

The Economic Effects of Repealing Medicaid Expansion in Alaska

February 7, 2019

Eliminating Medicaid Expansion in Alaska would cost Alaska's economy nearly 3,700 jobs, \$267 million in annual labor income, and \$556 million in annual total economic output under State Fiscal Year (SFY) 2018 conditions. Alaska is currently in its longest recession since the late 1980s and the Alaska Department of Labor and Workforce Development (AODLWD) estimates that in calendar year 2018 the state lost 2,200 jobs on top of 5,500 jobs lost in 2016 and 4,600 jobs lost in 2017. If Medicaid Expansion had been eliminated in 2018 job losses would have exceeded 6,000 jobs; a loss greater than the loss experienced by the economy in 2016 when Alaska's current recession was at its strongest. The remainder of this letter and the accompanying technical appendix describe how we arrived at this conclusion and the conclusion that eliminating Medicaid Expansion would cost the Alaska economy more jobs than it is expected to grow by in 2019.

Background and Context

In September 2015 Alaska expanded its Medicaid Program under the Patient Protection and Affordable Care Act. Medicaid Expansion allows adults who are ineligible for Medicaid's traditional beneficiary groups to join the program if their household income doesn't exceed 138 percent of the Federal Poverty Level (FPL).¹ Enrollment in Alaska's Medicaid Expansion grew from no enrollees at the start of the program to 23,694 unduplicated enrollees in SFY 2016 and 50,552 unduplicated enrollees by the end of SFY 2018. Medicaid Expansion is a powerful leverage of state monies because of the program's Federal Medical Assistance Percentage (FMAP). While the program's total cost in SFY 2018 was \$420.1 million, the cost to the SOA was just \$15.6 million; a 25.9 to 1 match.² For calendar year 2019, the FMAP is 93 percent which means that for every dollar spent on enrollee benefits the State of Alaska (SOA) pays 7 cents. The FMAP for calendar year 2020 and beyond is set at 90 percent. At a minimum, for the foreseeable future every dollar invested by the State of Alaska in Medicaid Expansion benefits should generate \$9 in federal funds.

Table 1. Medicaid Expansion Metrics by State Fiscal Year

State Fiscal Year	Unduplicated Enrollees	State Spend		Federal Spend		Total Spend	
		Total (\$M)	\$ per Enrollee	Total (\$M)	\$ per Enrollee	Total (\$M)	\$ per Enrollee
2016	23,694	0.0	0	138.0	5,825	138.0	5,825
2017	40,717	6.8	167	371.1	8,946	377.9	9,113
2018	50,552	15.6	308	404.5	8,002	420.1	8,310

Source: <http://www.legfin.akleg.gov/MedicaidFAQ/FAQs.php>

¹ http://dpaweb.hss.state.ak.us/POLICY/PDF/Medicaid_standards.pdf

² American Indian/Alaska Native expansion enrollees have an FMAP of 100 percent if their care takes places within the tribal health system (including care provided through coordinated care agreements). Thus, the total Medicaid Expansion system match is higher than the federal base match.

Methods

This analysis uses the IMPLAN Input/Output model to estimate the effect of removing the \$420.1 million spent on Medicaid Expansion in SFY 2018 from the Alaska economy. IMPLAN models how expenditures flow through the economy. When the State spends money for medical services service providers use that money to pay for staff, rent space, pay for utilities, and buy supplies. The paid entities then use the money to run their households or businesses. This recycling of the money, called the multiplier effect, means that the total economic impact of an expenditure is greater than the initial expenditures itself. In summary this analysis:

- Distributes the SFY 2018 expenditures into different economic sectors based on actual spending distributions contained in the SOA's long-term Medicaid forecast.³
- Analyzes a base scenario presuming that total Alaska spending on Medicaid falls by \$420.1 million without any secondary adjustments.
- Analyzes an adjusted scenario accounting for secondary effects identified in the Lewin Group's 2013 analysis of Medicaid Expansion in Alaska.⁴

Estimated Economic Effects

Under the Base Scenario, which models the removal of \$420.1 million in Expansion expenditures from the economy, Alaska's economy loses 4,000 jobs and \$627 million in economic output. Under the more advanced Adjusted Scenario, which adjusts for secondary effects such as a portion of Expansion enrollees finding other health insurance options, Alaska's economy loses 3,700 jobs and \$556 million in economic output (see Table 2). In this scenario, Alaskan families would earn \$270 million less in wage and salary income. These lost jobs, wages, and economic value are permanently removed from the economy in comparison to keeping Medicaid Expansion. ADOLWD is currently forecasting a gain of 1,400 jobs in 2019 including 500 jobs in the healthcare sector.⁵ With Medicaid Expansion repeal, presuming Medicaid Expansion expenditures rise in SFY 2019, a portion of this projected growth would be lost, and then the state would lose the additional 3,700 jobs noted in the analysis. The total job loss would prevent Alaska's economy from emerging from recession in 2019 and the resulting economic shock could strengthen the recession through 2020 all other things being equal. While it's possible in this scenario that the state could emerge from recession in 2020 or 2021 if Medicaid Expansion is eliminated, the state's economy would be smaller and poorer relative to keeping Medicaid Expansion.

Table 2. State Fiscal Year Medicaid Expansion Figures

Scenario	Modeled Change in Spending (\$M)	Total Change in Jobs	Total Change in Labor Income (\$M)	Total Change in Economic Output (\$M)
Base	-420.1	-4,041	-283	-627
Adjusted	-374.6	-3,690	-267	-556

Source: Halcyon Consulting estimates, 2019.

³ http://dhss.alaska.gov/fms/Documents/AK%20LongTermMedicaidFcast_MedicaidExpansionSA%20FY2019%20to%20FY2039.pdf

⁴ http://dhss.alaska.gov/documents/lewin_final_report.pdf

⁵ <http://labor.alaska.gov/trends/jan19.pdf>

Technical Appendix

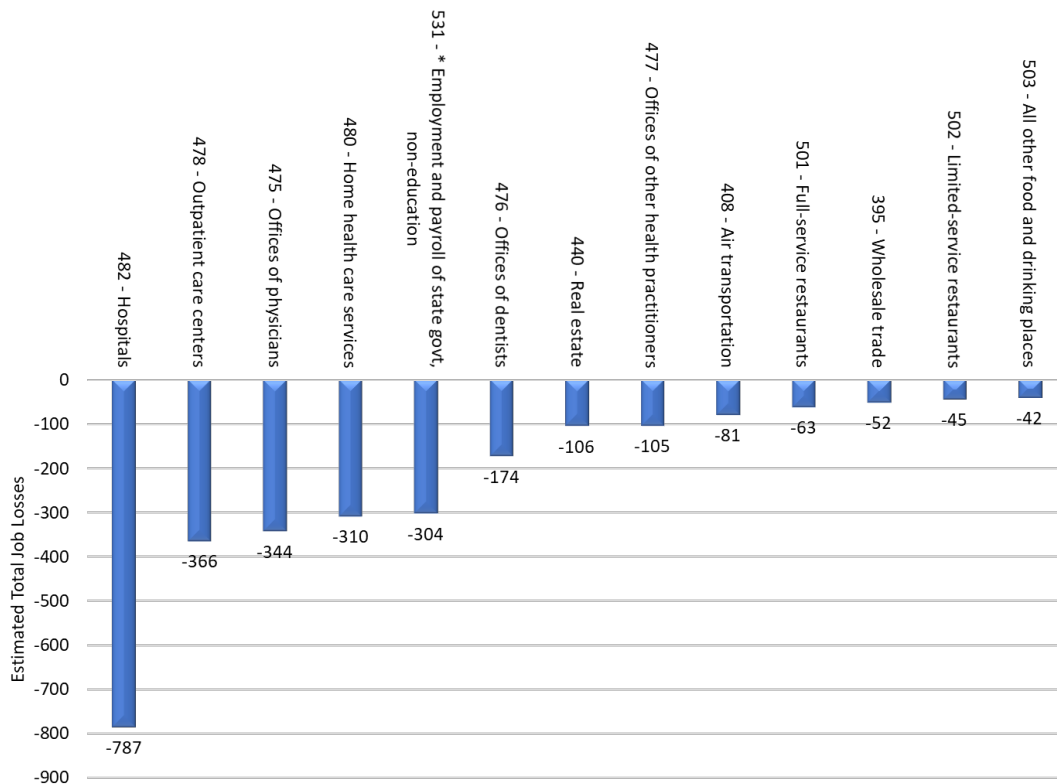
This technical appendix provides additional information on the results and the analysis itself in a question and answer format.

Additional Results Discussion

Which Sectors of the Economy will be Affected by Medicaid Expansion Elimination?

Under the repeal of Medicaid Expansion, hospitals would lose nearly 800 jobs which is the largest loss of any of IMPLAN economic sector (see Figure 1). Outpatient care centers, physician offices, home health care services, and state employment would all be expected to reduce employment by more than 300 jobs each. Dental offices would lose nearly 200 jobs while the real estate and non-dental, non-physician health care providers would shed more than 100 jobs in each sector. Secondary services such as wholesale trade and restaurants would lose dozens of jobs each.

Figure 1. Top 15 Affected Employment Sectors, Adjusted Scenario

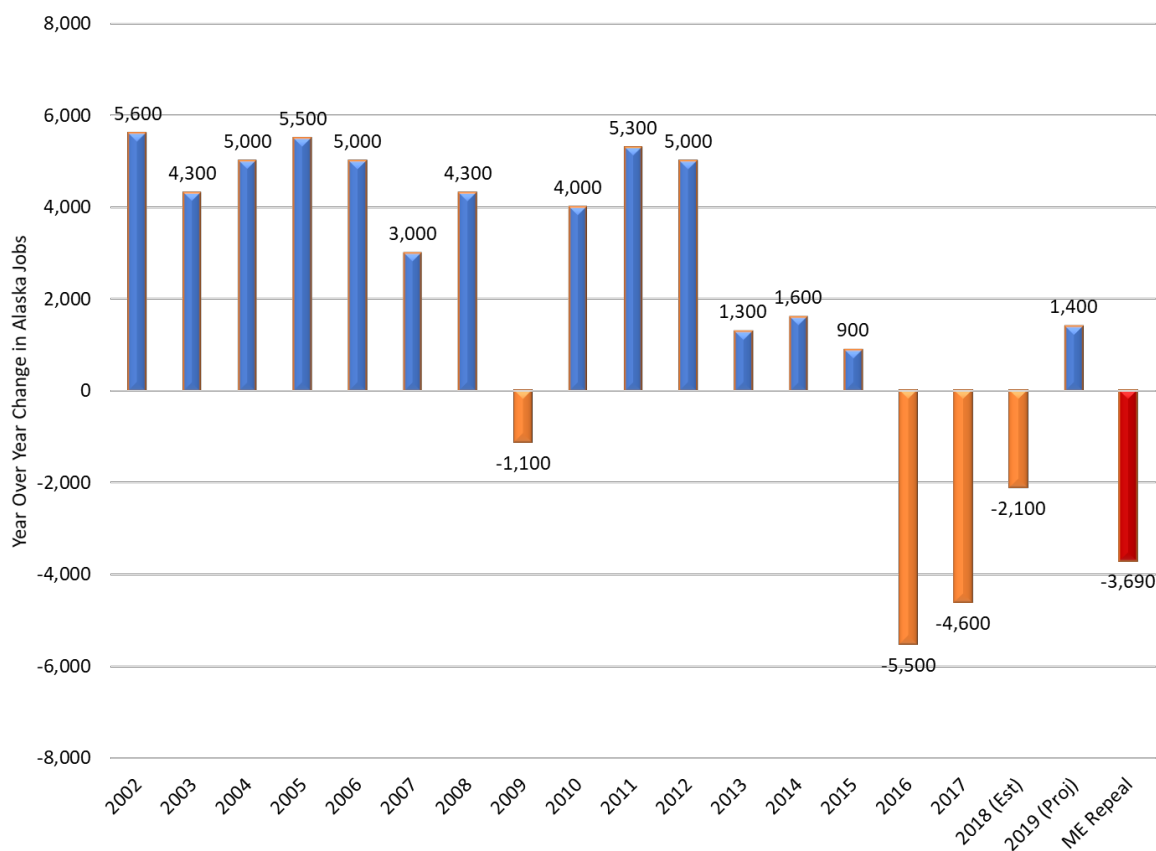


Source: Halcyon Consulting, 2019.

How do the Projected Effects of Medicaid Expansion Repeal Compare to Alaska's Recent Job Growth?

Alaska's economy has been in an employment recession since late 2015. On an average monthly basis, the state lost 5,500 jobs in 2016, 4,600 jobs in 2017, and an estimated 2,100 jobs in 2018. As noted above, ADOLWD is predicting a return to employment growth in 2019 with the state adding an estimated 1,400 jobs. However, this projection, and the projection of an increase in 500 healthcare sector jobs, presumes no major changes in state expenditures for SFY 2020. If Medicaid Expansion is repealed in 2019, the Adjusted Scenario's projected job loss of 3,700 jobs is enough to swamp currently projected growth and extend Alaska's recession for at least another year. The loss of Medicaid Expansion dollars into the economy would have posed a challenge for Alaska's economy even when oil prices were well over \$100 a barrel. Between 2002 and 2014, Alaska's economy averaged 3,754 jobs added per year with a median addition of 4,300 jobs. Thus, even in recent times of relative prosperity an economic shock of this size would be felt throughout the economy and could throw Alaska into recession or stalled economic growth.

Figure 2. Projected Employment Losses Compared to Recent Job Growth, Adjusted Scenario



Source: Halcyon Consulting, 2019.

What Effects Would Medicaid Expansion Repeal Have Beyond Employment, Wages, and Economic Output?

In addition to estimating effects on employment, wages, and economic output the IMPLAN model also estimates local and state tax effects. The model estimates that in addition to other economic effects noted above the repeal of Medicaid Expansion in Alaska would cost \$11.4 annually in tax revenues. A little more than half this amount, \$6.3 million, represents lost property tax revenues. Other major components include lost local sale tax revenues of \$2.4 million and lost severance tax revenues of \$2.1 million.

Why is Repealing Medicaid Expansion Such a Particularly “Bad Deal”?

No reduction of \$370-\$420 million in annual spending into Alaska’s economy can occur without affecting the health of the economy. Repealing Medicaid Expansion is a particularly “bad deal” because the savings accruing to the state’s finances are relatively small compared to the losses to the economy. The federal government covers 93 percent of Medicaid Expansion enrollee costs in the current calendar year and covers 90 percent in 2020 and beyond. A repeal of Medicaid Expansion trades a \$400+ million annual federal injection into the Alaska economy, health coverage for over 50,000 unique individuals annually, and 3,700 in-state jobs for state fiscal savings of roughly \$30 million a year (including benefit costs and administrative costs). If the state is seeking savings there are other places that don’t come with a 9:1 minimum match and would save the state more fiscally (albeit likely have similar economic costs).

Analytical Methods

What are the Employment Multipliers by IMPLAN Sector?

The employment multiplier is an economic measure of how changes in employment in one sector affect employment in the economy as a whole. The total multiplier for a sector is made up of three components:

1. The Direct component which represents the initial employment loss or gain in a specific sector after a spending change.
2. The Indirect component which measures employment changes in economic sectors which support the sector in which the initial change is taking place.
3. The Induced component which measures employment changes in other sectors affected by the flow of money through the economy. These sectors don't directly support the initial sector but benefit from secondary and tertiary spending.

Table 3 shows the employment multiplier for the sectors which repealing Medicaid Expansion would directly affect. The multipliers range from 1.25 to 2.21 depending on the sector. The way to read the table is as follows using the Hospital economic sector as an example. For every direct job lost in hospitals there will be another 0.25 jobs lost in supporting sectors which provide services to hospitals and another 0.47 jobs lost in non-support ancillary sectors (e.g., restaurants, retail, etc.). Thus, the multiplier for hospitals is 1.72 of which 1.0 is the original job and 0.72 jobs comes from the indirect and induced effects.

Table 3. Employment Multipliers by IMPLAN Sector

Service Category	IMPLAN Economic Sector	Indirect Multiplier	Induced Multiplier	Total Employment Multiplier
Air Transportation	408	0.67	0.54	2.21
Hospitals	482	0.25	0.47	1.72
Durable Medical Equipment	395	0.35	0.36	1.71
Clinics	478	0.25	0.41	1.66
Medical Doctor's Offices	475	0.19	0.47	1.66
Labs	479	0.15	0.42	1.57
OT/PT/Rehabilitation	477	0.09	0.39	1.48
Vision	477	0.09	0.39	1.48
Dental Offices	476	0.12	0.34	1.46
Pharmacies	401	0.15	0.23	1.38
Residential Psychiatric	484	0.06	0.21	1.27
Personal Care	480	0.04	0.21	1.25

Source: IMPLAN, 2019.

How are Initial Changes in Spending Allocated to Different Economic Sectors?

The analysis allocates the SFY 2018 expenditures of \$420.1M based on the Alaska's Medicaid spending patterns as documented in SOA's [Long-Term Forecast of Medicaid Enrollment and Spending in Alaska: FY2019-FY2039](#). This document breaks projected Medicaid spending into 20 categories. This analysis excludes three categories (HCB Waiver, Nursing Home, and EPSDT) and distributes the \$420.1M amongst the remaining 17 categories as an estimate of the distribution of actual Medicaid expenditures (see Table 4). The analysis then assigns each spending category to an IMPLAN economic sector and reduces expenditures into the economy total assigned to each sector.

Table 4. Spending Reduction Allocations, Base Model

Service Category Name	IMPLAN Economic Sector	Included in Model	2019 Spending from LT Forecast (\$M)	Estimated Portion of ME Exp.	Base Scenario Reduction in ME Exp. (\$M)
Inpatient Hospital	482	Yes	374.4	20.6	86.41
Outpatient Hospital	482	Yes	279.4	15.3	64.49
Physician/Practitioner	475	Yes	227.1	12.5	52.41
Outpatient Mental Health	478	Yes	190.6	10.5	43.99
Pharmacy	401	Yes	158.3	8.7	36.54
Transportation	408	Yes	123.7	6.8	28.55
Dental	476	Yes	118.3	6.5	27.30
Health Clinic	478	Yes	117.5	6.5	27.12
Personal Care	480	Yes	71.8	3.9	16.57
Therapy/Rehabilitation	477	Yes	43.6	2.4	10.06
Residential Psychiatric/BRC	484	Yes	34.7	1.9	8.01
Inpatient Psychiatric	482	Yes	26.1	1.4	6.02
Durable Medical Supplies	395	Yes	24.9	1.4	5.75
Home Health/Hospice	480	Yes	12.7	0.7	2.93
Vision	477	Yes	11.5	0.6	2.65
Lab/X-ray	479	Yes	5.2	0.3	1.20
Other Services	482	Yes	0.4	0.0	0.09
HCB Waiver	480	No	294.9	N/A	N/A
Nursing Home	483	No	172.1	N/A	N/A
EPSDT	475	No	19.7	N/A	N/A

Source: Evergreen Economics, 2018 and Halcyon Consulting, 2019.

What are the Differences between the Base Scenario and the Adjusted Scenario?

There are three primary differences between the Base Scenario and the Adjusted Scenario. The Adjusted Scenario presumes that:

1. Approximately 19 percent of Medicaid Expansion enrollees will find another form of insurance. The Lewin Group's [2013 Analysis of Medicaid Expansion in Alaska](#) found that approximately 19 percent of Medicaid Expansion enrollees would be switching over from

another form of insurance. This analysis assumes that per enrollee medical expenditures under that insurance would be equal the expenditures under the Medicaid program. This is a conservative estimate designed to ensure the analysis does not overestimate the economic effects of repealing Medicaid Expansion.

2. The State of Alaska's costs will increase by \$5.2M as some employees return to the state's insurance plan. These savings are pulled from the 2013 Lewin Group analysis.
3. The State of Alaska's administrative costs will be reduced by 8.2 percent of the SFY 2018 program cost of \$420.1M. The 2013 Lewin Group analysis found that SOA administrative costs averaged 8.2 percent program costs. Half of these costs are covered by the federal government.

How do Job and Income Loss Estimates Breakdown between Direct, Indirect, and Induced Effects?

As noted above, the economic effects associated with repealing Medicaid Expansion breakdown into three separate categories: direct, indirect, and induced. Under the adjusted model, we expect to see just over 2,300 direct job losses from employers providing services to the Medicaid program (see Table 5). Another 400+ jobs would be lost in support sectors providing services to the program service providers. The support sectors subject to the largest indirect effect would be sectors such as real estate, transportation support, management companies, restaurants/catering companies, and wholesale trades. Nearly another 1,000 jobs would be lost in the broader economy including hospital and medical offices jobs unrelated to Medicaid provision, restaurants, and retail stores.

Table 5. Results Comparison, Base and Adjusted Model

Model	Direct	Indirect	Induced	Total
<i>Base Model (-\$420.1M in Direct Economic Injection)</i>				
Change in Employment	-2,496	-527	-1,018	-4,041
Change in Labor Income (\$M)	-200	-31	-52	-283
Change in Economic Output (\$M)	-379	-93	-155	-627
<i>Adjusted Model (-\$374.6M in Direct Economic Injection)</i>				
Change in Employment	-2,314	-414	-962	-3,690
Change in Labor Income (\$M)	-194	-24	-49	-267
Change in Economic Output (\$M)	-336	-73	-146	-556

Source: Halcyon Consulting, 2019.