Economic Analysis of PPACA and Medicaid Expansion

Select Committees on Patient Protection and Affordable Care Act

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Presented by:

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Background

- The Office of Economic and Demographic Research was asked by the Senate and House to conduct an in-depth analysis of the Affordable Care Act and the potential effects it will have on the Florida economy.

- The analysis covers the mandatory provisions of the Act, as well as the optional Medicaid Expansion decision.

    - The mandatory provisions will be in effect regardless of future legislative actions.

    - The optional decision regarding Medicaid Expansion is under the control of the Legislature and the Governor.

- The current National and Florida Economic Outlooks have not fully taken into account the changes that will result from the mandatory provisions of the Act, so adjustments had to be made to the economic baseline.

- Due to the national nature of the legislation and the ultimate interplay among states, as well as the incomplete nature of the federal rules and regulations that will implement the Act, the Statewide Model results should be viewed not as specifics, but as suggestive of likely outcomes. Even the adjusted economic baseline should be regarded as a simulation.

Primary Data Source for Analysis

- The American Community Survey (ACS) Public Use Microdata Sample (PUMS) data show the full range of population and housing unit responses collected on individual ACS questionnaires.

- The data is detailed and shows how respondents answered questions regarding issues such as income, disabilities, household relationships, health coverage, and income.

- These responses are then weighted (using ACS weights) to produce estimates for the entire Florida population.

- The PUMS data provides the base for all Social Services Estimating Conference (SSEC) and EDR estimates related to the Act.

- For this analysis, the 2009-11 ACS 3-year PUMS data was used.

American Community Survey
Public Use Microdata Sample
2009-2011 Population Base

|	Number	Percent
Total Population	18,849,600	100.00%
Insured	14,808,869	78.6%
Uninsured	4,040,731	21.4%
Insured	14,808,869	
Ages 0-18	3,664,365	24.7%
Ages 19+	11,144,504	75.3%
Uninsured	4,040,731	
Ages 0-18	594,935	14.7%
Ages 19+	3,445,796	85.3%
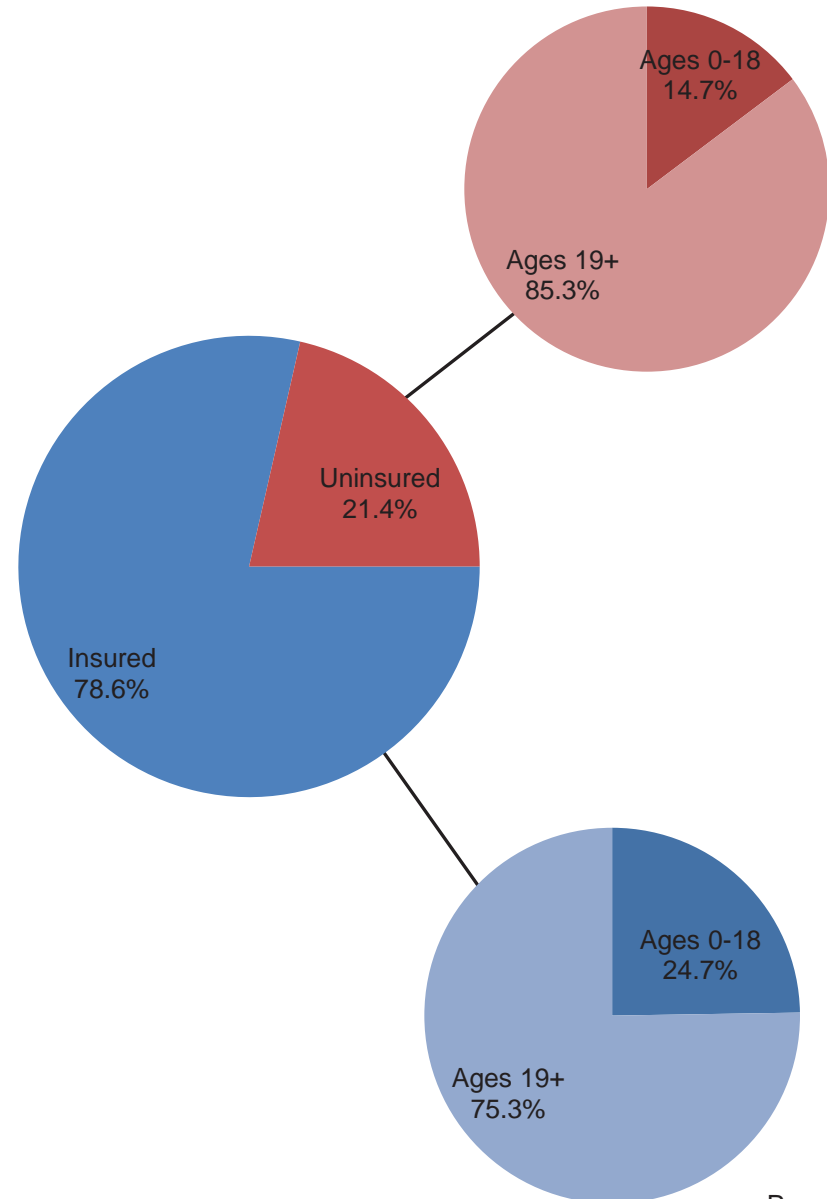
Medicaid Effects to Baseline

- Increased state budgetary costs and federal dollars associated with the mandatory Medicaid portions of the Act.

  - Primary Care Practitioners Fee Increase to Medicare Rate (100% federally funded during the authorized period).

    - $349.4 million in FY 2012-13

    - $698.8 million in FY 2013-14

    - $349.4 million in FY 2014-15

  - Health Insurance Tax Impact on Medicaid Managed Care (the cost will be split between increased federal reimbursements and a realignment within the state budget to provide the required match).

    - The total costs range from $31.6 million in FY 2013-14 to $471.0 million in FY 2022-23, the last year of the SSEC estimates.

    - Of this amount, the state costs range from $13.1 million in FY 2013-14 to $192.5 million in FY 2022-23, the last year of the SSEC estimates.

- Woodworking (participation by currently eligible but not enrolled individuals) is indeterminate as adopted by the SSEC. Therefore, no additional Medicaid or CHIP entrants are assumed in the adjusted baseline.

General Uninsured Population Effects to Baseline

- Increased insurance coverage associated with the mandatory portions of the Affordable Care Act resulting in a greater number of traditional insurance policies, self-insured programs and richer benefits.

  - The analysis has discrete assumptions based on age, employment status, size and type of employer, income, population growth, and ramp-up periods.

- These assumptions were then used to develop the levels of insurance coverage, penalties, individual subsidies, tax credits, and the associated state Insurance Premium Tax collections for both the newly and existing insured.

- In the PUMs data, 1,442,014 will receive policy coverage and 727,972 will fall under a self-insured program, for a total of 2,169,986 uninsured persons becoming insured. On an annual basis, these numbers are affected by assumptions regarding the ramp-up period.

General Uninsured Population

Remain Uninsured 813,613 27%

Become Insured 2,169,986 73%
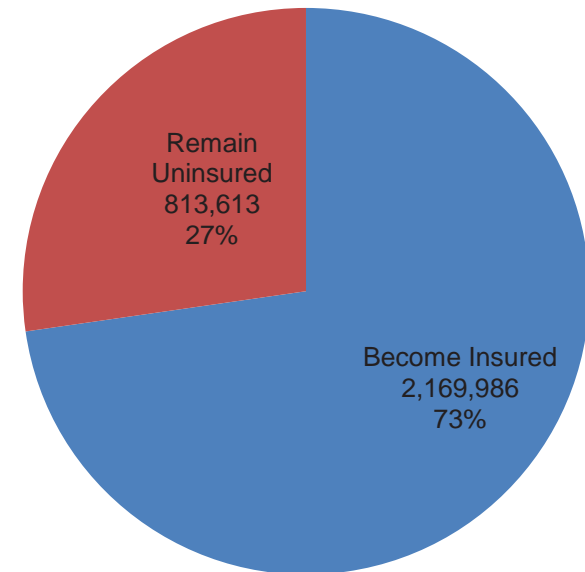
General Uninsured Population Numbers

- Increased federal dollars and costs associated with the mandatory portions of the Act for the general uninsured population:
  - Healthcare premium volume for new policies ranges from $5.9 billion in FY 2013-14 to $12.1 billion in FY 2021-22 for businesses and individuals.
    - Offsetting the new policy premium volume, federal business tax credits range from $21.6 million to $70.2 million over the same period.
    - Offsetting the new policy premium volume, federal individual subsidies range from $970.7 million to $2.7 billion over the same period.
    - In addition, individual penalties range from $71.7 million to a high of $294.4 million before declining to $189.4 million at the end of the period.
  - Additional healthcare premium volume associated with existing policies ranges from $5.2 billion in FY 2013-14 to $6.8 billion in FY 2021-22 for businesses and individuals.
    - Offsetting the existing policy premium volume, federal business tax credits range from $209.3 million to $270.4 million over the same period.
    - Offsetting the existing policy premium volume, federal individual subsidies range from $5.4 to $6.1 billion over the same period.

Statewide Model

- The Statewide Model contains large amounts of data specific to the Florida economy to perform calculations that account for the responses of businesses and households to policy changes or "shocks" over a 10 year timespan.

- The key economic variables analyzed by the Statewide Model are:
  - Florida Gross Domestic Product
  - Personal income
  - Gross output
  - Household consumption
  - State government revenues and expenditures
  - Investment / Savings
  - Jobs
  - Population

- All differences in economic variables that account for policy change are shown relative to the baseline.

Economic Effects Definitions

- **Direct Economic Effects**: A change in expenditures by the industry directly impacted by the change in policy — for example, changes in the healthcare industry in response to the increased demand for healthcare services.

- **Indirect Economic Effects**: A change in expenditures by industries that supply goods or services to the directly impacted industry — for example, the increased demand for healthcare services results in increased manufacturing of medical devices.

- **Induced Economic Effects**: A change in expenditures by households for which income is changed by the direct and indirect activity — for example, the rippling effect of new healthcare workers spending their paychecks on other goods and services.

Key Assumptions

- Policy premiums:

    - Initially increase by 25% to reflect the richer benefit package.

    - Grow at a slower rate than they otherwise would as a result of the downward pressure from better health outcomes.

- Out-of-pocket healthcare spending today by the uninsured will generally convert to spending on copayments, deductibles, and incidentals.

- Today's uncompensated care will be reduced but not eliminated as a result of the newly insured.

- All large businesses will comply immediately with the new provisions to avoid negative effects on brand image, recruitment, and the like, that would put them at a competitive disadvantage.

Indeterminate Effects

- The business value associated with increased utility / productivity from better healthcare (reduced sick days, average workweek hours increased, and overall improved health).

- Effects from employers altering their practices regarding the provision of insurance (moving to self-funded pools to a greater extent than the historic trend, eliminating coverage altogether or reducing the scope of health benefits), as well as the extent to which businesses scale back or eliminate coverage but increase wages.

- The cost of implementing an exchange and its effect on eligibility determinations.

- The collection of excise taxes on "Cadillac Plans," and the response by the providers of those plans.

Baseline vs. Adjusted Baseline

Consumption by Households and Government
(in Millions)
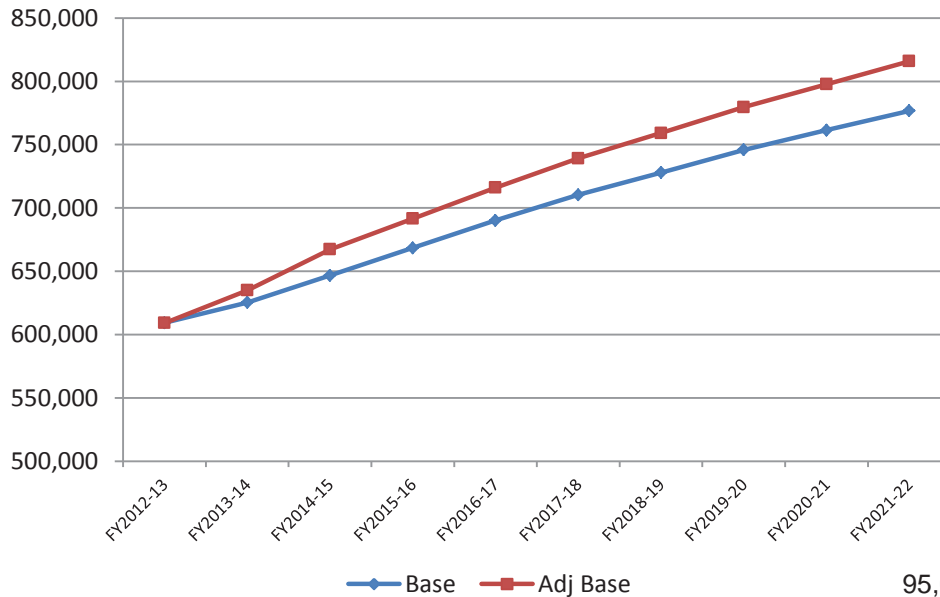
The increased demand for healthcare generates greater–and growing–consumption by households and government over the entire forecast period.

However, the adjustment to state revenues from the baseline is proportionately smaller because the increased demand for healthcare services is largely not taxable.
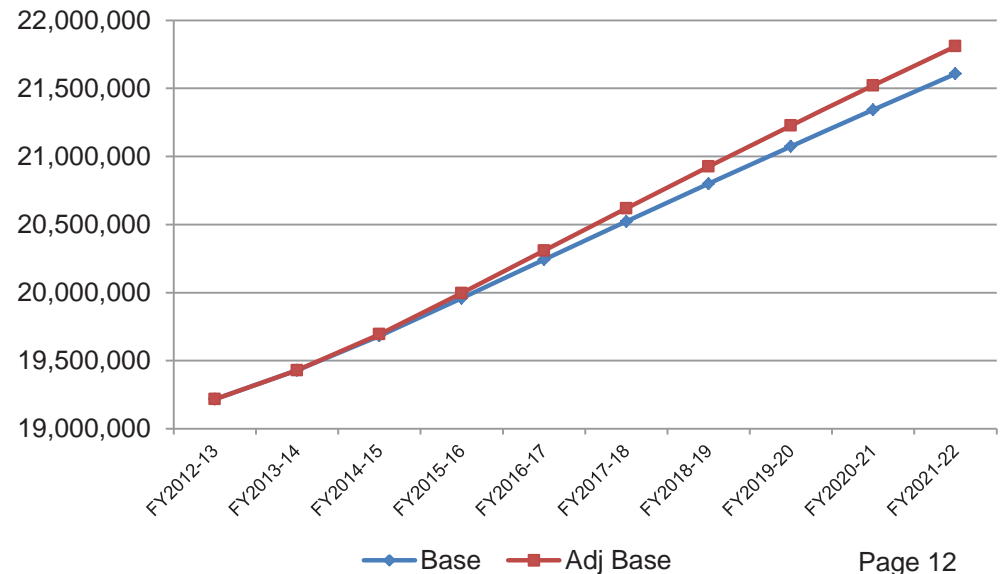
Total Net State Revenues
(in Millions)
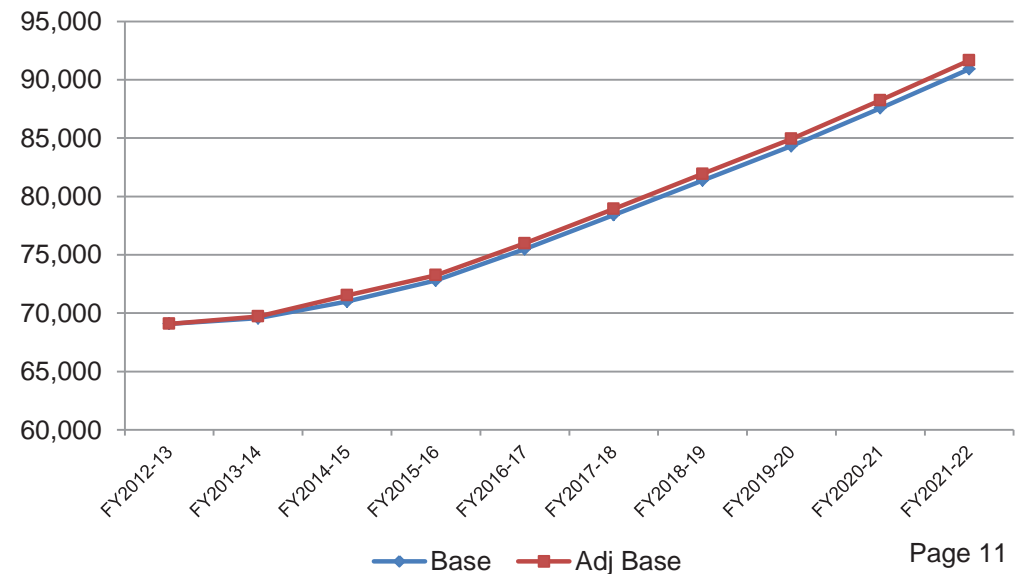
Baseline vs. Adjusted Baseline

Employment
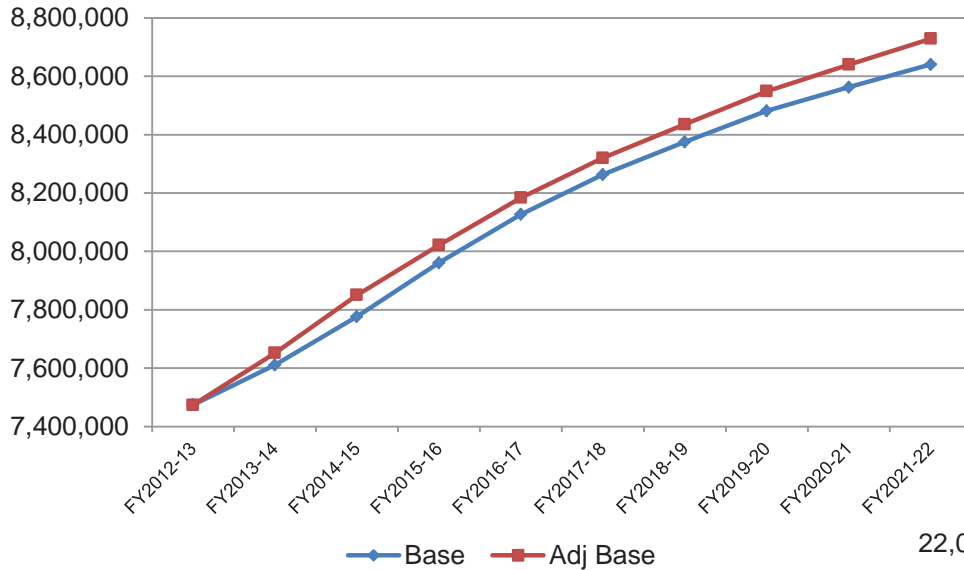
The increased demand for healthcare services also generates more employment than expected in its absence.

Part of the typical solution to the need for additional employees is increased migration.

Population

Risk Simulations

- The adjusted baseline can be considered the standard approach to modeling the Affordable Care Act "shock", assuming everything works as designed without introducing atypical labor shortages, wage constraints or capacity issues.

- Alternative scenarios (#1 through #7) are provided to assess areas of potential risk or change and the impact they would have on the results.
  - The risk simulations are an attempt to quantify the adjusted baseline's sensitivity to a worst case development, not necessarily a likely result.
  - Some of these simulations layer on the effects of the optional Medicaid Expansion decision.

- No attempt is made to gauge the likelihood of the alternative outcomes.

Risk Simulation 1

- Differs from adjusted baseline by incorporating a barrier on additional healthcare workers moving into the state to fill new job openings.

- Key features: potentially constrained infusion of federal dollars; no job-related migration.

- A change in the underlying assumption for the adjusted baseline of this magnitude will adversely affect results in all years and across all variables.
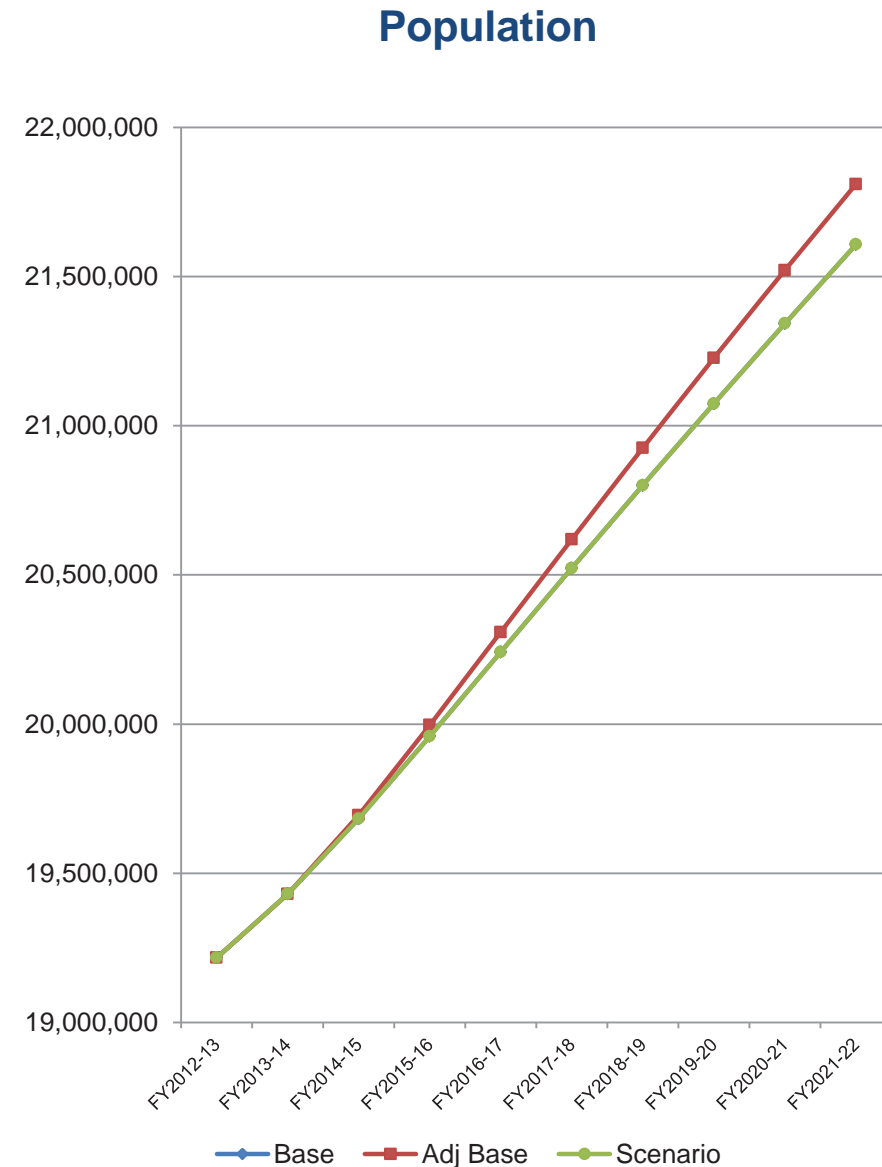
Population

Risk Simulation 1 Results

Employment
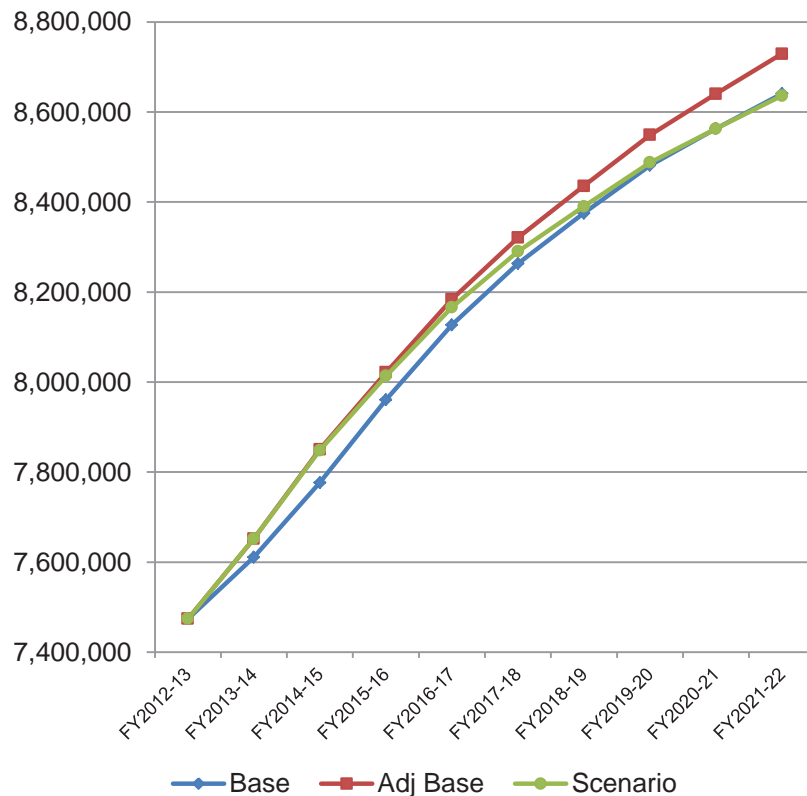
- By the end of the forecast period:

  - Population is 202,470 lower than the adjusted baseline.

  - Total Employment is 93,154 lower than the adjusted baseline with the greatest impact in non-healthcare industries.

  - Real Output is $5 billion lower than the adjusted baseline.

  - Personal Income is $2 billion lower than the adjusted baseline.

  - State revenues experience a cumulative loss of nearly $1.3 billion over the entire forecast period.

Risk Simulation 2

- Differs from adjusted baseline by assuming the uninsured today remain uninsured. Businesses and individuals originally buying policies for the uninsured instead pay penalties.

- Also assumes a complete erosion of insurance among existing small employers (1-50 employees, excluding self-employed). These previously covered employees obtain insurance through the Exchange and employers lose tax credits.

- Key features: increased penalties, reduced Insurance Premium Tax collections, and reduced federal tax credits.

Consumption by Households and Government
(in Millions)
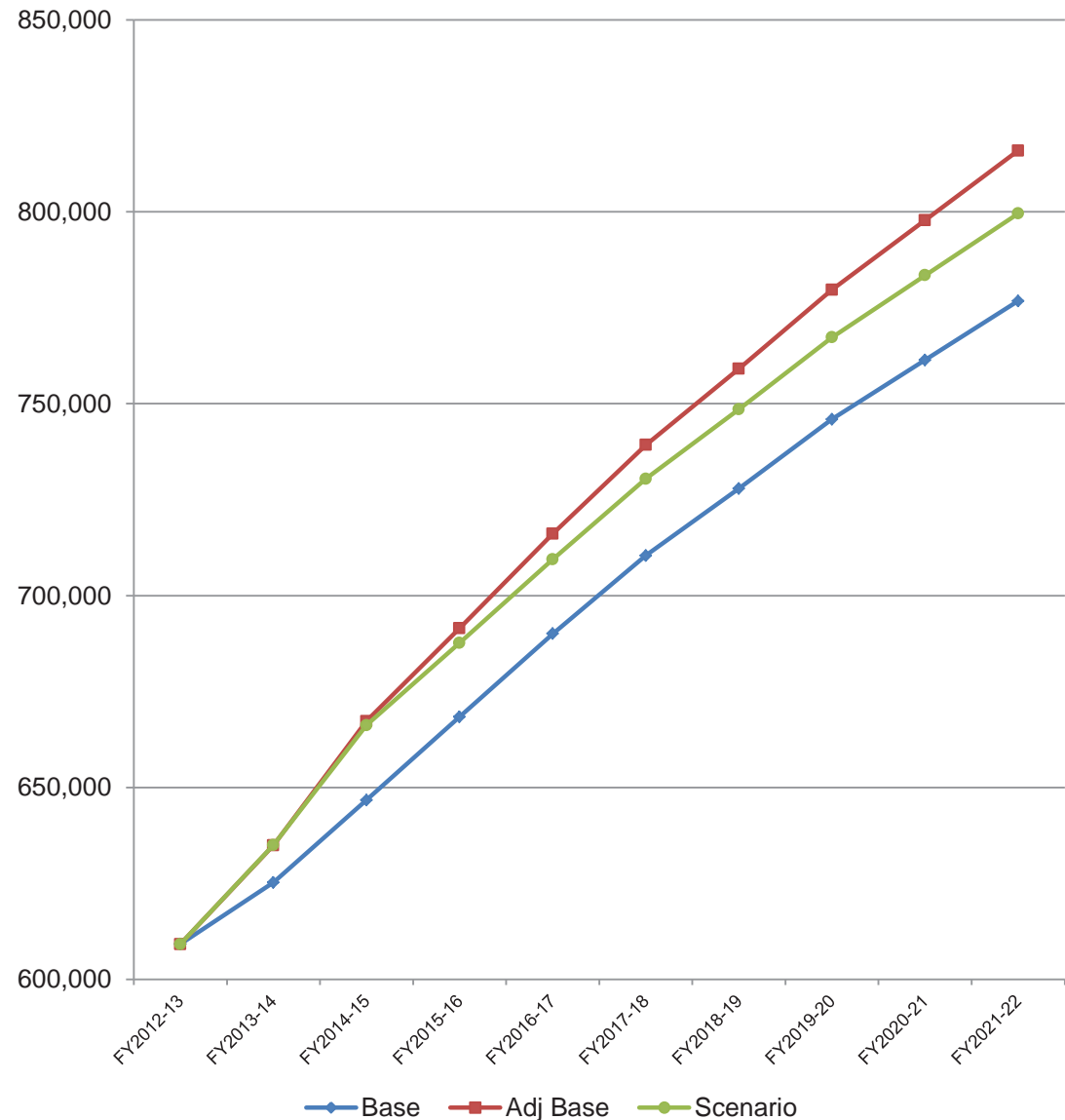
Risk Simulation 2 Results

Employment
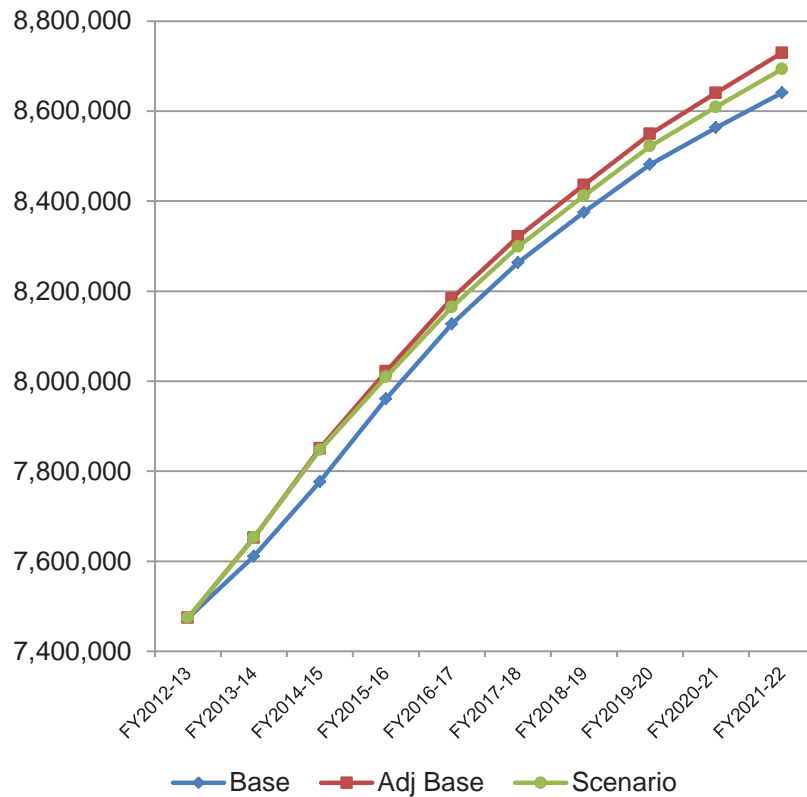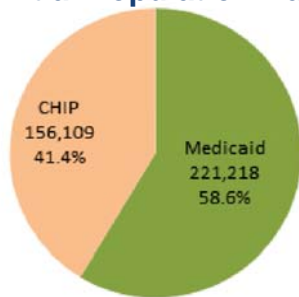
Real Gross Domestic Product
(in Millions)
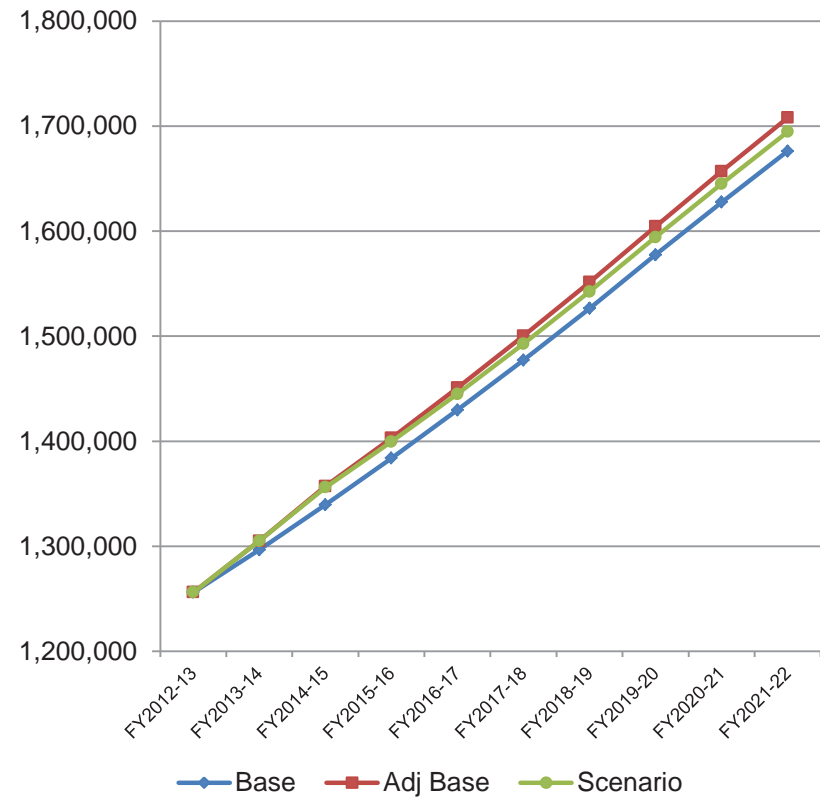
A change in the underlying assumption for the adjusted baseline of this magnitude will negatively affect results—and increasingly so over time as the penalties get larger.
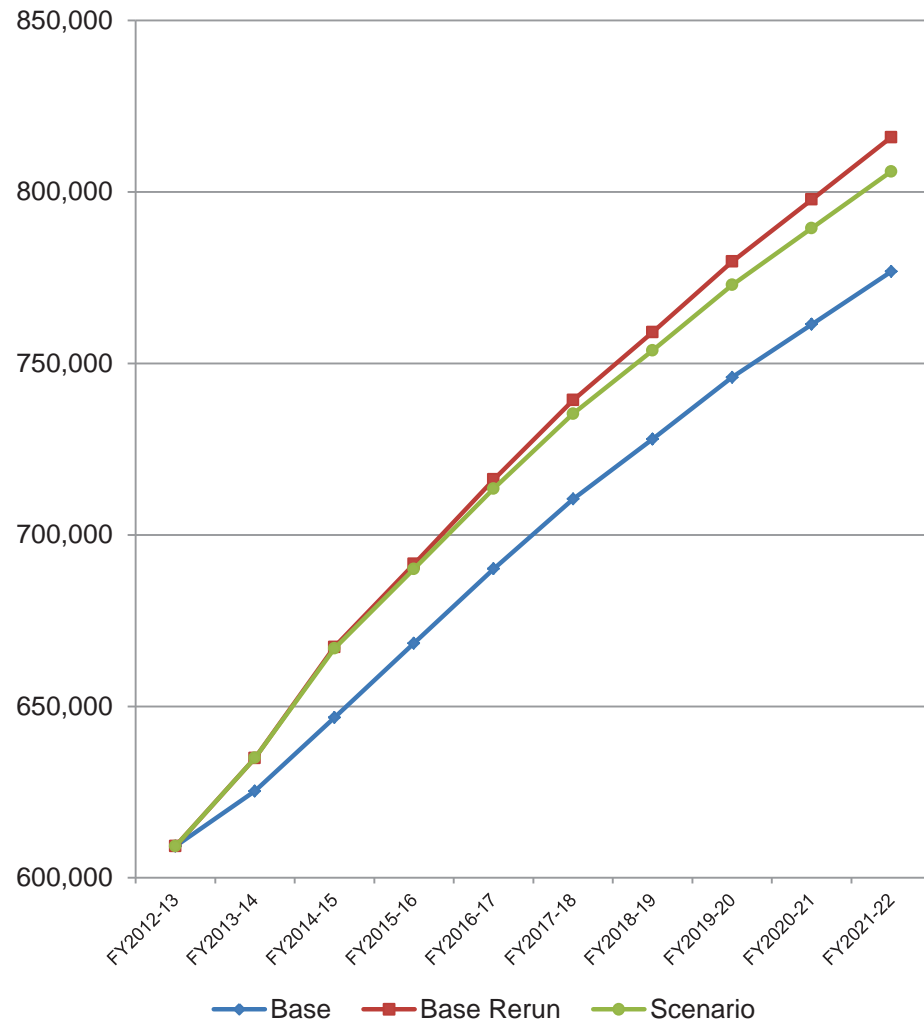
Risk Simulation 3

- Differs from adjusted baseline by assuming 25% Woodworking effect in Medicaid and CHIP Programs.

- Key features: infusion of federal dollars and redirected state dollars.

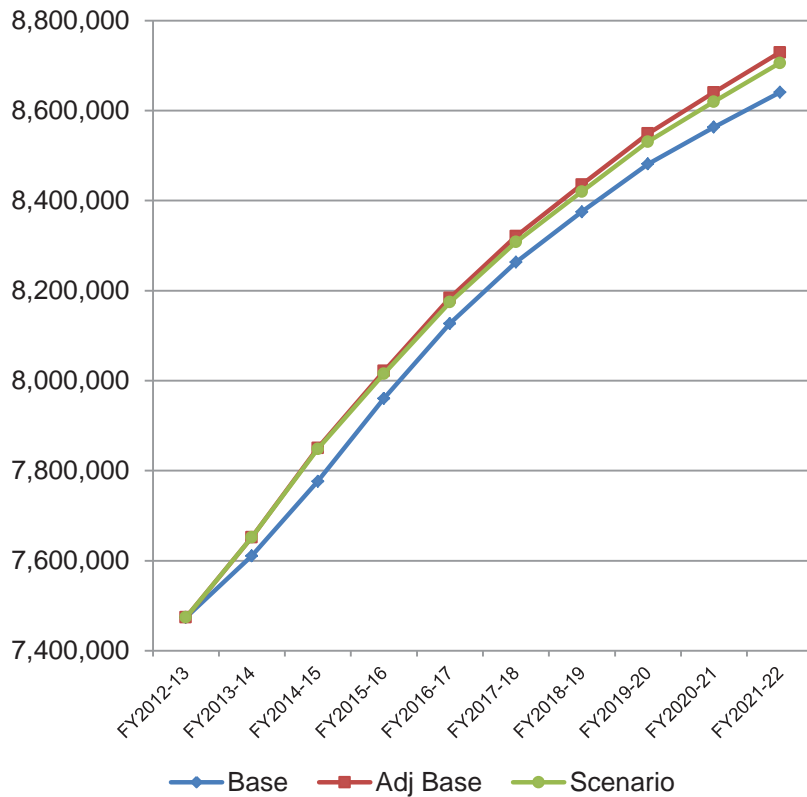**Woodworking**
(Initial Population Base)

CHIP
156,109
41.4%

Medicaid
221,218
58.6%

Consumption by Households and Government
(in Millions)

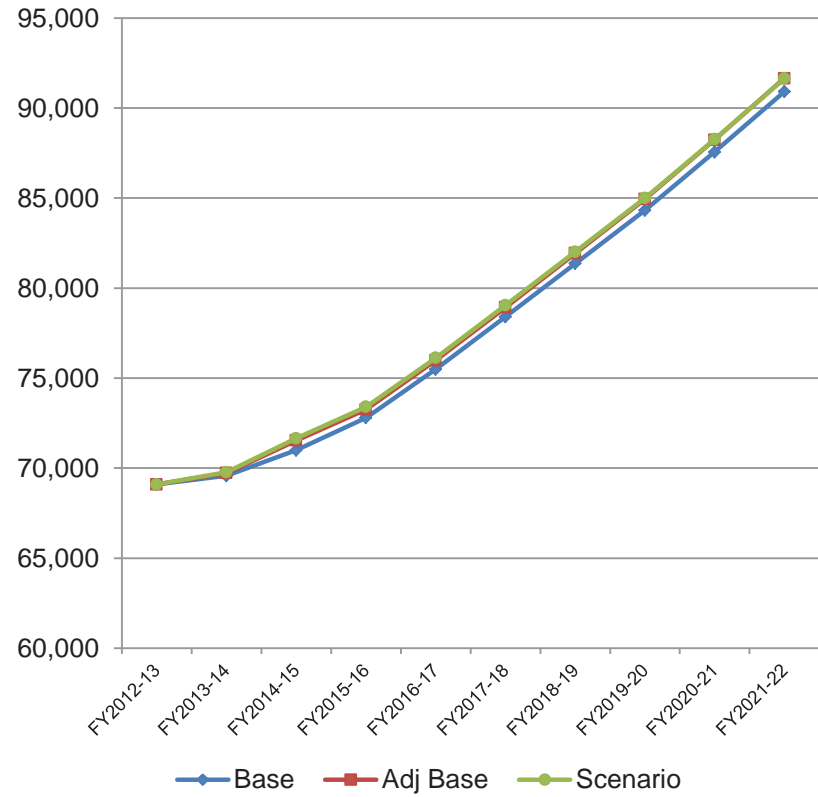Base — Base Rerun — Scenario

Risk Simulation 3 Results

Employment

Total Net State Revenues
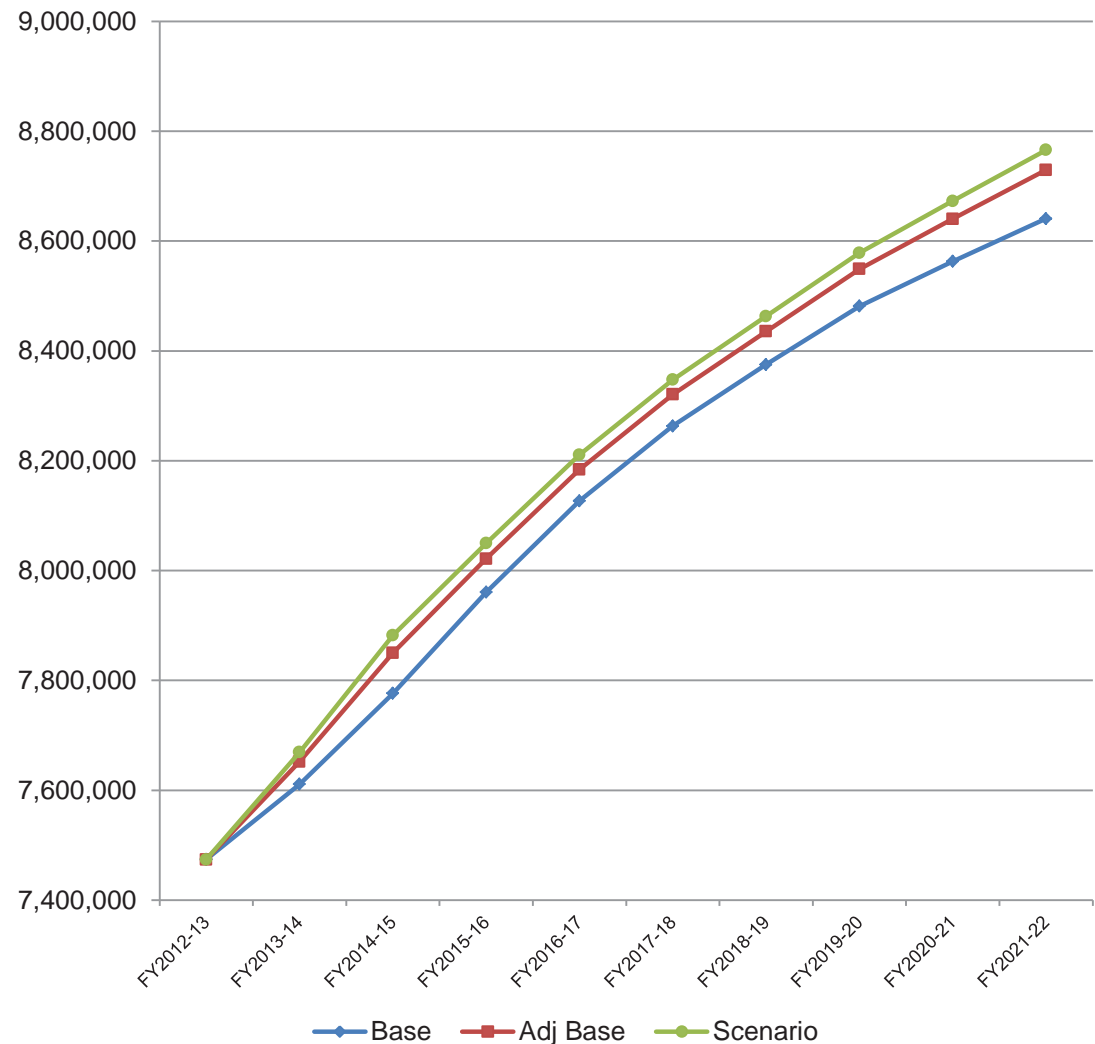### (in Millions)

A change in the underlying assumption for the adjusted baseline of this magnitude will negatively affect results—and more so over time, but to a lesser extent than Risk Simulation #2 due to the increased federal dollars.

Risk Simulation 4

- Differs from adjusted baseline by assuming a 50% increase in premium costs rather than the previously assumed 25%.

- Key features: increased subsidies and increased Insurance Premium Tax.

- A change in the underlying assumption for the adjusted baseline of this magnitude will have positive effects.

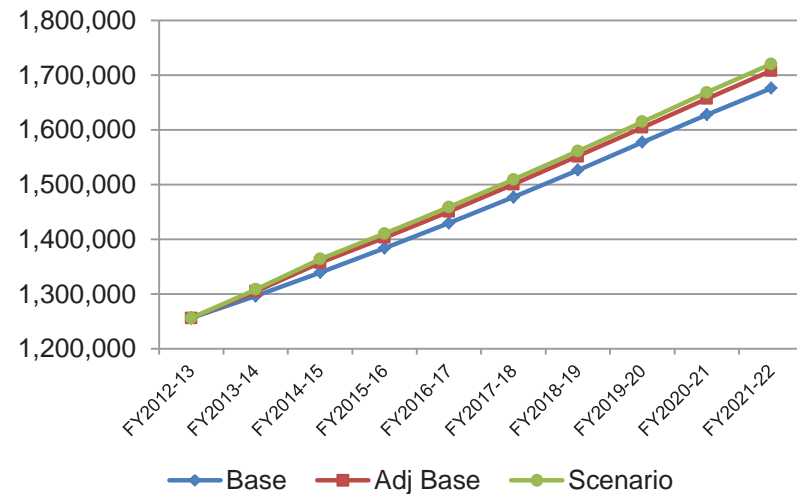**Employment**

Risk Simulation 4 Results

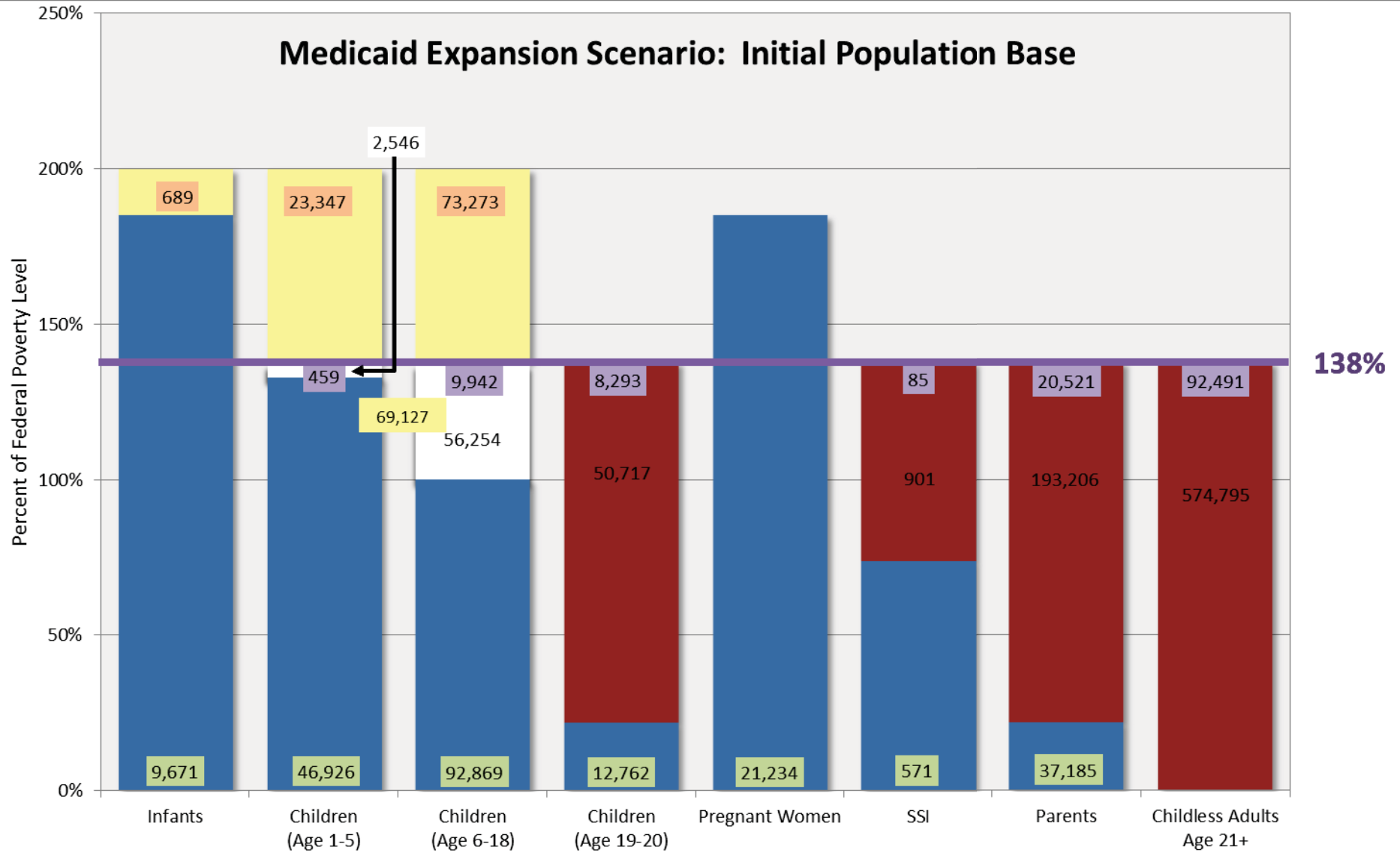**Consumption by Households and Government**
(in Millions)

Consumption by households and government increases as a result of greater federal subsidies.
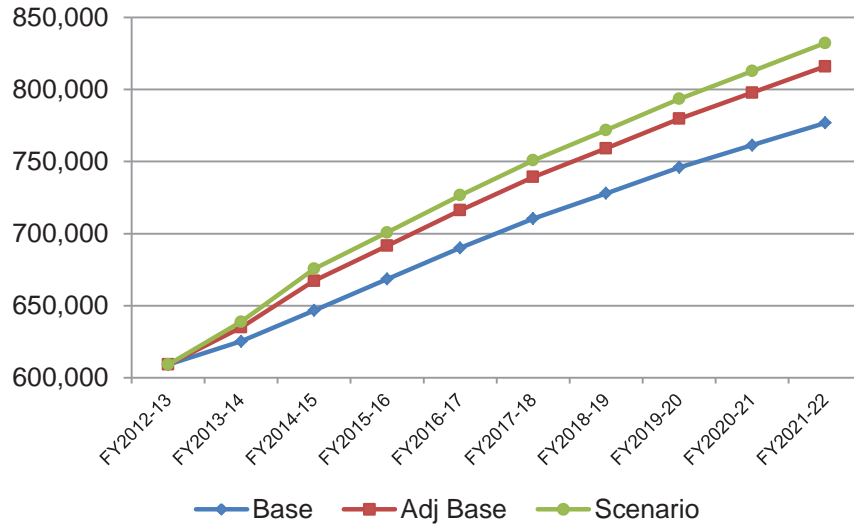
Overall, real output shows little change.

Real Output
(in Millions)

Medicaid Expansion Scenario: Initial Population Base

Sources: U.S. Census Bureau, 2009-11 3-year American Community Survey Public Use Microdata Sample and Florida Healthy Kids Corporation

Medicaid Expansion Assumptions

CHIP Transfer
69,127
6.4%

CHIP "Woodworking Shift"
58,800
5.4%

Crowd Out
131,791
12.2%

Newly Eligible
819,619
75.9%

Universe: 1,079,337
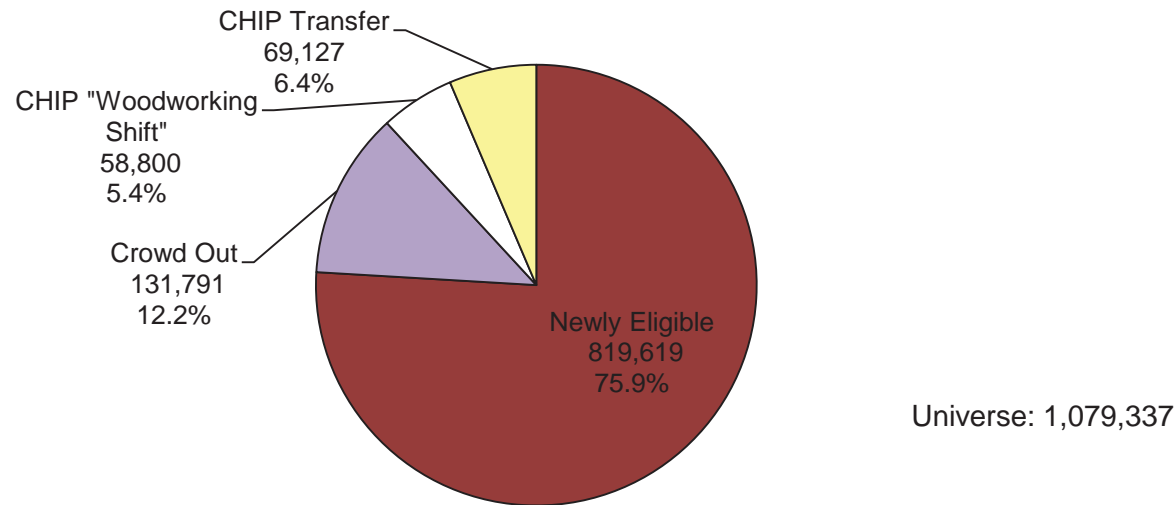
Newly Eligible Population under Medicaid Expansion Option

- The SSEC assumed that only 79.7% of the Newly Eligible population will present for services.

- The eligible population will increase each year proportional to population growth.

- By fiscal year, the phase-in translates as follows:
  - FY 2013-14:   60%
  - FY 2014-15:   90%
  - FY 2015-16 and beyond: 100%

Assumptions (Continued)

Crowd Out Population under Medicaid Expansion Option

- Persons under 138% FPL who purchase insurance directly from an insurance company.

- By fiscal year, this phase-in translates as follows:
    - FY 2013-14:   40%
    - FY 2014-15:   80%
    - FY 2015-16 and beyond: 100%

Impact to CHIP Population under Medicaid Expansion Option

- Assumed that 69,127 children under 138% FPL will move from CHIP to Medicaid. This number was based on income status in the existing program.
    - 100% of the population will move to Medicaid upon implementation.
    - Net cost is zero as CHIP funding also transfers.

CHIP Woodworking Shift

- The 138% FPL threshold splits the current CHIP Woodworking into two components–one that remains in CHIP and one that moves to Medicaid. The latter is the CHIP Woodworking shift.

Medicaid Expansion Costs

- Healthcare costs for **Medicaid Expansion** recipients range from a grand total of $1.16 billion in FY 2013-14 to $4.87 billion in FY 2022-23.

  - The state portion of this cost starts in FY 2016-17 and ranges from $97.9 million to $487.2 million in FY 2022-23.

  - The federal portion of this cost ranges from $1.16 billion in FY 2013-14 to $4.39 billion in FY 2022-23.

- In addition, the **Medicaid Woodworking** costs range from a grand total of $101.4 million in FY 2013-14 to $284.8 million in FY 2022-23.

  - The state portion of this cost ranges from $41.9 million in FY 2013-14 to $115.9 million in FY 2022-23.

  - The federal portion of this cost ranges from $59.5 million in FY 2013-14 to $168.9 million in FY 2022-23.

- In addition, the remaining **CHIP Woodworking** costs range from a grand total of $24.0 million in FY 2013-14 to $67.3 million in FY 2022-23.

  - The state portion of this cost ranges from $6.9 million in FY 2013-14 to $3.6 million in FY 2022-23. The reduction in cost is the result of the introduction of an enhanced federal matching rate.

  - The federal portion of this cost ranges from $17.0 million in FY 2013-14 to $63.7 million in FY 2022-23.
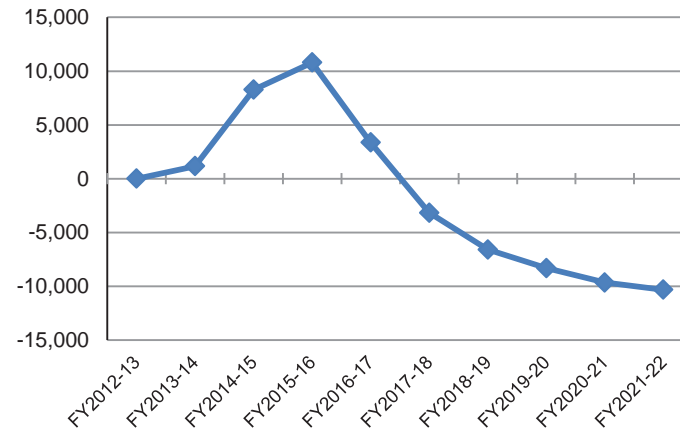
Risk Simulation 5

- Differs from adjusted baseline by incorporating Medicaid Expansion and a 25% Woodworking effect.

- Key features: infusion of federal dollars, redirected state dollars, and lower Insurance Premium Tax dollars due to the removal of the Medicaid Expansion and Crowd Out population from the general uninsured population.

- A change in the underlying assumption for the adjusted baseline of this magnitude will have marginal effects overall, but leans positive in the short-run and negative in the long-run.
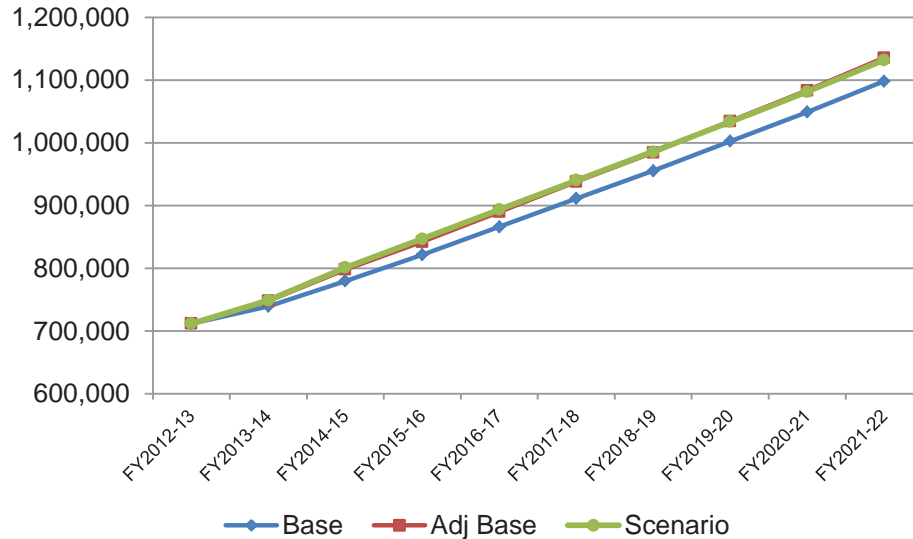
Employment

Base — Adj Base — Scenario
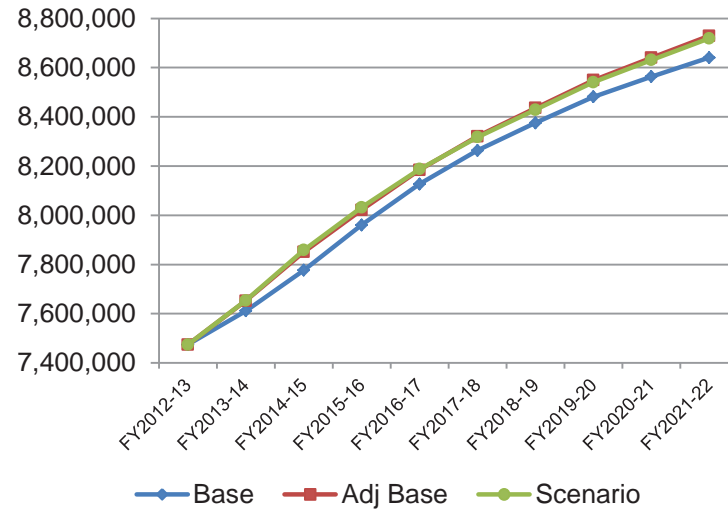
Employment
Difference from Adjusted Baseline

Risk Simulation 5 Results

Personal Income
(in Millions)

Personal income, like real output and consumption by households and government shows little difference from the adjusted baseline after Medicaid Expansion.

However, narrowly focusing on the difference in dollars each year shows that the infusion of federal dollars initially drives personal income upwards, and then back down as more state dollars match the federal dollars.

Personal Income
Difference from Adjusted Baseline
(in Millions)
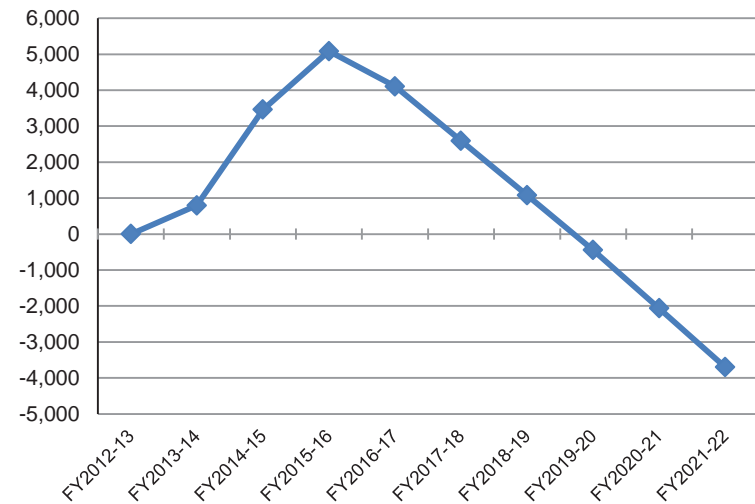
Risk Simulation 6

- Differs from adjusted baseline by incorporating a barrier on additional healthcare workers moving into the state to fill new job openings, in addition to including Medicaid Expansion and a 25% Woodworking effect.

- Key features: infusion of federal dollars, redirected state dollars, lower Insurance Premium Tax dollars due to the removal of the Medicaid Expansion and Crowd Out population from the general uninsured population, and no job-related migration.

- Results in a very similar outcome to Risk Simulation #1 however, earlier periods are slightly positive across most variables in this scenario where Risk Simulation #1 was negative. The federal dollars associated with Medicaid Expansion effectively mitigate the negative risk in the early years.

**Employment**
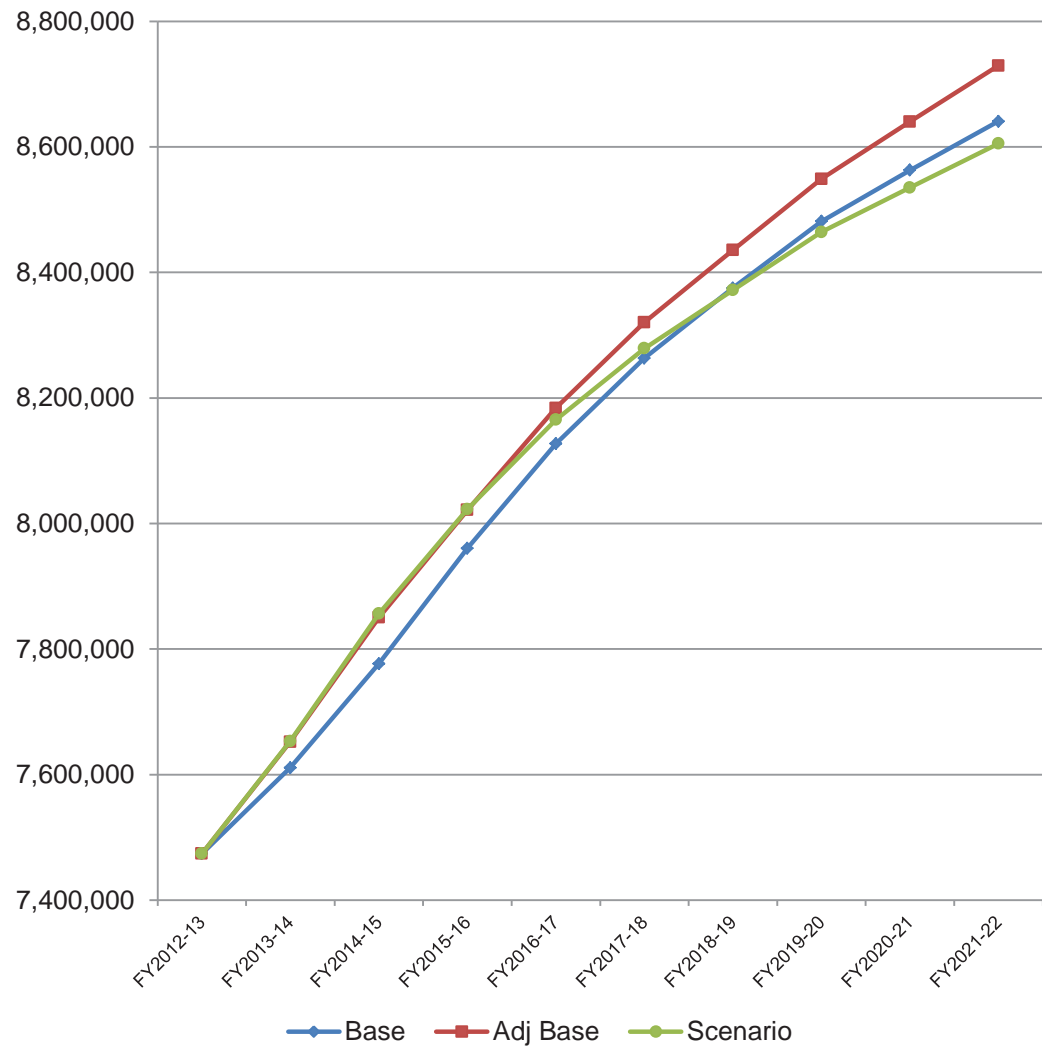
Risk Simulation 7

- Differs from adjusted baseline by including a 60% increase in annual payment rates for all Medicaid Expansion and Woodworking entrants.

- Key features: infusion of federal dollars, redirected state dollars, and lower Insurance Premium Tax dollars due to the removal of the Medicaid Expansion and Crowd Out population from the general uninsured population.

- A change in the underlying assumption for the adjusted baseline of this magnitude will have marginal positive effects overall, but the positive effects generally diminish over time.

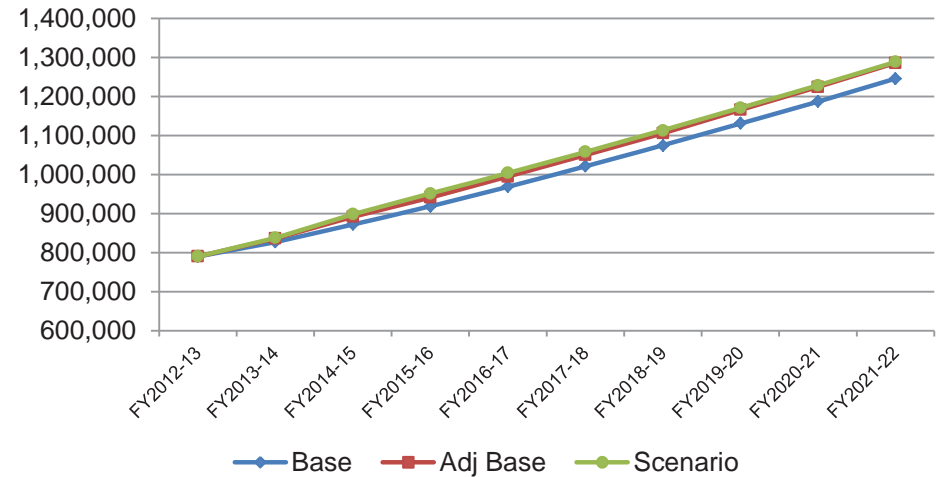**Employment**
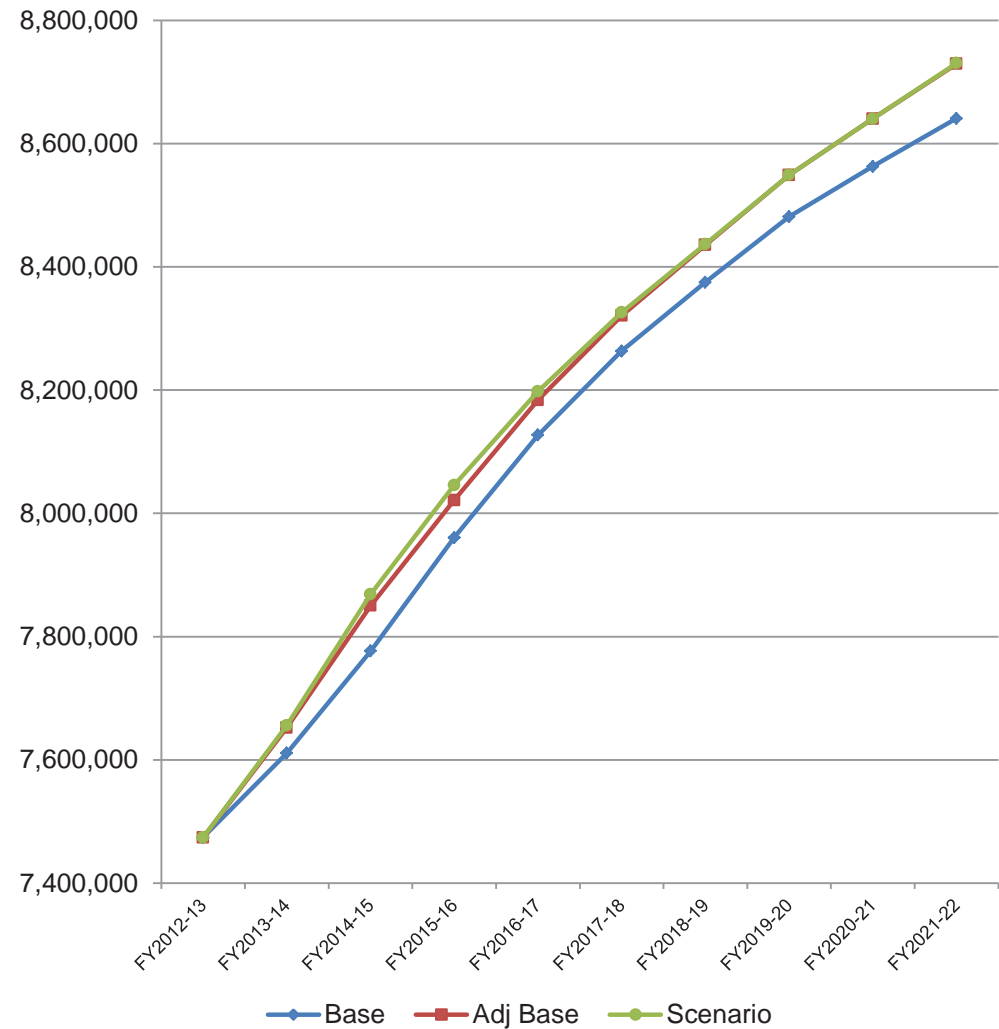
Risk Simulation 7 Results

Consumption by Households and Government
(in Millions)
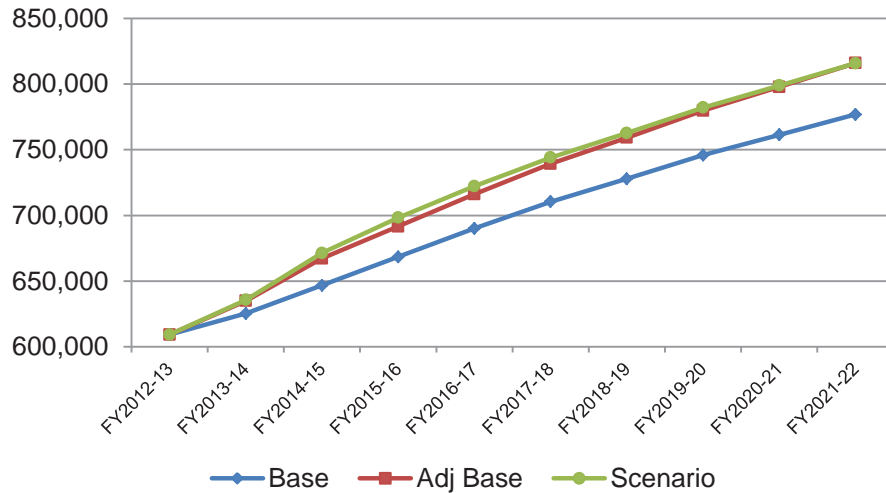
Consumption by households and government goes slightly above the adjusted baseline throughout the forecast period as additional federal dollars come into the state, but drops below in the final year.

Personal Income
(in Millions)

Personal income goes slightly above the adjusted baseline throughout the forecast period, as does real output.

Break-Even Expansion Analysis

- This analysis makes incremental federal funding adjustments to Simulation #5 which incorporates the Medicaid Expansion and a 25% Woodworking effect.

- The loss in federal funds is offset with an equal infusion of state funds with overall budget reductions elsewhere.

- At the current FMAP percentage, the gains from expansion above the adjusted base are only marginally impacted downward as the state budget is redirected to this purpose.

Consumption by Households and Government
(in Millions)
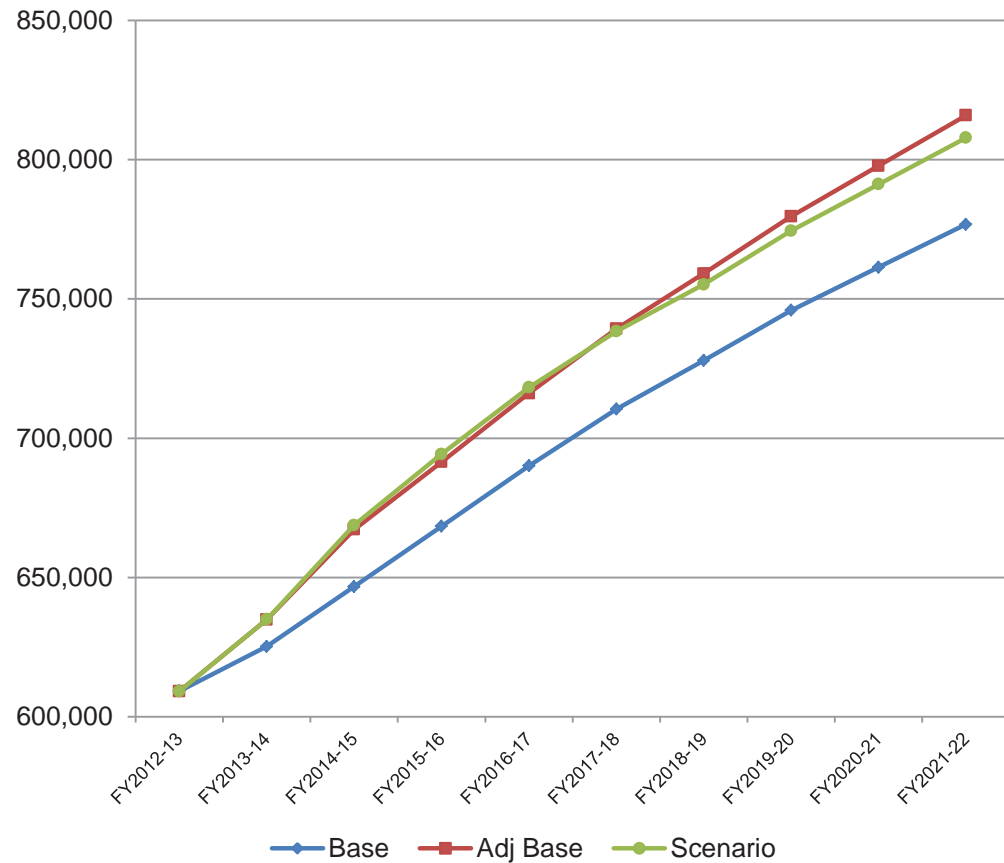
Summary Statistics

	Adjusted Baseline		Adjusted Baseline with Woodworking		Adjusted Baseline with Woodworking and Medicaid Expansion	
	Number	Percent	Number	Percent	Number	Percent
Total Population	18,849,600		18,849,600		18,849,600	
Population Uninsured	4,040,731	21.4%	4,040,731	21.4%	4,040,731	21.4%
Newly Insured	2,169,986		2,264,318		2,567,318	
General Population	2,169,986		2,169,986		1,819,750	
Woodworking			94,332		79,632	
Medicaid Expansion					667,936	
Remain Uninsured	1,870,745	9.9%	1,776,413	9.4%	1,473,413	7.8%

In total, Medicaid Expansion would include 868,854 participants, which includes CHIP Transfer and Crowd Out.

	Adjusted Baseline with Woodworking	Adjusted Baseline with Woodworking and Medicaid Expansion
Difference in Newly Insured		
To Adjusted Baseline	94,332	397,332
To Adjusted Baseline with Woodworking	0	303,000

Numbers are only tied to the base population for 2011 and the ultimate levels will be higher due to population growth. Similarly, statistics are also drawn from the base population and the percentages would not be achieved until the conclusion of all ramp-up and phase-in periods.