



New Mexico Fiscal Policy Project

MEDICAID: AN INTEGRAL PART OF NEW MEXICO'S ECONOMY

EXECUTIVE SUMMARY

OCTOBER 2008

Medicaid is a publicly financed health insurance program serving low-income children, pregnant women, and elderly and disabled New Mexicans. The health and social benefits of providing health insurance to those who cannot afford it are well established. However, two other benefits often go unrecognized: the economic contribution federal Medicaid funding makes to the New Mexico economy and the linkages between Medicaid and the cost of private health insurance.

Before recessing earlier this month, the U.S. Congress considered an economic stimulus package that would have, among other things, raised the federal Medicaid match rate for all states. This kind of investment is an excellent way to stimulate an ailing economy because the money is pumped into sectors where it is needed and will be spent—thus creating positive economic activity.

WHY NEW MEXICO NEEDS MEDICAID

TOO MANY NEW MEXICANS LACK ACCESS TO AFFORDABLE HEALTH CARE. Only 53 percent of New Mexicans have employer-sponsored health insurance.¹ New Mexico has the second-highest rate of people without health insurance (21 percent).² This high rate of uninsured means those who have private health insurance will see some of the highest insurance premium increases in the country by the end of this decade.³

MEDICAID INSURES 428,000 NEW MEXICANS, or about 20 percent of the state's population.⁴ Medicaid is the single largest insurer of New Mexico's children, providing care for about 44 percent of the state's kids. It also pays for more than half of all births and nursing home beds.

AN ECONOMIC ENGINE

MEDICAID SERVES AS AN ECONOMIC ENGINE FOR NEW MEXICO because most of the funding comes from the federal government. New Mexico Medicaid spending totaled roughly \$2.77 billion for FY07 and constituted almost 22 percent of all spending by the state.⁵ Slightly less than 20 percent of this amount (\$690 million) was drawn from state funds. The remaining 80 percent, or nearly \$2 billion, was federal funding. Federal dollars that are injected into New Mexico grow the state's economy.

MEDICAID CREATES GOOD JOBS. When children have Medicaid coverage, their parents will more readily seek health care for them. This increased demand for health care generates economic activity, which creates jobs. Medicaid payments to doctors and other providers translate into more jobs for other health care workers. This is the "direct" economic effect of Medicaid, but there are also "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 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 “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, i.e. the jobs created when the new employees of the hospitals and janitorial services spend their money at local businesses.

FEDERAL MEDICAID FUNDS HAVE A ‘MULTIPLIER EFFECT.’ Enrollment in Medicaid usually reduces a family’s out-of-pocket medical costs, freeing up that money for other expenditures like groceries and utilities. Low- and moderate-income households spend a larger portion of their income within the local economy than do upper-income households because they have less money to set aside for savings and investments or to spend on travel. Put differently, each dollar New Mexico spent on Medicaid in 2007 drew down \$2.90 in federal Medicaid funds, which, when they entered the New Mexico economy, generated an additional \$2 in economic activity, for a combined “multiplier” effect of 4.90.

The state’s \$690 million investment in Medicaid for fiscal year 2007, combined with the federal match of \$2 billion, **CREATED AN ESTIMATED \$3.36 BILLION IN ECONOMIC ACTIVITY**, 43,639 jobs, and almost \$1.53 billion in wages and salaries for New Mexicans.

MEDICAID IS ESSENTIAL FOR NEW MEXICO’S RURAL COMMUNITIES. Health care spending 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 the few sources of high-paying jobs. New Mexico’s high rates of poverty and low rates of health insurance coverage are also most profound in our state’s rural areas, making New Mexico’s rural health care providers even more reliant than providers elsewhere 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 payer ranges from 4 percent in Los Alamos County to 48 percent in Hidalgo County. Medical facilities are already extremely limited in much of New Mexico. Without Medicaid, many of New Mexico’s rural communities would be at risk of

losing their health care infrastructure because too few residents can afford to pay the full cost of medical care. Many health care 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 health care providers.

KEEPING COSTS DOWN FOR EVERYONE

MEDICAID MAKES HEALTH CARE MORE AFFORDABLE AND AVAILABLE FOR MOST NEW MEXICANS – even those with private health insurance. Medicaid, Medicare, and other government health programs constitute roughly 75 percent of all personal health care expenditures in New Mexico.⁶ Without this spending, we would have far fewer health care providers and facilities, and people would all pay significantly higher rates.

New Mexico’s Medicaid providers—particularly the four Medicaid managed-care companies—also supply most of state’s private health insurance and health services. Medicaid helps cover overhead expenses and 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. The University of New Mexico Hospital alone currently provides about \$150 million in uncompensated care annually. Some of the cost of providing charity care is recouped in the prices charged to private insurers and patients who pay out-of-pocket, while managed care organizations (MCOs) recoup some of the cost in the rates they charge for private insurance. 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 and treatment is more expensive.

MORE MEDICAID FACTS

MEDICAID IS COST-EFFECTIVE. Only 3 percent of the state Human Services Department’s Medicaid budget is spent on administrative costs. The remaining 97 percent of the budget is paid to MCOs and other providers.⁷ Conversely, one third of every private-insurance health-care dollar goes to administrative costs.⁸

MEDICAID IS THE SINGLE LARGEST INSURER OF NEW MEXICO'S CHILDREN, providing care for 282,000 of the state's children. Even so, only 58 percent of children potentially qualified for Medicaid are enrolled.

MEDICAID RARELY COVERS ENTIRE FAMILIES. Access to Medicaid for low-income adults who are neither elderly nor disabled is very limited. Only parents receiving or transitioning from welfare, and low-income women needing services related to pregnancy, family planning, and breast or cervical cancer are eligible.

CHILDREN ARE THE MOST COST-EFFECTIVE PATIENTS. While 59 percent of New Mexico's Medicaid enrollees are children, they only represent 27 percent of the state's Medicaid spending (see Graph I).⁹ Children primarily need well-child checkups and preventive screenings, which are low-cost. Adults, on the other hand, are more likely to need treatment for illnesses like cardiovascular disease and diabetes, as well as end-of-life care, all of which are expensive.

MEDICAID COSTS ARE DRIVEN BY THE SAME FACTORS THAT INFLUENCE THE PRICE OF PRIVATE HEALTH INSURANCE. These include the cost of drugs and technological advances.

CONCLUSION

Congress should resume considering the economic stimulus package that includes raising the Medicaid FMAP for all states. A greater federal investment in Medicaid will lead to even better economic returns for New Mexico.

ENDNOTES

¹ "The Erosion of Employment-based Insurance," Economic Policy Institute, Washington, D.C., Nov. 1, 2007.

<http://www.epi.org/content.cfm/bp203>

² U.S. Census Current Population Survey, August 2008.

<http://www.census.gov/>

³ "Paying a Premium: The Increased Cost of Care for the Uninsured," Families USA, Washington, D.C., July 2005.

<http://www.familiesusa.org/resources/publications/reports/paying-a-premium-findings.html>

⁴ New Mexico Human Services Department, Medical Assistance Division, Reports, Santa Fe, NM, January 2008. <http://www.hsd.state.nm.us/mad/>

⁵ National Association of State Budget Offices, Washington, D.C., 2008. <http://www.nasbo.org/>

⁶ House Bill 955 comprehensive study, December 2004.

⁷ New Mexico Human Services Department, Medical Assistance Division.

⁸ Physicians for a National Health Plan. <http://www.pnhp.org/>

⁹ Kaiser State Health Facts, Kaiser Family Foundation, Washington, D.C.

<http://www.statehealthfacts.org/mfs.jsp?rgn=33&rgn=1>

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The full report and executive summary are available for download and use with proper citation at www.nmvoices.org/fiscalpolicyproject.htm.