



Just What the Doctor Ordered

How Medicaid Stimulus Funding is Helping Iowa's Economic Recovery

By Molly Fleming, David Swenson and Peter Fisher

The American Recovery and Reinvestment Act (ARRA), signed by President Obama on February 17, 2009, sends billions of dollars directly to state governments as a part of its goal to prevent further decline in the national economy. Included in this stimulus package is an \$87 billion temporary increase in the federal government's contribution to Medicaid, designed to help states maintain their Medicaid programs and to prevent reduction in services that might deepen the recession. In this report we provide estimates of the impact of this funding on the Iowa economy to determine if the increased Medicaid funding is creating jobs and boosting the incomes of Iowans.

Medicaid and the American Recovery and Reinvestment Act

Medicaid is a joint state and federal government program. For every dollar that Iowa spends on Medicaid, for example, the federal government normally provides about \$1.70 in matching funds. Despite the large federal contribution, the states' share of Medicaid spending accounts for a sizable portion of state budgets. The recession pushes state revenues down just when more people find themselves relying on the Medicaid safety net, and states may then be forced to enact major cuts in Medicaid or elsewhere to keep their shrinking budgets balanced. Thus an important part of the stimulus bill was aimed at allowing states to maintain Medicaid services to vulnerable populations, and to avoid drastic budget cuts that would further aggravate the recession as the reductions in household incomes and spending caused by the budget cuts ripple through the economy.

Medicaid: Iowa's Health Care Safety Net⁴

- *In May 2009, Medicaid provided essential health care coverage for 410,857 state residents, or nearly 1 in 7 Iowans.*⁵
- *Between October 2007 and May 2009, Iowa's Medicaid enrollment increased by 13 percent. Children make up the fastest growing population of Medicaid enrollees.*
- *54 percent of Iowa's Medicaid recipients are children, a total enrollment of 221,863 in May 2009. However **children accounted for only 17 percent of Medicaid expenditures in 2008.***
- *Elderly and disabled populations together comprise about 30 percent of recipients, but account for nearly 72 percent of Medicaid expenditures. This is largely due to the high cost of prescription drugs, home-based and community-based services, and nursing home care.*

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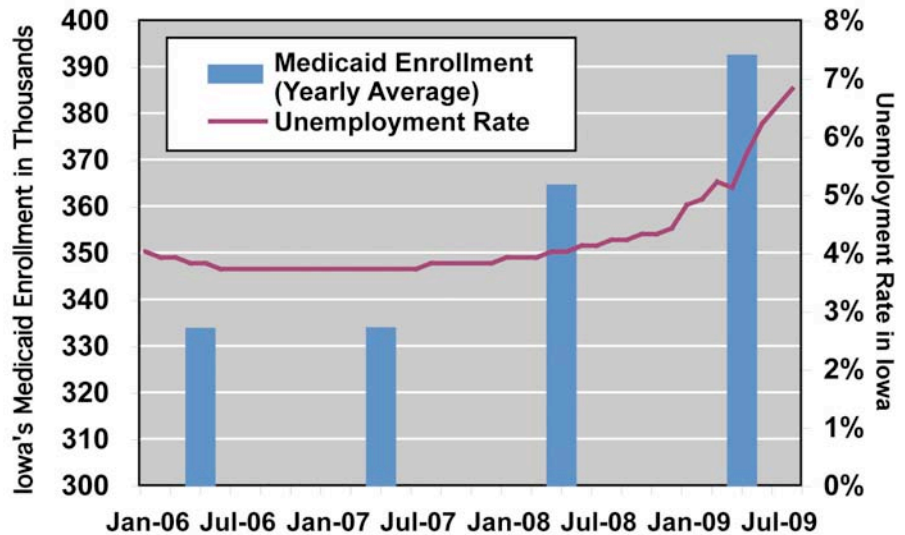
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The federal share of Medicaid spending going to each state is called the Federal Medical Assistance Percentage or FMAP. ARRA increased this percentage for all states to recognize state budget predicaments, with a requirement that states maintain eligibility levels for their Medicaid programs. Each state receives a baseline FMAP increase of 6.2 percent, which brought Iowa’s federal matching rate from 63 percent (63 cents about of every \$1.00 total) to about 69 percent. Approximately 35 percent of total additional assistance was targeted to states with the greatest economic problems, as measured by a dramatic rise in unemployment. These states are targeted for two related reasons. First, as statewide unemployment increases, more people qualify for Medicaid and Medicaid enrollment increases. Figure 1, right, shows these trends in Iowa.

Figure 1. Iowa’s Medicaid Enrollment Rises with Statewide Unemployment, 2006 through August 2009*



Second, states with high unemployment also grapple with dropping revenues, which threatens available funding for vital safety net programs such as Medicaid. Sending targeted funding to these states, with the requirement that they not further restrict Medicaid eligibility,¹ ensures that low-income families and the newly unemployed receive healthcare assistance at the time they need it most.

The ARRA legislation includes certain “triggers” built in for the extra FMAP percentage increases, based on changes in state unemployment rates. When Iowa’s three-month average unemployment rate topped 5.2 percent in April, May and June 2009, the state qualified for an additional FMAP increase of about 1.9 percent, bringing the total FMAP to nearly 71 percent. Due to this raised matching rate, the federal government contributes about \$2.42 for every dollar Iowa spends on Medicaid through October 2011.

This funding can be used over three federal fiscal years, the recently ended state FY2009, the current FY2010 and upcoming FY2011. For our purposes, only spending in the first and second years is evaluated in terms of its potential economic impact value to the state of Iowa. Table 1, below, summarizes the value of this stimulus to stabilize Iowa’s Medicaid program in each of the studied years.

Table 1. Summary of Federal ARRA Spending to Enhance Medicaid in Iowa²

	State FY 2009	State FY2010	State FY2011	Total
Estimated Annual Spending	\$ 150 million	\$ 268 million	\$ 84 million	\$ 502 million

* Unemployment figures from the Bureau of Labor Statistics Local Area Unemployment Figures, available at http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?series_id=LASST19000003&data_tool=XGtable. Medicaid enrollment data from the Iowa Department of Human Services Monthly Reports of Medicaid Services, available at <http://publications.iowa.gov/8561/>.

Medicaid Provides Critical Health Coverage for Vulnerable Iowans

Medicaid provides an essential health care safety net for over 411,000 Iowans, reaching people from all parts of the state. Low-income children receive primary and preventive care services from Medicaid benefits, crucial health coverage that would be otherwise unaffordable and unattainable for these families. For many seniors and people with disabilities, Medicaid fills Medicare coverage gaps to provide cost relief for expensive prescription drugs as well as vital services such as dental care. More than half of Medicaid expenditures are for intermediate care facilities both for seniors and persons with chronic health conditions and disabilities who simply do not have the resources to provide that care. Medicaid also covers very low-income parents of children and, through IowaCare, provides some coverage to otherwise uninsured low-income adults through specific medical institutions. For all of these Medicaid recipients and beneficiaries, FMAP increases represent a stabilization of benefits despite cutbacks to other state programs.

Impact of Medicaid Spending on Iowa's Economy

Increased Medicaid funding in Iowa does more than just help individuals who receive its health coverage. Money spent on Medicaid stimulates the Iowa economy. Funds injected into the economy from outside the state, such as ARRA dollars from the federal government, prompt successive rounds of spending. Because Medicaid recipients save money on their health care bills, they are able to spend most of their incomes on meeting necessities through local payments for housing costs and through purchases from Iowa retail stores and service providers. In turn, these retailers and service providers are better able to keep their workers employed and have more income to spend purchasing from other businesses or residents in the state. Without Medicaid's health care coverage, recipients would not only risk going into medical debt, but some of their budget would have to go to medical bills and not to local services.

The direct impact of the extra Medicaid spending on Iowa's economy can be measured in three ways. First, the full amount of federal spending is reflected in an increase in *total output* — the total dollar value of goods and services produced in the state, a standard measure of the level of state economic activity. Second, *income* accrues to workers and business owners, because it is used to pay wages and salaries or to purchase services from businesses (such as nursing homes) in the state. Lastly, the increased Medicaid spending *creates jobs* for unemployed and underemployed Iowans, or allows them to remain in jobs that otherwise would have been eliminated.

The total economic impact of Medicaid spending on Iowa's economy is not isolated to these direct effects, however. Public and private agencies providing Medicaid services rely on a variety of Iowa businesses for everything from uniforms and medical supplies to accounting and laundry services. Some of the federal ARRA funds to Medicaid providers are in turn channeled to these Iowa businesses that experience greater sales and profits and employ more workers. Finally, all of the employees and small business owners who benefit from greater incomes as a result of ARRA — either directly or indirectly — spend a portion of those greater incomes at the grocery store, the hardware store, the auto dealer, and all the other local businesses that make up the Main Street economy. These indirect effects are also measured in three ways: the increased value of output, increase incomes of workers and proprietors, and increased employment.

Table 2 summarizes the economic impact of the ARRA's Medicaid funding in Iowa. For state fiscal year 2009, the federal government allocated \$150 million to Iowa's Medicaid program. In doing so, 1,384 Iowa jobs earning a total of nearly \$82 million in income are either created or retained in the private and public sectors as a direct result of the spending. The indirect effects described above — the increased sales, jobs and incomes in the private sector as a result of more purchases by Medicaid providers and by the businesses and workers benefiting directly — add more to the state economy, more to individual

incomes, and more jobs for Iowa as a whole. Finally, as households keep and get jobs, they can spend more on goods and services in Iowa’s economy.³

Table 2. Total Economic Impact of Federal ARRA Spending to Enhance Medicaid in Iowa

State FY2009	Direct Effects	Indirect Effects	Total
Total output	\$ 150,000,000	\$ 101,576,785	\$ 251,576,785
Income	\$ 81,886,582	\$ 31,804,050	\$ 113,690,632
Jobs	1,384	970	2,354
State FY2010	Direct Effects	Indirect Effects	Total
Total output	\$ 268,000,000	\$ 181,483,835	\$ 449,483,835
Labor income	\$ 146,304,020	\$ 56,823,226	\$ 203,127,246
Jobs	2,473	1,732	4,206

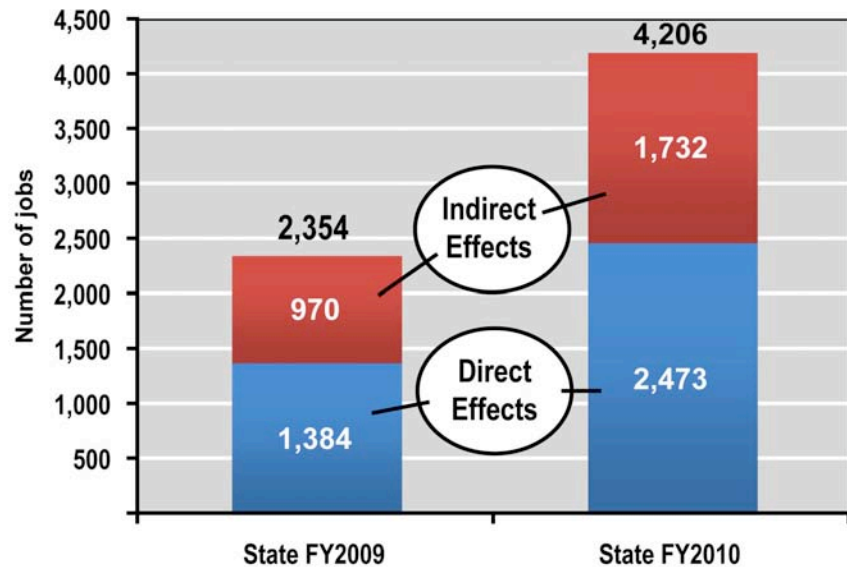
Source: Estimates provided by author David Swenson through the state input-output model.

All told, Iowa’s economy is projected to increase output by \$252 million in state fiscal year 2009 as a result of ARRA funds for Medicaid. Additionally, this federal stimulus creates \$114 million in income for 2,354 workers. In state fiscal year 2010 federal assistance for Iowa’s Medicaid program is higher, estimated at \$268 million. This stimulus is projected to expand the state economy by \$449 million and produce \$203 million in income earned by 4,206 job holders.

Increased Medicaid spending has an economic benefit for the state of Iowa far greater than the federal government’s initial investment. These economic effects can be summarized by considering the total benefit to the economy for each federal dollar received. Every federal dollar of economic stimulus invested in Medicaid yields about \$1.68 in total output for the state of Iowa. Out of that dollar, 76 cents is returned to Iowa workers in the form of wages and salaries and incomes of small business owners.

As Iowa’s seasonally adjusted unemployment rate passes 6.5 percent, its highest peak in decades, job seekers are competing for a dwindling reserve of available jobs. The jobs created and retained by federal funding for state Medicaid services are therefore vital to the stability of Iowa’s workers and families. As Figure 2 shows, the ARRA funding for Medicaid in Iowa *directly* creates or saves about 1,384 jobs in FY2009 and 2,473 jobs in FY2010 in the state of Iowa. Additionally, the indirect economic effects of the federal stimulus increase these values by a full 70 percent, bringing the total number of jobs retained or saved by Medicaid spending to 2,354 jobs in FY2009 and 4,206 jobs in FY2010. In simpler terms, every \$1 million of federal funding invested in the state’s Medicaid program yields about 16 jobs created or saved for Iowa workers.

Figure 2. Total Jobs Effect of Federal ARRA Spending to Enhance Medicaid in Iowa



¹ To receive any increases in FMAP, a state's Medicaid eligibility levels must not be more restrictive than they were on July 1, 2008.

² The figures for total funding to Iowa's Medicaid program available from the American Reinvestment and Recovery Act (ARRA) were reported by Joe Havig of Iowa's Department of Human Services Fiscal Management Division in a memo sent on November 3, 2009. These figures are estimates based on current expenditure and unemployment assumptions. The level of increased FMAP funding may change as these expenditure and unemployment assumptions are revised.

³ Economists distinguish between indirect effects – the increased purchases from suppliers – and induced effects – the increased spending by households that result from higher incomes. Here we combine these two effects into a single category that we call “indirect effects” to distinguish them from the direct effects.

⁴ Legislative Services Agency's Fiscal Topics Report: Medicaid published November 2008. Available at http://www.legis.state.ia.us/lsadocs/Fiscal_Topics/2009/FTJRB000.PDF

⁵ Government Accountability Office's July 2009 Report Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses. Available at <http://www.gao.gov/new.items/d09829.pdf>

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Iowa Fiscal Partnership

The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available at <http://www.iowafiscal.org>.

The Iowa Fiscal Partnership is part of the State Fiscal Analysis Initiative, a network of state-level organizations and the Center on Budget and Policy Priorities to promote sound fiscal policy analysis. IFP work is supported by the Annie E. Casey Foundation and the Stoneman Family Foundation.