

# The Impact of the American Health Care Act on New Mexico Medicaid and the New Mexico Economy

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The "American Health Care Act" (AHCA) proposed in Congress would repeal the Affordable Care Act and dramatically restructure Medicaid by phasing out enhanced federal funding for Medicaid expansion enrollees and by block granting Medicaid through the implementation of per-capita funding caps.

These federal funding reductions for Medicaid would undermine coverage for millions of Americans. The Congressional Budget Office estimates that 14 million Americans would lose Medicaid coverage by the year 2026. In New Mexico, more than 900,000 people are currently enrolled in Medicaid. The legislation will impact over 265,000 New Mexicans who gained coverage through the 2014 expansion of Medicaid to low income adults, as well as traditional Medicaid enrollees including children, people with disabilities and seniors.

The federal Medicaid cuts would force the State of New Mexico to shoulder a much larger share of healthcare costs for its low-income residents. Doing so would necessitate substantial tax increases and/or large cuts to other essential state services. Thus, the AHCA is likely to drastically increase both the number of uninsured New Mexicans and the burden of uncompensated care borne by the state's healthcare providers.

This analysis illustrates the impact on New Mexico's economy of reducing federal funding for Medicaid. During a seven-year period from fiscal years 2020 to 2026, New Mexico would be forced to pay an additional \$3 billion to maintain Medicaid coverage and services for currently eligible individuals – averaging \$427 million annually. If the state eliminates Medicaid Expansion and loses federal funding from per capita caps, New Mexico would lose \$11.4 billion in federal revenue, compromising 31,800 jobs, \$1.6 billion in wages and salaries and \$759 million in state revenues by 2026.

## The federal funding reductions for Medicaid in the American Health Care Act would:

- Shift \$427 million of Medicaid costs to New Mexico annually
- Likely eliminate health insurance for more than 250,000 New Mexicans
- Dramatically increase uncompensated care costs for New Mexico healthcare providers

## And cost the state economy:

- \$11.4 billion in federal revenue
- 31,800 jobs
- \$1.6 billion in wages and salaries
- \$759 million in state tax revenues

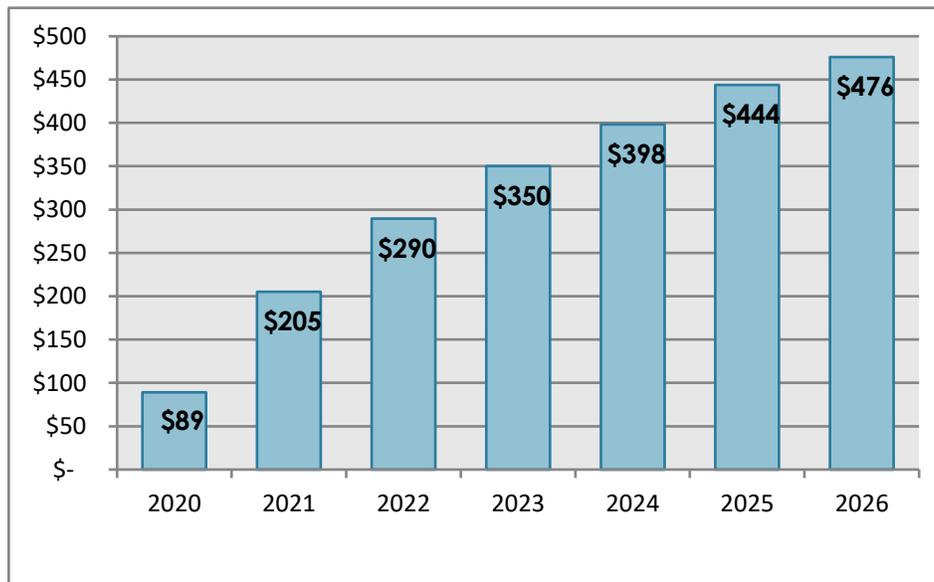
## State Budget Impact

### Medicaid Expansion Phase-Out

The Affordable Care Act provided enhanced federal funding for states to insure low-income adults through Medicaid, covering 100 percent of the cost for the first three years, 95 percent for 2017, and 90 percent for 2020 and subsequent years. These “federal matching assistance percentages” (FMAPs) are considerably higher than the rates at which the federal government matches state expenditures for other types of Medicaid enrollees. New Mexico currently receives a 73 percent federal match for most non-expansion Medicaid participants.

Under the AHCA, the federal government would reduce its federal match for many expansion adults to the lower rate that states currently receive for non-expansion enrollees.<sup>1</sup> The enhanced 90 percent FMAP would only be given for expansion adults enrolled in Medicaid as of December 31, 2019 and who do not have a break in enrollment after that date lasting more than 30 days. Coverage of new enrollees or expansion enrollees re-entering New Mexico Medicaid after a break in coverage would be matched at the regular 73 percent.

**Figure 1 Cost to New Mexico of Maintaining Coverage for Expansion Adults at 73% Federal Match**



**Figure 1** illustrates the incremental cost to New Mexico of maintaining coverage for expansion adults if the federal contribution for their coverage was reduced from 90 percent to 73 percent and the funding is capped according to “per capita caps” (discussed in the next section). By 2026, New Mexico’s investment in Medicaid would have to increase by 38 percent (\$476 million) above current spending levels in 2017 to

<sup>1</sup> H.R. 1628, American Health Care Act of 2017, Section 112 Repeal of Medicaid Expansion (Ordered Reported by Committee on March 20, 2017).

compensate for the changes in federal funding. By 2026, the budget impact amounts to \$2.3 billion – an average of \$323 million more per year than what New Mexico would pay for Medicaid Expansion under current law.

The estimates presented in this report assume an average annual per enrollee cost of \$6,108 for expansion adults in 2020.<sup>2</sup> Per-capita costs for all New Mexico Medicaid recipients are assumed to increase by an average of 4.3 percent per year, the rate most recently reported by the New Mexico Human Services Department.<sup>3</sup> However, the AHCA will limit federal funding for recipients according to per capita caps that are based on medical inflation (discussed in the next section). Figure 1 assumes these reductions in calculating the budget impact for New Mexico.

The estimates presented in this report also assume that 287,000 expansion adults will be enrolled in Medicaid at the end of 2019.<sup>4</sup> The number of individuals eligible for the enhanced federal match under the AHCA is expected to decline rapidly due to the high rate of churn in Medicaid,<sup>5</sup> with the Congressional Budget Office estimating that only 1/3 of enrollees will maintain continuous coverage in the first two years, and that only 5 percent will maintain this coverage by the end of 2024.<sup>6</sup> Based on the CBO's national estimates, healthcare consultancy Mannatt Health developed state-by-state estimates of the annual decline in expansion enrollment between 2020 and 2026. The analysis presented here utilizes the Mannatt estimates for New Mexico to model the decline in expansion enrollment over time (See **Table 1**, p 6).<sup>7</sup>

### **Medicaid Per Capita Caps**

In addition to phasing out Medicaid Expansion funding, the AHCA imposes “per capita-based caps” for federal spending on the entire Medicaid program, starting in fiscal year 2019.<sup>8</sup> Federal funding for Medicaid will be limited by calculating the average costs per enrollee for each state in fiscal year 2016, and inflating it each year according to the consumer price index for medical care (CPI-M) and enrollment growth. The costs per enrollee will be calculated by averaging costs across five categories: children, people with disabilities, seniors, expansion adults, and non-expansion adults.

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<sup>2</sup> New Mexico Human Services Department Centennial Care Waiver Demonstration Section 1115 Quarterly Report. Demonstration Year: 3 (1/1/2016 – 12/31/2016) July 2016.

<sup>3</sup> See *Id.*, at Attachment A, p. 46.

<sup>4</sup> The estimate of December 2019 enrollment is based on the New Mexico Human Services Department projection of July 2017 expansion enrollment (263,626). The estimate assumes that expansion enrollment increases at its current rate (5.6%) through December 2017, at which point growth drops by 2.9 percent through December 2019.

<sup>5</sup> “Churn” refers to the cycling in and out of eligibility experienced by many Medicaid recipients due to changes in factors such as income, employment, and household composition. The AHCA is expected to intensify churn by requiring enrollees to re-certify their eligibility every six months rather than annually.

<sup>6</sup> Congressional Budget Office Cost Estimate, *American Health Care Act, Budget Reconciliation Recommendations of the House committees on Ways and Means and Energy and Commerce, March 9, 2017* (March 13, 2017), at p. 10.

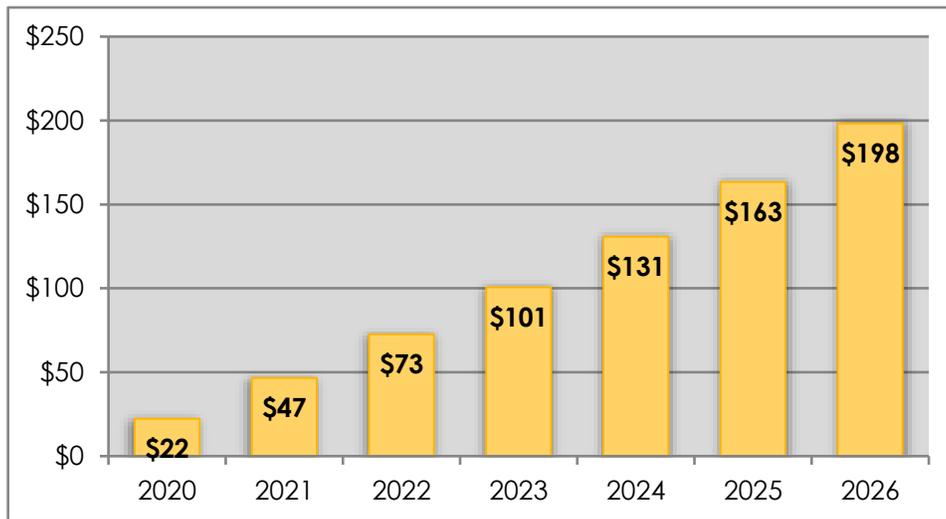
<sup>7</sup> J. Guyer, A. Gradey, K. McAvey, Manatt, *Changes to Medicaid Expansion in the American Health Care Act: State-by-State Estimates of the Coverage and Fiscal Impact* (March 23, 2017).

<sup>8</sup> H.R. 1628, *American Health Care Act of 2017, Section 121 Per Capital Allotment for Medical Assistance* (Ordered Reported by Committee on March 20, 2017).

Every state is expected to lose considerable federal funding from the per capita caps, leaving states to pay for the difference in costs for Medicaid.<sup>9</sup> The Congressional Budget Office estimates that Medicaid costs will exceed the medical inflation index (CPI-M) cap by an average of .7% annually.<sup>10</sup> However, in New Mexico, per-capita costs are assumed to increase by the 2017 average of 4.3 percent per year, while the medical inflation rate averages 3.7 percent. Medical costs in New Mexico are thus expected to exceed the medical inflation index by .6% -- a difference that is slightly smaller than the national average predicted by the CBO.

The annual cost to New Mexico to make up for the lost federal funding due to per capita caps for non-expansion enrollees are shown in **Figure 2**. The estimate assumes that total federal and state spending for these non-expansion enrollees would have been \$4.8 billion in year one under current law. With caps, New Mexico would be forced to absorb the difference between actual non-expansion spending (growing at 4.3 percent)<sup>11</sup> and the expenditures that would have been expected had costs grown at only 3.7 percent. The difference amounts to \$1 billion over seven years. The net cost to New Mexico after adjusting for the state's share of program costs (with a 73% FMAP rate) is \$734 million over 7 years, an average of \$104 million per year.

**Figure 2 Net Cost to New Mexico of Per Capita Federal Funding Caps for Non-Expansion Enrollees (\$ millions)**



<sup>9</sup>Historically, the M-CPI has lagged growth in Medicaid costs. Nationwide, the AHCA per capita caps is expected to shift \$116 billion in Medicaid costs from the federal government to states. See Park, E. Aron-Dine, A., and Broaddus, M. Center on Budget and Policy Priorities, House Republican Health Plan Shifts \$370 Billion in Medicaid Costs to States Funding Cuts Would Force States to End Expansion for Low-Income Adults, Cut Coverage and Services for Other Groups" (March 8, 2017), Retrieved from: <http://www.cbpp.org/research/health/house-republican-health-plan-shifts-370-billion-in-medicaid-costs-to-states>.

<sup>10</sup> See CBO cost estimate at p. 10-11. The Congressional Budget Office estimates that Medicaid cost growth will grow at an average annual rate of 4.4% between 2017-2026, exceeding the average annual M-CPI rate of 3.7%.

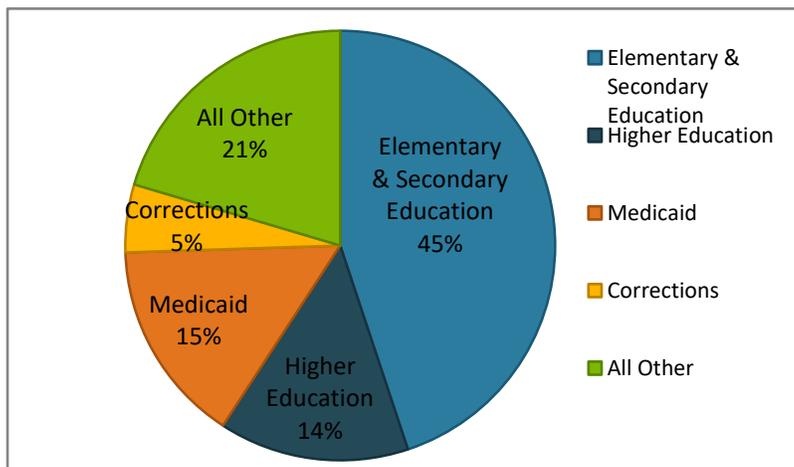
<sup>11</sup> See New Mexico Human Services Department Centennial Care Waiver Demonstration Section 1115 Quarterly Report. Demonstration Year: 3 (1/1/2016 – 12/31/2016) July 2016. Attachment A, p. 46.

## Tough Choices for New Mexico: Pay Higher Costs or Cut Health Coverage

The Affordable Care Act reduced New Mexico's uninsured rate from 19 percent to 11 percent, primarily through the expansion of Medicaid to adults with incomes below 138 percent of the federal poverty level.<sup>12</sup> Maintaining these gains after the AHCA became law would require that New Mexico make up the cost of the declining federal match.

The total federal funding reductions for Medicaid under the AHCA would cost New Mexico an additional \$3 billion by the year 2026 - or an average of \$427 million annually - to maintain Medicaid for current enrollees. Absorbing these additional costs would prevent a dramatic increase in the state's uninsured rate and an unsustainable upsurge in uncompensated care burden born by healthcare providers. Ultimately, the cost would be paid by state residents, either through substantial tax increases or by diverting state funds from other purposes such as education and public safety. **Figure 3** shows the 2017 distribution of expenditures from the state's \$5.8 billion general fund.

**Figure 3 New Mexico State General Fund Expenditures**



Given that New Mexico is struggling to fund Medicaid even with the enhanced 95 percent FMAP in effect for 2017, the state is unlikely to assume the cost burden of a markedly lower federal match, and choose instead to drop coverage for adults no longer eligible for enhanced federal funding, resulting in more than 250,000 low-income adults losing Medicaid.<sup>13</sup> In addition, healthcare services could be compromised for tens of thousands of other non-expansion Medicaid enrollees – including children, people with disabilities, seniors and low-income parents - if New Mexico is unable to make up the difference in federal funding that is lost from per capita caps.

<sup>12</sup> About \$34,000 for a family of four in 2017

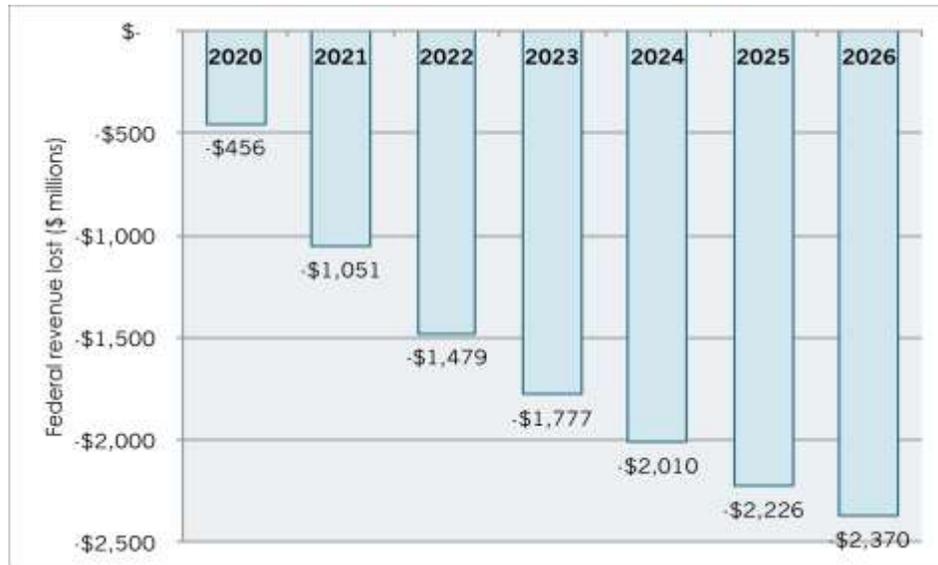
<sup>13</sup> In reference to the Medicaid expansion, the General Appropriations Act of 2017, House Bill 2 states "Should the federal government reduce or rescind the federal medical assistance percentage rates established by the federal Patient Protection and Affordable Care Act, the human services department shall reduce or rescind eligibility for the new adult category."

## Economic and Jobs Impact

**New Mexico will lose significant federal funding from the AHCA's proposed Medicaid changes, impacting the state's economy and jobs outlook.**

**Figure 4** illustrates the combined loss of federal revenue from the per capita caps and the phase-out of the enhanced expansion FMAP. New Mexico loses \$456 million in year one, \$2.4 billion by 2026, and a total of \$11.4 billion over the 7-year period.

**Figure 4 Federal Revenue Lost Due to Medicaid Reductions**



The federal funding losses assume that the State will no longer cover more than 250,000 Medicaid Expansion adults that are no longer eligible for enhanced federal match. The Congressional Budget Office anticipates the number of these individuals will decline rapidly due to the high rate of churn in the Medicaid program. **Table 1** shows the decline in expansion enrollment and the resulting reductions in Medicaid expenditures and federal revenue.

**Table 1 New Mexico Medicaid Expansion Enrollment, Expenditures, and Federal Revenue under the AHCA 2019-2026**

Year	2019	2020	2021	2022	2023	2024	2025	2026
Enrollees	287,000	214,357	123,851	67,880	36,917	19,054	5,954	4,763
Total Expenditures (\$m)	\$1,753	\$1,367	\$825	\$472	\$268	\$144	\$47	\$39
Federal Expenditures (\$m)	\$1,578	\$1,222	\$732	\$416	\$235	\$126	\$41	\$34
Federal Revenue lost (\$m)		\$425	\$987	\$1,379	\$1,640	\$1,831	\$2,002	\$2,099

Healthcare is a core component of New Mexico's economy and the number- one driver of job growth statewide. Medicaid, which insures almost half of New Mexico's population, accounts for a large share of state healthcare spending. Thus, Medicaid cuts of the magnitude proposed in the AHCA will have severe consequences for the state economy, costing New Mexico over 6,600 jobs and \$337 million in labor income in 2020 and roughly 31,792 jobs and \$1.6 billion in wages and salaries by 2026.

The healthcare sector will suffer the greatest losses, but the industries that supply healthcare providers with goods and services and the many businesses patronized by healthcare workers and their families will also be impacted. The jobs and income lost by these firms are represented by the "indirect and induced" impacts listed in **Table 2**.<sup>14</sup>

Table 2 AHCA Medicaid Cuts: Statewide Economic Impact (\$ millions)

	2020		2022		2024		2026	
	Jobs	Income	Jobs	Income	Jobs	Income	Jobs	Income
Direct (health sector)	4,398	\$250	14,267	\$813	19,399	\$1,105	20,587	\$1,223
Indirect & induced	2,294	\$87	7,443	\$282	10,120	\$383	11,205	\$424
Total	6,692	\$337	21,710	\$1,094	29,519	\$1,488	31,792	\$1,647

Source: IMPLAN Online 2017

## State Revenue Impacts

Federal Medicaid funding generates substantial tax revenue for the New Mexico general fund. The most significant direct source of Medicaid-related tax revenue is the 4.003 percent insurance premium tax that New Mexico levies on managed care organizations.<sup>15</sup> Other Medicaid-related tax revenue comes from gross receipts taxes on some healthcare providers. In addition, by stimulating job creation, federal Medicaid funding contributes to state personal income tax, gross receipts, and selective excise tax revenue. State tax revenue foregone as a result of the Medicaid cuts will total

<sup>14</sup> The IMPLAN Online modeling system was used to estimate the impact of the AHCA cuts to federal Medicaid spending on New Mexico's economy. IMPLAN is a widely used software package and database for estimating local economic impacts<sup>14</sup> using input-output analysis. Input-output analysis is based on the premise that regional economies are composed of interconnected households, industries, and institutions. These sectors purchase output from each other and supply inputs to each other in a complex web of interdependencies. A significant change to one sector will therefore impact the many other sectors to which it is connected. The initial change is called the "direct" effect. As the initial change travels outward through the regional economy it produces "indirect" and "induced" effects." *Direct effects* represent the initial change to the industry in question. *Indirect effects* result when the industries that supply the industry in question respond to the change in demand. *Induced effects* reflect changes in local spending that result from income changes in the directly and indirectly affected industry sectors.

<sup>15</sup> New Mexico Statutes Chapter 59A. Insurance Code § 59A-6-2. Premium tax; health insurance premium surtax

roughly \$31 million in 2020, \$145 million in 2026, and cost the state over \$759 million over the 7-year period. (**Table 3**)

	2020	2022	2024	2026
Premium tax	\$6.1	\$19.8	\$26.9	\$28.6
Income tax	\$8.4	\$27.4	\$37.2	\$39.5
GRT & excise taxes	\$16.5	\$53.6	\$72.9	\$77.4
Total	\$31.1	\$100.8	\$137.0	\$145.4