



## New Mexico Fiscal Policy Project

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

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#### INTRODUCTION

This policy brief analyzes the impact Medicaid has on the New Mexico economy. 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 support Medicaid provides in reducing the cost of private health insurance.

New Mexico's investment in Medicaid for fiscal year 2007, combined with the federal match, created an estimated \$3.36 billion in economic activity, including \$1.53 billion in wages and salaries, and more than 43,600 jobs for New Mexicans. In addition, Medicaid made health care more affordable and available for most New Mexican—even those with private health insurance. Because of the magnitude of the estimated economic impact and the connections between publicly and privately financed health insurance, fully funding—or even expanding—Medicaid makes good sense for New Mexico.

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.

#### BACKGROUND: NEW MEXICO MEDICAID

Only 53 percent of New Mexicans have employer-sponsored health insurance.<sup>1</sup> New Mexico has the second-highest rate of people without health insurance (23 percent).<sup>2</sup> This high rate of uninsured means New Mexicans who have health insurance will see some of the highest insurance premium increases in the country by the end of this decade.<sup>3</sup> This is because much of the cost of providing health services to the uninsured is passed on to those who have insurance through higher premiums. Without government programs like Medicaid, things would be worse.

Medicaid insures 437,000 New Mexicans, or about 20 percent of the state's population.<sup>4</sup> It is the single

largest insurer of New Mexico's children, providing care for 288,000 (or 42 percent) of the state's kids, and it pays for more than half of all births and nursing home beds. Medicaid, Medicare, and other government health programs constitute roughly 75 percent of all personal health care expenditures in New Mexico.<sup>5</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, had a \$104 million administrative budget in FY08, employed 162 people, and paid salaries and benefits totaling \$10.8 million. These administrative costs were about 3 percent of the total Medicaid budget. The remaining 97 percent of the budget was paid to managed care organizations (MCOs) and other providers.<sup>6</sup> Conversely, 33 percent of every private-insurance health-care dollar goes to administrative costs.<sup>7</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. Coverage includes preventive care, hospitalization, nursing home care, prescribed medications, behavioral health services, optometry, and dental care. States may also choose to provide certain "optional" services and expand eligibility for their Medicaid programs. In New Mexico, optional Medicaid services include physical therapy, hospice care, and emergency room services.

More than half of all Medicaid recipients are children. A common misconception is that Medicaid covers entire families. This is seldom the case because very few parents are eligible for Medicaid. Access to Medicaid for low-income adults who are neither elderly nor disabled is 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. The proportion of children in New Mexico's Medicaid case load is higher than the national average. In FY05 (the latest national-state comparison available), 59 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: 24 percent were non-elderly, non-disabled adults, compared to 26 percent nationally; 6 percent were elderly and 10 percent were blind or disabled adults, compared to 10 percent elderly and 14 percent blind or disabled nationally.<sup>8</sup>

Even though Medicaid covers more children than any other single provider, only 58 percent of children *potentially* qualified for Medicaid are enrolled in the Medicaid program.<sup>1</sup>

Children are eligible for conventional Medicaid if they live in households with incomes below 185 percent of the federal poverty level (FPL) and Medicaid coverage through the State Children's Health Insurance Program (S-CHIP) if they live in households with incomes between 185 percent and 235 percent of the FPL. (See Table I, page 3, for poverty and eligibility guidelines.) In 2006, about 490,000 children in New Mexico lived in households with income below 235 percent of the FPL.<sup>9</sup> This represents 70 percent of New Mexico's total child population of 693,000.

In August 2008, New Mexico's Human Services Department estimated that there are 50,000 uninsured children who are eligible for Medicaid but are not enrolled in the program.

## FINANCING MEDICAID

New Mexico Medicaid spending totaled roughly \$2.77 billion for FY07 and constituted almost 22 percent of all

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<sup>1</sup>Children who are potentially eligible but not enrolled in Medicaid may be covered by other types of insurance.

**Table I**  
**2008 Federal Poverty and Income Eligibility Guidelines for Medicaid**  
**Effective April 1, 2008 - March 31, 2009**

Family Size	100% FPL	185% FPL	200% FPL	235% FPL	250% FPL
1	\$10,404	\$19,248	\$20,808	\$24,444	\$26,004
2	\$14,004	\$25,908	\$28,008	\$32,904	NA
3	\$17,604	\$32,568	\$35,208	\$41,364	NA
4	\$21,204	\$39,228	\$42,408	\$49,824	NA
5	\$24,804	\$45,888	\$49,608	\$58,284	NA
6	\$28,404	\$52,548	\$56,808	\$66,744	NA
7	\$32,004	\$59,208	\$64,008	\$75,204	NA
8	\$35,604	\$65,868	\$71,208	\$83,664	NA
9	\$39,204	\$72,528	\$78,408	\$92,124	NA
10	\$42,804	\$79,188	\$85,608	\$100,584	NA
11	\$46,404	\$85,848	\$92,808	\$109,044	NA
12	\$50,004	\$92,508	\$100,008	\$117,504	NA

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 - S-CHIP (State Children's Health Insurance Program) (Cat 071)

250% FPL - Working disabled individuals

Source: New Mexico Human Services Department, Monthly Statistical Report, August 2008

spending by the state.<sup>10</sup> Slightly less than 20 percent of this amount (\$690 million) was drawn from state funds. The remaining 80 percent, nearly \$2 billion, were federal funds.

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 43rd among states in per capita income in 2007, and consequently, the state has one of the higher FMAPs. For 2008, New Mexico's FMAPs were 71 percent

for conventional Medicaid and nearly 80 percent for S-CHIP. In other words, the federal government contributed nearly \$2.50 for every dollar New Mexico spent on conventional Medicaid and almost \$4 for every dollar New Mexico spent on S-CHIP. In FY09 New Mexico's FMAPs will decrease slightly.

In recent years, New Mexico, like many other states, has experienced rapid escalation in Medicaid costs. New Mexico's total expenditure on Medicaid increased two and a half times between 1996 and 2006: from \$677million in 1996 to \$2.55 billion in 2006. Much of the growth in Medicaid cost 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>11</sup>

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 2005, expenditures for children (27 percent) and adults (12 percent) together accounted for just 39 percent of New Mexico Medicaid payments. The elderly (18 percent) and the disabled (34 percent) together accounted for 52 percent. Where the remaining 9 percent was spent is unknown. (See Graph I, below.) Nationally, 17 percent of Medicaid payments were for children, less than 12 percent were for adults, 26 percent were for the elderly, and 41

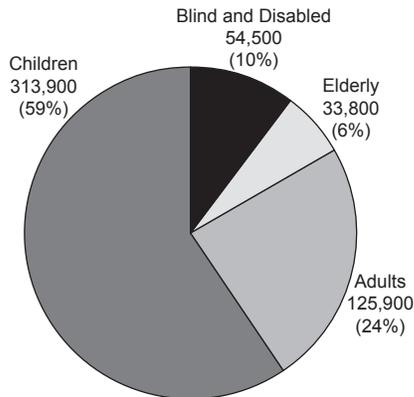
percent were for the disabled. As Graph I illustrates, covering children is very cost-effective because they require well-child checkups, screenings and preventive care, which are low-cost. Adults, on the other hand, are more likely to need intensive and ongoing treatment for chronic illnesses like cardiovascular disease and diabetes, as well as end-of-life care.

## MEDICAID AND ECONOMIC DEVELOPMENT

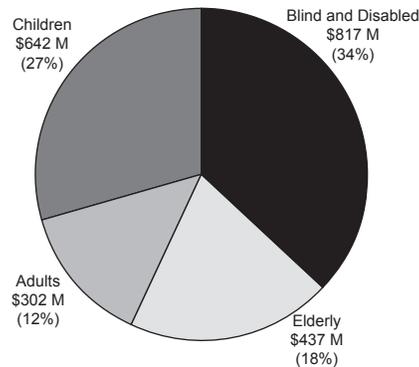
The primary objective of economic development is to increase the standard of living by creating more and better jobs. Several features of Medicaid make it an especially valuable tool for both long- and short-term economic development in New Mexico. The primary reason for this is that more than 70 percent 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

**Graph I**  
**Distribution of Medicaid Enrollment and Spending\* in New Mexico, 2005**

Medicaid Enrollment in New Mexico



Medicaid Spending in New Mexico



\*Includes federal funds  
Source: Kaiser Foundation

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 low-income households and their health care providers. 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 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 for savings and investments or to spend on travel.

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>12</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>13</sup>

## MEDICAID AND 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. 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>14</sup>

The U.S. Department of Health and Human Services Health Resources and Services Administration sets up criteria and maintains a listing of Medically Underserved Areas and Populations. Medically Underserved Areas (MUA) and Medically Underserved 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 deeply felt 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 5 percent in Los Alamos County to 36 percent in McKinley County and 48 percent in Hidalgo County. On average, 23 percent of rural hospital admissions and 18 percent of urban admissions in New Mexico were paid for by Medicaid in 2000.<sup>15</sup> 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.

## ECONOMIC IMPACT

When children have Medicaid coverage, their parents are more likely to 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. 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, i.e. the jobs created when the new employees of the hospitals and janitorial services spend their money at local businesses. (See

Table II, below.)

New Mexico's \$690 million state General Fund investment in Medicaid for FY07, combined with the federal match of \$2 billion, created an estimated \$3.36 billion in economic activity<sup>ii</sup> (measured in the value of goods and services produced), including almost \$1.53 billion in wages and salaries, and more than 43,600 jobs for New Mexicans. 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 each in economic activity, for a combined "multiplier" effect of 4.90. (See Table III, page 7.)

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.

## MEDICAID AND PRIVATE INSURANCE

In addition to its 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

**Table II**  
**Direct, Indirect and Induced Impacts of**  
**Medicaid Spending**  
(2007 dollars)

	<b>Jobs</b>	<b>Labor Income</b>	<b>Output Impact</b>
Direct	28,634	\$1.06 B	\$2 B
Indirect	6,645	\$219 M	\$602 M
Induced	8,359	\$257 M	\$764 M
<b>Total</b>	<b>43,639</b>	<b>\$1.53 B</b>	<b>\$3.36 B</b>

Source: NM Voices for Children estimates using IMPLAN software

<sup>ii</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.

**Table III**  
**Economic Impact of New Mexico Medicaid Spending, 2007**  
 (2007 dollars)

State Investment	Federal Match	Economic Activity Multiplier	Annual Economic Activity Generated	Jobs Created	Wages and Salaries
\$690 M	\$2 B	4.9	\$3.36 B	43,639	\$1.53 B

Source: NM Voices for Children estimates using IMPLAN software

cover overhead expenses, provides cost-effective preventive 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 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 MCOs recoup some of the costs 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 point 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.

## 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 more than \$3 billion in economic activity annually and sustains roughly 43,600 New Mexico jobs. Reductions in eligibility and benefits have both

been suggested as ways of containing program costs, which are perceived by some policymakers 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. A far better approach would be raising the FMAP, as Congress was considering before the October recess—and should resume considering after the November General Election. A greater federal investment in Medicaid will lead to even better economic returns for New Mexico.

## ENDNOTES

- <sup>1</sup> "The Erosion of Employment-based Insurance," Economic Policy Institute, Washington, D.C., Nov. 1, 2007. <http://www.epi.org/content.cfm/bp203>
- <sup>2</sup> U.S. Census Current Population Survey, August 2008. <http://www.census.gov/>
- <sup>3</sup> "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>
- <sup>4</sup> New Mexico Human Services Department, Medical Assistance Division, Reports, Santa Fe, NM, January 2008. <http://www.hsd.state.nm.us/mad/>
- <sup>5</sup> House Bill 955 comprehensive study, December 2004.
- <sup>6</sup> New Mexico Human Services Department, Medical Assistance Division.
- <sup>7</sup> Physicians for a National Health Plan. <http://www.pnhp.org/>
- <sup>8</sup> Kaiser State Health Facts, Kaiser Family Foundation, Washington, D.C. <http://www.statehealthfacts.org/mfs.jsp?rgn=33&rgn=1>
- <sup>9</sup> Figure is estimated from the 2006 American Community Survey.
- <sup>10</sup> National Association of State Budget Offices, Washington, D.C., 2008. <http://www.nasbo.org/>
- <sup>11</sup> "Future Medicaid Growth," Center on Budget and Policy Priorities, Washington, D.C., 2005. <http://www.cbpp.org/2-4-05health.htm>
- <sup>12</sup> Quarterly Census of Employment and Wages, New Mexico Department of Workforce Solutions, 2008. <http://www.dws.state.nm.us/>
- <sup>13</sup> New Mexico Department of Workforce Solutions, Albuquerque, NM, 2008.
- <sup>14</sup> U.S. Census Bureau, 2005
- <sup>15</sup> University of New Mexico Hospital FY2007 Governor's Healthcare Summit Update, Brief Summary of Key Indicators, Albuquerque, NM, June 2008. [http://hospitals.unm.edu/AboutUs/FinRpts/SummitFY07/Summary\\_Uncomp2007.pdf](http://hospitals.unm.edu/AboutUs/FinRpts/SummitFY07/Summary_Uncomp2007.pdf)

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