Should North Carolina Expand Medicaid Next Year?

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Rather than consider Medicaid expansion during the lame duck session, Republican leadership in North Carolina has decided to take up the issue in the new General Assembly next year. Their best option in 2023 would be to reject the expansion while adopting two other reforms that were in this year's house bill.

A bill introduced this session proposed both paring back certificate of need (CON) requirements that oblige operators to obtain state permission before adding new facilities and expanding the services that advanced practice nurses can offer. Both reforms would increase the availability of health care services and should lower costs.

CON laws create an additional hurdle for medical providers hoping to add beds, diagnostic equipment, and other facilities. When regulators choose not to issue certificates, they constrain the availability of medical services. This session's bill would have eliminated the CON process for psychiatric beds, MRI equipment, and a few other categories.

But it could have gone further: twelve states, including California and Texas do not have any Certificate of Need requirements. While Florida still has a CON law, the state legislature exempted hospitals from CON review in 2019.

The bill would have also allowed nurse practitioners, nurse midwives, clinical nurse specialists, and nurse anesthetists to prescribe and dispense drugs and order tests and treatments in hospitals without having to consult a physician. This reform would allow North Carolina to join the 25 states that permit nurse practitioners to work independently. Because these professionals typically charge less and spend more time with patients, freeing them from restrictions should reduce costs while increasing patient satisfaction without harming quality.

Although the bill included promising reforms, they would have come at the cost of adding over 600,000 new beneficiaries to North Carolina's Medicaid rolls over the long term.

Further, expansion would increase demand for unnecessary visits to healthcare providers, driving up costs for other patients and triggering a shortage of practitioner time – especially if the scope of practice reform is not included. According to the John Locke Foundation, "The majority of those eligible under expansion would be able-bodied, childless working-age adults."

The Foundation also noted that under expansion, "these people would be competing for scarce medical care, and will often crowd out access to care for the traditional Medicaid population, which includes poor children, pregnant mothers, and those with certain disabilities."

Costs of expansion may exceed budget projections especially over the long term. According to the Foundation for Government Accountability, costs per expansion beneficiary were $2,100 higher than the Department of Health and Human Services had forecast six years earlier. Also, more individuals enrolled than originally expected, a dynamic exacerbated by a federal law restricting states' ability to disenroll beneficiaries during the COVID-19 pandemic.

Although expansion proponents correctly observe that the federal government will pick up 90% of the expansion costs, it is worth noting that North Carolina state taxpayers are also federal taxpayers. According to IRS' Statistics of Income, North Carolina residents were responsible for 2.4% of federal income tax liabilities in 2019.

Expansion will also add to budget volatility. During recessions more people will join the program just as state tax revenues are declining.

In fact, the main beneficiaries of Medicaid expansion are hospitals. They are ethically obligated to provide care to uninsured patients, so the question is not whether an individual eligible for Medicaid expansion should receive needed in-patient treatment but who will pay for it.

Hospitals have traditionally provided charity care to those who could not afford their services, and they have the financial wherewithal to do so. In North Carolina, large hospital systems are quite profitable. Even though some hospitals are "non-profit," the difference between revenues and expenses is typically positive and often quite large.

According to a study published by the State Health Plan, North Carolina's top seven not-for-profit hospital systems reported net revenues totaling $5.2 billion in 2021. One major, for-profit hospital operator, HCA, has hospitals in North Carolina and several other states. In 2021, HCA reported Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) of over $3.1 billion.

In addition to retaining those earnings, some hospital groups offer generous executive compensation. Charlotte's Atrium Health had five executives who each received total compensation in excess of $2 million in 2021, including the organization's CEO who received nearly $8 million.

Hospitals that encounter challenges providing charity care could consider adjusting executive compensation rather than further burdening federal and state taxpayers. Deregulating hospital and clinician markets would allow hospitals to provide charitable care at a lower cost.

North Carolina legislators can assist the state's hospitals by freeing them from regulatory barriers to adding new facilities through CON reform. They should not provide an additional, unneeded subsidy by expanding Medicaid.

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