

## Campaign to Reduce Child Poverty

### Policy Brief #9

## The Impact of Medicaid on New Mexico's Economy

### Introduction

This policy brief analyzes the impact on the New Mexico economy of Medicaid, a publicly-financed health insurance program serving low income children, pregnant women, elderly, and disabled New Mexicans. The health and social benefits of providing health insurance to those who would otherwise be unable to afford it are well established. However, the economic contribution federal Medicaid funding makes to the New Mexico economy and the linkages between Medicaid and the cost of private health insurance often go unrecognized.

Federal funding of New Mexico Medicaid supports over 28,000 jobs, most of which are in the relatively high wage health care sector. Many of these jobs provide the employee, and oftentimes the employee's family, access to employer-subsidized health insurance. We estimate that over 35,000 New Mexicans are privately insured because they or one of their family members are employed at a job that would not exist in the absence of federal funding for New Mexico Medicaid.

We estimate that New Mexico's \$348 million investment in Medicaid for fiscal year 2002 returned nearly \$2 billion in economic activity, over

28,000 jobs, and almost \$830 million in wages and salaries for New Mexicans. In addition, because Medicaid providers, particularly the Medicaid managed care companies, provide most of New Mexico's private health insurance and health services, the cost and availability of healthcare for most New Mexicans is linked, in one way or another, to Medicaid. We conclude that because of the magnitude of the estimated economic impact and the connections between publicly and privately financed health insurance, careful analysis of *all* the potential repercussions should be conducted before any significant changes are made to New Mexico's Medicaid program.

### Background: New Mexico Medicaid

Medicaid is a publicly-financed health insurance program serving low income children, pregnant women, elderly, and disabled New Mexicans. Three hundred eighty two thousand New Mexicans (382,000), or about 20% of the state's population, currently receive Medicaid. Over two-thirds of Medicaid recipients are children. Another 6% of recipients are elderly and 16% are blind or disabled adults.

A common misconception is that Medicaid covers entire families. This is seldom the case because ***very few parents are eligible for Medicaid.*** Access to Medicaid for adults who are neither elderly nor disabled is limited. Only parents receiving or transitioning off welfare and low

2002 Federal Poverty Guidelines			
Size of family unit	100% FPL	185% FPL	235% FPL
1	\$8,860	\$16,391	\$20,821
2	\$11,940	\$22,089	\$28,059
3	\$15,020	\$27,787	\$35,297
4	\$18,100	\$33,485	\$42,535
5	\$21,180	\$39,183	\$49,773

income women needing services related to pregnancy, family planning, breast, or cervical cancer are eligible. Children are eligible for conventional Medicaid if they live in households with income below 185% of the federal poverty threshold and Medicaid coverage through the state children's health insurance program (SCHIP) if they live in households with income between 185% and 235% of the federal poverty level. Poverty guidelines appear in Chart 1, above.

Almost two thirds of New Mexico's children live in households with income below 235% of the federal poverty threshold and about 44% of all children in New Mexico are enrolled in Medicaid. Still, according to the US Census, New Mexico remains second only to Texas in the percent of children who lack health insurance. We estimate that in New Mexico, 29% of children (102,000 children) who are potentially eligible for Medicaid on the basis of household income are not enrolled. Census data indicate that more than two thirds of these, or 69,000 children are uninsured<sup>1</sup>.

Medicaid is comprehensive health insurance. Coverage includes preventative care, hospitalization, nursing homes, prescribed drugs, behavioral health, optometry, and dental care. The federal government requires that states provide many basic medical services and serve certain populations through their Medicaid program. States may also choose to provide certain "optional" services and expand eligibility for their Medicaid programs. In New Mexico, optional Medicaid services include, but are not limited to, prescribed drugs, physical therapy, nursing home, hospice, and emergency room services (Maruca, 2002).

## Financing Medicaid

New Mexico Medicaid spending totaled roughly \$1.75 billion for fiscal year 2002 and constituted almost 16% of all spending by the state (NASBO, 2002). Slightly over 20% of this amount (\$348 million), was drawn from the state general fund. The remaining 80%, nearly \$1.4 billion, were federal funds.

The federal government's share of the cost of a state's Medicaid services is called the "federal medical assistance percentage" (FMAP). A state's FMAP is based on its per capita income relative to the national per capita income. States with per capita income that is low relative to the national average have higher FMAPs, meaning that the federal government pays a larger share of their Medicaid costs. New Mexico ranks 49<sup>th</sup> among states in per capita income, and consequently, the state has one of the highest FMAPs. For 2002, New Mexico's FMAPs were 73.04% for conventional Medicaid and 81.13% for SCHIP. In other words, the federal government contributed \$3 for every \$1 New Mexico spent on conventional Medicaid and \$4 for every \$1 New Mexico spent on SCHIP. In 2003 New Mexico's FMAPs will increase slightly to 74.56% for conventional Medicaid and 82.19% for SCHIP.

The Medical Assistance Division of the state Human Services Department, the agency that administers Medicaid, had a \$52.4 million administrative budget in 2002, employed 131 people, and paid salaries and benefits totaling \$5.9 million<sup>2</sup> (Maruca, 2002). This administrative budget for HSD was 3.4% of the total Medicaid budget. The remaining 96.6% of the budget was paid to health maintenance organizations (HMOs) or providers.

In recent years New Mexico, like many other states, has experienced rapid escalation in Medicaid costs. New Mexico's expenditure on Medicaid increased by 131% between 1995 and 2002: from \$751 million in 1995 to \$1.75 billion in 2002 (Maruca, 2002).

**While Children account for most of the *growth* in the number of people covered by Medicaid, they are cheap to insure. The average annual increase in cost of insuring all of the children in the U.S. currently enrolled in Medicaid is only 1.1%.**

Much of the growth in Medicaid cost coincided with eligibility expansions for children and substantial increases in child enrollment, leading many to conclude that enrollment growth was driving the cost increases. This is only partially true. Medicaid costs are driven by many of the same factors that influence the price of private health insurance, most notably, pharmaceuticals, reductions in savings attributable to managed care, and overall healthcare cost inflation due to technological advances. In 2002 alone, the average cost of private health insurance in the US increased 12.7%. In 2003, it is projected to increase by 14% to 16% (Smith, Ellis, Gifford, and Ramesh, 2002).

In addition, while Medicaid enrollment increased 65% between 1995 and 2001<sup>3</sup> (Maruca, 2002), children, who account for most of the recent growth in Medicaid enrollment are inexpensive to insure. Nationally, per capita Medicaid expenditures on children and non-elderly adults increased at half the rate of private health insurance premiums in 2002. The Congressional Budget Office estimates that the average annual increase in cost for serving the current caseload of children is only 1.1% (Ku and Broaddus, 2003). The Kaiser Commission on Medicaid and the Uninsured reports that even though states added almost a million children to the Medicaid rolls between 2000 and 2001 children accounted for only 14% of the increase in Medicaid costs during that period (Kaiser Commission, 2001).

Increases in the per capita cost of serving elderly and disabled beneficiaries, particularly those in

nursing homes has caused much of the growth in state Medicaid budgets. As the baby boomers of the 1950s age, the demand for long term care will increase even more dramatically. The Congressional Budget Office estimates that 82% of the projected expenditure growth in Medicaid over the next two years will come from increases in the cost of caring for aged and disabled beneficiaries (Ku and Broaddus, 2003). In 2002, 13.2% of New Mexico's Medicaid dollars, or \$164.5 M, were spent on the 1.9% of the Medicaid recipients who received nursing home care. (There were 375,585 total Medicaid recipients in 2002. Of these, 7,036 were in nursing home facilities). (Source: Center for Medicaid and Medicare Services, 2002. <http://cms.hhs.gov/medicaid/msis/00nm.pdf>)

**Medicaid and Economic Development**

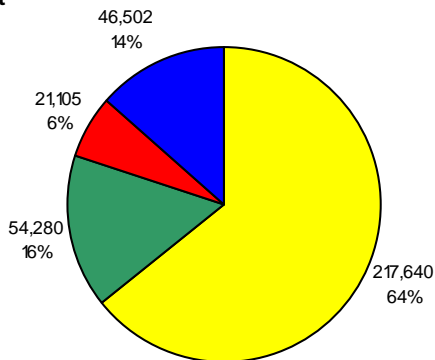
A primary objective of economic development is to increase the standard of living by creating more and better jobs. Several features of New Mexico Medicaid make it an especially valuable tool for both long term and short run economic development.

First, the funding for Medicaid is primarily federal. In order for government spending to

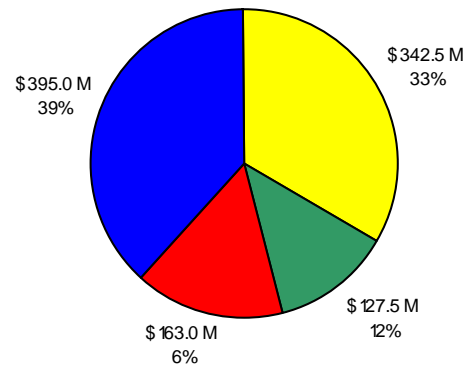
**Healthcare service sector jobs are an important part of New Mexico's economy. In 2002, there were 71,000 total healthcare jobs in New Mexico, which paid higher average weekly wages. Healthcare jobs have grown faster than other sectors, and much of the growth is in rural areas.**

N.M. Distribution of Medicaid Enrollment and Spending for 2002

**Enrollment**



**Spending**



Source: Kaiser Family Foundation  
<http://www.statehealthfacts.kff.org>

stimulate local economic growth, the revenue to support it must originate outside the local economy. If Medicaid were funded entirely with state tax dollars it would not generate new jobs because it would only reallocate money within the state (state taxes paid by New Mexico households and businesses would be redistributed to low income households and healthcare providers in New Mexico). However, because almost all the federal revenue that supports Medicaid is generated outside New Mexico, Medicaid stimulates the state economy.

Medicaid benefits flow primarily to low-to-moderate income households and the healthcare sector, making the program especially beneficial to the economy. Enrollment in Medicaid usually reduces a family's out-of-pocket medical costs, freeing up money for other expenditures. Low and moderate income households spend a larger fraction of their income within the local economy than do upper income households because they have fewer opportunities to save, invest, and travel.

Most Medicaid funds pay for direct healthcare services. The health service sector is one of the fastest growing sectors in the New Mexico economy and an important engine of economic growth. Payments by government programs, primarily Medicaid and Medicare, constitute roughly 59% of all personal healthcare expenditures in New Mexico (Reynis, 2000). In 2002, over 9% of all non-agricultural jobs in New Mexico, or about 71,000 jobs were in healthcare. Seventy-nine percent, or about 56,000, were in the private sector. In 2001, the average weekly wage for health care jobs in New Mexico was \$621, 13% higher than the state average weekly wage for all industries (New Mexico Department of Labor, 2002).

Employment growth in health and social services has buoyed the New Mexico economy during the

downturn that began in 2001. Health care service employment grew by 4.3% or 2,400 jobs between October 2001 and October 2002, outpacing the 2.8% growth rate of the service sector as a whole and the .8% growth of all non-agricultural employment<sup>4</sup>. The New Mexico Department of Labor reports that much of this growth occurred in rural areas where home health providers expanded services and hired new staff in response to increased Medicaid and Medicare funding for home and community-based nursing services (NMDOL, 2002).

Healthcare is particularly valuable to rural economic development. The local hospital is the economic backbone of many rural communities. In some, it is the largest employer and one of few sources of high-paying jobs. According to the 1997 Economic Census for New Mexico, 37% of healthcare establishments and 36% of healthcare jobs were outside the Albuquerque, Santa Fe, and Las Cruces metropolitan areas (US Census Bureau, 1999).

Health service providers in rural communities are especially reliant on publicly-financed health insurance. Nationwide, fewer than 50 percent of rural residents have private health insurance. (Thompson and Doyle, 2002) and Medicare and Medicaid payments account for almost 80 percent of revenues for rural hospitals (Rural Policy Research Institute, 1999).

New Mexico has the nation's highest rate of poverty and second lowest rate of health insurance coverage (US Census, 2001, 2002). These problems are most profound in our state's rural areas, making New Mexico's rural healthcare providers even more reliant than providers elsewhere in the US on reimbursement from publicly-financed health insurance. Roughly one-third of rural New Mexicans have no health insurance at all. The percent of hospital admissions for which Medicaid is the primary payor ranges from 4% and 5% in Harding and Los Alamos counties respectively to 36% in McKinley county and 48% in Hidalgo county. On average, 23% of rural hospital admissions and 18% of urban admissions in New Mexico were paid for by Medicaid in 2000 (New Mexico Health Policy Commission, 2001).

**In rural areas, hospitals and clinics are often large employers. and, they depend on public financing, which can account for as much as 80% of their revenues.**

Access to medical care is already extremely limited in much of New Mexico. Without Medicaid, many of New Mexico's rural communities are at risk of losing their health care infrastructure because too few residents can afford to pay the full cost of medical care. Only 28% of admissions to rural hospitals in 2000 were paid for with private insurance. Medicaid insures 1 in 5 New Mexicans, 44% of New Mexico children, and pays for 56% of all births in the state. Many healthcare providers, particularly rural pediatricians and obstetricians, would have few if any clients if it weren't for Medicaid. Thus, Medicaid helps ensure the vitality of rural communities by helping them to retain healthcare providers.

**Every \$1 million cut in state Medicaid spending would cost New Mexico 80 jobs and \$2.4 million in lost wages and salaries.**

### **Economic Impact**

Because their children are insured by Medicaid, parents will more readily seek healthcare for them. This increased demand for healthcare generates economic activity, which creates jobs. Medicaid payments to doctors and other providers translate into more jobs for other healthcare workers. This is the "direct" economic effect of Medicaid. Medicaid spending also has "indirect" and "induced" economic effects. These are the outward reverberations of the initial economic stimulus created when federal Medicaid dollars pay for services that otherwise would not be provided or paid for. Indirect effects include increases in employment in those industries that supply goods and services to healthcare providers, for example, janitorial services and medical equipment manufacturers. The "induced effects" are increases in employment attributable to increased spending by people who occupy the new jobs created by the direct and indirect effects of Medicaid, i.e. the

jobs created when the new employees of the hospitals and janitorial services spend their money at local businesses.

<b>Direct, Indirect, and Induced Impacts of Medicaid Spending</b>			
	Jobs	Labor Income	Economic Activity
Direct	18,114	\$578,333,000	\$1,275,912,000
Indirect	3,935	\$107,701,000	\$289,093,000
Induced	6,278	\$144,666,000	\$411,835,000
<b>Total</b>	<b>28,327</b>	<b>\$829,700,000</b>	<b>\$1,976,840,000</b>

An estimation technique known as input-output (I/O) modeling is the best way to capture the direct, indirect, and induced effects of an economic event, such as federal Medicaid spending. This analysis utilizes IMPLAN (Impact Analysis for Planning) Professional™, an I/O modeling software, to estimate the impact on the New Mexico economy of the roughly \$1.4 billion in federal Medicaid dollars the state received in 2002.

Federal spending on New Mexico Medicaid generated over \$2 billion in economic activity (measured in the value of goods and services produced) and supported over 4.2% of all New Mexico employment, over 28,300 jobs in 2002. Put differently, each dollar New Mexico spent on Medicaid drew down \$4 in federal Medicaid funds, which, when they entered the New Mexico economy, generated an additional \$1.68 in economic activity, for a combined "multiplier" effect of \$5.68.

<b>Economic Impact of New Mexico Medicaid Spending</b>					
FY 2002 state investment	Federal match	Economic activity multiplier	Annual economic activity generated	Jobs created	Compensation paid
\$348 million	\$1.39 billion	\$5.68	\$1.98 billion	28,327	\$830 million

### **Medicaid and Private Insurance**

Medicaid helps to contain the price of healthcare and the cost of private health insurance by reducing the extent to which healthcare companies must subsidize care for the indigent. All four of New

Mexico's HMOs participate in the Medicaid program. Three provide healthcare services to Medicaid clients through Medicaid managed care and the fourth provides contractual administrative services to the medical assistance division. Federal law requires that hospitals provide emergency treatment, regardless of a patient's ability to pay. New Mexico's hospitals currently provide about \$150 million in uncompensated care annually (Salem, 2002). Providers currently recoup some of the cost of providing charity care in the prices they charge private insurers and patients who pay out-of-pocket and HMOs recoup some of the cost of providing charity care in their hospitals in the rates they charge for private insurance. Therefore, to the extent that Medicaid provides insurance to people who would otherwise be unable to pay their medical bills, it helps to contain the cost of healthcare for all New Mexicans.

### **Conclusion**

New Mexico's Medicaid program pays for more than half of all state births and nursing home beds. Medicaid is also the single largest insurer of New Mexico's children. New Mexico Medicaid is a vital component of our state's healthcare system and an engine of state economic growth. The intricate linkages between public and private insurance mean that the cost of healthcare for most New Mexicans is influenced, to some degree, by Medicaid. Current federal funding for New Mexico Medicaid generates almost \$2 billion in economic activity annually and sustains roughly 28,000 New Mexico jobs. Reductions in eligibility and benefits have both been suggested as ways of containing program costs, which are perceived by some policymakers as too high. But, these

reductions will cause less utilization of medical services, and will impact New Mexico's economy in some other way, resulting in lost jobs and lost wages, and greater unemployment. Because Medicaid is so integral to the state economy, careful analysis of *all* the potential repercussions should be conducted before any significant changes are made to New Mexico's Medicaid program.

<sup>1</sup> Details on the method used to estimate the number of Medicaid eligible un-enrolled children are available by request from New Mexico Voices for Children.

<sup>2</sup> Most of the budget of the Medical Assistance Division (\$34.2 million in 2002) is spent on contractual services, including claims administration and audit.

<sup>3</sup> New Mexico's rapid enrollment growth is not unusual. In 2001, New Mexico Medicaid enrollment grew 8.0%, less than the national average of 9.8% and behind the growth rates of all surrounding states except Colorado.

<sup>4</sup> New Mexico's healthcare sector has a long history of strong employment growth. Annual private sector job growth exceeded 4% and sometimes topped 8% throughout the eighties and nineties. In 1998, however, job growth slowed to just 2.3% and in 1999 it dropped further, to .4%. The dramatic slowing of job growth in the healthcare sector during the late 1990's has been attributed to restrictions on Medicaid and Medicare reimbursement rates enacted as part of the Balanced Budget Act (BBA) of 1997 (Bradley, 2000). The BBA included sharp reductions in payments to rural health care providers and encouraged the spread of Medicare managed care (M+C) plans into rural areas.

The entire Policy Brief Series is available online at [www.nmvoices.org](http://www.nmvoices.org).

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Sources for this policy brief can be found on the New Mexico Voices for children website at [www.nmvoices.org/childpoverty.html](http://www.nmvoices.org/childpoverty.html).

### **Making the link to child poverty**

By providing free or low cost health insurance to children, New Mexico's families avoid the costs of health insurance, doctor visits, hospitalizations and prescription drugs. These savings for poor and working poor families supplement family incomes, and thus reduce poverty. In addition, Medicaid pays for preventive health care for children. Children who receive preventive care are less likely to have vision, hearing or other medical problems that can interfere with school performance, which could compromise their ability to graduate to adequate wage jobs.