

# Economic Impact of Medicaid Expansion on Idaho

Zeynep K. Hansen, PhD

Don Holley, PhD

Geoffrey Black, PhD

# Medicaid

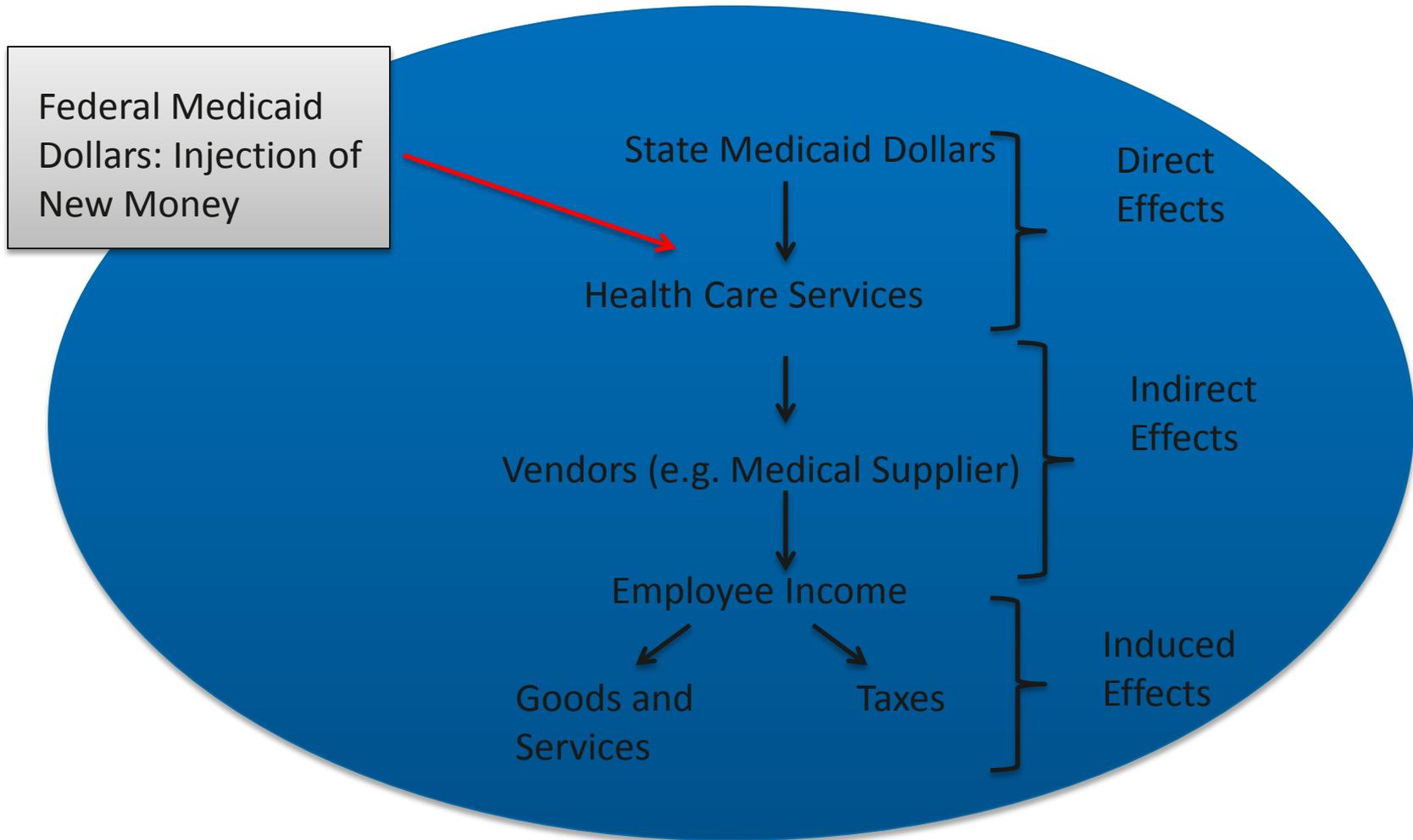
- Jointly financed by the states and the federal government, covering health and long-term care services for low-income Americans.
- Total Medicaid benefit spending (not including administration) in Idaho in FY 2012 was \$1.65 billion.
- Approximately 62% (\$1.025 billion) was supported by federal dollars and the remaining of \$0.625 billion was paid by the Idaho taxpayers, receipts (pharmacy rebates, estate recovery) and in dedicated funds (hospital assessment fees).\*
- Additional indirect support comes from health care providers, including hospitals and physicians by their acceptance of reduced reimbursements from Medicaid programs.

\*These figures are from IDHW.

# Medicaid Expansion

- Key point: New monies (federal funds) entering into Idaho's economy.
- These federal funds produce jobs, increased income, and tax revenues.
- These federal funds will reduce “cost shifting” of health care expenditures to other private sources in Idaho's economy, including health care providers, employers, individuals with private health care plans.
- This cost shifting effectively reduces spending throughout Idaho's economy.

# Flow of Medicaid Dollars in a State Economy



## Flow of Medicaid Dollars in a State Economy

- The direct recipients of Medicaid payments are providers, including hospitals, private physicians and nursing homes, or managed care organizations.
- Therefore, Medicaid funding *directly* impacts health care service providers, supporting the jobs, income, and purchases associated with carrying out health care services.

## Flow of Medicaid Dollars in a State Economy

- Through the multiplier effect, other businesses and industries are *indirectly* affected due to the direct impact.
- For example, a medical supply firm or a diagnostic services provider may be affected through its business dealings with Medicaid providers.
- In addition, both the direct and indirect effects *induce* changes in household consumption and tax collection primarily due to household income fluctuations.

# Impact on State Economy

- Medicaid spending generates economic activity (jobs, income, and state tax revenues).
- Regardless of the economic model, all studies compiled by Kaiser Commission on Medicaid and the Uninsured in 2009, show that Medicaid spending has a positive impact on state economies.
- Magnitude of the impact is dependent on:
  - Federal matching rate,
  - State Medicaid spending level,
  - Economic conditions of the state.

- *“Medicaid accounts for a large portion of the health care sector for numerous rural counties, which makes many of Idaho’s rural county economies particularly dependent on Medicaid. Medicaid spending results in total county expenditures approximately five times the size of the original investment.”*

Quoted in “The Role of Medicaid in State Economies: A Look at the Research” by Kaiser Commission on Medicaid and the Uninsured, 2009.

Analysis for Idaho was prepared by Steven Peterson, University of Idaho.

## Estimated Impact of Medicaid Expansion: Examples

- Arizona: Grand Canyon Institute (GCI) estimates that under full state compliance with Medicaid expansion there will be additional 205,000 covered with federal funding of almost \$8 billion and state costs of \$1.5 billion during 2014 - 19.
  - GCI found that for every new dollar in federal funding, the state's economy would grow by \$1.85, and for every job created by the initial federal funding, the multiplier effect yielded nearly one additional job (a total of 1.97 jobs).
- Washington: projects \$18 billion in economic activity and 140,000 additional jobs from the initial federal funding of \$8 billion during 2014 – 19.
  - Every million dollars of federal Medicaid spending generates 17.5 jobs in the state of Washington.
  - For every job created by Washington Community Health Care System, an estimated 1.62 jobs are created in the state.

# Factors Impacting Small Businesses

- How much Idaho employment and income will be saved
  - Because employment costs have been reduced?
    - This would be result of firms that would otherwise have ceased operations because of increased employment costs.
  - Because Idaho firms do not relocate to other states that do adopt the new policies and therefore have lower employment and operating costs?
    - Due to the possible outflow of firms that would otherwise move to states with lower employment costs.
- If Idaho becomes a “low-cost state”, the question then becomes: How much will Idaho employment increase as firms relocate from other states that do not adopt the new policies?

# Potential Impact on Small Businesses

- In 2010, there were 1300 small businesses (with approximately 140,000 workers) in Idaho that would need to either offer health insurance or pay a penalty:
  - 855 firms with 50 – 99 workers,
  - 435 firms with 100 – 249 workers
- Many studies suggest that small businesses and those businesses with lower wages are much less likely to offer health insurance.
- Many of these small businesses with lower wages will have workers that will directly benefit from the Medicaid expansion.
- These firms will not need to pay for coverage of their employees, will face no penalty for not providing coverage, and will therefore be more likely to continue operations.

# Potential Impact on Small Businesses

- In addition, there are almost 3,000 small businesses in Idaho with 20 – 49 workers, which would not be expected to provide health insurance coverage immediately, but their growth potential (i.e. increasing their employment to 50 and beyond) may be more limited without the Medicaid expansion.

# Healthier workforce

- Healthier workforce: reduced health care costs and increased productivity.
- Medicaid expansion is expected to reduce health care costs, especially those of chronically ill patients with manageable illnesses, such as diabetes and hypertension.
- It is highlighted in a study by Gruber (2006) that: primary care for low-income chronically ill patients is found to be important to their health and cost effective in reducing ultimate health care costs.
- In addition, Cutler (2004) estimates that the total economic benefits from treatment of depression is \$7,100. This amount indicates a return of about \$7 for each dollar invested in treatment of depression.

## Conclusions

- Increased Federal Medicaid funds in Idaho will:
  - Increase economic activity and employment
  - Reduce employment costs for small and medium sized businesses
  - Increase productivity of the labor force
  - Produce cost savings in health care expenditures