2023: The expiration of the Medicaid continuous enrollment provision will be mildly dilutive to not-for-profit (NFP) hospitals' payor mixes and add to operating pressures, Fitch Ratings says. Revenue erosion could be particularly acute for hospitals with higher Medicaid patient levels and could affect credit quality over time.

States recently began shedding Medicaid rolls following the expiration of automatic enrollment on March 31. The Department of Health and Human Services (DHHS) estimates that up to 15 million people, or 17.4% of current beneficiaries, could lose coverage over the next twelve months, either due to loss of eligibility or administrative hurdles despite still being eligible. Increased administrative churn with renewed eligibility determination following the hiatus of the last three years will result in some losing coverage temporarily until they reenroll or secure other health insurance.

An increase in the uninsured population would be an additional negative factor weighing on hospital operations, further constricting margins that have been pressured over the last year as a result of increased expenses due to higher labor costs and generationally elevated inflation. Liquidity remains generally robust, providing a significant cushion to allow hospitals to manage higher costs, but market volatility has reduced unrestricted liquidity levels from sector highs in 2021, and deteriorating operating conditions will be felt more acutely in 2023 as a result.

We anticipate that there will be a renewed credit divide among hospitals with the reduction in Medicaid coverage. The number of those who become uninsured will vary by state and depend upon Medicaid policies, enrollment outreach and individual healthcare options. Hospitals in the 10 states that have not expanded Medicaid under the Affordable Care Act (ACA) may see heighted pressures with their uninsured population. Hospitals that are true safety net hospitals, with Medicaid and self-pay composing more than 30% of their payor base, are also likely to see greater revenue erosion. Hospitals with a greater percentage of Medicaid patients tend to have thinner margins, and an increase in uninsured patients would disproportionally pressure operating results.

Continuous enrollment has been supportive of NFP hospitals by reducing the uninsured population. Medicaid enrollment grew significantly compared with pre-pandemic enrollment, adding 15.5 million people between February 2020 and December 2021, with the uninsured rate dropping to a historic low of 8%, according to DHHS. Hospitals received reimbursement for patients that would otherwise likely have fallen under charity care (no reimbursement). The program also eased the administrative burden of hospitals having to facilitate Medicaid enrollment for some patients.

The Families First Coronavirus Response Act instituted continuous Medicaid enrollment at the height of COVID-19 and tied it to higher Medicaid rates the federal government paid to states during the public health emergency (PHE). States were not permitted to drop existing Medicaid enrollees who might become ineligible while receiving the enhanced federal medical assistance percentage (FMAP). The Consolidated Appropriations Act, 2023, de-linked continuous enrollment from the PHE, and enhanced federal Medicaid funds will be phased out between April 1 and Dec. 31, 2023.

States are subject to outreach and reporting requirements as they determine who is still eligible while they continue to receive enhanced FMAP. States will have 12 months to determine current eligibility and two additional months to complete outstanding actions.