
Feasibility of Medicaid Expansion in Alabama

A Working Paper of the Manuel H. Johnson Center for Political Economy



JOHNSON CENTER
TROY UNIVERSITY

Scott Beaulier is the Executive Director of Troy University's Manuel H. Johnson Center for Political Economy. He is also the division chair of the Economics and Finance program at Troy University. He received a B.S. degree in Economics and History from Northern Michigan University, a M.A. in Economics from George Mason University, and a Ph.D. in Economics from George Mason University. He writes weekly for *The Birmingham News*.

Phillip Mixon is a Professor of Economics at Troy University. He received a B.S. degree in Economics from Mississippi State University and Ph.D. in Economics from Mississippi State University. He has been active in the area of economic impact and feasibility studies for several entities both public and private throughout the South. He has published several refereed articles dealing with educational economics, energy economics, economic impact studies, and planned development.



For additional copies, please contact:

Manuel H. Johnson Center for Political Economy
137 Bibb Graves Hall, Troy University
Troy, AL 36082
P: 334-808-6583

<http://business.troy.edu/JohnsonCenter>



Feasibility of Medicaid Expansion in Alabama

A Working Paper of the Manuel H. Johnson Center for Political Economy

by

Dr. Scott Beaulier & Dr. Phillip A. Mixon

Printed 2014 by
Manuel H. Johnson Center for Political Economy at Troy University
Troy, Alabama

Permission to reprint in whole or in part is hereby granted, provided
the Johnson Center is properly cited.

Feasibility of Medicaid Expansion in Alabama

INTRODUCTION

Throughout 2013, the State of Alabama was inundated with media coverage of the cost of Alabama not expanding Medicaid under the Patient Protection and Affordable Care Act (PPACA). The calls for expansion have continued into 2014 in spite of Governor Bentley's repeated refusal to do so.¹ For example, David Bronner, CEO of the Retirement Systems of Alabama (RSA), has included a monthly update in the RSA bulletin on the status of the expansion and drafted numerous op-eds pressuring Governor Bentley to expand the program. The media coverage has been primarily centered around two economic impact studies commissioned by the Alabama Hospital Association: The first conducted by the University of Alabama at Birmingham's Department of Health Care and Policy² (the UAB Study) and another developed by the University of Alabama Center for Business and Economic Research³ (the UA study).

Unfortunately, these studies have been presented as independent research on the expansion of Medicaid in Alabama under the PPACA. Quite to the contrary, institutions that have a vested financial interest in the expansion have financed both studies. This paper seeks to examine the assumptions, models, and conclusions of the two studies. It will also offer an alternative model for considering the impact of the Medicaid expansion in Alabama.

EXAMINING THE ASSUMPTIONS

The General Equilibrium Framework Challenge

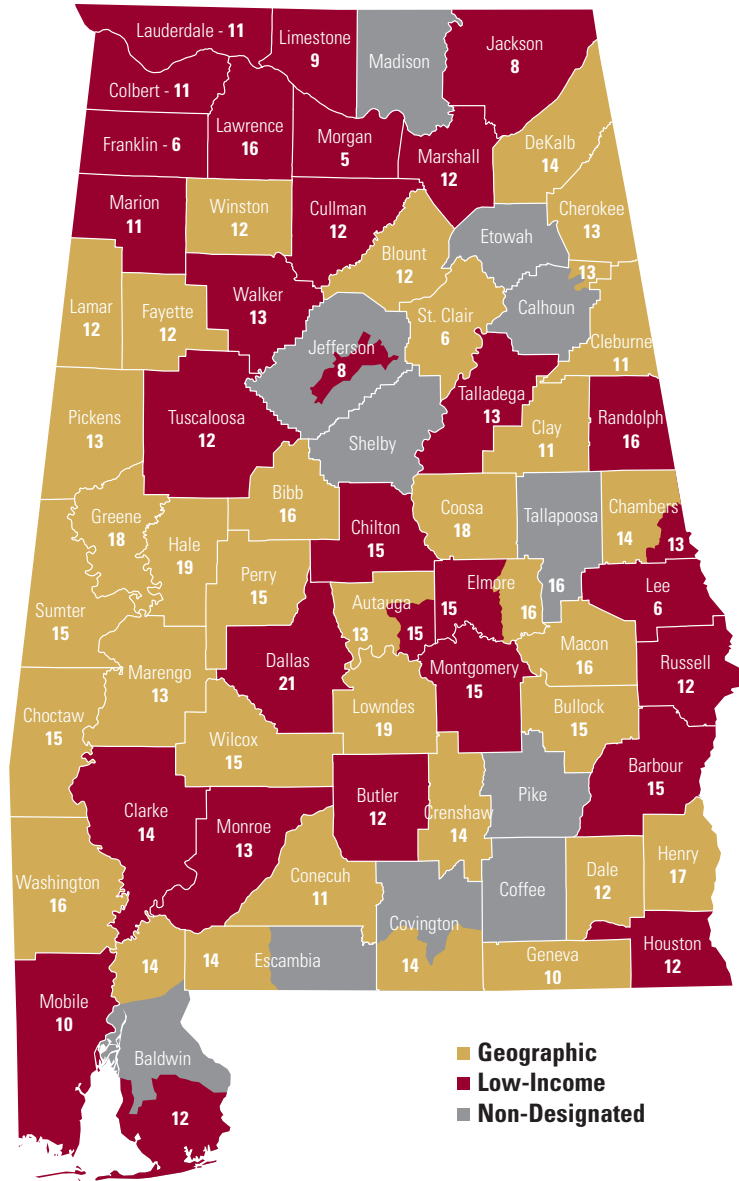
Most economic impact studies are based on a general equilibrium framework. The basic idea is that there is a certain balance between supply, demand, and prices. The framework suggests that the economy tends to orient itself according to that balance. However, the model never indicates that general equilibrium actually has been or will be achieved; rather, it highlights a general trend. Many economic impact studies erroneously assume the equilibrium will occur because they are addressing normal marketplace conditions.

Unfortunately, those assumptions do not always become reality. For example, the State of Alabama currently has a shortage of doctors.⁴ The general equilibrium model would indicate a number of responses to such an event. Either people stop demanding as much health care, the State radically increases the supply of health professionals, or the cost of health care increases. The subsequent increase in cost would theoretically attract more doctors to the State which would create a new shift towards equilibrium.

The model breaks down particularly when applied to government-funded healthcare. First, the very nature of the PPACA's Medicaid expansion will naturally lend itself to an increase in demand for health care. Second, as this study will discuss, the supply of health professionals shows no signs of radically increasing, especially in areas where the expansion would likely have the most pronounced impact. Finally, Medicaid reimbursement rates

Figure 1

Primary Care Health Professional Shortage Areas, October 2013
HPSA Scores (Range 1–25)



Source: The Alabama Office of Primary Care and Rural Health

set by the government are unlikely to respond naturally to the relatively static supply of doctors and the increasing demand for health care. Without the economic incentive of higher wages to attract care providers to Alabama, the fundamental assumption of equilibrium sparking economic growth breaks down.

The General Equilibrium Framework assumed by the economic analysis of the UAB and UA studies does not adequately account for the fact that the economic impact of PPACA's Medicaid expansion would likely fail to follow normal marketplace dynamics.

Supply of Medical Professionals

Currently, the State of Alabama has a shortage of doctors and other medical professionals. The Alabama Rural Health Association (ARHA) has released a report indicating 60 of the 67 counties in Alabama have a shortage of primary care providers.⁵ The ARHA indicates Alabama needs between 128 and 402 primary care physicians. While this number does not seem insurmountable, this estimate does not account for the increase in demand that would occur from the PPACA's Medicaid expansion. The ARHA observes that existing doctors in Alabama are aging quickly with over half age 50 or older. Only 18 of the approximate 225 or 8% of Alabama's 2010 medical school graduates entered into family practice with 7 doing so out-of-state. For more statistics, see Auburn University's Rural Medicine Crisis in Alabama webpage.⁶

Looking at statistics from The Alabama Office of PrimaryCare and RuralHealth, the number of

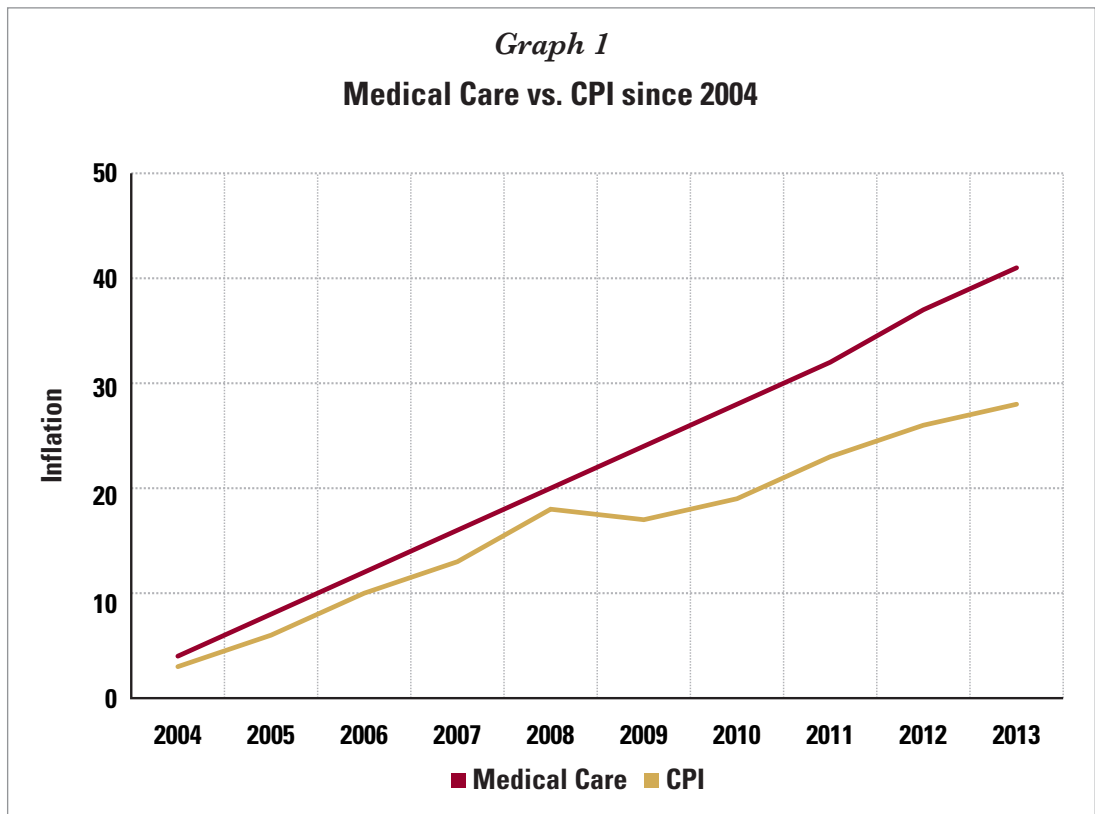
areas with shortages is staggering. Figure 1 shows the area of Alabama with a shortage in primary care doctors. Of particular interest are the areas shaded in red, these areas indicate a shortage of doctors for low income individuals or those most likely to use the expansion of Medicaid.

Employment Estimates

Given the shortage of medical professionals in Alabama, the employment figures in the UA study do not represent a realistic forecast of employment in Alabama. Alabama trends with the rest of the U.S. on its natural rate of unemployment—the lowest sustainable level of unemployment. While there is debate on the exact natural rate, the St. Louis Federal Reserve places it at 5.25%, and the Cleveland Federal Reserve places it at 5.7%. Currently, Alabama has a 6.1% unemployment rate as of December 2013.⁷

Economic projections of the UA and UAB studies hinge heavily on the availability of healthcare-related labor. Without healthcare professionals, health spending under the Medicaid expansion fails to take place. More importantly, the economic impacts of second and third tier spending and the associated job creation simply fail to materialize.

The UA study projects the Medicaid expansion in Alabama would create at the low-end 24,613 jobs, intermediate 30,722 jobs, and high-end 51,918 jobs. If these jobs were created from the rolls of currently unemployed Alabamians, the unemployment rate in Alabama would become, 4.96%, 4.67% and 3.78%, respectively. In other words, the UA study would be proposing the Medicaid expansion would perform a modern



miracle in that Alabama can create unemployment below the sustainable rate, based on expansion of a government program.

If the UA study projects those jobs will result from net job migration from other states, it ignores the current shortage of medical professionals and the fact that each state would be competing for the same jobs with the same resource, namely the Medicaid expansion. Since Medicaid reimbursement rates typically support a volume-oriented business model, the assumptions face the real-life competitive reality that lower-population states would be at a competitive disadvantage to states with

higher numbers of Medicaid beneficiaries.

As economist Bob Neal at the University of Mississippi pointed out in his study of the Medicaid expansion in Mississippi, “We are concerned that there will be insufficient health care professionals available to meet the increased demand for health care resulting from Medicaid expansion, as much of the State already suffers from a shortage of health care professionals.”⁸

Cost Estimates

The next issue with the two studies is the cost of the expansion. The cost estimates of medical care used in both studies inaccurately represent the growth in price of medical care in the

southern United States. Both the UA and UAB studies use the Congressional Budget Office (CBO) national cost estimates with baseline assumptions, or assumptions that the current situation will remain the same or improve. Not only do the CBO estimates tend to be optimistic, but they fail to realize regional differences. Moreover, the CBO tends to find the cost savings mandated by law, even if the savings never actually materialize over the budget window. Shown in Graph 1, the southern U.S. inflation of medical care since 2003 has consistently outpaced CPI and has grown over time.

A significant issue with the UAB study is their administration cost estimates. The study uses a 2.25% administration cost estimate for the expansion. This estimate does not provide a plausible estimate of the cost of the Medicaid expansion. According to the Alabama Medicaid Agency's Primer on Medicaid, Alabama currently has 3.3% administrative costs, which is the lowest in the nation. This means that the UAB study assumes that the lowest-cost Medicaid administration in the country will become more efficient with the inclusion of the expansion population.

The UAB study also discusses the PPACA's cut in Medicaid and Medicare Disproportionate Share (DSH) payments. These cuts will occur whether or not Alabama expands Medicaid, yet the UAB study emphasizes the cuts as a cost of not expanding Medicaid. While entities experiencing the PPACA DSH cuts might benefit from the Medicaid expansion, the cuts were not made in

response to Alabama's decision not to expand Medicaid under the PPACA.

Last, the UAB and UA studies do not account for fraud and misuse of Medicaid in their cost estimates. Medicaid and Medicare fraud is a significant percentage of the total expenditures.⁹ The Centers for Medicare and Medicaid Services estimates that 3% - 10% of payments are improper and/or fraudulent.¹⁰ This represents roughly between \$930,000 and \$5,340,000 (using cost to Alabama, 3%, and 2014 & 2020) of wasted taxpayers' money in Alabama.

ECONOMIC BENEFITS AND REVENUE IMPACTS

The UA study uses the commissioned UAB study as its source of economic activity resulting from the Medicaid expansion for the purposes of calculating employment figures. The UAB study uses a flawed approach in calculating the fiscal benefits of tax revenues generated by the expansion. The authors simply figure the average state and local tax burden—as calculated by the Federal Tax Administrators (FTA)—by the estimated increase in Gross State Product (GSP). The UAB study uses an 8.6% average tax burden for Alabama, which includes local taxes in its calculation. However, even the FTA concedes this inclusion of local taxes overestimates the average tax burden.¹¹ On the surface, this is a legitimate technique to calculate the tax revenues. However, this makes the heroic assumption that the increase in federal spending will be taxed. Fortunately, in Alabama, medical care is not taxed. Therefore, the average

Table 1
The General Equilibrium Framework: Low Take-up

	UAB Indirect	UAB	FTA State	Cost	Net UAB	Net FTA State
2014	\$955.00	\$82.13	\$51.57	(\$45.47)	\$36.66	\$6.10
2015	\$957.00	\$82.30	\$51.68	(\$45.47)	\$36.84	\$6.21
2016	\$954.00	\$82.04	\$51.52	(\$45.47)	\$36.58	\$6.05
2017	\$910.00	\$78.26	\$49.14	(\$114.47)	(\$36.21)	(\$65.33)
2018	\$911.00	\$78.35	\$49.19	(\$129.47)	(\$51.12)	(\$80.27)
2019	\$919.00	\$79.03	\$49.63	(\$146.47)	(\$67.43)	(\$96.84)
2020	\$906.00	\$77.92	\$48.92	(\$192.47)	(\$114.55)	(\$143.54)

Table 2
The General Equilibrium Framework: Intermediate Take-up

	UAB Indirect	UAB	FTA State	Cost	Net UAB	Net FTA State
2014	\$1,192.00	\$102.51	\$64.37	(\$58.50)	\$44.01	\$5.87
2015	\$1,194.00	\$102.68	\$64.48	(\$58.50)	\$44.18	\$5.98
2016	\$1,190.00	\$102.34	\$64.26	(\$58.50)	\$43.84	\$5.76
2017	\$1,136.00	\$97.70	\$61.34	(\$144.50)	(\$46.80)	(\$83.16)
2018	\$1,136.00	\$97.70	\$61.34	(\$163.50)	(\$65.80)	(\$102.16)
2019	\$1,147.00	\$98.64	\$61.94	(\$183.50)	(\$84.86)	(\$121.56)
2020	\$1,131.00	\$97.27	\$61.07	(\$241.50)	(\$144.23)	(\$180.43)

Table 3
The General Equilibrium Framework: High Take-up

	UAB Indirect	UAB	FTA State	Cost	Net UAB	Net FTA State
2014	\$2,015.00	\$173.29	\$108.81	(\$95.33)	\$77.96	\$13.48
2015	\$2,018.00	\$173.55	\$108.97	(\$95.33)	\$78.21	\$13.64
2016	\$2,012.00	\$173.03	\$108.65	(\$95.33)	\$77.70	\$13.31
2017	\$1,921.00	\$165.21	\$103.73	(\$241.33)	(\$76.12)	(\$137.60)
2018	\$1,921.00	\$165.21	\$103.73	(\$273.33)	(\$108.12)	(\$169.60)
2019	\$1,938.00	\$166.67	\$104.65	(\$308.33)	(\$141.66)	(\$203.68)
2020	\$1,911.00	\$164.35	\$103.19	(\$405.33)	(\$240.98)	(\$302.14)

tax burden will decrease with the increased GSP. Therefore, calculating the tax revenues from the total estimated change in GSP does not realistically forecast revenues. Only the secondary spending—the indirect impact—should be used to calculate the tax impacts of the expansion.

Second, while UAB’s economic impact analysis attempts to argue the “benefit” of the expansion for the state, the revenues of local governments are not available to offset the increased cost of Medicaid. Without the local tax burden, the FTA state tax burden decreases to 5.4% for 2012, making the revenue estimates significantly lower. For state political leaders attempting to consider whether state budgets will be able to pay for the cost of the expansion without a tax increase, the state-only burden is more accurate in projecting

revenue generation. Tables 1-3 provide a comparison between the cost-benefit estimates.

Using the UAB study’s cost estimates as a best-case scenario, the fiscal impact of the expansion on Alabama’s budget does not bode well for the taxpayers of Alabama and suggests that the expansion is not the revenue windfall that the UAB study projects.

Table 4
The Johnson Center's Augmented General Equilibrium Model: Low Take-up

	JCAGE Indirect	UAB	FTA State	Cost	Net UAB	Net FTA State
2014	\$112.00	\$9.63	\$6.05	(\$45.47)	(\$35.83)	(\$39.42)
2015	\$112.23	\$9.65	\$6.06	(\$45.47)	(\$35.81)	(\$39.41)
2016	\$111.88	\$9.62	\$6.04	(\$45.47)	(\$35.84)	(\$39.42)
2017	\$106.72	\$9.18	\$5.76	(\$114.47)	(\$105.29)	(\$108.70)
2018	\$106.84	\$9.19	\$5.77	(\$129.47)	(\$120.28)	(\$123.70)
2019	\$107.78	\$9.27	\$5.82	(\$146.47)	(\$137.20)	(\$140.65)
2020	\$106.25	\$9.14	\$5.74	(\$192.47)	(\$183.33)	(\$186.73)

Table 5
The Johnson Center's Augmented General Equilibrium Model: Intermediate Take-up

	JCAGE Indirect	UAB	FTA State	Cost	Net UAB	Net FTA State
2014	\$324.00	\$27.86	\$17.50	(\$58.50)	(\$30.64)	(\$41.00)
2015	\$324.54	\$27.91	\$17.53	(\$58.50)	(\$30.59)	(\$40.97)
2016	\$323.46	\$27.82	\$17.47	(\$58.50)	(\$30.68)	(\$41.03)
2017	\$308.78	\$26.55	\$16.67	(\$144.50)	(\$117.95)	(\$127.83)
2018	\$308.78	\$26.55	\$16.67	(\$163.50)	(\$136.95)	(\$146.83)
2019	\$311.77	\$26.81	\$16.84	(\$183.50)	(\$156.69)	(\$166.66)
2020	\$307.42	\$26.44	\$16.60	(\$241.50)	(\$215.06)	(\$224.90)

Table 6
The Johnson Center's Augmented General Equilibrium Model: High Take-up

	JCAGE Indirect	UAB	FTA State	Cost	Net UAB	Net FTA State
2014	\$900.00	\$77.40	\$48.60	(\$95.33)	(\$17.93)	(\$46.73)
2015	\$901.34	\$77.52	\$48.67	(\$95.33)	(\$17.82)	(\$46.66)
2016	\$898.66	\$77.28	\$48.53	(\$95.33)	(\$18.05)	(\$46.81)
2017	\$858.01	\$73.79	\$46.33	(\$241.33)	(\$167.54)	(\$195.00)
2018	\$858.01	\$73.79	\$46.33	(\$273.33)	(\$199.54)	(\$227.00)
2019	\$865.61	\$74.44	\$46.74	(\$308.33)	(\$233.89)	(\$261.59)
2020	\$853.55	\$73.41	\$46.09	(\$405.33)	(\$331.92)	(\$359.24)

THE JOHNSON CENTER'S AUGMENTED GENERAL EQUILIBRIUM (JCAGE) MODEL

This study provides an alternative projection using the same IMPLAN® software utilized by the UAB study. The UAB study was the example since the UA study used the UAB study as the foundation of their study. The Johnson Center's Augmented General Equilibrium Model (JCAGE) outlined below takes the most of the direct impact out because simply possessing government health coverage does not directly contribute to the economy. The only impact to the economy created by an additional Medicaid beneficiary occurs when the additional enrollee uses the system for health services. The JCAGE model is, therefore, augmented to capture only the indirect

impacts. Additionally, employment impacts are not estimated for the reasons discussed above and because the expansion of Medicaid would only directly create governmental jobs, not any medical jobs.

This model does use the estimates of new enrollees from the UAB study in an effort to have a comparable result. However, other research in other states has used higher lower-end take-up rates.¹² Tables 4-6 show the alternative model results.

The impact estimates generated by the JCAGE model above further demonstrate that the cost of expanding Medicaid will outpace the benefits. This is in contrast to both the UAB and UA studies. These two studies build their

results upon an unlikely view of the Alabama economy. Both studies would indicate the key to economic development is to expand government entitlements.

CONCLUSION

Much of the mainstream media in Alabama has promoted content fueled by data from studies commissioned by parties financially interested in the Medicaid expansion under the PPACA. This study raises specific concerns regarding the assumptions used by others to support the PPACA's Medicaid expansion in Alabama. It also demonstrates that there are alternative economic projections developed by economists in the State of Alabama that suggest a far different outcome should Alabama choose to expand its Medicaid program.

ENDNOTES

- 1 David Wood, *Gov. Bentley Responds to Pressure to Expand Alabama Medicaid Program*, WHNT (Dec. 4, 2013), <http://whnt.com/2013/12/04/governor-responds-to-pressure-to-expand-alabama-medicaid-program/>
- 2 David J. Becker & Michael A. Morrissey, *An Economic Evaluation of Medicaid Expansion in Alabama under the Affordable Care Act*, DEPARTMENT OF HEALTHCARE ORGANIZATION AND POLICY, UNIVERSITY OF ALABAMA AT BIRMINGHAM, (Nov. 5, 2012), <http://www.soph.uab.edu/files/faculty/mmorrissey/Becker-Morrissey%20Study%20of%20Alabama%20Medicaid%20Expansion%202012.pdf>
- 3 Samuel Addy & Ahmad Ijaz, *Economic Impact by Industry of Medicaid Expansion in Alabama under the Affordable Care Act*. CENTER FOR BUSINESS AND ECONOMIC RESEARCH, UNIVERSITY OF ALABAMA, (Sept. 2013), <http://media.al.com/wire/other/Read%20the%20Alabama%20Hospital%20Association%20study.pdf>; see also Yann Ranaivo, *Alabama could add 30,000+ jobs with Medicaid expansion*, BIRMINGHAM BUSINESS JOURNAL, (Oct. 9, 2013), <http://www.bizjournals.com/birmingham/news/2013/10/09/alabama-could-add-30000-jobs-with.html>
- 4 HEALTH RESOURCES AND SERVICES ADMINISTRATION, U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES, SHORTAGE DESIGNATION: HEALTH PROFESSIONAL SHORTAGE AREAS AND MEDICALLY UNDERSERVED AREAS/POPULATIONS, (2013). available at <http://bhpr.hrsa.gov/shortage/updateddesignations/2013June27/primarycarehpsa2013.pdf>
- 5 *Primary Care Physician Shortage*, ALABAMA RURAL HEALTH ASS'N (2010), <http://www.arhaonline.org/app/download/6749034904/PCPhysicianBrief.pdf>
- 6 *Rural Medicine Crisis in Alabama*, COLLEGE OF SCIENCES AND MATHEMATICS, AUBURN UNIVERSITY, (Apr. 12, 2010), <http://www.auburn.edu/academic/cosam/departments/student-services/pre-health-programs/ruralmedicine/Alabamas-Crisis.htm>
- 7 ALABAMA DEPARTMENT OF LABOR, UNEMPLOYMENT STATISTICS, (Dec. 2013), available at <http://www2.labor.alabama.gov/LAUS/default.aspx>
- 8 Bob Neal, *The Fiscal and Economic Impacts of Medicaid Expansion in Mississippi*, UNIVERSITY RESEARCH CENTER, (Oct. 2012), <http://www.mississippi.edu/urc/downloads/medicaid-oct-16.pdf>
- 9 *Combating Medicaid Fraud and Abuse*, THE PEW CHARITABLE TRUSTS, (Mar. 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_SHCS_program_integrity_brief.pdf
- 10 CENTERS FOR MEDICARE & MEDICAID SERVICES, MEDICARE AND MEDICAID FRAUD PREVENTION (2013), available at <http://www.cms.gov/Outreach-and-Education/Training/CMSNationalTrainingProgram/Downloads/2013-Fraud-and-Abuse-Prevention-Workbook.pdf>
- 11 *2012 State Revenues per Capita & Percentage of Personal Income*, FEDERATION OF TAX ADMINISTRATORS (2013), <http://www.taxadmin.org/fta/rate/12taxbur.html>
- 12 Bob Neal, *The Fiscal and Economic Impacts of Medicaid Expansion in Mississippi*, UNIVERSITY RESEARCH CENTER, (Oct. 2012), <http://www.mississippi.edu/urc/downloads/medicaid-oct-16.pdf>



JOHNSON CENTER
TROY UNIVERSITY

Manuel H. Johnson Center for Political Economy
137 Bibb Graves Hall, Troy University
Troy, AL 36082
P: 334-808-6583
<http://business.troy.edu/JohnsonCenter>