



Issue Brief

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***Unhealthy Choices:* Flawed Medicaid Proposals Would Kill Florida Jobs**

Critics have consistently portrayed Florida's Medicaid program as an unsustainable drain on Florida's budget, setting the stage for consideration of a number of legislative proposals ranging from cuts in benefits to an opt-out of the federal partnership that supplies the bulk of the program's funding.

In reality, however, beyond the critical role it plays in the lives of recipients and in the health care system as a whole, Medicaid is also a highly efficient job creator and economic catalyst. Even more compelling is the fact that Medicaid provides this boost to the state's economy as a direct consequence of the delivery of health care to the most vulnerable Floridians. The benefit is derived simply as a result of the state's participation, without seed money or tax breaks. Not only does Florida's full participation in Medicaid – both now and as expansion gets underway in 2014 – make sense, Florida's economic recovery may in fact depend on it.

Medicaid Health Care Safety Net Doubles as Powerful Economic Engine

Florida's economic recovery remains lethargic, and revenue collections continue to lag well behind the amount necessary to meet the state's basic needs. Although Florida's 2011-12 budget won't be finalized for another four months, the handwriting on the wall is already clear. The Medicaid program – the indispensable safety net covering the lowest-income children, seniors, people with disabilities and pregnant women – will be targeted, directly or indirectly, for deep cuts.

Preserving the Medicaid safety net is essential to the health and well-being of these Floridians. Beyond this, and contrary to the arguments raised by state leaders, the economic benefit of the Medicaid program to Florida's economy is unrivaled by any other major category of state spending. Specifically, Medicaid spending has a well-documented compound effect that ripples throughout the Florida economy.¹

First, Medicaid helps support thousands of health care providers throughout the state, such as hospitals, nursing facilities, group homes, community health centers and pharmacies. State Medicaid spending on behalf of recipients obviously affects these entities most directly, as it supports the jobs and purchases

necessary for the provision of health care. Further, because Medicaid is a federal-state partnership, and particularly because the federal government provides the majority of the funding, that direct impact will be more than double the state's initial investment in 2011-12. In fact, because a significant portion of the "state share" of Medicaid funding is derived from non-state sources² which are transferred to the state to maximize access to federal matching funds, the total direct economic impact of Medicaid next year will be triple the amount of state general revenue dollars spent.³

Beyond the direct impact, however, other businesses and industries indirectly benefit, because those health care providers have their own suppliers and vendors. For example, Medicaid funds may provide direct support for a hospital, which in turn spends a portion of those funds on supplies, technology, transportation, etc. Finally, both direct and indirect impacts "induce" additional spending, as the incomes of the benefitting households and businesses also increase.⁴

The positive economic impact of Medicaid extends further to include job creation. Moreover, the jobs created as a result of Florida's participation in Medicaid are well-paying and sustainable. Of Florida's fastest-growing occupations, many supported by Medicaid funding are among them, including pharmacists (average wage \$51.72/hr), registered nurses (\$30.31/hr), medical assistants (\$14.03/hr) and medical secretaries (\$13.61/hr).⁵

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The fact that the total economic impact (i.e., the total value of all direct, indirect *and* induced benefit derived from state Medicaid spending) is in general far greater than the initial investment by a state is often referred to as the Medicaid multiplier effect.⁶ The multiplier effect varies from state to state and over time with the federal match rate (known as FMAP) and economic conditions. One well-known example of a tool used for estimating this effect and the associated economic impact is the Medicaid Calculator developed by Families USA.⁷ Although the data currently used to build the underlying model for the Medicaid Calculator is somewhat dated, the tool is still useful because it is possible to adjust for changes in FMAP and because the particular economic factors have not significantly changed.

Undermining Medicaid Will Hurt Florida's Economy and Hamper the Recovery

It is possible to estimate the economic impact to Florida of important policy and budget decisions that the legislature will consider during the next few months.⁸ Three of the most important examples include:

1. Severing the Federal Partnership

The idea of rejecting federal matching funds altogether and running a state-only Medicaid program was discussed in legislative committee last year and by incoming Governor Scott's health care transition team last month.

Such action would not only imperil millions of vulnerable Floridians who must rely on Medicaid, it would also adversely impact Florida's economy. Based on the most recent projections by state economists for 2011-12, \$10.3 billion in "state" funds (including non-GR) will draw down \$11.7 billion in federal Medicaid funds in 2011-12.⁹ If the Legislature elected to turn away those federal matching funds, \$14.7 billion would disappear from Florida's economy next year as a result,¹⁰ even if the state's investment

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otherwise remained constant. Furthermore, the impact of that decision would recur and be compounded each year thereafter. By the end of the decade, the aggregate loss of economic activity would far exceed \$100 billion. Moving to a state-only Medicaid-like program would cost Florida an estimated 135,000 jobs and \$5.6 billion in wages next year as well.

This represents only a portion of the total cost, however, as it does not include the staggering human and financial cost associated with the collapse of the system that includes many safety net hospitals and nursing homes. Many of these providers and facilities limp along financially even with the availability of federal funding.

It is worth noting that one way that the Legislature might ultimately evade many of the current federal minimum requirements *without* losing access to all federal funding is via a congressionally sanctioned "block granting" of Medicaid funding.

Under a block grant, instead of the federal government paying a fixed percentage of Medicaid costs, as occurs now, it would pay only a fixed dollar amount.¹¹ Federal appropriations could still increase over time, but almost certainly would not keep pace with the cost of care, and States would then be responsible for paying any costs above the fixed cap. Along with that federal funding cap, however, many federal Medicaid requirements would be relaxed or eliminated. Florida would therefore likely be free to make any number of changes that would be harmful to recipients, such as cutting eligibility, reducing services and requiring recipients to pay higher costs. In fact, the Florida Senate included a provision in its version of the 2010-11 budget (though ultimately removed from the final enacted version) that would have required the state to seek a federal waiver to in effect implement its own version of a Medicaid block grant.¹² The economic impact of a block grant in any form would be significant, but the precise amount would depend on the specific legislation enacted.

2. Slashing the Medicaid Budget

In recent years, state agencies have been required to include recommendations in their annual budget requests (LBRs) for reducing the amount of state general revenue (GR) in their budgets by 10 percent. These “budget reduction exercises” are intended to help the Governor and Legislature identify areas where cuts could supposedly be most readily absorbed. In its 2011-12 LBR, the state's Medicaid agency, the Agency for Health Care Administration (AHCA), offered ideas for reducing the amount of GR used to fund health care services by \$769 million.¹³ The GR-saving ideas identified by AHCA included the elimination of adult dental, vision and hearing services, the elimination of all podiatry and chiropractic services, cuts in provider payment rates and increases in assessments (taxes) on providers.¹⁴ This list is consistent, for instance, with comments made by Joe Negron, chair of the Senate Health and Human Services Appropriations Committee, about Medicaid cuts likely to be high on the legislature's priority list.¹⁵

Again, the adverse impact of these cuts to Medicaid and any others the legislature might consider would extend beyond the direct or indirect toll they would take on the health and quality of life on Medicaid recipients. Using the Medicaid multiplier and related assumptions, losing these funds translates to at least a \$1.5 billion hit to Florida's economy next year, as well as a cost of more than 14,000 jobs. If the legislature elected to reduce additional services or provider payments rather than levy assessments to achieve the same level of GR savings, the impact would rise to \$2.2 billion and 20,000 jobs, respectively.

The state share of additional funding for the first six years of Medicaid expansion under health care reform is \$1.2 billion (an increase of 1.9% in the state share of Medicaid). That money will in turn draw down \$20.1 billion more in federal funding, producing a total economic impact during that time period (federal Fiscal Years 2014-2019) of \$27.0 billion.

3. Shunning A Ready-Made, High Return Jobs Program

The insistence of opponents of the Patient Protection and Affordable Care Act (PPACA) that the expansion of the Medicaid program to cover most Americans up to 133 percent of the poverty level (about \$24,400 for a family of 3) starting in 2014 is untenable. The fact is, even without considering the increased productivity associated with providing coverage for uninsured low-wage workers and their families, the potential benefit to Florida's economy is staggering.

This is particularly the case because Florida will bear so little of the burden of funding Medicaid expansion. By way of comparison, in 2011-12, the state will be responsible¹⁶ for only 44 cents of every dollar spent on Medicaid.¹⁷ Although that is obviously a strong return on Florida's investment, it pales in comparison to the favorable terms of Medicaid expansion under the PPACA. Specifically, the first three years (2014, 2015 and 2016) are 100 percent federally funded.¹⁸ Then, in 2017, 2018 and 2019, the state is responsible for only 5, 6 and 7 cents of every dollar, respectively, spent on newly eligible recipients. In

2020 and in every year thereafter, the state pays the maximum match rate of just 10 percent.

Even armed with the match rates and the Medicaid multiplier, a projection of increased enrollment is

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needed to estimate the economic impact of Medicaid expansion for Florida. According to estimates produced by the independent Urban Institute, the state share of additional funding for the first six years of Medicaid expansion is \$1.2 billion (an increase of 1.9 percent in the state share of Medicaid).¹⁹ That money will in turn draw down \$20.1 billion more in federal funding,²⁰ producing a total economic impact during that time period (federal Fiscal Years 2014-2019) of \$27.0 billion.

Because enrollment and match rates will change throughout the period, the economic impact will be different for each year. All other things being equal, however, 65,000 new jobs will be created, generating an additional \$2.7 billion in wages annually. (Under an alternative scenario in which Medicaid enrollment is higher due to concerted state outreach efforts, the projected job creation increases to more than 81,000.²¹) Moreover, these are well-paying, permanent jobs in health-related fields. Based on Medicaid Calculator estimates of job creation and earnings generation, the average wage paid by the jobs created would exceed \$40,000 per full-time equivalent position.

The fact is, an average annual investment of \$200 million in state funding (including not only GR, but all other sources) translates to \$26.6 billion in total economic impact over the 6-year period, a more than twentyfold return on investment. During his campaign, Governor Scott touted the biotechnology cluster in Orlando and its more moderate sevenfold return on investment.²²

The table below summarizes these potential legislative actions and the consequences of their implementation in terms of their impact on the state's economy and job supply. The table also contrasts the amount of state funds "saved" with the amount of federal dollars lost. These unclaimed, already collected tax revenues from Floridians could not be used to help meet such critical state needs as education or transportation, but instead would be lost to other states that are participating more fully in the Medicaid program and are thereby drawing down more federal dollars.

The Governor and Legislature not only seem to undervalue the critical role of Medicaid as the health care safety net, but also misguidedly treat Medicaid as if it were a drain on Florida's economy that must be significantly pared down. Legislative actions under consideration that would undermine Medicaid could cost Florida at least 200,000 jobs and \$125 billion in total economic impact by the end of the decade.

Scenario	Potential Legislative Action	Impact to Florida (<i>dollar amounts in billions</i>)				
		State Dollars “Saved” (<i>1-year</i>)	Federal Dollars Lost (<i>1-year</i>)	Estimated Total Economic Impact Lost (<i>1-year</i>)	Estimated Jobs Lost (<i>Total</i>)	Estimated Total Wages Lost (<i>1-year</i>)
I	“Opt out” of federal Medicaid partnership and reject federal funding ²³	-\$10.3	-\$11.7	-\$14.7	-135,000	-\$5.6
II	Implement Medicaid cuts identified in the AHCA budget reduction exercise ²⁴	-\$0.8	-\$1.5	-\$1.5	-14,000	-\$0.6
III	Block Medicaid expansion under PPACA ²⁵	-\$0.2	-\$3.4	-\$4.4	-65,000	-\$1.7
I & III	<u>Total:</u> Opt out + Block Medicaid expansion	-\$10.5	-\$15.1	-\$19.1	-200,000	-\$7.3

Conclusion

Florida Governor-elect Rick Scott's campaign was anchored by a pledge to add 700,000 jobs to Florida's struggling economy over the next seven years. A key step that the Governor and Legislature should take toward that end is committing to preserve and bolster Florida's Medicaid program. Beyond the more familiar role Medicaid plays in providing health care coverage for the lowest-income and most vulnerable Floridians, thereby meeting a critical need that otherwise would not be adequately met, Medicaid is also a uniquely powerful economic engine.

Florida can generate great power from that engine simply by treating Medicaid – particularly the expansion of Medicaid under the PPACA – in a manner similar to other economic development opportunities. Taking such an approach would readily lead to a realization that not only has Medicaid already created many permanent, well-paying jobs, but Medicaid expansion will soon create many more. Most importantly, those jobs are created *automatically* as a byproduct of fulfilling Medicaid's compelling public purpose.

By contrast, the Governor and Legislature not only seem to undervalue the critical role of Medicaid as the health care safety net, but also misguidedly treat Medicaid as if it were a drain on Florida's economy that must be significantly pared down. As this brief explains, however, legislative actions under consideration that would undermine Medicaid could cost Florida at least 200,000 jobs and \$125 billion in total economic impact by the end of the decade.

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Endnotes

- ¹ See, e.g., [Kaiser Commission on Medicaid and the Uninsured, The Role of Medicaid in State Economies: A Look at the Research](#), January 2009.
- ² Includes transfers from local governments and hospital taxing districts, assessments levied on health care facilities and providers, etc.
- ³ Florida Legislature, Office of Economic and Demographic Research (EDR), Social Services Estimating Conference, [Long-Term Medicaid Forecast](#), December 17, 2010, p. 2.
- ⁴ Kaiser Commission, p. 2.
- ⁵ Agency for Workforce Innovation, [Florida Employment Projections](#) - Statewide, 2010. Wages are reported in 2010 dollars.
- ⁶ Kaiser Commission, p. 1.
- ⁷ Families USA, [Medicaid Calculator Methodology](#), April 2008.
- ⁸ The most recent version of the Medicaid Calculator (2008) relies on economic multipliers generated using federal fiscal year 2008 estimated Medicaid spending, employs a matching multiplier based on the 2008 FMAP, and presents economic impact estimates in 2008 dollars. All three references should be updated in order to produce maximally relevant estimates. The matching multiplier was updated for this analysis. The economic multiplier was *not* updated, but was expected to remain generally stable over time. This analysis is also presented in 2008 dollars. Using the Consumer Price Index (CPI-U) as a frame of reference, however, it appears that the deflation of the economic impact estimates since 2008 should be minimal.
- ⁹ EDR, Long-Term Medicaid Forecast, p. 2.
- ¹⁰ All economic impact estimates reported in this brief were produced by FCFEP using the Medicaid Calculator and other standard assumptions.
- ¹¹ Edwin Park, [Medicaid Block Grant or Funding Caps Would Shift Costs to States, Beneficiaries, and Providers](#), Center for Budget and Policy Priorities, January 6, 2011.
- ¹² Florida Senate, [SB 2700 \(2010\)](#), proviso language for specific appropriation 175.
- ¹³ Florida Agency for Health Care Administration, 2011-12 Legislative Budget Request, [Schedule VIII-B](#), p. 54.
- ¹⁴ Although levying assessments on providers does not reduce the Medicaid budget *per se*, it reduces the economic impact of the industry by an offsetting amount.

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- 15 See e.g., Steve Bousquet, “Florida budget gap swells to \$3 billion”, Miami Herald, December 8, 2010.
- 16 Again, only a portion of the amount for which the state is “responsible” (i.e., the state share) is general revenue.
- 17 EDR, Social Services Estimating Conference, [Official FMAP Estimate](#), 29 November 2010.
- 18 For all federal match rates associated with Medicaid expansion, refer to PPACA, section 2001(a)(3).
- 19 Kaiser Commission on Medicaid and the Uninsured/Urban Institute, [Medicaid Coverage and Spending in Health Reform](#), May 2010, p.10.
- 20 Id.
- 21 See Kaiser Commission/Urban Institute, p.11.
- 22 Rick Scott for Governor, 7-7-7 Plan, [“Focus on Job Retention and Growth”](#), July 2010.
- 23 All estimates are for state Fiscal Year 2011-12.
- 24 All estimates are for state Fiscal Year 2011-12.
- 25 All estimates are six-year averages for the period federal Fiscal Years 2014-2019, except that the job creation estimate provided is through the end of that period. Estimates are in 2010 dollars. In addition, the parameters used in the economic model underlying the Medicaid Calculator will likely not remain stable over that extended period. The margin of error for these particular estimates is therefore greater than those that pertain only to 2011-12.