

Medicaid Supports Economic Growth, Creates Jobs in Louisiana

By Steve Spires

This is the second of two papers providing basic information about Medicaid in Louisiana. It is intended as a primer for policymakers, the media and the general public as the state prepares for rapid change: privatized managed-care being launched in Louisiana in 2012, and federal health care reforms that will be implemented beginning in 2014.

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Introduction

Medicaid is more than a critical source of health care for Louisiana families, pregnant women, children, and people with disabilities.¹ It also plays a major role in creating jobs and building a strong economy.

Medicaid is a \$6.6 billion-per-year enterprise in Louisiana¹ that pays for one-fifth of all health care services.² In addition to providing needed health care, that money helps pay the salaries of doctors, nurses, pharmacists, nurse’s aides, lab technicians and administrators. They, in turn, spend it on food, clothing, transportation and an array of other products and services, generating a spinoff effect that helps create and maintain jobs throughout the state.

Health care is the state’s largest single source of jobs, employing nearly 286,000 Louisianans in 2010,³ and Medicaid is a big part of that, supporting an estimated 57,000 health care jobs in Louisiana.⁴

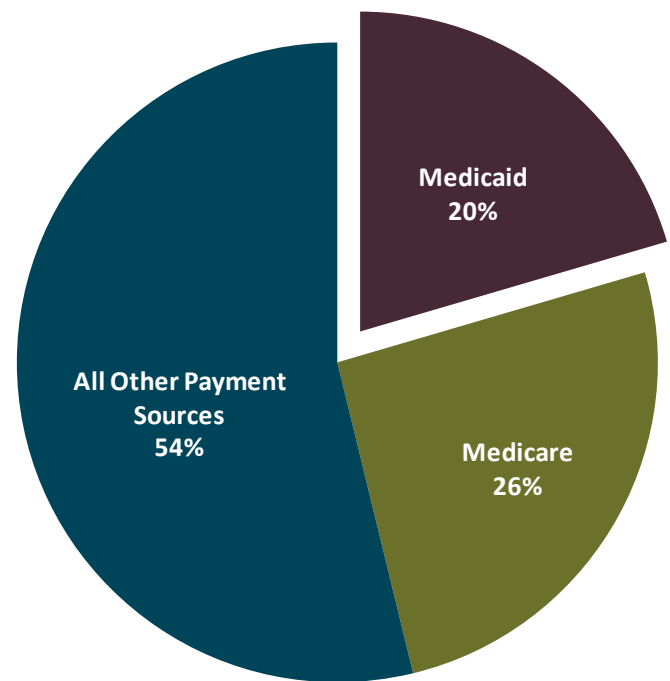
Medicaid is such a major economic asset because federal and state resources share the cost. Economists of all stripes, liberal and conservative, agree that outside money coming into a state is a crucial ingredient for strong economic growth. And most of what is spent on Medicaid in Louisiana—around 70 percent—comes from the federal government.⁵

How Medicaid is Financed

The federal contribution to Medicaid is determined by a formula based on a state’s per-capita income, and it is adjusted each year. The aim of the “federal medical assistance percentage” (FMAP) formula is to provide more money to relatively poor states, although the minimum a state can receive is 50 percent of its Medicaid costs.⁶

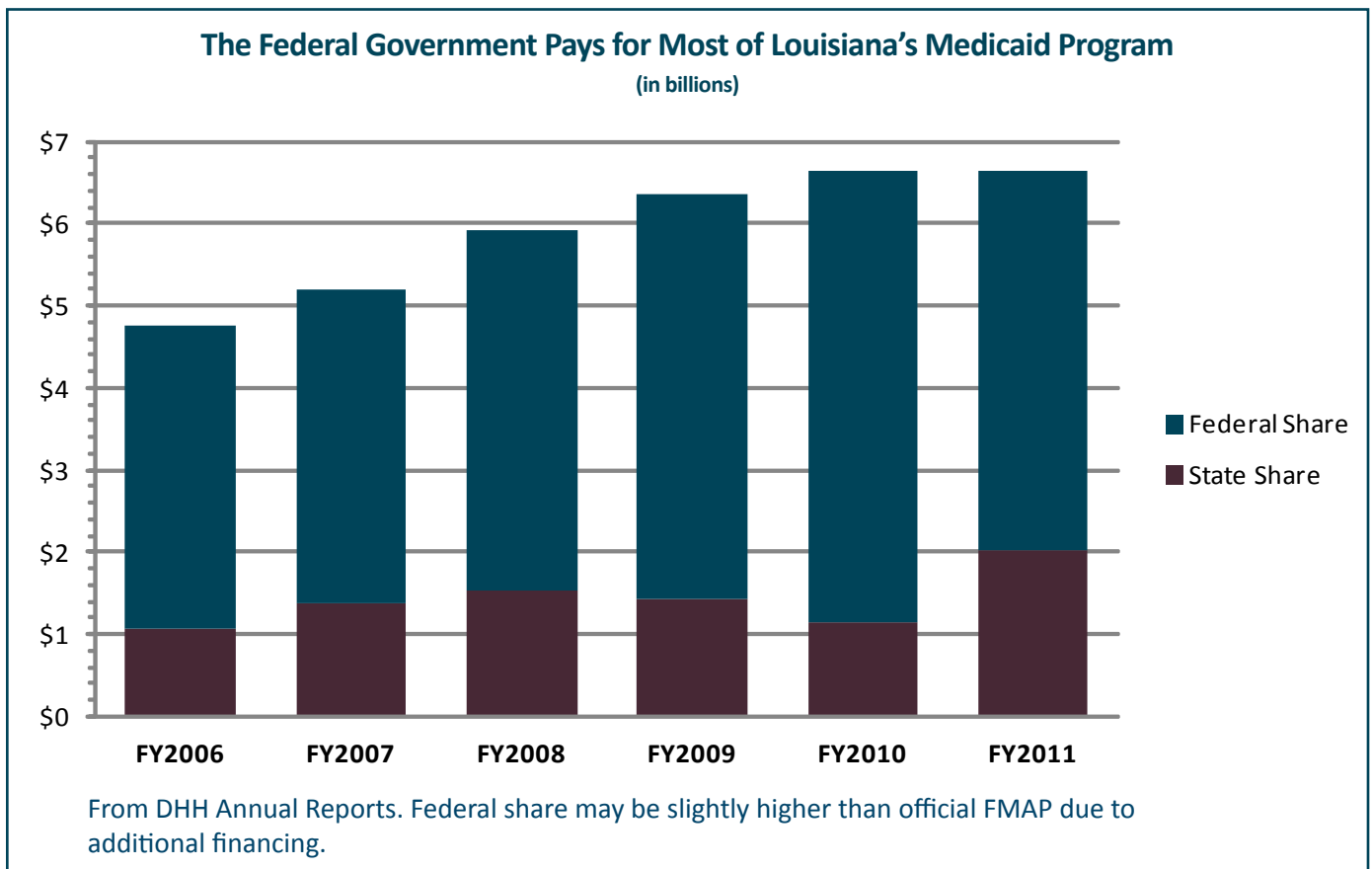
As a relatively poor state, Louisiana has received a higher federal Medicaid investment on average than most other states. Over the last decade, the federal government has covered 69 to 72 percent of the state’s Medicaid costs, except during recessions, when Congress has temporarily increased the FMAP for all states.⁷

Medicaid Paid for a Fifth of Personal Health Care in Louisiana in 2009



* Medicaid provided health care to more than 1.3 million Louisianans in 2010, nearly 30 percent of the state’s population. The program provides care to a majority of the state’s children, and also provides a large share of the nursing home and long-term care that elderly and disabled Louisianans rely on. For more, see the first paper in this series, “Medicaid in Louisiana: Improving Health, Protecting Children.”

Louisiana’s FMAP topped 81 percent for part of the last state budget year due to increased federal assistance in the American Recovery and Reinvestment Act. Medicaid in Louisiana cost about \$6.6 billion that year, of which \$5.5 billion came from the federal government.⁸



Medicaid’s Role in Louisiana’s Economy

The nearly 286,000 Louisianans directly employed in health care in 2010 were paid more than \$11 billion, according to the federal Bureau of Labor Statistics and the Louisiana Workforce Commission. No other field employed as many people. Health care also weathered the Great Recession better than any other industry in the state, and consistently added jobs. Between December 2007 (when the recession officially started) and the end of 2010, health care added more than 15,000 jobs, while Louisiana’s overall economy lost 50,000 jobs.⁹

Thousands of other Louisianans are employed in jobs that are supported by the health care industry and Medicaid dollars. This happens because when Medicaid pays health care providers, it also creates demand for businesses that provide doctors’ offices and hospitals with goods and services. Every person who works for a health care provider or business supported by the health care industry is one more person earning a paycheck.¹⁰

While health care spending comes from many other sources (including private insurance, Medicare, and out-of-pocket spending), more than \$1 of every \$5 spent on health care in Louisiana comes from Medicaid, and this is likely to grow when the program is expanded as part of national health care reform.¹¹

Private health care-providers are by far the biggest beneficiaries of Medicaid spending in Louisiana. But Medicaid also is the primary source of financing for the state’s unique charity hospital system. The 10-hospital system, run by Louisiana State University,[†] gets around \$1 billion a year to provide health care to Medicaid patients and those without insurance. That amounts to almost 70 percent of the LSU health system’s total revenues. The LSU health system employed 15,750 people full-time in 2010, and pumped an estimated \$3 billion in additional business activity into the state’s economy.¹²

[†] The LSU hospital system includes 10 hospitals that participate in Medicaid. Seven of these are organized under the LSU Health Care Services Division (HCSD): Earl K. Long Medical Center in Baton Rouge, Lallie Kemp Regional Medical in Independence, Leonard J. Chabert Medical Center in Houma, LSU HSC-HCSD in New Orleans, University Medical Center in Lafayette, Washington-St. Tammany Regional Medical Center in Bogalusa, and W.O. Moss Regional Medical Center in Lake Charles. The other three LSU hospitals are EA Conway Medical Center in Monroe, Huey P. Long Medical Center in Pineville, and LSU Medical Center in Shreveport. Other public health care facilities, independent of the LSU system, are operated by the state Department of Health and Hospitals (DHH).

Thousands of medical providers in all 64 Louisiana parishes treat Medicaid patients. While more populous parishes and those with large hospitals or clusters of health care providers generally receive the most money, every single parish benefits. In 2010, total payments to providers ranged from \$572 million in East Baton Rouge Parish and \$531 million in Orleans to \$3.2 million in Tensas Parish and \$400,591 in Cameron.¹³

Louisiana and Federal Health Reform

Medicaid’s economic impact will only grow once the new federal health-reform law takes full effect in 2014. Adults without children will be able to get care through Medicaid for the first time, and parents will be covered at higher income levels than before.¹⁴ More than half a million Louisianans who today have no health insurance may gain coverage, the majority through Medicaid.¹⁵

Most of this expansion will be financed with federal dollars. For the first three years, they will cover 100 percent of the cost for newly eligible Medicaid patients, with the state beginning to chip in after that. Even when the law is fully implemented, the federal government will still pay 90 percent of the cost of the expansion.¹⁶

By 2020, the federal government is projected to spend \$9 in Louisiana on the Medicaid expansion for every \$1 in state spending.

Medicaid Cuts Would Harm the Economy

As the economic downturn and a series of misguided state tax cuts conspired to produce sharp drops in state revenues, the governor and the Legislature responded with a series of cuts in Medicaid payments to health care providers in 2009 and 2010.¹⁷ These cuts threaten not only public health, but the state’s economy as well. If payments are reduced further, it could mean that fewer providers agree to serve Medicaid patients, and that could affect employment in health care and related fields.

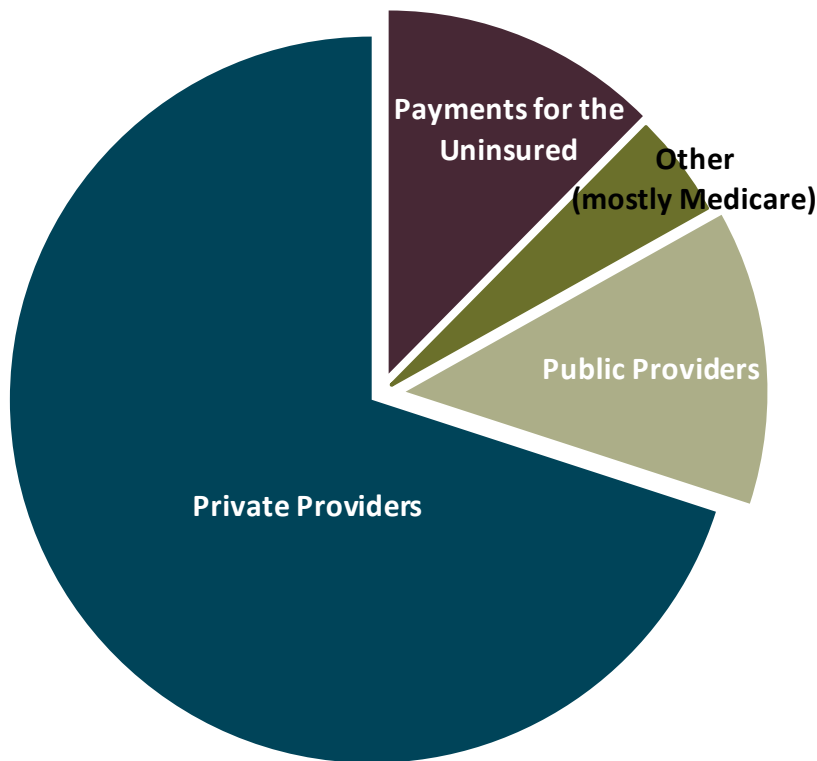
Meanwhile, some in Congress are considering cutting Medicaid as a way to reduce the federal deficit in ways that would shift costs to Louisiana and cause further economic harm.¹⁸ Some deficit-reduction plans go so far as to propose turning Medicaid into a “block grant,” which could drastically reduce federal Medicaid support for states. Even worse, under a block grant federal Medicaid funding would remain flat during times of recession, when enrollment typically increases. This would force the state to bear all of the additional cost. Even a 5 percent cut in federal Medicaid money to Louisiana would cost the state economy nearly \$470 million and slash 4,650 jobs, while a 15 percent cut would cost \$1.4 billion and 13,960 jobs.¹⁹

Conclusion

In addition to providing health care for Louisiana’s most vulnerable citizens, Medicaid plays a crucial role in the state’s economy. It is a critical source of money for private health-care providers from family physicians and specialists to hospitals and pharmacies, as well as the main source of funding for the LSU health system. Those economic benefits are compounded by the substantial amount of federal funding Medicaid draws to the state.

As crucial as Medicaid is to the state and thousands of Louisiana families, it would be a devastating blow to the economy if policymakers reduce coverage or eligibility. For every dollar Louisiana stopped spending on Medicaid, the state would lose \$2.33 from Washington. Cuts would not only harm Medicaid patients, but also the doctors and nurses who care for them, the hospitals where they are treated and the businesses that supply the health care industry.

Most Medicaid Payments Go To Private Providers



For the good of Louisianans' health and the state's economy, legislators need to maintain current levels of Medicaid funding, not cut provider payments. Health care reform should be implemented to bring in more federal resources and reduce the number of uninsured Louisianans. And at the federal level, Louisiana's congressional delegation should defend Medicaid from harmful and shortsighted cuts.

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About the Louisiana Budget Project

The Louisiana Budget Project (LBP) provides independent, nonpartisan research and analysis of Louisiana fiscal issues and their impact on Louisiana families and businesses. We seek to bring wider prosperity to Louisiana through a deeper understanding of the state budget, broadening fiscal policy debates, and increasing public participation in decision-making. As part of the State Fiscal Analysis Initiative's 42 state budget projects that are coordinated by the national Center on Budget and Policy Priorities, we uphold a commitment to issuing work that is Credible, Timely, and Accessible.

End Notes

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¹⁸ For examples of proposed policies to dramatically reduce federal Medicaid expenditures, see: Rep. Paul Ryan, Republican House Committee on the Budget. *The Path to Prosperity: Restoring America's Promise (Fiscal Year 2012 Budget Resolution)*, pg. 38-41. <http://budget.house.gov/UploadedFiles/PathToProsperityFY2012.pdf>; and, Republican Study Committee (RSC). *Honest Solutions: Fiscal Year 2012 Budget*, pg. 16, 34. http://rsc.jordan.house.gov/UploadedFiles/Honest_Solutions_Final.pdf

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