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RESEARCH REPORT

The Economic Impact of Medicaid Expansion on Pennsylvania

Carter C. Price • *Julie M. Donohue* • *Evan Saltzman*

Dulani Woods • *Christine Eibner*

Sponsored by The Hospital & Healthsystem Association of Pennsylvania

HEALTH

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Summary

The Affordable Care Act (ACA) includes two provisions that will transfer federal dollars to state economies: an expansion of Medicaid to cover those earning less than 138 percent of the federal poverty level (FPL) and health insurance subsidies for people with incomes between 100 percent and 400 percent of the FPL. These coverage expansions are financed by changes to Medicare payment policy, reductions in Disproportionate Share Hospital (DSH) payments, and new taxes and fees, which transfer money from state economies to the federal government.

The June 2012 U.S. Supreme Court decision regarding the ACA gave state governments discretion over whether to expand Medicaid, but most of the other provisions in the ACA—including reductions to Medicare and DSH payments—will occur regardless of how states handle the Medicaid provision. In determining whether to expand Medicaid, Pennsylvania's stakeholders may wish to consider the ACA's overall economic effects on the state, both with and without the Medicaid expansion. To inform this policy debate, we estimated the effects of the ACA's implementation in Pennsylvania (with and without the Medicaid expansion) on rates of insurance coverage (by source), net flows of federal spending, change in gross domestic product (GDP), state employment, state government spending and tax revenues, and uncompensated care costs.

To estimate the ACA's coverage and federal spending impacts, we used the RAND COMPARE microsimulation model. We then applied the Regional Input-Output Modeling System multipliers from the Bureau of Economic Analysis to determine the ACA's broader economic effects. We estimate these policy effects at the state level and within Pennsylvania's regions.

Key Findings

- With the Medicaid expansion, the model estimates that in 2016 5 percent of Pennsylvanians under the age of 65 (about 500,000 people) will have no insurance coverage, compared with 13 percent (about 1,330,000 people) who would be uninsured under pre-ACA policies and 8 percent (about 850,000) with the ACA but without the expansion of Medicaid.
- In 2016, federal inflows (subsidies to individuals or small businesses and Medicaid matching funds) are estimated at $4.7 billion without Medicaid expansion and $7.2 billion with expansion. Therefore, Medicaid expansion would result in $2.5 billion more in federal funds to Pennsylvania. Because outflows to the federal government will be nearly $6.7 billion in either case (due to reductions in Medicare payments, other taxes, and fees), the net benefit is positive in 2016 only with expansion. From 2014-2020, the

cumulative inflow of federal dollars will be $16.5 billion higher if the state expands Medicaid.

- An increase of $2.5 billion in annual federal spending due to the Medicaid expansion is estimated to lead to $3 billion in the state's GDP growth and sustain more than 35,000 jobs in Pennsylvania.
- Between 2014 and 2016, new state Medicaid spending will be the same regardless of whether the state expands Medicaid, because the federal government will take on 100 percent of the costs for the expansion population. For example, in 2016, state Medicaid spending is estimated at $91 million in either case. Beginning in 2017, Pennsylvania's cost to expand Medicaid will grow as the state gradually takes on 10 percent of the costs. By the year 2020, we estimate that new state Medicaid spending would be $611 million with the expansion vs. $118 million without the expansion. The Medicaid expansion would increase state spending by approximately 10 percent over current levels. These costs will be partially offset by tax revenue generated from Medicaid MCO taxes, which would be greater under expansion ($254 million vs. $13 million, respectively).
- Under either scenario, we estimate substantial differences between Pennsylvania's regions in the net flow of funds, as well as in the number of those insured due to regional differences in socioeconomic status, demographic characteristics, and existing sources of coverage.