

# THE ECONOMIC IMPACT OF THE AFFORDABLE CARE ACT

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November 30, 2012

## NUMEROUS ASPECTS OF ACA CAN SIGNIFICANTLY IMPACT NEW MEXICO'S ECONOMY

- Medicaid expansion to low income adults
- Individual Health Insurance Exchange and the accompanying cost sharing and tax subsidies
- SHOP exchange and the small business tax credits
- Reductions in indigent care expenses for local governments and hospitals
- Elimination of the New Mexico Medical Insurance Pool and deductibility of assessments.
- Healthcare workforce development incentives
- Primary care grants
- Maternal and child health grants...
- Increased productivity and reduced absenteeism due to better health
- Increased labor force attachment and decreased turnover due to increased access to coverage.

The extent to which most of these factors will impact New Mexico's economy is contingent on how ACA is implemented by New Mexico.

## HEALTHCARE AND THE NEW MEXICO ECONOMY

In 2010, New Mexico's healthcare sector directly or indirectly supported approximately 191,000 (about 1-in-5) jobs and generated about \$23 billion in output, \$8.9 billion in income and \$770 million in state and local tax revenue

Impacts	Employment	Income	Output
Direct	107,286	\$5,777	\$13,689
Indirect	35,176	\$1,392	\$4,123
Induced	48,201	\$1,700	\$5,082
Total	190,663	\$8,869	\$22,894

Source: Author calculations using New Mexico Health Expenditure Accounts, New Mexico industry data and IMPLAN™ software

Three of New Mexico's ten fastest growing occupations are in healthcare. Three of the seven occupations with the most acute labor shortages are also in healthcare (Sources: US Bureau of Labor Statistics and New Mexico Department of Workforce Solutions).

Healthcare is an “economic base” industry: Over 50%, and potentially as much as three quarters, of New Mexico’s healthcare costs are paid by the federal government in the form of Medicare, Medicaid, the VA, the Indian Health Service, health coverage for federal employees and federal contractors and the federal tax subsidies for health insurance and healthcare (Sources: New Mexico Bureau of Business and Economic Research and author calculations).

Despite healthcare’s already prominent role in our economy, the State of New Mexico is far from realizing the full economic potential of our healthcare sector.

Approximately 433,000 New Mexicans, over 1-in-5, lack health insurance (Source: Kaiser Family Foundation).

Research suggests that the uninsured consume about 50% less healthcare, on average, than the insured. The uninsured often delay treatment and incur higher medical costs as a result. Most of New Mexico’s uninsured are low income and many are unable to pay their medical bills. The cost of caring for New Mexico’s uninsured is absorbed, in part, by the insured in the form of higher health insurance premiums and healthcare costs.

Data also suggests that the supply of some types of healthcare is not sufficient to meet the demand of New Mexico residents. On net, New Mexico healthcare providers provide 4% less healthcare than is consumed by New Mexico residents.

	State		Difference	
	of Provider	of Residence	\$	%
All Personal Healthcare	\$13,832	\$14,378	-\$546	-4%
Hospital Care	\$4,992	\$5,283	-\$291	-6%
Physician & Clinical Services	\$2,838	\$3,100	-\$262	-8%
Other Professional Services	\$425	\$440	-\$16	-4%
Dental Services	\$621	\$662	-\$40	-6%
Home Healthcare	\$1,490	\$1,474	\$17	1%
Prescription Drugs & Other Nondurable Medical Products	\$1,229	\$1,717	-\$488	-28%
Durable Medical Products	\$345	\$344	\$1	0%
Nursing Home Care	\$516	\$507	\$8	2%
Other Health, Residential and Personal Care	\$970	\$955	\$15	2%

Source: Author calculations using data from Centers for Medicaid and Medicare Services, Office of the Actuary State Health Expenditure Accounts

The provisions of the Federal Affordable Care Act, if implemented in New Mexico, will dramatically increase the percentage of New Mexicans covered by health insurance. The most immediate and profound increase will result from the expansion of Medicaid to childless adults under 138% of the federal poverty level.

	2014			2020		
	Employment	Income	Output	Employment	Income	Output
Direct Effect	1,751	\$113	\$239	7,240	\$452	\$944
Indirect Effect	546	\$21	\$58	2,155	\$82	\$227
Induced Effect	903	\$32	\$95	3,586	\$127	\$378
<b>Total Effect</b>	<b>3,199</b>	<b>\$166</b>	<b>\$391</b>	<b>12,981</b>	<b>\$660</b>	<b>\$1,549</b>

Source: Author calculations using Medicaid enrollment projections from the New Mexico Human Services Department, Medicaid expenditure data from the Centers for Medicaid and Medicare Services and IMPLAN™ software

New Mexico's insurance premiums and gross receipts taxes will capture enough direct revenue from the expansion to cover the state's share of the increased Medicaid cost.

	2014-2020 Total	Annual Average
<b>DIRECT IMPACTS</b>		
Insurance Premiums Tax	\$253	\$36
Gross Receipts Tax	\$119	\$17
State Medicaid Cost Share	\$312	\$45
Total Net <i>Direct</i> S&L Tax Revenue from expansion	\$59	\$8
State Share	\$7	\$1
Local Government Share	\$52	\$7
Indirect Tax Impact (State & Local)	\$58	\$8
Induced Tax Impact (State & Local)	\$93	\$13
Total S&L Tax Revenue from expansion	\$523	\$74

Source: Author calculations using Medicaid enrollment projections from the New Mexico Human Services Department, expenditure data from CMS and IMPLAN™ software

Leakages as illustrated in Table 3 above and limitations on the supply of healthcare services, due in large part to a lack of providers, will limit the ability of New Mexico's healthcare sector to meet the increased demand for healthcare services that will result when more people become insured.

To capture the maximum health and economic benefits from the Medicaid expansion and the other ACA incentives, New Mexico must ensure that increased health insurance translates into more healthcare delivery by increasing the number of healthcare providers, the capacity of current providers to provide the maximum scope of services and the availability of health services throughout New Mexico.

#### SMALL BUSINESS AND NON-PROFIT IMPACTS

One quarter of New Mexicans who have a job (205,846 workers) are uninsured.

Twenty-eight percent of New Mexico businesses with fewer than fifty employees offer health insurance to their employees compared to ninety-six percent of businesses with fifty or more employees.

New Mexico's 28,000 small employers know very little about ACA

The small business health insurance exchange (aka Small Business Health Options Program or SHOP exchange) established under ACA could greatly enhance access to high-quality affordable coverage for employees of New Mexico small business.

1.

Two thirds of the 55,000 New Mexicans expected to enroll in insurance through the New Mexico health insurance exchanges in 2014 will be employees of small business who purchase policies through the SHOP.

The SHOP has three built-in advantages over other sources of insurance: (1) Small employer tax credits are only available for policies purchased on the SHOP; (2) The SHOP will screen employees to determine their ability to afford the coverage offered on the SHOP and, if coverage on the SHOP is unaffordable, route them to more affordable options on the individual exchange or through Medicaid; (3) Employees of businesses that participate in the SHOP may have a greater variety of coverage options to choose from than they would have if their employer obtained insurance in the external small group market.

ACA addresses the four primary barriers to health insurance for small business that have been identified by the US Small Business Administration: (1) uncertainty (2) rating and risk practices (3) low wage workers (4) high cost.

1. The uncertainty of future insurance costs may deter some employers from obtaining coverage. The exchanges create larger, more stable pools which should decrease price volatility and increase employer confidence in the future stability of health insurance costs.
2. Insurance market reforms will make it harder for insurers to discriminate against employers based on the health status of their employees or dependents.
3. Businesses that employ low wage workers may not provide health insurance because low wage workers often prefer higher wages to health insurance. This is particularly true for relatively young, healthy low wage workers.

Roughly half of employed, uninsured New Mexicans ages 19-64 will become eligible for Medicaid in 2014. The expansion of Medicaid to low income adults will benefit employers by giving them healthier, more productive workers without the cost or administrative burden of providing health insurance.

Low wage workers with income too high to qualify for Medicaid will be able to obtain government subsidized health insurance on the individual insurance exchange. This too will confer upon employers the benefits of insured workers without the cost or administrative burden of providing insurance themselves.

Non-profit organizations are a substantial and increasing share of New Mexico small business and employ thousands. Many provisions of the ACA are administered through the federal tax system. Non-profits are exempt from most federal taxes. However, they are subject to the provisions of the Affordable Care Act in the same way other firms are and are eligible for similar incentives.