

# medicaid and the uninsured

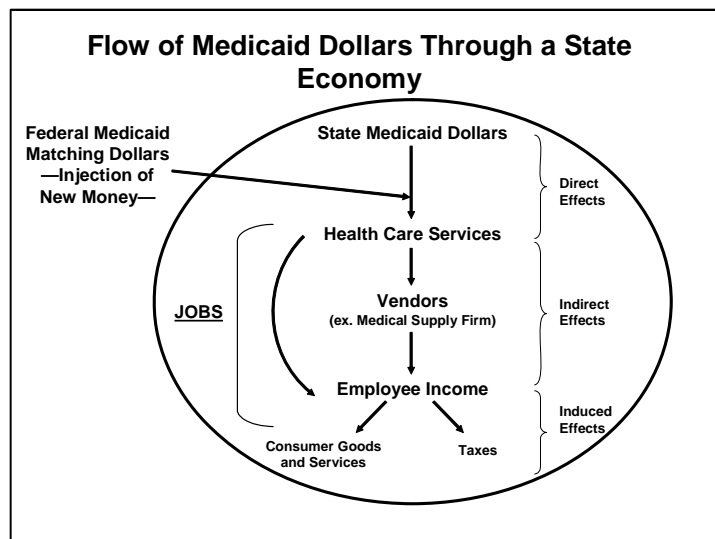
January 2009

## The Role of Medicaid in State Economies: A Look at the Research Executive Summary

The country is currently in the midst of a recession. Forty-four states are facing budget shortfalls in FY 2009 or FY 2010, state revenues are lower than projected, and unemployment rose to a fifteen-year high of 6.7 percent in November. Given Medicaid's role as a major component of state budgets, as state policy makers grapple with closing budget shortfalls, Medicaid is often targeted as a potential area to gain savings. However, cutting Medicaid not only adversely affects beneficiaries and providers, but also has an impact on the larger state economy.

Medicaid, a federal entitlement program jointly financed by the states and federal government, covers health and long-term care services for nearly 60 million low-income Americans. In addition, the program supports tens of thousands of health care providers throughout the country, including hospitals, nursing facilities, group homes, community health centers and managed care plans.

The figure shows how Medicaid spending flows through a state's economy. First, Medicaid payments made on behalf of enrollees *directly* impact health care service providers, supporting the jobs, income, and purchases associated with carrying out health care services. Through the multiplier effect, new state spending creates larger impacts because of the influx of additional federal dollars. Other businesses and industries *indirectly* benefit from this multiplier effect. For example, fluctuations in Medicaid funding may affect a Medicaid provider's supply order which would affect the medical supply firm's purchases from its vendors and so on. Finally, both the direct and indirect effects *induce* changes in household consumption and tax collection primarily due to household income fluctuations.



The Kaiser Commission on Medicaid and the Uninsured has compiled findings from 29 studies in 23 states analyzing the role Medicaid plays in state and local economies. Key findings show that:

### Medicaid spending generates economic activity, including jobs, income and state tax revenues, at the state level.

- Medicaid is the second largest line item in state budgets following elementary and secondary education. Presently, 17 percent of state funds are allocated to Medicaid on average and it is the largest source of revenue in the form of federal grant support to each state.
- Money injected into a state from outside the state is critical to generating economic activity. Medicaid's economic impact is intensified because of the federal match — state spending pulls federal dollars into the economy.

*“Most state government expenditures reallocate spending from one sector of the economy to another —with no net state income or jobs directly resulting from state government spending...State Medicaid funding is, however, a new job and income generator.”*

SOURCE: Moore School of Business, University of South Carolina, 2002

- Medicaid is the largest source of federal funds for states. The amount of federal dollars each state receives depends on the state's Medicaid spending and their FMAP.

*“In 2004, federal matching funds to the state of Missouri generated \$5.82 billion in economic activity, supported 79,892 jobs in the state and increased wages and other income earned by Missourians by \$2.8 billion, which generated \$211 million in tax revenue.”*

SOURCE: Missouri Foundation for Health, 2005

- Federal Medicaid matching dollars support jobs and generate income within the health care sector and throughout other sectors of the economy due to the multiplier effect.

**Regardless of the economic impact model used, all studies have similar findings — Medicaid spending has a positive impact on state economies.**

- The magnitude of the impact is dependent on state Medicaid spending, a state's matching rate from the federal government (FMAP) and the economic multipliers used in the studies, which reflect economic conditions within the state.

*“The administration of the Oklahoma Medicaid program creates an economic impact on the economy of Oklahoma. In FY 2006, total business spending generated from the Medicaid program was \$8.0 billion. Additionally, 99,036 jobs were created, income increased by \$2.8 billion and tax revenue increased by \$315.0 million.”*

SOURCE: Oklahoma Health Care Authority, 2007

- The size of the health sector and the interdependence of industry sectors within a state and its regions can modify the impact.

*“Medicaid accounts for a large portion of the health care sector for numerous rural counties, which makes many of Idaho's rural county economies particularly dependent on Medicaid. Medicaid spending results in total county expenditures approximately five times the size of the original investment.”*

SOURCE: Northwest Federation of Community Organizations and Idaho Community Action Network, 2006

- States and state regions and/or counties that are more reliant on public services and the health care industry may be disproportionately affected.

*“Counties vary in their population's dependence on Medicaid and other social services... Overall, the southeastern counties of Ohio will fare the worst under any of the proposed changes in Medicaid funding.”*

SOURCE: Health Policy Institute of Ohio and the Health Foundation of Greater Cincinnati, 2005

**Reductions in state and federal Medicaid will lead to declines in economic activity at the state level.**

- Reductions in state spending automatically reduce the infusion of federal dollars. States lose at least one dollar in federal funds for every dollar of state Medicaid spending cut.

*“If the Medicaid program were shut down and the funds returned to taxpayers who saved/spent the funds according to typical consumer expenditure patterns, employment in North Carolina would fall by an estimated 67,400 jobs and labor income would decline by \$2.83 billion, due to the labor-intensive nature of Medicaid expenditures.”*

SOURCE: North Carolina Journal of Medicine, 2008

- Decreases in funding reduce the flow of dollars to hospitals, nursing homes, home health agencies and pharmacies, and reduce the amount of money circulating through the economy, affecting employment, income, state tax revenue and economic output.

A full issue brief on this topic can be found at [www.kff.org](http://www.kff.org). This publication was updated by Caryn Marks and Robin Rudowitz and originally prepared by Alicia Carbaugh of the Kaiser Commission on Medicaid and the Uninsured, Kaiser Family Foundation.