NEW MEXICO VOICES FOR CHILDREN
Fiscal Policy Project

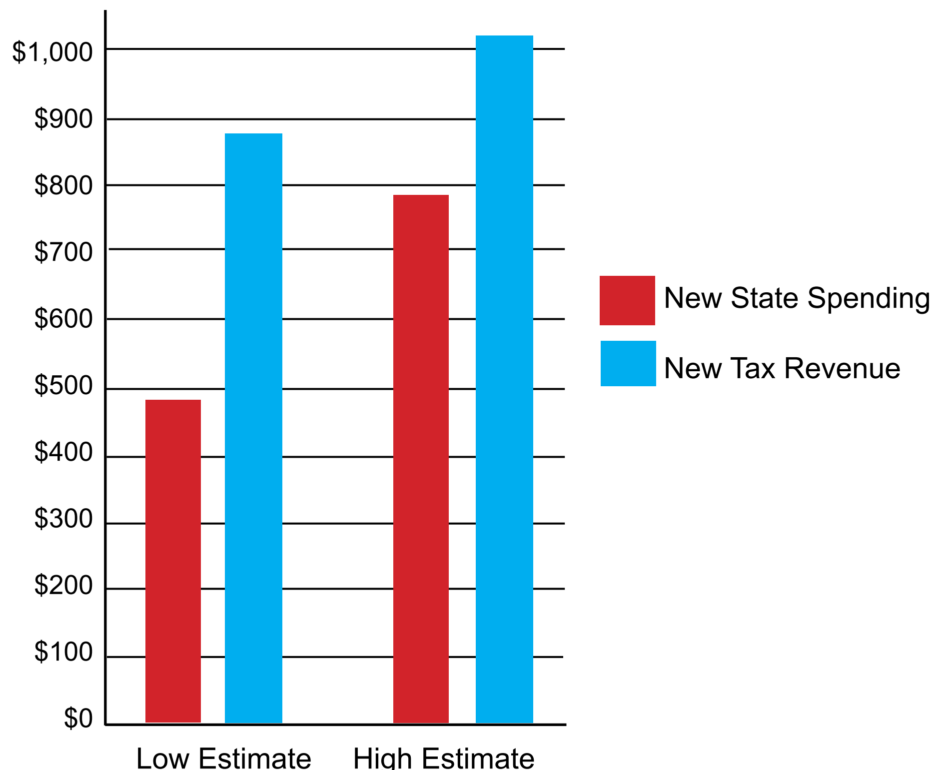
The Tax Revenue Benefits of Health Care Reform in New Mexico

by Kelly O'Donnell, Ph.D.
for New Mexico Voices for Children
August 2011

Executive Summary

The Patient Protection and Affordable Care Act of 2009 (PPACA, or ACA for short), signed into law in early 2010, will have an enormous positive impact on New Mexico—not just on the health of its residents but on the health of its economy. Billions in federal funding will flow into New Mexico as part of an expansion of Medicaid and as tax credits and subsidies that will help people with their insurance premiums, co-pays, and deductibles. The Medicaid expansion will require some new spending by the state—estimated by the Human Services Department at between $496 and $797 million in the seven years from 2014 to 2020. However, that investment will be more than offset by new state tax revenues—estimated in this report at between $888 million and $1.2 billion—from the economic activity that the federal funding will stimulate. The difference—between $392 and $425 million over seven years—will go into the state General

Graph I
Low and High Estimates of New State Spending and New Tax Revenue Due to ACA, 2014-2020 (in millions)



Fund where the Legislature will be able to appropriate it as it sees fit.

In addition, local governments will get between $232 and $322 million in new tax revenues over the same period, which also can be spent on anything the cities and counties wish. Graph I, "Low and High Estimates of New State Spending and New Tax Revenue Due to ACA, 2014-2020" (page 1), contrasts the amount of new state spending the ACA will require and the new state tax revenue it is expected to generate in New Mexico between 2014 and 2020.

> "The dramatic influx of new federal funds and the increase in economic activity relating to ACA will generate tax revenue for both the state and local governments."

In light of the recent debate over the federal deficit, it's important to note that in spite of the initial high federal cost, the ACA actually reduces the net federal deficit by $143 billion in the first ten years and by more than $1 trillion in the second ten-year period.[1]

Introduction

In the companion paper, "The Economic Benefits of Health Care Reform in New Mexico," New Mexico Voices for Children established that the Affordable Care Act (ACA) will benefit New Mexico in a variety of ways. The federal health care reform law will provide access to health insurance for more than 300,000 New Mexicans who are currently uninsured. It will also help people who already have health insurance retain their coverage. When more people have health insurance, the utilization of preventive health care services goes up, thereby improving the overall health and productivity of the population and decreasing the public cost of providing care to the uninsured.

Billions of dollars in federal funds will flow into New Mexico through a substantial expansion of the Medicaid program, as well as subsidies for the purchase of health insurance by individuals and tax credits for employers. These funds will flow into the state's health care system, stimulating job growth and economic activity. Health care is already a major component of New Mexico's economy and is a particularly significant driver of job growth and prosperity in rural New Mexico. The dramatic increase in federal support of health care will thus have a marked positive impact on the state economy as a whole.

The dramatic influx of new federal funds and the increase in economic activity relating to health care reform will generate tax revenue for both the state and local governments. This analysis seeks to quantify that impact for the years 2014 through 2020.

Some aspects of health care reform have already taken effect, however, this analysis focuses only on the major categories of policy reform beginning in 2014 for which the immediate and direct fiscal impacts are relatively well-understood. These include the expansion of Medicaid and changes to CHIP (the Children's Health Insurance Program), tax credits for insurance premiums, and health insurance cost-sharing provisions.

Medicaid Expansion

Beginning in 2014, Medicaid will expand to cover all non-Medicare eligible individuals under age 65 (primarily adults) with incomes below 138 percent[2] of the federal poverty level (FPL). The New Mexico Human Services Department (HSD) projects that by 2020 New Mexico will have added between

133,000 and 183,000 individuals to Medicaid.[3] Most of the new enrollees (105,000 to 132,000) will be adults who will be newly eligible under the ACA. The balance will be currently eligible but not enrolled individuals—mostly children.

HSD estimates that the federal government will pay about 92 percent of the cost of the Medicaid expansion and new enrollment of current eligibles during the first seven years (2014 through 2020).[4] (No new state spending will be required for the newly-eligible adults until 2017.) New federal Medicaid spending in New Mexico for the seven-year period is projected to be between $6.3 and $8.7 billion. Total required new state spending is projected by HSD to be between $496 and $797 million—or just 7 to 8 percent of the total for those seven years. However, the tax revenue generated by the Medicaid expansion and insurance subsidies alone will bring the state between $888 million and $1.2 billion in new general fund revenue, or between 60 and 80 percent more than is needed to pay the state's share of the Medicaid expansion. Municipalities will receive between $232 million and $322 million in new revenue and bear no costs under the ACA.

Federal Subsidies for Private Insurance

The ACA provides for two types of subsidies designed to make health insurance and health care more affordable for individuals with income too high to qualify for Medicaid but below 400 percent of the FPL.[5] Premium subsidies reduce health insurance premiums for qualifying enrollees and cost-sharing subsidies reduce out-of-pocket health care expenses. Both are paid directly to the insurer by the federal government.

Premium Assistance Subsidies for Individuals

Beginning in 2014, each state will have a health insurance exchange—a marketplace where individuals and small businesses can compare policies and premiums, and buy insurance.

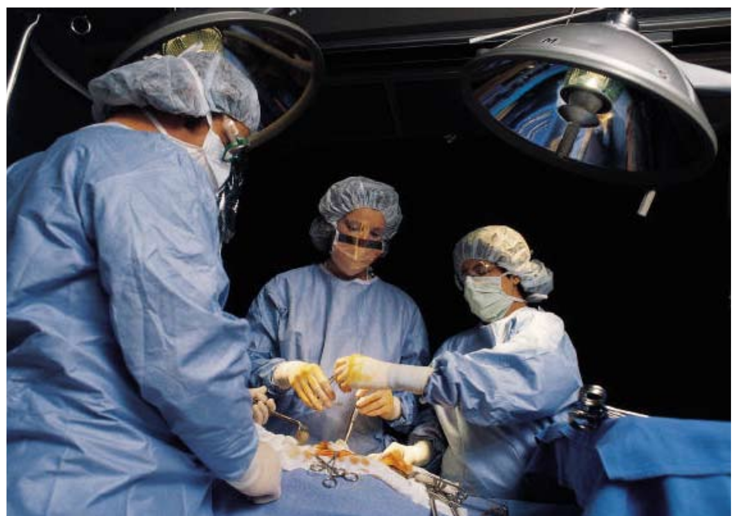
Also beginning in 2014, individuals with income below 400 percent of the FPL who are not eligible for other health coverage will qualify for refundable tax credits to offset the cost of purchasing health insurance coverage offered on the exchange. The advance tax credit amount is paid directly to the insurer who then subtracts the amount from the individual's premium. The tax credits limit what people will be required to pay for health insurance to a percentage of their income—ranging from 3 percent for people with incomes at 138 percent of the FPL to 9.5 percent for people with incomes between 300 and 400 percent of the FPL.

> "In addition to the fiscal benefits to the state, ACA will also reduce the net federal deficit over the next two decades."

Because the premium tax credits are paid on behalf of the health insurance enrollee directly to their insurer, who then applies the credit to the enrollee's premium, the credits are likely to be subject to the New Mexico Insurance Premiums Tax.

Cost Sharing

Health insurance policies usually require enrollees to pay for a certain amount of their health care out-of-pocket before the insurer begins to pay in full. ACA



establishes the maximum out-of-pocket amount an individual can accrue before the health insurer pays all health care costs. For 2010, these maximums were $5,950 for an individual and $11,900 for a family, regardless of income level. In 2014, maximum cost-sharing amounts will be set by the IRS. Starting in 2015, the maximum cost sharing for individual plans will rise by the growth in average per capita health insurance premium for the prior year.

The ACA also provides cost-sharing assistance for some low- and moderate-income health insurance enrollees. Cost-sharing assistance limits the maximum out-of-pocket expenses that a health insurance enrollee can be held responsible for and can reduce cost-sharing amounts such as deductibles, co-insurance or co-payments that would otherwise be charged to them by their insurance plan.

Cost sharing does not include premiums, balance billing amounts for non-network providers, or spending for non-covered services. To be eligible for cost-sharing subsidies, individuals must be enrolled under a specified level of coverage through an exchange and have income between 138 and 400 percent of the FPL.

New Mexico Taxes

Insurance Premiums Tax

New Mexico currently exempts health insurance premiums from the gross receipts tax and imposes a separate 4.003 percent Insurance Premiums Tax (IPT) on them instead. Most health insurance premiums including HMOs, nonprofit health care plans, and hospital and medical insurance are subject to the IPT.[6] The IPT revenue is deposited in the state's general fund. The New Mexico Insurance Code preempts insurance companies from all state taxes except IPT and property tax.

Premium subsidies provided under ACA are paid directly to the insurer who applies them to the health insurance premiums of the qualified enrollee. Because they are part of a premium payment, they will likely be subject to the IPT.

Cost-sharing subsidies, on the other hand, are paid to the insurer to offset the costs of providing cost-sharing reductions for some middle- and lower-income enrollees. They are not technically insurance premiums, thus they will probably not be subject to the IPT or any state tax.

> "The new federal Medicaid funding, tax credits, and premium assistance will raise more than enough in tax revenue to offset the state's expected costs for the Medicaid expansion."

Other State Taxes

Although health care reform will undoubtedly increase the number of New Mexicans with health insurance, the exact extent to which the new laws will increase rates of insurance and utilization of health care remains unknown. The health care reform funds that are expended directly on insurance premiums will be subject to the state's 4.003 percent Insurance Premiums Tax, but the ultimate tax treatment of other funds—such as those used for cost-sharing subsidies for insurers, Medicaid Fee-for-Service, and

business tax credits—remains less certain. A general methodology that compares general fund tax revenue from non-extractive sources to personal income was used to estimate the general fund revenue impact of these new federal inflows. In this paper, cost-sharing subsidies and Medicaid Fee-for-Service are assumed to be taxed at a statewide average effective tax rate of 5.23 percent and a local average effective gross receipts tax (GRT) rate of 1.09 percent.

Economic Impact

The impact on New Mexico's economy of increased federal funding for Medicaid and insurance subsidies was estimated in the companion report using IMPLAN software on data from the New Mexico Human Services Department,[7] Health Care for America Now,[8] and the Urban Institute.[9] The "direct impact" of the new federal funds is the economic activity, jobs, and income that will be created in the health care sector by increased demand for health care services. The "indirect impact" is the economic activity, jobs, and income that will be created in the economic sectors that provide goods and services to the health care industry. The "induced impacts" are those that result when the people employed in the new jobs spend their money at local businesses.

Reproduced in Table I, "Low and High Estimates of Economic Activity Generated by New Federal Funds in ACA, 2014-2020" (below), are annual estimates of the economic impact of the new federal funds that will flow into New Mexico as a result of the insurance subsidies and increased Medicaid funds.[10] Note that these funds are in addition to the several billion dollars that New Mexico will continue to receive each year as the federal share of its existing Medicaid program to cover children, very low-income parents, and adults who are elderly or disabled.

Fiscal Impact

Between 2014 and 2020, the economic activity stimulated by the new federal funds brought into New Mexico by the Medicaid expansion and insurance subsidies provided under ACA will generate between $887.6 million and $1.221 billion in new state general fund revenue and between $232.2 and $321.8 million

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

		2014	2015	2016	2017	2018	2019	2020	Cumulative Total
Direct	Low	$485	$1,089	$1,422	$1,650	$1,836	$2,019	$2,056	$10,559
	High	$654	$1,452	$1,832	$2,097	$2,296	$2,490	$2,560	$13,381
Indirect	Low	$92	$207	$271	$314	$349	$384	$391	$2,009
	High	$134	$298	$376	$430	$471	$510	$525	$2,743
Induced	Low	$179	$403	$526	$610	$679	$747	$761	$3,905
	High	$262	$581	$733	$839	$918	$996	$1,024	$5,352
Total	Low	$757	$1,699	$2,219	$2,574	$2,865	$3,150	$3,208	$16,471
	High	$1,050	$2,330	$2,940	$3,366	$3,685	$3,996	$4,109	$21,477

Source: Calculation by NM Voices for Children from data in "The Economic Benefits of Health Care Reform in New Mexico," Table I, using IMPLAN software.[11]

in local government revenue. (See Table II, "Low and High Estimates of Total Tax Revenue from ACA Health Insurance Expansions, 2014-2020," below)

The revenue impacts of ACA are disaggregated into those resulting from the direct, indirect and induced impacts in Tables III, IV and V (below and page 7).

Between 2014 and 2020, the direct impact of the new federal funding will generate between $578.3 and $798.3 million in new revenue to the New Mexico general fund. Approximately two-thirds of the direct impact will result from the expansion of Medicaid to include previously ineligible populations and currently-eligible but not enrolled individuals, mostly children. Most of the new Medicaid spending will be spent through managed care, thus most of the direct fiscal impact will be attributable to increased general fund revenue from the New Mexico Insurance Premiums Tax (IPT) and the gross receipts tax (GRT) on payments by managed care organizations to providers of Medicaid services. Premiums subsidies will augment premium payments by individuals and thus they too will be taxed under the IPT. As mentioned above, cost-sharing subsidies and Medicaid Fee-for-Service are assumed to be taxed at a statewide average effective tax rate of 5.23 percent and a local average effective GRT rate of 1.09 percent. The local share of GRT on health care services will be distributed to the local jurisdictions in which the services were provided. Thus, the new revenue will be distributed throughout the many New Mexico communities—many of them rural—in which health care facilities and providers are located.

It is important to note that the direct fiscal impact estimates are conservative in that they do not include many additional sources of new federal funding included in ACA. These include: several hundred million in premium tax credits that have already been received by New Mexico small businesses and will be received in the future; millions of dollars saved by New Mexico Medicare beneficiaries in premiums and prescription drug costs; new grant funding for community health centers; and the many millions in uncompensated care costs that will be saved by the state and local governments.[12] Also hugely beneficial to New Mexico's economy, but not included in this analysis, is the reduction in cost-shifting that will result when individuals and businesses are no longer subsidizing health care for the uninsured by paying higher insurance premiums.

Conclusion

New Mexico stands to benefit greatly as the Medicaid expansion, premium subsidies, and cost sharing provisions under ACA go into effect, perhaps benefitting more than any other state. These provisions will mean that most every New Mexican will be covered by health insurance, saving money that currently goes to cover uncompensated care. The influx of new federal funding will create jobs and generate enormous economic activity. The federal funding, tax credits, and premium assistance will raise more than enough in tax revenue to offset the state's expected costs for the Medicaid

Table II
Low and High Estimates of Total Tax Revenue Generated by ACA, 2014-2020 (in millions)

	State	Local
Low	$887.6	$232.2
High	$1,221.7	$321.8

Table III
Low and High Estimates of Direct Impact Tax Revenue Generated by New Federal Funds in ACA, 2014-2020 (in millions)

		State	Local
Medicaid	Low	$441.4	$166.3
	High	$615.2	$231.8
Premium & Cost Subsidies	Low	$136.9	$1.3
	High	$183.1	$1.8
Total	Low	$578.3	$167.7
	High	$798.3	$233.6

expansion. However, if New Mexico is to maximize both the health and economic benefits of ACA, the state must implement the new law's policies and programs quickly and comprehensively. In particular, the state should begin to pre-enroll individuals and families for Medicaid or subsidized private health insurance during 2013 so that they can be insured beginning on January 1, 2014. This will ensure that they can have medical care as soon as possible if they need it and also will maximize the economic benefits to the state of new federal funding under health care reform.

In addition to these benefits to the state, ACA will also reduce the net federal deficit over the next two decades.

Table IV
Low and High Estimates of Direct Impact Tax Revenue Generated by New Federal Funds in ACA by Type of Tax, 2014-2020
(in millions)

		State	Local
Insurance Premiums Tax	Low	$310	$0
	High	$424	$0
Gross Receipts Tax	Low	$221.8	$168
	High	$308.9	$233.6
Other State Taxes*	Low	$46.7	$0
	High	$65.0	$0
Total	Low	$578.3	$168
	High	$798.3	$233.6

*Does not include severance or extractive taxes

Table V
Low and High Estimates of Tax Revenue from Indirect and Induced Impacts Generated by New Federal Funds in ACA, 2014-2020 (in millions)

		State	Local
Indirect Impact	Low	$105.1	$21.9
	High	$143.5	$29.9
Induced Impact	Low	$204.2	$42.6
	High	$279.9	$58.3

Aspects of ACA That Will Have Fiscal Impact on State (Not Otherwise Included in This Report)

Positive Revenue Impact

- $423 million in small business tax credits beginning in 2011.
- $37 million in federal funding to the state's high-risk insurance pool.
- Millions in health care workforce training.
- Millions of dollars to seniors when the Medicare prescription drug "donut hole" is filled.
- $10 million is premium savings for Medicare beneficiaries.
- Health insurance premium savings to individuals and businesses by not paying for large numbers of uninsured (estimated to be $3,100 a year for a family plan).[13]
- Savings of $172 to $344 million for state and local government for uncompensated care costs (from 2014-2019).
- Millions to Federally Qualified Health Centers (FQHC), public health and rural clinics, and community health centers.

Negative Revenue Impact

- Small tax on "Cadillac" health insurance plans.
- A 0.5 to 0.9 percent increase in Medicare premium tax for those with family incomes over $250,000.
- A decrease in federal funding to Medicare Advantage plans.
- Loss of a few million federal dollars in Disproportionate Share Hospital (DSH) payments to some New Mexico Hospitals.

Endnotes

1 Peter R. Orszag, PhD, Former Director of the Office of Management and Budget (OMB), Mar. 21, 2010 post "Fiscal Realities" on the OMB blog at www.whitehouse.gov.
2 133 percent with a 5 percent income disregard.
3 "Medicaid under the Patient Protection and Affordable Care Act (PPACA) by State Fiscal Year," NM Human Services Department, July 2011.
4 Ibid.
5 400 percent of the FPL in 2011 is $43,560 for an individual and $89,400 for a family of four.
6 The total tax is comprised of a 3.003 percent premium tax and a 1 percent health insurance premium surtax.
7 Ibid.
8 "Federal Health Reform Provides Critical Long-Term Help to States," Jonathan Gruber of the MIT Economics Department, March 2010.
9 "Consider Savings as Well as Costs," Urban Institute, July 2011.
10 "The Economic Benefits of Health Care Reform in New Mexico," New Mexico Voices for Children, updated August 2011.
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 "Health Care Reform: Key Fiscal Benefits and Costs to New Mexico," Office of U.S. Senator Jeff Bingaman, October 2010.
13 "Paying a Premium: The Added Cost of Care for the Uninsured," Families USA, Washington, DC, June 2005.

About the Author

Kelly O'Donnell, Ph.D., served as Superintendent of the New Mexico Regulation and Licensing Department from 2007 through 2010. She has also served as Deputy Cabinet Secretary of the NM Economic Development Department and Chair of the Spaceport Authority. Within the state's Taxation and Revenue Department, Dr. O'Donnell served as Assistant Cabinet Secretary, Tax Policy Director and Senior Economist. She also served as Research Director for New Mexico Voices for Children. She has a Ph.D. in economics from the University of New Mexico.

This report was generously funded by First Focus, Voices for America's Children, and the David and Lucile Packard Foundation. The use of IMPLAN software was made possible by funding from the W.K. Kellogg Foundation as part of our State Fiscal Analysis Initiative (SFAI) work.

This report and its executive summary are available for download and use with proper citation at www.nmvoices.org