Fiscal and Economic Impacts of Medicaid Expansion in Alaska

Prepared for

Alaska Native Tribal Health Consortium

February 1, 2013

Prepared by

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Abbreviations

ACA	Affordable Care Act
AI	American Indian
AN	Alaska Native
ANTHC	Alaska Native Tribal Health Consortium
CHIP	Children's Health Insurance Program
FMAP	Federal Medicaid Assistance Percentage
FPL	Federal Poverty Level
UI	Urban Institute

Executive Summary

The Alaska Native Tribal Health Consortium (ANTHC) commissioned Northern Economics, Inc. to prepare a study that evaluates the potential fiscal and economic effects of the expansion of Medicaid eligibility in Alaska. Currently, eligibility is basically restricted to low-income families with children and individuals who are blind, disabled or elderly and low income. The State of Alaska has the option to expand the State's Medicaid program eligibility to Alaska residents whose income is within 138 percent of the Federal Poverty Level (FPL).[1]

The fiscal effects analysis compares the potential costs and revenues to the State of Alaska if the State chooses not to expand Medicaid eligibility in 2014 with three expansion scenarios that consider varying levels of possible participation by newly eligible individuals: Low, Mid, and High Participation.

The economic effects analysis quantifies the potential benefits of increased health care spending in the State's economy that would result from expansion of Medicaid eligibility. The effects to the State economy are measured in terms of increases in jobs, labor income, and economic output (or business sales).

The findings of this study include:

- A Mid Participation Expansion Scenario would generate $12 in new Federal funds for every $1 in State funding related to Medicaid expansion over the 2014-2020 time period, before accounting for savings in other State programs.
- With Medicaid expansion, the State could save an additional $7.4 million annually from eliminating the Chronic and Acute Medical Assistance Program, reducing acute health care costs for prisoners who could be covered by Medicaid, and reducing the need for State general funds to cover immunizations. Additional savings are also possible.
- Under the Mid Participation Scenario, a State expenditure of about $16 million (net fiscal effect) in 2020 creates about 4,000 jobs (about $4,100 per job).
- Higher Medicaid spending translates into higher revenues for the health care sector and other associated sectors, and subsequently higher tax revenues to the State of Alaska in the form of corporate income taxes.
- Accounting for the multiplier effects in the State's economy, all regions of the State would realize an increase in economic output (or total business sales) from Medicaid expansion over the 2014–2020 period, ranging from $170 million for Arctic and Western Alaska to $1.6 billion in the Southcentral region.

[1] For the State of Alaska in 2012, 138 percent of the FPL is $19,279 for an individual, $26,110 for a two-person family. Medicaid expansion is authorized under section 2001 of the Affordable Care Act and is available to certain legal residents who are at least 19 and not more than 64 years of age. It was mandatory in the ACA, but became an option pursuant to a June 2012 decision by the U.S. Supreme Court. P.L. 111- 148, March 23, 2010, Patient Protection and Affordable Care Act (Affordable Care Act or ACA).

- Each $1 million in State spending generates $28 million in additional economic activity due to the leveraging of the Federal Medicaid expenditures and the multiplier effects in the State's economy.

The study was done in two phases, starting with a preliminary evaluation that was based on the Urban Institute's (UI) preliminary estimates of participation and costs of expanding Medicaid (Urban Institute, November 2012).[2] The preliminary evaluation of the fiscal and economic effects was presented in a report that was released on January 18, 2013.

This report is part of the second phase of the study, and is a more comprehensive report that incorporates updated and more refined estimates of increases in Medicaid participation, and Federal and State share of Medicaid costs from the Urban Institute.[3] It also expands the fiscal and economic effects analysis to include additional information regarding potential cost savings and other potential economic implications of eligibility expansion.

Table ES-1 shows the UI's estimate of the incremental increase in the number of persons who could be expected to enroll in Medicaid if the State elects to implement the Medicaid expansion option. These estimates do not include those persons who are likely to enroll in Medicaid even if the Medicaid expansion option is not implemented.[4]

Table ES-1. Mid Participation Estimate under Medicaid Expansion

Scenario	2014	2015	2016	2017	2018	2019	2020
	Thousands						
Medicaid Expansion							
Newly eligible participation due to expansion	18.17	27.34	33	36.63	37.02	37.21	37.39
Incremental increase in currently eligible participation	1.22	1.63	1.86	1.9	1.93	1.94	1.95
Total Additional Participation	**19.39**	**28.97**	**34.86**	**38.53**	**38.95**	**39.15**	**39.34**

Source: Northern Economics, Inc. estimates based on UI, 2013.

Table ES-2 shows the annual costs that the State may incur if the Medicaid expansion option is implemented. In the first three years of the program, the Federal government covers 100 percent of the cost for newly eligible persons enrolling in the program. The State's costs in the first three years are only for the incremental increase in enrollment of persons currently eligible but not yet participating, who would enroll due to Medicaid expansion. General funds are needed during the first three years of Medicaid expansion

[2] This study was also commissioned by the Alaska Native Tribal Health Consortium. A more comprehensive analysis of the Medicaid expansion was completed by the Urban Institute February 1, 2013.

[3] Urban Institute, 2013. Medicaid in Alaska under the ACA.

[4] The UI and other analysts agree that a percentage of individuals currently eligible to participate in Medicaid, who have not historically, will enroll in 2014 due to other requirements of the ACA. This increased enrollment is unrelated to the decisions the State may make about Medicaid expansion and is often referred to as the "Woodwork Effect."

to fund the health care of this group because their costs are reimbursed at the current ratio (50 percent State and 50 percent Federal) rather than the 100 percent enhanced funding under Medicaid expansion. The estimates presented in Table ES-2 do not include potential savings to the State from implementation of the Medicaid expansion option. (See Sections 2.3.2 and 2.4.2.)

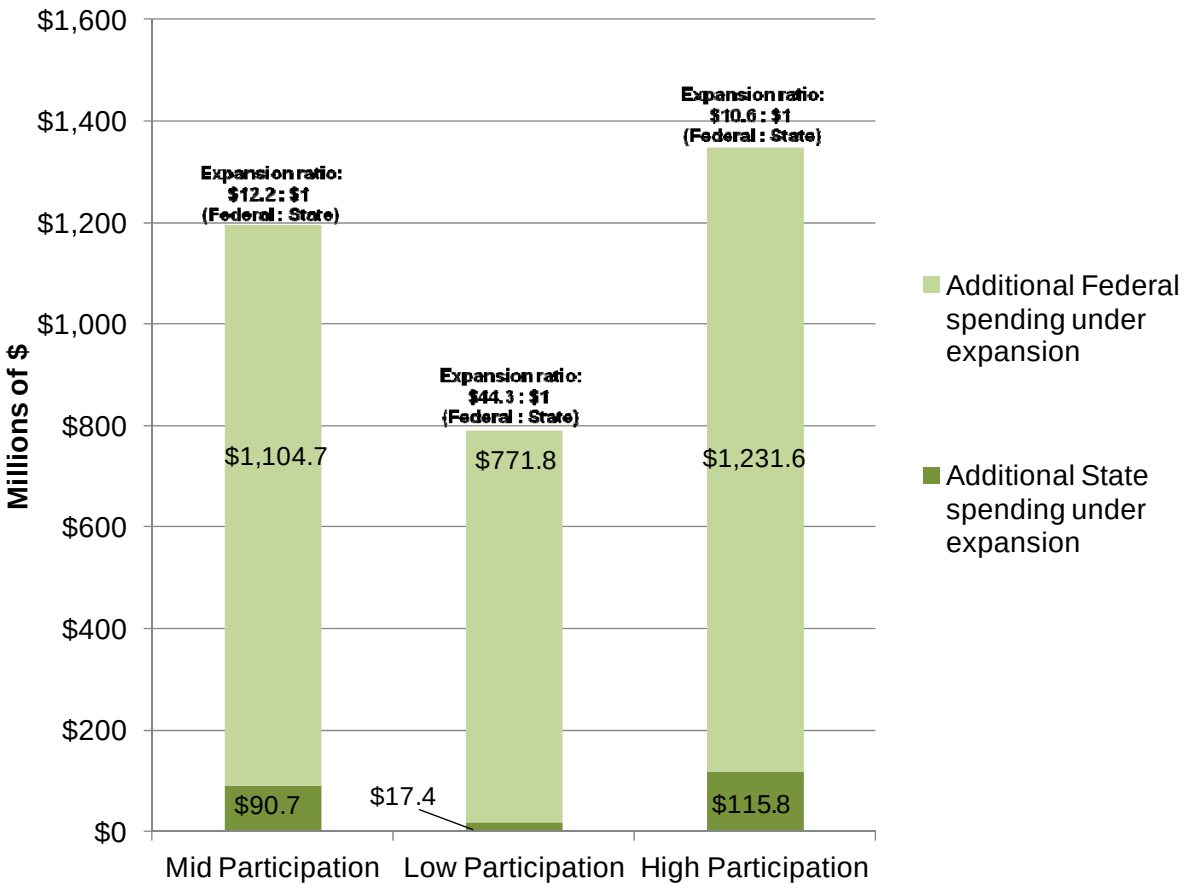
Table ES-2. State Costs under Medicaid Expansion Scenarios

Scenario	Expenditures ($ Millions)							
	2014	2015	2016	2017	2018	2019	2020	Total
Medicaid Expansion Options: New and Current Eligibles under Expansion								
Mid Participation Scenario	3.0	4.3	5.2	14.5	17.1	19.8	26.7	90.7
Low Participation Scenario	0.0	0.0	0.0	1.5	2.4	4.4	9.1	17.4
High Participation Scenario	5.5	6.7	7.4	18.2	21.1	24.1	32.7	115.8

Source: Northern Economics, Inc. estimates based on UI, 2013.

If the State elects to implement the Medicaid expansion option, under the Mid Participation Scenario, for every $1 in State funding related to Medicaid expansion, $12 in new Federal funds will be generated. Total State expenditures for the Medicaid expansion over the 2014–2020 period are estimated to be $90.7 million—$64.6 million for persons newly eligible for Medicaid, and $26.1 million for the anticipated increase in participation among currently eligible Alaskans who are anticipated to enroll in Medicaid if the expansion takes place. In turn, $1,104.7 million in new Federal funds will be generated in the State. Comparable data for the Low and High Participation Scenarios are presented in Figure ES-1. Note that there are potential savings to the State from implementation of the Medicaid option that are not included in Figure ES-1.

Figure ES-1. State and Federal Spending Under Medicaid Expansion, Cumulative 2014–2020



Source: Northern Economics, Inc. estimates based on UI, 2013.

Under the current Medicaid program, eligibility is basically restricted to low-income families with children and individuals who are blind, disabled or elderly and low income. Medicaid expansion, however, will base eligibility solely on the income of an individual or family. Consequently, to be eligible for expanded Medicaid, an individual no longer needs to be in a particular category (e.g., blind, disabled, child). State general fund dollars would no longer be needed to the extent that the former recipients of State aid are Medicaid eligible under expansion.

Table ES-3 identifies Medicaid expansion-related savings or offsets that have been estimated. Other offsets have not yet been quantified and are not included in this analysis. If a specific offset is not quantified (e.g., Adult Public Assistance/Interim Assistance), it does not mean that the offset is speculative, only that additional analysis is necessary to accurately evaluate and quantify it. For the analysis, each of these areas of potential budget savings is escalated at an assumed 2.5 percent rate of inflation.

Table ES-3. Estimated State of Alaska Budget Offsets related to Medicaid Expansion, FY 2013

Description	Annual Offsets ($ Millions)
Chronic and Acute Medical Assistance Program	1.4
Department of Corrections (DOC):	5.0
Immunizations	0.9 to $1.1

Source: Livey, 2012.

Table ES-4 shows the estimated State corporate income taxes that could result from higher economic activity in the health care and other sectors. Higher health care spending will translate into higher revenues for the health care sector and other associated sectors, and subsequently higher tax revenues to the State of Alaska in the form of corporate income taxes.

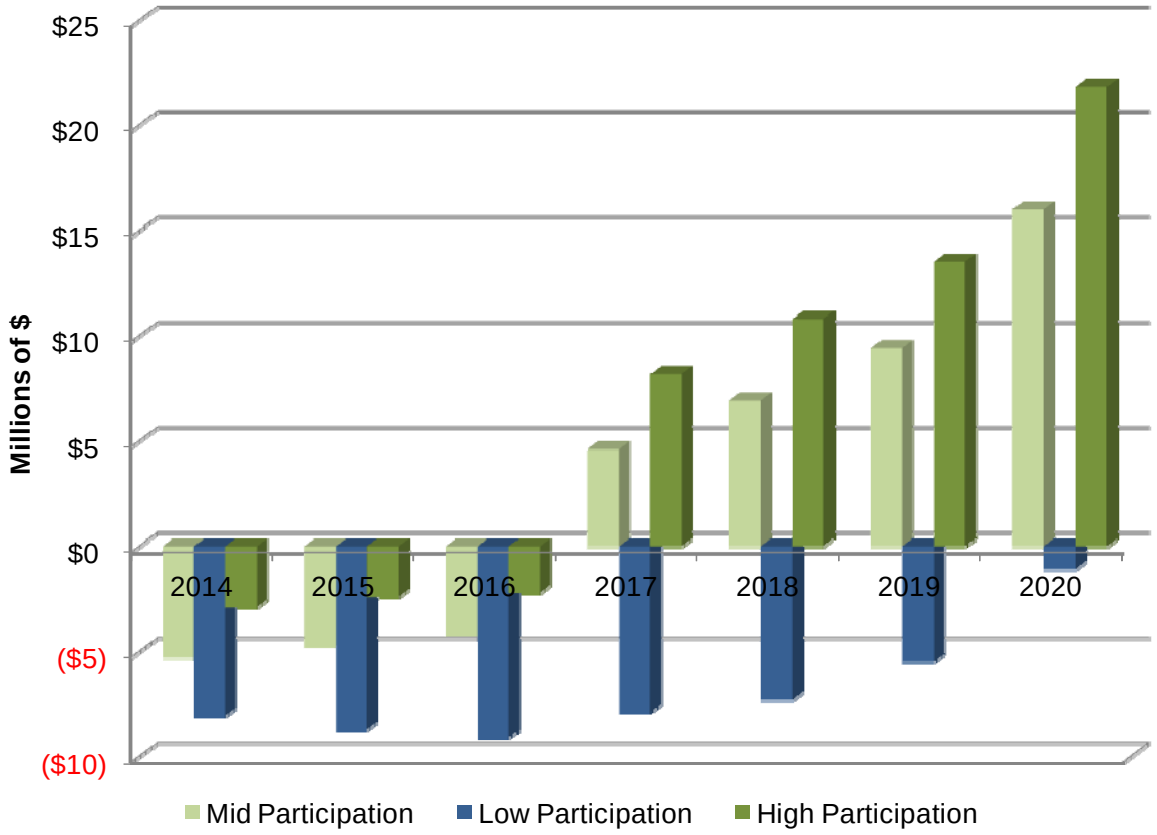
Table ES-4. Estimated State Corporate Income Taxes Associated with Medicaid Expansion

	Year							
	2014	2015	2016	2017	2018	2019	2020	Total
Scenario	($ Millions)							
Mid Participation	0.90	1.40	1.60	1.90	2.00	2.00	2.10	11.90
Low Participation	0.70	1.10	1.30	1.40	1.50	1.50	1.60	9.00
High Participation	1.00	1.50	1.80	2.00	2.10	2.20	2.30	13.10

Source: Northern Economics estimates based on UI 2013 data, Bureau of Economic Analysis (2013) data on State Gross Domestic Product, and Alaska Department of Revenue (2012) data on non-oil and gas state corporate income taxes.

Figure ES-2 presents information on the net fiscal effect to the State. Net fiscal effect is the cost to the State under the Medicaid expansion scenarios (Table ES-2) less the budget offsets (Table ES-3) and less the corporate income tax revenue to the State (Table ES-4). The State achieves savings (negative numbers) in the first three years of the program as the Federal government provides 100 percent of the costs for the newly eligible and other savings accrue. From 2017 on, spending for the Mid and High Participation Scenarios increases over time as the State match increases up to 10 percent for the newly eligible and as the Medicaid participation percentage increases.[5] Under the Low Participation Scenario, the State could achieve budget savings through 2020.

Figure ES-2. Net Fiscal Effect to State of Alaska from Medicaid Expansion Scenarios



Note: negative numbers represent cost savings (budget offsets) to the State of Alaska.
Source: Northern Economics, Inc. based on Northern Economics estimates based on UI 2013 data, Livey, 2012, Bureau of Economic Analysis (2013) data on State Gross Domestic Product, and Alaska Department of Revenue (2012) data on non-oil and gas state corporate income taxes.

The economic effects of Medicaid expansion were estimated using IMPLAN™, a software and data program created by MIG, Inc. for conducting input-output analysis. The

[5] The State match for payments made to Tribal health programs for services provided to Alaska Natives and American Indians will remain at 0% (i.e., 100% Federal funding) in 2020 and beyond, as it is under current Medicaid law.

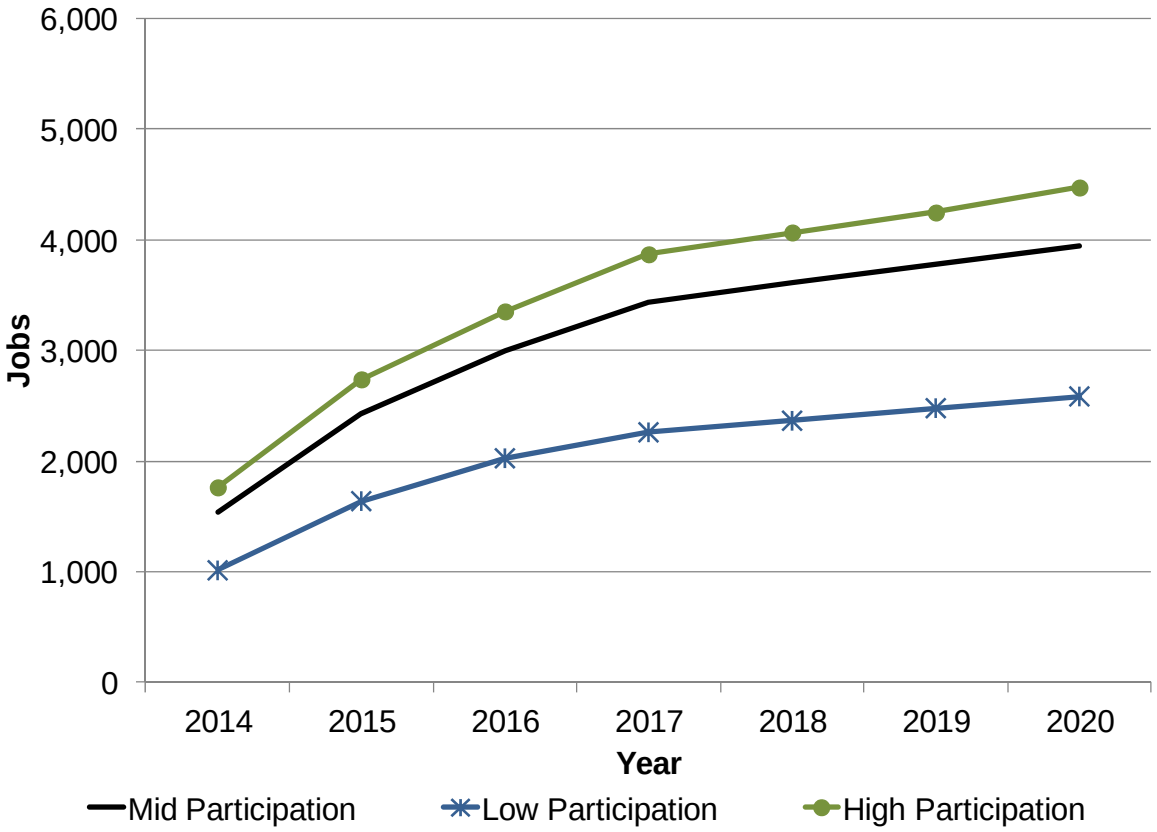
estimates reflect the direct, indirect, and induced economic effects of Medicaid spending in the State. The direct economic effects are created with the State and Federal spending associated with the Medicaid expansion options identified in the fiscal effects. The indirect economic effects are the result of purchases by the directly affected businesses from other businesses in the Alaska economy. The induced economic effects are the result of household spending of the wages and salaries associated with the new jobs.

In order to simplify the economic impact analysis, it is assumed that the estimated costs to the State of Alaska of the Medicaid expansion would be funded by the State's savings account and would not reduce spending on other State programs. This assumption could be revisited if additional information is made available on the results of the Medicaid Cost study contracted by the State of Alaska, as well as revised assumptions regarding potential sources of State funding.

This report also excludes additional economic benefits that may result from reductions in uncompensated care and bad debt by people with no health insurance, or improvements in the health status of people who would newly acquire coverage. (See Section 4.)

Figure ES-3 shows the estimated number of jobs created annually for each Medicaid expansion scenario from 2014 through 2020. Under the Mid Participation Scenario, the number of jobs could be almost 4,000 in 2020, about 2,600 under the Low Participation Scenario, and about 4,500 for the High Participation Scenario. Under the Mid Participation Scenario, a State expenditure of about $16 million (net fiscal effect) creates about 4,000 jobs, or a State expenditure of about $4,100 to create each job. In addition to the State's contribution, the leverage of the large Federal matching funds and the multiplier effects in the State's economy account for the substantial increase in jobs.

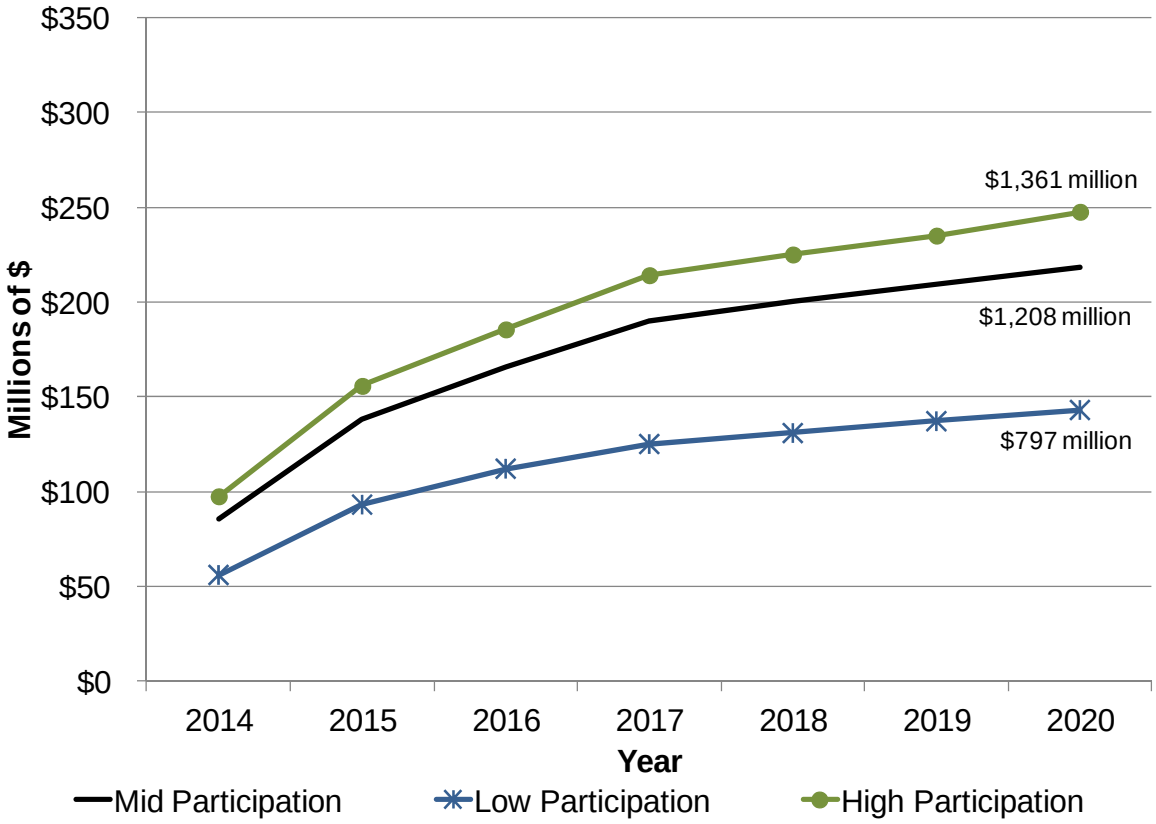
Figure ES-3. Annual Jobs Created by Medicaid Expansion Scenario, 2014-2020



Source: Northern Economic, Inc. estimates using UI, 2013 data.

Figure ES-4 shows the wages and salaries (labor income) paid to Alaska residents resulting from implementation of Medicaid expansion. Cumulatively, for the years 2014–2020, Medicaid expansion is projected to generate an increase in total wages and salaries in Alaska ranging from about $800 million (Low Participation) to $1.36 billion (High Participation).

Figure ES-4. Annual and Cumulative Labor Income Effects by Scenario, 2014-2020



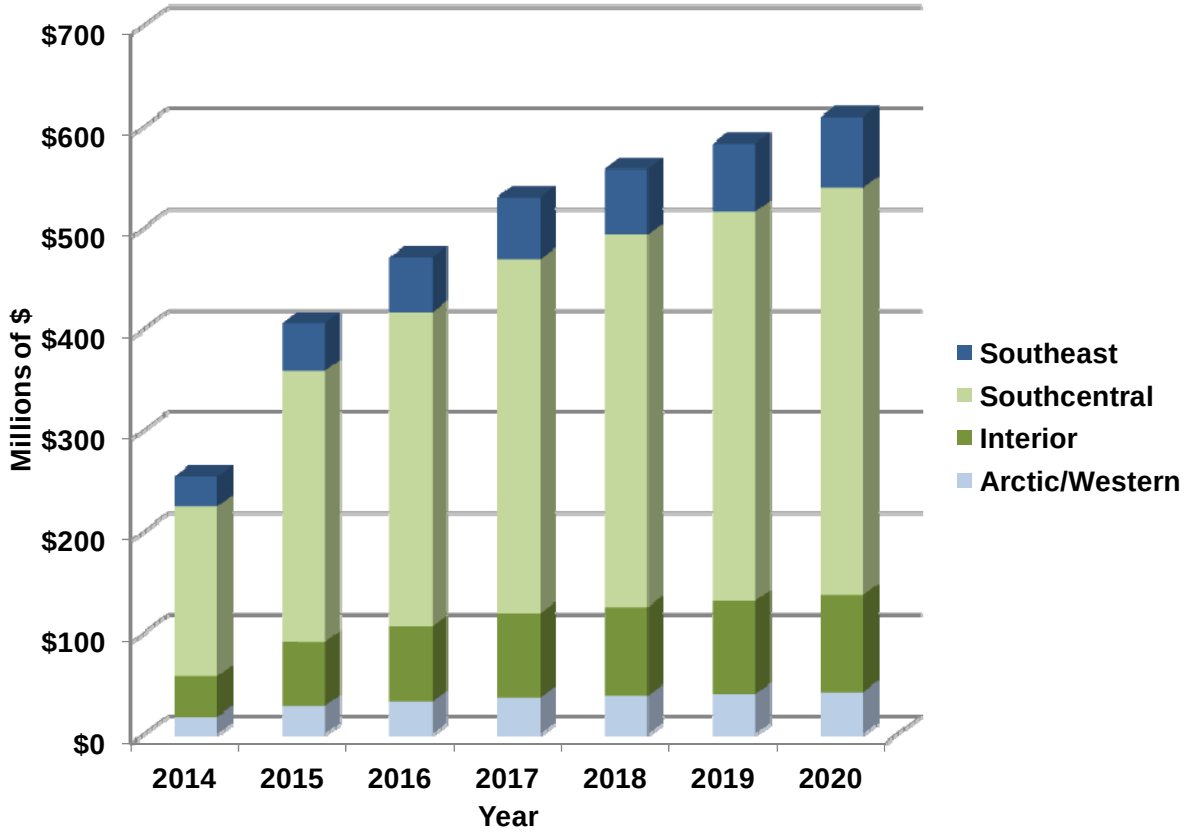
Notes: Numbers near the lines represent the cumulative totals over the seven-year period.
Source: Northern Economic, Inc. estimates using UI, 2013 data.

In 2020, the State's expenditure of about $16 million (net fiscal effect for the Mid Enrollment Scenario) would generate about $219 million in additional labor income in the State. Each $1 million in State spending generates about $14 million in additional labor income due to the leveraging of the Federal Medicaid expenditures and the multiplier effects in the State's economy.

Figure ES-5 shows the projected annual regional economic output (or total business sales) effects of Medicaid expansion under the Mid Participation Scenario. The majority (66 percent) of the additional economic activity associated with the increase in Medicaid spending is projected to occur in the Southcentral region where Anchorage, the Matanuska-Susitna Borough, the Kenai Peninsula Borough, and the Valdez-Cordova

Census Area are located. Cumulatively, this region is projected to realize a $1.6 billion increase in economic output over the 2014 to 2020 time period. The Interior would see an increase of economic activity of more than $390 million. The increase would be almost $290 million for Southeast, and over $170 million for Arctic and Western Alaska. In 2020 the State's expenditure of about $16 million (net fiscal effect for the Mid Enrollment Scenario) would generate about $450 million in additional economic output in the State. Each $1 million in State spending generates $28 million in additional economic activity due to the leveraging of the Federal Medicaid expenditures and the multiplier effects in the State's economy.

Figure ES-5. Annual Regional Economic Output Effects of Medicaid Expansion, Mid Participation Scenario, 2014 to 2020



Source: Northern Economic, Inc. estimates using UI, 2013 data, and FY2010 data on Medicaid payments to medical facilities across the State.

1 Introduction

The Alaska Native Tribal Health Consortium (ANTHC) commissioned Northern Economics, Inc. to evaluate the potential fiscal and economic effects of expansion of Medicaid eligibility in Alaska. Under the Patient Protection and Affordable Care Act (Affordable Care Act or ACA)[6] the State of Alaska has the option to expand the State's Medicaid program eligibility to Alaska residents whose income is within 138 percent of the Federal Poverty Level (FPL).[7]

The fiscal effects analysis compares the potential costs and revenues to the State of Alaska if the State chooses not to expand Medicaid eligibility in 2014 compared to three expansion scenarios that consider varying levels of possible participation by newly eligible individuals: low, mid, and high participation.

The economic effects analysis quantifies the potential benefits of increased health care spending in the state's economy that would result from expansion of Medicaid eligibility. The effects to the state economy are measured in terms of increases in jobs, labor income, and economic output (or business sales).

The study was done in two phases, starting with a preliminary evaluation that was based on the Urban Institute's (UI)[8] preliminary estimates of enrollment and costs of expanding Medicaid (Urban Institute, November 2012). The results of the preliminary evaluation of the fiscal and economic effects were presented in a Fact Sheet that was publicly released on January 18, 2013.

This report is part of the second phase of the study, and is a more comprehensive report that incorporates updated and more refined estimates of increases in Medicaid enrollment, and federal and state share of Medicaid costs from the Urban Institute.[9] It also expands the fiscal and economic effects analysis to include additional information regarding potential cost savings and other potential economic implications of eligibility expansion. For those who are familiar with the January 18, 2013, Preliminary Report, we note that the methodology and labeling used in this Final Report have been updated and differ from the Preliminary Report. It is also important to recognize that the participation and related cost estimates in this Report are, in some cases, higher than the Alaska Department of Health and Social Services has made in budget proposals for current eligibles.

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[6] This option is authorized under section 2001 of the Affordable Care Act and is available to certain legal residents who are at least 19 and not more than 64 years of age.

[7] For the State of Alaska in 2012, 138 percent of the FPL is $19,279 for an individual, and $26,110 for a two-person family.

[8] This study was also commissioned by the Alaska Native Tribal Health Consortium. A more comprehensive analysis of the Medicaid expansion was completed by the Urban Institute and released by ANTHC on February 1, 2013.

[9] Urban Institute, 2013. Medicaid in Alaska under the ACA.

1.1 Rationale

Under the Affordable Care Act, Alaska has the option of expanding Medicaid eligibility, effective January 1, 2014, to adults with income up to 138 percent of the FPL. This eligibility level equates to roughly $20,000 in income for an individual and $26,000 for a couple. The expansion would extend coverage to two groups of Alaska residents: adults whose income exceeds the current income eligibility thresholds and who have dependent children, and adults without dependent children. Eligibility for low-income children and pregnant women would not change based on the State of Alaska's decision to expand or not expand Medicaid eligibility under this new option, because children and pregnant women under 138 percent of the FPL would continue to be covered under the State's Medicaid or CHIP (Children's Health Insurance Program) programs as they are today. Similarly, adults who are eligible for Medicaid due to their low income and either being over 65 years of age or being disabled will remain eligible under current Medicaid and will not be part of the Medicaid expansion.

Expansion of Medicaid eligibility would result in higher Medicaid enrollment and increased spending for healthcare and other services by the State and Federal government. This optional expansion will have fiscal consequences to the State of Alaska and impacts on the State and regional economies. This study is an attempt to assess the impact of exercising the Medicaid expansion option for Alaska including the direct and indirect impacts, and help inform the public and decision-makers of the consequences of Medicaid expansion.

1.2 Study Objectives

This study specifically addresses the following objectives:

- Quantify the potential statewide annual and cumulative economic output, employment, and labor income effects of Medicaid expansion given estimates of projected Medicaid enrollment, and State and Federal Medicaid spending;
- Quantify the regional economic impacts of the Medicaid expansion;
- Quantify the potential fiscal effects of Medicaid expansion by comparing projected costs to the State of Alaska and projected revenues associated with Medicaid expansion;
- Compare the fiscal effects of Medicaid expansion to other State of Alaska programs and investments;
- Evaluate the fiscal and economic impacts of Medicaid expansion under low, mid, and high participation rates and compare them to a no Medicaid expansion scenario; and
- Describe other potential economic and fiscal implications of Medicaid expansion that may not be quantifiable but should be considered.

1.3 Organization of the Report

The rest of this report is organized into the following main sections:

The Fiscal Effects Analysis: This section starts with the highlights of the fiscal analysis, follows with a description of the methodology, assumptions, and data inputs, and then a presentation of the implications of the Medicaid expansion scenarios to the State of Alaska's budget. The projected costs of Medicaid expansion and potential cost savings (budget offsets) are discussed along with potential revenues, which include the Federal match and estimated State corporate income taxes resulting from higher healthcare spending in the State. The projected net fiscal effects of Medicaid expansion under the different scenarios are summarized in a separate sub-section—comparing potential costs and revenues to the State of Alaska. Finally, the Medicaid expansion fiscal effects are compared to other State investments and programs.

The Economic Effects Analysis: This section starts with a summary of the results of the economic impacts of Medicaid expansion under the Mid Participation scenario. The highlights section is followed by a methodology sub-section that describes the economic model and data. Projections for each of the economic impact measures—economic output, jobs, and labor income—are presented in separate sub-sections. The projected statewide economic impacts are presented first followed by the regional impacts.

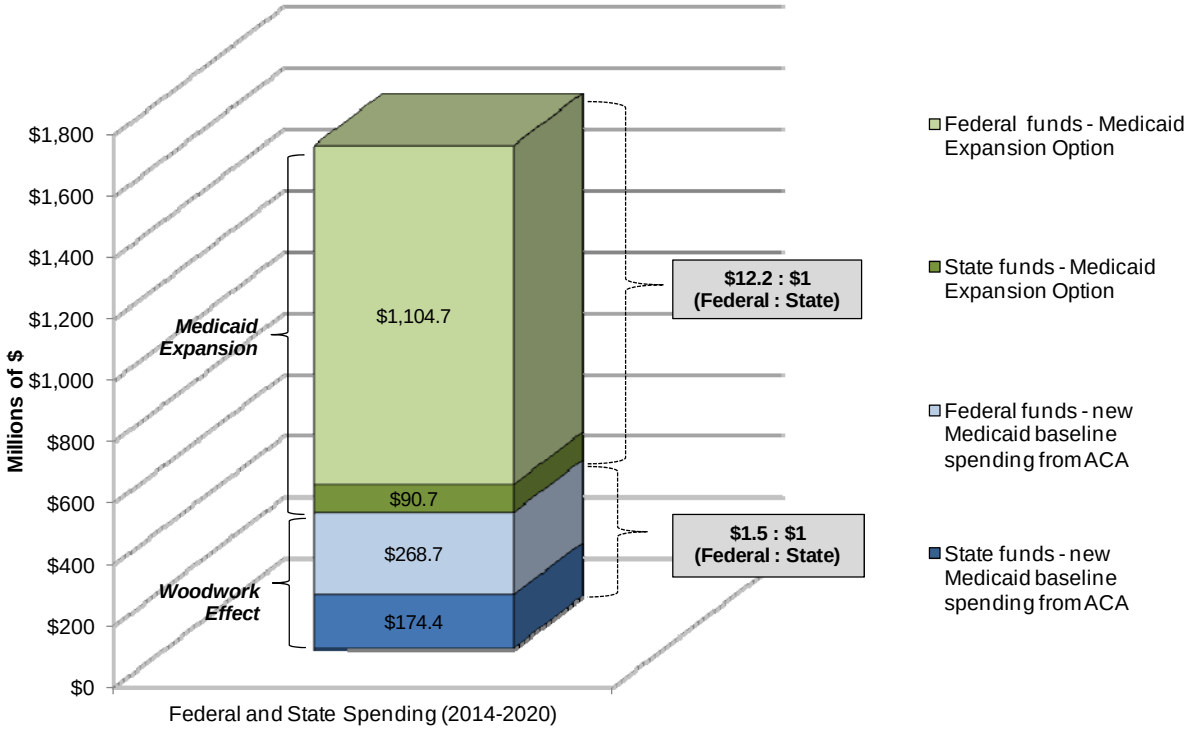
Other Potential Fiscal and Economic Implications: This section considers other potential benefits of Medicaid expansion that are not easily quantifiable or have yet to be quantified as part of this effort. The section describes the results of other studies, in particular, the study conducted by the University of Missouri School of Medicine (November 2012) that looked at the economic impacts of Medicaid expansion in Missouri and how it could affect private insurance premiums; and the 2002 study conducted by the Institute of Medicine (part of the National Academy of Sciences) that found that having health insurance improves the quality of people's lives.

2 Fiscal Effects Analysis

2.1 Highlights

For every $1 in State funding related to Medicaid expansion, $12 in new federal funds will be generated under the Mid Participation Scenario for the Medicaid expansion option. Total State expenditures for the Medicaid expansion over the 2014–2020 period are estimated to be $90.7 million; $64.6 million for persons newly eligible for Medicaid, and $26.1 million for the anticipated increase in enrollment among currently eligible Alaskans who are anticipated to enroll in Medicaid if the expansion takes place. In turn, $1,104.7 million in new Federal funds will be generated in the State. (See Figure 1.)

Figure 1. Ratio of Federal Funds to State Funds, 2014 to 2020



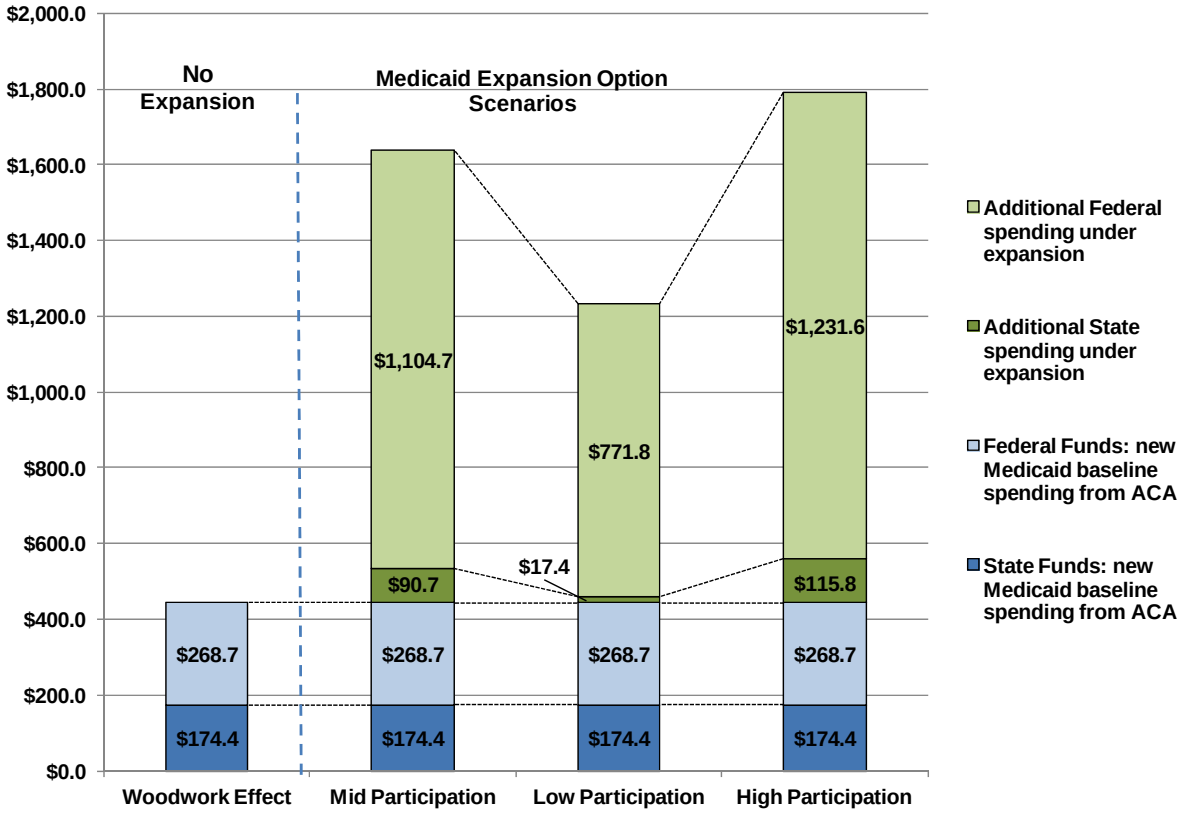
Source: Northern Economics, Inc. estimates and data from Urban Institute, 2013.

Even if the State's newly required Medicaid baseline spending associated with the "Woodwork Effect"[10] resulting from implementation of the ACA is included with the (optional) Medicaid expansion costs, each $1 of State funding will result in $5.2 of Federal matching funds (($1,104.7+$268.7)/($90.7+$174.4) = $5.2).

[10] The UI and other analysts agree that a percentage of individuals currently eligible to participate in Medicaid, who have not historically, will enroll in 2014 due to other requirements of the ACA. This increased enrollment is unrelated to the decisions the State may make about Medicaid expansion and is often referred to as the "Woodwork Effect."

Figure 2 displays the Federal and State shares of funding for the Woodwork Effect as well as for each of the three Medicaid expansion scenarios: Mid Participation, Low Participation, and High Participation. The Woodwork Effect is shown in each scenario in Figure 2, since it affects total new Medicaid spending whether Medicaid expansion occurs or not.

Figure 2. State and Federal Expenditures by Scenario, 2014 to 2020 ($ millions)

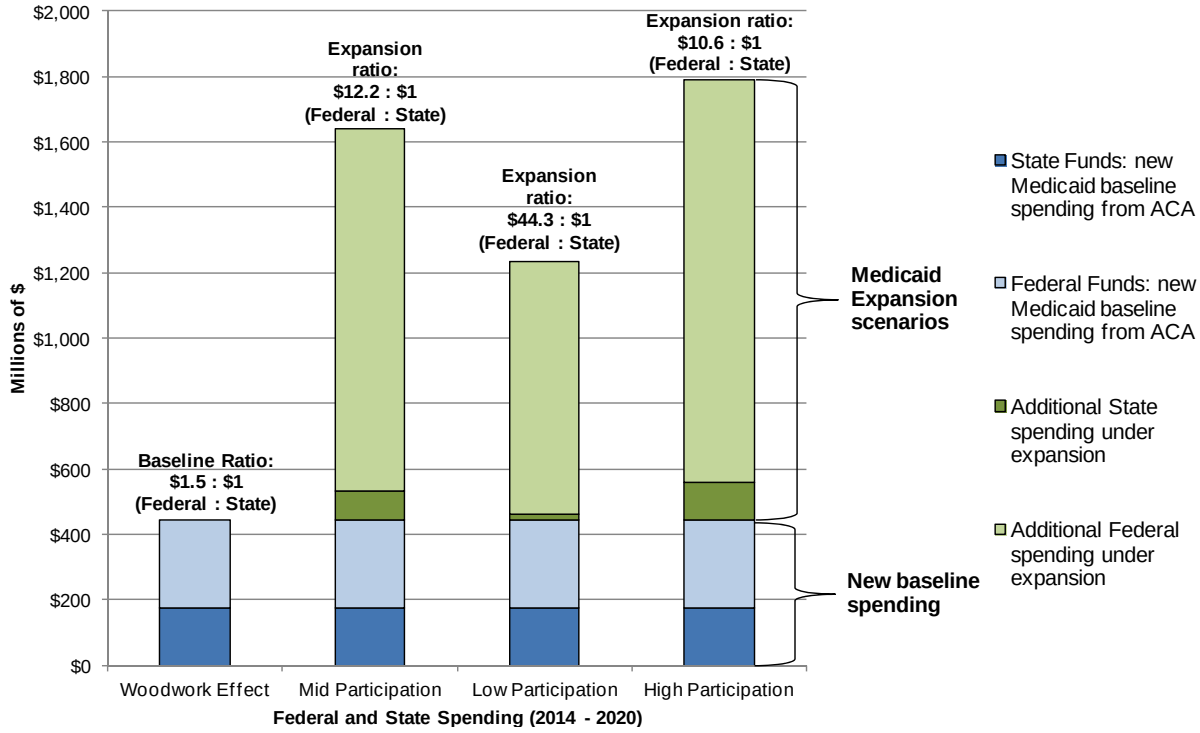


Source: Northern Economics, Inc. estimates and data from Urban Institute, 2013.

Figure 3 presents the ratio of Federal to State funding under each of the Medicaid expansion scenarios, including the new baseline spending for the Woodwork Effect.

As mentioned above, the ratio of total Federal to total State funding for Medicaid expansion Mid Participation is $12.2 to $1. If there is Low Participation, the ratio expands to $44.3 to $1; and under the High Participation Scenario, the ratio for Medicaid expansion is $10.6 to $1. Even if the Woodwork Effect is included, the ratios of Federal to State funding are significant: Low, Mid, and High Participation ratios are $5.4, $5.2, and $5.2 to $1, respectively, while the Woodwork Effect taken in isolation is $1.5 to $1. The differences in the ratios between the expansion options and the Woodwork Effect reflect the Federal government's larger contribution under the Medicaid expansion option in comparison to the current Medicaid cost sharing arrangement.

Figure 3. Ratio of State and Federal Expenditures by Scenario, 2014 to 2020 ($ millions)



Source: Northern Economics, Inc. estimates and data from Urban Institute, 2013.

Figure 4 shows the annual (2014 through 2020) costs for the Mid Participation Scenario for the State and Federal governments. Federal spending increases from about $82 million in 2014 to $191 million in 2020. State spending increases from about $3 million to $27 million in the same period, if one does not account for offsetting cost savings in State spending, or increases in tax revenue that would result from Medicaid expansion (See Sections 2.3.2 and 2.4.2).

Figure 4. Annual Costs to the State of Alaska and the Federal Government, Mid Participation Scenario

	2014	2015	2016	2017	2018	2019	2020
Federal	$82	$127	$160	$175	$182	$188	$191
State	$3	$4	$5	$14	$17	$20	$27

Year

Source: Northern Economics, Inc. estimates and data from Urban Institute, 2013.

2.2 Methodology

The UI report (2013) provides an estimate of the total cost for the Medicaid program with and without the Medicaid expansion option. In estimating the fiscal effects, we focus only on the incremental costs, not the total costs, for each option. Incremental costs are defined as new costs that would be incurred by the State and Federal governments with the Medicaid expansion option and new requirements that individuals have health coverage. The cost estimates presented in this paper do not include costs for those persons who already participate in the Medicaid program.

The estimates presented in this report are different than those presented in the UI report for several reasons:

First, in conducting an incremental analysis, we are only interested in certain categories of enrollment shown in Table 2 in the UI report; specifically, only the cost data for the Newly Eligible Enrollment (Participation) due to Expansion and New Enrollment (Participation) among Current Eligibles.

Second, the cost estimates presented in this report combine the spending on newly covered individuals with the related administrative costs.

Figure 13 in the UI report provides estimates of the total State Medicaid costs assuming Low, Mid, and High Participation. Northern Economics requested and received additional data including the Federal costs for these three participation levels (McDonough, 2013). This additional information enabled the development of a narrower range of estimates for the three levels than presented in our preliminary report based on research of enrollment for various health care programs reported by UI.

2.2.1 Definition of Terms

2.2.1.1 Woodwork Effect

Aside from the decision about whether or not to exercise the new Medicaid eligibility expansion option, other (non-expansion) elements in the Affordable Care Act are expected to increase Medicaid enrollment in 2014 and subsequent years. Two of these elements are simplification of Medicaid enrollment procedures and a general requirement for most individuals in the United States to obtain health insurance coverage. The increased enrollment resulting from the Woodwork Effect will occur whether or not Alaska implements the Medicaid expansion option. The spending associated with this Woodwork Effect is identified in this report, but it is generally identified separately from the impact of the Medicaid expansion option.

2.2.1.2 Current Eligibles

All states participating in Medicaid must offer eligibility to four groups: those eligible for the Supplemental Security Income program, pregnant women and children under 6 years of age up to 138 percent of the federal poverty level (FPL), low-income children up to 100 percent of the FPL, and parents and 18-year-olds with incomes below the state's welfare standards. The Children's Health Insurance Program (CHIP) allowed states to expand eligibility for child coverage to higher incomes. In Alaska, the eligibility threshold for children and for pregnant women is 175 percent of the FPL. The threshold is 81 percent of the FPL for working parents and 77 percent of the FPL for jobless parents. There is no income-based eligibility threshold for adults who are not parents; they can currently gain eligibility only by qualifying for special programs, such as persons with disabilities.

Current eligibility is based on an income definition somewhat different from modified adjusted gross income defined by the ACA, and includes certain disregards. Pre- and

post-ACA thresholds are not exactly comparable. This section is a general introduction to the topic; the reader is referred to ANTHC (2013) for additional detail.

2.2.1.3 Newly Eligibles

The ACA Medicaid expansion will extend eligibility to parents between 77 or 81 percent of the FPL and 138 percent, and will create a new type of eligibility for non-elderly adults without dependent children up to 138 percent of the FPL. The eligibility of children and pregnant women would be largely unaffected.

2.2.1.4 Baseline Spending

Baseline spending refers to the state and federal spending associated with the Woodwork Effect. Even if the State elects not to expand Medicaid, spending will increase due to the factors described above for the Woodwork Effect enrollment. Thus, the spending that the State now incurs will increase to a new level of baseline (without Medicaid expansion) spending.

2.2.2 Woodwork Effect and Medicaid Expansion Scenarios

There is uncertainty about the rate at which people will participate in the Medicaid program with or without the Medicaid expansion option. UI simulated Mid, High, and Low participation scenarios based on the literature of public health program participation rates and programmatic features of changes which impact enrollment behavior that will be in effect as of January 1, 2014. A discussion of the Woodwork Effect and each expansion scenario follows.

2.2.2.1 Woodwork Effect

As noted in the UI report, a small number of the newly enrolled would have been eligible all along, but not participating in Medicaid. Those currently eligible are expected to enroll at a somewhat higher rate even if the Medicaid expansion option is not implemented. The Woodwork Effect represents the No Medicaid Expansion scenario.

2.2.2.2 Mid Participation Scenario

The Mid Participation Scenario reflect UI's expected rates of enrollment based on their review of the literature of public health program participation rates and programmatic features of the ACA that impact enrollment behavior. The Medicaid expansion participation scenarios also include an additional number of the currently eligible that would enroll if Medicaid expansion is elected due to several factors noted in the UI report (e.g., individual insurance coverage mandate, integrating eligibility and enrollment between health insurance exchanges and Medicaid).

2.2.2.3 High Participation Scenario

The High Participation Scenario is relatively close to the Mid Participation Scenario because enrollment rates notably higher than those currently observed are not easy to achieve. They require intensive and effective outreach efforts. Participation rates of 100 percent have never been achieved in any public health or human services program. As noted above, the large majority of new adult enrollment will be among those newly eligible, so the effectiveness of outreach and enrollment screening for those gaining eligibility will be a crucial factor in determining enrollment. How well the new Federally facilitated health insurance exchange application process, which is supposed to provide streamlined and coordinated screening for Medicaid and CHIP eligibility, will work is uncertain. The Mid and High Participation scenarios assume this new interface is well integrated with the state Medicaid agency eligibility process.

2.2.2.4 Low Participation Scenario

The Low Participation Scenario represents less effective integration. For example, the health insurance exchange may only make an assessment of eligibility and forward the information to the State Medicaid agency for further processing.

2.2.3 Federal Contribution under ACA Medicaid Eligibility Expansion Option

Under the new option to expand Medicaid eligibility, the Federal government will contribute a substantially greater share of the new program costs than typically occurs today. The Federal contribution for Alaska's current Medicaid program is generally 50 percent of program expenditures, except for services provided by Tribal health organizations to Alaska Natives and American Indians (AN/AIs), which are now and will continue to be 100 percent covered by Federal funding. [11]

[11] CHIP services are another example of a higher Federal match at 65 percent.

As shown in Table 1, under the Medicaid expansion option, the Federal government will fund 100 percent of the costs of health services to newly eligible persons in the first three years (2014–2016), and transition to 90 percent by 2020 and thereafter. If expansion is authorized, about 97 percent of program costs will be paid for with Federal funds over the first seven years, and 96 percent of costs over the first decade. The effective rate of the Federal government's contribution is even higher when the 100 percent funding for services provided to AN/AIs by Tribal health organizations is factored in.

Table 1. Federal Medicaid Assistance Percentage (FMAP) under ACA Medicaid Expansion

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	7-year Average ('14-'20)	10-year Average ('14-'23)
	(Percentage)											
General Population: Health Services												
FMAP	100	100	100	95	94	93	90	90	90	90	96	94
State share	0	0	0	5	6	7	10	10	10	10	4	6
Total	100	100	100	100	100	100	100	100	100	100	100	100
Alaska Natives and American Indians Served by Tribal Health Organizations: Health Services												
FMAP	100	100	100	100	100	100	100	100	100	100	100	100
State share	0	0	0	0	0	0	0	0	0	0	0	0
Total	100	100	100	100	100	100	100	100	100	100	100	100
Combined FMAP Rate: General Population and AN/AIs: Health Services												
Effective Rate	100	100	100	95+	94+	93+	90+	90+	90+	90+	97+	94+

Source: Northern Economics, Inc., derived from UI, 2013.

2.2.4 Medicaid Participation Estimates

Table 2 provides a summary of Medicaid enrollment data presented in the UI (2013) report. The table shows the number of currently eligible persons who UI projects will enroll beginning in 2014 even without Medicaid expansion, and the number of currently eligible persons who would enroll because of the Woodwork Effect (No Medicaid Expansion). The Medicaid Expansion portion of the table shows the same estimates for the number of persons who would enroll without expansion, and a slightly higher number (1,950) for enrollment of those currently eligible since certain elements of the expansion would facilitate higher enrollment among those currently eligible. The majority of the increase in enrolled persons would be associated with those persons who are newly eligible due to Medicaid expansion; approximately 37.4 thousand in 2020.

Table 2. Projected Medicaid Participation by Year

	2014	2015	2016	2017	2018	2019	2020
Scenario	**(Thousands)**						
Medicaid Expansion							
Participation without expansion (base)	119.49	120.09	120.69	121.29	121.9	122.51	123.12
Newly eligible enrollment due to expansion	18.17	27.34	33	36.63	37.02	37.21	37.39
Currently eligible enrollment	7.73	10.33	11.78	12.07	12.25	12.31	12.37
Total Participation	145.39	157.75	165.47	169.99	171.17	172.02	172.88
No Medicaid Expansion							
Participation without expansion (base)	119.49	120.09	120.69	121.29	121.9	122.51	123.12
Newly eligible enrollment due to expansion	0	0	0	0	0	0	0
Woodwork Effect (currently eligible)	6.51	8.7	9.92	10.17	10.32	10.37	10.42
Total Participation	125.99	128.78	130.61	131.46	132.21	132.87	133.54
Difference Due to Expansion	**19.39**	**28.97**	**34.86**	**38.53**	**38.95**	**39.15**	**39.34**

Source: UI, 2013.

2.3 Potential Costs to the State of Alaska

This section describes the potential costs to the State of Alaska associated with Medicaid expansion and the costs if Medicaid expansion is not elected, as well as potential savings (budget offsets) that will occur with the election to expand Medicaid services to other Alaska residents.

2.3.1 State Spending on Medicaid Expansion

If the State of Alaska implements Medicaid expansion, preliminary projections are that more than 38,000 additional low-income Alaskans can be expected to enroll in Medicaid, with a substantial percentage of the new enrollees being Alaska Natives and American Indians. The projections of total State and Federal spending if the State of

Alaska exercises the Medicaid expansion option are displayed in Table 3. These projections, referred to in this paper as the Mid Participation Scenario, were derived from the UI's 2013 report. Associated program administrative costs were added to the Urban Institute's estimates. Table 3 also shows the additional Medicaid enrollment, costs, and revenues from the Woodwork Effect, as reported in the Urban Institute's preliminary report. *The costs and revenues under the Woodwork Effect are distinct from those included for the Medicaid Expansion Participation Scenarios and will be incurred by the State whether or not the State decides to expand Medicaid program eligibility.*

As indicated in Table 3, a total of $90.7 million in direct State spending under the Medicaid Expansion Option (Mid Participation Scenario) will be required over the initial seven-year period (assuming the expansion goes into effect on January 1, 2014). $64.6 million is the State portion of costs associated with the newly eligible and enrolled persons, and $26.1 million is the State costs associated with additional numbers of currently eligible persons who are anticipated to enroll in Medicaid if the expansion takes place. This second group ("Current eligibles, new enrollment under expansion") is included under the Medicaid Expansion Scenario because these costs are anticipated to be incurred only if the expansion is implemented. These costs are in addition to those included under the New Medicaid Baseline Spending. Together, the State investment under the Mid Participation Scenario will result in more than $1.1 billion in Federal revenues to the State over the 2014–2020 period.

Table 3. State Costs for Woodwork Effect and Medicaid Expansion Scenarios

Scenario	Expenditures ($ Millions)							
	2014	2015	2016	2017	2018	2019	2020	Total
Medicaid Expansion Options: New and Current Eligibles under Expansion								
Mid Participation Scenario	3.0	4.3	5.2	14.5	17.1	19.8	26.7	90.7
Low Participation Scenario	0.0	0.0	0.0	1.5	2.4	4.4	9.1	17.4
High Participation Scenario	5.5	6.7	7.4	18.2	21.1	24.1	32.7	115.8
Woodwork Effect (Current Eligibles)								
New Baseline Spending	15.8	22.0	24.4	26.0	27.5	28.7	30.0	174.4

Note: The State and Federal expenditures shown in this table include estimates for administrative costs.
Source: Northern Economics, Inc., using data from UI, 2013.

2.3.2 Budget Offsets

In this section of the report, we analyze potential savings for the State's general fund budget that will be possible if the Medicaid expansion option is implemented. Some current general fund programs could be eliminated or the level of general fund spending decreased because some individuals, and the services they receive, would be covered under the Medicaid expansion option.

Under Medicaid expansion, additional low income adults will be eligible for Medicaid. Health care services currently provided to them which are supported by State general

funds will be eligible to be included in the Medicaid expansion for which the State will be entitled to the enhanced Federal match, resulting in general fund savings or offsets.

Table 4 identifies Medicaid expansion-related offsets that have been estimated. A description of each of these potential budget offsets is provided in the following sub-sections.

Table 4. Medicaid Expansion-Related State of Alaska Budget Offsets

Description	Annual Offsets ($ Millions)
Chronic and Acute Medical Assistance Program	1.4
Department of Corrections (DOC):	5
Immunizations	0.9 to 1.1

Source: Livey, 2012.

2.3.2.1 Chronic and Acute Medical Assistance Program (CAMA)

CAMA is a State-funded program that pays for health care for very low income individuals who are not eligible for Medicaid. Services under this program are limited to persons with a terminal illness, cancer or chronic seizure disorder. Under Medicaid expansion, virtually all of the CAMA recipients would be newly eligible for Medicaid and the Federal government would reimburse the State for 100 percent of their care in 2014–2016, and at least 90 percent thereafter. Since under Medicaid expansion virtually all recipients of CAMA would be Medicaid eligible, there would be no continuing need for CAMA, and consequently, the $1.4 million currently spent on the program would be saved.

2.3.2.2 Department of Corrections (DOC)

In State FY 2012 the DOC budgeted $32.4 million for prisoner's health care. Of this amount, $17.5 million was used to purchase health care from private providers. Currently in Alaska, Medicaid does not pay for any health care for prisoners for two reasons. First, State regulations prohibit the use of Medicaid for prisoner's health care and second, even if these regulations were not in place, very few prisoners would be eligible for Medicaid under current eligibility rules since they are not caring for dependent children. This would change substantially under Medicaid expansion with Medicaid paying for health care while the prisoner is an inpatient in a setting other than a correctional facility, usually a hospital, but occasionally a nursing home.[12] The DOC has analyzed costs for its most high-cost episodes of health care for its inmates in state prisons and other correctional facilities. This analysis shows that the DOC has spent $6.9 million

[12] Additional savings to DOC are likely for lower cost cases that still occur during an overnight admission to a health care facility and, possibly for some other services. The one limit that remains is that although the prisoner may be Medicaid eligible, there is no Federal match available to pay for services provided while the inmate is in a correctional facility. Thus, the estimates are based only on hospitalizations that require one or more nights outside the correctional facility.

and $6.6 million during FY 2011 and 2012, respectively, for these episodes of which it is estimated that $5.0 million dollars is spent in acute care hospitals for care that occurred during overnight stays Since most of the prisoners for whom Medicaid would pay will be eligible only under the Medicaid expansion option, the Federal government would be paying 100 percent of the cost of these services in 2014–16 and at least 90 percent thereafter.

2.3.2.3 Immunizations

The Division of Public Health within the Department of Health and Social Services operates the Alaska Immunization Program. As Federal vaccine funds have diminished, they have been replaced by State general funds. During the last legislative session, $4.5 million in general funds were approved for vaccine purchases with uninsured and underinsured adults accounting for about $2.3 million of that amount. A range of $0.9 million to $1.1 million is considered a conservative estimate of the amount that could be saved if some of these adults were covered by Medicaid expansion.

2.3.2.4 Other Potential Offsets

Other potential offsets have not yet been quantified and are not included in this analysis. If a specific offset is not quantified, it does not mean that the offset is speculative, only that additional analysis is necessary to accurately quantify it. Among the possible offsets for which insufficient information is available are:

- Reductions in Adult Public Assistance Interim Assistance, which some believe will decrease if individuals can obtain Medicaid through a different portal;
- Municipal expenditures for health care if the number of community members without health coverage is reduced;
- Behavioral health service grants if individuals currently receiving grant funded services become eligible for Medicaid under expansion; and
- The cost of the State's employee and retiree health care if possible reductions in bad debt and uncompensated care cost to hospitals and other providers result in lower charges for insured patients.

A potential reduction in bad debt and uncompensated care costs may also create opportunities to control the growth of the baseline Medicaid program.

2.4 Potential Revenues to the State of Alaska

This section provides information on Federal matching funds, which represent revenue flow into the State's economy and State corporate income taxes that would be generated by State and Federal spending associated with Medicaid expansion.

2.4.1 Federal Match

The Federal match for Medicaid expansion spending represents new dollars flowing into Alaska and generates multiplier effects throughout the State's economy. (See Section 3.) The Federal funds flowing into the State for the new baseline spending associated with the Woodwork Effect is estimated at $268.7 million for the 2014 – 2020 time period. The Federal dollars associated with the Medicaid expansion option in the same period are much larger, ranging from $771.8 million for the Low Participation Scenario, to $1.1 billion for the Mid Participation Scenario, and $1.2 billion for the High Participation Scenario. (See Table 5.)

Table 5. Federal Costs under ACA:
Medicaid Expansion Scenarios and the Woodwork Effect

	Expenditures ($ Millions)							
Scenario	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Medicaid Expansion Options: New and Current Eligibles under Expansion								
Mid Participation Scenario	81.9	127.4	159.6	174.8	182.0	188.2	190.7	1,104.7
Low Participation Scenario	55.7	88.7	111.5	123.0	127.8	132.0	133.2	771.8
High Participation Scenario	91.6	141.7	177.2	194.8	202.8	209.8	213.6	1,231.6
Woodwork Effect (Current Eligibles)								
New Baseline Spending	22.4	31.1	38.6	41.0	43.2	45.2	47.2	268.7

Note: The State and Federal expenditures shown in this table include estimates for administrative costs.
Source: Northern Economics, Inc., using data from UI, 2013.

2.4.2 Other Revenues: Estimated Corporate Income Tax

Table 6 shows the estimated State corporate income taxes that could result from higher economic activity in the health care and other sectors. Higher health care spending will translate into higher revenues for the health care sector and other associated sectors, and subsequently higher tax revenues to the State of Alaska in the form of corporate income taxes. To quantify the potential corporate income taxes, historical data on non-oil and gas corporate income taxes received by the State of Alaska were compared to the historical gross state product from the Bureau of Economic Analysis. The ratio of the two provides an estimate of potential non-oil and gas corporate income tax revenues per million dollars of economic output. This coefficient was then applied to the projected economic output effects under the different scenarios.

Cumulatively, between $9 million and $13 million in corporate income taxes could accrue to the State of Alaska from 2014–2020, from Medicaid expansion, compared to only $3.2 million without Medicaid expansion.

Table 6. Estimated State Corporate Income Taxes Associated with Medicaid Expansion

	Year							
	2014	2015	2016	2017	2018	2019	2020	Total
Scenario	($ Millions)							
Mid Participation	0.90	1.40	1.60	1.90	2.00	2.00	2.10	11.90
Low Participation	0.70	1.10	1.30	1.40	1.50	1.50	1.60	9.00
High Participation	1.00	1.50	1.80	2.00	2.10	2.20	2.30	13.10
Woodwork Effect	0.30	0.40	0.50	0.50	0.50	0.50	0.60	3.20

Source: Northern Economics estimates based on UI 2013 data, Bureau of Economic Analysis (2013) data on State Gross Domestic Product, and Alaska Department of Revenue (2012) data on non-oil and gas state corporate income taxes.

2.4.3 Net Fiscal Effect

The net fiscal effect represents the new State spending for the Medicaid expansion scenarios and the Woodwork Effect, less the budget offsets that have been identified, and less the estimated State corporate income tax generated by the State and Federal spending for the Medicaid expansion scenarios and the Woodwork Effect. As shown in Table 7, the net fiscal effect over the 2014–2020 period of the Mid Participation Scenario is a cost of $22.9 million, the High Participation Scenario is estimated to cost $46.8 million, and the Low Participation Scenario is estimated to generate savings of $47.5 million to the general fund budget over that time period.

Table 7. Net Fiscal Effect: New State Spending Less Offsets and Corporate Income Tax

	Expenditures ($ Millions)							
Scenario	2014	2015	2016	2017	2018	2019	2020	Total
Medicaid Expansion Options: New and Current Eligibles under Expansion								
Mid Participation Scenario	3.0	4.3	5.2	14.5	17.1	19.8	26.7	90.7
Less Offsets	7.4	7.6	7.8	8.0	8.2	8.4	8.6	55.9
Less Corporate Income Tax	0.9	1.4	1.6	1.9	2.0	2.0	2.1	11.9
Net Fiscal Effect	(5.3)	(4.7)	(4.2)	4.6	6.9	9.4	16.0	22.9
Low Participation Scenario	0.0	0.0	0.0	1.5	2.4	4.4	9.1	17.4
Less Offsets	7.4	7.6	7.8	8.0	8.2	8.4	8.6	55.9
Less Corporate Income Tax	0.7	1.1	1.3	1.4	1.5	1.5	1.6	9.0
Net Fiscal Effect	(8.1)	(8.7)	(9.1)	(7.9)	(7.3)	(5.5)	(1.1)	(47.5)
High Participation Scenario	5.5	6.7	7.4	18.2	21.1	24.1	32.7	115.8
Less Offsets	7.4	7.6	7.8	8.0	8.2	8.4	8.6	55.9
Less Corporate Income Tax	1.0	1.5	1.8	2.0	2.1	2.2	2.3	13.1
Net Fiscal Effect	(2.9)	(2.4)	(2.2)	8.2	10.8	13.5	21.8	46.8
Woodwork Effect (Current Eligibles)								
New Baseline Spending	15.8	22.0	24.4	26.0	27.5	28.7	30.0	174.4
Less Offsets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less Corporate Income Tax	0.3	0.4	0.5	0.5	0.5	0.5	0.6	3.2
Net Fiscal Effect	15.5	21.6	23.9	25.5	27.0	28.2	29.4	171.2

Source: Northern Economics, Inc. using data from UI, 2013.

2.4.4 Comparison to other State Programs/Investments

2.4.4.1 Alaska Film Production Tax Incentive Program

Under each of the three Medicaid expansion scenarios, the Federal revenues received by the State for each dollar invested is substantial and compares favorably to other economic development initiatives undertaken by the State of Alaska. For example, the Alaska Film Production Tax Incentive Program is an economic development initiative designed to promote Alaska as a location for film production and allow the expansion and development of the industry in the state. A study by Northern Economics, Inc. for

the Alaska Division of Legislative Audit found that the Program has generated a net positive economic impact in the State.[13] For the period July 2008 through February 2012, direct spending from Program-approved productions generated $2 in economic output for every $1 in Alaska Film Production Credits used.

In comparison, under the Mid Participation Scenario, the State would experience a direct return on investment of 12.2 to 1 over the initial seven years of the expansion, not including the costs and revenues associated with the Woodwork Effect, which will occur whether or not expansion occurs. Even with the new baseline Medicaid spending associated with Woodwork Effect added in, the Federal government will contribute $5.2 for every $1 of State funds ($1.5 billion to $290 million).

2.4.4.2 Investment in Transportation Projects

Funding available to the State comes from several funding agencies, most notably the Federal Highway Administration and Federal Transit Administration. The State of Alaska receives several categories of funding from each of these Federal agencies. Each category has distinct rules for project eligibility as well as match ratios for funding.

Depending on the particular Federal program requirements, the State's share of the costs will vary from as little as zero percent to as much as 50 percent. Most often the State's share will range from about 9 percent to 20 percent. The federal match for highway projects is highly regarded by the Department of Transportation and Public Facilities and past and present administrations and legislatures. Even during times of financial strain on the State, the legislature has appropriated State capital dollars to capture Federal funds that are available.

At the lowest State match (9 percent) the ratio of Federal funds to State funds is 10 to 1 compared to the 12 to 1 for the Medicaid program for the first seven years, and a 9 to 1 (or higher) ratio for 2020 and after. [14]

[13] Northern Economics, Inc., *Economic Analysis of the Alaska Film Production Incentive Program*, June 2012. Available at http://www.legaudit.state.ak.us/pages/audits/2012/pdf/30066rpt.pdf.

[14] Because services provided to AN/AIs by Tribal health programs are always subject to a 100 percent Federal match, the long term ratio will be higher than 9 to 1 even after 2020.

3 Economic Effects Analysis

3.1 Highlights Under the Mid Participation Scenario

- **Increase in Overall Economic Output:** An additional $450 million in economic output (total business sales) will be generated in 2020 from the impact of the Medicaid expansion; or a $2.5 billion cumulative increase in Alaska's economic output over the 2014–2020 period.
- **Number of Jobs Created:** Approximately 3,500 additional jobs will be created in Alaska by 2017 from the impact of the Medicaid expansion with job growth increasing to about 4,000 by 2020.
- **Additional Salaries and Wages Earned:** Approximately $220 million in additional annual labor income will be paid to Alaska residents by 2020 from the impact of Medicaid expansion.

3.2 Methodology

The economic effects were estimated using IMPLAN™, a software and data program created by MIG, Inc. for conducting input-output analysis. The estimates reflect the direct, indirect, and induced economic effects of health care spending in the State. The direct economic effects are created by the State and Federal spending associated with the Medicaid expansion option, and the Woodwork Effect identified in the prior fiscal effects section. The indirect economic effects are the result of purchases by the directly affected businesses from other businesses in the Alaska economy. The induced economic effects are the result of household spending of the wages and salaries associated with the new jobs.

The total expenditures in Alaska under the different scenarios were allocated to the following health care-related industry sectors:

- Doctors and Clinical Services
- Administrative Costs
- Prescriptions/Equipment
- Dentists
- Nursing Home/Home Health Care
- All Other (other personal and professional care and public health activities)

The spending allocation among these sectors was based on prior research published by the University of Alaska's Institute of Social and Economic Research (ISER) (Foster and Goldsmith, 2011.)

Note that in order to simplify the economic impact analysis, it is assumed that the estimated costs to the State of Alaska of the Medicaid expansion as well as the new baseline spending that would be required with the Woodwork Effect would be funded by the State's savings account and would not decrease spending on other State programs. This assumption could easily be revisited if additional information is made available on the results of the Medicaid Cost study contracted by the State of Alaska, as well as revised assumptions regarding potential sources of state funding.

The fiscal and economic impacts projected in this report do not include funds for health insurance premiums and cost-sharing to Alaska residents projected to be provided by the Federal government through the new Federally operated Health Insurance Exchange over the 2014–2020 period.

This report also excludes additional economic benefits that may result from reductions in uncompensated care and bad debt by people with no health insurance, or improvements in the health status of people who would newly acquire coverage. For the latter group, a recent article in the New England Journal of Medicine (Sommers, et al, 2012) found that state Medicaid expansions "were significantly associated with reduced mortality as well as improved coverage, access to care, and self-reported health."

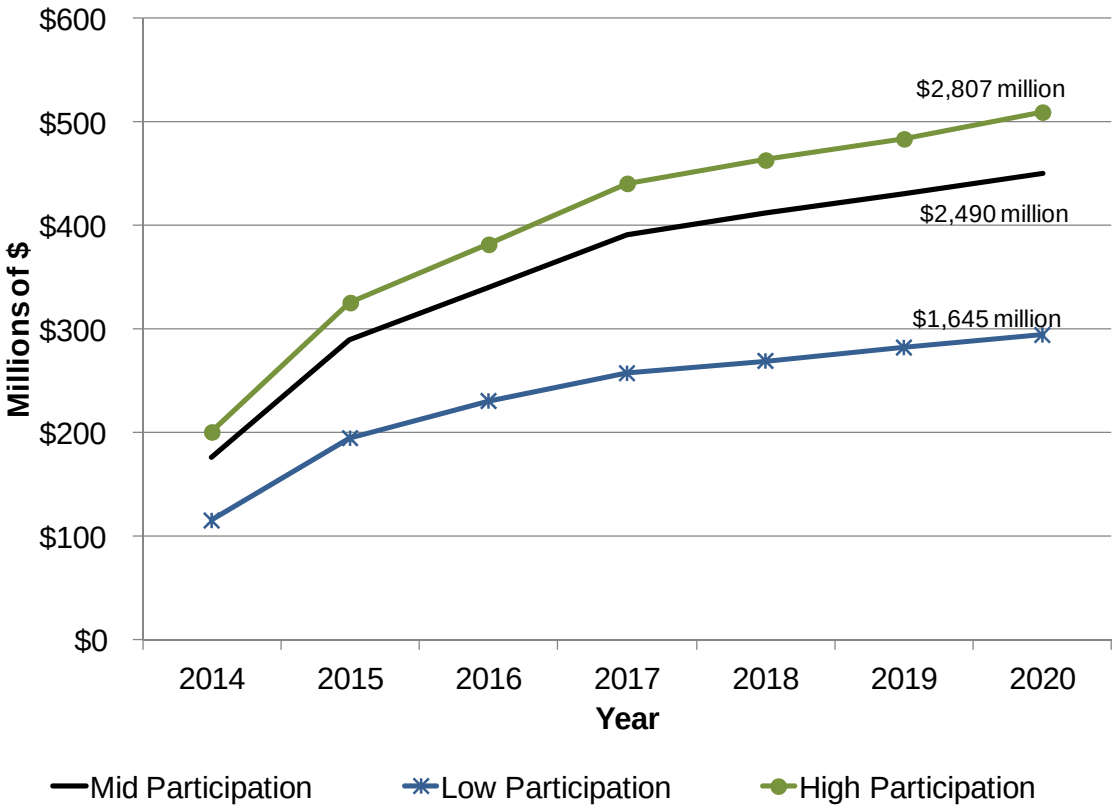
3.3 Statewide Economic Impacts

3.3.1 Economic Output Effects

The additional spending associated with Medicaid expansion in Alaska would increase the total direct, indirect, and induced economic output (or total business sales) in Alaska. Figure 5 presents estimates of the value of economic output associated with each scenario. In general, total economic output is about 2.1 times larger than the direct Medicaid expenditures associated with each scenario.

Cumulatively, for the years 2014–2020, Medicaid expansion is projected to generate an increase in the value of the State's economic output ranging from a low of $1.6 billion (Low Participation) to a high of $2.8 billion (High Participation). These estimates are in addition to the cumulative $924 million increase in economic output estimated for the Woodwork Effect.

Figure 5. Annual and Cumulative Economic Output Effects by Scenario, 2014-2020

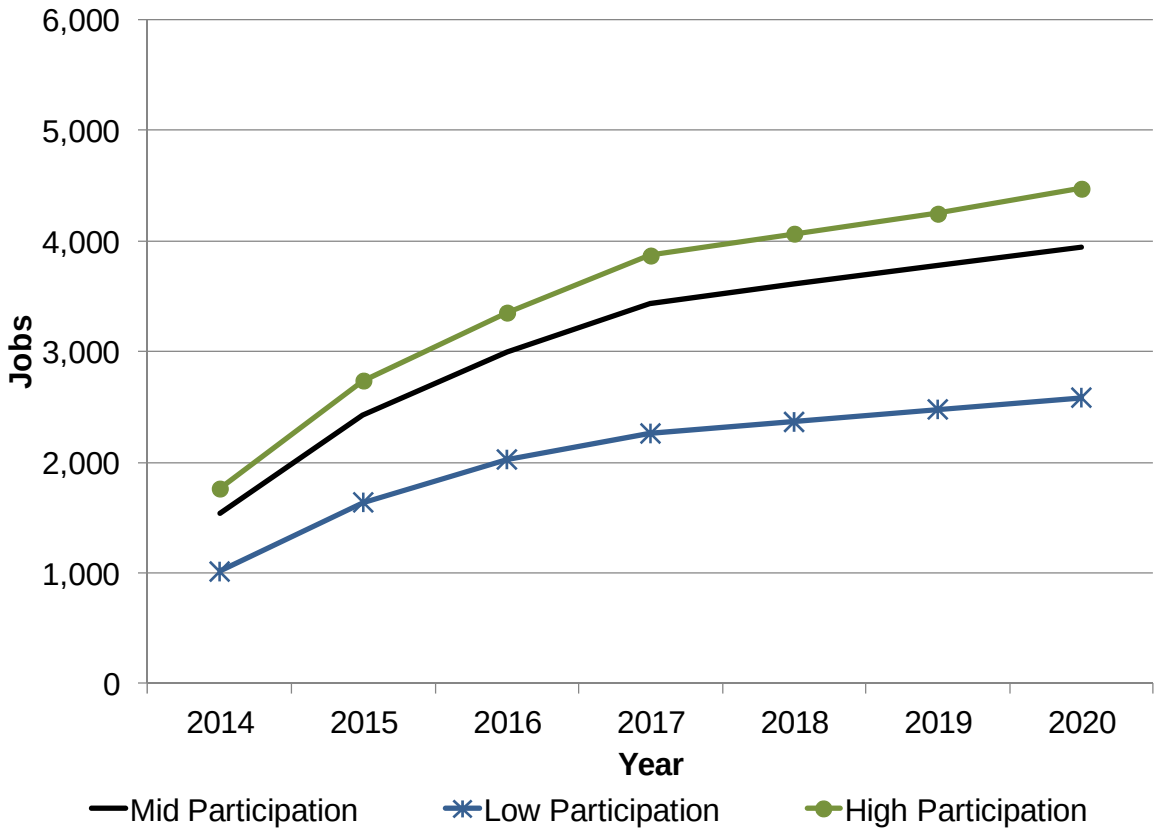


Notes: Numbers near the lines represent the cumulative totals over the seven-year period.
Source: Northern Economic, Inc. estimates using UI, 2013 data.

3.3.2 Employment Effects

Figure 6 shows the projected annual job growth under the different scenarios associated with Medicaid expansion. By 2020, it is projected that between about 2,600 (Low Participation) and 4,500 (High Participation) jobs could be generated if the State opts to expand Medicaid eligibility. These estimates are in addition to the potential 1,400 jobs that would be associated with the Woodwork Effect. While many of the jobs would be in the health care sector, new jobs will also be created in other sectors, such as retail and transportation.

Figure 6. Annual Jobs Created by Medicaid Expansion Scenario, 2014-2020



Source: Northern Economic, Inc. estimates using UI, 2013 data.

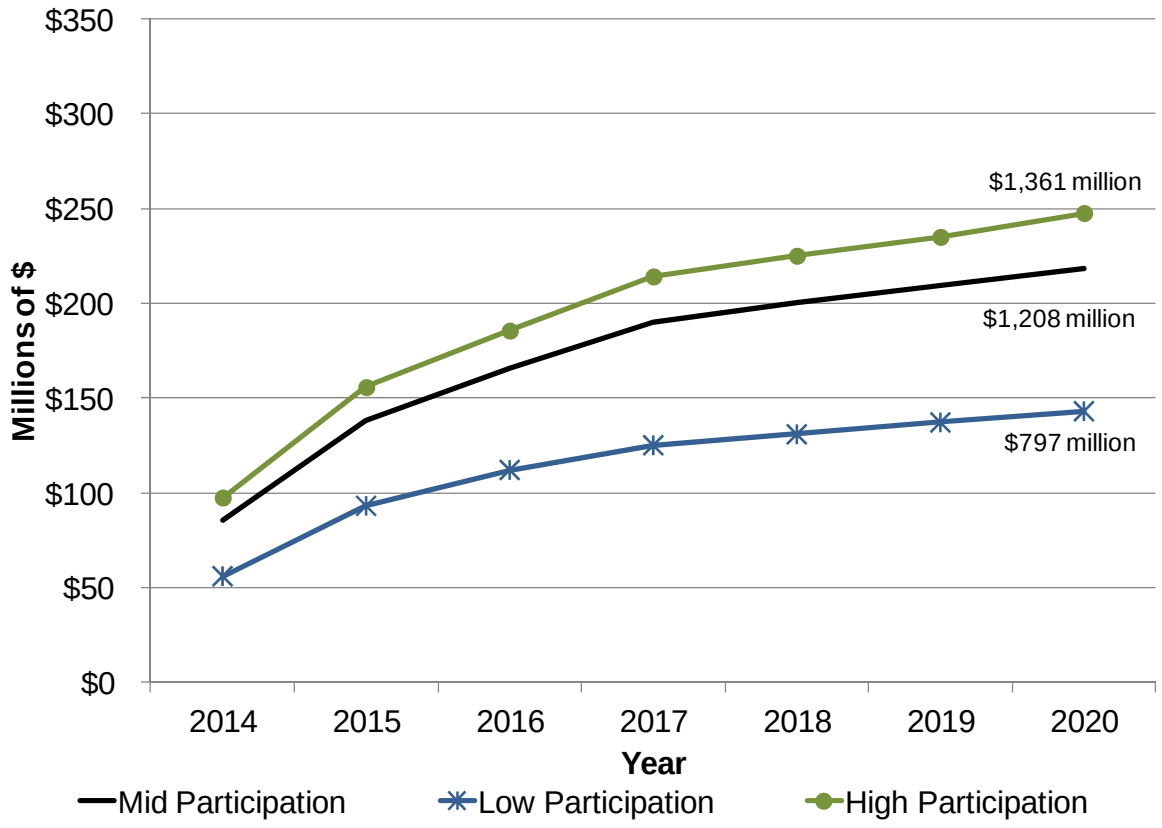
3.3.3 Labor Income Effects

Figure 7 displays the projected annual wages and salaries under each scenario.

Cumulatively, for the years 2014–2020, Medicaid expansion is projected to generate an increase in total wages and salaries in Alaska ranging from about $800 million (Low Participation) to $1.36 billion (High Participation); compared to less than $450 million under the Woodwork Effect (no Medicaid expansion).

By 2020, the increase in annual labor income (2014 to 2020) could range from about $87 million under the Low Participation scenario to $150 million under the High Participation scenario. The Mid Participation scenario would increase about $133 million over the same time period.

Figure 7. Annual and Cumulative Labor Income Effects by Scenario, 2014-2020



Notes: Numbers near the lines represent the cumulative totals over the seven-year period.
Source: Northern Economic, Inc. estimates using UI, 2013 data.

3.3.4 Comparison of the Magnitude of Economic Effects to Other industries

To provide some context on the magnitude of the projected economic effects of Medicaid expansion (as presented above), a comparison of the economic output and employment effects with economic output and employment in other sectors of the State

economy are shown in Table 8. Medicaid expansion output is higher than current output in the Arts, Entertainment, and Recreation sector in the state, but less than the Utility Sector. The number of jobs related to Medicaid expansion is about equal to current employment in the Truck Transportation sector.

Table 8. Comparison of Economic Output and Employment Effects with Other Economic Sectors

Economic Output	$ Millions
Medicaid Expansion Output Effects in year 2020	450
Accommodations and Food Services (2011)	1,200
Utilities (2011)	600
Arts, Entertainment, and Recreation (2011)	299
Employment	**Number of Jobs**
Medicaid Expansion Employment Effects in year 2020	4,,000
Educational Services (2011)	5,805
Oil and Gas Extraction (2011)	4,401
Truck Transportation (2011)	3,992
Water Transportation (2011)	1,079

Source: Northern Economics estimates based on UI data, 2013, and 2011 gross state product and employment data from the Bureau of Economic Analysis.

3.4 Regional Economic Effects

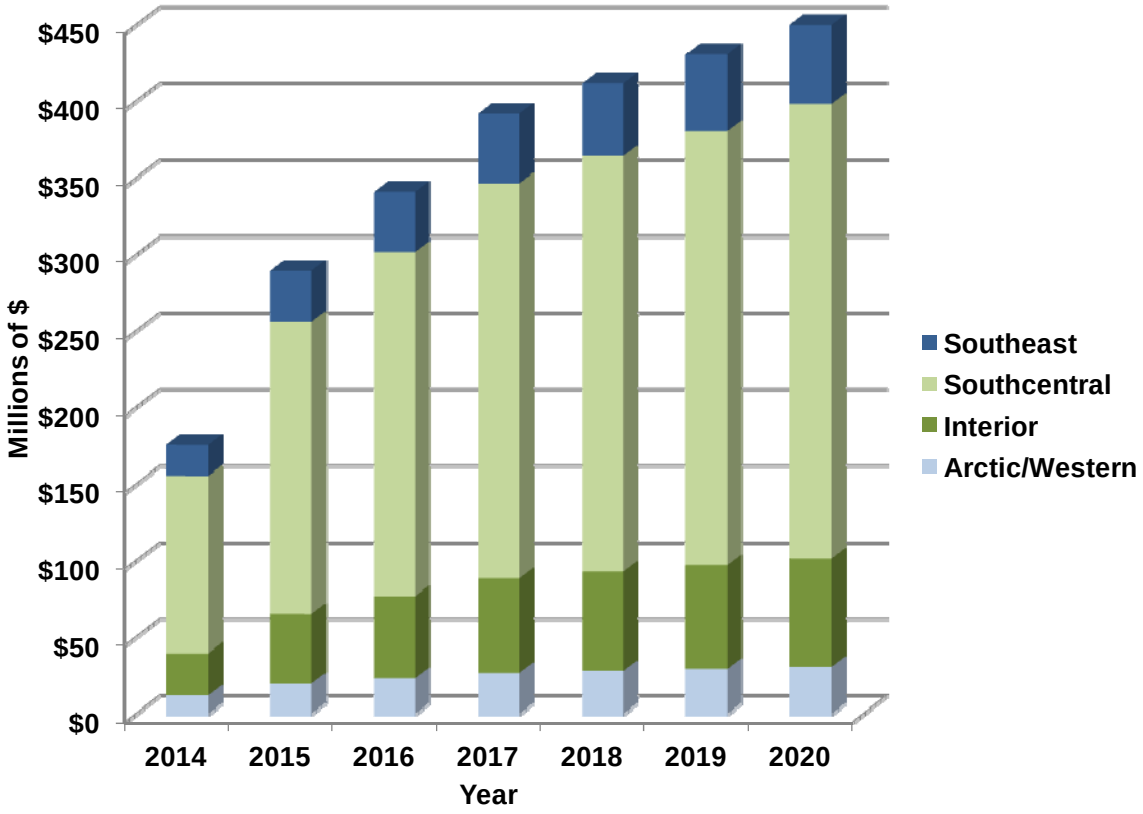
This section presents the economic effects at the regional level. Historical data on Medicaid-associated payments to various medical facilities across the state for in-patient care, long-term care, and out-patient services were used as a basis for projecting the regional economic impacts associated with Medicaid expansion (Perdue, 2012). There is not enough publically available information, however, to be able to determine regional impacts on each of the Boroughs and Census Areas across the state. The available historical data only allow regional aggregation at the following levels:

- Arctic and Western Region
- Interior Region
- Southcentral Region
- Southeast Region

Figure 8 shows the projected annual regional economic output effects of Medicaid expansion under the Mid Participation scenario and Figure 9 presents the cumulative economic output effects over the period 2014 to 2020.

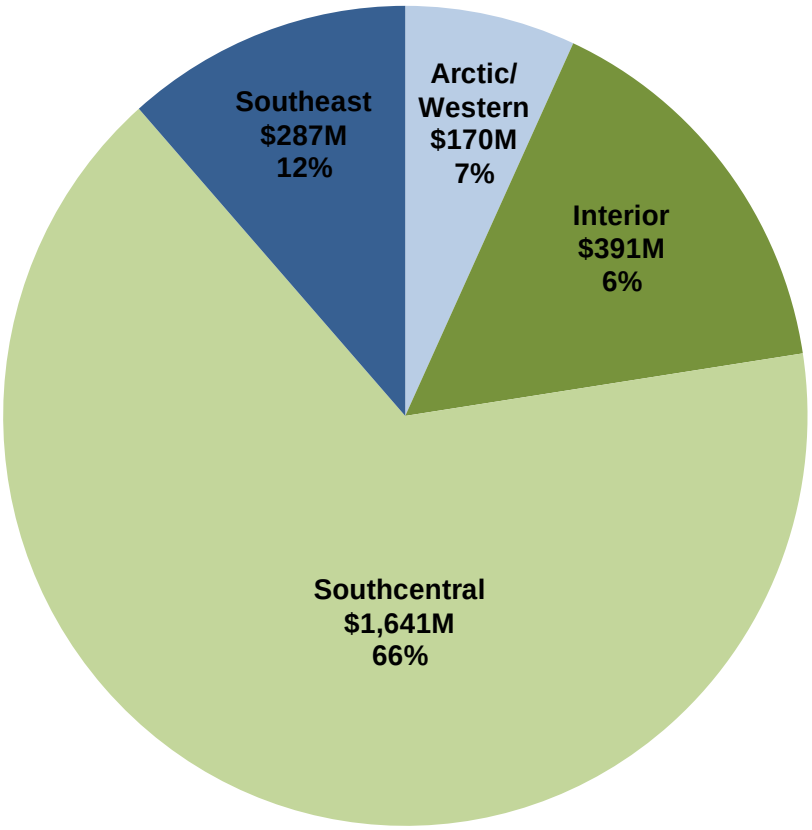
As expected, the majority (66 percent) of the additional economic activity associated with the increase in Medicaid spending is projected to occur in the Southcentral region where Anchorage, the Matanuska-Susitna Borough, Kenai Peninsula Borough, and the Valdez-Cordova Census Area are located. Cumulatively, this region is projected to realize a $1.6 billion increase in economic output over the 2014 to 2020 time period.

Figure 8. Annual Regional Economic Output Effects of Medicaid Expansion, Mid Participation Scenario, 2014 to 2020



Source: Northern Economic, Inc. estimates using UI, 2013 data, and FY2010 data on Medicaid payments to medical facilities across the state.

Figure 9. Cumulative Regional Economic Output Effects of Medicaid Expansion, Mid Participation Scenario, 2014-2020



Source: Northern Economic, Inc. estimates using UI, 2013 data, and FY2010 data on Medicaid payments to medical facilities across the state (Perdue, 2012).

4 Other Potential Economic and Fiscal Implications

A recent study conducted by the University of Missouri School of Medicine (2012) addressed the impacts of Medicaid expansion on private insurance premiums. According to the study, the uninsured population in Missouri currently results in increased cost of private insurance premiums, increased cost of public programs (such as Medicare and Medicaid), inefficient use of emergency department resources, and loss of work productivity.

Across all private insurance premiums in Missouri, this reduction in the cost-shift to private insurers from the uninsured due to increased Medicaid enrollment could result in approximately $119 million in savings in 2014 to individuals and families as private insurance premiums fall. In Missouri, in 2010, the average private insurance premium for a family of four was about $12,700, and is projected to cost about $15,000 in 2014. The study suggests that when the full effects of Medicaid expansion are realized, the elimination of cost shifting would mean that a family of four could expect savings of $1,688 due to reduced premiums over the 2014–2020 period, and an individual could save $610 over the same time period. Overall, across the 2014–2020 period, privately insured individuals and families in Missouri are estimated to save nearly $1 billion due to reductions in insurance premiums.

In 2002 the Institute of Medicine, which is part of the National Academy of Sciences, published a report entitled *Care Without Coverage: Too Little, Too Late* in which the Institute found that having health insurance improves the quality of people's lives. In particular, the Institute documented the following findings:

- Having health insurance is associated with better health outcomes for adults and with their receipt of appropriate care across a range of preventive, chronic, and acute care services. Adults without health insurance coverage die sooner and experience greater declines in health status over time than do adults with continuous coverage.
- Adults with chronic conditions and those in late middle age stand to benefit the most from health insurance coverage in terms of improved health outcomes because of their high probability of needing health care services.
- Population groups that most often lack stable health insurance coverage and that have worse health status, including racial and ethnic minorities and lower-income adults, would benefit most from increased health insurance coverage. Increased coverage would likely reduce some of the racial and ethnic disparities in the utilization of appropriate health care services and may also reduce disparities in morbidity and mortality among ethnic groups.

- Health insurance that affords access to providers and includes preventive and screening services, outpatient prescription drugs, and specialty mental health care is more likely to facilitate the receipt of appropriate care.
- Broad-based health insurance strategies across the entire uninsured population would be more likely to produce these benefits than would "rescue" programs aimed only at the seriously ill.

The UI report estimated that Medicaid expansion would cut the number of uninsured Alaska residents in half. Providing expanded Medicaid coverage to uninsured Alaskans with incomes less than 138 percent of the FPL would be greatly beneficial to these persons, their families, and their communities at relatively low cost to the State of Alaska.

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