

ECONOMIC IMPACTS OF MEDICAID IN MISSISSIPPI

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In FY2002, the federal government funded approximately 75% of Medicaid expenditures in Mississippi. In dollar terms, the state received an inflow of \$1.98 billion from the federal government.¹ Medicaid, then, accounted for 9% of total federal funds received by Mississippi that year, exceeded only by Social Security and Medicare payments. State matching funds of approximately \$660 million came from state appropriations (\$238 million in FY2002) and the rest from other state funds and agencies providing health care. Since expenditures on health and welfare are the largest single item in the state budget when both general and special funds are considered, it is not surprising that state expenditures in this area are being closely scrutinized during this time of fiscal pressure. While this article does not address the issue of whether or not appropriations to Medicaid should be changed, it does provide information on the impact of federal Medicaid dollars on the economy.

Medicaid is a cooperative program between federal and state governments, established in 1965 to provide financial support for the medical expenses of low-income families. Broad guidelines for eligibility and services to be covered are established at the federal level, but the administration of the program is largely left to the states. State funding is matched by contributions from the federal government. Federal matching rates for each state are based on the state's average per capita income relative to the national average. States with lower per capita average incomes have higher matching rates. Mississippi had the highest Federal Medical Assistance Percentage in FYFY2002 at 76.09 percent. This means that for every dollar spent on Medicaid by the state government, the federal government will provide the state with an additional \$3.18. Almost all of these matching funds can be viewed as a net inflow of new funds into the state.

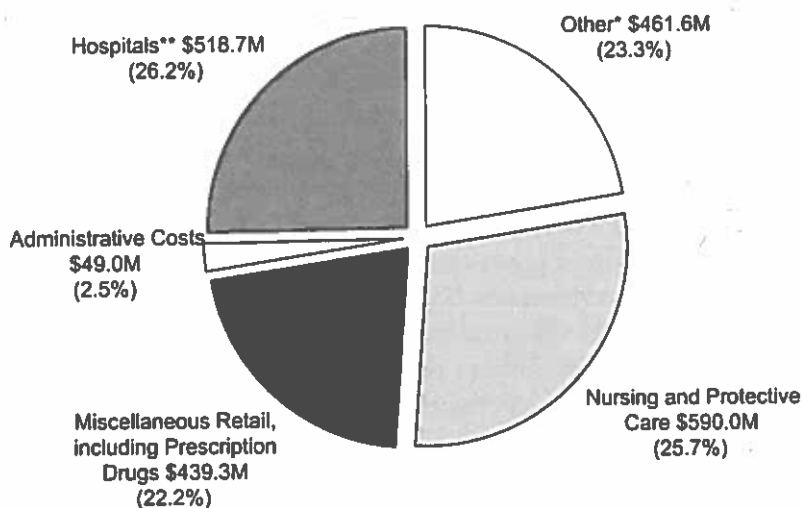
Distribution of Medicaid Dollars

The largest proportion of the federal Medicaid expenditures in FY2002 went to hospitals² (\$518.7 million), followed by nursing and protective care (\$509.0 million), and retail spending, which includes prescription drugs (\$439.3 million). Only \$49.0 million of the federal dollars were spent on administrative costs. See Figure 1. While the objective of the

Medicaid program is to assist individuals and families by providing funding for health services, the entire economy benefits from the economic impacts of the federal funds injected. This study quantifies the economic impact of these funds on Mississippi's economy. It does not, however, attempt to estimate the cost savings to employers, teachers and others that arise from healthier employees and children. Nor does it address the cost of opportunities lost due to state expenditures on Medicaid instead of other programs.

The \$1.98 billion inflow of federal Medicaid dollars in FY2002 increased the demand for goods and services by \$2.69 billion. This figure includes the direct increase in demand from the federal funds, the indirect effects resulting from the associated increases in demand along the supply chain, and the increased demand resulting from additional household expenditures (see note on multiplier effects).³ In addition, Medicaid spending had a positive effect on the state's economy through increased gross state product (GSP), which is a measure of the total value added of goods and services produced in the state. In FY2002, \$1.39 billion of the gross state product resulted from the effects of federal Medicaid funding.

Figure 1. Federal Medicaid Expenditures in Mississippi, 2002



* Other category includes: Doctors and dentists, residential care, other medical and health services, transportation, durable medical equipment, and CHIP (Children's Health Insurance Program).

** Hospitals category includes disproportionate share payments.

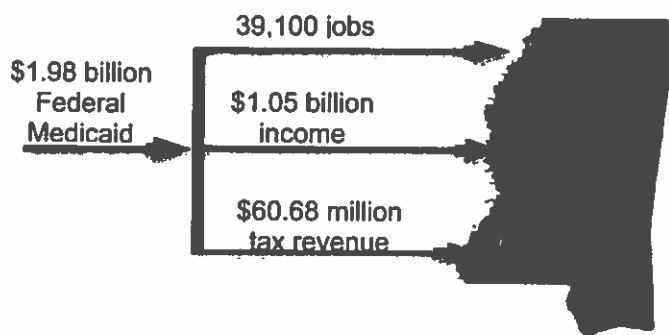
SOURCE: Mississippi Division of Medicaid, FY 2002 Annual Report

Impact on Jobs and Incomes

The increased economic activity associated with the \$1.98 billion from federal sources supported 39,100 jobs in Mississippi. As expected, the sector with the largest employment impact was the health services sector with 20,400 additional jobs supported. Within this sector, 11,000 jobs were in the nursing and protective care industry, 2,300 were positions for doctors and dentists, and another 5,600 jobs were in the hospital industry. A number of other Mississippi industries also benefited from the large influx of federal matching funds. As these funds rippled through the economy, 18,700 jobs were supported outside of the health services sector. As examples, 8,800 jobs were supported in the retail sector, 1,000 jobs in the restaurant industry, 400 in the real estate industry and over 100 U.S. postal service jobs.

The increased economic activity and employment also led to higher incomes for Mississippi households. This increase in income is best explained by tracing the \$1.98 billion in federal matching funds as it ripples through the state's economy. These Medicaid funds are tracked and reported in Table 1. Income in the health services sector increased by \$611.7 million as a direct result of the inflow of federal funds; income in the wholesale and retail trade sector increased by \$135.4 million. As the economic effects rippled through the supply-chain, incomes in the state increased by \$77.6 million. Household spending sparked another chain reaction, causing an increase of \$179.7 million in personal income. In total, income in the state was increased by \$1.05 billion. This increase in personal income represents an increase in taxable economic activity. For

Figure 2. IMPACTS OF FEDERAL MEDICAID ON MISSISSIPPI, 2002



SOURCE: Blair, B. and M. Millea, *Economic Impacts of Federal Medicaid Expenditures on the State of Mississippi in 2002*. Mississippi Health Policy Research Center.

every dollar of personal income generated, approximately 6 cents goes to the state coffers, totaling \$60.7 million in revenue for the state. Figure 2 summarizes the major impacts of Medicaid.

While the Medicaid program is designed to address the medical needs of targeted populations, the impact of the federal matching funds can be felt throughout the state. It increases the demand for goods and services, employment and personal incomes of households, and tax collections of the state government. In addition, Medicaid dollars finance many services that the state would be providing whether or not it received Federal funds. These include mental health and public health services provided by state agencies. In FY2001, \$312 million of Medicaid federal dollars went to the care of persons with mental illnesses in institutions (\$186 million), to "charity" or non-paying patients at the University Medical Center (\$111 million), and to programs of the Department of Health (\$15 million).

Notes

1. This number does not include matching funds associated with Medicare buy-in payments or lapse period spending, which amounts to approximately \$104 million. The lapse spending results from differences

between state and federal fiscal year accounting. While the Medicare buy-in payments provide access to services for some Mississippians these impacts are not included in our estimates.

2. This category includes spending on inpatient and outpatient hospitals, ambulatory surgical centers, and disproportionate share payments.

3. On multiplier effects: the inflow of Medicaid dollars from the federal government sparks economic activity that increases the gross state product (GSP), employment, personal income, and tax revenues for the state. In each of these areas, the impact of the federal funds has three effects. First are the direct effects, as the funds are spent directly on medical goods and services. Second are the supply chain effects. As the matching funds are spent on medical goods and services, the producers of these goods and services respond to the higher demand by purchasing more inputs, which, in turn, increases the demand for other goods and services. Third are the effects due to increased household spending. As a result of the direct and supply chain effects, some households will experience increases in income. As these households spend their additional income, another series of economic chain reactions run throughout the state's economy.

References

Blair, B. and M. Millea. August 2003. *Economic Impacts of Federal Medicaid Expenditures on the State of Mississippi in 2002*. Mississippi Health Policy Research Center. <http://www.healthpolicy.msstate.edu/publications/medicaidimpactfull.pdf>.

Mississippi Division of Medicaid, Office of the Governor. May 2003. *FY 2002 Annual Report*. <http://www.dom.state.ms.us/AR2002.pdf>

Table 1. ESTIMATED IMPACT ON PERSONAL INCOME IN MISSISSIPPI OF 2002 FEDERAL MEDICAID EXPENDITURES

Sector	Direct Effects (\$)*	Supply-chain Effects (\$)*	Household Spending Effects** (\$)*	TOTAL (\$)*
Health Services (public & private)	611,658,688	1,573,829	41,892,296	655,124,813
Wholesale and Retail Trade	135,140,080	7,089,769	55,822,336	198,052,185
Government	20,828,374	5,215,481	3,463,596	29,507,451
All Other Industries	25,084,751	63,702,697	78,530,674	167,318,122
TOTAL	792,711,893	77,581,776	179,708,902	1,050,002,571

*Results are in terms of 2002 dollars.

**Household spending effects only include the increased consumption expenditures associated with increases in household income due to labor compensation resulting from all of the direct and indirect impacts.

SOURCE: Blair, B. and M. Millea, *Economic Impacts of Federal Medicaid Expenditures on the State of Mississippi in 2002*. Mississippi Health Policy Research Center.