

## ***Medicaid Expansion's Huge Impact on the Iowa Economy***

By David Swenson and Peter S. Fisher

Under the Affordable Care Act, a significant expansion of Medicaid brought health coverage to an additional 150,000 low-income adults in Iowa, with the federal government initially covering 100 percent of the cost. This infusion of federal dollars — \$730 million in 2015<sup>1</sup> — has provided a huge boost to the state's economy, creating over 10,000 jobs and over \$500 million in annual income to Iowans.

The Medicaid expansion extended eligibility to non-elderly adults up to 138 percent of the poverty level. In Iowa, the number of adults gaining health insurance through this expansion is expected to grow to 177,000 by 2019.<sup>2</sup> The majority of those adults are working, most likely at low-wage jobs without meaningful or affordable health insurance, if health insurance was offered at all.<sup>3</sup> The Medicaid expansion has had a huge impact in rural areas of Iowa, where the percent of non-elderly residents who were uninsured was cut nearly in half between 2013 and 2015.<sup>4</sup>

The federal share will drop to 90 percent in 2020, where it will remain. But with the expected increase in enrollment, the total federal dollars flowing to the Iowa economy will actually increase over time, reaching an estimated \$1.1 billion per year by 2026.<sup>5</sup>

When money comes into the state through federal appropriations, it stimulates additional in-state economic activity. Estimates of this additional activity and of the total impact of those federal dollars — on jobs, income, and the value of output of the state's economy — can be made using an **input-output model** of the Iowa economy. We have estimated these impacts for 2015 based on the initial infusion of \$730.4 million that year.

The additional Medicaid spending was used to supply a range of conventional health care delivery services to the expanded Medicaid population. When we increase spending for health care, we also increase the demand for supplies and other tangible inputs into the provision of health care — referred to as "**indirect spending**." And when workers in the health care sector and workers supplying the health care sector spend their paychecks, they stimulate another round of economic activity throughout the local economy, referred to as "**induced spending**." The input-output model estimates these indirect and induced effects and compiles them into an overall estimate of the economic impacts associated with the initial boost to the economy from the expanded Medicaid spending.

The table below shows the estimated impacts in detail. After accounting for out-of-state administrative leakages, the analysis began with \$686.6 million in health care outlays. This resulted in a boost in state direct output of \$575 million, of which \$371.1 million was labor income to 6,975 health care-related workers. Iowa's health care industries in turn required \$139.1 million in inputs, of which \$43.5 million was paid in labor income to 946 workers. When the health care and the supply sector workers converted their labor incomes into household spending, they

induced \$309.1 million in additional output yielding \$93.4 million in labor income to an additional 2,400 workers.

In sum, the influx of federal dollars in the first year of the Medicaid expansion created or retained an estimated 10,322 jobs and generated \$507.9 million in additional income to Iowa workers.

It is possible that some portion of the Medicaid expansion spending from the federal government did not cause an increase in health care spending but instead substituted for private spending on

**Table 1. Medicaid Expansion — Billion-Dollar Boost to Iowa's Economy**

	Jobs	Employee Compensation (millions)	Value Added (millions)	Output (millions)
Direct impact	6,975	\$371.1	\$388.2	\$575.0
Indirect impact	946	\$43.5	\$81.0	\$134.1
Induced impact	2,400	\$93.4	\$174.3	\$309.1
<b>Total impact</b>	<b>10,322</b>	<b>\$507.9</b>	<b>\$643.5</b>	<b>\$1,023.2</b>

health care. Those health care dollars would then have freed up that much money that individuals could spend on other things. General consumer spending has a smaller multiplier effect than health care spending, leading to somewhat smaller overall impact estimates. For example, if as much as 10 percent of the federal Medicaid expansion dollars substituted for private health care spending, the total jobs impact would have been 9,767 (5.3 percent smaller) and the total employee compensation impact would have been \$476.2 million, or 6.3 percent lower. Nonetheless, the impact remains huge.

These annual boosts to the state economy will grow as the size of the Medicaid expansion population increases, drawing a larger federal contribution. For every increase of \$100 million in federal dollars flowing to the state, another 1,503 jobs will be created or retained paying another \$74 million in employee compensation (wages, salaries and benefits). The effects will be felt throughout the state, in medical facilities in rural areas, in Iowa retail stores, in businesses such as laundries supplying the health care sector, as those workers' dollars are spent. Employment in those businesses, in turn, will increase. Furthermore, boosting employment income in Iowa by more than \$507 million would be expected to generate \$33.8 million in expanded state tax receipts and \$20.8 million in local government taxes.

Estimates of the economic impact of Medicaid expansion spending have been calculated in several states, with results similar to our findings. In Michigan, the expansion was estimated to create 39,000 jobs and about \$2.2 billion in incomes in 2016.<sup>6</sup> These figures are about four times our estimates for Iowa, which is consistent with our analysis since the Michigan Medicaid expansion enrollment of about 600,000 was four times that in Iowa. Researchers also found that the increased incomes produced \$145 million in additional state tax revenue and \$235 million in state budget savings on other programs. In other words, there was a significant net gain to the state finances from the Medicaid expansion. Even in later years when the state has to pick up 10 percent of the costs, the savings are projected to more than offset those costs. Net savings to the state have been found in other states as well.<sup>7</sup>

**Iowa's decision to participate in the Medicaid expansion has not only provided health insurance coverage to tens of thousands of low-wage workers, but also provided an enormous boost to the state's economy.** Jobs in the health care sector pay well. Average labor income for all the health care jobs directly supported by Medicaid expansion was \$53,203. Considering all 10,000 jobs supported by the expansion, the average was \$49,211.

## Appendix: Methodology

This study used spending data found in the Iowa Medicaid Enterprise Managed Care Annual Performance Report for fiscal 2017 to isolate the broad spending categories that would be expected for the service recipients. The working estimates excluded spending for care to the elderly, the disabled, and the institutionalized populations (because the expansion applies only to non-elderly adults) to arrive at a reasonable allocation formula by health care category. The following table contains those estimates.

The increment to Iowa's economy is larger, however, than just the amount of boosted federal spending. To calculate those gains we use an input-output model (I-O) model of Iowa. I-O models measure how much the whole economy reacts to changes in economic activity in specific industries or service categories.

### *Understanding the Terms*

To aid interpretation, a short primer on the information that is produced in an input-output modeling session follows. For our purposes there are four types of data and four levels of data comprising a typical I-O results table.

The types of economic outcomes data are:

- **Output.** This is the value of production over the course of a year. In this analysis, output represents the amount of new Medicaid spending in Iowa.
- **Labor income.** These are wage and salary payments to workers, including employer-provided benefits. Salary-like payments to proprietors for their management and ownership of businesses are also counted as labor income payments.
- **Value added.** Value added includes all labor income plus payments to investors (dividends, interests, and rents), and indirect tax payments to governments. Value added is the equivalent of Gross Domestic Product (GDP), which is the standard measure of economic activity across the states and for the nation.
- **Jobs.** There are many kinds of jobs. I-O models measure the annualized job value in different industries. Many industries have mostly full-time jobs, but many others have part-time and seasonal jobs. I-O models do not convert jobs into full-time equivalencies, but they do convert them into annualized equivalencies.

The levels of economic outcomes data are:

- **Direct values.** In this study, the direct values are the initial sales at the health care service providers.
- **Indirect values.** All direct firms require intermediate inputs into production. They must buy supplies, utilities, other manufactured inputs, transportation, and services, just to name a few.
- **Induced values.** When the workers in the direct industries, and those in the indirect industries (the supplying sectors) convert their labor incomes into household spending they induce a third round of economic activity.

**Table 2. Varied Allocation of Expanded Medicaid Expenditures**

Hospitals	25.5%
Physicians	14.1%
Home and community health care	20.1%
Prescriptions and medical equipment	21.0%
Behavioral health	10.7%
Other ambulatory care	0.1%
In-state administration	2.0%
Reimbursements to households	0.5%
Payments to out-of-state management	6.0%
<b>Total</b>	<b>100.0%</b>

- Total values. The sum of direct, indirect, and induced activity constitutes the total economic effect.

The input-output analysis also generates multipliers, which are the total value divided by the direct value. A multiplier of 1.78 for output means that for every \$1 of output directly stimulated by Medicaid spending, another \$0.78 in output is supported in the rest of the Iowa economy. A value added multiplier of 1.66 means that for every direct \$1 of value added, another \$0.66 in value added is supported elsewhere in Iowa. For labor income, the multiplier means that for each \$1 of labor income paid in health care provision, another \$0.37 in labor income is realized elsewhere in the Iowa economy. Finally, a jobs multiplier of 1.48 means that for every job in health care there is 48/100th of a job is required in the rest of the Iowa economy.

State and local receipts are estimated as functions of state and local government tax receipts by category for fiscal 2015, divided by total personal income in Iowa for fiscal 2015. The fiscal amounts are from State and Local Government Finances by Level of Government and by State: 2015, Census Bureau. Total personal income estimates for Iowa are derived from the Regional Economic Information Series at the U.S. Bureau of Economic Analysis.

<sup>1</sup> Rachel Garfield and Robin Rudowitz. *State-by-State Estimates of Reductions in Federal Medicaid Funding Under Repeal of the ACA Medicaid Expansion*. Issue Brief. The Kaiser Family Foundation, July 2017. <http://files.kff.org/attachment/Issue-Brief-State-by-State-Estimates-of-Reductions-in-Federal-Medicaid-Funding-Under-Repeal-of-the-ACA-Medicaid-Expansion>

<sup>2</sup> John Holahan et al. *The Impact of Per Capita Caps on Federal and State Medicaid Spending*. The Urban Institute. March 2017. [www.urban.org/sites/default/files/publication/89061/2001186-the\\_impact-of-per-capita-caps-on-federal-spending-and-state-medicaid-spending\\_2.pdf](http://www.urban.org/sites/default/files/publication/89061/2001186-the_impact-of-per-capita-caps-on-federal-spending-and-state-medicaid-spending_2.pdf)

<sup>3</sup> In Iowa, nearly 9 in 10 adult Medicaid recipients are in working families, and 7 in 10 are working themselves. (See Rachel Garfield, Robin Rudowitz, and Anthony Damico. *Understanding the Intersection of Medicaid and Work*. Issue Brief. Kaiser Family Foundation, February 2017. <http://www.kff.org/medicaid/issue-brief/understanding-the-intersection-of-medicaid-and-work/> ) Nationally, the majority of working Medicaid recipients were in full-time jobs; of those not working, most were in school, were caretakers for a relative, reported an illness or disability that prevented them from working, or were unable to find work.

<sup>4</sup> Kaiser Family Foundation. *Changes in Insurance Coverage in Rural Areas under the ACA: A Focus on Medicaid Expansion States*. May 4, 2017. <http://www.kff.org/medicaid/fact-sheet/changes-in-insurance-coverage-in-rural-areas-under-the-aca-a-focus-on-medicaid-expansion-states/>

<sup>5</sup> See Garfield and Rudowitz, July 2017.

<sup>6</sup> John Ayanian et al. "Economic Effects of Medicaid Expansion in Michigan." *New England Journal of Medicine*, Feb. 2, 2017, pp. 407-410.

<sup>7</sup> Larisa Antonisse et al. *The Effects of Medicaid Expansion under the ACA: Updated Findings from a Literature Review*. Issue Brief, September 2017, the Kaiser Family Foundation.

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## Iowa Fiscal Partnership

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