
THE ECONOMIC AND FISCAL IMPACT OF MEDICAID EXPANSION IN PENNSYLVANIA: EXECUTIVE SUMMARY

Pennsylvania Economy League, Inc.
Econsult Solutions, Inc.
Commissioned by the PA Health Funders Collaborative
April 2013

BOTTOM LINE

Medicaid expansion in Pennsylvania is estimated to have a **significant positive impact on the state economy and a net positive impact on the state budget**. By providing between \$3 and \$5 billion per year for the expanded program, federal funds will support:

- The state government in realizing savings on many of its current healthcare programs for low- to moderate-income adults;
- Almost 35,000 jobs in 2016, and billions in new economic activity, income, and tax revenues statewide; and
- A net fiscal improvement for the state budget due to the expected program savings and new tax revenues, even despite state costs rising as the federal match declines from 100% to 90% after 2016.

OVERVIEW

The Economic and Fiscal Impact of Medicaid Expansion in Pennsylvania was commissioned by the PA Health Funders Collaborative (PHFC). PHFC is an association of health foundations that work with their communities to promote better health care outcomes and healthy lifestyles. PHFC's goal in commissioning the analysis was to inform pending decisions by the Commonwealth on whether to accept the expanded Medicaid funding being offered under the Affordable Care Act.

PHFC's research partner, the Pennsylvania Economy League, Inc. (PEL), has been a force for positive change since 1936. It is the leading, regionally based, statewide public policy organization providing independent research and insight on emerging issues with the goal of stimulating public and private action to make Pennsylvania a better place to live, work, and do business. PEL engaged Econsult Solutions, Inc. (ESI), a private economic consulting firm, as its economic research partner. ESI provides businesses and public policy makers with economic consulting services in urban economics, real estate economics, transportation, public infrastructure, development, public policy and finance, community and neighborhood development, planning, as well as expert witness services for litigation support. ESI's team was responsible for leading the economic impact and fiscal analysis research and calculations. The economic modeling and analysis was conducted by the Pennsylvania Economy League of Greater Pittsburgh, an affiliate of the Allegheny Conference on Community Development.

PROJECT GOALS

There are two primary goals for this project:

1. Understand the economic and fiscal impacts of Medicaid expansion in Pennsylvania for three time periods: 2016, 2022, and the ten years between 2013 and 2022.
2. Provide nonpartisan information to Pennsylvania lawmakers and other interested parties as the expansion decision is considered and debated.

It is also important to note what is not considered in this report. The Affordable Care Act results in significant costs for the Commonwealth regardless of whether Pennsylvania chooses to expand Medicaid coverage. This report does *not* attempt to analyze the total impact of the Affordable Care Act in the Commonwealth; rather this analysis focuses only the economic and fiscal changes that would result from the decision to expand Medicaid.

WHAT'S AT STAKE

Under the Affordable Care Act (ACA), Pennsylvania is facing a significant decision as to whether it should expand Medicaid to individuals making less than 138% of the federal poverty level. Why does this matter?

The Kaiser Family Foundation (KFF) estimates that Medicaid expansion in Pennsylvania would result in the coverage of 542,000 individuals by 2016, including 313,000 who are currently uninsured. This would reduce the total number of uninsured individuals in Pennsylvania by 25%.

To accomplish this goal, the federal government has provided an incentive to the state for expansion. Under the ACA, the federal government will fund 100% of the costs of those who are newly eligible during the initial three years of 2014-2016. After 2016, the Federal Medicaid Assistance Percentages (FMAP) match will decline to a floor of 90% by 2020, and is expected to stay at 90% for subsequent years. According to KFF, this would result in:

- The federal government providing a projected \$3.8 billion to the Commonwealth in 2016, increasing to \$5.5 billion in 2022.
- An increase in state spending from \$29 million in 2016 (the final year of the 100% federal match) to \$645 million in 2022 (when the federal match will have reached its lowest level, at 90%).¹

SUMMARY OF KEY FINDINGS

In order to calculate the economic and fiscal impacts of Medicaid expansion, PEL and ESI had to identify three key pieces of information that serve as inputs to the economic modeling process.

1. *New state savings*, resulting from reductions in spending on current state programs that provide health care services to people who will now be covered by Medicaid;
2. *New household savings*, resulting from individuals who were previously covered by private insurance opting into Medicaid; and

¹ These figures take into account an increase in State matching funds for eligible, but currently non-enrolled, new Medicaid enrollees (sometimes referred to as people "coming out of the woodwork" to claim their benefits due to increased outreach and attention related to Medicaid eligibility) and administrative costs associated with expansion.

3. *New spending* on healthcare for uninsured residents who meet the expanded requirements.

These estimates were then used to calculate the **economic and fiscal impact** of Medicaid expansion. Specifically, the team used the IMPLAN economic modeling software to calculate the increase in jobs, output, wages, and resulting state taxes due to new spending for Medicaid expansion for 2016 and 2022. We then calculate **the net fiscal impact**, or state budget impact, due to the program savings, program costs, and new tax revenues associated with the expansion.

PENNSYLVANIA BUDGET SAVINGS

Pennsylvania state government will be able to **reduce state-funded healthcare program costs** by a total of **\$412 million in 2016 and \$595 million in 2022**, with a **ten year savings of \$4.4 billion** between 2013 and 2022 because federal dollars will pay for healthcare costs now paid for with state dollars.

State Healthcare Savings (in millions)

Savings Category	2016	2022	2013-2022
General Assistance (eligible for expansion)	\$277.5	\$401.8	\$2,973
State Uncompensated Care Payments (reduced uncompensated care burden in state)	\$48.6	\$70.3	\$520.4
Medically Needy (some eligible due to income)	\$36.2	\$52.4	\$387.8
Select Plan for Women (some eligible due to income)	\$0.3	\$0.3	\$2.6
Mental/Behavioral Health (some eligible due to income)	\$42.5	\$61.5	\$454.8
Drug/Alcohol Abuse (some eligible due to income)	\$2.2	\$2.7	\$22.4
Prison/Incarcerated (in-patient hospital care)	\$5.2	\$6.2	\$52.5
Total State Healthcare Savings	\$412.5	\$595.2	\$4,414

Source: Pennsylvania Health Law Project, Pennsylvania Department of Public Welfare, Pennsylvania Department of Corrections, Econsult Solutions

NEW SPENDING IN PENNSYLVANIA

The infusion of federal funds for expansion will lead to **net new spending in Pennsylvania of \$3.3 billion** in 2016. This figure comprises new state government savings as result of healthcare savings and expansion costs; new discretionary income for previously insured individuals as they shift from private insurance to Medicaid; and new healthcare spending to cover the uninsured.

Total New Spending Due to Expansion (in millions)

Spending Category	2016	2022	2013-2022
State Fiscal Savings (costs)	\$384	(\$50)	\$1,572
New Household Spending	\$1,139	\$1,884	\$12,357
New Healthcare Spending	\$1,773	\$2,885	\$18,507
Total New Spending	\$3,296	\$4,719	\$32,436

Source: Kaiser Family Foundation, Pennsylvania Health Law Project, Pennsylvania Department of Public Welfare, Pennsylvania Department of Corrections, Econsult Solutions

STATE ECONOMIC IMPACT

In 2016, as the new spending in Pennsylvania circulates through the state's economy, the resulting direct, indirect and induced economic impact will support **almost 35,000 jobs**, as well as an increase of **\$5.3 billion in economic activity**, **\$3 billion in state GDP**, **\$1.8 billion in employee wages** and **\$2.1 billion in total earnings**. By 2022, the impact of the new spending will support almost **43,000 jobs**, over **\$7 billion in economic activity**, **\$4.4 billion in GDP**, **\$2.6 billion in employee wages** and **\$2.9 billion in total earnings**.

Total Economic Impact (\$ in millions)

Category	2016	2022
Jobs	34,727	42,780
Economic Activity	\$5,343	\$7,282
GDP	\$3,024	\$4,366
Employee Wages	\$1,822	\$2,579
Total Earnings	\$2,070	\$2,940

Source: IMPLAN, Centers for Medicare and Medicaid Services, Kaiser Family Foundation, Econsult Solutions

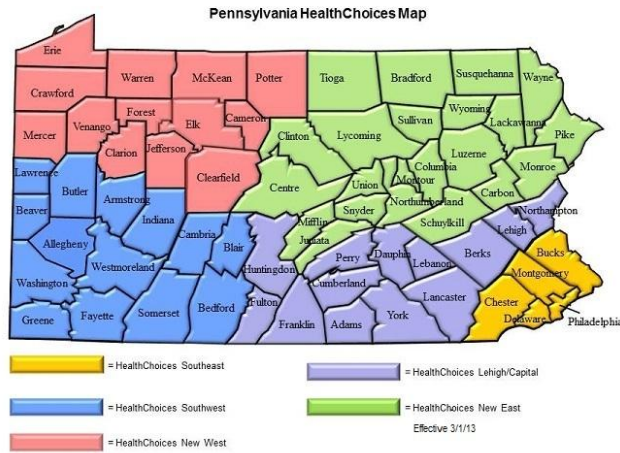
REGIONAL ECONOMIC IMPACT

It is also important to note that the new spending will have a significant impact on regional economies. We used the state's HealthChoices regions to run the economic impact model to show the corresponding growth in jobs, economic activity, GDP, employee wages and total earnings by region. Local governments and school districts will likely experience positive revenue impacts, as well, from increased local wage, sales and property taxes where applicable.

2016 Economic Impact by Region, 2016 Nominal Values (\$ in millions)

Region	Jobs	Economic Activity	GDP	Employee Wages	Avg. Wage	Total Labor Earnings
Lehigh Central	8,080	\$1,164	\$649	\$397	\$49,090	\$440
New East Region	4,932	\$677	\$360	\$214	\$43,408	\$243
New West Region	2,077	\$263	\$140	\$88	\$42,269	\$98
Southeast Region	10,368	\$1,749	\$1,029	\$621	\$59,936	\$725
Southwest Region	7,535	\$1,115	\$628	\$382	\$50,637	\$429
Statewide	34,727	\$5,343	\$3,024	\$1,822	\$52,461	\$ 2,070

Source: IMPLAN, Centers for Medicare and Medicaid Services, Kaiser Family Foundation, Econsult Solution



REVENUE IMPACT

Because of the increase in economic activity, **state tax revenue is estimated to grow by \$291 million in 2016, \$418 million in 2022**, and by an estimated total of **\$3.6 billion from 2013-2022**.

State Tax Revenue Impact (in millions)

	2016	2022
New Income Tax Revenue	\$62.8	\$89.2
New Insurance Gross Receipts Tax Revenue ²	\$131.0	\$187.6
New Corporate Income Tax Revenue	\$10.3	\$14.9
New Sales Tax Revenue	\$87.7	\$126.6
Total Tax Revenue Impact	\$291.8	\$418.3

Source: IMPLAN, Centers for Medicare and Medicaid Services, Kaiser Family Foundation, Econsult Solutions

² There is some concern that a gross receipts tax will be disallowed by the federal government. As this federal decision is not finalized, we have included Gross Receipts Tax revenue to represent the potential impact from this tax. Our results should be considered with this potential disallowance in mind. Even if the Gross Receipts Tax revenue is not available, the expansion would still have a positive effect on the state budget.

FISCAL IMPACT

Adding it all up, it is estimated that the expansion will have a positive effect on the state budget of **\$675 million in 2016**, though it will shrink to **\$369 million in 2022** as the federal subsidy declines. There will be an estimated **\$5 billion in positive cumulative net fiscal impact over the ten-year period of 2013 to 2022**.

State Net Fiscal Impact (in millions)

	2016	2022	2013-2022
Total State Healthcare Savings	\$412.5	\$595.2	\$4,414.0
Total Tax Revenue Impact	\$291.8	\$418.3	\$3,550.4
Total State Spending	(\$29.0)	(\$645.0)	(\$2,842.0)
Net Fiscal Impact	\$675.3	\$368.5	\$5,122.4

Source: IMPLAN, Centers for Medicare and Medicaid Services, Kaiser Family Foundation, Econsult Solutions

CONCLUDING THOUGHTS

- This is a big decision – over five hundred thousand Pennsylvanians will be added to the Medicaid rolls, with billions of dollars being spent by the federal and state governments to provide that coverage.
- This decision is about the incremental economic and fiscal impact of expanding Medicaid, not the total cost of the Affordable Care Act. There are a lot of mandates – funded and unfunded – that will happen in Pennsylvania as a result of ACA, but they will happen regardless of whether the state chooses to expand Medicaid.
- This analysis does not project costs or benefits where there is uncertainty or variability on the overall impact. We do not include administrative costs, as there are arguments for both higher costs due to higher case loads, or lower costs due to eligibility and technological changes that reduce work load and other administrative streamlining possible due to other aspects of the ACA. Similarly, the report does not attempt to capture potential social and economic benefits that would occur as a result of expanded coverage. Reducing the number of Pennsylvanians who are uninsured should have a positive impact on insurance rates, which would add to the economic impact. Increasing coverage should also have a positive effect on productivity, as people receive proper care and improve their health status. However, because it is uncertain how much the impact will be in these cases, these potentially large benefits were not included in this analysis.
- New coverage will impact state-funded health care for low- and moderate-income residents, resulting in savings. While state program savings are exceeded by new state costs as the federal match declines to 90%, the new state tax revenues resulting from economic impact are estimated to make up the difference, resulting in a positive impact on the state budget in all studied periods.