Jobs At Risk:

Federal Medicaid Cuts Would Harm State Economies

Families USA

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Families USA
1201 New York Avenue NW, Suite 1100
Washington, DC 20005
Phone: 202-628-3030
Email: info@familiesusa.org
www.familiesusa.org

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Introduction

Over the coming months, members of Congress will be debating proposals that are designed to reduce the federal budget deficit. One program that has already received considerable attention is Medicaid, which provides nursing home and other long-term care for seniors and people with disabilities, as well as health coverage for low-income children and families.

The Republican budget proposal, introduced by House Budget Committee Chairman Paul Ryan, would subject Medicaid to some of the largest cuts in the history of the program. This proposal would cut federal Medicaid funding significantly—not by reducing underlying health care costs, but simply by shifting those costs to already overburdened state governments. It would do this by converting the program to a block grant that would provide considerably less federal funding with each passing year. The Republican budget proposal would cut federal funding to the states by 5 percent in 2013. In 2014, the cut would be 15 percent. Over the coming years, these funding cuts would get larger and larger, until, at the end of the 10-year period, the cut in federal funds would approximate 33 percent. (Other budget proposals under consideration don't specify the size of their Medicaid cuts. However, they do include global caps or other limits that would trigger automatic spending cuts, which could easily result in similar cuts to Medicaid.)

These cuts would have a devastating impact not only on states, but also on Medicaid enrollees—seniors and people with disabilities who need nursing home and other long-term care, as well as low-income families, many of whom will lose benefits or lose their coverage altogether.

Beyond the human toll that would be experienced by program enrollees and their families, these Medicaid cuts would have a significant and harmful effect on state economies and jobs. To determine those economic consequences, Families USA used the RIMS II input-output model (created by the U.S. Department of Commerce, Bureau of Economic Analysis). Working with Richard Clinch, Director of Economic Research at the Jacob France Institute of the Merrick School of Business at the University of Baltimore, we looked at the reductions in state business activity and the resulting number of jobs that would be at risk today under three different scenarios based on the Republican budget proposal: a 5 percent cut, a 15 percent cut, and a 33 percent cut in federal Medicaid spending.

We found that these Medicaid cuts would cause serious and quantifiable harm to state economies. Every federal Medicaid dollar that flows into a state stimulates business activity and generates jobs. The loss of federal funding means there will be fewer dollars circulating through each state's economy, as well as fewer dollars passing from one person to another

in successive rounds of spending that drive economic growth. This loss of the "economic multiplier effect" that states would experience as a direct result of federal Medicaid cuts would be large and much greater than the amount of the dollar cuts themselves.

While our nation's economy is showing modest signs of recovery, that recovery remains fragile, and many families have not yet returned to a secure financial footing. Unemployment remains high, and decisions that would lead to additional job losses make little sense. Unfortunately, federal Medicaid cuts could severely worsen unemployment and further burden troubled state economies.

Key Findings

5 Percent Cut in Federal Medicaid Spending

- **Business Activity Lost Due to a 5 Percent Medicaid Cut**
  - In 2011, even a 5 percent cut in federal Medicaid spending would mean that the 50 states and the District of Columbia would lose a total of $13.75 billion that is needed to support health care for vulnerable residents. These cuts would dampen business activity and job creation in every state. (Table 1)
  - The 10 states with the largest potential loss of business activity attributed to a 5 percent cut in federal Medicaid spending would be New York ($3.8 billion), California ($3.7 billion), Texas ($2.1 billion), Pennsylvania ($1.5 billion), Florida ($1.2 billion), Ohio ($1.2 billion), Illinois ($1.2 billion), Massachusetts ($1.0 billion), North Carolina ($942.1 million), and Michigan ($861.9 million). (Table 2)
  - Even in the two states with the smallest Medicaid budgets, North Dakota and Wyoming, the potential loss of business activity from a 5 percent cut in federal Medicaid spending would be valued at $36.1 million and $30.7 million, respectively. (Table 2)
- **Jobs Lost Due to a 5 Percent Medicaid Cut**
  - The loss of business activity due to a 5 percent cut in federal Medicaid spending would result in a loss of jobs in every state across the country. (Table 2)
  - The 10 states with the largest potential number of jobs lost due to a 5 percent cut in federal Medicaid spending would be New York (28,830), California (28,440), Texas (18,160), Pennsylvania (12,230), Florida (11,320), Ohio (11,270), Illinois (9,280), North Carolina (8,890), Michigan (7,670), and Massachusetts (7,600). (Table 2)
  - Even in the two states with the smallest Medicaid budgets, North Dakota and Wyoming, the potential loss of jobs due to a 5 percent cut in federal Medicaid spending would be 410 and 300, respectively. (Table 2)

Table 1.

Dollars at Risk under Various Federal Medicaid Spending Cut Scenarios, 2011

State	5 Percent Cut	15 Percent Cut	33 Percent Cut
Alabama	$165,681,000	$497,044,000	$1,093,497,000
Alaska	$40,132,000	$120,397,000	$264,873,000
Arizona	$325,121,000	$975,363,000	$2,145,799,000
Arkansas	$129,501,000	$388,503,000	$854,706,000
California	$1,563,964,000	$4,691,891,000	$10,322,159,000
Colorado	$133,389,000	$400,168,000	$880,371,000
Connecticut	$226,444,000	$679,332,000	$1,494,530,000
Delaware	$45,467,000	$136,402,000	$300,084,000
District of Columbia	$61,013,000	$183,038,000	$402,684,000
Florida	$566,124,000	$1,698,372,000	$3,736,418,000
Georgia	$288,654,000	$865,963,000	$1,905,119,000
Hawaii	$49,084,000	$147,252,000	$323,955,000
Idaho	$47,895,000	$143,686,000	$316,109,000
Illinois	$493,027,000	$1,479,082,000	$3,253,981,000
Indiana	$221,612,000	$664,835,000	$1,462,637,000
Iowa	$111,064,000	$333,191,000	$733,019,000
Kansas	$91,687,000	$275,060,000	$605,133,000
Kentucky	$202,642,000	$607,926,000	$1,337,436,000
Louisiana	$244,376,000	$733,128,000	$1,612,881,000
Maine	$94,475,000	$283,424,000	$623,533,000
Maryland	$244,778,000	$734,335,000	$1,615,537,000
Massachusetts	$468,274,000	$1,404,822,000	$3,090,609,000
Michigan	$397,082,000	$1,191,247,000	$2,620,744,000
Minnesota	$277,176,000	$831,529,000	$1,829,363,000
Mississippi	$148,122,000	$444,365,000	$977,603,000
Missouri	$290,693,000	$872,078,000	$1,918,571,000
Montana	$32,859,000	$98,577,000	$216,869,000
Nebraska	$60,642,000	$181,926,000	$400,237,000
Nevada	$51,890,000	$155,671,000	$342,476,000
New Hampshire	$49,795,000	$149,386,000	$328,649,000
New Jersey	$362,714,000	$1,088,142,000	$2,393,912,000
New Mexico	$123,455,000	$370,365,000	$814,804,000
New York	$1,852,308,000	$5,556,923,000	$12,225,230,000
North Carolina	$431,710,000	$1,295,129,000	$2,849,285,000
North Dakota	$21,465,000	$64,396,000	$141,671,000
Ohio	$527,411,000	$1,582,233,000	$3,480,912,000
Oklahoma	$147,739,000	$443,217,000	$975,077,000
Oregon	$137,998,000	$413,993,000	$910,785,000
Pennsylvania	$646,528,000	$1,939,585,000	$4,267,088,000
Rhode Island	$71,036,000	$213,109,000	$468,840,000
South Carolina	$191,297,000	$573,891,000	$1,262,559,000
South Dakota	$26,765,000	$80,295,000	$176,649,000
Tennessee	$273,530,000	$820,589,000	$1,805,296,000
Texas	$889,405,000	$2,668,216,000	$5,870,076,000
Utah	$61,130,000	$183,389,000	$403,456,000
Vermont	$36,562,000	$109,686,000	$241,310,000
Virginia	$216,678,000	$650,034,000	$1,430,074,000
Washington	$247,748,000	$743,244,000	$1,635,137,000
West Virginia	$91,326,000	$273,978,000	$602,751,000
Wisconsin	$250,787,000	$752,361,000	$1,655,193,000
Wyoming	$19,744,000	$59,233,000	$130,313,000
U.S. Total	**$13,750,000,000**	**$41,250,000,000**	**$90,750,000,000**

Table 2.

What Would a 5 Percent Cut to the Medicaid Program in 2011 Mean?

State	Business Activity at Risk	Jobs at Risk
Alabama	$337,651,000	3,220
Alaska	$71,019,000	630
Arizona	$690,393,000	5,660
Arkansas	$242,436,000	2,460
California	$3,697,229,000	28,440
Colorado	$310,302,000	2,560
Connecticut	$463,506,000	3,690
Delaware	$87,455,000	630
District of Columbia	$81,723,000	190
Florida	$1,220,507,000	11,320
Georgia	$670,208,000	5,820
Hawaii	$98,376,000	890
Idaho	$84,199,000	870
Illinois	$1,186,779,000	9,280
Indiana	$469,400,000	4,290
Iowa	$199,529,000	2,010
Kansas	$171,841,000	1,600
Kentucky	$416,088,000	3,670
Louisiana	$467,236,000	4,650
Maine	$190,697,000	1,920
Maryland	$510,581,000	4,080
Massachusetts	$1,033,835,000	7,600
Michigan	$861,877,000	7,670
Minnesota	$610,938,000	5,070
Mississippi	$273,996,000	2,900
Missouri	$633,668,000	5,330
Montana	$59,048,000	640
Nebraska	$106,724,000	1,080
Nevada	$98,064,000	830
New Hampshire	$100,995,000	820
New Jersey	$833,058,000	6,250
New Mexico	$231,698,000	2,250
New York	$3,807,007,000	28,830
North Carolina	$942,133,000	8,890
North Dakota	$36,062,000	410
Ohio	$1,194,963,000	11,270
Oklahoma	$299,373,000	3,080
Oregon	$285,943,000	2,460
Pennsylvania	$1,505,722,000	12,230
Rhode Island	$143,484,000	1,180
South Carolina	$410,627,000	3,970
South Dakota	$44,588,000	450
Tennessee	$621,693,000	4,940
Texas	$2,145,569,000	18,160
Utah	$140,818,000	1,350
Vermont	$66,764,000	630
Virginia	$462,344,000	3,890
Washington	$532,348,000	4,250
West Virginia	$166,172,000	1,640
Wisconsin	$519,261,000	4,830
Wyoming	$30,710,000	300

15 Percent Cut in Federal Medicaid Spending

- **Business Activity Lost Due to a 15 Percent Medicaid Cut**
  - In 2011, a 15 percent cut in federal Medicaid spending would mean that the 50 states and the District of Columbia would lose a total of $41.25 billion that is needed to support health care for vulnerable residents. These cuts would dampen business activity and job creation in every state. (Table 1)
  - The 10 states with the largest potential loss of business activity attributed to a 15 percent cut in federal Medicaid spending would be New York ($11.4 billion), California ($11.1 billion), Texas ($6.4 billion), Pennsylvania ($4.5 billion), Florida ($3.7 billion), Ohio ($3.6 billion), Illinois ($3.6 billion), Massachusetts ($3.1 billion), North Carolina ($2.8 billion), and Michigan ($2.6 billion). (Table 3)
- **Jobs Lost Due to a 15 Percent Medicaid Cut**
  - The loss of business activity due to a 15 percent cut in federal Medicaid spending would result in a loss of jobs in every state across the country. (Table 3)
  - The 10 states with the largest potential number of jobs lost due to a 15 percent cut in federal Medicaid spending would be New York (86,480), California (85,320), Texas (54,490), Pennsylvania (36,700), Florida (33,970), Ohio (33,800), Illinois (27,830), North Carolina (26,660), Michigan (23,020), and Massachusetts (22,810). (Table 3)

33 Percent Cut in Federal Medicaid Spending

- **Business Activity Lost Due to a 33 Percent Medicaid Cut**
  - In 2011, a 33 percent cut in federal Medicaid spending would mean that the 50 states and the District of Columbia would lose a total of $90.75 billion that is needed to support health care for vulnerable residents. These cuts would dampen business activity and job creation in every state. (Table 1)
  - The 10 states with the largest potential loss of business activity attributed to a 33 percent cut in federal Medicaid spending would be New York ($25.1 billion), California ($24.4 billion), Texas ($14.2 billion), Pennsylvania ($9.9 billion), Florida ($8.1 billion), Ohio ($7.9 billion), Illinois ($7.8 billion), Massachusetts ($6.8 billion), North Carolina ($6.2 billion), and Michigan ($5.7 billion). (Table 4)
- **Jobs Lost Due to a 33 Percent Medicaid Cut**
  - The loss of business activity due to a 33 percent cut in federal Medicaid spending would result in a loss of jobs in every state across the country. (Table 4)
  - The 10 states with the largest potential number of jobs lost due to a 33 percent cut in federal Medicaid spending would be New York (190,260), California (187,690), Texas (119,890), Pennsylvania (80,750), Florida (74,740), Ohio (74,370), Illinois (61,220), North Carolina (58,650), Michigan (50,650), and Massachusetts (50,180). (Table 4)

Table 3.

What Would a 15 Percent Cut to the Medicaid Program in 2011 Mean?

State	Business Activity at Risk	Jobs at Risk
Alabama	$1,012,953,000	9,660
Alaska	$213,057,000	1,890
Arizona	$2,071,178,000	16,970
Arkansas	$727,308,000	7,370
California	$11,091,687,000	85,320
Colorado	$930,905,000	7,680
Connecticut	$1,390,518,000	11,070
Delaware	$262,365,000	1,880
District of Columbia	$245,169,000	570
Florida	$3,661,520,000	33,970
Georgia	$2,010,625,000	17,460
Hawaii	$295,127,000	2,660
Idaho	$252,596,000	2,610
Illinois	$3,560,337,000	27,830
Indiana	$1,408,200,000	12,870
Iowa	$598,588,000	6,040
Kansas	$515,522,000	4,790
Kentucky	$1,248,263,000	11,000
Louisiana	$1,401,707,000	13,960
Maine	$572,092,000	5,760
Maryland	$1,531,743,000	12,240
Massachusetts	$3,101,505,000	22,810
Michigan	$2,585,630,000	23,020
Minnesota	$1,832,815,000	15,220
Mississippi	$821,987,000	8,700
Missouri	$1,901,005,000	16,000
Montana	$177,144,000	1,930
Nebraska	$320,171,000	3,230
Nevada	$294,191,000	2,490
New Hampshire	$302,985,000	2,460
New Jersey	$2,499,175,000	18,750
New Mexico	$695,095,000	6,740
New York	$11,421,020,000	86,480
North Carolina	$2,826,399,000	26,660
North Dakota	$108,186,000	1,230
Ohio	$3,584,889,000	33,800
Oklahoma	$898,118,000	9,240
Oregon	$857,828,000	7,390
Pennsylvania	$4,517,167,000	36,700
Rhode Island	$430,453,000	3,530
South Carolina	$1,231,882,000	11,900
South Dakota	$133,763,000	1,350
Tennessee	$1,865,078,000	14,810
Texas	$6,436,706,000	54,490
Utah	$422,454,000	4,040
Vermont	$200,293,000	1,880
Virginia	$1,387,033,000	11,670
Washington	$1,597,045,000	12,740
West Virginia	$498,516,000	4,920
Wisconsin	$1,557,782,000	14,490
Wyoming	$92,129,000	900

Table 4.

What Would a 33 Percent Cut to the Medicaid Program in 2011 Mean?

State	Business Activity at Risk	Jobs at Risk
Alabama	$2,228,497,000	21,250
Alaska	$468,726,000	4,160
Arizona	$4,556,591,000	37,340
Arkansas	$1,600,079,000	16,210
California	$24,401,712,000	187,690
Colorado	$2,047,990,000	16,890
Connecticut	$3,059,139,000	24,350
Delaware	$577,202,000	4,140
District of Columbia	$539,372,000	1,260
Florida	$8,055,344,000	74,740
Georgia	$4,423,374,000	38,420
Hawaii	$649,280,000	5,850
Idaho	$555,712,000	5,750
Illinois	$7,832,742,000	61,220
Indiana	$3,098,039,000	28,310
Iowa	$1,316,895,000	13,280
Kansas	$1,134,148,000	10,540
Kentucky	$2,746,178,000	24,190
Louisiana	$3,083,755,000	30,720
Maine	$1,258,602,000	12,680
Maryland	$3,369,835,000	26,930
Massachusetts	$6,823,312,000	50,180
Michigan	$5,688,385,000	50,650
Minnesota	$4,032,193,000	33,490
Mississippi	$1,808,370,000	19,140
Missouri	$4,182,211,000	35,210
Montana	$389,717,000	4,250
Nebraska	$704,377,000	7,110
Nevada	$647,221,000	5,480
New Hampshire	$666,568,000	5,410
New Jersey	$5,498,184,000	41,260
New Mexico	$1,529,209,000	14,830
New York	$25,126,245,000	190,260
North Carolina	$6,218,078,000	58,650
North Dakota	$238,008,000	2,710
Ohio	$7,886,756,000	74,370
Oklahoma	$1,975,859,000	20,320
Oregon	$1,887,221,000	16,260
Pennsylvania	$9,937,766,000	80,750
Rhode Island	$946,996,000	7,760
South Carolina	$2,710,141,000	26,170
South Dakota	$294,278,000	2,960
Tennessee	$4,103,171,000	32,580
Texas	$14,160,754,000	119,890
Utah	$929,398,000	8,880
Vermont	$440,644,000	4,130
Virginia	$3,051,472,000	25,680
Washington	$3,513,499,000	28,030
West Virginia	$1,096,734,000	10,830
Wisconsin	$3,427,121,000	31,890
Wyoming	$202,685,000	1,980

Table 5.

Jobs at Risk under Various Federal Medicaid Spending Cut Scenarios, 2011

State Rank by Number of Jobs at Risk	5 Percent Cut	15 Percent Cut	33 Percent Cut
1. New York	28,830	86,480	190,260
2. California	28,440	85,320	187,690
3. Texas	18,160	54,490	119,890
4. Pennsylvania	12,230	36,700	80,750
5. Florida	11,320	33,970	74,740
6. Ohio	11,270	33,800	74,370
7. Illinois	9,280	27,830	61,220
8. North Carolina	8,890	26,660	58,650
9. Michigan	7,670	23,020	50,650
10. Massachusetts	7,600	22,810	50,180
11. New Jersey	6,250	18,750	41,260
12. Georgia	5,820	17,460	38,420
13. Arizona	5,660	16,970	37,340
14. Missouri	5,330	16,000	35,210
15. Minnesota	5,070	15,220	33,490
16. Tennessee	4,940	14,810	32,580
17. Wisconsin	4,830	14,490	31,890
18. Louisiana	4,650	13,960	30,720
19. Indiana	4,290	12,870	28,310
20. Washington	4,250	12,740	28,030
21. Maryland	4,080	12,240	26,930
22. South Carolina	3,970	11,900	26,170
23. Virginia	3,890	11,670	25,680
24. Connecticut	3,690	11,070	24,350
25. Kentucky	3,670	11,000	24,190
26. Alabama	3,220	9,660	21,250
27. Oklahoma	3,080	9,240	20,320
28. Mississippi	2,900	8,700	19,140
29. Colorado	2,560	7,680	16,890
30. Oregon	2,460	7,390	16,260
31. Arkansas	2,460	7,370	16,210
32. New Mexico	2,250	6,740	14,830
33. Iowa	2,010	6,040	13,280
34. Maine	1,920	5,760	12,680
35. West Virginia	1,640	4,920	10,830
36. Kansas	1,600	4,790	10,540
37. Utah	1,350	4,040	8,880
38. Rhode Island	1,180	3,530	7,760
39. Nebraska	1,080	3,230	7,110
40. Hawaii	890	2,660	5,850
41. Idaho	870	2,610	5,750
42. Nevada	830	2,490	5,480
43. New Hampshire	820	2,460	5,410
44. Montana	640	1,930	4,250
45. Alaska	630	1,890	4,160
46. Delaware	630	1,880	4,140
47. Vermont	630	1,880	4,130
48. South Dakota	450	1,350	2,960
49. North Dakota	410	1,230	2,710
50. Wyoming	300	900	1,980
51. District of Columbia	190	570	1,260

Background

Medicaid: A Federal and State Partnership

The Medicaid program is a unique federal-state partnership. It gives states great flexibility to design their programs and control their spending. Every state Medicaid program must cover certain very low-income children, pregnant women, and some seniors and people with disabilities, and it must provide them with, at minimum, a defined set of basic health benefits. However, aside from these minimal requirements, states have broad authority to expand Medicaid to more people and/or cover more services. Each state's policy makers must determine who will be covered, what kinds of health care services will be covered, how much the state will spend overall, and where Medicaid fits among competing demands for limited state dollars.

To entice states to cover more people and services, the federal government "matches" every dollar that a state invests in Medicaid. These matching rates vary from state to state, ranging from a low of $1.00 in federal funds for each state dollar to a high of $2.96 for each state dollar.[1] This guarantee of unlimited federal matching funds for approved state Medicaid expenditures is integral to the ability of every state to provide health care to their most vulnerable residents, including low-income families and children, people with disabilities, and seniors.

Medicaid provides access to critical health care services to nearly 60 million Americans, offering a safety net for people who are facing hard economic times and who have no other way to get health coverage.[2] Such coverage is even more important during an economic downturn, when people lose job-based health coverage if they lose their jobs or if coverage becomes too expensive to maintain when their family's income declines. In fact, during economic downturns, Medicaid acts as a countercyclical economic force: Because eligibility for these programs is based on income, enrollment is highest during periods of economic decline. For every 1 percentage point increase in the unemployment rate, an additional 1 million people enroll in Medicaid and the state Children's Health Insurance Program (CHIP).[3] This, in turn, increases costs for these programs—costs that, historically, federal and state governments have shared.

Ironically, these increased costs come precisely when states are least able to afford them. During an economic downturn, state income tax receipts fall as unemployment rises, reduced consumer activity causes a drop in sales tax revenue, and the declining housing market greatly diminishes revenue from property taxes. For every 1 percentage point increase in the unemployment rate, state general fund revenues drop by 3 to 4 percent.[4] In fiscal years 2010 and 2011, states faced cumulative budget deficits of $191 billion and $130 billion, respectively. The negative impact of the recession on state revenues will continue to be felt for several years. For upcoming fiscal year 2012, states face an estimated cumulative budget deficit of more than $112 billion.[5]

Without the federal government's commitment to match state spending as the need for Medicaid grows, states that are facing reduced revenues will be forced to cut their Medicaid safety net just when the need is the greatest.

Discussion

The Current Federal Budget Debate

Congress is currently debating proposals that will help the nation reduce the budget deficit. While economists and policy makers across the political spectrum agree that it is important to address the budget deficit, there are important differences in how these proposals approach the problem. One key difference is whether the approach is balanced, meaning that it includes both spending cuts and revenue increases.

The Republican budget proposal would only cut spending. It would not make any changes that would generate additional revenue from the highest-income families and most profitable corporations. This approach puts the burden of deficit reduction on low- and middle-income families because it cuts spending on programs that they depend on. One of the programs that would be hardest hit is Medicaid. The Republican budget proposal would cut federal Medicaid funding below the estimated federal spending levels that are needed to sustain the current Medicaid program, and these cuts would grow significantly over time: 5 percent in 2013, 15 percent in 2014, 21 percent in 2015, 22 percent in 2016, 24 percent in 2017, 28 percent in 2018, 29 percent in 2019, 31 percent in 2020, and 33 percent in 2021.[6]

The Affordable Care Act: An Additional Economic Stimulus

Throughout this report, we discuss the economic consequences of cutting the existing Medicaid program and what those cuts would mean in terms of lost jobs and diminished economic activity if they went into effect today. But some of the budget proposals being discussed go even further—they would repeal the Affordable Care Act and the Medicaid expansion it authorizes. It should be noted that the final budget that is agreed to by Congress, if it repeals the slated 2014 Medicaid expansion, will add insult to injury. That is, starting in 2014, it will deny states additional Medicaid funds that could further spur economic activity and job growth. If we had also taken into account this loss of federal dollars from the repeal of the Affordable Care Act, the Republican budget proposal would cut federal Medicaid funding by an estimated additional 13 percent—yielding an overall Medicaid cut of 44 percent in 2021.

The Republican budget proposal would also change the fundamental structure of the Medicaid program. Medicaid would become a "block grant" program, and the longstanding federal-state financial partnership that balances responsibility for Medicaid funding would end. This approach would arbitrarily cap the total federal dollar contribution for each state without regard to the needs or choices of states about who is eligible for Medicaid or what services should be covered. Further, the federal contribution to a state's Medicaid program would not change

even if the state's spending on the program had unexpected increased costs due to an economic downturn; a tornado, flood, or other natural disaster; a flu epidemic; or any other unpredictable event that can increase the need for the program. So, after a state reached its federal dollar cap, it would be left to pay the full cost of any unforeseen Medicaid expenses on its own.

To be clear, even budget proposals that don't explicitly talk about "block granting" Medicaid, such as proposals that include caps and triggers (especially proposals that do not take a balanced approach and address both reductions in spending and increases in revenues), likely would cut Medicaid as much or more than the Republican proposal. The spending reductions in many of these proposals are so large that there is no possibility that they could be achieved without drastic Medicaid cuts which, in turn, would force the same kind of restructuring of the federal-state financial partnership.

Shifting Costs from the Federal Government to the States

Because almost every state is constitutionally required to balance its budget, governors and state legislators cannot easily replace any federal dollars they lose that supported the state's Medicaid program. The cuts in the Republican budget proposal are so large that states, which are already struggling to balance their own budgets, would not realistically be able to make up that lost funding even through large tax increases. Furthermore, over time, this Medicaid funding shortfall would grow exponentially. For example, the estimated 33 percent cut in 2021 would grow to an estimated 35 percent by 2022—in just one more year.[7] States would suddenly be left with no choice but to dramatically cut Medicaid eligibility, benefits, and the rates paid to providers who serve Medicaid patients.

Thus, the federal "savings" in the Republican budget proposal are actually costs that would ultimately be shifted to families who rely on Medicaid for a child's visit to the doctor, to low-income seniors who need help with costs that Medicare doesn't cover, and to families who struggle to pay for nursing home or other long-term care.

In addition, as states are forced to cut Medicaid eligibility and services, more residents would be left uninsured. A significant number of these people would go without needed care, which would have long-term consequences for their health and for their ability to contribute to state economies. Research has shown that, as low-income, uninsured individuals and families balance competing financial needs, they may delay seeking care until their conditions grow more serious, even though they may then be more expensive to treat. For example, diabetes can be controlled with diet, exercise, and appropriate use of insulin. When diabetes is not treated and controlled, it can lead to much more expensive and debilitating health problems. The same is true for asthma.

As health problems grow more serious or perhaps become life-threatening, uninsured people do seek out health care, often at public hospitals, local health departments, state and county health clinics, school health clinics, and other programs and services that are financed by state and local governments. As states reduce the number of people served by Medicaid, the funding demands for other public programs go up and must be met by state and local communities—without federal financial assistance.

The bottom line is that states really cannot avoid paying for at least some of the health care that uninsured residents need. By paying for that care through Medicaid, states can, in essence, buy these services at a 50 to 75 percent "discount" that is provided by the federal government through the federal match system. Proposals under consideration in Congress that dramatically cut spending will abolish this sytem and leave states paying full price for the health care needs of their residents—health care needs that won't simply disappear. Thus, the federal government's "savings" become the states' new financial burden. If states cannot make up for lost federal Medicaid dollars, the cost of care for many who are left uninsured will ultimately create an untenable situation for states, local communities, safety net health care providers, and the health care system overall.

The Medicaid Economic Multiplier Effect

A vicious cycle is started when federal Medicaid spending is cut: States are forced to cut Medicaid, people who are left uninsured still get sick and seek care, and states and local communities are left trying to cope with the unpaid bills. But the cycle does not end there. In fact, the cycle that begins with federal Medicaid spending cuts ultimately stifles business activity and jobs across all sectors of the economy, not just the health care sector. Money that is spent on health care provides a powerful economic stimulus. When Medicaid is cut, this stimulus is lost and state economies are hurt.

Here's how the multiplier effect works at the state level: To generate new business activity, jobs, and wages in a state economy, money must be received from outside the state. For example, visits by out-of-state tourists or the sale of manufacturing products to consumers outside the state bring new spending into the state, which contributes to economic growth.

Use of health care services that are covered by Medicaid brings new money into the state in the form of federal matching dollars. This injection of new federal dollars has a positive and measurable impact on state business activity, available jobs, and aggregate state income. It is important to note that spending on health care services provides a stronger economic push than, for example, tax cuts for wealthy people, because these people tend not to spend that

"new" money either quickly or in ways that continue to recirculate it to other spenders. Conversely, if the federal dollars that flow into a state are reduced by cuts and caps to Medicaid, this often has a strong, negative impact on the state's economy.

Medicaid spending adds to state economies in both direct and indirect ways. Medicaid payments to hospitals, nursing homes, and other health-related businesses have a direct impact, paying for goods and services and supporting jobs in the state. But these dollars trigger successive rounds of earnings and purchases as they continue to circulate through the economy. They create income and jobs for individuals who are not directly—or even indirectly—associated with health care. For example, health care employees spend part of their salaries on new cars, which adds to the incomes of auto dealership employees, which enables them to spend part of their salaries on washing machines, which enables appliance store employees to spend additional money on groceries, and so on. This ripple effect of spending is called the economic multiplier effect.

The magnitude of the unique positive impact of federal Medicaid spending varies from state to state based on the economic conditions in the state. The specific economic conditions in each state are captured by the RIMS II input-output economic model. The RIMS II model is built on Department of Commerce data that show the relationships among hundreds of industries in the economy. The model adjusts and updates these relationships to reflect a state economy's current industrial structure, trading patterns, wage and salary data, and personal income data.

Table 1 shows the total federal dollars flowing into states that would be lost under three different federal Medicaid budget cut scenarios—a 5, 15, and 33 percent cut in federal Medicaid spending—if these cuts were to occur in 2011. Families USA distributed these cuts based on the distribution of Medicaid spending (fiscal year 2009 Medicaid expenditures, by state, excluding administrative spending and spending within the U.S. territories). To illustrate the magnitude of the impact of Medicaid cuts on state economies, Tables 2, 3, and 4 provide estimates of the lost business activity and the jobs at risk if federal Medicaid cuts of 5, 15, or 33 percent were in place in 2011. As Table 2 shows, even a 5 percent cut would have a tremendous negative impact on state economies and would put a significant number of jobs at risk. Furthermore, losing business activity and jobs reduces both federal and state tax bases, which, in turn, reduces revenues, creating even more pressure for additional Medicaid cuts.

Conclusion

As options to reduce the federal deficit are weighed and balanced, the discussion should include recognition of the powerful economic stimulus that federal spending has on state Medicaid programs. This report quantifies the potential business activity and jobs that would be put at risk if federal Medicaid spending is cut dramatically.

Less easily quantified, but equally important, is the impact on the lives of state residents who rely on Medicaid for their health care. Medicaid provides a vital health care safety net in every state. It is a lifeline for children, people with disabilities or chronic illnesses, and low-income elderly people. It is there to help families that have been hit by job loss or other unexpected economic hardships. And Medicaid is the only source of financial help for millions of families who are struggling to pay for nursing home or other long-term care for parents or family members.

Medicaid is good medicine for state economies and for families as our nation recovers from the recession. This is exactly the wrong time for Congress to cut a program that stimulates the economy while also providing a boost to individuals and families who are facing hard economic times.

Endnotes

[1] Office of the Secretary, U.S. Department of Health and Human Services, "Federal Financial Participation in State Assistance Expenditures; Federal Matching Shares for Medicaid, the Children's Health Insurance Program, and Aid to Needy Aged, Blind, or Disabled Persons for October 1, 2010, through September 30, 2011," *Federal Register* 74, no. 227 (November 27, 2009): 62,315.

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[6] Edwin Park and Matt Broaddus, *What if Ryan's Medicaid Block Grant Had Taken Effect in 2000?* (Washington: Center on Budget and Policy Priorities, April 12, 2011), available online at http://www.cbpp.org/cms/index.cfm?fa=view&id=3466; Families USA, *House Republicans Propose to Slash Funding for Medicaid, Medicare, and Other Health Coverage Programs* (Washington: Families USA, April 2011), available online at http://www.familiesusa.org/budget-battle/House-Republicans-Slash-Health-Coverage-Funding.pdf.

[7] Edwin Park and Matt Broaddus, *What if Ryan's Medicaid Block Grant Had Taken Effect in 2000?* (Washington: Center on Budget and Policy Priorities, April 12, 2011), citing Congressional Budget Office, Long-Term Analysis of A Budget Proposal by Chairman Ryan (Washington: Congressional Budget Office, April 5, 2011), citing Congressional Budget Office, *Long-Term Analysis of a Budget Proposal by Chairman Ryan* (Washington: Congressional Budget Office, April 15, 2011).

Methodology

In order to understand the effect of federal Medicaid spending on state economies, Families USA partnered with Richard Clinch, Director of Economic Research at the Jacob France Institute of the Merrick School of Business at the University of Baltimore, to conduct an economic analysis of the state-level impact of the Medicaid program on the economies of all 50 states and the District of Columbia.

Our economic input-output analysis is based on the most recently updated Regional Input-Output Modeling System (RIMS II) economic model created by the U.S. Department of Commerce, Bureau of Economic Analysis (2007). The RIMS II model is built on Department of Commerce data that show the relationships among nearly 500 industries in the economy. These relationships are adjusted and updated to reflect a state economy's current industrial structure; trading patterns; and wage, salary, and personal income data.

Programs such as Medicaid bring new dollars into states. These dollars promote spending that would not otherwise have occurred in a state. A new source of dollars from outside a state creates a larger impact on a state economy than the amount of new dollars alone through what economists call the multiplier effect. An economic multiplier quantifies the total impact on a state economy of successive rounds of spending that occur as the new dollars are earned by state businesses and residents, who then spend these earnings on purchases from other state firms or residents, who in turn make other purchases, creating successive rounds of earnings and purchases. These multiplier effects are measured by the RIMS II economic model. The RIMS II model allowed Families USA to estimate economic impacts in terms of both economic output (the value of goods and services produced in the state) and employment (the number of jobs in the state, on a headcount basis, including both full- and part-time workers).

In fiscal year 2011, the federal match for state Medicaid spending ranges from 50 to 74.73 percent ($1.00 to $2.96 from the federal government for every $1.00 the state spends). When the federal government matches state spending, the federal spending represents a new source of funding in a state's economy. When these new federal dollars flow into the state, they generate health care expenditures that presumably would not occur otherwise. Moreover, the flow of federal dollars into the state is unlimited: When a state increases its Medicaid spending, it gains federal matching dollars; when it decreases Medicaid spending, it loses matching dollars.

Under the current Medicaid program, there are no limits or caps on the amount of federal Medicaid matching dollars that are available to a state. If the federal government cuts federal Medicaid spending (most likely by capping the total dollars that can flow into the state), the

subsequent loss of federal dollars to the state would result in lost economic activity. The magnitude of this unique net negative impact on a state's economy differs from state to state based on the amount of federal dollars lost and the state's economic multipliers (which reflect economic conditions in the state).

Allocation of Federal Medicaid Cuts across the States

This report examines the economic impact of three different scenarios: a 5 percent cut, a 15 percent cut, and a 33 percent cut in federal Medicaid spending (fiscal year 2011 federal Medicaid payments from the Congressional Budget Office March 2011 Medicaid baseline). To allocate these federal cuts across the states, Families USA distributed each cut across the states based on the most current distribution of Medicaid spending available (fiscal year 2009 Medicaid expenditures, by state, excluding administrative spending and spending within the U.S. territories). State-by-state Medicaid spending data come from Kaiser Commission on Medicaid and the Uninsured and Urban Institute estimates, which are in turn based on data from Centers for Medicare and Medicaid Services CMS-64 reports.

Calculating Unique State Medicaid Economic Impact Multipliers

The Bureau of Economic Analysis provides four RIMS II health care industry multipliers for different types of spending (rather than a single, aggregated health care industry multiplier):

- Ambulatory health care services;
- Hospital care;
- Nursing and residential care facilities; and
- Social assistance.

Using CMS-37 report expenditure data, we categorized each state's specific Medicaid spending as either ambulatory, hospital, nursing and residential, or social assistance according to the North American Industry Classification System (NAICS) definitions of those industries. Based on each state's expenditure breakdown, we derived a weighted average Medicaid-specific multiplier for each state. These multipliers provide estimates of the effect on business activity and wages in 2007 dollars (the most recent RIMS II available from the Bureau of Economic Analysis).

In order to estimate the job impacts of the three federal spending cut scenarios (see above) in 2011, we adjusted the multipliers, which are based on 2007 data, to reflect the effects of inflation. We adjusted for inflation by using deflators for each of the four health care industries (ambulatory health care services, hospital care, nursing and residential care facilities, and social assistance). Based on the spending breakdown observed in CMS-37 Medicaid expenditure data, we derived weighted deflators for each state. We applied these state-specific deflators to each state's Medicaid multiplier.

Acknowledgments

This report was written by:

Kathleen Stoll
Deputy Executive Director, Director of Health Policy
Families USA

and

Kim Bailey
Senior Health Policy Analyst
Families USA

The following Families USA staff assisted in the preparation of this report:

Ron Pollack, Executive Director

Elaine Saly, Health Policy Analyst

Peggy Denker, Director of Publications

Ingrid VanTuinen, Deputy Director, Publications

Nancy Magill, Senior Graphic Designer

1201 New York Avenue NW, Suite 1100 • Washington, DC 20005
Phone: 202-628-3030 • Fax: 202-347-2417 • Email: info@familiesusa.org
www.familiesusa.org