

## **THE ECONOMIC BENEFITS OF HEALTH CARE REFORM IN NEW MEXICO**

June 2011

Updated August 2011

### **INTRODUCTION**

Federal health care reform, known officially as the Patient Protection and Affordable Care Act (PPACA, or ACA for short), will have an enormous positive economic impact on New Mexico. The state will be receiving billions of dollars of new federal funds. The benefits have already begun as provisions have gone into effect, but they will accelerate dramatically in 2014 when implementation of the law is complete and the major influx of new federal funding begins.

Under the ACA the state will have a health care insurance exchange where individuals and small businesses can compare insurance rates and benefits across a variety of plans. Starting in 2014, new federal funds will subsidize the purchase of private insurance on this exchange for New Mexicans who cannot afford the full cost. This will inject billions into the state's economy. Also in 2014, a big expansion of Medicaid—to be paid for almost entirely out of federal funds—will pump additional billions into New Mexico. This influx of federal money will support thousands of jobs, which, in turn, will generate more economic activity. We estimate that ACA will ultimately generate between 38,000 and 47,000 new jobs in New Mexico.

By 2019, the great majority of New Mexicans who currently do not have insurance will be covered, which should also benefit the state economically in terms of

improved worker productivity. When most people have health insurance, the costs of uncompensated care, which are currently borne by the state and counties, as well as those who already have private insurance, will greatly decrease. This will help not only slow the increase in premiums, but any disadvantage we might have in economic development because of our high premiums and high rate of uninsured could disappear.

### **PRIVATE HEALTH INSURANCE EXPANSION ON THE EXCHANGE**

Beginning in 2014, ACA will significantly reduce the numbers of uninsured in New Mexico. It has been estimated that a total of 315,000<sup>1</sup> out of an estimated 444,000<sup>2</sup> currently uninsured adults will be covered by 2019. About half of these individuals will obtain private insurance on the new exchange. (Some of these individuals may obtain a commercial-like plan provided by the state called the Basic Health Plan, if the state chooses this option.) It is also expected that more children will receive coverage as well, as their parents obtain health insurance for themselves.

Many of these newly insured individuals (or their small-business employers) will receive federal income tax credits to make insurance more affordable. These

refundable tax credits will be available on a sliding scale basis on the new exchange for individuals and families with incomes between 138 and 400 percent of the Federal Poverty Level (FPL). That this is a “refundable” credit is key to its effectiveness. Most tax credits merely reduce an individual’s or family’s income tax payment, so such credits do not help people

“Every New Mexico family with insurance currently pays an extra \$3,100 every year to help cover the costs of providing health care to the uninsured.”

who earn so little that they do not pay federal income taxes. In this case, however, the credit will actually reduce the cost of people’s premiums because the funds will go directly to the insurance company.

Small employers in New Mexico are already eligible for tax credits to help them purchase health insurance for their employees, and this benefit will continue indefinitely. These tax credits for individuals and employers will result in a significant inflow of federal funds into New Mexico—estimated at between \$4.2 and \$4.6 billion between 2014 and 2020 (see Table I, “Low and High Estimates of New Federal Funds into New Mexico, 2014-2020,” page 3).

## NEW MEDICAID FUNDING

Adults living below 138 percent<sup>3</sup> of the FPL in 2014 will be newly eligible for Medicaid, which currently covers very few low-income adults who are not disabled or elderly. Recent estimates by the New Mexico Human Services Department<sup>4</sup> (HSD) projects that by 2020 New Mexico will have added between 133,000 and 183,000 new individuals to Medicaid. Most of these individuals will have been previously uninsured.<sup>5</sup>

New Mexico currently covers about 43,000 adults in its State Coverage Insurance (SCI) program, which was established about six years ago under a Medicaid waiver.<sup>6</sup> Most, but not all of the SCI enrollees (those with family incomes below 138 percent FPL) will be newly eligible for regular Medicaid beginning in 2014 and the state will get a higher federal matching rate (which is reflected in the federal funding described later in this report). Federal CHIP funding will be increased to 100 percent for New Mexico children for 2016 to 2019.

The ACA will bring a huge influx of new federal Medicaid funding into New Mexico beginning in 2014. New enrollment and spending will start that year and ramp up to 2020 as uninsured individuals enroll in Medicaid in response to the new eligibility for adults and the federal mandate to obtain health insurance. HSD projects that the federal government will pay more than 92 percent of the cost of this expansion and new enrollment of current eligibles during the first seven years.<sup>7</sup> New federal Medicaid spending in New Mexico for the seven-year period (2014 through 2020) is projected to be between \$6.3 billion and \$8.7 billion (see Table I, page 3). No new state spending will be required for the newly eligible adults until 2017. Total new state spending is projected by HSD to total between \$496 million and \$797 million—or just 7 to 8 percent of the total for the seven years. (See Table V, page 6, for year-by-year projections.)



Table I shows both low and high, year-by-year estimates of the federal funds that will flow into New Mexico as a result of the tax credits and increased Medicaid funds during the first seven years of the implementation of ACA. Note that these funds are in addition to the several billion dollars each year that New Mexico will continue to receive as the federal share of its existing Medicaid program to cover children, very low-income parents, and adults who are elderly or disabled.

Based on current trends, about 97 percent of these Medicaid funds will be spent in the private health care sector (or at University of New Mexico Hospital and other public health care facilities).

HSD estimates the annual new cost of the Medicaid expansion and enrollment growth in 2020 will be between \$1.43 and \$1.92 billion. Of this total, the state is projected to pay only a fraction—between \$117 and \$258 million. These costs are based on the expectation that there will be 133,000 to 183,000 new enrollees in Medicaid<sup>8</sup> (105,000 to 132,000 will be newly eligible

adults and 28,000 to 51,000 will be currently eligible but not enrolled individuals—mostly children).

## ECONOMIC IMPACTS OF ACA

Today, almost everyone will seek health care if they are experiencing a medical emergency, regardless of their insurance status. The same is not true for preventive health care. People are far more likely to seek routine or preventive care for themselves or their children when they have health insurance. Expanding insurance to everyone will increase demand for health care. Medicaid and private insurance payments to doctors and other providers translate into more jobs for other health care workers. This is the “direct” economic effect of the new federal funds.

Medicaid and private insurance spending also has “indirect” and “induced” economic effects. These are the outward reverberations of the initial economic stimulus created when federal Medicaid or insurance

**Table I\***  
**Low and High Estimates of New Federal Funds into New Mexico, 2014-2020**  
(in millions)

		2014	2015	2016	2017	2018	2019	2020	Total
New Federal Medicaid Funds	Low	\$301	\$701	\$821	\$929	\$1,044	\$1,218	\$1,246	\$6,261
	High	\$454	\$1,032	\$1,182	\$1,317	\$1,456	\$1,620	\$1,660	\$8,721
Federal Tax Credits	Low	\$184	\$388	\$601	\$721	\$792	\$810	\$810	\$4,298
	High	\$200	\$420	\$650	\$780	\$840	\$870	\$900	\$4,660
Total New Federal Funds	Low	\$485	\$1,089	\$1,422	\$1,650	\$1,836	\$2,019	\$2,056	\$10,559
	High	\$654	\$1,452	\$1,832	\$2,097	\$2,296	\$2,490	\$2,560	\$13,381

\*All tables in this report contain both low and high estimates largely because that is how HSD configures its Medicaid estimates. In the case of the federal tax credit, two sets of national estimates were used, one of which was higher.

*New Federal Medicaid Funds Source: “Medicaid Under the Patient Protection and Affordable Care Act (PPACA) by State Fiscal Year,” New Mexico Human Services Department, July 2011; Federal Tax Credits Low Estimate Sources: “Consider Savings as Well as Costs,” Urban Institute, July 2011, Table 6 (annual take-up rate based on HCAN report cited below; 2020 estimate extrapolated by NM Voices for Children); Federal Tax Credits High Estimate Sources: Health Care for America Now (HCAN) report based on estimates generated by Jon Gruber, Dept. of Economics, MIT, “Health Care for America Now: Federal Health Reform Provides Critical Help to States,” March 23, 2010; 2020 estimate extrapolated by NM Voices for Children.*

subsidy dollars pay for services that otherwise would not be provided or would be provided without payment. “Indirect effects” include increases in employment in those industries that supply goods and services to health care providers, such as janitorial services and medical equipment manufacturers.

the number of jobs attributable to the increased spending summarized in Table II. Again, this is in addition to the jobs in New Mexico already attributable to the existing Medicaid program, which New Mexico Voices for Children estimated in 2010 to exceed 58,000.<sup>10</sup>

The “induced effects” are increases in employment attributable to the increased spending by people who occupy the new jobs created by the direct and indirect effects of Medicaid and private health insurance. In other words, these are the jobs created when the new employees of the hospitals and janitorial services spend their money at local businesses.

“New Mexico’s economy, as well as the health of its citizens, will be well-served by an aggressive implementation of ACA.”

Table II, “Low and High Estimates of Economic Activity in New Mexico Generated by New Federal Funds, 2014-2020” (below), summarizes the year-by-year direct, indirect, and induced economic activity generated in New Mexico by the new federal funds in millions of dollars.

### OTHER COST SAVINGS

In addition to the direct, indirect and induced economic benefits from new federal health care spending in New Mexico, ACA will also help to contain health care and private insurance costs already borne by New Mexicans in several ways. New Mexico’s Medicaid providers—particularly the majority of the Medicaid managed-care companies—also supply much of the state’s private health insurance and a significant amount of its health services. Medicaid helps cover overhead expenses, provides cost-effective preventive care, and

Table III, “Low and High Estimates of Jobs Generated by New Federal Funds, 2014-2020” (page 5), estimates

**Table II**  
**Low and High Estimates of Economic Activity in New Mexico Generated by New Federal Funds, 2014-2020 (in millions)**

		2014	2015	2016	2017	2018	2019	2020	Cumulative Total
Direct	Low	\$485	\$1,089	\$1,422	\$1,650	\$1,836	\$2,019	\$2,056	\$10,559
	High	\$654	\$1,452	\$1,832	\$2,097	\$2,296	\$2,490	\$2,560	\$13,381
Indirect	Low	\$92	\$207	\$271	\$314	\$349	\$384	\$391	\$2,009
	High	\$134	\$298	\$376	\$430	\$471	\$510	\$525	\$2,743
Induced	Low	\$179	\$403	\$526	\$610	\$679	\$747	\$761	\$3,905
	High	\$262	\$581	\$733	\$839	\$918	\$996	\$1,024	\$5,352
Total	Low	\$757	\$1,699	\$2,219	\$2,574	\$2,865	\$3,150	\$3,208	\$16,471
	High	\$1,050	\$2,330	\$2,940	\$3,366	\$3,685	\$3,996	\$4,109	\$21,477

Source: Calculation by NM Voices for Children from data in Table I using IMPLAN software.<sup>9</sup>

reduces the extent to which health care companies must subsidize care for the indigent.

Federal law requires that hospitals provide emergency treatment regardless of a patient’s ability to pay. University Hospital alone currently provides more than \$180 million in uncompensated care annually.<sup>11</sup> The total uncompensated care provided in New Mexico is currently estimated at \$335 million.<sup>12</sup> Much of this is paid for by New Mexico taxpayers. A recent Urban Institute report<sup>13</sup> conservatively estimates that state and local governments in New Mexico will save from \$172 to \$344 million between 2014 and 2019 in reductions in publicly provided, uncompensated care.

Moreover, much of the cost of providing charity care is recouped in the prices charged to private insurers and patients who pay out-of-pocket, while HMOs recoup some of the costs in the rates they charge for private insurance. New Mexico is estimated to have the

highest rate of this so-called “cost-shifting” in the nation: \$3,100 per insured family goes to help cover the costs of providing health care to the uninsured.<sup>14</sup> Federal health care reform should significantly reduce the growth in rates for private health insurance in the state by covering most of what are currently uncompensated costs.



**Table III**  
**Low and High Estimates of Jobs Generated by New Federal Funds, 2014-2020**

		2014	2015	2016	2017	2018	2019	2020
Direct	Low	6,448	14,478	18,905	21,936	24,409	26,842	27,334
	High	8,674	19,258	24,298	27,812	30,451	33,024	33,953
Indirect	Low	875	1,965	2,565	2,977	3,312	3,643	3,709
	High	1,176	2,611	3,294	3,771	4,128	4,477	4,603
Induced	Low	1,751	3,932	5,134	5,957	6,629	7,289	7,423
	High	2,355	5,228	6,596	7,550	8,267	8,966	9,218
Total	Low	9,074	20,374	26,605	30,870	34,350	37,774	38,466
	High	12,205	27,097	34,188	39,133	42,847	46,467	47,774

Source: Calculation by NM Voices for Children from data in Table I using IMPLAN software.<sup>9</sup>

Medicaid also allows people to get preventive and maintenance care, which greatly reduces medical costs down the line. Many people who do not get preventive or maintenance care end up in the emergency room when their illness has reached a crisis stage. Treatment in the ER at the crisis stage of an illness is more expensive than preventive and maintenance care. Therefore, to the extent that Medicaid provides insurance to people who would otherwise be unable to pay their medical bills or seek preventive care, it helps to contain the cost of health care for all New Mexicans.

is extremely important to the viability of health care provider networks.

## BUDGETARY IMPACT TO THE STATE

From 2014 to 2017, the costs of expanding Medicaid to cover all newly eligible adults under 138 percent of the FPL will be paid for entirely by the federal government. Starting in 2017, the states will be required to pay a modest percentage of the cost of covering these newly eligible adults, as shown on Table IV, “State Share of Cost of Newly Medicaid-Eligible Adults” (below). In addition, the state will pay the normal share of currently eligible individuals who enroll in Medicaid as a result of the mandate to obtain health insurance. Table V, “Low and High Estimates of State Cost of Medicaid Expansion Under ACA, 2014-2020”

**“Estimates show that new tax revenues resulting from the new federal funding flowing into New Mexico will cover the great majority of the new state funding required for Medicaid expansion under ACA .”**

Many millions of dollars more are coming to the state that are not included in the economic impact tables in this report. For example, federal grants have already been received by the state for planning the insurance exchange and new the information technology systems required. Many of the state’s 75 community health centers will be getting special grants under the ACA, in addition to expanded Medicaid funding for their patients. There is also additional funding for the training of doctors, nurses, and other health care providers at our colleges and universities.

(below), shows HSD’s estimates of the state funds that will be required each year to match the new federal Medicaid funding.<sup>15</sup>

The state funding commitment beginning in 2014 is small and grows over the course of the next six years. However, the new federal funds for both Medicaid and private insurance subsidies (Table I), as well as

These impacts will be in addition to the significant impact Medicaid already makes in the New Mexico economy, discussed previously in this report. These new funds, together with the existing Medicaid program, will support health care infrastructure all over the state, particularly in rural areas where Medicaid funding

**Table IV  
State Share of Cost of Newly Medicaid-Eligible Adults**

2014	2015	2016	2017	2018	2019	2020 and after
0%	0%	0%	5%	6%	7%	10%

**Table V  
Low and High Estimates of State Cost of Medicaid Expansion Under ACA, 2014-2020 (in millions)**

	2014	2015	2016	2017	2018	2019	2020	Total
Low	\$8	\$22	\$26	\$51	\$91	\$120	\$177	\$496
High	\$18	\$46	\$53	\$91	\$148	\$182	\$258	\$797

*Table V Source: “Medicaid under the Patient Protection and Affordable Care Act (PPACA) by State Fiscal Year,” New Mexico Human Services Department, July 2011*

the indirect and induced economic activity (Table II), are subject to various state and local taxes in New Mexico. NM Voices for Children has completed a detailed estimate of the total annual yield of these taxes and will report these results in a follow-up paper soon. The estimates show that new tax revenues resulting from new federal funding flowing into New Mexico will cover the great majority of the new state funding required for Medicaid expansion under ACA or even exceed state costs.

## RECOMMENDATIONS

New Mexico is poised to reap substantial economic benefits from the federal spending and cost savings that will come with full implementation of the new health care reform law. New Mexico's economy, as well as the health of its citizens, will be well-served by an aggressive implementation of ACA by our leaders. Medicaid already supports about 60,000 jobs in New Mexico and the ACA will generate 38,000 to 47,000 more jobs by 2020. The impact will be especially beneficial in New Mexico's rural and low-income areas. The extent of the state's benefits will be directly correlated to how many New Mexicans obtain health insurance either through the exchange or through Medicaid, so we should use all the tools available under the new law for maximizing outreach and enrollment in all parts of the state.

Our soon-to-be published report will show that ACA costs to the state, as estimated by HSD, will be largely or completely offset by new state and local revenue generated by the federal ACA funding flowing into the state after 2014.

New Mexico has as much—if not more—to gain from federal health care reform as any state, but only if we take full advantage of it. We urge our elected officials to use every available opportunity to quickly and fully implement the law so New Mexico can reap the maximum health and economic benefits that it provides.

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## ENDNOTES

- 1 *Health Coverage in New Mexico: How Will Health Reform Help?*, Families USA, Washington, DC, March 2010.
- 2 "Current State of Health Insurance Coverage in New Mexico," Senator Jeff Bingaman policy summary, 2009: [http://bingaman.senate.gov/policy/currentcvg\\_nm.pdf](http://bingaman.senate.gov/policy/currentcvg_nm.pdf).
- 3 133 percent plus a 5 percent income disregard.
- 4 "Medicaid Under the Patient Protection and Affordable Care Act (PPACA) by State Fiscal Year," New Mexico Human Services Department, July 2011.
5. This estimate is somewhat lower than a previous Kaiser Foundation report (*Medicaid Coverage and Spending in Health Reform: National and State-By-State Results for Adults at or Below 133% FPL*, Kaiser Family Foundation, Menlo Park, CA, March 2010), which estimated 145,000 to 202,000 new individuals and did not count newly enrolled children.
- 6 NM Human Services Department (HSD) Monthly Eligibility Report, Santa Fe, NM, August 2011.
- 7 "Medicaid Under the Patient Protection and Affordable Care Act (PPACA) by State Fiscal Year" (see note 4).
- 8 Ibid.
- 9 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.
- 10 *Medicaid: An Integral Part of New Mexico's Economy*, New Mexico Voices for Children, Albuquerque, NM, September 2010.
- 11 UNM Health Sciences Center, Uncompensated Care Report, Albuquerque, NM, 2010, <http://hsc.unm.edu/about/Databook/2010/27.pdf>.
- 12 "Health Reform in New Mexico," May 2010, [www.healthreform.gov](http://www.healthreform.gov) (White House website).
- 13 "Consider Savings as Well as Costs: State Governments Would Spend at Least \$90 Billion Less with the ACA than without It from 2014 to 2019," Urban Institute, July 2011.
- 14 "Paying a Premium: The Added Cost of Care for the Uninsured," Families USA, Washington, DC, June 2005.
- 15 These state costs are consistent with previous estimates by the Kaiser Family Foundation (see endnote 5). HSD assumes that many currently eligible but un-enrolled children will enroll with their parents in 2014 and the Kaiser report was limited to adults. Also, the HSD estimates cover seven years instead of six. HSD's low and high estimates for six years (2014-19) are \$318 to \$539 million. Without the increase in children's enrollment, their 6-year estimates would be \$203 to \$315 million. These are only slightly higher than the Kaiser 6-year adult-only estimates (\$195 to \$278 million).

This report was generously funded by First Focus, Voices for America's Children, and the David and Lucile Packard Foundation. The use of IMPLAN software was made possible by funding from the W.K. Kellogg Foundation as part of our State Fiscal Analysis Initiative (SFAI) work.

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