

REMI ELECTION 2020: HEALTHCARE POLICY

The Agenda



- Overview
- Examples of REMI Analysis
 - ▣ Economic Significance of Healthcare
 - ▣ Michigan Medicaid Expansion Case Study
 - ▣ Healthcare Subsidies Scenario

Why is Healthcare Important?



- Economic Importance: Healthcare is 17% of GDP and 11% of Employment; Growing; Major Sector for Some Cities (e.g. Rochester, Minnesota)
- Health is a Critical Human Need
- Healthcare is Expensive and Needs Government Regulation/Intervention (e.g. can't just have COVID vaccine go to highest bidder)
- COVID-19

Biden Policy: Healthcare



- Goal:
 - ▣ Access to Healthcare and
 - ▣ Decrease Healthcare Costs
- Establish a public health insurance option
 - ▣ Obamacare
 - ▣ Discount the cost of public health insurance for low income.
- Anti-trust, healthcare industry regulation, prescription drug price regulation
- Tax Credit
 - ▣ Extend health care tax credits.
 - ▣ Reduce the 9.86% limit on percent income spent on healthcare to 8.5% (Federal subsidy to cover)
- Increase the maximum capital gains tax from 23.8% to 39.6%
- However, too early to know about specific legislation or regulations

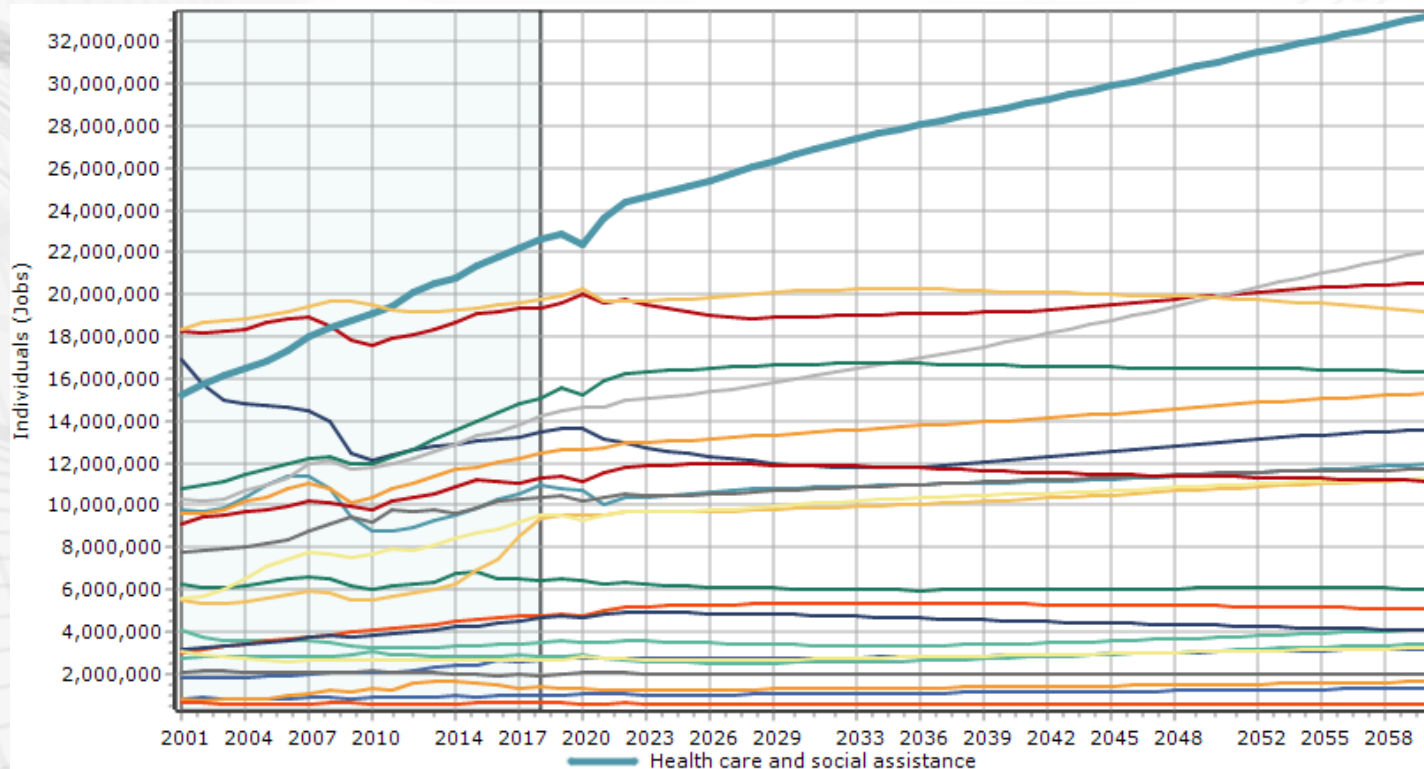
REMI Analysis

The Economic Significance of Healthcare

Economic importance of healthcare



- Largest sector of economy by employment
- Rapid growth that is forecasted to continue through 2060

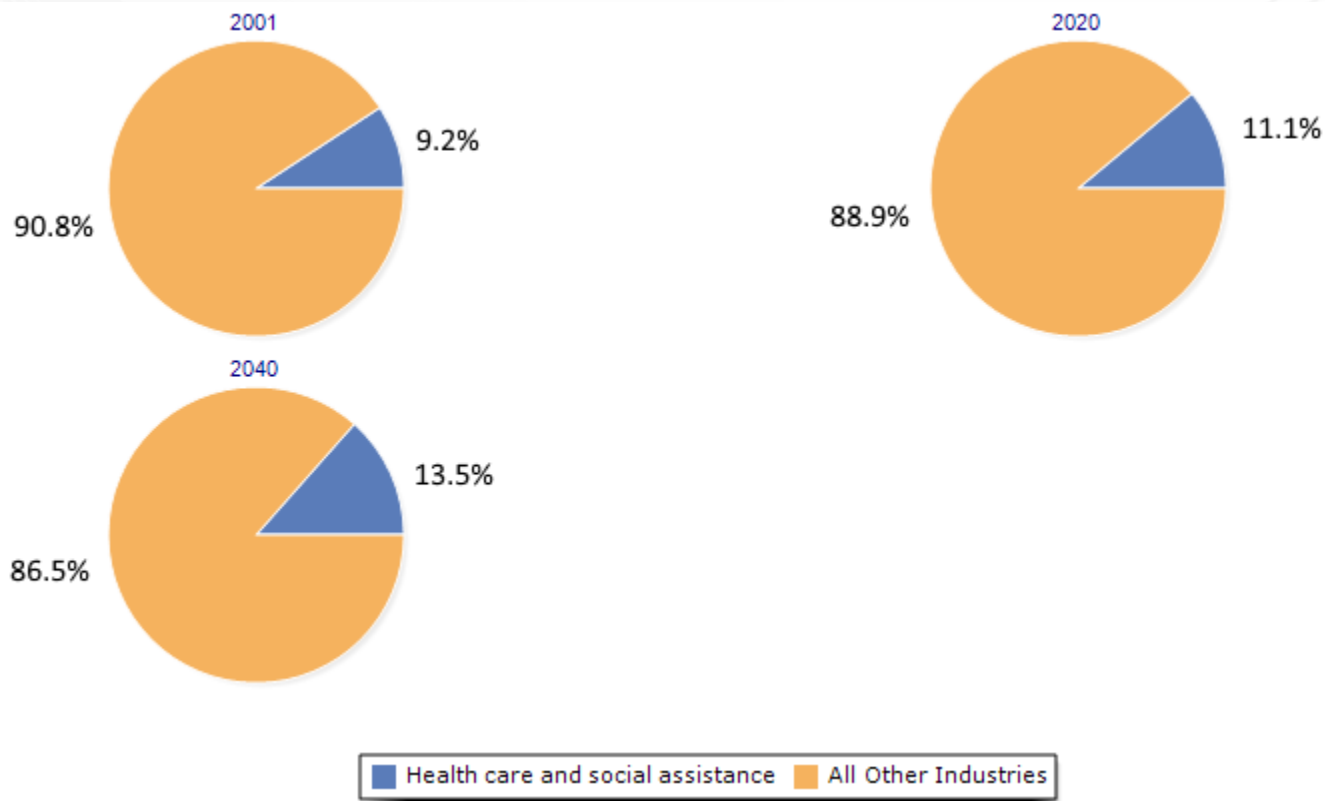


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Economic importance of healthcare



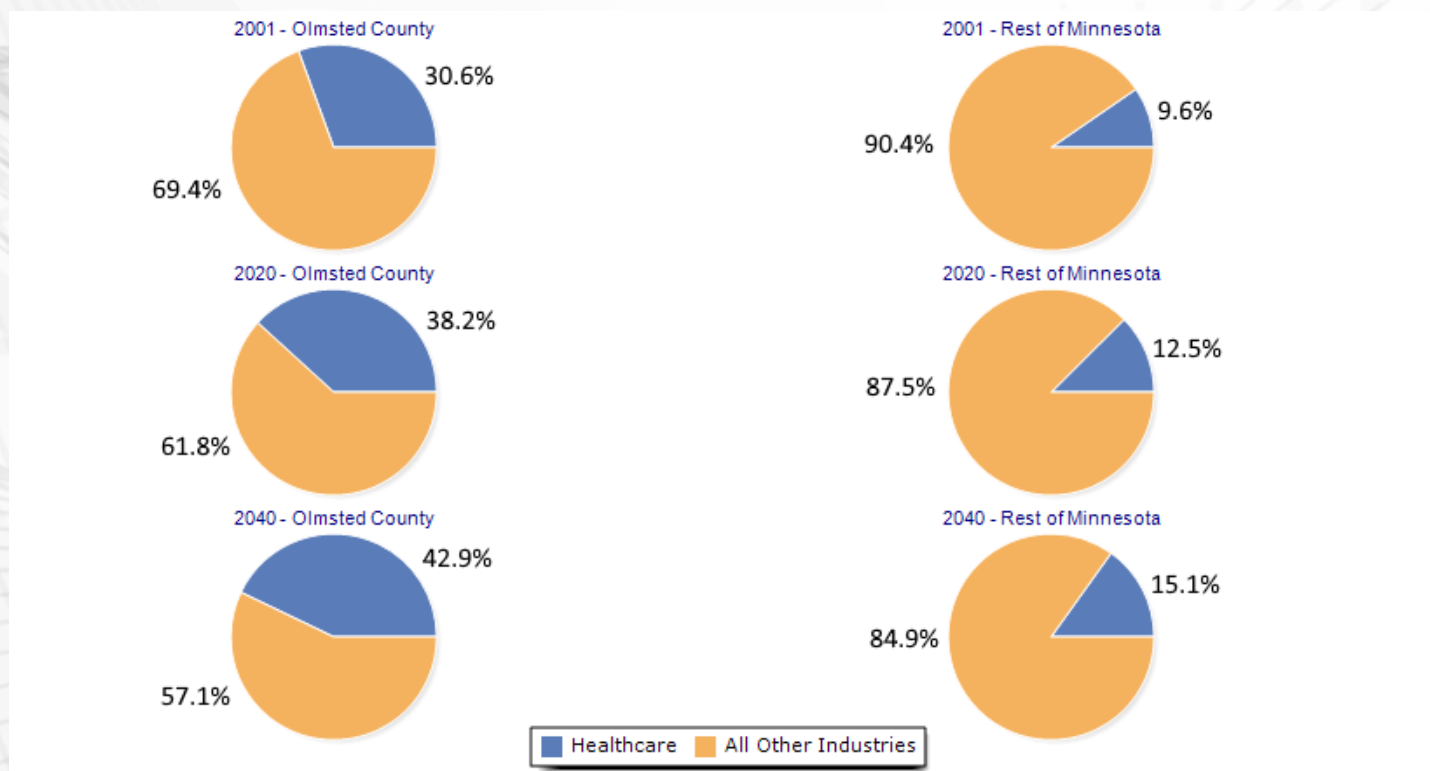
Percent of Employment for healthcare vs all other industries



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Regional clustering of healthcare

- Healthcare growth and policy decisions will be extremely important for these regional healthcare economies



Economic impact of a healthier population

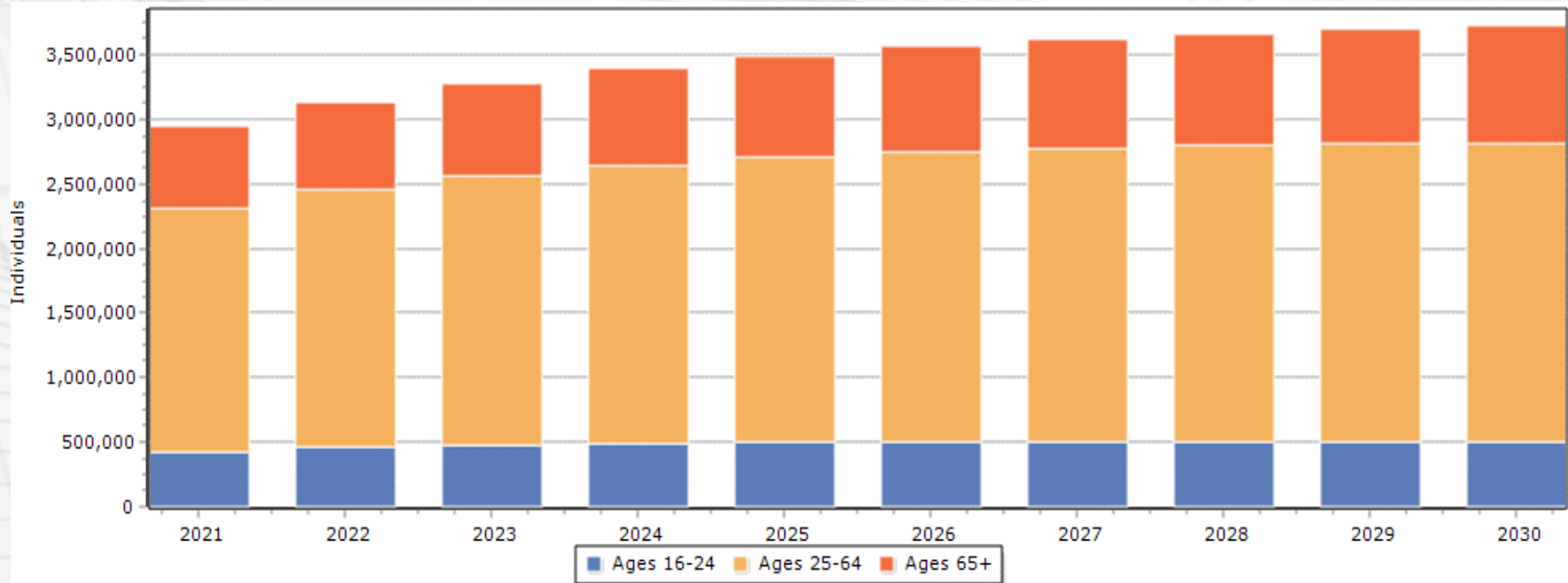


- The U.S. has a healthcare issue. Compared to other developed nations, more is spent per capita for worse health outcomes
 - ▣ Probably caused by a combination of factors
 - American lifestyle
 - Structure of healthcare systems
- The health of a nation is related to its labor force participation rate; populations with relatively poor health will have less participation
 - ▣ U.S. 61.7%
 - ▣ Canada 64.9%
 - ▣ United Kingdom 63.6%
 - ▣ Australia 65.5%
- A major benefit of improving American healthcare may be the macroeconomic effects of boosting the American labor force

Economic impact of a healthier population



- What if Americans were healthier such that American labor force participation were to increase by 1%?
- Additional 3 million people joining the labor force

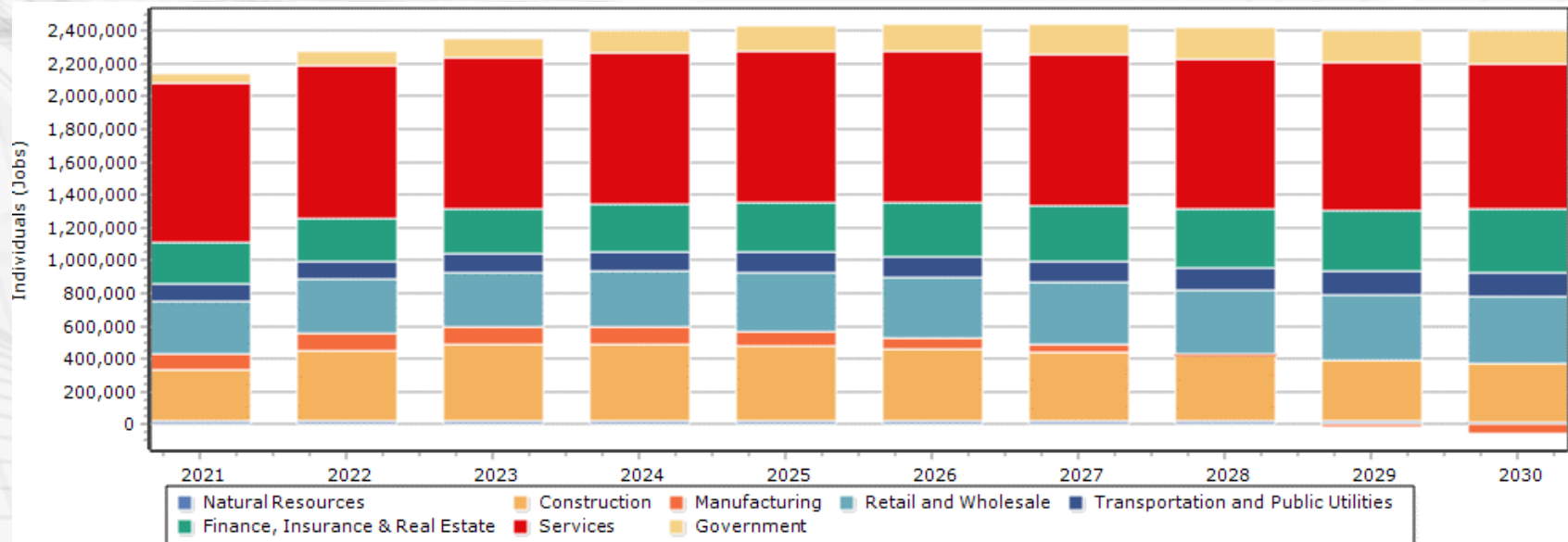


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Economic impact of a healthier population



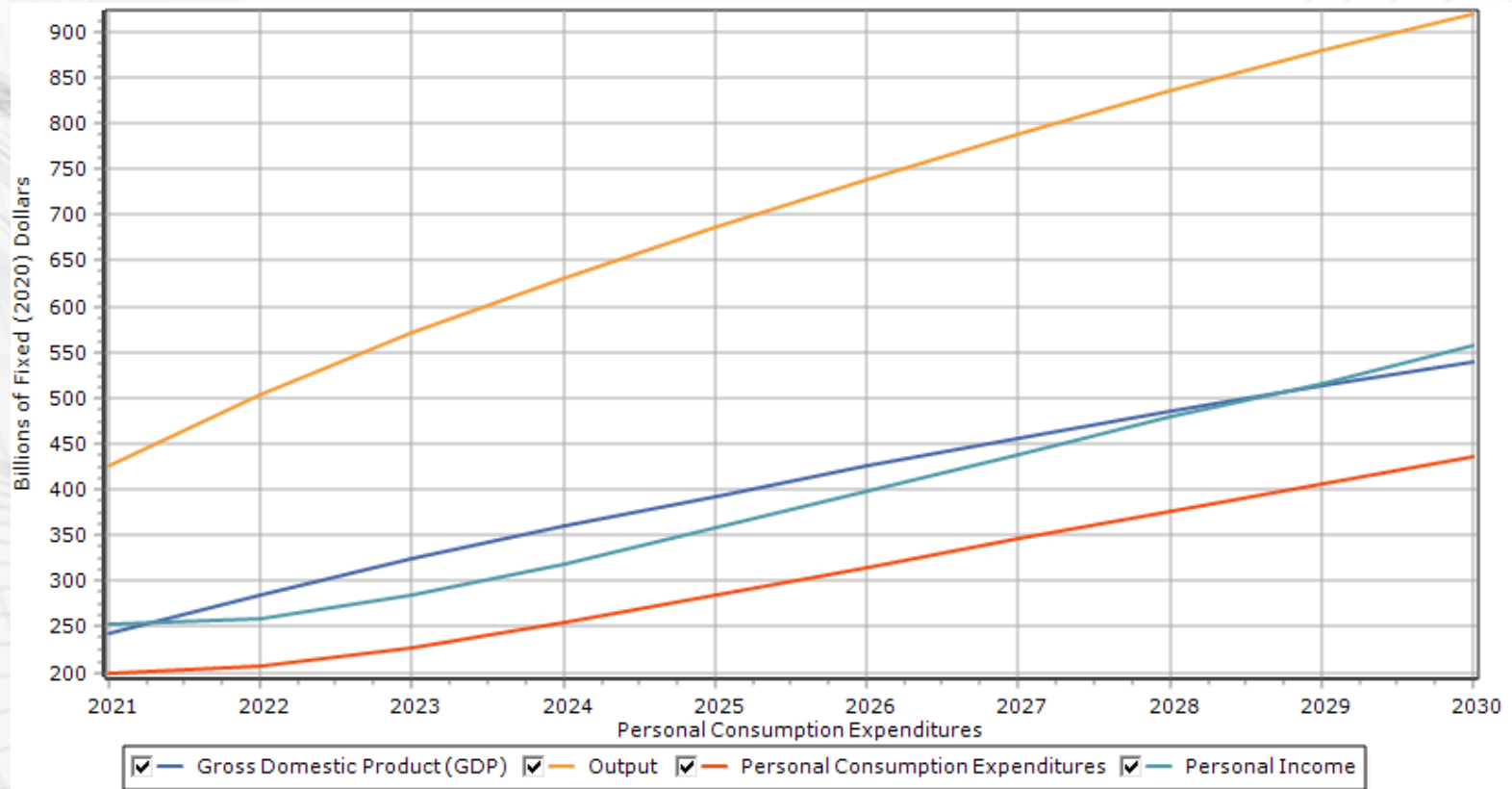
- Employment increases by more than 2 million jobs, nationally
- ▣ Majority in service industries



Economic impact of a healthier population



- Macroeconomic indicators increase substantially

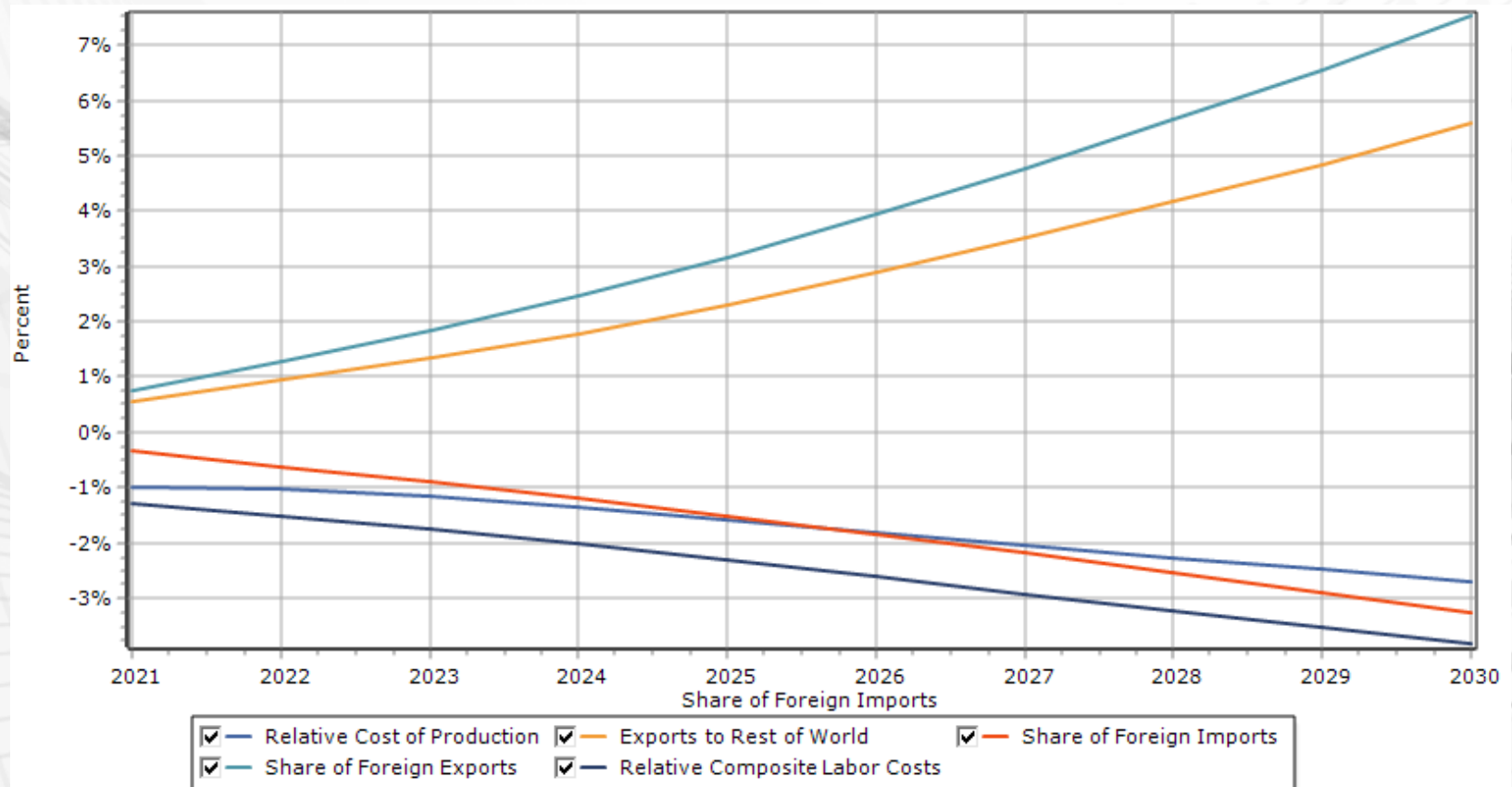


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Economic impact of a healthier population



- Lower labor costs allow U.S. to be more competitive globally



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REMI Analysis

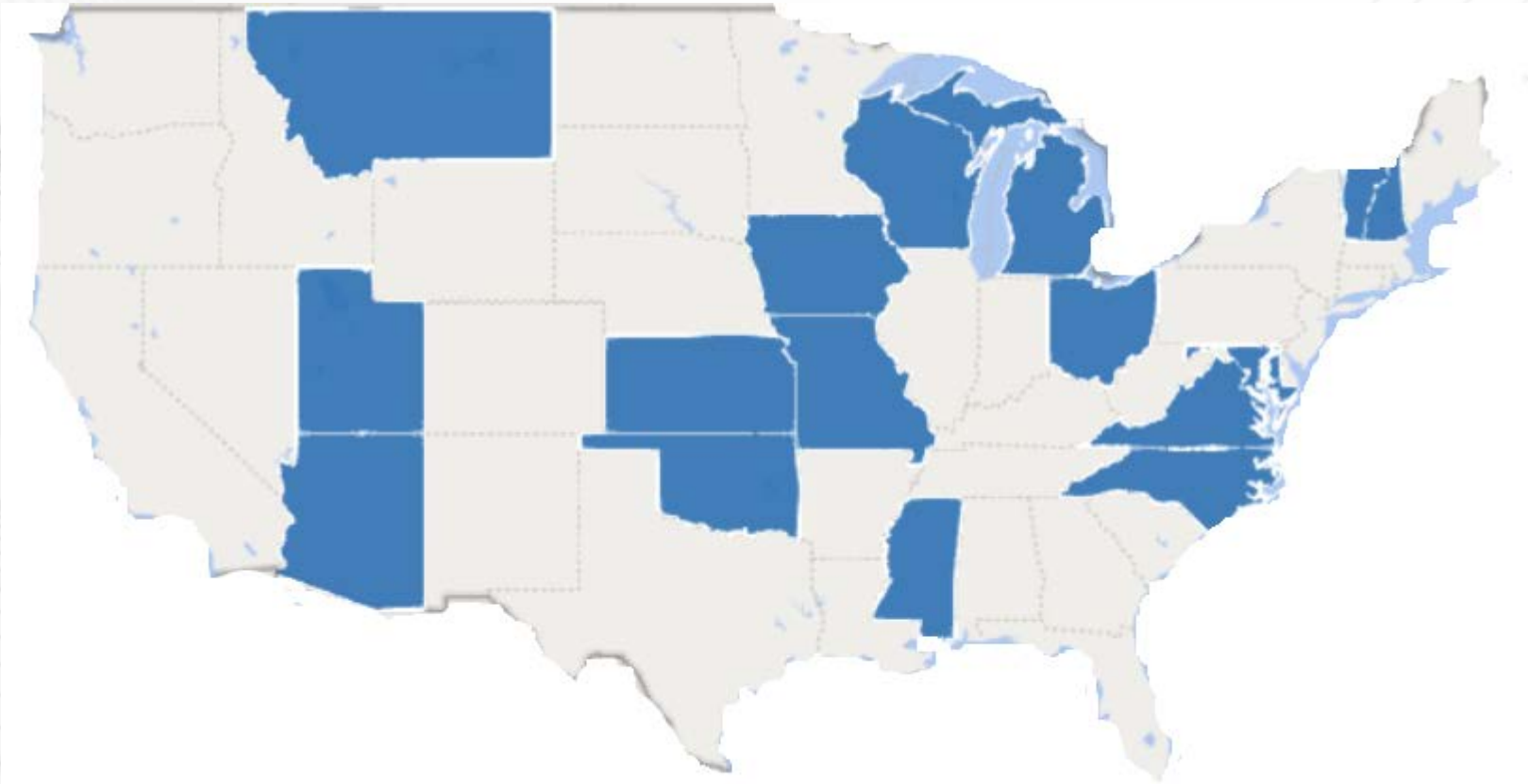
Medicaid Expansion in Michigan Case study

Other Medicaid Expansion Studies



- The Economic and Employment Benefits of Expanding Medicaid in North Carolina
- Expanding Possibilities by expanding Medicaid in Missouri
- The Economic Impact of Medicaid Expansion in Montana
- Economic and Employment Effects of Expanding Medicaid in Iowa
- Utah's Economy Will Benefit from Expanding Medicaid
- Economic Effects of Health Care Reform on Virginia
- Expanding Medicaid in Ohio
- Economics and Employment Effects of Expanding Medicaid in Arizona
- The Economic, Fiscal and Employment Effects of Health Care Modernization in Oklahoma
- Economic and Employment Effects of Expanding KanCare (KS)
- The Fiscal and Economic Impacts of Medicaid Expansion in Mississippi
- New Hampshire Medicaid Expansion
- Economic and Fiscal Effects of Expanding Medicaid in Maryland
- Wisconsin's Economy will Benefit from expanding Medicaid
- The Economics of Universal Healthcare: Case Study of Vermont Public Options

REMI Medicaid Studies



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Macroeconomic Feedback Effects of Medicaid Expansion: Evidence From Michigan



- Levy, Helen., Ayanian, John Z., Buchmueller, Thomas C., Grimes, Donald R., Ehrilich, Gabriel., and The University of Michigan. 2020. “Macroeconomic Feedback Effects of Medicaid Expansion: Evidence From Michigan.” *Journal of Health Politics, Policy and Law*, Vol. 45, No. 1, (February): 5-40.

Background

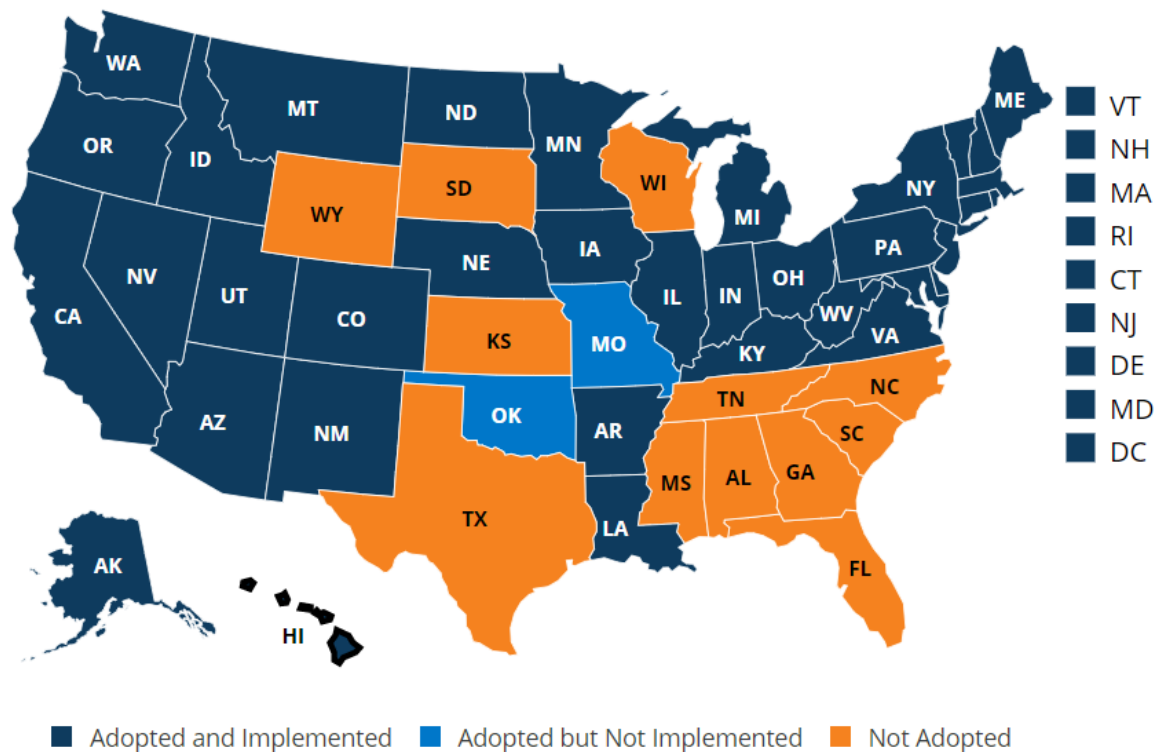


- Federal share of Medicaid spending in 2010: 57%
 - States required to provide Medicaid for certain populations
- ACA: Expand Medicaid eligibility to all nonelderly people below 138% of the FPL.
 - High fed share of spending on coverage of the expansion population
 - 2014: 100%, 2015: 95%, 2017: 93%, 2020 +: 90%
 - 14 states remain that have not expanded Medicaid

Medicaid Expansion



Status of State Action on the Medicaid Expansion Decision



Study Overview



- How large is the state-level fiscal impact of expanding Medicaid?
- Use Michigan as a case study.
- Attention to macroeconomic feedback effects.
- Findings
 - Savings on non-Medicaid health programs
 - Increase in revenue from provider taxes and sales and income taxes through 2021
 - Benefits are greater than state costs of expansion
- Method applicable to other states

Economic Impact without Macroeconomic Feedback



Michigan House Fiscal Agency (HFA) data

Table 2 Fiscal Analysis of Medicaid Expansion Impact in Michigan without Dynamic Effects

		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Expenditures (\$ millions)									
(1)	Total	917.6	3,404.6	3,616.4	3,539.3	3,592.1	3,663.5	3,736.5	3,810.8
(2)	Federal	897.6	3,384.6	3,596.4	3,387.3	3,366.7	3,397.6	3,372.7	3,411.7
(3)	State	20.0	20.0	20.0	152.0	225.4	265.9	363.8	399.1
(4)	Administrative costs	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
(5)	Health care spending	0	0	0	132.0	205.4	245.9	343.8	379.1
State budget savings on health programs (\$ millions)									
(6)	Total	100.0	235.0	235.0	235.0	235.0	235.0	235.0	235.0
(7)	Community mental health	77.0	168.0	168.0	168.0	168.0	168.0	168.0	168.0
(8)	Adult benefits waiver	12.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0
(9)	Corrections health care	10.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0
(10)	Other health programs	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Additional revenue from taxes on health plans and hospitals (\$ millions)									
(11)	Total	47.0	182.2	193.6	198.7	172.9	181.2	193.1	177.5
(12)	HICA revenue	6.7	20.3	21.6	26.4	28.6	29.1	22.3	0.0
(13)	Use tax revenue	40.3	161.9	172.1	42.1	0.0	0.0	0.0	0.0
(14)	QAAP revenue	0.0	0.0	0.0	130.3	144.3	152.1	170.8	177.5
Other information									
(15)	State share of health care spending	0	0	0	3.75%	5.75%	6.75%	9.25%	10%
(16)	Average monthly beneficiaries	286,300	544,400	600,000	600,000	600,000	600,000	600,000	600,000

Source: Koorstra and Jen 2016, with additional detail provided by the Michigan House Fiscal Agency (HFA).

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(Levy et al. 2020, 16)

Macroeconomic Modeling: REMI PI +



- Macroeconomic Impact Analysis
 - ▣ Fiscal Multipliers
- Time Dimension
 - ▣ Population change and productivity growth
- Macroeconomic Feedback Effects: REMI
 - ▣ Baseline Scenario: how much would federal health spending have increased without Medicaid expansion?
- Beyond a simple input output model: Does not assume the labor supply is unlimited

Macroeconomic Impact Inputs



Table 3 Selected Inputs for the Macroeconomic Model of Medicaid Expansion in Michigan

		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Expenditures (\$ millions)									
(1)	Total	917.6	3,404.6	3,616.4	3,539.3	3,592.1	3,663.5	3,736.5	3,810.8
(2)	Federal	897.6	3,384.6	3,596.4	3,387.3	3,366.7	3,397.6	3,372.7	3,411.7
(3)	State	20.0	20.0	20.0	152.0	225.4	265.9	363.8	399.1
Federal premium tax credits to Michigan residents in the nonexpansion scenario (\$ millions)									
(4)	Total	117.4	435.7	462.8	453.0	459.7	468.9	478.2	487.7
State budget savings on health programs (\$ millions)									
(5)	Total (from table 2, line 6)	100.0	235.0	235.0	235.0	235.0	235.0	235.0	235.0
Private sector health care savings (\$ millions)									
(6)	Total	180.3	679.9	722.5	707.0	717.6	731.9	746.6	761.5
(7)	Insured households	43.9	165.4	175.8	172.0	174.6	178.1	181.6	185.3
(8)	Businesses	75.6	285.1	302.9	296.4	300.9	306.9	313.0	319.3
(9)	Uninsured households	60.8	229.4	243.8	238.5	242.1	247.0	251.9	256.9
Other private sector effects (\$ millions)									
(10)	Increased federal tax payments	18.7	70.8	75.2	70.4	69.8	70.3	69.5	70.2
(11)	Lost sales to other states	8.6	32.4	34.4	32.2	31.9	32.2	31.8	32.1
Net federal stimulus (\$ millions)									
(12)	Total (12)=(2) – (4) – (10) – (11)	752.9	2,845.8	3,024.0	2,831.7	2,805.3	2,826.3	2,793.2	2,821.7

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(Levy et al. 2020, 20)

Macroeconomic Output



Table 4 Macroeconomic Model Output

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Increase in employment (jobs)								
(1) Total	7,181	28,113	36,509	34,971	32,683	31,227	29,197	27,567
(2) State/local government	1,506	4,815	6,183	5,450	4,447	3,977	3,256	2,667
(3) Hospitals and ambulatory health Care	1,847	8,044	10,140	9,673	9,378	9,196	8,984	8,886
(4) Other private sector	3,828	15,254	20,186	19,848	18,859	18,054	16,957	16,014
Increase in population (persons)								
(5)	1,725	8,001	15,003	20,586	24,996	28,624	31,448	33,676
Increase in personal income (\$ millions)								
(6)	356.2	1,446.4	2,028.0	2,124.1	2,150.0	2,197.8	2,189.7	2,190.0
Increase in state tax revenue from economic benefits								
(7) Total (\$ millions)	23.6	96.4	134.5	139.7	139.7	140.7	138.0	135.9
(8) Per new resident (\$)	13,680	12,049	8,695	6,786	5,589	4,915	4,388	4,035
Addendum:								
(9) Total state tax revenue per capita (\$)	2,533	2,718	2,763	2,839	2,917	2,998	3,080	3,165

Total state tax revenue per capita for fiscal years 2011 to 2016 is taken from www.census.gov/programs-surveys/gov-finances/data/datasets.html. Data for fiscal years 2017 to 2021 this line are presented in italics and are based on an extrapolation using the fiscal years 2011 to 2016 annual growth rate of 2.76% per year.

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(Levy et al. 2020, 26)

Overall Impact on State Budget



Table 5 Putting It All Together Impact of Medicaid Expansion in Michigan on the State Budget including Dynamic Effects, Fiscal Years 2014 through 2021

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
(1) State spending on expansion (\$ millions)	20.0	20.0	20.0	152.0	225.4	265.9	363.8	399.1
(2) State budget savings on other health programs and other programs (million \$)	100.0	235.0	235.0	235.0	235.0	235.0	235.0	235.0
(3) State taxes and contributions from health plans and hospitals (millions \$)	47.0	182.0	194.0	198.0	163.0	171.0	193.0	178.0
(4) Increase in state tax revenue from economic benefits (\$ millions)	23.6	96.4	134.5	139.7	139.7	140.7	138	135.9
(5a) Increase in state cost from net new residents (0% current tax rev. per cap.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(5b) Increase in state cost from net new residents (50% current tax rev. per cap.)	2.2	10.9	20.7	29.2	36.5	42.9	48.4	53.3
(5c) Increase in state cost from net new residents (100% current tax rev. per cap.)	4.4	21.7	41.5	58.4	72.9	85.8	96.9	106.6
(6a) Net effect on state budget (no additional cost for net new residents) (6a) = (2) + (3) + (4) – (5a) – (1)	150.6	493.4	543.5	420.7	312.3	280.8	202.2	149.8
(6b) Net effect on state budget (50% of per capita cost for net new residents) (6b) = (2) + (3) + (4) – (5b) – (1)	148.4	482.5	522.8	391.5	275.8	237.9	153.8	96.5
(6c) Net effect on state budget (100% of per capita cost for net new residents) (6c) = (2) + (3) + (4) – (5c) – (1)	146.2	471.7	502.0	362.3	239.4	195.0	105.3	43.2

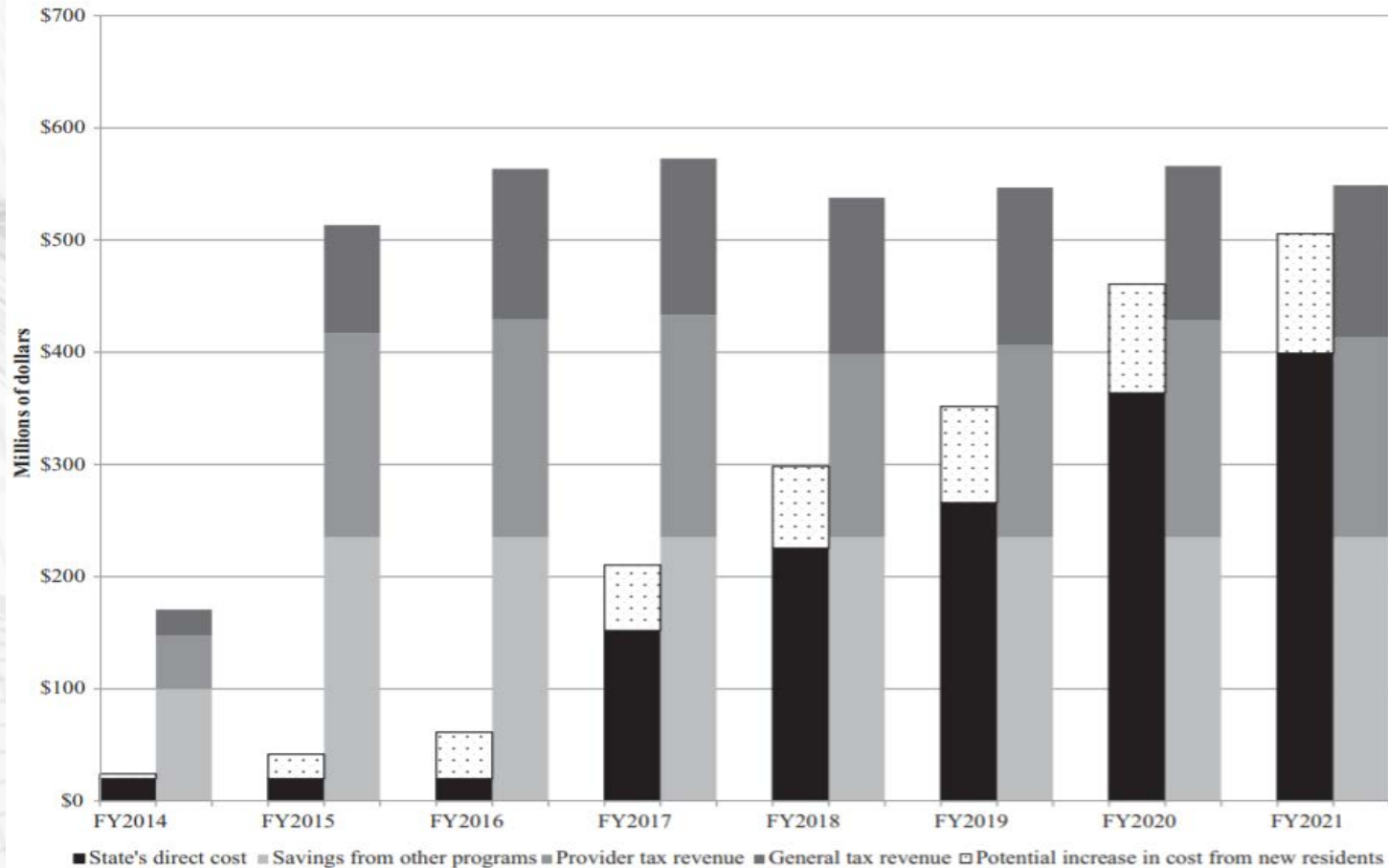
Sources: Rows (1), (2), and (3) are from the Michigan House Fiscal Agency (Koorstra and Jen 2016). Row (4) is model output from our analysis. Row (5) is calculated as indicated in the table.

Note: All amounts for state expenditures, state taxes, and contributions for health plans and hospitals, and state budget savings are shown in nominal dollars unadjusted for inflation, as reported by the House Fiscal Agency.

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(Levy et al. 2020, 27)

Case Study Conclusions



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(Levy et al. 2020, 32)

Model Scenarios



- Healthcare Tax Credit: From 9.86% to 8.5%
- Pay for with Capital Gains Tax Increase
- Scenario 1:
 - Direct significant increase in production costs.
 - Businesses bear brunt of tax increase.
- Scenario 2:
 - Most of tax burden falls on individuals.
 - Reduction in consumption and savings, small increase in production costs.

Conclusions



- Healthcare and the economy are top priority in 2021.
- Modeling is vital to understanding economic and fiscal consequences of Healthcare Policy.
- Medicaid expansion is an example; every policy needs economic and fiscal analysis.