



Investing in a Healthier New Mexico

The Economic and Fiscal Benefits of the
Medicaid Expansion in New Mexico

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Prosperity is not possible without investment and investments in health can lead to prosperity through increased well-being, greater productivity, and sustained economic returns. The Medicaid expansion was one of those smart health investments for New Mexico. It has provided health care for hundreds of thousands of New Mexicans, created jobs, spurred economic growth, and more than paid for itself. In fact, by 2020 New Mexico will have reaped a combined net positive gain of \$543 million in state revenue.

Medicaid provides health insurance for children from low-income families, and adults who are pregnant, elderly or disabled and have low incomes. The opportunity for a significant expansion of the Medicaid program was a major element of the 2010 federal health care act known as the Affordable Care Act (ACA). New Mexico was one of the 33 states that chose to expand the Medicaid program to childless adults with incomes at or under 138 percent of the federal poverty line (FPL)¹ – that was \$16,105 for a single person in 2014, when the expansion took effect. The Medicaid expansion has been very good for New Mexico's finances while providing access to quality health care for many New Mexicans of limited means. This report will focus on the economic and fiscal impacts of the Medicaid expansion between fiscal years 2015 and 2020.

Medicaid is funded by states with matching funds from the federal government. The size of the match depends on the economic conditions of the state, and given our high poverty rate, New Mexico has been able to draw down about three dollars in federal money for every dollar of state money we spend. The Medicaid expansion under the ACA (which began in January 2014) has been financed almost entirely with federal funds. As of this writing, New Mexico has received (and will continue to receive) more than a billion dollars in federal funding each year for the Medicaid expansion, as well as tax benefits and health care subsidies connected to the ACA.

This influx of federal funding has increased economic activity and will continue to do so. In turn, that surge in economic activity will continue to sustain roughly ten thousand jobs and result in increased personal income and revenue to state and local governments. The expansion will have added an estimated 274,800 newly eligible adult enrollees in our state through fiscal year 2018 (FY 18). If present trends continue, by 2020 the great majority of New Mexicans who do not have health insurance now will be covered by insurance in some form, whether public or private. This should result in a healthier workforce and population that will benefit the state's economy in terms of decreased absenteeism and improved worker productivity, because healthier workers are more effective workers. Families and communities will also reap significant health and economic benefits from the continued expansion of Medicaid in New Mexico.



Health Insurance Gains

Since 2014, adults with income at or below 138 percent of the FPL have been eligible for Medicaid in New Mexico. Prior to the expansion, Medicaid covered very few low-income adults who were not also pregnant, disabled or elderly. In a table published in the 2017 edition of the New Mexico Legislative Finance Committee's Post Session Review,² the New Mexico Human Services Department (HSD) reported that 223,000 newly eligible adults were enrolled in Medicaid in FY 15 – the first full year of the Medicaid expansion. This was out of 819,200 total Medicaid enrollees. HSD projected that the number of newly eligible adult enrollees will increase to 280,400 in FY 20 (out of 979,300 total Medicaid enrollees).

In addition, the so-called 'welcome mat effect' – the enrollment in Medicaid of New Mexicans who were already eligible for, but not yet participating in Medicaid prior to the expansion – was 65,600 in FY 15 and is expected to remain at that level each year through 2020. Welcome mat enrollment occurs because of increased publicity and outreach activities conducted by HSD, managed care organizations, and health care providers to sign up the New Mexicans who are newly eligible for Medicaid. As part of the welcome mat effect, about 31,000 children are currently benefiting from the expansion because their newly eligible parents signed them up as well.

Federal Funding Influx

Through increased enrollment, the ACA has brought a substantial influx of new federal funding into the state. New enrollment and spending started in 2014 and will ramp up to 2020 as uninsured individuals enroll in Medicaid in response to the new eligibility criteria for low-income adults. As outlined in the 2017 Post Session Review, the federal government paid 100 percent of the costs of expanding the Medicaid program in FY 15 and FY 16. The federal share declined to 97.5 percent in FY 17 and to 94.5 percent in FY 18, and will continue to decline gradually to 93.5 percent in FY 19 and 91.5 percent in FY 20 – with the federal share leveling off at 90 percent after that.

Total federal Medicaid expansion spending in our state between 2015 and 2020 is expected to add up to \$8.7 billion while total state general fund spending on the Medicaid expansion between 2015 and 2020 will add up to only \$377.3 million. Over that six-year period, the federal government will have paid, on average, for 95.6 percent of the costs of the expansion, while the state will have paid for the other 4.4 percent. Since the cost sharing percentage for the state will never go above 10 percent, New Mexico will continue to reap fiscal, economic, and health benefits beyond 2020.



Job Growth from the Expansion

In recent years, due in large part to the federal influx of Medicaid expansion dollars, health care had been the only sector consistently adding jobs in New Mexico. We estimate that the Medicaid expansion supported about 9,600 new jobs in 2015 and will continue to support about 11,100 jobs in New Mexico by 2020, as seen in Table I. Table I also provides possible upper and lower estimates for the employment increases.

These jobs are called ‘direct impact’ because they can be attributed directly to increased Medicaid spending – meaning the jobs are all either in the health care industry or in industries contracted by health care providers, such as information technology, and food and janitorial services. Of the roughly 9,600 jobs supported by the expansion in 2015 (9,578 is the medium estimate of new jobs for that year), roughly 64 percent were in the health care industry itself.

Approximately 28 percent or 2,700 jobs were created in hospitals, 24 percent or 2,300 jobs in physician’s offices, and 6 percent each in nursing homes and home health care for 570 jobs in each sector. The remaining jobs were in industries contracted by health care providers.



Table I – The Medicaid Expansion Created Nearly 10,000 Jobs

Employment increases in New Mexico from the Medicaid expansion

Year	2015	2016	2017	2018	2019	2020
Direct Impact - Upper	11,972	11,232	13,615	13,471	13,821	13,864
Direct Impact - Medium	9,578	8,986	10,892	10,777	11,057	11,091
Direct Impact - Low	6,704	6,290	7,624	7,544	7,740	7,764

Source: Initial impacts of the expansion were taken from the 2017 Post Session Review; Output direct, indirect and induced impacts were calculated by NM Voices staff using the IMPLAN input-output modeling software.

Economic Impacts of the Expansion



Table II shows the financial impact of the Medicaid expansion for each of the six full years from 2015 to 2020.³ In this context, direct impacts include those due to increased Medicaid dollars in the health care industry; indirect impacts include sales, income, and employment gains in other sectors that occur because of increased Medicaid spending; and induced impacts include downstream spending decisions made by households that benefited from increases in Medicaid funding. The federal funding, which began at \$1.336 billion in FY 15, will increase to an estimated \$1.547 billion in FY 20.

Total (direct, indirect, and induced) impacts will rise from \$2.357 billion in FY 15 to \$2.73 billion in FY 20. To provide some context, New Mexico's Gross Domestic Product (GDP) was \$86.592 billion in 2015, and is expected to rise to \$91.584 billion in 2020.⁴ The direct impact of the Medicaid expansion was about 1.6 percent of the state's GDP in 2015, rising to 1.8 percent in 2020. The total impact of the expansion was 2.7 percent of GDP in 2015, rising to 3 percent in 2020. As a result of that initial federal funding, the direct impact on economic activity in New Mexico began at \$1.45 billion in FY 15 and will rise to an estimated \$1.679 billion in FY 20.

Table II - The Medicaid Expansion Increased Economic Activity

Financial impact of Medicaid expansion in New Mexico (dollars in millions)

Year	2015	2016	2017	2018	2019	2020
Federal Impact	\$1,336	\$1,253	\$1,519	\$1,503	\$1,542	\$1,547
Change Year to Year		0.94	1.21	0.99	1.03	1.00
Direct Output Impact	\$1,450	\$1,360	\$1,649	\$1,632	\$1,674	\$1,679
Indirect Output Impact	\$338	\$317	\$384	\$380	\$390	\$391
Induced Output Impact	\$569	\$534	\$647	\$640	\$657	\$659
Total Output Impact	\$2,357	\$2,211	\$2,680	\$2,652	\$2,721	\$2,730
Change Year to Year		0.94	1.21	0.99	1.03	1.00

Source: Initial impacts of the expansion were taken from the 2017 Post Session Review; Output direct, indirect and induced impacts were calculated by NM Voices staff using the IMPLAN input-output modeling software.

Total Medicaid Impacts Before and After Expansion



For purposes of comparison, it is important to gauge the role of the Medicaid program in the New Mexico economy before the expansion took place. Data from the 2017 Post Session Review allow us to estimate what Medicaid and its impact would have looked like without the expansion in New Mexico. Table III shows the estimated financial and employment impacts of the Medicaid program prior to the expansion – in other words it presents what the impact of Medicaid would have been without the expansion.

Table III – Without the Expansion, Medicaid’s Impact Would Have Been Smaller
Base impact of Medicaid in New Mexico (dollars in millions)

Year	2015	2016	2017	2018	2019	2020
Federal Impact	\$2,700	\$2,988	\$2,995	\$3,153	\$3,280	\$3,347
Change Year to Year		1.11	1.00	1.05	1.04	1.02
Direct Output Impact	\$2,930	\$3,243	\$3,251	\$3,422	\$3,561	\$3,633
Indirect Output Impact	\$683	\$756	\$758	\$798	\$830	\$847
Induced Output Impact	\$1,079	\$1,194	\$1,197	\$1,260	\$1,311	\$1,338
Total Output Impact	\$4,692	\$5,193	\$5,205	\$5,480	\$5,702	\$5,817
Change Year to Year		1.11	1.00	1.05	1.04	1.02
Employment: Base Medicaid Program						
Direct Impact - Upper	24,195	26,776	26,843	28,258	29,401	29,997
Direct Impact - Medium	19,356	21,421	21,474	22,606	23,521	23,997
Direct Impact - Low	13,549	14,995	15,032	15,824	16,465	16,798

Source: Initial impacts of the expansion were taken from the 2017 Post Session Review; Output direct, indirect and induced impacts were calculated by NM Voices staff using the IMPLAN input-output modeling software.

Table IV presents the actual and expected economic impact of the total Medicaid program. The total impact is arrived at by adding the impact of the expansion to the impact of the base program.

Based on these data, without the expansion the state would have seen \$2.652 billion less in total Medicaid impact in 2018 – with similar amounts not generated in 2019 and 2020. Additionally, without the expansion, the state would have supported about 10,800 fewer jobs in 2018 – with similar numbers in 2019 and 2020 – when looking at the medium direct impact numbers.



Table IV- Medicaid’s Impact Would Have Been \$2.6 Billion Less

Impact of total Medicaid in New Mexico (dollars in millions)

Year	2015	2016	2017	2018	2019	2020
Federal Impact (millions)	\$4,035	\$4,241	\$4,514	\$4,656	\$4,822	\$4,894
Change Year to Year		1.05	1.06	1.03	1.04	1.01
Direct	\$4,380	\$4,603	\$4,900	\$5,054	\$5,234	\$5,312
Indirect	\$1,021	\$1,073	\$1,142	\$1,178	\$1,220	\$1,238
Induced	\$1,648	\$1,728	\$1,844	\$1,900	\$1,968	\$1,997
Total	\$7,049	\$7,404	\$7,886	\$8,132	\$8,423	\$8,547
Total Employment						
Direct Impact - Upper	36,167	38,009	40,458	41,729	43,223	43,861
Direct Impact - Medium	28,934	30,407	32,366	33,383	34,578	35,089
Direct Impact - Low	20,254	21,285	22,656	23,368	24,205	24,562

Source: Initial impacts of the expansion were taken from the 2017 Post Session Review; Output direct, indirect and induced impacts were calculated by NM Voices staff using the IMPLAN input-output modeling software.

Medicaid Expansion Brought in Tax Revenue

The Medicaid expansion for the years 2015 to 2020 represents a positive net increase to the New Mexico economy. This is different from economic activity that is the result of New Mexico money being circulated within New Mexico because the money comes from outside New Mexico – in this case, from the federal government. The Medicaid expansion also has a direct fiscal impact on the state's revenue. The revenue increase to the New Mexico general fund comes through two taxes: the insurance premium tax and the general fund portion of the New Mexico gross receipts tax. Table V presents the estimated revenue impact of the expansion of the Medicaid program from 2015 to 2020.

The insurance premium tax resulting from the Medicaid expansion was estimated to be \$54.76 million in FY 15, rising to \$63.41 million in FY 20. The gross receipts tax due to the Medicaid expansion was estimated to be \$86.5 million in FY 15, rising to \$100.2 million in FY 20. The total addition to general fund revenues from the insurance premium and gross receipts taxes due to the Medicaid expansion was estimated to be \$141.3 million in FY 15, rising to \$163.6 million in FY 20.⁵

There was no cost to the general fund for the first two years of the Medicaid expansion (2015 and 2016) since the federal government absorbed the complete cost of the expansion for those years. Starting in 2017 at \$38.9 million, the cost to the state will rise gradually to \$143.7 million by 2020. Taking the insurance premium tax and the direct, indirect, and induced impacts of the increased gross receipts tax, the state receives a net gain from the Medicaid expansion each year from 2015 to 2020.

The revenues generated by the expansion were higher than the state expenditures by \$122 million in FY 17 and are estimated to be higher by \$20 million in FY 20, as the federal funding

gradually falls to 91.5 percent in FY 20.⁶ That is, the total revenue impact of the taxes received by the state exceeds the cost of the program to the state in all years, so the expansion is more than paying for itself. In addition, the state has received billions in federal funds and insured hundreds of thousands of people. The total general fund expenditures for the six years covered in the analysis were just \$377 million.

The total revenues from the two tax sources were \$920 million. The net result over the period was a positive gain for the state of \$543 million. In future years, the net cost of the Medicaid expansion on the general fund will probably be negligible, as the 90 percent federal match for the expansion population will be balanced against the ongoing tax revenues from the insurance premium tax and the gross receipts tax.



Table V - Medicaid Expansion Brought in Millions in Tax Revenue

Revenue impact of Medicaid expansion in New Mexico (dollars in millions)

Year	2015	2016	2017	2018	2019	2020
Insurance Premium Tax	\$54.76	\$51.38	\$62.27	\$61.61	\$63.22	\$63.41
Gross Receipts Tax	\$53.2	\$49.9	\$60.5	\$59.9	\$61.4	\$61.6
Gross Receipts Tax Indirect	\$12.4	\$11.6	\$14.1	\$14.0	\$14.3	\$14.4
Gross Receipts Tax Induced	\$20.9	\$19.6	\$23.7	\$23.5	\$24.1	\$24.2
Gross Receipts Tax Total	\$86.5	\$81.2	\$98.4	\$97.3	\$99.9	\$100.2
Insurance Premium Tax + Gross Receipts Tax	\$141.3	\$132.5	\$160.6	\$158.9	\$163.1	\$163.6
General Fund Cost of Expansion	\$0.0	\$0.0	\$38.9	\$87.5	\$107.2	\$143.7

Source: NM Voices for Children staff calculations using IMPLAN software (data from the Hilltop Institute health care simulation model and NM HSD's State Coverage Insurance program)



Health and Community Benefits of Medicaid and the Expansion

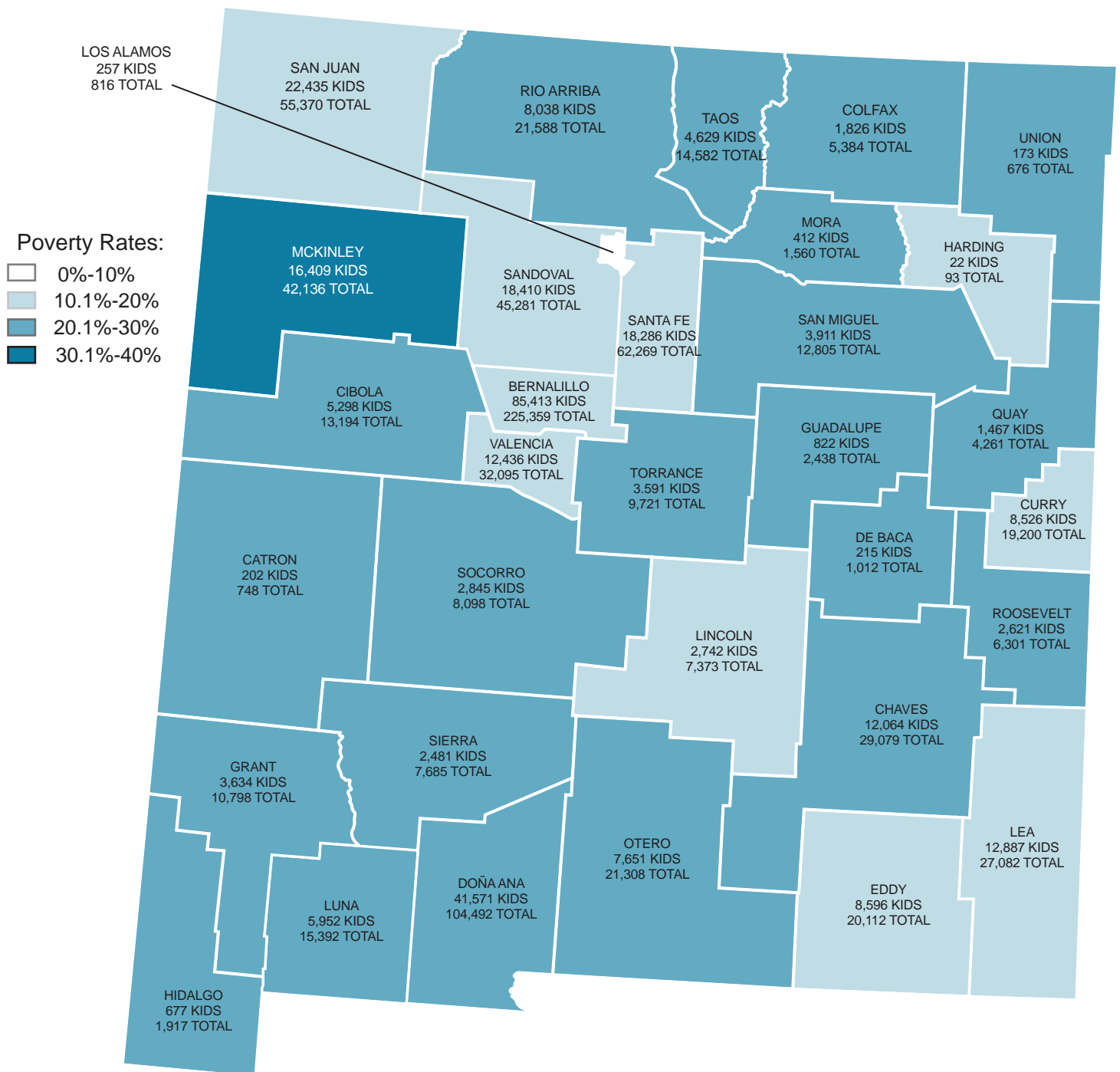
While this report focuses on the economic and fiscal benefits to the state of the Medicaid expansion, the program also confers numerous health and community benefits, which translate into reduced short-term and long-term state costs as well. Studies have shown that Medicaid encourages health care visits (including for mental health conditions), and improves health outcomes and financial security for low-income populations,⁷ including people of color. Additionally, children with health coverage are more likely to get well-baby and well-child visits, receive immunizations, and get treated for developmental delays and chronic conditions that can hinder growth and learning.⁸ Studies have also shown that children covered by Medicaid do better in school and are more likely to graduate

from high school and college.⁹ And as adults, they have fewer hospitalizations and emergency room visits, earn higher wages, and contribute more in taxes.¹⁰

Along with the economic benefits, New Mexico's small businesses – few of which can afford to provide health insurance to their employees – benefited from having a healthier and more productive workforce. The Medicaid expansion also greatly benefits New Mexicans and health care providers in rural and tribal communities by helping to sustain and support rural hospitals and clinics. Indeed, New Mexicans from every county have benefited from Medicaid and the expansion, as can be seen in Figure I.



Figure I - New Mexicans in Every County Benefit
 Medicaid enrollment numbers and poverty rates by county



Sources: 1-year county-level poverty estimates from Small Area Income and Poverty Estimates (SAIPE), 2016; Medicaid enrollment by county from the Human Services Department, August 2018 (child enrollment includes CHIP and those not in another category).

Conclusion

The Medicaid expansion has helped to improve New Mexico's financial condition. Between FY 15 and FY 20, the Medicaid expansion will have brought into our state nearly \$9 billion in federal funds. The Medicaid expansion was also supporting an estimated 10,800 jobs in FY 18 – with two-thirds of those jobs in the health care industry.

Since a significant percentage of the Medicaid federal funds pays for the wages of health care professionals, who in turn spend those wages (on housing, transportation, and other goods and services), the Medicaid expansion translates into additional gross receipt tax revenue for the state, among other benefits.

Between FY 15 and FY 20, even with our state costs for the Medicaid expansion, the New Mexico budget will have received a net gain of more than \$540 million.

The Medicaid expansion has also been very good for the health of New Mexicans with limited incomes, with an estimated 340,000 adults and children (including both newly eligible adults and 'welcome mat' enrollees) receiving Medicaid coverage in FY 18 thanks to the expansion. The Medicaid expansion continues to be a wise investment for our shared economy, our workforce, and our families.



Policy Recommendations

To take full advantage of the many fiscal, economic, and health benefits from the Medicaid expansion, New Mexico needs to implement the policies listed below. These policies can ensure that we adequately invest in the program, maintain the enrollment gains the state has seen, remove current and block future enrollment hurdles, increase outreach, and provide health care services to our many underserved areas across the state.

- **Fully fund the Medicaid expansion** to ensure that the maximum amount of federal funds can be drawn down to cover as many eligible New Mexicans as possible.
- **Enact a health care provider assessment fee** to raise revenue and fully cover the state costs of the Medicaid expansion. This can help us draw down additional federal monies, which increases direct supports to the health care industry – this is the reason the health care industry in New Mexico is generally in favor of implementing this fee.
- **Ensure adequate provider reimbursement rates** so medical professionals are able to provide quality services for Medicaid recipients across New Mexico, including in rural and tribal communities with health care provider shortages.
- **Preserve current benefit levels and eligibility** to maintain the gains in health insurance coverage that New Mexico has seen through the expansion.
- **Oppose patient co-pays and prevent the implementation of premiums and work requirements** that will make it more difficult for hard-working New Mexicans to access the health care services they need to be productive at work and care for their families.
- **Simplify the enrollment and recertification processes, enact express-lane enrollment, and integrate the health insurance marketplace with Medicaid** to reduce unnecessary paperwork, streamline the application process, and ensure that there is no “wrong door” to enrollment.
- **Study the feasibility of a Medicaid buy-in option** to allow New Mexicans not currently eligible for Medicaid to buy into the program to access quality and affordable health care.
- **Increase family planning eligibility to women of child-bearing age** so more prospective mothers get full-term pre-natal care that can help ensure that all babies are born at a healthy weight, which can lead to reduced state costs in the long run.
- **Fund home visiting under a Medicaid waiver** to draw down federal funding, allowing us to serve three times as many families for the same amount of funding while also strengthening our newly formed families.
- **Expand Medicaid outreach and enrollment programs** to cover children, pregnant women, and women of child-bearing age who are eligible for Medicaid but not yet enrolled.
- **Devise a plan for the reduction and future elimination of waiting lists for waivers** for the developmentally disabled, medically fragile, and elderly to better serve these very vulnerable populations.

1. *Current Status of State Medicaid Expansion Decisions*, Kaiser Family Foundation, 2018
2. www.nmlegis.gov/Entity/LFC/Documents/Session_Publications/Post_Session_Fiscal_Reviews/May%202017.pdf
3. The initial federal impact of the expansion was taken from the 2017 Post Session Review while the output impacts were estimated using the IMPLAN input-output modeling software to arrive at the direct, indirect, and induced impacts of the expansion.
4. FOR-UNM, the University of New Mexico's economic forecasting unit
5. NM Voices for Children staff calculations using IMPLAN software (data from the Hilltop Institute health care simulation model and NM HSD's State Coverage Insurance program)
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