Medicaid's Effect on WV Budget and Economy

Medicaid: Good Medicine

For West Virginia's Budget and Economy

WVAHC
West Virginians for Affordable Health Care

"Cutting Medicaid is Like Cutting Off Your Nose to Spite Your Face"

Mike Hall, Governor Justice's Chief of Staff & former Chair of the West Virginia Senate Finance Committee

- West Virginia does face an overall state budget gap in 2018 and 2019. However, relative to other states, our budget shortfalls are small. **Economists agree that West Virginia has faced declining state revenues due to the erosion of the state's tax base from tax cuts enacted between 2007 and 2015 and the state's weak energy sector, which has lead to lower severance tax collections.** In addition to energy industry trends, the state is losing population and becoming grayer, with fewer workers in the labor force to support the state's tax base.

- The Medicaid budget (state *and* federal dollars) is approximately $4.4 billion annually - about 29 percent of the total state budget. However, ***state* spending is less than a quarter of that total or $.937 billion annually - about 21 percent of the total West Virginia budget.** For every dollar that West Virginia spends on Medicaid medical services, the federal government provides $2.9. West Virginia currently pays only $26.76 for every $100 spent on health care services for the traditional Medicaid population (a 73.24 percent matching rate – the second highest rate in the country – and it will rise to 74.34 percent in 2019). In addition, the federal government funds the cost of covering the expansion population at an even more generous matching rate (the state will pay $5 for every $100 in the second half of fiscal year 2017 and will eventually pay $10 by 2020).[1]

- It is not surprising that the Medicaid program is a significant portion of the West Virginia budget. According to the U.S. Bureau of Economic Analysis (BEA), **the average per capita personal expenditure for health services in West Virginia is 21 percent of total average per capita purchases of goods and services** - $7,431 of $34,418 in 2016.[2] Further, West Virginia has one of the highest poverty rates in the country. About 332,000 West Virginians lived below the poverty level in 2016 and while many are working (at wages too low to lift them out of poverty), they rely on Medicaid as their source of health insurance coverage.[3]

- **It may seem counter-intuitive that enrolling more West Virginians through the ACA Medicaid expansion saves the state money but the federal dollars brought in (an estimated $3.555 million in state fiscal year 2018 alone[4]) generates economic activity and jobs in the state that increase sales taxes, payroll taxes, income taxes, etc. creating a net gain in state revenue.**

- **The Medicaid expansion saved state spending on CHIP, behavioral health, and in other areas.** While more quantitative analysis is needed to identify all the areas of direct savings in the West Virginia budget, several examples of savings can be easily identified.
    - The Governor's plan to close the 2016 budget gap included excess cash of $4.8 million from the expiration of the West Virginia Health Insurance Plan Fund – the state's high-risk pool health insurance pool (called AccessWV). The implementation of the Medicaid expansion as well as the Affordable Care Act health insurance subsidies (through the Health Insurance Exchange) has reduced the need to offer coverage options through a high-risk pool.
    - In addition, the Affordable Care Act saved West Virginia nearly $10 million in our Children's Health Insurance Program budget in 2017.
    - The Medicaid expansion and the new federal dollars flowing into the state paid for $43 million dollars in behavioral health services in 2015.[5]
    - And the Medicaid expansion is providing Medicaid coverage to inmates who are hospitalized for more than 24 hours. This reduces the amount the state spends on inmate care due to the federal match. The West Virginia Bureau of Medical Services and the state's Division of Corrections also are working together to target discharged inmates, individuals on probation and parole, and substance abusers to community-based care that can be reimbursed through Medicaid for both short-term and long-term savings.[6]

- Medicaid spending adds to state economies in both direct and indirect ways. Medicaid payments to hospitals, nursing homes, and other health-related businesses have a direct impact, paying for goods and services and supporting jobs in the state. These dollars trigger successive rounds of earnings and purchases as they continue to circulate through the economy. They create income and jobs for individuals not directly, or even indirectly, associated with health care. For example, health care employees spend part of their salaries on new cars, which adds to the income of employees of auto dealerships, enabling them to spend part of their salaries on washing machines, which enable appliance store employees to spend additional money on groceries, and so on. This ripple effect of spending is called the "economic multiplier effect."

- The magnitude of Medicaid's unique positive impact varies from state to state based on both the size of the state's federal match rate and the economic conditions in the state. West Virginia has the second highest federal matching rate in the state for our traditional Medicaid population, and the match for the expansion population is even higher. The specific economic conditions in each state are captured in input-output macro-economic models. **One analysis estimated that the Medicaid expansion created 9,100 new jobs and added $1.59 billion to the state gross domestic product (GDP) between 2014 and 2017.[7]**

- The West Virginia University Bureau of Business and Economic Research used macro-economic modeling (the IMPLAN model) to quantify the positive impact of Medicaid on West Virginia's economy. The January 2018 report shows that every $10 million Medicaid state spending reduction results in a $29 million reduction in federal Medicaid spending in West Virginia, and results in:
    - a reduction of $49 million in overall annual economic output
    - a loss of approximately 520 jobs annually
    - a loss of approximately $1.8 million in state tax revenue annually
    - a loss of revenue associated with the Medicaid Provider Tax which will "ignite a vicious cycle that will further erode funding for state Medicaid spending in the future."[8]

- Other states have undertaken such studies to inform policy decision-making. These studies help to validate the positive impact of the Medicaid expansion on jobs and state Gross Domestic Product (GDP). Kentucky's analysis found that the Medicaid expansion would create over 40,000 new jobs and add $30.1 billion to their state economy by 2020.[9] Colorado's analysis found that the Medicaid expansion would create over 31,074 new jobs and add $3.8 billion to that state's economy over two years.[10]

- **In West Virginia, health care is one of the few sectors that historically has continued to grow and add jobs to the state economy, thanks to the federal investment of Medicaid dollars.[11]**

    - Between 2008 and 2016, total private sector jobs in West Virginia have declined by 4.1 percent, while health-care jobs have increased by 9 percent.
    - Nearly one out-of-every five private sector jobs in West Virginia are in the health-care sector. In West Virginia's rural counties, one out-of-every six private sector jobs are in health care.
    - The health-care industry accounts for over 10 percent of the state's Gross Domestic Product (GDP), and has grown five times faster than the rest of the economy since 2014.
    - Currently, six of the state's top 10 private employers are hospitals and health-care providers.

- Research has documented the positive impact of state Medicaid expansions on the financial well-being of families who have gained insurance coverage. The National Bureau of Economic Research compared individuals living in states that expanded Medicaid to those that did not. The authors found that the **Medicaid expansions significantly reduced the number of unpaid bills and the amount of debt sent to third- party collection agencies among individuals and families** residing in zip codes with the highest share of low income, uninsured individuals that became Medicaid eligible. They estimated a reduction in collection balances of around $600 to $1,000 among those who gain Medicaid coverage.[12]

- Out-of-pocket medical costs are pivotal in a quarter to a third of personal bankruptcies among low-income households. Gaining Medicaid coverage reduces personal bankruptcies. This impact has been quantified by economists at Columbia and Northwestern Universities – **a 10 percent point increase in Medicaid eligibility reduces personal bankruptcies by 8 percent.[13]**

- The Council of Economic Advisors addressed the impact of the Medicaid expansion on the number of people with catastrophic out-of-pocket costs (defined as out-of-pocket spending in excess of 30 percent of household income in a year), and on the number of people borrowing money to pay medical bills or skipping payments on other bills due to medical expenses. Being enrolled in Medicaid reduced the probability of these negative impacts significantly. **In West Virginia, the findings translated into 3,600 fewer people facing catastrophic out-of-pocket costs and 11,400 fewer people borrowing or skipping paying other bills to pay medical bills.[14]**

- Further, research has shown that **public health insurance programs encourage successful entrepreneurship**. A study of the state Child Health Insurance Program found that the number of households with uninsured children declined 40 percent and the self-employment rate among parents increased by 15 percent. These new businesses were likely to be high-quality ventures: incorporated businesses that made significant contributions to the family income.[15]

- While the Medicaid expansion clearly increased eligibility for adults in West Virginia, covering more low-income parents also increases health insurance enrollment for children. Children are very likely to have the same insurance status as their parents. An analysis from the General Accounting Office found that 84 percent of children have the same insurance status as their parents.[16]

- A 2015 Georgetown University Health Policy Institute literature review highlighted research on Medicaid that shows the benefits of childhood health insurance coverage. The authors found research demonstrating that children with coverage become healthier adults with fewer chronic health conditions and fewer hospitalizations and emergency room visits, translating into long-term health care cost savings.[17] A May 2014 study by Cornell and Harvard researchers found that **children who gained Medicaid coverage were less likely to drop out of high school and more likely to graduate from college.[18]**

- In turn, childhood Medicaid coverage leads to greater economic success in adulthood. Economists from the U.S. Department of Treasury and Yale University examined the long-term impacts of expansions of Medicaid and the State Children's Health Insurance Program that occurred in the 1980s and 1990s. **The increase in women and children's eligibility led to higher incomes during adulthood, less reliance on the federal Earned Income Tax Credit, and an increase in taxes paid.** Thus, the cost of the expansion to the state is counter-balanced with new tax revenue. **The researchers, using a conservative methodology, estimated a return in additional tax payments of nearly one-third of the initial cost of expanding Medicaid by the time these children reached the age of 28 and 56 cents on each dollar by the time the children reach age 60.[19]**

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[1] West Virginia Department of Health and Human Resources (DHHR), *Budget Presentation*, Powerpoint presentation by Jeremiah Samples, Deputy Director of DHHR, before the 2nd Session of the 83rd West Virginia Legislature, January 2018. Slide 8 "Bureau of Medical Services Total Budget SFY2019" (pie chart). Copy on file with West Virginians for Affordable Health Care.

[2] See Bureau of Economic Analysis (BEA) Interactive Data Site at http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=4#reqid=70&step=1&isuri=1
See also BEA press release: *Bureau of Economic Analysis, Personal Consumption Expenditures by State, 2016*, released October 4, 2017. Last accessed on February 24, 2018 at https://bea.gov/newsreleases/regional/pce/2017/pdf/pce1017.pdf

[3]Kaiser Family Foundation, Kaiser State Health Facts, *Distribution of the Total Population by Federal Poverty Level (above and below 100% FPL, 2016*. Last accessed on February 24, 2018 at https://www.kff.org/other/state-indicator/population-above-and-below-100-fpl/?dataView=1&currentTimeframe=0&selectedDistributions=at-or-below-99percent&selectedRows=%7B%22states%22:%7B%22west-virginia%22:%7B%7D%7D%7D&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D;
See also the Census Bureau Table Creator at https://www.census.gov/cps/data/cpstablecreator.html

[4] West Virginia Department of Health and Human Resources (DHHR), *Budget Presentation*, Powerpoint presentation by Jeremiah Samples, Deputy Director of DHHR, before the 2nd Session of the 83rd West Virginia Legislature, January 2018. Slide 8 "Bureau of Medical Services Total Budget SFY2019" (pie chart). Copy on file with West Virginians for Affordable Health Care.

[5] Email from Tony E. Atkins, Deputy Commissioner, Division of Finance and Services, West Virginia Bureau of Medical Service to Renate Pore, Policy Director, West Virginians for Affordable Health Care, dated January 7, 2016 and on file with the author.

[6] West Virginia Bureau for Medical Services, Department of Health and Human Resources, *State Fiscal Year 2015 Annual Report* (Charleston, WV: West Virginia DHHR, March 2016). Last accessed on February 24, 2018 at http://www.dhhr.wv.gov/bms/BMSPUB/Documents/BMS%20Annual%20Report%202015%20Final%20approved%20version.pdf

[7] The Council of Economic Advisors, *Missed Opportunities: The Consequences of State Decisions Not to Expand Medicaid* (Washington, DC: The Council of Economic Advisors, July 2014). See at page 24 and tables 5 and 6. See Appendix B for a detailed methodology that used Congressional Budget Office and Urban Institute HIPSM data to build on the Oregon Health Insurance Experiment data. Last accessed on December 15, 2017 at https://www.whitehouse.gov/sites/default/files/docs/medicaidmissedopportunities2015_final_v3.pdf

[8] Christiadi and John Deskins, West Virginia University College of Business and Economics, Bureau of Business and Economic Research (BBER), *The Economic Impact of Medicaid on West Virginia's Economy* (Morgantown, WV: WVU BBER, January 2018). Last accessed on February 24, 2018 at https://business.wvu.edu/files/d/51ed4f42-e83d-4041-933f-b3644febfb5c/economic-impact-of-medicaid_final.pdf

[9] Deloitte Consulting LLC and University of Louisville Urban Studies Institute, *Kentucky's Medicaid Expansion: 40,000 Jobs, $30 billion Economic Impact*, February 2015. The study looks at the Medicaid expansion on the state's economy by 2021. See http://www.healthitoutcomes.com/doc/kentucky-s-medicaid-expansion-will-have-a-billion-economic-impact-0001; see also http://migration.kentucky.gov/newsroom/governor/20150212expansion.htm Both last accessed on February 24, 2018.

[10] The Colorado Health Foundation, Assessing the Economic and Budgetary Impact of Medicaid Expansion in Colorado: FY 2015-16 through 2034-35. Last accessed on February 24, 2018 at https://www.colorado.gov/pacific/sites/default/files/Medicaid%20Expansion%20Analysis_FAQs%20-%203-2016.pdf

[11] Sean O'Leary, "West Virginia Economy Would Suffer Under Proposed Health Care Plan," (Charleston, WV: Center on Budget and Policy, June 2017). Last accessed on February 24, 2018 at https://d3n8a8pro7vhmx.cloudfront.net/wvcbp/pages/501/attachments/original/1511178437/WVCBP-Policy_AHCAreport-F.pdf?1511178437

[12] Luojia Hu, Robert Kaestner, Bhashkar Mazunder, Sarah Miller, and Ashley Wong, *The Effect of the Patient Protection and Affordable Care Act Medicaid Expansion on Financial Well-being, Working Paper 22170* (Cambridge, MA: National Bureau of Economic Research, April 2016). Last accessed on February 24, 2018 at http://www.nber.org/papers/w22170?sy=170

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[14] The Council of Economic Advisors, *Missed Opportunities: The Consequences of State Decisions Not to Expand Medicaid* (Washington, DC: The Council of Economic Advisors, July 2014). See at page 17 and table 4. Last accessed on December 15, 2017 at https://www.whitehouse.gov/sites/default/files/docs/medicaidmissedopportunities2015_final_v3.pdf

[15] Gareth Olds, *Entrepreneurship and Public Health Insurance*, Harvard Business School Working Paper, No. 16-144, June 2016. Last accessed on February 24, 2018 at http://www.hbs.edu/faculty/Pages/item.aspx?num=50691

[16] Government Accounting Office, *Medicaid and CHIP: Give the Association between Parent and Child Insurance Status, New Expansions May Benefit Families* GAO-11-264 (Washington, DC: GAO, February 2011). Last accessed on February 24, 2018 at http://www.gao.gov/new.items/d11264.pdf

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