

# **Impacts of Health Reform in Shelby County, Tennessee**

**An Examination of Changes in Health Insurance  
Coverage, Use of Health Care Resources, and the  
Economic Contribution of Health Care**

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### **Methodist Le Bonheur Center for Healthcare Economics**

Cyril Chang, Ph.D., Director

Rebecca Pope, M.S., Research Associate

### **Sparks Bureau of Business and Economic Research**

John Gnuschke, Ph.D., Director

David Mirvis, M.D., Consultant

Jeffrey Wallace, Ph.D., Senior Economist

Jay Walker, M.B.A., Research Associate

Ioana Sofi a Pacurar, M.S., Research Associate

## MAJOR POINTS

The Patient Protection and Affordable Care Act (PPACA), enacted into law in March 2010, will have substantial direct and indirect impacts on the health care enterprise of Shelby County, Tennessee. Based upon 2008 information, 145,434 residents of Shelby County are uninsured. The most prominent changes will include:

- *expanding health insurance coverage to 74,234 nonelderly County residents who are currently uninsured through eligibility expansions for private insurance and Medicaid and the creation of an expanded competitive market through health insurance exchanges, which will reduce the proportion of the County's nonelderly residents without health insurance from 17.9 percent to 8.7 percent;*
- *changing the volume, sites, and payer mix of health care services used in the County, with substantial increase in the number of ambulatory care visits, a modest reduction in emergency room visits, and significant change in the payer mix of hospital admissions with increases in publicly- and privately-insured cases and a reduction in uninsured admissions;*
- *reducing the amount of uncompensated care and bad debt provided by hospitals, community-based providers, and physicians from \$1.3 billion to \$655 million, a 51.0 percent decrease; and*
- *increasing the funding Shelby County will receive in 2014 from state and federal governments by \$198.6 million, with a subsequent increase of \$451.3 million in economic output, \$160.8 million in additional earnings, and 3,480 additional jobs.*

These changes, while generally promoting more effective and efficient health care in the County, will present challenges. These include:

- *the continuing need for and the challenges to the current safety-net services for the 71,200 nonelderly Shelby County residents who will remain uninsured;*
- *the need for continuing support for substantial uncompensated care, especially as private and public payment rates, including disproportionate share funds, are reduced;*
- *the need for additional health care manpower, especially primary care providers, to meet the increased demand for ambulatory care services; and*
- *the increase in state funding for Medicaid services as the number of enrollees increases as a result of eligibility expansion as well as substantial crowd-out of private coverage.*

## EXECUTIVE SUMMARY

The Patient Protection and Affordable Care Act (PPACA) enacted in March 2010 defines a comprehensive health care reform that, once fully implemented, will impact virtually every portion of the health care system. It is the purpose of this report to analyze and summarize the impacts of this reform on the health care enterprise of Shelby County, Tennessee. The major goals of the study were to assess (1) the impact of changes in insurance eligibility on the number of uninsured in Shelby County; (2) the changes in health care utilization in the County that result from the expanded insurance coverage; (3) the impact of expanded coverage on the County's health system financing and uncompensated care; and (4) the economic impact of reform on the overall economy of Shelby County.

**Health Insurance Expansion.** Based upon an analysis of the 2008 American Community Survey, we estimate that 145,434 nonelderly residents of Shelby County under the age of 65 were uninsured in 2008, corresponding to 17.9 percent of the County population. Of those with insurance, one third had public (predominantly TennCare) and two-thirds had private (individual or group) coverage.

Of these, we estimate that approximately 74,234 additional nonelderly residents of Shelby County—51.0 percent of the previously uninsured—will gain health insurance because of (1) the changes in young adult eligibility to assure that young adults up the age of 26 can remain on their parents' health insurance policies (1,717 persons); (2) the expansion of Medicaid to cover all residents with incomes under 133.0 percent of the Federal Poverty Level (37,159 persons); and (3) the implementation of insurance exchanges to provide a competitive private insurance market with subsidies for lower income persons (35,358 persons).

While this increase is substantial, there will remain an estimated 71,200 nonelderly residents without insurance after these three interventions are implemented. This represents 8.7 percent of the nonelderly population and 49.0 percent of the previously uninsured. Thus, the challenges presented to and by the uninsured will be reduced but not eliminated as a result of these three reforms. The need for safety-net programs will remain although the smaller number of residents dependent upon these programs may make public political support more tenuous. In addition, the substantial increase in Medicaid enrollees resulting directly from eligibility expansion as well as significant crowd-out of private coverage will have significant impact on state financing of health care at a time during which states, including Tennessee, are reducing health care funding to meet financial challenges. Greater reliance on Medicaid will also place limits on access to care, as Medicaid beneficiaries have substantial barriers to access compared to those with private coverage.

**Increases in Health Care Service Utilization.** The increase in the number of County residents who have health insurance will change the utilization of ambulatory care, hospital, and emergency room services. Providing insurance to 74,234 additional residents will lead to over 145,000 more ambulatory care visits per year, with the greatest increase in visits for primary care (84,548 visits) and a small decline in hospital outpatient visits (742 visits).

The increases in outpatient care will require additional primary care manpower. Parts of Shelby County are currently considered primary care shortage areas. Increasing the number of primary care visits by 84,548 per year will require an additional 23.5 full-time primary care physicians at a time when fewer new physicians are choosing careers in primary care.

Insurance expansion is also projected to cause a small reduction in both the number of hospital discharges (-0.6 percent) and in total bed days of care (-1.5 percent). The payer mix will change, with

greater proportions of discharges and inpatient days of care from Medicaid and privately insured persons and a substantial decline from the uninsured.

The implications of the projected change in hospital payer mix are also significant and will vary from facility to facility. The impact on the Regional Medical Center (The MED) may be very substantial; as half or more of the patients with uninsured admissions to the MED become insured, many will have the option of seeking care in other non-safety-net community hospitals, reducing the total volume of admissions but increasing the proportion of those remaining who are uninsured.

Overall emergency department (ED) use is projected to fall by 12.0 percent, driven by a reduction in the number of uninsured with high utilization rates. Little change is expected in the proportion of ED visits that are emergent.

**Health System Finances and Uncompensated Care.** In 2008, the acute care hospitals in Shelby County provided \$784.7 million in uncompensated hospital services, of which 95.5 percent was for the uninsured. Community-based clinics and office-based physicians in Shelby County provided an additional \$337 million and \$180 million in uncompensated care, respectively. Thus, the total level of uncompensated care in the County in 2008 was approximately \$1.33 billion.

Uncompensated care for all provider groups will decrease substantially after expansion of health insurance coverage. Overall levels of uncompensated care will decline by \$671 million, or 51.0 percent. Bad debt from insured patients will rise modestly (by approximately 8.0 percent), reflecting the greater number of patients with insurance.

The impact of reform on hospital and physician finances will be complex, depending upon the relative impacts of reducing the demand for free or discounted care and the projected payment reductions. Overall hospital charges may fall by over \$120 million (reflecting the lower charge per admission for the newly insured than for the previously uninsured plus the modest decline in the number of admissions), whereas actual revenues will increase by over \$55 million (reflecting the greater collection rate for those who become insured, whether covered by private insurance or Medicaid, than that for when they were uninsured).

The overall level of uncompensated care in Shelby County will, however, remain substantial—over \$650 million. The financial significance of this may become more important as payment rates by insurers decline and as Medicaid and Medicare disproportionate share (DSH) funding is withdrawn.

**Economic Impacts.** Under PPACA, health expenditures in Shelby County are expected to increase by \$186.8 million (1.8 percent) in 2010 and by \$387.7 million (3.0 percent) in 2014. The additional \$92.3 million in state and federal spending in Shelby County due to PPACA-related changes is estimated to generate a total of \$209.8 million in output (the value of goods and services produced as a result of and including the initial spending of the \$92.3 million), \$74.8 million in additional earnings, and 1,829 additional jobs. In 2014, the additional \$198.6 million in state and federal spending in Shelby County due to PPACA-related changes is expected to generate a total of \$451.3 million in output (the value of goods and services produced as a result of and including the initial spending of the \$198.6 million), \$160.8 million in additional earnings, and 3,480 additional jobs.

The 2010 Patient Protection and Affordable Care Act (PPACA) is filled with a complex array of health care reforms that impact the nation. Confusion surrounding PPACA has only increased as a result of the November 2010 elections. The probability of substantial changes to the Act is highly correlated to

the changing political environment in Washington and with the outcomes of pending legal challenges. Thus, determining, with any degree of accuracy, the impact of PPACA on the nation, the state, or Shelby County is at best a speculative process. Given these disclaimers and many more that cannot be determined, this report has attempted to estimate the impact of the new law on the number of uninsured in the County, the utilization of health care resources, the health care finances in the County, and the impact of changes in health care financing on the overall economy.