



Report

Missouri and Medicaid: The Small Business Perspective

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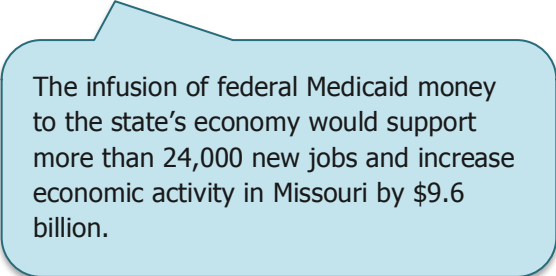
Introduction

When the Affordable Care Act (ACA) was signed into law on March 23, 2010, it delivered sweeping reform to the nation's healthcare system and brought with it the promise of making healthcare available to millions of Americans who previously had gone without. A significant feature of the law is an expansion of Medicaid to cover a larger number of low-income individuals, beginning in 2014. In June 2012, a group of states and a small business organization challenged the law before the Supreme Court in a bid to have it struck down. The high court ruled the law constitutional but stated that it was up to each state to decide whether to expand eligibility for Medicaid, the healthcare option for low-wage individuals as called for under the ACA.

The ACA will have profound implications for the hundreds of thousands of Missourians who stand to gain health coverage if the state participates in the law's Medicaid expansion. Under the ACA, states can choose to expand their Medicaid program to allow individuals earning up to 133% of the federal poverty level to receive insurance through Medicaid. Should Missouri accept the expansion, it will get \$8.4 billion through 2019, covering 300,000 new people for a total of 1.2 million Missourians covered by Medicaid.

The decision to expand Medicaid will affect more than just those who attain health coverage. If Missouri takes up the Medicaid expansion in 2014, just two years later more than \$1 billion will have been spent on healthcare in the state. The addition of that money to the state's economy would support more than 24,000 new jobs and increase economic activity in Missouri by \$9.6 billion.ⁱ

Accepting federal funds to expand Medicaid would significantly impact the state's economy and its small businesses by stimulating economic activity, creating jobs and increasing state GDP. Small businesses win when all three of these things happen. Also, it would end the practice of cost shifting of healthcare premiums now paid by Missouri's employers to cover the cost to providers of the uninsured (known to healthcare policy experts as a "hidden tax").



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This report looks at the potential impact of Medicaid expansion on jobs and economic activity in Missouri, specifically from the small business perspective.

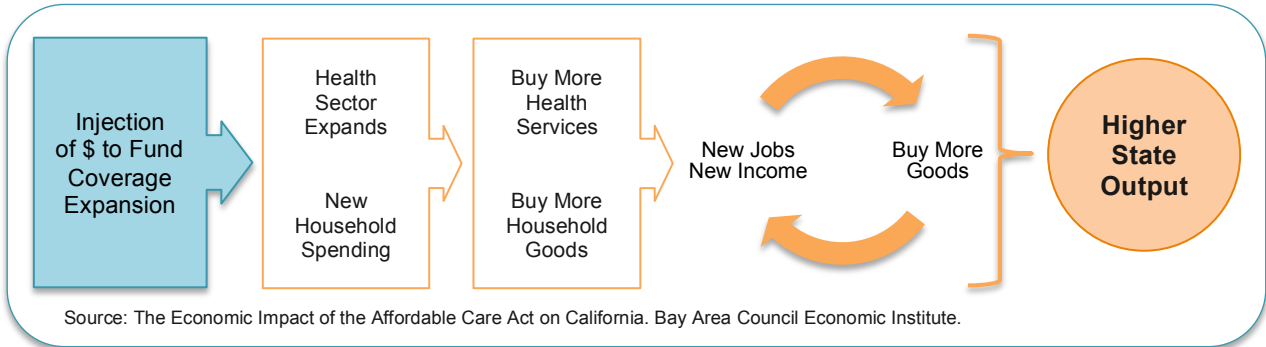
What Medicaid expansion means for Missouri's economy and small business

On average, only 61% of small employers nationwide offer insurance. When it comes to small businesses with low-wage workers, only 18% of employees who earn below \$15 an hour at firms with fewer than 50 employees are covered by an employer-sponsored plan. What's more, small business owners, their employees and the self-employed represent a disproportionate share of the nation's working uninsured. Only 50% of firms with 3-9 employees offer their workers insurance. Small businesses also account for 49% of Missouri's private-sector jobs. This means small businesses represent a significant potential base for expanding insurance coverage in the state. The Medicaid expansion will be an important insurance option for many lower-wage workers in Missouri, and one that can potentially benefit many of Missouri's 500,000 small business owners.

The Medicaid expansion to cover working families would be a benefit to the families themselves, but would also benefit small businesses. Reports have shown that small businesses that employ insured employees are more competitive against their larger rivals, have a healthier workforce and can retain valuable employees for longer. Expanding coverage options for individuals means employees can more readily work at smaller firms, even if those businesses are not able to provide health insurance. The lack of coverage options for individuals without access to employer-sponsored coverage is a notable shortcoming of the current healthcare system. This has contributed to challenges for small local firms in competing for labor with their larger counterparts. Making Medicaid coverage available to the lowest-income workers in Missouri should improve the ability of the state's small businesses to compete for labor even if they do not choose to offer coverage under the ACA. Some of the expected outcomes of expanding Medicaid include:

- **An expansion will level the playing field for Missouri’s small businesses:** Medicaid expansion would cover about 300,000 additional people, most of them low-wage working adults. Because so many working adults would qualify for Medicaid, small businesses that cannot afford to offer their employees health insurance would be better able to compete for workers with big businesses that can offer health insurance.
- **An expansion would create a healthier, more productive workforce in Missouri:** Employees with health insurance are more likely to receive regular preventive care and to get needed treatment for illnesses and injuries. This means that workers with health insurance are less likely to miss work and will miss fewer days of work when they do fall ill. Sick or injured employees without health insurance may also be less productive when they are at work.ⁱⁱ
- **Medicaid expansion will stimulate Missouri’s economy:** Just like a new factory or federal construction project, Medicaid expansion will pump new money into the economy. The federal government will pick up *all* of the cost of Medicaid expansion for the first three years (2014-2016). It will continue to cover at least 90% of the cost after that. This will bring an estimated \$8.2 billion additional federal dollars to Missouri between 2014 and 2020, and the economy will generate nearly \$856 million in state and local taxes. That money will be spread among all the state’s counties. It will increase incomes for all types of healthcare service providers, including hospitals and their employees, doctors and nurses, nursing homes and medical suppliers. Healthcare providers and businesses will spend large portions of their revenues and salaries in the local economies. As a result, the Medicaid expansion will create jobs in all parts of the state economy. Between 2014 and 2020, the jobs created by the expansion would add \$6.9 billion in labor income.ⁱⁱⁱ

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- **Medicaid expansion will not significantly increase costs for the state and could even save the state money:** Between 2014 and 2020, the expansion would increase state spending by \$333 million over what the state would spend without expansion.^{iv} But the state will get some or all of that money back through other savings. The state will save on healthcare costs for people who are now uninsured but would be covered by the Medicaid expansion. While Missouri has one of the lower health insurance premium costs in the U.S.—the average premium was \$12,754 for family coverage in 2010—premiums are still a major expense and barrier to coverage for many employers and individuals. Expanding Medicaid will greatly reduce the number of people without health insurance and thus the costs of uncompensated care. The new law will lower state costs for uncompensated care by as much as \$1.6 billion between 2014 and 2020, with much of the reduction due to the expansion of Medicaid.
- **Medicaid expansion will help reduce the ‘hidden tax’:** When someone without insurance seeks medical care they can’t pay for, the state or a charity may pick up some of the cost but the balance remains unpaid. To cover it, insurers charge higher rates when the insured receive care,

and these increases get shifted to higher premiums. In 2008, the costs of uncompensated care increased family health insurance premiums by an estimated \$1,017. That is a cost that everyone with insurance pays. By reducing the number of uninsured people in Missouri, expanding Medicaid will lower these pass-through costs to insured residents and business owners. Medicaid expansion will reduce state spending on state-funded healthcare programs for the uninsured. When uninsured people go to the doctor or hospital for medical care, they often can't pay for the full costs of care. Care that isn't covered by insurance or paid for by patients is called uncompensated care. Right now, states and localities pay about 30 percent of the cost of uncompensated care provided to the uninsured. By significantly reducing the number of those without health insurance, the Medicaid expansion will dramatically reduce the amount of uncompensated care and uncompensated care costs in the state.

What failing to expand Medicaid would mean for Missouri's small businesses

Not expanding Medicaid could cost Missouri more than 9,000 jobs, \$1.9 billion in reduced capital investment and \$1.1 billion in cost shifting to the insured, according to an analysis from the Missouri Hospital Association. The forecast is based on cuts included in the ACA and Budget Control Act of 2011, which, when combined, reduce hospital reimbursement by \$4 billion between 2013 and 2019.

The state will be leaving substantial federal dollars on the table—money that would stimulate the state's economy, increase state revenue and help residents throughout Missouri. These are dollars that would be injected in Missouri's local economies in the form of payments to local hospitals, doctors, care providers and others who work in the healthcare industry. Those workers are the customers that small businesses depend on. They would re-circulate those dollars to local shops, restaurants, gas stations and the other small businesses that employ so many Missourians. This ripple effect, called the "local multiplier effect," helps strengthen the economic base of a community.^v Declining Medicaid expansion would mean turning down dollars that would boost small businesses' bottom lines, which would, in turn, lead to new jobs.

In addition, without a Medicaid expansion, many of Missouri's lowest-income residents would remain uninsured, which has its own detrimental economic impacts that suck dollars from consumers' wallets and the state economy. Families with incomes between 100-400% of the federal poverty level will be able to purchase insurance through the new health insurance marketplaces that were created by the ACA, and will receive tax credits to help defray the costs of their premiums. However, the ACA made no provision to provide subsidies for anyone with income *below* the federal poverty level because they assumed those individuals would be covered by Medicaid. If the state fails to expand Medicaid, the poorest, most vulnerable individuals would be stuck paying the full cost of premiums without any help. Some of the expected negative economic outcomes of this situation include:

- **Premium costs will continue to rise:** The costs of providing uncompensated care to people without insurance will continue to drive up premiums for those with insurance. In addition to the money that state and local governments spend providing care to people without health insurance, doctors and hospitals also provide a great deal of uncompensated care to people without insurance. In 2008, doctors and hospitals provided almost \$43 billion in unpaid medical care.^{vi} Providers pass much of this cost on to private insurers, who pass it on to their customers in the form of higher premiums. As noted above, this cost shifting increases annual premiums for insured families by more than \$1,000. Without Medicaid expansion, this cost shifting will continue to drive up premiums for people with insurance.
- **Hospitals, especially those in rural areas, could be forced to close and jobs would be lost:** Failing to expand Medicaid could cause many hospitals to close, especially in rural areas. Some hospitals now receive extra payments for providing care to people without insurance. When the ACA was passed, hospitals agreed to accept cuts in these payments. In a world where almost everybody had insurance, as envisioned by the law, hospitals could afford to take those cuts. Without the expansion, hospitals will still be required to provide care to many uninsured patients, but they will have to do so on tighter budgets. Many hospitals, especially in rural areas, will not be able to survive if Missouri does not expand its Medicaid program. Losing hospitals can lead to a domino effect with other healthcare providers. Doctors rely on hospitals to build a foundation for

their practice. If the hospital goes, doctors may also leave or decide not to come at all. This could lead to even broader economic consequences. By one estimate, each doctor in a community leads to \$500,000 in additional income and sustains five jobs.^{vii} Overall, the healthcare industry creates 15% to 20% of the jobs in rural areas. These jobs could be threatened if Missouri chooses not to expand Medicaid.

- **Capital and workforce investment could drop precipitously:** One analysis projected failing to expand Medicaid would lead to reductions in both workforce and capital investments between 2012 and 2021. The analysis found the cuts would reduce hospital employment by more than 5,000 jobs through 2021. In addition, because hospital jobs support additional jobs in communities throughout the state, the analysis projected a dramatic total job loss using standard economic multipliers. The total job loss, accounting for the ripple effect of hospital community job cuts, would equal more than 9,000 jobs statewide.^{viii}
- **Federal dollars that could go to Missouri will go elsewhere:** Forgoing Medicaid reform would eliminate federal payments to the state by \$15.7 billion between 2014 and 2021, according to the Missouri budget office. Missouri taxpayers will continue to pay federal taxes at the same rate, and provider cuts and new ACA taxes on businesses and individuals will take effect.

Conclusion

The Medicaid expansion gives every state the opportunity to take advantage of federal funding that will support jobs and stimulate economic growth throughout the state while expanding health coverage for its residents.

For small business owners, this means additional federal dollars flowing into the state that will then be re-circulated to their businesses, boosting their bottom lines and helping them create more jobs. What's more, it helps more of their workers get health insurance, which studies have shown create a healthier, more productive workforce. It helps reduce costs for small business owners currently providing insurance by helping reduce the "hidden tax" in health insurance. And it puts small businesses on a more level playing field with larger businesses. By covering hundreds of thousands of additional people, most of them low-wage working adults, small businesses that could not afford to offer their employees health insurance would be better able to compete for workers with big businesses that can.

Additional federal dollars flowing into the state will then be re-circulated to small businesses, boosting their bottom lines and helping them create more jobs.

For small businesses and Missouri residents to take advantage of those benefits, however, state leaders must expand Medicaid.

If the state doesn't expand its program, small businesses and residents will miss out on the positive economic effects that increased federal Medicaid funding would have on the state's economy and job market. What's more, Missouri will still see increased costs in its existing Medicaid program and many residents will lose an opportunity to gain health insurance.

If Missouri decides to participate in Medicaid expansion, more than 300,000 individuals will be newly eligible to participate in the program each year between 2014 and 2020.^{ix} Of these individuals, it is estimated that approximately 160,000 will participate in Medicaid each year. Because the federal government will cover 100% of the costs of expansion from 2014-2016, Missouri will experience no direct financial burden for the individuals participating during these years.

In addition to the individuals provided with health insurance and the impact on their improved health status, the economic output of the \$8.4 billion Medicaid expansion would approximately add \$9.6 billion to the gross state income. The Medicaid expansion will generate nearly \$856 million in additional state and local taxes from 2014 to 2020 and more than \$1.4 billion in federal taxes due to the increase in jobs and economic activities within the state.^x

If Missouri refuses the money its residents have already sent to Washington, D.C. in federal taxes, then those dollars will go to other states to help fund their programs. Missouri small businesses, the millions they employ and all residents in the state deserve the various economic and health-related benefits that money will provide.

Endnotes

ⁱ Missouri Hospital Association www.missourihealthmatters.com/2012-11/articles/medicaid-expansion-creates-jobs-grows-missouri%E2%80%99s-economy/

ⁱⁱ www.missourihealthmatters.com/wp-content/uploads/2013/01/Bad-News-for-Missouri-4Billion-Cuts-Medicaid.pdf

ⁱⁱⁱ The Economic Impacts of Medicaid Expansion on Missouri, www.mffh.org/mm/files/MUMedicaidExpansionReport.pdf

^{iv} The Economic Impacts of Medicaid Expansion on Missouri, www.mffh.org/mm/files/MUMedicaidExpansionReport.pdf

^v “Key studies on Big-Box Retail & Independent Business,” Institute for Local Self-Reliance (December 2011); <http://www.ilsr.org/key-studies-walmart-and-bigbox-retail/#1>

^{vi} “Hidden Health Tax,” at 6, Families USA (May 2009)

^{vii} Committee on the Consequences of Uninsurance, “A Shared Destiny: Community Effects of Uninsurance,” Board on Health Care Services, Institute of Medicine (2003), available at http://www.nap.edu/openbook.php?record_id=10602&page=R1

^{viii} “How Does a \$4 Billion Loss Affect Missouri?” Missouri Hospital Association (2013), <http://www.missourihealthmatters.com/wp-content/uploads/2013/01/Bad-News-for-Missouri-4Billion-Cuts-Medicaid.pdf>

^{ix} The Economic Impacts of Medicaid Expansion on Missouri, www.mffh.org/mm/files/MUMedicaidExpansionReport.pdf

^x The Economic Impacts of Medicaid Expansion on Missouri, www.mffh.org/mm/files/MUMedicaidExpansionReport.pdf