



The Colorado Health Foundation™

# Medicaid Expansion:

Examining the Impact on Colorado's Economy

Executive Summary

Prepared for the Colorado Health Foundation by  
Charles Brown Consulting, Inc.

## **Acknowledgements**

The Colorado Health Foundation would like to thank the members of the Project Team and Advisory Committee for their assistance and guidance on this project.

### **Project Team:**

**Charles Brown** is the founder and president of Charles Brown Consulting, a public policy and economic consulting firm. Brown also serves as the director of the Colorado Futures Center at Colorado State University. He previously headed up the Center for Colorado's Economic Future at the University of Denver where he authored a landmark study showing that growth in required state spending for education, health care and prisons would crowd out funding for higher education, courts and all other state programs by 2024. Prior to joining DU, he spent 29 years in state government, including 17 years as executive director of Legislative Council

**Warren Olson** is an independent economic consultant currently working with Charles Brown Consulting, Inc. In this role he focuses on Medicaid, social services, and correctional forecasting for Colorado fiscal policy analyses. Born in New York City, Olson graduated from Duke University and holds an M.A. in economics from the University of Colorado at Boulder. Olson worked previously as a legislative economist for the Colorado General Assembly and has held several private sector roles in applied econometric modeling in the employee benefits consulting, financial services, and advertising industries. He has also taught economics as an adjunct professor at Devry University and Colorado Technical University. Olson also worked as an expedition leader for a British adventure travel company in the Middle East and has traveled in over 70 countries. When Olson is not analyzing data he is usually exploring some far corner of the world with his backpack strapped on.

**Dr. Phyllis Resnick** is an independent consultant with a practice that focuses on economic forecasting, revenue and fiscal sustainability studies for state and local governments, and economic impact studies. Her current and past clients include the Governor's Office of State Planning and Budgeting, the region's metropolitan planning organizations, many of Colorado's municipal governments, and the State of Hawaii. Dr. Resnick is the former lead economist for the Center for Colorado's Economic Future and for the Colorado Economic Futures Panel, both at the University of Denver. For much of 2012, she traveled throughout Colorado presenting the findings from the Center's award winning fiscal sustainability study and advised the state of Hawaii on issues of fiscal sustainability. In 2007-08 she served as research staff to DU's Strategic Issues Panel exploring changes to the state's constitution. She has led and authored a number of studies looking at state and local tax policy and burdens within Colorado and has spoken nationally on the impact of Colorado's TABOR Amendment and the role of the initiative process in formulating fiscal policy in Colorado. She completed her Master's and Doctoral degrees at the University of Colorado in Boulder and Denver, respectively, and her research explored the effect of tax and expenditure limitations on tax reform efforts in the states.

### **Advisory Committee Members:**

**Bill Lindsay**  
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**Jennifer Webster**

### **About the Colorado Health Foundation**

*The Colorado Health Foundation works to make Colorado the healthiest state in the nation by increasing the number of Coloradans with health insurance; ensuring they have access to quality, coordinated care; and encouraging healthy living. The Foundation invests in the community through grants and initiatives to health-related nonprofits that focus on these goals, as well as operating medical education programs to increase the health care workforce. For more information, please visit [www.ColoradoHealth.org](http://www.ColoradoHealth.org).*

## Executive Summary

In June 2012, the U.S. Supreme Court upheld most of the Patient Protection and Affordable Care Act (ACA) except for the requirement that states expand Medicaid to anyone earning less than 138% of the federal poverty level (FPL)<sup>1</sup> or risk losing federal support for their base Medicaid program. The result of this ruling is that Medicaid expansion is optional for the states, triggering assessments throughout the country of both the budgetary and economic impacts of Medicaid expansion.

The Colorado Health Foundation engaged Charles Brown Consulting, Inc. to conduct an analysis of the full economic and state budgetary impacts to Colorado of the state's decision to either fully expand Medicaid eligibility in accordance with ACA or maintain its current Medicaid eligibility. An advisory group made up of health policy, business and economic experts provided guidance and input to the analysis. The study, providing a comprehensive analysis of Medicaid expansion in Colorado, has found the following economic and budgetary impacts for the state:

- In FY 2025-26, the last year of the study period, a comparison of the 'no expansion' and 'full expansion' options shows that the following economic impacts will occur as a result of the decision to fully expand Medicaid:
  - The economy, as measured by state gross domestic product (GDP), will be 0.74% larger than if Colorado does not expand its Medicaid program. Expansion will result in just under \$4.4 billion in additional state economic activity.
  - Average household earnings will be \$608 higher with full Medicaid expansion compared to no expansion.
  - Colorado will have 22,388 more jobs if the state fully expands Medicaid. Of these jobs, 14,357 will be created in the first 18 months following expansion. Medicaid expansion could result in as much as a 20% increase over projected baseline employment growth in the eighteen months following Medicaid expansion.
  - While Medicaid expansion is not free, the combination of federal support for expansion populations and state savings in programs makes full expansion less costly to the General Fund than no expansion until FY 2020-21.
  - Over the period of the analysis, state General Fund appropriations will be a cumulative \$133.8 million less for full Medicaid expansion than if the state chose not to expand.
  - The larger economy that will result from Medicaid expansion will generate more state tax revenue without an increase in tax rates. In FY 2025-26, tax revenue is projected to be \$128 million higher due to a decision to expand Medicaid. In each year, the combination of the additional revenue generated from the larger economy and savings in other General Fund funded programs is sufficient to fund the state's share of the cost of Medicaid expansion.

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<sup>1</sup> The Federal Poverty Level was adopted in 1965 and defined as three times the cost of an economy food plan based on family size. Since 1969 the income thresholds which determine poverty level have been adjusted upwards annually with Consumer Price Index (CPI). For 2012 FPL income level is \$11,170 for an individual and \$3,960 for each additional member of the household. FPL for a family of four was \$23,050. A threshold of 138% of FPL is 38% higher than these annual cash income amounts, or \$15,415 for an individual and \$31,809 for a family of 4.

- Compared to no expansion, Medicaid expansion will add an additional 275,000 Coloradans to Medicaid enrollment by FY 2025-26. Those added to Medicaid insurance include 209,000 newly eligible adults without dependent children, 44,000 newly eligible parents, and an additional 22,000 currently eligible but not enrolled children and parents.
- Medicaid expansion will reduce the number of uninsured non-elderly Coloradans by 189,000 by FY 2025-26 and reduce the percentage of uninsured in the non-elderly population from 11.1% to 7.7% compared with non-expansion.

### **The Economic Impact of Medicaid Expansion**

Policy changes, particularly those that significantly change spending patterns, have economic impacts that reach beyond the state’s budget. The decision to expand Medicaid, largely because of the significant inflow of federal funds to the state, will have a positive impact on the state’s economy. That is, the Colorado economy will be larger as a result of the decision to expand Medicaid.

We assessed the magnitude of the increased economic activity with a multiplier model built with Colorado-specific Regional Input-Output Modeling System (RIMS II) multipliers from the US Bureau of Economic Analysis. Multiplier studies fully quantify all of the re-spending effects from an infusion of dollars into the economy. For example, an additional dollar of Medicaid spending creates more hospital revenue. Hospitals in turn order more medical supplies, creating more revenue at hospital supply companies. Hospital supply companies then hire more workers, creating more household income that perhaps is spent at restaurants, and as a result the restaurant workers have more income. This process continues, creating a multiplicative effect on economic activity in the state. For this study, we quantified the multiplicative effect on total state output as measured by state GDP, household earnings and employment.

In the case of Medicaid expansion, there are myriad impacts, both positive and offsetting, that taken together characterize the total economic impact on the state. In this study the following impacts were considered:

- Factors leading to a positive economic impact
  - The infusion of federal Medicaid dollars
  - The increase in state Medicaid spending
  - Changes in household spending patterns, largely related to spending that newly Medicaid eligible households can redirect from out of pocket health care spending to other household spending
- Factors that offset the positive economic impact
  - Reduction in state and federal spending in programs for which there are reduced needs due to Medicaid expansion
  - Reductions in household spending for out of pocket medical expenses
  - Reduction in household spending associated with financing the state’s share of the cost of Medicaid expansion

Taken together, and analyzed with a multiplier model, the combined impact of all these factors results in the finding that the Colorado economy will be larger in the year 2025 whether the state opts to expand Medicaid or not, simply because the ACA will drive additional health care spending. However, the decision to expand Medicaid results in a larger economy than a decision not to expand. This is the case for every year between 2014, the date of expansion, and FY 2025-26, the end of the study period. And, it is the case for every economic indicator: state GDP, household earnings and employment. In the year FY 2025-26, the decision to expand Medicaid results in:

- 22,388 more jobs in FY 2025-26. Of these jobs, 14,357 will be created in the first 18 months following expansion.
- A state economy, as measured by state gross domestic product (GDP), which is 0.74% larger than it would be without expansion. Expansion will result in just under \$4.4 billion in additional state economic activity in FY 2025-26.
- Average household earnings that are \$608 higher with Medicaid expansion.

From a fiscal perspective, the larger Colorado economy has one additional effect. Greater economic activity generates additional state tax revenue without an increase in tax rates. In the state fiscal year 2025-26, the larger economy that will result from Medicaid expansion is estimated to generate \$128 million more in state tax revenues than if the state chooses not to expand. In each year of the study, the additional tax revenue generated from the larger economy combined with savings elsewhere in the General Fund budget are sufficient to pay for the state General Fund share of the cost of expansion.

### **State Budget Impact**

Even if Colorado chooses not to expand its Medicaid program, enrollments in the program are expected to grow due to other provisions of the ACA. This increase results from enrollment by individuals who are currently qualified to receive Medicaid benefits but not currently enrolled in the program. Eligible but not enrolled individuals are projected to become enrolled for the following reasons:

- The individual mandate provision of the ACA requires everyone be insured
- Some individuals seeking to obtain coverage through insurance exchanges will discover they are Medicaid eligible
- Reduction in employer-sponsored insurance in response to ACA's other provisions
- Increased use of part-time employees ineligible for employer-sponsored insurance by employers

Because of these currently eligible but not enrolled populations, state appropriations for Medicaid will rise regardless of whether the state decides to fully expand Medicaid eligibility. For this reason, the analysis focuses on the difference in cost to the state between the no expansion and full expansion options.<sup>2</sup>

Expanding Medicaid eligibility in Colorado will directly impact the state's Medicaid budget. As an offset, it will also generate savings in other programs receiving General Fund appropriations that currently

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<sup>2</sup> Colorado currently finances its share of the Medicaid program through General Fund appropriations and a Hospital Provider Fee that pays for the costs of specific Medicaid populations. The Hospital Provider Fee is collected by the state, utilized to "draw down" federal matching funds, and fees paid are then returned to hospitals along with the federal matching funds.

serve populations that will be newly qualified for Medicaid. Specifically, state General Fund budgetary impacts will occur in four areas:

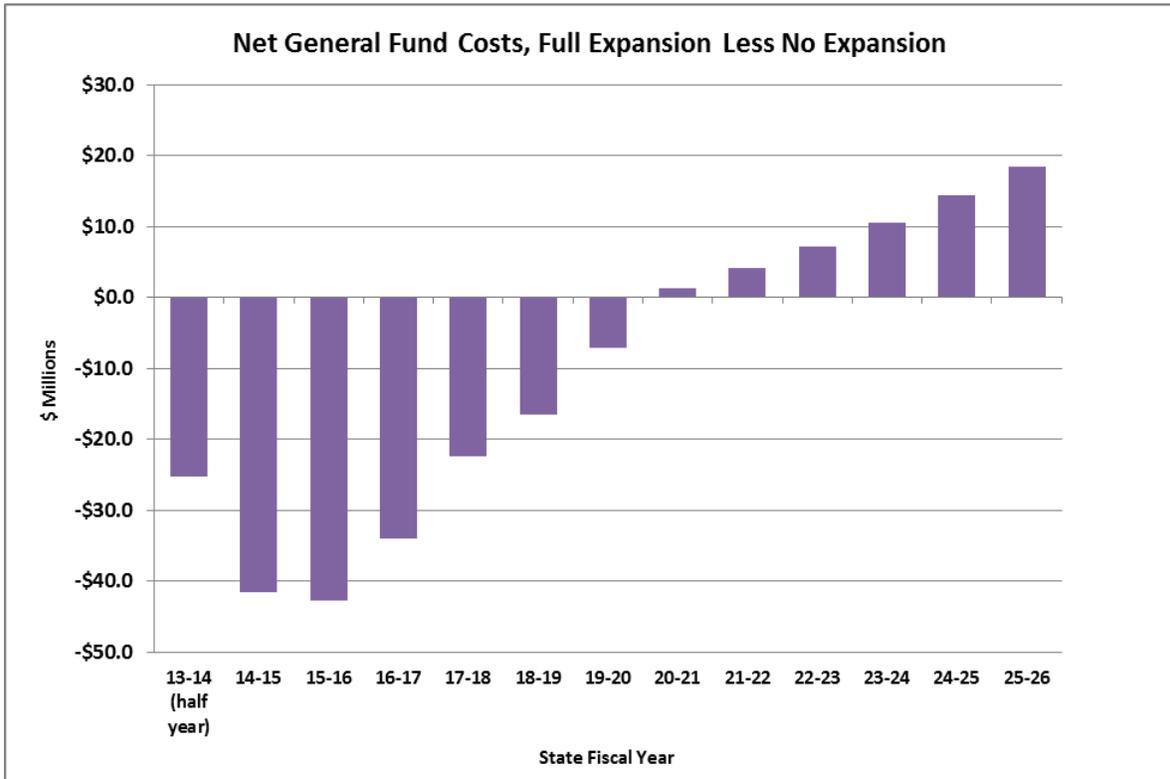
- Costs of newly eligible expansion populations
- Costs of currently eligible new enrollees
- Administrative costs
- Savings in other departments that otherwise serve populations newly eligible for Medicaid<sup>3</sup>, such as:
  - The Old Age Pension medical program
  - The Community Mental Health program
  - The Drug and Alcohol Abuse Treatment program
  - Offsite inpatient hospitalization treatment costs for the Colorado Department of Corrections

Compared to the no-expansion option, Medicaid expansion will be less costly for Colorado's General Fund budget through FY 2020-21, and then become slightly more costly in future years. Figure A shows the annual net cost impact of full Medicaid expansion to the General Fund. Despite the somewhat higher costs in later years, for the period from FY 2013-14 through FY 2025-26, the cumulative net General Fund cost of full expansion is \$133.8 million lower than the cost of no expansion.

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<sup>3</sup> In addition to General Fund savings, Hospital Provider Fee financing will be reduced for the first few years due to the enhanced federal match for two populations currently being financed by the Hospital Provider Fee, as well as Indigent Care (CICP) and Supplemental Hospital Payments currently funded by the Hospital Provider Fee.

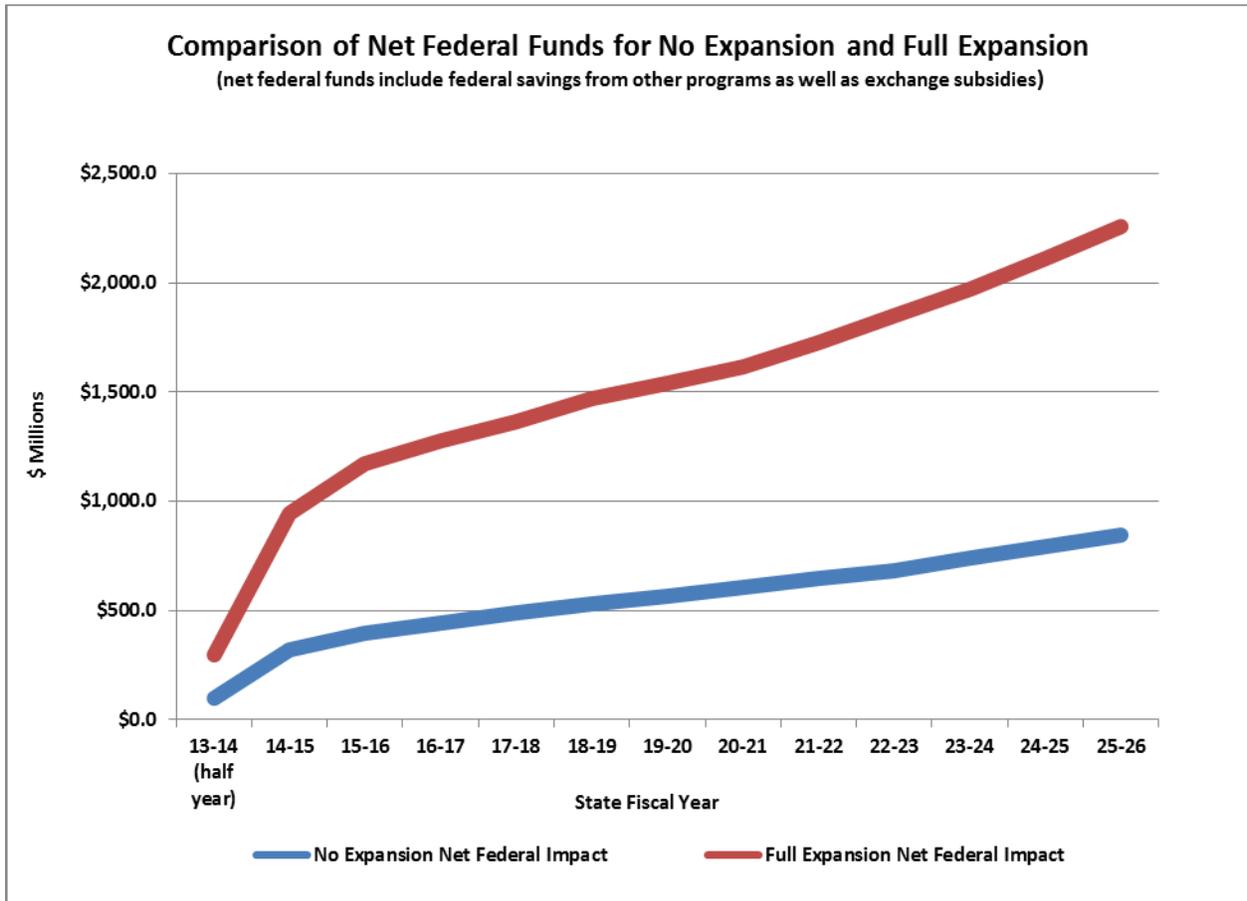
**Figure A**  
**Net General Fund Costs**



**Federal Expenditures**

Medicaid eligibility expansion will be funded primarily by federal funds for the full cost of expansion population in 2014 through 2016, a share that will decline over several years to 90% in 2020 and future years. Figure B shows the annual federal funds impact of the no-expansion and full-expansion options over current law. If Colorado does not expand Medicaid eligibility, those in the 100% to 138% FPL range will be eligible for federal subsidies to purchase insurance in the exchange. Although they do not factor into the state budget as Medicaid does, we forecast their value for the economic impact analysis.

**Figure B**  
**Federal Funding**



**Other Policy Options for Funding Expansion of Medicaid**

Throughout the analysis of the budgetary and economic impacts of Medicaid expansion, we assumed current law as written. With respect to the state budget, this assumption means that the responsibility to pay for the state’s share of Medicaid expansion will be a responsibility of the General Fund. There are, perhaps, other options for meeting the state’s responsibility for Medicaid expansion.

The first option is to use the Hospital Provider Fee, which was used for a previous Medicaid expansion. Beginning in 2010, the state expanded Medicaid largely to parents earning between 60% and 100% FPL and adults without dependent children earning up to 10% FPL capped at 10,000 enrollees. The 50% state share for this expansion was funded with the Hospital Provider Fee. Starting in 2014, these expansion populations will be eligible for enhanced federal matching dollars, reducing the burden on the Hospital Provider Fee and freeing up capacity to fund further expansion populations. This would, however, require a change to state law.

Another option is to capture excess savings in other General Fund programs and reserve them for future spending for expansion. In the model, savings are assumed to cover expansion costs in any given budget year, but in the early years of the analysis when savings exceed the state's responsibility for expansion, we do not assume that those savings are reserved for future years.

And finally, we did not assume specific efficiencies to the Medicaid program which may bend the cost curve. Implementing efficiencies such as delivery, payment and benefit reforms may stretch health care dollars and reduce the cost burden on the state General Fund.