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Ky's Medicaid Expansion: 40,000 Jobs, \$30B Economic Impact

*New Deloitte study confirms that expansion is 'overwhelming' right choice;
generates more than enough funding to pay for Kentucky's eventual costs*

FRANKFORT, Ky. (Feb. 12, 2015) – Kentucky's decision to expand the Medicaid program is paying enormous dividends in terms of jobs, economic growth, and improved health for the more than 375,000 Kentuckians who signed up last year – and according to a new study, those benefits will continue to accrue.

Medicaid expansion will add 40,000 jobs and \$30 billion to the state's economy through 2021, according to a new study Deloitte Consulting LLC and the University of Louisville's Urban Studies Institute released today. Expansion will also generate a net positive impact of nearly \$820 million to state and local government budgets.

The report concludes that the estimated costs of expansion in the current and upcoming biennial budget would be more than offset by savings and new revenues generated from economic activity resulting from new health care spending. Conversely, choosing not to expand would have been expensive as well, incurring \$100 million in costs.

Improved health impacts are significant: Deloitte reported that as expected, Kentuckians who qualified for Medicaid expansion brought a pent-up demand for preventive services to medical providers and sought health care at a 55 percent higher rate than a comparative group of some existing Medicaid enrollees, particularly for treatment of chronic conditions like high blood pressure, diabetes and depression. Plus, health care providers in every corner of the state have been paid an additional \$1.16 billion in 2014 thanks to expansion.

“For all the naysayers who claimed that expanding Medicaid was a budget-busting boondoggle, take a look at the facts. It's working, and it's literally paying off. The state is saving money,

hospitals are earning more, and our people are getting healthier,” said Governor Steve Beshear. “The facts are overwhelming. We would have lost money in the state budget and lost opportunities for job growth, not to mention allowed our people to suffer continued poor health, if we had allowed this opportunity to pass.”

The report, commissioned by the Cabinet for Health and Family Services, reviewed Kentucky’s first full year of Medicaid expansion, and found the expansion generated widely positive results for the state’s economy, local governments, medical providers, and Medicaid recipients. A supplemental report on Medicaid reimbursements also noted positive fiscal impacts, particularly for hospitals.

In May 2013, Gov. Beshear announced his decision to expand Medicaid eligibility in Kentucky pursuant to the Affordable Care Act, allowing individuals and families earning up to 138 percent of the federal poverty line to enroll in the federal health insurance program. The first enrollment period added more than 310,000 Kentuckians to the Medicaid program, nearly double the expected number. Another 17,000 Kentuckians who were eligible but not enrolled under the traditional Medicaid criteria also signed up. By the end of 2014, more than 375,000 Kentuckians were enrolled in Medicaid through the expansion.

As a result of Kentucky’s huge rates of enrollment, a Gallup poll released this summer indicated that Kentucky saw the second largest decrease of any state in its uninsured rate, dropping from 20 percent to less than 12 percent. This is a 42 percent reduction in the rate of uninsured Kentuckians.

“No other single enterprise, public or private, has the scope of positive impact that Medicaid expansion brings to the Commonwealth,” said Audrey Tayse Haynes, Secretary of the Cabinet for Health and Family Services. “Expansion alters the physical health of hundreds of thousands of individuals as well as enhances the fiscal well-being of our state. It is a seismic event that resets Kentucky’s future for the better.”

Medicaid coverage for the expansion population began Jan. 1, 2014. The Deloitte report measures impacts from the first calendar year of expansion, and used a conservative methodology to project impacts to the state’s economy and government budgets through Fiscal Year 2021.

Expansion more than pays for itself, costs offset in upcoming budget

The federal government pays the full cost of health care for people in the Medicaid expansion population for the first three years of implementation. After that, states are required to contribute a percentage match, reaching the maximum 10 percent in 2021. Deloitte projected expected costs to the state as well as savings, new revenues, and broad economic impact.

“We reviewed Deloitte’s findings and considered them in the context of our current biennial budget as well as possible implications for next year’s budget construction,” said state budget director Jane Driskell. “The bottom line is that the analysis shows expansion creates both savings and new revenue, totaling more than double the amount the state will need to pay for Medicaid

expansion in the next budget cycle. In other words, Deloitte’s report shows expansion will more than pay for itself.”

For the next biennial budget period (FY17-18), the Deloitte report estimated Kentucky’s portion for expansion enrollees to be \$74.4 million and \$173.2 million, respectively, for a biennial total of \$247.6 million. These expenditures are projected to be **offset** by \$511.8 million of General Fund savings amounts, some of which are incorporated in the enacted 2014-16 biennial budget; and additional General Fund tax revenues expected from the increased economic activity resulting from additional healthcare spending.

Expansion creates 40,000 good-paying jobs, \$30 billion in economic impact

Kentucky’s enrollment success appears to have accelerated many of the outcomes projected in the 2013 report. For example, the review from Pricewaterhouse Coopers (PwC) in 2013 estimated that Kentucky would create about 7,600 jobs in health care and related fields in the first year of implementation. But Deloitte reports that in 2014, more than 12,000 total jobs were created as a result of expansion – exceeding the first-year estimate by more than 50 percent.

By 2021, expansion is estimated to be responsible for the employment of nearly 40,000 Kentuckians annually, with an annual average salary of \$41,000. This exceeds the PwC estimate of 17,000 jobs by more than 140 percent.

“While many of the jobs will be in health care core positions such as nurses, pharmacists or doctors, those core health care jobs create additional jobs for accountants, data analysts, property managers and more,” said Gov. Beshear. “The combined effects of these added jobs will have a significant impact on all our communities.”

With the combined effects of the new jobs, federal Medicaid funding flowing to the state, associated health care spending and savings realized by state and local governments, the expansion’s net economic impact to Kentucky is estimated at \$30 billion over the eight year period.

Expansion saves taxpayer money, generates revenue

State and local governments will also see budget improvements as a result of the expansion. Expansion will generate \$1 billion from FY14 to FY21 through state income taxes, state sales taxes, and occupational and payroll taxes.

In fact, expanding Medicaid saved the state about \$100 million in avoided costs it would have incurred if the state chose not to alter Medicaid eligibility. States that didn’t expand Medicaid still experienced additional costs due to the “woodwork effect” – people who signed up who were previously eligible but not enrolled under traditional Medicaid criteria. In addition, the state was able to transfer some costs to the federal government, such as some behavioral health and substance use disorder treatments.

“Just as the first whitepaper projected, it would have cost Kentucky more *not* to expand Medicaid,” said Gov. Beshear. “Both the PwC and Deloitte reports are consistent that savings

and positive fiscal benefits far outweigh the costs. However, these estimates should be reviewed and updated regularly in the future to account for changing circumstances.”

Medical providers see huge increases in payments thanks to expansion

Perhaps the most noticeable and immediate positive impact of Medicaid expansion has been the influx of dollars to Kentucky’s medical providers, such as hospitals, pharmacies, and primary care physicians. According to a report compiled by CHFS, Medicaid expansion added \$1.16 billion in new revenues to health care providers in 2014. Hospitals alone received more than \$506 million while significantly reducing uncompensated care costs, creating financial gains for the provider community.

As a result of the influx of Medicaid cash, health care providers saw big boosts to their bottom lines. Provider revenue from Medicaid in Kentucky grew by more than 26 percent from 2013 to 2014. Pharmacy revenues were up 58 percent, primary care up 52 percent, and hospitals showed an average of 27 percent growth in receipts.

Hospitals and medical providers will continue to reap financial benefits from Medicaid expansion. Deloitte estimates \$20 billion will be paid to medical providers between FY14 and FY21, and hospitals will get nearly half of that (\$9.2 billion).

Health care providers see huge reductions in uncompensated care

Commensurate with the big increases in payments to providers, hospitals are seeing major drops in uncompensated care – services provided to people with no insurance or other means to pay for medical care.

In the first three quarters of 2014, uncompensated care visits declined 55 percent over the prior year. So-called “self-pay” billed charges – for people who pay for medical treatment out-of-pocket – have also dropped.

However, hospitals continued to receive disproportionate share (DSH) payments from the federal government, which reimburse hospitals for charity or uncompensated care. In 2014, DSH payments totaled more than \$199 million – on top of increased Medicaid payments.

“The combination of increases in Medicaid payments and drastic reductions in uncompensated care means that in general, medical providers are earning more money than ever,” said Sec. Haynes. “This flood of cash and increased patient load will likely result in additional hiring and expanded offices, which improves health care access to all Kentuckians.”

“Hospitals and medical providers are strong economic drivers for our communities. With the infusion of Medicaid spending, many facilities are in a stronger financial position than ever before,” said Gov. Beshear. “This is an opportune time for medical providers to adapt their business models to the changing demands of health care, to a model that is focused on preventive care instead of expensive emergency room visits or in-patient procedures.”

Newly insured are seeking preventive care, primary care

Gov. Beshear pointed to Kentucky's dismal rankings in multiple health outcomes as one of the reasons to give lower-income Kentucky families access to reliable, quality health care. In 2014, Kentucky's overall health ranking was 47th. Kentucky is at or near the bottom of many national health rankings, including:

- 49th in smoking
- 46th in obesity
- 33rd in diabetes
- 50th in cancer deaths
- 43rd in cardiovascular deaths
- 50th in preventable hospitalizations
- 50th in poor mental health days; and
- 48th in drug-related deaths.

“Giving every Kentuckian access to affordable health care coverage will help us tackle these abysmal health outcomes. Our poor health has contributed to us being a poor state. Improved health will help improve our education levels and job opportunities,” Gov. Beshear said.

As expected, newly enrolled Medicaid patients used their health insurance right away in 2014, especially for primary care and preventive treatments, revealing an anticipated pent-up demand for health care. Compared to the previously-eligible Medicaid population, expansion members tended to seek medical care at a higher rate.

For Kentuckians with advanced disease or chronic conditions, Medicaid expansion offers reliable and regular treatment. For example, in the Medicaid expansion population, about 2,000 people are undergoing treatment for breast, prostate, colorectal or uterine cancers. Prior to expansion, their health care choices were largely limited to emergency room visits or charity medical visits. Now, they can get regular treatment and the physicians and hospitals are fairly compensated for the care they provide.

Early screenings and preventive care will lower costs and improve health over the coming years, as new enrollees will receive the screenings and preventive medicines that can catch diseases early, when treatments are more successful and less costly. Thanks to Medicaid expansion, in 2014:

- 17,000 were screened for colorectal cancer
- 26,000 women received mammograms
- 34,000 women were screened for cervical cancer
- 46,000 people were screened for diabetes
- More than 13,000 are receiving treatment for substance abuse
- More than 80,000 had preventive dental visits

To track and improve the state's historically poor health rankings, the Governor launched kyhealthnow, an initiative to tackle seven major health issues over the next five years, building on the opportunities created by the increased coverage available under Medicaid expansion and the Affordable Care Act.

“Bottom line, we made the right choice for Kentucky when we expanded Medicaid,” said Gov. Beshear. “I’m excited about the enormous gains we’re seeing already, and even more excited about the long-term implications for our state’s health.”

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