

## **Executive Summary: The Potential Economic Impact of Withdrawing from Medicaid in Arizona<sup>1</sup>**

- Unlike many other state-funded expenditures, for every state dollar spent on Medicaid there is a match by the federal government (often in the ratio 1:2 or higher, state to federal). Thus the total impact of cuts in Medicaid expenditure by the state on the Arizona economy is far greater than the state-determined reduction alone would indicate following any state cut.
- The reduced expenditure estimates used within this study were provided by the Arizona Hospital and Healthcare Association and the Arizona Health Care Cost Containment System. It is assumed state expenditures are approximately \$3.6 billion whilst federal funds contribute an additional \$7.2 billion at the outset of the period examined. Thus an aggregate 1:2 match is assumed. These estimates are combined with expenditure distributions provided by the U.S. Department of Health and Human Services. The following table details the disaggregated expenditures and their corresponding percentages by categories for state and local, as well as federal spending, on Medicaid in 2009.<sup>2</sup>

---

<sup>1</sup> Matt Croucher and Tim James, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

<sup>2</sup> Latest data available.

### Medicaid Expenditures in 2009 (Millions of dollars)

	Federal	Percentage	State and Local	Percentage
Total National Health Expenditures	\$246,983	100.00%	\$126,957	100.00%
Hospital Care	\$90,103	36.48%	\$45,999	36.23%
Physician and Clinical Services	\$27,593	11.17%	\$12,353	9.73%
Other Professional Services	\$3,073	1.24%	\$1,456	1.15%
Dental Services	\$4,839	1.96%	\$2,308	1.82%
Other Health, Residential, and Personal Care	\$42,552	17.23%	\$21,850	17.21%
Home Health	\$15,780	6.39%	\$8,511	6.70%
Nursing Care Facilities and Continuing Care Retirement Communities	\$30,041	12.16%	\$14,915	11.75%
Prescription Drugs	\$13,316	5.39%	\$6,665	5.25%
Durable Medical Equipment	\$2,928	1.19%	\$1,386	1.09%
State	-	0.00%	\$8,270	6.51%
Federal	\$9,927	4.02%	-	0.00%
Net Cost of Private Health Insurance	\$6,831	2.77%	\$3,243	2.55%

Source: U.S. Department of Health and Human Services

- Our analysis estimates that, in the first year that reduced funding occurs, Arizona employment would be approximately 159,000 *lower* relative to a baseline without reduced funding. Real Gross State Product (GSP) would be *lower* relative to the baseline by approximately \$11.6 billion (2010\$), real disposable income would be *lower* relative to the baseline by approximately \$6.4 billion (2010\$) and the Arizona population would be *lower* relative to the baseline by approximately 43,000.
- In the 20<sup>th</sup> year of the study period (the final year), Arizona employment would be approximately 86,000 *lower* relative to the baseline. Real GSP would be *lower* relative to the baseline by approximately \$9.8 billion (2010\$), real disposable income would be *lower* relative to the baseline by approximately \$7.2 billion (2010\$) and the Arizona population would be *lower* relative to the baseline by 215,000.

- The *cumulative* impact on Arizona's economy over the 20 year study period of eliminating state funds for Medicaid is given below.

**Aggregate Economic Impact of Eliminating State Funds for Medicaid**

	<b>Aggregate Impact</b>
Employment (Thousands of Job Years) <sup>3</sup>	-2,621.97
Gross State Product (Billions 2010\$)	-\$217.07
Real Disposable Personal Income (Billions 2010\$)	-\$145.706

- Over the 20 year study period, in *aggregate terms*, approximately 2,600,000 total person job years would be lost. \$217 billion (2010\$) in total real GSP would also be lost, as well as \$146 billion (2010\$) in real disposable personal income.
- The following table provides a summary of the distribution by sector of the potential employment effects. Examining employment at a more disaggregated level, the healthcare sector will suffer the majority of the reduction in employment - approximately 82,000 jobs in year one. However, other sectors, such as construction, administrative and waste services and retail trade will also suffer significant reductions in employment.<sup>4</sup>

---

<sup>3</sup> This is person job *years* and not actual jobs. A person job year is equivalent to one person's employment for one year.

<sup>4</sup> Much of this reduction would be caused by the reduced level of economic activity associated with the initial reduced spending levels. However, some of the reduction would be caused by the population falling relative to the baseline case, with a consequent smaller market to serve.

### Disaggregated Employment Impact of Eliminating State Funding for Medicaid

Category	Thousands of Jobs		
	Year 1	Year 10	Year 20
Forestry, Fishing, Related Activities, and Other	-0.095	-0.035	-0.04
Mining	-0.026	-0.012	-0.016
Utilities	-0.275	-0.255	-0.206
Construction	-9.572	-7.916	-2.484
Manufacturing	-2.037	-1.087	-1.291
Wholesale Trade	-2.528	-1.845	-1.414
Retail Trade	-17.246	-13.64	-10.41
Transportation and Warehousing	-1.556	-1.136	-1.072
Information	-1.391	-1.033	-0.821
Finance and Insurance	-6.423	-3.042	-2.437
Real Estate and Rental and Leasing	-5.451	-6.223	-5.934
Professional and Technical Services	-6.439	-5.848	-5.31
Management of Companies and Enterprises	-0.774	-0.45	-0.405
Administrative and Waste Services	-9.268	-6.257	-4.867
Educational Services	-1.086	-1.464	-1.617
Healthcare and Social Assistance	-81.869	-52.894	-35.661
Arts, Entertainment, and Recreation	-1.626	-1.832	-1.964
Accommodation and Food Services	-5.674	-6.83	-5.834
Other Services, except Public Administration	-6.076	-4.643	-4.054
<b>Total Non-Farm Employment</b>	<b>-159.412</b>	<b>-116.442</b>	<b>-85.837</b>

- Maricopa and Pima counties will suffer the vast majority of job losses.

**Healthcare Employment Impacts Disaggregated by County in Year One**

<b>Region</b>	<b>Thousands of Jobs</b>	<b>Percentage</b>
Apache County	-1.61	1.97%
Cochise County	-1.293	1.58%
Coconino County	-2.065	2.52%
Gila County	-0.839	1.02%
Graham County	-0.52	0.64%
Greenlee County	-0.045	0.05%
La Paz County	-0.061	0.07%
Maricopa County	-46.555	56.87%
Mohave County	-2.369	2.89%
Navajo County	-1.715	2.09%
Pima County	-17.784	21.72%
Pinal County	-1.608	1.96%
Santa Cruz County	-0.353	0.43%
Yavapai County	-2.361	2.88%
Yuma County	-2.69	3.29%
Total	-81.868	100.00%

- In summary, due in large part to federal matching criteria that does not generally otherwise occur in many other areas of state expenditures, cuts in state-funding for healthcare programs such as Medicaid inevitably lead to *amplified* negative economic impacts on the Arizona economy.

**Matt Croucher**, Assistant Research Professor, Department of Economics and Senior Research Economist, L. William Seidman Research Institute, W.P. Carey School of Business

**Tim James**, Research Professor, Department of Economics, Director of Research and Consulting, L. William Seidman Research Institute, W.P. Carey School of Business and Senior Sustainability Scientist, Global Institute of Sustainability

**L. William Seidman Research Institute**  
**W. P. Carey School of Business**  
**Arizona State University**

**[www.seidmaninstitute.com](http://www.seidmaninstitute.com)**