

## THE ECONOMIC BENEFITS OF HEALTH CARE REFORM IN NEW MEXICO

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### INTRODUCTION

Federal health care reform, known as the Affordable Care Act (ACA), was recently upheld by the U.S. Supreme Court. It will have an enormous positive economic impact on New Mexico. The state will be receiving billions of dollars of new federal funds, especially if we implement the ACA's Medicaid expansion.\*\* The benefits have already begun as provisions have gone into effect, but they will accelerate dramatically in 2014 when implementation of the law is complete and the major influx of new federal funding begins.

Under the ACA the state will have a health care insurance exchange where individuals and small businesses can compare insurance rates and benefits across a variety of plans. Starting in 2014, new federal funds will subsidize the purchase of private insurance on this exchange for New Mexicans who cannot afford the full cost. This will inject billions into the state's economy. Also in 2014, a big expansion of Medicaid—to be paid for almost entirely out of federal funds—will pump additional billions into New Mexico. This influx of federal money will support thousands of jobs, which, in turn, will generate

more economic activity. We estimate that ACA will ultimately generate between 32,000 and 38,000 new jobs in New Mexico.

By 2019, the great majority of New Mexicans who currently do not have insurance will be covered, which should also benefit the state economically in terms of improved worker productivity. The costs of uncompensated care are currently borne by the state and counties, as well as by people with private insurance. When most people have health insurance, uncompensated care will greatly decrease. This will help slow the increase in premiums. Any disadvantage New Mexico might have in terms of economic development because of high premiums and high rates of uninsured should be mitigated.

### PRIVATE HEALTH INSURANCE EXPANSION ON THE EXCHANGE

Beginning in 2014, the ACA will significantly reduce the numbers of uninsured in New Mexico. It has been estimated that a total of 315,000<sup>1</sup> out of an estimated 444,000<sup>2</sup> currently uninsured adults will be covered by 2019. About half of these individuals will obtain private insurance on the new exchange. (Some of these individuals may obtain a commercial-like plan provided by the state called the Basic Health Plan, if the state chooses this option.) It is also expected that more children will receive coverage as well, as their parents obtain health insurance for themselves.

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\*This update reflects new estimates from the New Mexico Human Services Department on the impact of Medicaid expansion under the ACA. See endnote 4 (page 7).

\*\*The Supreme Court ruled that any state not implementing the ACA's Medicaid expansion cannot be denied the federal funding it currently receives for Medicaid. This paper assumes that New Mexico implements the Medicaid expansion fully.

Many of these newly insured individuals (or their small-business employers) will receive federal income tax credits to make insurance more affordable. These refundable tax credits will be available based on a sliding scale on the new exchange for individuals and families with incomes between 138 and 400 percent of the Federal Poverty Level (FPL). That this is a “refundable” credit is key to its effectiveness. Most tax credits merely reduce an individual’s or family’s income tax payment, so such credits do not help people who earn so little that they do not pay federal income taxes. In this case, however, the credit will actually reduce the cost of people’s premiums because the funds will go directly to the insurance company.

“Every New Mexico family with insurance currently pays an extra \$2,300 every year to help cover the costs of providing health care to the uninsured.”

Small employers in New Mexico are already eligible for tax credits to help them purchase health insurance for their employees, and this benefit will continue. These tax credits for individuals and employers will result in a significant inflow of federal funds into New Mexico—with the individual credits estimated at between \$4.2 and \$4.6 billion between 2014 and 2020 (see Table I, “Low and High Estimates of New Federal Funds into New Mexico, 2014-2020,” page 3).

## NEW MEDICAID FUNDING

In 2014, adults living below 138 percent<sup>3</sup> of the FPL will be eligible for Medicaid, which currently covers very few low-income adults who are not disabled or elderly. Recent estimates by the New Mexico Human Services Department<sup>4</sup> (HSD) project that by 2020 New Mexico will have added between 107,000 and 149,000 new individuals to Medicaid. Most of these individuals will not have been insured.<sup>5</sup>

New Mexico currently covers about 40,000 adults in its State Coverage Insurance (SCI) program, which was established about six years ago under a Medicaid waiver.<sup>6</sup> Most, but not all, of the SCI enrollees (those with family incomes below 138 percent FPL) will be newly eligible for regular Medicaid beginning in 2014 and the state will get a higher federal matching rate (which is reflected in the federal funding described later in this report). Federal CHIP funding will be increased to 100 percent for New Mexico children for 2016 to 2019.

The ACA will bring a huge influx of new federal Medicaid funding into New Mexico beginning in 2014.

New enrollment and spending will start that year and ramp up to 2020 as uninsured individuals enroll in Medicaid in response to the new eligibility for adults and the federal mandate to obtain health insurance. HSD projects that the federal government will pay more than 94 percent of the cost of this expansion and new enrollment of current eligibles during the first seven years.<sup>7</sup> New

federal Medicaid spending in New Mexico for the seven-year period (2014 through 2020) is projected to be between \$4.5 billion and \$6.2 billion (see Table I, page 3). No new state General Fund spending will be required for the newly eligible adults until 2017. Total new state spending is projected by HSD to total between \$320 and \$496 million (not counting savings of \$140 million from ending SCI). (See Table V, page 6, for year-by-year projections.)



Table I shows both low and high, year-by-year estimates of the federal funds that will flow into New Mexico as a result of the tax credits and increased Medicaid funds during the first seven years of the implementation of ACA. Note that these funds are in addition to the several billion dollars each year that New Mexico will continue to receive as the federal share of its existing Medicaid program, which covers children, very low-income parents, and adults who are elderly or disabled.

Based on current spending patterns, about 97 percent of these Medicaid funds will be spent on providing health care—mostly in the private sector. Only 3 percent is likely to go toward administrative costs.

HSD estimates the annual new cost of the Medicaid expansion and enrollment growth in fiscal year 2020 will be between \$917 million and \$1.24 billion. Of this total, the state General Fund is projected to pay only a fraction—between \$126 and \$175 million.<sup>8</sup> These costs are based on the expectation that there will be 107,000 to 149,000 new enrollees in Medicaid<sup>9</sup>

(98,000 to 131,000 will be newly eligible adults and 10,000 to 19,000 will be currently eligible but not enrolled individuals—mostly children).

**ECONOMIC IMPACTS OF ACA**

Today, almost everyone will seek health care if they are experiencing a medical emergency, regardless of their insurance status. The same is not true for preventive health care. People are far more likely to seek routine or preventive care for themselves or their children when they have health insurance. Expanding insurance to everyone will increase demand for health care. Medicaid and private insurance payments to doctors and other providers translate into more jobs for other health care workers. This is the “direct” economic effect of the new federal funds.

Medicaid and private insurance spending also has “indirect” and “induced” economic effects. These are the outward reverberations of the initial economic stimulus created when federal Medicaid or insurance

**Table I\***  
**Low and High Estimates of New Federal Funds into New Mexico, 2014-2020**  
(in millions)

		2014	2015	2016	2017	2018	2019	2020	Total
New Federal Medicaid Funds	Low	\$239	\$564	\$648	\$690	\$729	\$815	\$810	\$4,494
	High	\$318	\$785	\$936	\$988	\$1,011	\$1,085	\$1,084	\$6,207
Federal Tax Credits	Low	\$184	\$388	\$601	\$721	\$792	\$810	\$810	\$4,298
	High	\$200	\$420	\$650	\$780	\$840	\$870	\$900	\$4,660
Total New Federal Funds	Low	\$423	\$952	\$1,249	\$1,411	\$1,521	\$1,625	\$1,620	\$8,792
	High	\$518	\$1,205	\$1,586	\$1,768	\$1,851	\$1,955	\$1,984	\$10,867

\*All tables in this report contain both low and high estimates largely because that is how HSD configures its Medicaid estimates. In the case of the federal tax credit, two sets of national estimates were used, one of which was higher.

*New Federal Medicaid Funds Source: “Medicaid Under Healthcare Reform (HCR) by State Fiscal Year,” New Mexico Human Services Department, May 2012; Federal Tax Credits Low Estimate Sources: “Consider Savings as Well as Costs,” Urban Institute, July 2011, Table 6 (annual take-up rate based on HCAN report cited below; 2020 estimate extrapolated by NM Voices for Children); Federal Tax Credits High Estimate Sources: Health Care for America Now (HCAN) report based on estimates generated by Jon Gruber, Dept. of Economics, MIT, “Health Care for America Now: Federal Health Reform Provides Critical Help to States,” March 23, 2010; 2020 estimate extrapolated by NM Voices for Children.*

subsidy 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.

increased spending summarized in Table II. Again, this is in addition to the jobs in New Mexico already attributable to the existing Medicaid program, which New Mexico Voices for Children estimated in 2010 to exceed 58,000.<sup>10</sup>

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 and private health insurance. In other words, these are the jobs created when the new employees of the hospitals and janitorial services spend their money at local businesses.

Table II, “Low and High Estimates of Economic Activity in New Mexico Generated by New Federal Funds, 2014-2020” (below), summarizes the year-by-year direct, indirect, and induced economic activity generated in New Mexico by the new federal funds in millions of dollars.

Table III, “Low and High Estimates of Jobs Generated by New Federal Funds, 2014-2020” (page 5), estimates the number of jobs attributable to the

**“New Mexico’s economy, as well as the health of its citizens, will be well-served by an aggressive implementation of ACA.”**

### OTHER COST SAVINGS

In addition to the direct, indirect and induced economic benefits from new federal health care spending in New Mexico, the ACA will also help to contain health care and private insurance costs already borne by New Mexicans in several ways. New Mexico’s Medicaid providers—particularly the majority of the Medicaid managed-care companies—supply much of the state’s private health insurance and a significant amount of its health services. Medicaid helps cover overhead expenses, provides cost-effective preventive care, and reduces the extent to which health care companies must subsidize care for the indigent.

**Table II**  
**Low and High Estimates of Economic Activity in New Mexico Generated by New Federal Funds, 2014-2020 (in millions)**

		2014	2015	2016	2017	2018	2019	2020	Cumulative Total
Direct	Low	\$423	\$952	\$1,249	\$1,411	\$1,521	\$1,625	\$1,620	\$8,792
	High	\$518	\$1,205	\$1,586	\$1,768	\$1,851	\$1,955	\$1,984	\$10,867
Indirect	Low	\$80	\$181	\$237	\$268	\$289	\$309	\$308	\$1,670
	High	\$106	\$247	\$325	\$362	\$379	\$401	\$407	\$2,228
Induced	Low	\$157	\$352	\$462	\$522	\$563	\$601	\$599	\$3,253
	High	\$207	\$482	\$634	\$707	\$740	\$782	\$794	\$4,347
Total	Low	\$660	\$1,485	\$1,948	\$2,201	\$2,373	\$2,535	\$2,527	\$13,716
	High	\$831	\$1,934	\$2,546	\$2,838	\$2,971	\$3,138	\$3,184	\$17,442

Source: Calculation by NM Voices for Children from data in Table I using IMPLAN software.<sup>11</sup>

Federal law requires that hospitals provide emergency treatment regardless of a patient’s ability to pay. University Hospital alone currently provides more than \$180 million in uncompensated care annually.<sup>12</sup> Uncompensated care provided in New Mexico is currently estimated at \$335 million.<sup>13</sup> Much of this is paid for by New Mexico taxpayers. A recent Hilltop Institute report<sup>14</sup> estimates that New Mexico will save from \$2 to \$3.3 billion between 2014 and 2020 in reductions in uncompensated care furnished by New Mexico hospitals.

health insurance in the state by covering most of what are currently uncompensated costs.

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. Treatment in the ER at the crisis stage of an illness is more expensive

Moreover, much 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: \$2,300 per insured family goes to help cover the costs of providing health care to the uninsured.<sup>15</sup> Federal health care reform should significantly reduce the growth in premiums for private



**Table III**  
**Low and High Estimates of Jobs Generated by New Federal Funds, 2014-2020**

		2014	2015	2016	2017	2018	2019	2020
Direct	Low	5,371	12,060	15,748	18,273	20,333	22,359	22,769
	High	7,225	16,042	20,240	23,167	25,366	27,509	28,283
Indirect	Low	729	1,637	2,137	2,480	2,759	3,035	3,090
	High	955	2,120	2,675	3,062	3,352	3,635	3,738
Induced	Low	1,459	3,275	4,277	4,962	5,522	6,072	6,183
	High	1,912	4,245	5,356	6,131	6,713	7,280	7,485
Total	Low	7,559	16,972	22,162	25,715	28,614	31,466	32,042
	High	9,910	22,003	27,761	31,776	34,792	37,731	38,792

Source: Calculation by NM Voices for Children from data in Table I using IMPLAN software.<sup>11</sup>

than preventive and maintenance care. 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.

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.

**“Estimates show that new tax revenues resulting from the new federal funding flowing into New Mexico will more than cover new state funding required for Medicaid expansion under ACA .”**

**BUDGETARY IMPACT TO THE STATE**

From 2014 to 2017, the costs of expanding Medicaid to cover all newly eligible adults under 138 percent of the FPL will be paid for entirely by the federal government. Starting in 2017,

Many more millions of dollars are coming to the state that are not included in the economic impact tables in this report. For example, federal grants have already been received by the state for planning the insurance exchange and the new information technology systems required. Many of the state’s 75 community health centers will be getting special grants under the ACA, in addition to expanded Medicaid funding for their patients. There is also additional funding for the training of doctors, nurses, and other health care providers at our colleges and universities.

the states will be required to pay a modest percentage of the cost of covering these newly eligible adults, as shown on Table IV, “State Share of Cost of Newly Medicaid-Eligible Adults” (below). In addition, the state will pay the normal share of currently eligible individuals who enroll in Medicaid as a result of the mandate to obtain health insurance. Table V, “Low and High Estimates of State Cost of Medicaid Expansion Under ACA, 2014-2020” (below), shows HSD’s estimates of the state General Fund money that will be required each year to match the new federal Medicaid funding. (These costs do not reflect \$140 million in savings to “other revenues” from ending the SCI program.)

These impacts will be in addition to the significant impact Medicaid already makes in the New Mexico

**Table IV  
State Share of Cost of Newly Medicaid-Eligible Adults**

2014	2015	2016	2017	2018	2019	2020 and after
0%	0%	0%	5%	6%	7%	10%

**Table V  
Low and High Estimates of State Cost of Medicaid Expansion Under ACA, 2014-2020 (in millions)**

	2014	2015	2016	2017	2018	2019	2020	Total
Low	-\$2	\$2	\$9	\$33	\$65	\$87	\$126	\$320
High	\$4	\$16	\$24	\$57	\$97	\$123	\$175	\$496

*Table V Source: “Medicaid under Healthcare Reform (HCR) by State Fiscal Year,” New Mexico Human Services Department, May 2012*

The state funding commitment beginning in 2014 is small and grows over the course of the next six years. However, the new federal funds for both Medicaid and private insurance subsidies (Table I), as well as the indirect and induced economic activity (Table II), are subject to various state and local taxes in New Mexico. NM Voices for Children has completed a detailed estimate of the total annual yield of these taxes and these results are available in a companion

paper (that has also been updated to reflect HSD's new estimates).<sup>16</sup> The estimates show that new tax revenues resulting from new federal funding flowing into New Mexico will completely cover the new state funding required for Medicaid expansion under ACA, and may even exceed state costs.

## RECOMMENDATIONS

New Mexico's economy, as well as the health of its citizens, will be well-served by an aggressive implementation of ACA by our leaders. New Mexico is poised to reap substantial economic benefits from the federal spending and cost savings that will come with full implementation of the new health care reform law, including expanding Medicaid to adults living below 138 percent of the FPL. Medicaid already supports about 60,000 jobs in New Mexico and the ACA will generate 32,000 to 38,000 more jobs by 2020. The impact will be especially beneficial in New Mexico's rural and low-income areas. The extent of the state's benefits will be directly correlated to how many New Mexicans obtain health insurance either through the exchange or through Medicaid, so we should use all the tools available under the new law for maximizing outreach and enrollment in all parts of the state.

Our companion report shows that ACA costs to the state, as estimated by HSD, will be completely offset by new state and local revenue generated by the federal ACA funding flowing into the state beginning in 2014.

New Mexico has as much—if not more—to gain from federal health care reform as any state, but only if we take full advantage of it. We urge our elected officials to use every available opportunity to quickly and fully implement the law so New Mexico can reap the maximum health and economic benefits that it provides.

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## ENDNOTES

- 1 *Health Coverage in New Mexico: How Will Health Reform Help?*, Families USA, Washington, DC, March 2010.
- 2 "Current State of Health Insurance Coverage in New Mexico," Senator Jeff Bingaman policy summary, 2009: [http://bingaman.senate.gov/policy/currentcvg\\_nm.pdf](http://bingaman.senate.gov/policy/currentcvg_nm.pdf).
- 3 133 percent plus a 5 percent income disregard.
- 4 "Medicaid Under Healthcare Reform (HCR) by State Fiscal Year," New Mexico Human Services Department, Santa Fe, NM, May 2012.
5. This estimate does not include people currently enrolled in State Coverage Insurance (SCI).
- 6 NM Human Services Department (HSD) Monthly Eligibility Report, Santa Fe, NM, July 2012.
- 7 "Medicaid Under Healthcare Reform (HCR) by State Fiscal Year" (see note 4).
- 8 Ibid.
- 9 Ibid.
- 10 *Medicaid: An Integral Part of New Mexico's Economy*, New Mexico Voices for Children, Albuquerque, NM, September 2010.
- 11 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.
- 12 UNM Health Sciences Center, Uncompensated Care Report, Albuquerque, NM, 2010, <http://hsc.unm.edu/about/Databook/2010/27.pdf>.
- 13 "Health Reform in New Mexico," May 2010, [www.healthreform.gov](http://www.healthreform.gov) (White House website).
- 14 "Fiscal Impact of Health Reform," Hilltop Institute, Baltimore, MD, April 2012, <http://www.hsd.state.nm.us/pdf/hcr/New-Mexico-Health-Care-Reform-Fiscal-Model.pdf>.
- 15 "The Cost Shift from the Uninsured," Center for American Progress, Washington, DC, March 2009.
- 16 *The Tax Revenue Benefits of Health Care Reform in New Mexico*, Kelly O'Donnell, Ph.D., NM Voices for Children, Albuquerque, NM, August 2011; <http://www.nmvoices.org/wp-content/uploads/2012/08/Tax-rev-benefits-of-aca-8-12-update1.pdf>.

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