



MAINE'S
ECONOMY
Will BENEFIT
FROM
EXPANDING
MEDICAID

Families USA

Maine's Economy Will Benefit from Expanding Medicaid

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Maine is facing an important decision: whether or not to accept federal dollars to provide health insurance to many uninsured state residents through Medicaid. This decision will have profound implications for the tens of thousands of Mainers who stand to gain health coverage if the state participates in the Affordable Care Act's Medicaid expansion. But it will also affect the entire state. With the expansion, new federal funds—millions of dollars—become available. These funds would stimulate Maine's economy and support thousands of jobs. This report looks at the potential impact of a Medicaid expansion on jobs and economic activity in Maine.

Introduction

Beginning in January 2014, Maine will have an unprecedented opportunity to give access to affordable health insurance to an estimated 64,000 uninsured, low-income Mainers who are not currently covered by the state's Medicaid program.¹ Virtually all of the costs of that care will be paid by the federal government, not the state.² Maine will also have an opportunity to get added federal funds for Medicaid coverage that it already provides to low-income adults without dependent children.³ However, for that to happen, the state must affirmatively decide to participate in the Affordable Care Act's Medicaid expansion. (For a discussion of Maine's choice, see "Medicaid and the Medicaid Expansion" on page 7.)

The Medicaid expansion will do more than give many Mainers an opportunity to gain health coverage: It will provide needed economic stimulus to the state. The federal government pays for 63 percent of the current Medicaid program in Maine, with the state paying the rest of the cost.⁴ For the expansion, federal funding will be even more generous. The federal government will pay all the costs of the expanded coverage for the first three years, 2014 through 2016. The federal share will then gradually fall to 90 percent in 2020, and it will stay at that level thereafter. (As mentioned above, the federal government will also increase its payments for a portion of Maine's existing Medicaid program that already covers adults without dependent children.) As a result, if Maine opts to take up the Medicaid expansion, substantial new federal funds will come into the state over the next 10 years.⁵ This influx of new dollars will have a significant impact on the state's economy.

How the Medicaid Expansion Creates Jobs and Economic Growth

New federal dollars have a positive effect on a state's overall economic activity and job availability. This effect is both direct and indirect.

In the case of Medicaid, the program makes payments to health care providers, such as hospitals, physicians' offices, and pharmacists. These payments have a *direct effect* on the economy by paying for health-related goods and services and by supporting health care jobs in the state. These dollars also have an *indirect effect* by triggering successive rounds of purchasing as they continue to circulate through the economy. In that way, they create earnings and jobs for people who are not directly – or even indirectly – associated with health care.

For example, a hospital may spend a portion of its revenue on facility upgrades that employ large numbers of local construction workers. Similarly, health sector employees will spend their income on all kinds of products and services, such as dining at local restaurants or purchasing new cars. This, in turn, increases the earnings of local restaurants or car dealerships, which adds to the income of the employees in those businesses, and so on. This ripple effect of new money flowing through a state's economy is called the economic multiplier effect.

The magnitude of the multiplier effect of new federal Medicaid dollars flowing into a state varies from state to state. It depends on a variety of factors, including the economic conditions in the state, the mix of businesses and industries, state demographics, and wage and salary levels. Families USA contracted with the Regional Economic Model, Inc. (REMI) to produce a macroeconomic model that could simulate the impact of increased federal Medicaid funds on Maine's economy. (See "Measuring the Multiplier Effect" on page 8 for a more detailed discussion of the REMI model.)

The model simulates the potential impact in the state in 2016. Although the Medicaid expansion will be available to states starting in 2014, it inevitably takes time for enrollment to reach a level that reveals the program's full economic impact. This is particularly true for programs like Medicaid that target low-income individuals.⁶ Therefore, we selected 2016 as the basis for the analysis. In 2016, projected enrollment in the expansion will be higher than at the program's outset, allowing us to better capture the expansion's potential impact on jobs and economic growth. The projections are based on the assumption that Maine takes up the expansion starting in 2014.

The REMI model did not assume that any other states take up the Medicaid expansion. If other states do, the additional economic activity and jobs created in Maine would be greater, because the state would benefit from the increased economic activity of its state trading partners. The model did assume that some of the federal funds the state receives for the Medicaid expansion would be used to pay health care providers in neighboring states who

treat Mainers enrolled in Medicaid. If more care is delivered in-state than we assumed, the additional economic activity and jobs created in the state would be greater.

Other researchers may use different assumptions and/or methodologies, and thus are likely to produce different results. Nonetheless, the bottom line remains the same: Expanding Medicaid supports job growth. (A full Methodology is available upon request from Families USA.)

Findings

The Medicaid Expansion, Jobs, and Economic Activity in Maine

Assuming that the state takes up the Medicaid expansion in 2014, in 2016, Maine would receive an additional \$288 million in federal Medicaid funds.⁷ As noted above, we assumed that some of that money would be used to pay health care providers in neighboring states who treat Mainers enrolled in Medicaid. Therefore, an estimated \$265 million would be spent on health care delivered in Maine.⁸

The addition of that \$265 million in health care spending to the state's economy would have a significant effect on jobs and economic activity throughout the state.

- **Supporting a Significant Number of New Jobs**

In 2016, the new federal dollars would support approximately 3,200 new jobs across all sectors of Maine's economy, a 0.36 percent increase over the number of current jobs in the state.⁹ This is not limited to health care jobs. Because of the multiplier effect (described above), jobs would be created in a wide range of business sectors throughout the state (see the Discussion below).

- **Increasing Economic Activity**

The increased federal funding and jobs created are projected to increase economic activity in Maine by \$347 million in 2016.

Discussion

Jobs Are Just Part of the Picture

The Findings in this report focus on just two major benefits Maine will enjoy if it takes up the Affordable Care Act's Medicaid expansion: jobs growth and increased economic activity. However, expanding Medicaid would have wide-ranging benefits across the state beyond jobs growth and increased economic activity. We discuss these benefits below.

- **Reducing State Spending on State-Funded Health Care Programs for the Uninsured**

When uninsured people go to the doctor or hospital for medical care, they often can't pay for the full costs of that care. Care that isn't covered by insurance or paid for by patients

themselves is called uncompensated care. Right now, states and localities pay for about 30 percent of the cost of uncompensated care that is provided to the uninsured.¹⁰

By reducing the number of Mainers without health insurance, the Medicaid expansion will, in turn, reduce the amount of uncompensated care in the state.¹¹ That will reduce the state's uncompensated care costs. A recent national study estimated that, for Maine, the Medicaid expansion could result in \$120 million in savings in uncompensated care costs from 2013 to 2022.¹²

■ **Creating a Stronger Health Care System**

While the state covers a substantial share of uncompensated care costs, hospitals absorb an even larger share of those costs.¹³ According to the Maine Hospital Association, in 2011, Maine hospitals absorbed \$190 million in charity care.¹⁴ These costs place a financial strain on hospitals and other health care providers.

By increasing the number of residents with health insurance, expanding Medicaid would reduce the uncompensated care costs that hospitals shoulder. That would strengthen the health care system for everyone in the state.

■ **Reducing Costs that Are Passed on to Consumers and Businesses**

Uncompensated care also ends up raising health care costs for those with insurance. While the state and hospitals absorb much of the cost of uncompensated care, some of those costs are passed on in the form of higher charges for people who do have insurance. This increases the costs borne by insurance companies, which then cover those higher costs by raising insurance premiums for businesses and families. In 2008, the costs of uncompensated care increased family health insurance premiums by an estimated \$1,017.¹⁵ That is a cost that everyone who has insurance pays.

By reducing the number of people in Maine without insurance, expanding Medicaid will lower the costs that are passed on to insured Mainers and to Maine businesses.

■ **Increasing State Revenue**

By increasing jobs and economic activity in the state, the Medicaid expansion can help boost state revenue. How it will boost state revenue and by how much will depend on each state's specific tax structure.

As an example, more economic activity can mean more sales tax revenue for the state or localities. More jobs in the state mean that more people are employed, and it can also lead to higher family incomes. Both can increase state income tax revenue. This increased revenue, which can be estimated using economic modeling, could be substantial and could help offset the state's cost for a Medicaid expansion.

■ **Helping Residents Be Healthier and More Productive**

Most importantly in evaluating whether to expand Medicaid, Maine should consider the effect on the health and well-being of its residents.

First and foremost, expanding Medicaid will give tens of thousands of low-income Mainers access to affordable health coverage. Medicaid coverage has been shown to improve people's health status and financial security.¹⁶ That means a healthier population. It also means a healthier workforce. A large portion of those estimated to gain coverage through the Medicaid expansion will be working.¹⁷ They may be in jobs that do not offer health insurance, they may be working as contractors rather than employees, or they may be working part-time.

Costs Should Be Viewed in Light of Benefits

States have argued that implementing the Medicaid expansion will increase their costs. While there will be some costs for states, they may not be as large as states believe. Furthermore, there are offsetting savings in addition to increased state revenue, discussed above, that can help mitigate the costs.

In terms of costs, there will be an incremental increase in administrative costs if the state expands Medicaid. Also, some individuals who are eligible for Medicaid but not enrolled may be encouraged to enroll when they hear about the Medicaid expansion. That will increase the state's costs in its existing Medicaid program. However, because Maine will get added federal support for its existing Medicaid program if it expands coverage, those costs will be mitigated. Finally, starting in 2017, the state will have to begin picking up a small percentage of the costs of covering the expansion population.

On the other hand, many of these costs will be incurred whether the state expands Medicaid or not. Because the Affordable Care Act changes the way states calculate income for Medicaid eligibility, states will have to make some administrative changes to their Medicaid program even if they do not expand.¹⁸ Because health care will be in the news in 2014 when the Affordable Care Act is fully implemented, the state can expect some increased enrollment in its existing Medicaid program – even if it does not expand Medicaid.¹⁹

Moreover, by reducing the number of residents without insurance, states will see savings in many areas where they currently bear the costs, such as the cost of operating a pool to cover uncompensated care, the cost of special state programs to provide coverage to the uninsured or the mentally ill, or the cost of other state-funded public health services.

It is incumbent upon every state to conduct a thorough financial analysis that looks not only at the costs that the state will incur, but that also considers all of the benefits of the expansion and potential state savings.

What If Maine Doesn't Expand Medicaid?

If Maine refuses to expand Medicaid, it will still incur some increased costs (as outlined above), but it will lose out on substantial benefits for Mainers.

The state will be leaving substantial federal dollars on the table. As discussed in the Findings, that money would stimulate the state's economy, increase state revenue, and help residents throughout the state.

Without a Medicaid expansion, many of Maine's lowest-income residents would remain uninsured. Families with incomes above the federal poverty level will be able to purchase insurance through the new health insurance marketplaces ("exchanges") that were created by the Affordable Care Act, and they will receive tax credits to help defray the costs of their premiums (although those policies, even with tax credits to help defray the cost, will not be as affordable as Medicaid for these low-income Mainers). However, families with incomes *below* the federal poverty level can buy policies through the exchanges, but they are not eligible for tax credits, so they will have to pay the full cost of the premiums. It is important to note that, even though Maine's Medicaid program technically does cover childless adults with incomes below poverty, that portion of their Medicaid program is closed to new enrollment. If Maine does not expand Medicaid, the childless adults who are currently closed out of the program will not have an option for coverage, and they will be left uninsured.

Conclusion

The Medicaid expansion gives the leadership of every state the opportunity to expand health coverage for their residents while taking advantage of generous federal funding that will support jobs and economic growth throughout the state. If Maine takes up the Medicaid expansion in 2014, in 2016, an estimated \$265 million would be spent on health care delivered in the state. The addition of that money to the state's economy would support approximately 3,200 new jobs and increase economic activity in Maine by \$347 million.

The benefits of the expansion will extend even further, from reductions in state spending on uncompensated care to improved financial health for state hospitals. To take advantage of those benefits, however, state leaders must choose to expand Medicaid. If the state doesn't do that, it will still see some increased costs in its existing Medicaid program, many of its residents will lose an opportunity to gain health insurance, and state residents and businesses will miss out on the positive economic effects that increased federal Medicaid funding would have on the state's economy and job market.

Whether Maine reaps the benefits of the Medicaid expansion or not is up to its political leaders.

Medicaid and the Medicaid Expansion

Medicaid, the health insurance program for low-income people, is jointly funded by the federal government and the states, with the federal government matching what each state spends. The federal matching rate varies by state. In 2012, the federal government paid 63 percent of Maine's Medicaid costs.

The federal government requires that state Medicaid programs follow certain broad requirements, but within those requirements, states have significant latitude to set eligibility and benefit levels. Eligibility for certain groups, specifically parents and adults without dependent children, varies widely from state to state, but most states don't cover adults without dependent children. Maine covers parents with incomes up to 133 percent of poverty and adults without dependent children with incomes up to 100 percent of poverty.

When signed into law, the Affordable Care Act included a requirement that all states expand Medicaid eligibility to 133 percent of the federal poverty level. (Note that the law requires states to "disregard," or not count, 5 percent of each applicant's income, making the effective income limit for Medicaid under the expansion 138 percent of poverty, or about \$32,500 for a family of four in 2013.) States that didn't expand Medicaid faced the penalty of losing all their Medicaid funding. To make it easy for states to expand, under the law, the federal government will pay virtually all of the costs of expanding coverage: 100 percent

from 2014 through 2016, with the federal share gradually falling to 90 percent in 2020, where it stays. For states like Maine that have more generous coverage, the federal government will also increase the amount that it contributes to cover the state's existing Medicaid costs for adults without dependent children.

Several states challenged the constitutionality of the Affordable Care Act's Medicaid expansion, and that challenge went all the way to the Supreme Court. In June 2012, the Supreme Court upheld the Medicaid expansion as constitutional, but it struck down the penalty (loss of *all* Medicaid funding) for states that do not expand the program. As a result of that decision, states can reject the Medicaid expansion without the risk of any penalty to their existing Medicaid programs. However, because the generous federal funding for the expansion remains the same, they would be passing up the opportunity to extend health coverage to more residents at very little cost to the state. (The Supreme Court decision is *National Federation of Independent Business v. Sebelius*, 567 U.S. —, Slip Ops. No. 11-393 and 11-398, June 28, 2012. For a discussion of the opinion, see Families USA, *The Supreme Court Decision: What It Means for Medicaid*, available online at <http://familiesusa2.org/assets/pdfs/health-reform/The-Court-and-the-Medicaid-Decision.pdf>.)

Measuring the Multiplier Effect

When new dollars flow into a state, they have a positive effect on economic activity and jobs growth. As these new dollars move through a state's economy, they generate successive rounds of spending. Economists call these successive rounds of spending "the multiplier effect." It means that the economic stimulus effect of new money entering a state exceeds the value of the dollars that come into the state.

Ultimately, there is a limit to the multiplier effect. The relationship between new dollars and increased economic activity is not purely linear: Every new dollar does not create the same amount of economic activity. As more dollars flow into the state, the ability of the state's economy to create and meet demand declines. This creates "dampers" that slow the rate that the new dollars flow throughout the state economy. There are also potential "leakages" – i.e., money that leaves the state through trading patterns – that can reduce the multiplier effect. In health care, leakage occurs for a variety of reasons. For example, hospitals may purchase medical supplies or equipment from out-of-state manufacturers. That can create jobs in the state where the manufacturing takes place, but not necessarily in Maine.

Families USA contracted with the Regional Economic Model, Inc. (REMI) to model the impact of the Medicaid expansion. For this analysis, REMI used its 51-Region PI+ Model. That model includes 70 industry sectors and 51 regions (50 states plus the District of Columbia). The model takes into consideration the specifics of each state's economy in forecasting the effect of policy changes in each state. It also takes into consideration the specific effect of economic dampers and leakages across all 50 states. Factoring in "dampers" is particularly important in situations like the Medicaid expansion, where the amount of new money flowing into a state is especially large.

For this analysis, REMI based its projections on the new federal dollars that would come into Maine if the state took up the expansion. It is limited to new federal funding that is a direct result of the Medicaid expansion and that would not otherwise flow into the state.

A full Methodology is available upon request. The Methodology provides additional information on the REMI model and outlines the assumptions regarding Medicaid enrollment, federal funding, and health services utilization that REMI used to develop its projections.

Endnotes

¹ This is the estimated number of uninsured people in the state who would become eligible for Medicaid because of the Affordable Care Act's Medicaid expansion. Genevieve Kenny et al., *Making the Medicaid Expansion an ACA Option: How Many Low-Income People Could Remain Uninsured?* (Washington: The Urban Institute, June 29, 2012), available online at <http://www.urban.org/UploadedPDF/412606-Making-the-Medicaid-Expansion-an-ACA-Option.pdf>. Not all who are eligible for Medicaid coverage under the expansion will enroll. Participation rates in the current Medicaid program are below 100 percent, in some states substantially so. Ben Sommers et al., *Understanding Participation Rates in Medicaid: Implications for the Affordable Care Act* (Washington: Office of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services, March 2012), available online at <http://aspe.hhs.gov/health/reports/2012/medicaidtakeup/ib.pdf>.

² To receive the Medicaid expansion's generous federal funding, the Affordable Care Act requires states to expand Medicaid to cover eligible residents with incomes below 133 percent of poverty. The law also requires the state to disregard 5 percent of income in making eligibility calculations, essentially increasing income eligibility to 138 percent of poverty, or \$32,500 for a family of four in 2013.

³ Maine is among a small number of states that already offer Medicaid to a large number of adults. It covers parents with incomes up to 133 percent of the federal poverty level (\$31,320 for a family of four in 2013) and childless adults with incomes up to 100 percent of poverty (\$11,490 for an individual in 2013). If Maine opts to expand Medicaid, the federal government will gradually increase its share of the costs of covering childless adults through Maine's existing Medicaid program from 63 percent in 2013 to 90 percent in 2020.

⁴ Kaiser StateHealthFacts.org, *Federal Medical Assistance Percentage (FMAP) for Medicaid and Multiplier*, available online at <http://statehealthfacts.org/comparetable.jsp?ind=184&cat=4>, accessed on December 8, 2012.

⁵ John Holahan et al., *The Cost and Coverage Implications of the ACA Medicaid Expansion: National and State-by-State Analysis* (Washington: Kaiser Family Foundation, November 2012), available online at <http://www.kff.org/medicaid/upload/8384.pdf>. The figure is for new Medicaid funding for both the expansion population and the existing Medicaid program from 2013-2022.

⁶ Ben Sommers et al., op. cit.

⁷ This estimate is based on data developed by the Urban Institute. See John Holahan et al., op. cit.

⁸ Using the assumption that some care would be provided by out-of-state hospitals, doctors, and other health care providers, the REMI model calculated what percent of care would be provided in state and what percent would be provided out of state. The model's calculations are based on multiple factors within the state, including the state's economy and labor markets. See the Methodology for a more detailed discussion of the REMI model.

⁹ Throughout this report, the term "jobs" refers to any part-time and full-time-equivalent positions.

¹⁰ John Holahan et al., op. cit.

¹¹ Ibid.

¹² John Holahan et al., op. cit. The estimate is based on a model that has all states taking up the Medicaid expansion.

¹³ Jack Hadley and John Holahan, *The Cost of Care for the Uninsured: What Do We Spend, Who Pays, and What Would Full Coverage Add to Medical Spending?* (Washington: Kaiser Commission on Medicaid and the Uninsured, 2004), available online at <http://www.kff.org/uninsured/upload/the-cost-of-care-for-the-uninsured-what-do-we-spend-who-pays-and-what-would-full-coverage-add-to-medical-spending.pdf>.

¹⁴ Maine Hospital Association, *10 Things Legislative Candidates Should Know About Maine Hospitals* (Augusta: Maine Hospital Association, 2012), available online at <http://www.themha.org/policy-advocacy/Publications-Links/Candidate-s-documentfinal-pdf.aspx>.

¹⁵ Families USA (based on data from Milliman, Inc.), *Hidden Health Tax: Americans Pay a Premium* (Washington: Families USA, 2009), available online at <http://familiesusa2.org/assets/pdfs/hidden-health-tax.pdf>.

¹⁶ Families USA, *Medicaid's Success: Good Care* (Washington: Families USA, August, 2012), available online at <http://familiesusa2.org/assets/pdfs/medicaid/Medicaid-Is-Good-Care.pdf>.

¹⁷ In 2008, 57 percent of uninsured adults with a family income below 133 percent of poverty were working. This is the population that would gain coverage if the state expanded Medicaid. Karyn Schwartz, *Expanding Medicaid under Health Reform: A Look at Adults at or below 133% of Poverty* (Menlo Park, CA: Kaiser Family Foundation, April 2010), available online at <http://www.kff.org/healthreform/upload/8052-02.pdf>.

¹⁸ The Affordable Care Act requires states to simplify the way they calculate Medicaid income eligibility for many categories of residents. This requirement applies whether a state expands its Medicaid program or not. In most cases, this will require states to upgrade eligibility and enrollment systems and train staff on new processes. Although federal funding is available to help states with this process, there will be some increase in state administrative costs regardless of whether it takes up expansion.

¹⁹ John Holahan et al., op. cit. This report provides state-by-state estimates of increased enrollment in Medicaid if a state does and does not take up the Medicaid expansion.

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