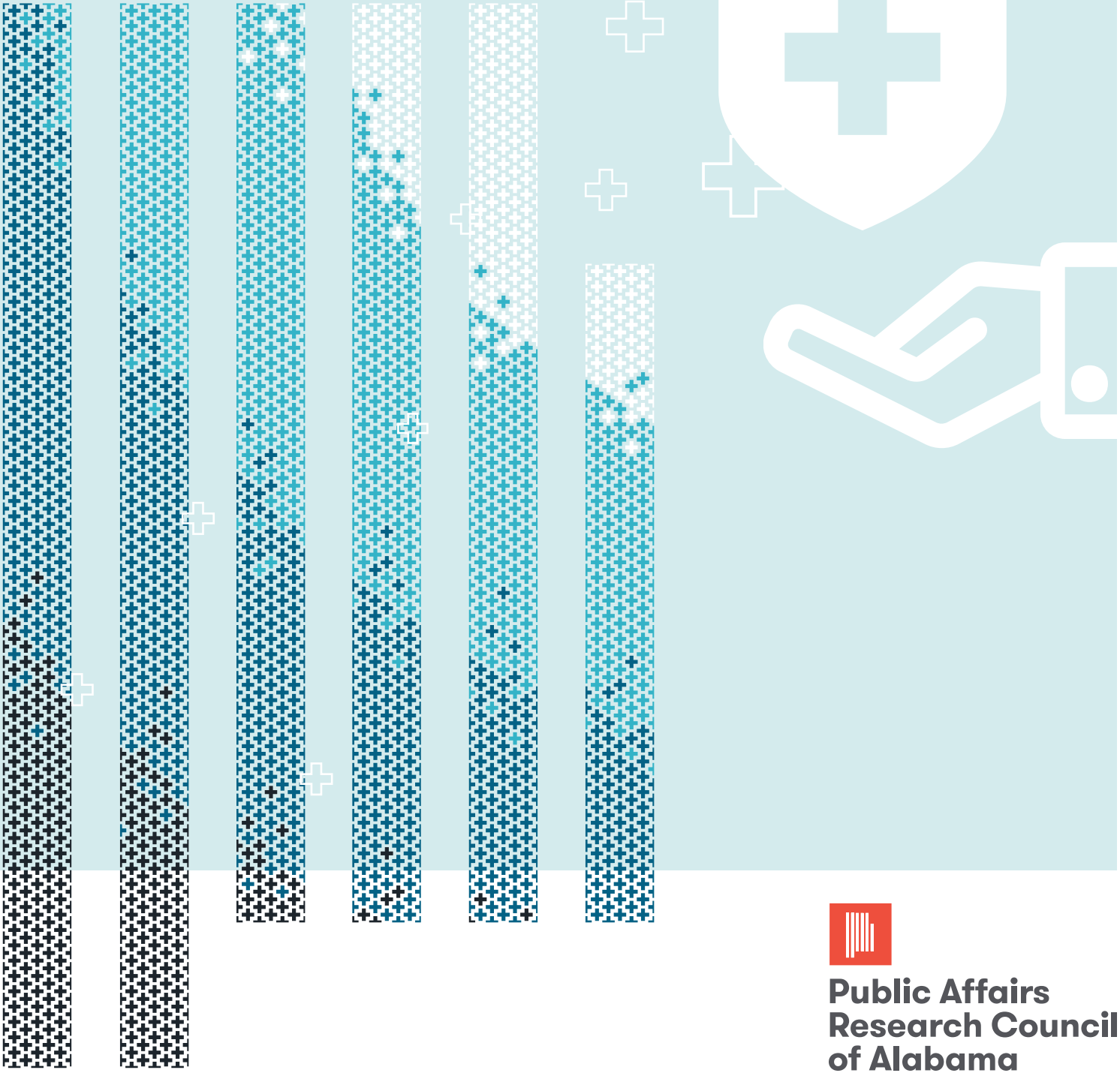
THE ECONOMIC IMPACT OF

EXPANDING MEDICAID

IN ALABAMA



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THE ECONOMIC IMPACT OF EXPANDING MEDICAID IN ALABAMA

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The Economic Impact of Expanding Medicaid in Alabama

Executive Summary

The Public Affairs Research Council of Alabama and the Center for Economic Development and Business Research at Jacksonville State University conducted an economic impact analysis of potential expansion of Medicaid in Alabama to cover adults up to 138% of the federal poverty level.

We find that expanding Medicaid could:

- increase Medicaid enrollment by as many as 283,636 people.
- cost an average of $225.4 million above current Medicaid expenditures over the next six years.
- yield estimated average annual savings of $397.8 million over those same six years, more than enough to cover projected costs.
- create an average of 20,083 new jobs per year over the next six years
- have an estimated average economic impact of $1.89 billion per year over the next six years.

The analysis was based on data drawn from the U.S. Census Bureau and data provided by state agencies, including the Alabama Departments of Corrections, Human Resources, Public Health, Medicaid, and Mental Health.

The analysis assumes current state and federal policies remain in place over the next six years, allowing for phase-outs and other changes already written into law. The analysis also does not include any potential changes to state and federal Medicaid policy stemming from the current federal budget reconciliation package introduced in Congress in November 2021.

The analysis was supported by the Daniel Foundation of Alabama, the Community Foundation of Northeast Alabama, the Community Foundation of Greater Birmingham, the Mike and Gillian Goodrich Foundation, and the Women's Foundation of Alabama.

Introduction

Medicaid is a federal healthcare program administered by the states. Medicaid serves more than 72.5 million Americans, including parents, children, expectant mothers, senior citizens, and individuals with disabilities. States must meet minimum service levels and expenditures. There is substantial variance in eligibility, services provided, and expenditures among the states.

The Affordable Care Act, passed in 2010, required states to expand Medicaid coverage to all adults up to 138% of the federal poverty level.[1] In return, the federal government would assume 100% of the costs of the expansion population through 2016 before a gradual step down to 90% by 2020 and remaining at 90% in future years. This so-called Medicaid mandate would "expand/extend Medicaid coverage to cover nearly all low-income Americans under age 65."[2] Expanded Medicaid, together with Medicare, employer-provided insurance, existing programs for low-income children, and the then-new health insurance exchanges would provide health insurance to almost all Americans. Indeed, by 2016, national "uninsured rates dropped to 8.8% in 2016—the lowest level of uninsured individuals in U.S. history since rates have been tracked."[3]

In 2012, the Supreme Court struck down the Medicaid mandate.[4] Since that ruling, states have had the option to expand Medicaid but are not required to do so. Likewise, states that choose to expand may reverse that decision. To date, 38 states have expanded Medicaid. No state has reversed its decision.

In all states, territories, and the District of Columbia, the federal government continues to cover the majority of Medicaid expenses for so-called traditional Medicaid—those populations enrolled prior to 2014. In fiscal year 2022, the federal government funds an average of 60.15% of those expenses. In Alabama, the federal share is 72.37%, the fifth highest in the country.[5] In

[1] Technically, the threshold is 133%, however the Act exempts, or disregards, the first 5% of income, making the effective rate 138%.

[2] Medicaid.gov. N.d. "Eligibility." Retrieved from https://www.medicaid.gov/medicaid/eligibility/index.html

[3] Gaille, Louise. 23 February 2018. "13 Biggest Medicaid Expansion Pros and Cons." Retrieved from https://vittana.org/13-biggest-medicaid-expansion-pros-and-cons.

[4] National Federation of Independent Business v. Sebelius, 567 U.S. 519 (2012).

[5] "Federal Financial Participation in State Assistance Expenditures; Federal Matching Shares for Medicaid, the Children's Health Insurance Program, and Aid to Needy Aged, Blind, or Disabled Persons for October 1, 2021 Through September 30, 2022." *Federal Register* 85:230 (30 November 2020) p. 76586.

the 38 states that have chosen to expand Medicaid, the federal government covers 90% of the cost of those populations added to Medicaid since 2014.

Alabama joins Florida, Georgia, Kansas, Mississippi, North Carolina, South Carolina, South Dakota, Tennessee, Texas, Wisconsin, and Wyoming as the states that have not expanded Medicaid and thus do not receive the enhanced federal match rate.[6]

Medicaid in Alabama

Alabama Medicaid has among the strictest eligibility requirements in the nation. Currently, Alabama provides Medicaid services to people who meet strict income guidelines based on the federal poverty line and who meet one or more of these qualifications:

- Under the age of 19
- Caretaker, with extremely low income, of someone under the age of 19[7]
- Pregnant
- Adult aged 65 or over who cannot afford to pay Medicare premium
- Legally blind
- Disabled
- In a nursing home

Each of these programs have varying requirements and income limits.[8] It is important to note that adults who do not fall into one of the categories above, or who do but exceed the income limits, are not covered. In other words, an adult who is low-income, unemployed, or even homeless but has no disability or no dependent children is likely not covered by Medicaid in Alabama.

Most enrollees are children. See Figure 1.[9] Most expenditures are for people with disabilities. See Figure 2.[10]

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[6] "Status of State Medicaid Expansion Decisions: Interactive Map." Kaiser Family Foundation. Retrieved from https://www.kff.org/medicaid/issue-brief/status-of-state-medicaid-expansion-decisions-interactive-map/

[7] Current income limits of a parent/caretaker are 13% of the federal poverty line.

[8] "Medicaid Income Limits for 2021" Alabama Department of Medicaid. https://medicaid.alabama.gov/documents/3.0_Apply/3.2_Qualifying_Medicaid/3.2_Medicaid_Income_Limits_2021.pdf

[9] *Alabama Medicaid Agency FY 2019 Annual Report* Retrieved from https://medicaid.alabama.gov/documents/2.0_Newsroom/2.3_Publications/2.3.5_Annual_Report_FY19/2.3.5_FY_19_Annual_Report_Bookmarked_6-29-21.pdf

Figure 1. Medicaid Enrollees, FY 2019

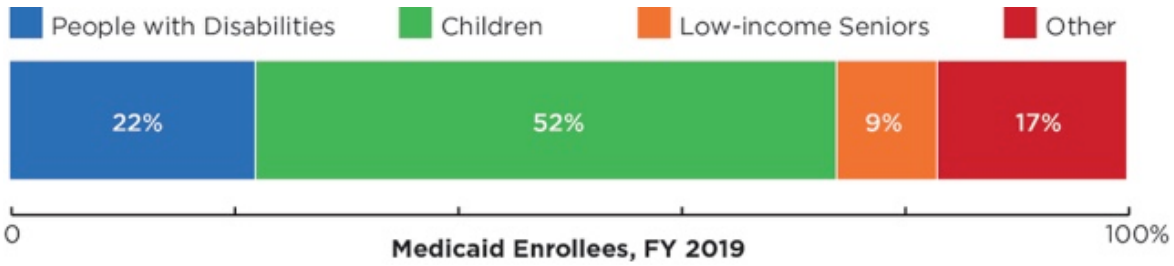
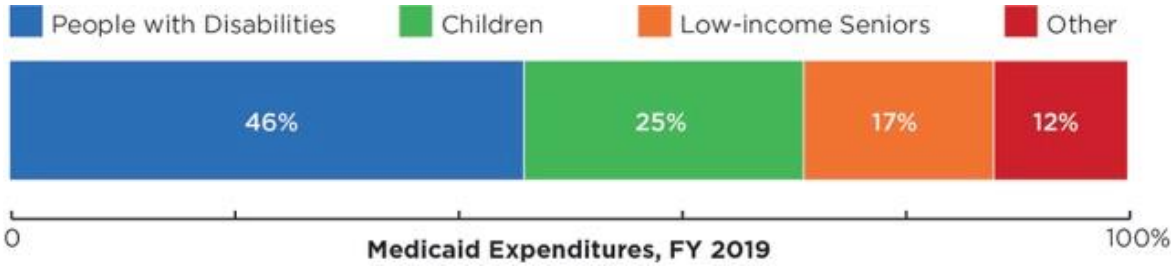


Figure 2. Medicaid Expenditures, FY 2019



In fiscal year 2020, Alabama spent $7.7 billion on Medicaid, of which $820 million, or approximately 11%, was allocated through the General Fund. The Medicaid appropriation accounts for 31.3% of the General Fund and 7.8% of the combined General Fund and Education Trust Fund appropriations. About 28% of Medicaid expenses are funded from other state sources. The vast majority of Medicaid expenses, approximately 71%, is funded by the federal government.[11,12]

Medicaid Expansion in Alabama

Although Alabama has not expanded Medicaid, interest in the topic remains high. Many, but not all, healthcare organizations, hospitals, and providers have expressed support for expansion, as have various advocacy and interest groups. The Alabama Hospital Association

[10] *Alabama Medicaid Agency FY 2019 Annual Report* Retrieved from https://medicaid.alabama.gov/documents/2.0_Newsroom/2.3_Publications/2.3.5_Annual_Report_FY19 /2.3.5_FY_19_Annual_Report_Bookmarked_6-29-21.pdf

[11] "State of Alabama General Fund Fiscal Year 2021 Appropriations as of September 30, 2021." Executive Budget Office, Alabama Department of Finance. Retrieved from https://budget.alabama.gov/wp-content/uploads/2021/10/GF-SEP-FY21.pdf

[12] *Alabama Medicaid Agency FY 2019 Annual Report* Retrieved from https://medicaid.alabama.gov/documents/2.0_Newsroom/2.3_Publications/2.3.5_Annual_Report_FY19 /2.3.5_FY_19_Annual_Report_Bookmarked_6-29-21.pdf

has noted that due to the lack of funds, hospitals throughout the state are closing or planning to close. Eight rural hospitals in Alabama have closed between 2011 and 2020.[13] A report issued by the Center of Healthcare Quality and Payment reform, published before the COVID-19 pandemic, estimated 30 Alabama hospitals are at risk of closure.[14] It has projected that an expansion to Medicaid in Alabama would aid in keeping hospitals afloat, especially in rural areas.

The number of uninsured people would also certainly decline with Medicaid expansion. An estimated 340,000 people in Alabama could access to Medicaid under expansion. Alabama.[15] Depending on how many people newly eligible accept the coverage, Alabama could see its uninsured rate decline by 43%.[16]

State and local leaders have expressed varying opinions about expanding Medicaid. The cost of expansion and the state's ability to pay for expansion are frequent concerns expressed by state leaders. These concerns can be seen in recent comments by Governor Kay Ivey, who said: "It would be irresponsible to think about expanding Medicaid just for the sake of expanding Medicaid without having a complete and honest discussion about the source of stable funding to pay the match…it is an option. I'm aware of the interest that's there. But there's a lot of exploring that has to be done on how you pay for it."[17]

This analysis was conducted to answer, in part, questions raised by Governor Ivey and other policymakers. The analysis was conducted by the Public Affairs Research Council and the Center for Economic Development and Business Research at Jacksonville State University

[13] "180 Rural Hospital Closures Since January 2005." The Cecil. G. Sheps Center for Health Services Research. University of North Carolina. https://www.shepscenter.unc.edu/programs-projects/rural-health/rural-hospital-closures.

[14] "Alabama Rural Hospitals: Caring for Rural Communities." Alabama Hospital Association. 2021. Retrieved from https://www.alaha.org/app/uploads/2021/08/Rural-PPT-Aug-2021.pptx.

[15] Ku, Leighton. Erin Brantkey. "The Economic and Employment Effects of Medicaid Expansion Under the American Rescue Plan." May 2021. The Commonwealth Fund. Retrieved from https://www.commonwealthfund.org/publications/issue-briefs/2021/may/economic-employment-effects-medicaid-expansion-under-arp.

[16] Simpson, M. "The Implications of Medicaid Expansion in the Remaining States: 2020 Update." June 2020. The Robert Wood Johnson Foundation. Retrieved from https://www.rwjf.org/en/library/research/2020/06/the-implications-of-medicaid-expansion-in-the-remaining-states--2020-update.html?cid=xem_other_unpd_ini:quickstrike_dte:20200608_des:medicaid%20exp

[17] Whites-Koditschek, Sarah. 16 April 2020. "Why Hasn't Alabama Expanded Medicaid During the Pandemic?" Retrieved from https://www.al.com/coronavirus/2020/04/why-hasnt-alabama-expanded-medicaid-during-the-pandemic.html.

with support from the Daniel Foundation of Alabama, the Community Foundation of Northeast Alabama, the Community Foundation of Greater Birmingham, the Mike and Gillian Goodrich Foundation, and the Women's Foundation of Alabama.

This report makes no recommendation regarding Medicaid expansion. The analysis is a fiscal and economic study based on the best and most recent data available and recent changes to federal law.

Methodology

Jacksonville State University's Center for Economic Development and Business Research utilized a proprietary dynamic economic impact model known as REMI PI+ (version 2.5)[18] to perform a macroeconomic impact analysis of the potential Alabama Medicaid expansion over the six-year period from 2022–2027.

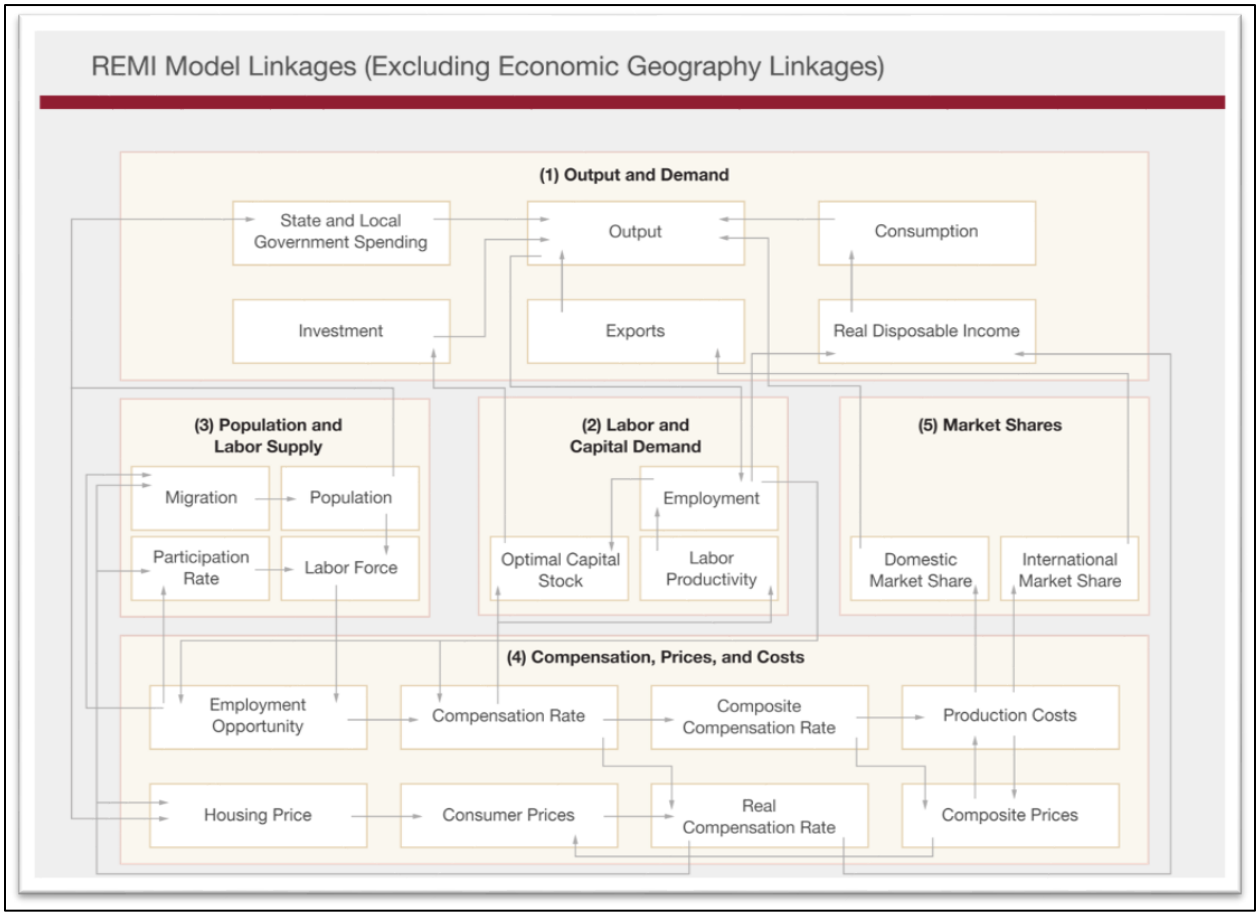
REMI PI+ is a widely used structural economic forecasting and policy analysis model, integrating several analytic techniques, including input-output, computable general equilibrium (CGE), econometric, and economic geography methodologies.

The model is dynamic, with forecasts and simulations generated on an annual basis to include behavioral responses to wage, price, and other economic factors. REMI can be used for estimating national, regional, and state-level impacts of policy changes, such as the expansion of Alabama Medicaid analyzed in this study. The dynamic modeling framework supports the option to forecast how changes in the economy, and adjustments to those changes, will occur on a year-by-year basis. The three primary advantages of the REMI model over other input-output models are that "(1) it depicts the role that prices exert on household and business decisions; (2) prices 'adjust' to solve supply and demand imbalances for labor, capital, and other input markets; and (3) it allows for the estimation of year-by-year (annual) impacts and forecasts, whereas other models only provide static representations of the economy."[19] Figure 3 illustrates the REMI PI+ model linkages.

[18] Regional Economic Models, Inc. 20201. "Models." Available at https://www.remi.com/model/pi/

[19] "Methodology for NRDC Economic Impact Analysis."

Figure 3. REMI PI+ v2.5 Model Linkages



This analysis includes both the new healthcare spending in Alabama and the potential reduction of state spending on health services if more of those services were covered through Medicaid expansion.

State-level data are provided by Alabama Medicaid, the Alabama Department of Corrections, the Alabama Department of Mental Health, and the Alabama Department of Public Health. Demographic data are provided by the 2019 American Community Survey produced by the U.S. Census Bureau. Demographic data are restricted to individuals in households ages 19–64 with income at or below 138% the federal poverty level, $25,750 for a family of four in 2019. We further refined the data to identify the number of individuals with no health insurance, employer-provided health insurance, health insurance coverage purchased through the federal marketplace, and the number of individuals with Medicaid coverage. Economic impacts are reported for new jobs created, population, real gross domestic product (GDP), personal income, and economic output.

The analysis draws upon work done and models used by Becker,[20] Miller and Collins,[21] and Striar, Boozang, and Mann.[22]

Caveats

We presume that current federal and state policies will remain in place over the next six years.

We do not consider the impact of expected cuts to the Disproportional Share (DSH) payments from the federal government to the state set to phase out between 2024 and 2028.

We do not consider any possible changes to Medicaid proposed in the current budget reconciliation legislation.[23]

We do not explore policy changes that would expand the ability of pharmacists, nurse practitioners, and other health care providers to provide direct patient care.

Findings

Expanding Medicaid in Alabama will increase state expenditures and the total amount of federal funding coming into the state. The effects of expansion vary by Medicaid program. These are discussed below. The largest single change in Medicaid would be the number of new Medicaid enrollees.

[20] Becker, David. "Medicaid Expansion in Alabama: Revisiting the Economic Case for Expansion." January 2019. University of Alabama at Birmingham.

[21] Miller, J. Corey and Sandra Collins. "A Fiscal and Economic Analysis of Medicaid Expansion in Mississippi Under the Affordable Care Act." September 2021. University Research Center, Mississippi Institutions of Higher Learning. Retrieved from http://www.mississippi.edu/urc/downloads/urcmedicaid2021.pdf

[22] Striar, Adam, Patricia Boozang, Cindy Mann. "Assessing the Fiscal Impact of Medicaid Expansion in Mississippi." November 2021. Manatt. Retrieved from https://www.manatt.com/Manatt/media/Documents/Articles/RWJF-CF_Fiscal-Impact-of-Medicaid-Expansion-in-MS-Nov-2021_b.pdf.

[23] Park, Edin, et. al. "Build Back Better Act: Health Coverage Provisions Explained." Georgetown University Health Policy Institute. November 2021. https://ccf.georgetown.edu/wp-content/uploads/2021/11/Build-Back-Better-FINAL-Nov19.pdf

Expanded Medicaid Enrollment

Based on 2019 ACS estimates in Alabama, there are 650,999 individuals ages 19–64 with annual incomes below 138% of the federal poverty line who would thus be eligible to enroll in expanded Medicaid.

Almost 61% of this population receive employer-provided health insurance coverage, 10.9% purchase health insurance coverage through the federal marketplace, and 13.6% currently receive Medicaid coverage. The balance, 14.6%, are uninsured.

Eligible to enroll does not mean enrolled. People newly eligible for Medicaid may not know they are eligible or may not choose to participate. Following the work of the Urban Institute[24] and David Becker[25], we estimate the take-up percentage, the percent of people newly eligible for Medicaid who will choose the coverage. We estimate 79% of those uninsured will enroll in Medicaid. For the population that have employer-provided health insurance, the take-up rate is estimated to be 15%. For those who purchase health insurance coverage from the federal marketplace, the take-up rate is 85%. Finally, 100% of those people currently in Medicaid, although perhaps in a limited form or for a limited time, such as pregnant women, will receive enhanced services in the expanded Medicaid. Compiling these numbers, our estimated Medicaid expansion population totals 283,636 people. See Table 1 below.

Table 1. Estimated Medicaid Expansion Population by Type of Health Insurance Coverage

Estimated Potential Expansion Population	650,999			
Type of Coverage	Uninsured	Employer-Provided	Marketplace	Medicaid
Percent of Potential Expansion Population	14.6%	60.8%	10.9%	13.6%
Potential Expansion Population by Coverage	95,361	396,067	71,203	88,368
Projected Take-Up Rate	79.0%	15.0%	85.0%	100.0%
Projected Expansion Population	75,335	59,410	60,523	88,368
Total Projected Expansion Population	**283,636**			

[24] The Health Insurance Policy Simulation Model. The Urban Institute. ttps://www.urban.org/research/data-methods/data-analysis/quantitative-data-analysis/microsimulation/health-insurance-policy-simulation-model-hipsm

[25] Becker, D.J. 2019. "Medicaid Expansion in Alabama: Revisiting the Economic Case for Expansion." Alabama Hospital Association. Retrieved from https://www.alaha.org/wp-content/uploads/ 2019/02/MedicaidExpansionUpdateJan31.pdf.

Expanded Medicaid Costs

Adding 283,636 people to the Alabama Medicaid rolls would increase annual Medicaid costs by an average of $225.4 million per year. See Table 2 below. Additional costs would be $208 million in 2022, rising to $243 million in 2027. For more details see the Appendix.

Table 2. Total Estimated Annual Cost of Medicaid Expansion in Alabama

Year	Expenses
2022	$208,350,272
2023	$214,879,352
2024	$221,770,197
2025	$228,410,413
2026	$235,855,511
2027	$243,136,124
Total	**$1,352,401,868**
Average	**$225,400,311**

Expanded Medicaid Savings—Enhanced Federal Match Rates

We project average annual Medicaid expenses to increase by $225 million. However, Alabama could see savings of more than $300 million in current Medicaid expenses in each of the first two years of expansion. See Table 3.

These projected savings are the result of the enhanced federal match rate, or FMAP, for traditional Medicaid in the first two years of expansion. FMAP rates are set via a formula that considers population, poverty rate, and other variables. The fiscal year 2022 FMAP rate in Alabama is 72.37%. In other words, the federal government will pay 72.37% of Medicaid expenses.

The recently passed American Rescue Plan Act (ARPA) includes an incentive for states like Alabama to expand Medicaid. Under ARPA, an extra 5 percentage points will be added to the FMAP rate for all current enrollees for two years, if the state expands Medicaid. Thus, while we project the 2022 FMAP rate to be 72.37%, a 5-point bump brings the rate to 77.37%.

If Alabama expanded Medicaid, the state would realize this enhanced FMAP on its traditional Medicaid population for the first two years of expansion, thereby saving an estimated $619.4 million in those first two years.

Table 3. Estimate of Projected Savings in Traditional Medicaid from a Two-Year Increase in the FMAP Rate

	2020*	2021	2022	2023
Traditional Medicaid Enrollment (ages 19–64)	956,823	939,600	922,687	918,074
Per Capita Expenditures	$6,145	$6,372	$6,608	$6,853
Total Cost	$5,879,677,335	$5,987,131,200	$6,097,115,696	$6,291,561,122
FMAP Rate	71.97%*	72.58%*	72.37%*	72.21%
Alabama Share	28.03%*	27.42%*	27.63%*	27.79%
Traditional Medicaid Cost to Alabama	$1,283,604,580	$1,641,671,375	$1,684,633,067	$1,748,424,836
FMAP + 5%	n/a	n/a	77.37%	77.21%
Traditional Medicaid Cost to Alabama with FMAP +5%	n/a	n/a	$1,379,777,282	$1,433,846,780
Traditional Medicaid Savings from FMAP + 5%	n/a	n/a	$304,855,785	$314,578,056
Total Traditional Savings to Alabama from FMAP + 5%	n/a	n/a	**$619,433,841**	

Expanded Medicaid Savings—Special Populations

Expanding Alabama Medicaid would expand coverage to more than 283,000 Alabamians. However, the state is already providing various targeted services, such as coverage during pregnancy or for treatment of breast and cervical cancer, to many of the 283,000. The state is responsible for between 28% and 100% of the costs of those services. With expansion, many targeted services currently funded by the state for people who do not otherwise qualify for traditional Medicaid would be covered by the federal government at 90%, reducing the state share from between 28% and 100% to 10%.

For example, pregnant women who meet certain criteria are covered by Medicaid during their pregnancy. The state is responsible for approximately 28% of these expenses. However, if Alabama expands Medicaid, these patients would be included in the expansion population, and eligible for the 90% federal match. The state's share would be reduced by 18 percentage points.

Other examples of these services include coverage for:

- people with disabilities
- breast and cervical cancer treatment

- family planning services
- mental health and substance abuse programs
- in-patient medical care of people in prison
- uncompensated care

Expanding full Medicaid coverage to those whom the state is already providing coverage will result in significant savings.

To calculate these savings, we estimate the percent and number of Alabamians in each category with incomes less than 138% of the federal poverty line. We then multiply that number by Alabama Medicaid's total per capita spending to estimate total spending for that population. Total spending is then multiplied by the state's current match rate (1-FMAP) to estimate current expenditures. Current expenditures are subtracted from total spending times 10%, the amount the state must match under expansion, to calculate potential savings.

The Savings Formula

1. Traditional enrollment x percent of people in the category with incomes less than 138% FPL = estimate of people currently covered
2. Estimate of people currently covered x per capita Medicaid expenditures = total current expenditures
3. Total current expenditures x (1-FMAP) = estimated current costs to Alabama
4. Total expenditures x 10% = estimated expansion cost to Alabama
5. Estimated current costs - estimated expansion costs = projected savings

Using the above formula, we predict average annual savings in seven current programs and services.

Savings in Services to People with Disabilities

In 2022, we project Alabama will spend $7 million on services for 20,299 people with disabilities and incomes under 138% of the federal poverty line, based on the federal match rate of 72.37%. Under expansion, the match rate for this group would jump to 90%, reducing the state's expenses from $37 million to $13.4 million, a savings of $23.6 million in 2022 and $148.9 million over the next six years. See Table 4. For more details, see the Appendix.

Table 4. Projected Savings from Providing People with Disabilities Full Medicaid Coverage

	2022	2023	2024	2025	2026	2027
Traditional Medicaid Enrollment	922,687	918,074	913,484	908,917	904,372	899,782
Share of Disabled with Incomes Below 138% FPL	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Number of Disabled with Incomes Below 138% FPL	20,299	20,198	20,097	19,996	19,896	19,795
Per Capita Expenditures	$6,608	$6,853	$7,107	$7,370	$7,643	$7,926
Total Expenditures	$134,136,545	$138,414,345	$142,826,877	$147,371,802	$152,066,534	$156,896,787
FMAP	72.37%	72.21%	73.96%	73.46%	72.96%	72.46%
Alabama Match	27.63%	27.79%	26.04%	26.54%	27.04%	27.54%
Alabama Expenditure	$37,061,927	$38,465,346	$37,192,119	$39,112,476	$41,118,791	$43,209,375
FMAP with Expansion	90%	90%	90%	90%	90%	90%
Alabama Match with Expansion	10%	10%	10%	10%	10%	10%
Alabama Expenditure with Expansion	$13,413,655	$13,841,434	$14,282,687	$14,737,180	$15,206,653	$15,689,679
Savings	**$23,648,273**	**$24,623,912**	**$22,909,432**	**$24,375,296**	**$25,912,138**	**$27,519,696**

Savings in Services to Pregnant Women

In 2022, we project Alabama will spend $53.9 million on services to 29,526 pregnant women with incomes under 138% of the federal poverty line, based on the federal match rate of 72.37%. Under expansion, the match rate for this group would jump to 90%, reducing the state's expenses from $53.9 million to $19.5 million, an average savings of $34.3 million in 2022 and $222.6 million over the next six years. See Table 5 and the Appendix for more detail.

Table 5. Projected Savings from Providing Pregnant Women with Full Expanded Medicaid Coverage.

	2022	2023	2024	2025	2026	2027
Traditional Medicaid Enrollment	922,687	918,074	913,484	908,917	904,372	899,782
Share of Pregnant with Incomes Below 138% FPL	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Number of Disabled with Incomes Below 138% FPL	29,526	29,378	29,231	29,085	28,940	28,793
Per Capita Expenditures	$6,608	$6,853	$7,107	$7,370	$7,643	$7,926
Total Expenditures	$195,107,702	$201,329,956	$207,748,185	$214,358,985	$221,187,686	$228,213,508
FMAP	72.37%	72.21%	73.96%	73.46%	72.96%	72.46%
Alabama Match	27.63%	27.79%	26.04%	26.54%	27.04%	27.54%
Alabama Expenditure	$53,908,258	$55,949,595	$54,097,627	$56,890,875	$59,809,150	$62,850,000
FMAP with Expansion	90%	90%	90%	90%	90%	90%
Alabama Match with Expansion	10%	10%	10%	10%	10%	10%
Alabama Expenditure with Expansion	$19,510,770	$13,841,434	$20,774,819	$21,435,899	$22,118,769	$22,821,351
Savings	**$34,397,488**	**$42,108,161**	**$33,322,808**	**$35,454,976**	**$37,690,381**	**$40,028,649**

Savings in Other Program Areas

The state could also see significant savings by shifting services in other programs funded by the state at between 28% and 100% of the cost. As part of the expansion population, 90% of those costs would be covered by the federal government, reducing the state share to 10%. See Table 6.

Table 6. Projected Savings in Other Services with Expanded Medicaid

	2022	2023	2024	2025	2026	2027
Breast and Cervical Cancer Treatment Program	$3,595,094	$3,631,045	$3,667,356	$3,704,030	$3,741,070	$3,778,481
Family Planning Services	$32,567,502	$32,893,177	$33,222,109	$33,554,330	$33,889,873	$34,228,771
Mental Health & Substance Abuse Programs	$42,000,000	$43,050,000	$44,126,250	$45,229,406	$46,360,141	$47,519,145
Inpatient Care of Prisoners	$26,047,163	$26,307,634	$26,570,710	$26,836,417	$27,104,781	$27,375,828
Reductions in Uncompensated Care	$116,614,797	$119,530,167	$122,518,421	$125,581,832	$128,720,916	$131,938,939
Savings	$220,824,556	$225,412,023	$230,104,846	$234,906,015	$239,816,781	$244,841,164

Over the next six years, the state could save an average of $232.6 million across five other services. For detailed numbers, see appendices B through E.

Total Savings

When taken together, Medicaid expansion could result in savings to programs and services currently provided by the state and results in a two-year enhanced federal match for traditional Medicaid. These savings are projected to be $583.7 million in 2022. Total savings over the six-year period are estimated at $2.38 billion with an average of $397.8 million. The largest savings occur in the first two years. See Table 7.

Table 7. Projected Annual Savings from Medicaid Expansion

	2022	2023	2024	2025	2026	2027
FMAP + 5%	$304,855,785	$314,578,056	n/a	n/a	n/a	n/a
Movement of Disabled	$23,648,273	$24,623,912	$22,909,432	$24,375,296	$25,912,138	$27,519,696
Movement of Pregnant Women	$34,397,488	$42,108,161	$33,322,808	$35,454,976	$37,690,381	$40,028,649
Breast and Cervical Cancer Treatment Program	$3,595,094	$3,631,045	$3,667,356	$3,704,030	$3,741,070	$3,778,481

Family Planning Services	$32,567,502	$32,893,177	$33,222,109	$33,554,330	$33,889,873	$34,228,771
Mental Health & Substance Abuse Programs	$42,000,000	$43,050,000	$44,126,250	$45,229,406	$46,360,141	$47,519,145
Inpatient Care of Prisoners	$26,047,163	$26,307,634	$26,570,710	$26,836,417	$27,104,781	$27,375,828
Reductions in Uncompensated Care	$116,614,797	$119,530,167	$122,518,421	$125,581,832	$128,720,916	$131,938,939
Total Savings	**$583,726,102**	**$606,722,152**	**$286,337,086**	**$294,736,287**	**$303,419,300**	**$312,389,509**

Net Savings

Projected annual savings exceed projected annual costs in each of the first six years. Savings in years one and two are the highest, thanks to the enhanced federal match in the first two years of expansion. Even after the enhanced match rates end, we project savings to exceed the cost of expansion by at least $64 million per year and an average of $172.48 million over the next six years.

Table 8. Projected Annual Net Savings from Medicaid Expansion

	2022	2023	2024	2025	2026	2027	Average	Total
Savings/Revenue	$583.72 million	$606.72 million	$286.37 million	$294.73 million	$303.41 million	$312.38 million	$397.88 million	$2.387 billion
Expenses	$208.35 million	$214.87 million	$221.77 million	$228.41 million	$235.85 million	$243.13 million	$225.40 million	$1.352 billion
Net	$375.37 million	$391.84 million	$64.56 million	$66.32 million	$67.56 million	$69.25 million	$172.48 million	$1.034 billion

Economic Impact

The analysis by the PI+ model from REMI, Inc. finds that the economic impacts to Alabama from entering Medicaid expansion are positive from 2022 to 2027. We analyzed the economic impacts on the state during this six-year time period for jobs created, population, real gross domestic product (GDP), personal income, and economic output.

Over the next six years, we project the net economic impact of Medicaid expansion on Alabama to be an average of $1.89 billion annually. See Table 9.

These impacts are a result from the influx of federal government revenues. These federal government revenues represent 90% percent of the costs of the Medicaid expansion population and, during the first two years of expansion, a five-percentage point increase in the FMAP on the traditional Medicaid population. This analysis also accounts for the additional spending by the state for 10% of the cost of expansion. These report findings make it evident that this additional spending is more than offset by the savings in the state spending that occur from expansion.

Table 9. Projected Net Economic Impact of Medicaid Expansion

Category	Units	2022	2023	2024	2025	2026	2027
Total Employment	New Jobs Created	21,973	23,526	18,660	18,790	18,779	18,767
Population	Individuals	6,748	11,992	14,544	16,749	18,611	20,240
GDP	Fixed (2021) Dollars	$1.821 billion	$1.976 billion	$1.606 billion	$1.641 billion	$1.661 billion	$1.682 billion
Personal Income	Fixed (2021) Dollars	$1.160 billion	$1.228 billion	$1,031 billion	$1.103 billion	$1.145 billion	$1.187 billion
Total Output	Fixed (2021) Dollars	$3.078 billion	$3.336 billion	$2.692 billion	$2.741 billion	$2.763 billion	$2.787 billion

Funding Medicaid Expansion

Policymakers question the state's ability to pay for Medicaid expansion. The question may not be as challenging as it once was.

A Growing General Fund

General Fund revenues rose to almost $2.6 billion in fiscal year 2021, an increase of $262 million over the previous year. The General Fund ended with a surplus of $368 million, which was allocated for prison construction.

No doubt some of the growth in the General Fund tax revenues can be attributed to the growth in federal relief and stimulus payments to individuals and businesses during the pandemic. Between 2017 and 2020, General Fund revenues grew by 33%. This growth was driven in large part by sales taxes collected through online purchases. That tax generated $192.7 million in revenue in fiscal year 2021 alone.[26]

[26] "Alabama Tax Revenues Surge in 2021." October 26, 2021. The Public Affairs Research Council of Alabama. Retrieved from https://parcalabama.org/alabama-tax-revenues-surge-in-2021/.

Increased Tax Revenue

As mentioned, we project significant growth in Alabama's GDP, and with it, significant expansion of tax collections. Due to Alabama's two-budget system and the earmarking of tax receipts, much of the new tax revenue generated by expansion will flow to the Education Trust Fund, while expenses are funded through the General Fund. Such growth would see a substantial influx of revenue to the ETF. It may also require legislators to re-examine tax allocations, similar to what was done with the Simplified Sellers Use Tax in recent years. Detailed tax revenue projections are beyond the scope of this analysis.

Medicaid Savings

No doubt, the simplest means of funding expansion is through the savings inherent in expansion. As our analysis shows, expanding Medicaid would result in net savings over the first six years. Savings would likely continue, but our analysis does not consider a longer time horizon.

Net savings could be invested in a Medicaid trust fund to offset costs in future years. Were 100% of projected savings in the first six years invested in such a fund, the principal alone could cover all or most of the expansion expenses for the next four years.

Net savings from Medicaid could be reinvested into current programs, such as those offered by the Departments of Mental Health or Public Health, thereby expanding services at no additional cost. Such enhanced health services to Alabamians could result in reduced utilization of Medicaid-covered services, driving down the overall cost of Medicaid.

Conclusion

Expanding Medicaid to cover adults earning up to 138% of the federal poverty level, $25,750 for a family of four in 2019, would increase Medicaid enrollment by as many as 283,636 people.

Costs to the state would increase by an average of $225.4 million per year above current Medicaid expenditures over the next six years, but the state would also see estimated average annual savings of $397.8 million over those same six years. The average annual savings of $172.4 million is more than enough to cover the cost of expansion.

Those savings would result from two years of an enhanced federal match rate for traditional Medicaid and reducing state expenses from between 28% and 100% to 10% for those newly covered by Medicaid expansion.

Projected annual economic impact of $1.89 billion is similar to the total amount of stimulus funding Alabama received from the CARES Act in 2020. These findings are in line with previous studies of expansion in Alabama[27], Mississippi[28], and in other states.

These findings provide additional information for the Governor, legislators, and other policymakers to examine when considering Medicaid expansion in Alabama.

[27] Becker, David. "Medicaid Expansion in Alabama: Revisiting the Economic Case for Expansion." January 2019. University of Alabama at Birmingham.

[28] Miller, J. Corey and Sandra Collins. "A Fiscal and Economic Analysis of Medicaid Expansion in Mississippi Under the Affordable Care Act." September 2021. University Research Center, Mississippi Institutions of Higher Learning. Retrieved from http://www.mississippi.edu/urc/downloads/urcmedicaid2021.pdf

Appendix

Projected annual costs of Medicaid expansion in Alabama, 2022 to 2027

	2022	2023	2024	2025	2026	2027
[A] Estimated population 19–64 years old	2,731,482	2,735,106	2,740,459	2,740,444	2,747,413	2,749,793
[B] Share in 2019 ACS data with incomes below 138% FPL	22.4%	22.4%	22.4%	22.4%	22.4%	22.4%
[C] Estimated population ages 19–64 with incomes below 138% FPL (AxB)	611,852	612,664	613,863	613,859	615,421	615,954
[D] Share enrolled in Medicaid in 2019 ACS data	13.9%	13.9%	13.9%	13.9%	13.9%	13.9%
[E] Number enrolled in Medicaid (CxD)	85,047	85,160	85,327	85,326	85,543	85,618
[F] Number assuming take-up rate of 100% (E x 1.0)	85,047	85,160	85,327	85,326	85,543	85,618
[G] Share with no health insurance coverage in 2019 ACS data	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
[H] Number with no health insurance coverage (C x G)	91,778	91,900	92,079	92,079	92,313	92,393
[I] Number assuming take-up rate of 79% (H x 0.79)	72,504	72,601	72,743	72,742	72,927	72,991
[J] Share with employer health coverage in 2019 ACS Data	62.3%	62.3%	62.3%	62.3%	62.3%	62.3%
[K] Number with employer health insurance coverage (C x J)	381,184	381,690	382,437	382,434	383,407	383,739
[L] Number assuming take-up rate of 15% (K x .15)	57,178	57,253	57,365	57,365	57,511	57,561
[M] Share with marketplace health insurance coverage in 2019 ACS data	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%
[N] Number with marketplace coverage (C x M)	68,527	68,618	68,753	68,752	68,927	68,987
[O] Number assuming take-up rate of 85% (N x 0.85)	58,248	58,326	58,440	58,439	58,588	58,639
[P] Total estimated expansion enrollment (F + I + L + O)	272,978	273,340	273,875	273,873	274,570	274,808
[Q] Estimated per capita expansion expenditures	$6,106	$6,289	$6,478	$6,672	$6,872	$7,078
[R] Total estimated expansion expenditures (PxQ)	$1,666,802,175	$1,719,034,816	$1,774,161,572	$1,827,283,300	$1,886,844,088	$1,945,088,992
[S] Alabama portion of expansion expenditures (R x 0.10)	$166,680218	$171,903,482	$177,416,157	$182,728,330	$188,684,409	$194,508,899
[T] Estimated administrative costs of expansion in Alabama (R x 0.025)	$41,670,054	$42,975,870	$44,354,039	$45,682,083	$47,171,102	$48,627,225
[U} Total estimated annual cost of Medicaid Expansion in Alabama (S + T)	$208,350,272	$214,879,352	$221,770,197	$228,410,413	$235,855,511	$243,136,124

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