

## MEDICAID: AN INTEGRAL PART OF NEW MEXICO'S ECONOMY

Updated September 2010

### INTRODUCTION

This report analyzes the impact Medicaid has on the New Mexico economy. Medicaid is a publicly financed health insurance program serving about 550,000 New Mexicans, from low-income children to very low-income parents, pregnant women, and the elderly and disabled.<sup>1</sup> For several years it has included New Mexico's State Coverage Insurance (SCI) under which about 54,000 low-income adults are also able to obtain basic health insurance.<sup>2</sup> The health and social benefits of providing health insurance to those who cannot afford it are well established.<sup>3</sup> However, two other benefits often go unrecognized: the economic contribution federal Medicaid funding makes to the New Mexico economy and the linkage between Medicaid and the cost of private health insurance. The economic contribution of federal Medicaid funding has been especially important since the onset of the Great Recession in 2008. It will also play a significant role as portions of the federal Patient Protection and Affordable Care Act (PPACA) are implemented in the near future.

New Mexico's investment in Medicaid for the immediate past fiscal year (FY10), combined with the federal match (which made up about 80 percent

of New Mexico's total Medicaid spending), created an estimated \$4.8 billion in economic activity, about 58,000 jobs, and more than \$2 billion in wages and salaries for New Mexicans.<sup>4</sup> In addition, Medicaid made health care more affordable and available for most New Mexicans—even those with private health insurance—by reducing the amount of uncompensated medical care that health providers had to absorb.<sup>5</sup> Because of the magnitude of the estimated economic impact and the connections between publicly and privately financed health insurance, careful analysis of all potential repercussions should be conducted each time the budget for New Mexico's Medicaid program is addressed.

Such analysis is especially important at the present time because the federal stimulus bill (the American Recovery and Reinvestment Act, or ARRA) of 2009 significantly increased the federal matching rate (referred to as the FMAP) for fiscal years 2009, 2010 and 2011. It was lowered slightly by Congress for FY11 and is expected to return to pre-ARRA rates for FY12. Even at the pre-ARRA rate, Medicaid will remain a major factor in helping the New Mexico economy.

## MEDICAID AND THE GREAT RECESSION

One element of the federal stimulus program was to raise the conventional Medicaid FMAP for several years. In New Mexico it has been raised to about 80 percent through the end of calendar year 2010. In August 2010 Congress extended the increased rate for another six months, but at a slightly lower level (that averages 78 percent for New Mexico). In other words, the federal government contributes about \$4 for every dollar New Mexico is spending on Medicaid in FY10 and almost \$4 in FY11. If the FMAP declines for FY12 back to an overall rate of 70 percent, the matching ratio will be \$2.35 for every state dollar.

During recent years, and especially during the current recession, New Mexico, like all other states, has experienced rapid escalation in Medicaid costs. New Mexico's total expenditure on Medicaid increased five times between 1996 and 2010: from \$677 million in 1996 to \$3.7 billion in FY10. Much of the growth in Medicaid costs coincided with eligibility expansions for children, and substantial increases in child enrollment, leading many to conclude that enrollment growth was driving the cost increases. This is only partially true. Medicaid costs are driven by the same factors that influence the price of private health insurance, most notably, the cost of drugs, reductions in savings attributable to managed care, and overall health care cost inflation due to technological advances.<sup>6</sup>

## BACKGROUND: NEW MEXICO MEDICAID

Only 41 percent of New Mexicans have employer-sponsored health insurance, compared to a national average of 52 percent.<sup>7</sup> New Mexico has the second-highest rate of people without health insurance (23 percent, compared to a national average of 15 percent).<sup>8</sup>

This high rate of uninsured means those New Mexicans who have health insurance have seen some of the highest insurance premium increases in the country.<sup>9</sup> Without government programs like Medicaid, things would be worse.

Medicaid insures more than 550,000 New Mexicans, or about 25 percent of the state's population.<sup>10</sup> It is the single largest insurer of New Mexico's children, providing care for 330,000 (or 53 percent) of the state's kids, and it pays for more than half of all births and nursing home beds.<sup>11</sup> Medicaid, Medicare, and other government health programs constitute roughly 75 percent of all personal health care expenditures in New Mexico.<sup>12</sup> Without this spending, we would have far fewer health care providers and facilities, and they would have to charge significantly higher rates.

Medicaid is cost-effective. The Medical Assistance Division of the state Human Services Department (HSD), the agency that administers Medicaid, spends less than 3 percent of the Medicaid budget on administrative costs. The remaining 97 percent of the budget is paid to health maintenance organizations (HMOs) and other health care providers.<sup>13</sup> In contrast, as much as 15 to 20 percent of every dollar spent on privately insured health care can go to administrative costs.<sup>14</sup>

Medicaid is comprehensive health insurance. The federal government requires that states provide many basic medical services and serve certain populations through their Medicaid programs. Other benefits and populations are technically optional but are provided or covered in New Mexico and most other states. Coverage includes preventive care, hospitalization, nursing home care, prescribed medications, behavioral health services, optometry, and dental care. In New Mexico, optional Medicaid services include, but are not limited to, physical therapy, hospice care, and adult

dental and vision.<sup>15</sup> The overall cost of New Mexico's program is about average compared to other states.

About 60 percent of all Medicaid recipients are children. A common misconception is that Medicaid covers entire families. This has never been the case because very few parents are eligible for traditional Medicaid. Access to Medicaid for low-income adults—both those with children and those without—who are neither elderly nor disabled is limited. Only parents who meet income eligibility levels for Temporary Assistance for Needy Families (TANF), are enrolled in TANF or are transitioning from the program, and low-income women needing services



related to pregnancy, family planning, and breast or cervical cancer, have traditionally been eligible. However, New Mexico (unlike most other states) recently began offering limited benefits to a general population of low-income adults through its State Coverage Insurance<sup>16</sup> (although enrollment has been suspended). Coverage for low-income adults through Medicaid will expand by an estimated 145,000 to 202,000 people beginning in 2014 under the federal health reform legislation.<sup>17</sup>

The proportion of children in New Mexico's Medicaid case load is higher than the national average. In 2007 (the latest national-state comparison data available), 60 percent of New Mexico's Medicaid recipients were children, compared to 50 percent nationally. Consequently, a lower percentage of New Mexico's Medicaid recipients are adults: 21 percent were non-elderly, non-disabled adults, compared to 25 percent nationally; 7 percent were elderly and 11 percent were blind or disabled adults, compared to 10 percent elderly and 15 percent blind or disabled nationally.<sup>18</sup>

Even though Medicaid covers more children than any other single provider, and even though about 53 percent of New Mexico children under age 21 are enrolled in Medicaid,<sup>19</sup> the state HSD estimated in April 2010 that there still remained approximately 62,000 children who potentially qualified for Medicaid but who were not enrolled in the Medicaid program.<sup>20</sup>

Children are eligible for conventional Medicaid if they live in households with incomes below 185 percent of the federal poverty level (FPL). They qualify for the Children's Health Insurance Program (CHIP) if they live in households with incomes

between 185 percent and 235 percent of the FPL. (See Table I: 2010 Federal Poverty and Income Eligibility Guidelines for Medicaid, page 4, for poverty and income eligibility guidelines.)

About 14 percent of New Mexico's children are without health insurance.<sup>21</sup> This compares to a national average of 10 percent. New Mexico remained second only to Texas in the percent of children who lacked health insurance in 2007, when 84,000 children under

**Table I**  
**2010 Federal Poverty and Income Eligibility Guidelines**  
**for Medicaid**

Effective April 1, 2009 through March 31, 2010

Family Size	100% FPL	185% FPL	200% FPL	235% FPL	250% FPL
1	\$10,212	\$18,900	\$20,424	\$24,000	\$25,536
2	\$13,692	\$25,332	\$27,384	\$32,184	
3	\$17,172	\$31,776	\$34,344	\$40,356	
4	\$20,652	\$38,208	\$41,304	\$48,540	
5	\$24,132	\$44,652	\$48,264	\$56,712	
6	\$27,612	\$51,084	\$55,224	\$64,896	
7	\$31,092	\$57,528	\$62,184	\$73,068	
8	\$34,572	\$63,960	\$69,144	\$81,252	
9	\$38,052	\$70,398	\$76,104	\$89,436	
10	\$41,532	\$76,836	\$83,064	\$97,620	
11	\$45,012	\$83,274	\$90,024	\$105,804	
12	\$48,492	\$89,712	\$96,984	\$113,988	

185% FPL – Medicaid for children (Cat 032), Medicaid for pregnant women, pregnancy-related services or family planning services (Cat 035), and presumptive eligibility for pregnant women

200% FPL – State Coverage Insurance (SCI) (Cat 062) and Qualified Disabled Working Individuals (Cat 042) for Family Size 1 and 2

235% FPL – CHIP ( Children's Health Insurance Program) (Cat 071)

250% FPL – Working disabled individuals

Source: NM HSD regulations

the age of 18 were not covered by health insurance at any time during the year.<sup>22</sup> Of the uninsured, 48,000 children lived in families at or below 133 percent of the FPL. However, the picture has improved a bit since; in 2009 the rate of uninsurance for children declined back to 14 percent after rising to 16 percent the year before, primarily because more children were added to Medicaid and CHIP.<sup>23</sup>

## FINANCING MEDICAID

When you add both state and federal funds, New Mexico Medicaid spending was roughly \$3.7

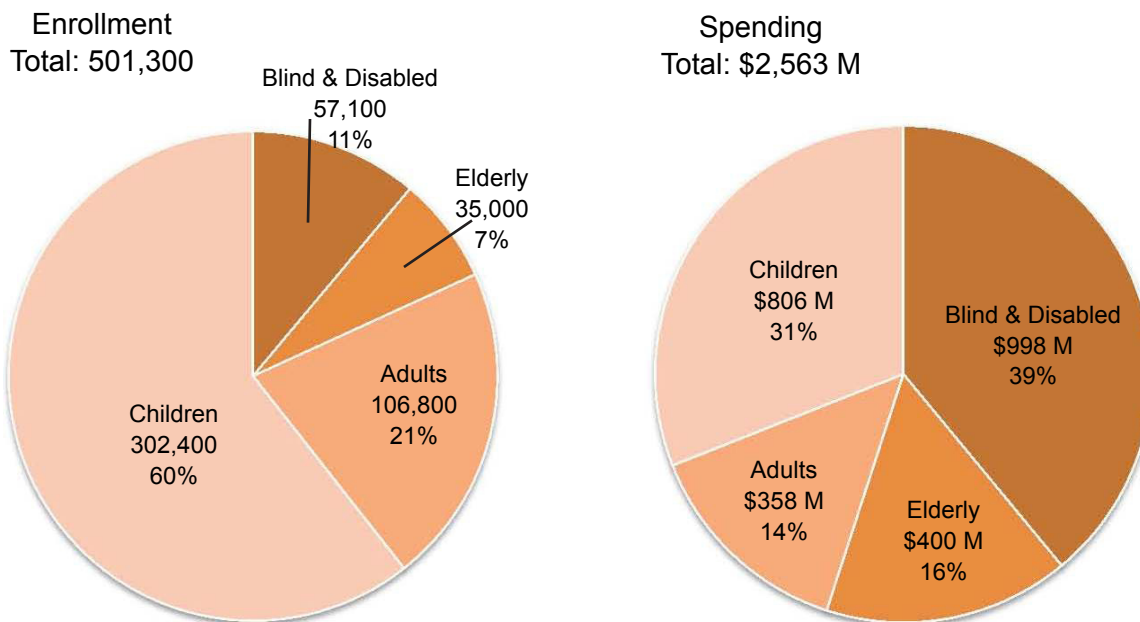
billion for the immediate past fiscal year (FY10) and constituted about 25 percent of all federal and state spending.<sup>24</sup> Slightly less than 20 percent of this amount (\$757 million) was drawn from New Mexico funds. The remaining 80 percent—nearly \$3 billion—was federal money. By itself, the state appropriations constituted about 12 percent of the state's general fund for FY10.

The federal government's share of the cost of a state's Medicaid services is called the Federal Medical Assistance Percentage (or FMAP). A state's FMAP is based on its per capita income relative to the national per capita income. States with a per capita income that is low relative to the national average have higher FMAPs, meaning that the federal government pays a larger share of their Medicaid costs. New Mexico ranked 37<sup>th</sup> among states in per capita income in 2008, and consequently, the state has one of the higher FMAPs. For 2008, New Mexico's FMAP was 71 percent

for conventional Medicaid and nearly 80 percent for CHIP, for an overall FMAP of about 72 percent.

Just as case load distribution differs in New Mexico from the national average, so does the distribution of costs. While children and non-elderly, non-disabled adults account for the largest share of Medicaid enrollees in New Mexico, they do not account for the largest share of Medicaid payments. In 2007, expenditures for children and adults together accounted for just 45 percent of New Mexico Medicaid payments. The elderly and the disabled together accounted for the other 55 percent. (See Graph I: Distribution of Medicaid Enrollment and Spending in New Mexico,

**Graph I**  
**Distribution of Medicaid Enrollment and Spending in New Mexico, 2007\***



\*Enrollment reflects all individuals on Medicaid for any part of calendar year 2007. Average monthly enrollment was about 420,000.

Source: Kaiser Foundation, statehealthfacts.org, data for 2007

2007, above.) Nationally, 21 percent of Medicaid payments were for children, 12 percent were for adults, 25 percent were for the elderly, and 42 percent were for the disabled. As Graph I illustrates, covering children is very cost-effective because they primarily need well-child checkups, screenings and preventive care, which are low-cost. Adults, on the other hand, are more likely to need treatment for chronic illnesses like cardiovascular disease and diabetes, as well as end-of-life care, all of which are expensive.

## MEDICAID AND ECONOMIC DEVELOPMENT

A primary objective of any economic development is to increase the standard of living by creating more and better jobs. Several features of Medicaid make it an especially valuable tool for both long- and short-term

economic development in New Mexico. The primary reason for this is that historically more than 70 percent of funding for the Medicaid program in New Mexico is from the federal government. In order for government spending or any other spending stream to stimulate local economic growth, the revenue to support it must originate outside of the local economy. If Medicaid were funded entirely with state tax dollars it would not generate new jobs because it would only reallocate money within the state, as taxes paid by New Mexico households and businesses would be redistributed to the health care providers of low-income households. However, because almost all of the federal revenue that supports Medicaid is generated outside New Mexico, Medicaid stimulates the state economy.

Medicaid benefits flow primarily to low- and moderate-income households and the health care

sector, making the program especially beneficial to the economy for several reasons. One reason is that 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 outside the state or country.



Medicaid is also beneficial to the economy because most of the funds pay for direct health care services. The health service sector is one of the fastest growing sectors in the New Mexico economy and an important engine of economic growth. In the third quarter of 2007, 14 percent of all jobs in New Mexico (or about 112,000 jobs) were in health care. The vast majority—83 percent (or about 92,500)—of health care jobs were in the private sector. In 2007, the average weekly wage for health care jobs in New Mexico was \$709 or 4 percent higher than the state average weekly wage for all industries.<sup>25</sup>

Employment growth in health and social services has buoyed the New Mexico economy throughout the decade. Health care service employment grew by nearly 4 percent (or 3,500 jobs) between March 2007 and March 2008, outpacing the 1.1 percent growth rate of the service sector as a whole and the 0.6 percent growth of all non-agricultural employment.<sup>26</sup> Even in the current recession, health care is one of the only sectors to see employment growth.

Health care 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. According to the 2002 Economic Census for New Mexico, 33 percent of health care establishments and 34 percent of health care jobs were located outside the Albuquerque, Santa Fe, Farmington, and Las Cruces metropolitan statistical areas.<sup>27</sup>

The U.S. Department of Health and Human Services' Health Resources and Services Administration sets up criteria and maintains a listing of medically under-served areas and populations. Medically under-served areas (MUA) and medically under-served populations (MUP) are both very prevalent in rural New Mexico. Clearly, there is a problem with access to health care in rural New Mexico.

New Mexico's high rates of poverty and low rates of health insurance coverage are 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. Almost 30 percent of rural New Mexicans have no health insurance at all.<sup>28</sup> Medical facilities are already extremely limited in much of New Mexico. Without Medicaid, many of New Mexico's

**Table II**  
**Direct, Indirect and Induced Impacts of**  
**Medicaid Spending, FY 2010**

State Spending (\$757 million) plus Federal Spending (\$3 billion)<sup>29</sup>

	Jobs	Labor Income	Output Impact
Direct	41,187	\$1,603,266	3,000,000
Indirect	5,567	\$204,255	614,873
Induced	11,166	\$370,103	1,207,194
Total	57,921	\$2,177,624	4,822,068

Source: NM Voices for Children estimates using IMPLAN software

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.

## ECONOMIC IMPACT

When children have Medicaid coverage, their parents will more readily seek health care for them. If adults have coverage, they are more likely to seek it for themselves. 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. Medicaid spending also has “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. These are the jobs created when the new employees of the hospitals and janitorial services spend their money at local businesses. (See Table II: Direct, Indirect and Induced Impacts of Medicaid Spending, FY10, left.)

New Mexico's \$757 million state General Fund (and county) investment in Medicaid for FY10 (2009–10), combined with the federal match of \$3 billion, created an estimated \$4.8 billion in economic activity<sup>i</sup> (measured in the value of goods and services produced), almost 58,000 jobs, and \$2.2 billion in wages and salaries for New Mexicans. Put differently,

each dollar New Mexico spent on Medicaid in 2009–10 drew down \$4 in federal Medicaid funds, which, when they entered the New Mexico

**Table III**  
**Economic Impact of New Mexico Medicaid Spending,**  
**2009–10**

State Investment	Federal Match	Economic Activity Multiplier	Annual Economic Activity Generated	Jobs Created	Wages and Salaries
\$757 M	\$3 B	1.6	\$4.822 B	57,921	\$2.178 B

Source: NM Voices for Children estimates using IMPLAN software

<sup>i</sup> 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.

economy, generated an additional \$1.60 each in economic activity, for a combined “multiplier” effect of 5.6. (See Table III: Economic Impact of New Mexico Medicaid Spending, 2009–10, page 7.)

For the current fiscal year (FY11), the Legislature budgeted a total of \$3.86 billion in Medicaid spending. That figure was based, in part, on the assumption that the FMAP for FY11 would be 80 percent, instead of 78 percent. The state can still receive more than \$3 billion in federal dollars, but only if sufficient state funding is appropriated. This investment would continue to support about 58,000 jobs and continue to add more than \$4.8 billion to the state’s economy.

Medicaid also impacts the economy in the long term. An investment in a child’s health is an investment in New Mexico’s future because children learn best when they are healthy. In order to have the best chance for school success, a child must have screenings for vision, hearing, and developmental and other issues that can impact learning. A child with an undiagnosed, untreated health problem is less likely to succeed in school, less likely to graduate, more likely to earn a poverty-level wage, and more likely to require social services and even incarceration as an adult.

## **MEDICAID AND PRIVATE INSURANCE**

In addition to the economic benefits, Medicaid also helps to contain health care and private insurance costs in several ways. 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, provides cost-effective preventative care, 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 Health Sciences Center alone provides more than \$180 million in uncompensated care annually.<sup>30</sup> The total uncompensated care provided in New Mexico is currently estimated at \$335 million.<sup>31</sup> 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 HMOs recoup some of the costs in the rates they charge for private insurance. New Mexico is estimated to have the highest rate of “cost-shifting” in the nation: Each insured family pays an estimated \$2300 more per year to help cover the costs of providing health care to the uninsured.<sup>32</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 and treatment is more expensive. 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.

## **FEDERAL MEDICAID EXPANSION**

Beginning in 2014 there will be a major expansion in Medicaid for adults as part of the recently enacted health care reform (see next section). For the first three years (2014 through 2016) 100 percent of the costs of covering this new population will be funded by the federal government. After 2016, the match declines over three years to 90 percent in 2020. This will bring major federal dollars into the state for a very modest state investment. Unfortunately, between July 1, 2011 and December 31, 2013, New Mexico and most other states face a chasm in Medicaid funding that will pose

a huge challenge to state budgets. For the past two years, the federal stimulus act has increased the federal matching rate for Medicaid significantly. In the current fiscal year (2011) the matching rate will be a bit lower (about 78 percent) and in fiscal year 2012 it will be back at 70 percent. This will pose a significant budget challenge for New Mexico and all other states, but state funds invested in Medicaid will still return federal matching amounts of almost 2.5-to-1, so are still a very good investment.

As noted earlier, the total Medicaid spending level for FY11 in New Mexico is budgeted at \$3.86 billion (federal and state funds together).<sup>33</sup> The decrease in the FMAP this fiscal year (FY11) is expected to cost the state about \$50 million in funds that will need to be replaced to keep the program at the budgeted level.<sup>34</sup> If this is not done, \$177 million in federal funds will be lost and the total program spending would have to be cut more than \$227 million. The state would lose all the economic activity the sacrificed federal funds would have generated (about \$280 million involving more than 3,400 jobs)—not to mention having to make cuts in medical programs serving our most vulnerable citizens.

An 8 percent drop in the FMAP in the fiscal year starting next July 1 (FY12) will cost the state budget \$360 million to hold the program constant at the \$4 billion level projected by HSD.<sup>35</sup> At the new matching rate of 30 percent state to 70 percent federal, every dollar of state funds we fail to replace into the Medicaid program will cost the state \$2.35 in federal funds and require a cut in the total program of \$3.37. Thus, if the state does not replace the \$360 million in FY12, it will have to reduce total Medicaid spending from \$4 billion to \$2.8 billion—a 30 percent cut.

It would be tragic to respond to this shortfall by cutting benefits or encouraging enrollment declines before we have the opportunity to see the benefits of reform in 2014. If enrollment declines, previous experience



suggests it could take years to expand it back up again. This is especially harmful because normal growth in the Medicaid program has been held back during the past year because of budget constraints, in spite of the high federal matching rate. Enrollment in the SCI program has been essentially frozen and outreach activities have been suspended, even though we know that many individuals eligible for Medicaid, including many children, currently are not enrolled.

## **BENEFITS OF HEALTH CARE REFORM TO NEW MEXICO MEDICAID**

The Patient Protection and Affordable Care Act (PPACA) will significantly reduce the numbers of uninsured in New Mexico, starting in 2014. It has

been estimated that a total of 315,000<sup>36</sup> out of an some 444,000<sup>37</sup> currently uninsured individuals should be insured by 2019. About half of these individuals will obtain private insurance on the new Health Insurance Exchange. (Some of these individuals may obtain a commercial-like plan provided by the state.) Many of these newly insured individuals (or their small-business employers) will receive federal tax credits to make the insurance affordable.

The remaining currently uninsured individuals will be newly eligible for Medicaid, which will be expanding to cover far more low-income adults than are currently covered by Medicaid. A recent Kaiser report<sup>38</sup> projects that by 2019 New Mexico will have added between 145,000 and 202,000 new adults to Medicaid (75 to 80 percent of them previously uninsured). The state will be required to expand its Medicaid program to cover all adults under 133 percent of the Federal Poverty Level (FPL). With a 5 percent income disregard, the effective level will be 138 percent FPL.

New Mexico currently covers about 51,000 adults in its State Coverage Insurance (SCI) program, which was established about five years ago under a Medicaid waiver.<sup>39</sup> It also covers about 47,000 very low-income parents (but not childless adults) in regular Medicaid.<sup>40</sup> Most, but not all of the SCI enrollees will be eligible for regular Medicaid beginning in 2014.<sup>ii</sup>

PPACA means a huge influx of new federal Medicaid funding for New Mexico beginning in 2014 and ramping up thereafter. The Kaiser report projects that the federal government will pay more than 95 percent

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<sup>ii</sup> There is a technical question whether the current enrollees in SCI will be treated as “newly eligible” individuals or not, which would determine whether the state would receive the PPACA levels of reimbursement for their coverage. This would not significantly affect the economic analysis here.

of the cost of this expansion. New federal spending in New Mexico for the years from 2014 to 2019 is projected to be between \$4.5 and \$5.6 billion. No new state spending will be required until 2017. New state spending required for the expansion for 2017–19 is projected to be between \$194 million and \$278 million—5 percent of the total for those three years.

New enrollment and spending are projected to start at relatively low levels in 2014 and ramp up to 2019 as uninsured individuals enroll in Medicaid in response to the federal mandate to obtain health insurance. Extrapolating from national estimates, by 2019 the annual spending for newly enrolled individuals in New Mexico should be about \$988 to \$1,228 million in federal funds and \$72 to \$86 million in state funds.<sup>41</sup> In 2020, when states must begin paying 10 percent of the cost for expansion, the annual cost for the state is estimated to be between \$110 and \$142 million.<sup>iii</sup> Since this assumption is based on 145,000 to 202,000 new adult enrollees in Medicaid, the cost to the state will be about \$700 to \$750 per enrollee, which is quite a bargain. Based on current spending, about 97 percent of these funds will be spent in the private health care economy (or at UNM and other public health care facilities).

By 2019, when new enrollment is fully in place, the annual economic impact<sup>42</sup> of these new federal funds will be enormous:

- New annual economic activity: \$1.58 to \$1.96 billion (1.6 multiplier)
- New jobs: 19,000 to 23,600
- New annual wages and salaries: \$700 to \$880 million

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<sup>iii</sup> This assumes a 5 percent increase in total spending between 2019 and 2020.

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

## CONCLUSION

Medicaid is a vital component of our state's health care system and an engine of state economic growth. The intricate linkages between public and private insurance mean that health care for most New Mexicans is subsidized, to some degree, by Medicaid. Current federal funding for New Mexico Medicaid generates about \$4.8 billion in economic activity annually and sustains roughly 58,000 New Mexico jobs. Reductions in eligibility and benefits have both been suggested as ways of containing program costs, which are perceived by some policy makers as too high. But such reductions would lead to less utilization of medical services and would impact New Mexico's economy, resulting in lost jobs, lost wages, and greater unemployment. Because Medicaid is so integral to the state economy, careful analysis of all the potential repercussions should be conducted before any significant changes are made to New Mexico's Medicaid program.

Future years provide both challenges and opportunities. Under current law, from 2011 to 2014 the federal matching percentage will decline by 10 percent, posing a significant problem for both Medicaid and for the state budget. Protecting our citizens' health as well as protecting the state's economy suggests that lawmakers find a way to bridge the resulting gap without cutting the Medicaid program. However, after 2014, there will be a great inflow of federal funds to support expansion of the Medicaid program, offering

the state an important opportunity to extend health care to many citizens who lack it today while generating thousands of new jobs.

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## Endnotes

- 1 Enrollment figures for various Medicaid programs can be found on the NM HSD Medical Assistance Division website at <http://www.hsd.state.nm.us/mad/RMedicaidEligibility.html>; In addition, an excellent overview of New Mexico Medicaid was presented to the Government Restructuring Task Force by HSD Secretary Katie Falls on July 30, 2010, and is available online at <http://legis.state.nm.us/lcs/handouts/Medicaid%20Overview.pdf>.
- 2 Ibid.
- 3 "Consequences of Uninsurance," Institute of Medicine, National Academy of Science, Washington, D.C., 2004; <http://www.iom.edu/Activities/HealthServices/InsuranceStatus.aspx>.
- 4 Estimates by New Mexico Voices for Children using IMPLAN software based on figures from NM HSD Medical Assistance Division, Medicaid Advisory Committee budget projections on HSD-MAD website.
- 5 "Costly Coverage: Premiums Outpace Paychecks in New Mexico," Families USA, Washington, D.C., Sept. 2009; [www.familiesusa.org/assets/pdfs/costly-coverage/new-mexico.pdf](http://www.familiesusa.org/assets/pdfs/costly-coverage/new-mexico.pdf). The cost of health insurance premiums to New Mexico families has risen four times faster than family income since 2000.
- 6 "Future Medicaid Growth," Center on Budget and Policy Priorities, Washington, D.C., 2005; <http://www.cbpp.org/2-4-05health.htm>.
- 7 Kaiser State Health Facts, New Mexico: Health Insurance Coverage of the Total Population, Kaiser Family Foundation, Washington, D.C., 2007-08; <http://statehealthfacts.org/profileind.jsp?ind=125&cat=3&rgn=33>.
- 8 Ibid., Health Insurance Coverage of the Total Population, states (2007-2008); <http://statehealthfacts.org/comparetable.jsp?ind=125&cat=3>.
- 9 "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>; also see note 5.
- 10 NM HSD Medical Assistance Division, Medicaid Eligibility Reports, 2010; <http://www.hsd.state.nm.us/mad/>.
- 11 HSD Secretary Falls' presentation; see note 1.
- 12 "House Bill 955 Comprehensive Study on Health Care and Health Care Costs in New Mexico," NM Legislative Health and Human Services Committee, Dec. 2004 (available from Legislative Council Service).
- 13 New Mexico General Appropriations Act (HB2), 2008 regular session, final version.
- 14 *Medicare Versus Private Health Insurance: The Cost of Administration*, Mark E. Litow, 2006; [http://www.cahi.org/cahi\\_contents/resources.pdf](http://www.cahi.org/cahi_contents/resources.pdf).
- 15 HSD Secretary Falls' presentation; see note 1.

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- 16 See <http://www.insurenemexico.state.nm.us/default.aspx>.
- 17 "Medicaid Coverage and spending in Health Reform: National and State-by-State Results for Adults at or Below 133% FPL," Kaiser Commission on Medicaid and the Uninsured, Washington, D.C., May 2010; <http://www.kff.org/healthreform/upload/Medicaid-Coverage-and-Spending-in-Health-Reform-National-and-State-By-State-Results-for-Adults-at-or-Below-133-FPL.pdf>.
- 18 Kaiser State Health Facts, Kaiser Family Foundation, Washington, D.C., <http://www.statehealthfacts.org>, data for 2007
- 19 U.S. Census Bureau, American Community Survey, 2008, and calculation from HSD enrollment report, Sept. 2009.
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