South Carolina Department of Health & Human Services

Anthony E. Keck, Director
Nikki R. Haley, Governor

December 7, 2012

Dr. Joseph Von Nessen
Division of Research
Moore School of Business
University of South Carolina
1705 College Street
Columbia, SC 29208

Dr. Von Nessen:

We have reviewed your report, *Medicaid Expansion in South Carolina: The Economic Impact of the Affordable Care Act* and have the following questions:

1) In your report, did you consider the crowd out population (Table 1) as new incremental economic activity for the state? This population is currently insured and therefore the additional economic impact should be limited. If you considered it as partial shift and partial incremental, can you explain your assumptions?

2) Did you consider that health services for the uninsured are paid for in a variety of ways such as through FQHCs, public health clinics, hospital community benefit requirements, donation of money and time to free clinics, grant programs, donations of free supplies and pharmaceuticals? A large portion of this is simply a shift of economic activity -and should not be considered incremental. If you considered it as partial shift and partial incremental, can you explain your assumptions?

3) Why did you exclude DSH from your analysis? The increase in economic activity you project due to Medicaid and private insurance growth by definition decreases the need for the funding pool for the uninsured substantially – which is an offset.

4) Why are there no sensitivity analyses? With what certainty can you attest that 44,000 new jobs will be created and that expansion will create a net surplus of $9 million for the state during 2014-2020?

5) Did you assess the accuracy of your previous prediction of health job losses due to Medicaid cuts in 2011(contained in your report, *The Economic Impact of Medicaid on South Carolina*) against DEW and BEA data that shows health care jobs actually increased since those cuts were made?

6) Did you speak with hospital executives and other health care executives about their future hiring and expansion plans? What were the results?

7) Did you speak to the actuaries at Milliman that prepared the projections that you relied on to fully understand them? Did you attend any of the two public meetings to ask questions to fully understand them?

8) Did you or the hospital association write the narrative of the report? If the hospital association did, does it reflect your impartial assessment of your work?

Office of the Director
P. O. Box 8206 Columbia South Carolina 29202-8206
(803) 898-2504 Fax (803) 255-8235

9) Was your analysis peer reviewed?

10) Ignoring supply constraints is a common criticism of economic impact studies. Why did you choose to ignore the high probability of a need to increase payments to physicians? The ACA actually mandates such increases on a temporary basis in anticipation of these shortages.

11) Does your analysis through its multipliers or other factors consider the important shifts in the federal tax code as a result of ACA including the high income earner investment tax, the health insurer tax which applies to Medicaid managed care, the medical device tax and so on?

Thank you in advance for your attention to these questions.

Sincerely,

Deirdra T. Singleton
Chief of Staff

MOORE SCHOOL OF BUSINESS
UNIVERSITY OF SOUTH CAROLINA

December 19, 2012

Deirdra T. Singleton
Chief of Staff
South Carolina Department of Health and Human Services
P.O. Box 8206
Columbia, SC 29202

Ms. Singleton:

Thank you for reaching out to me with your comments and questions about our recently published study, *Medicaid Expansion in South Carolina: The Economic Impact of the Affordable Care Act.* Our mission as researchers is to provide accurate information for the public to consider as they debate the merits of various policies, and we welcome any feedback that supports this effort regarding this particular research effort or any other research in which the university engages.

I will address each of your questions in turn. First, I want to make it clear that I have not taken a position on Medicaid expansion and have no intention of doing so. In fact, I clearly state in the study that it "...should not be interpreted as an endorsement or repudiation of Medicaid expansion in South Carolina."

You posed 11 specific questions in your letter that I will answer in the order in which they were listed:

(1) The crowd-out population in Table 1 to which you refer consists of the South Carolina population that is currently insured and that will qualify for Medicaid under expansion. People who live close to the poverty line generally spend the majority of their income and in our study, we made the assumption that when these people move on to Medicaid rolls, they will spend the money they save in the local economy through standard household spending patterns. The net effect on the South Carolina economy of the newly eligible crowd-out population is not a transfer of economic activity, but rather a situation in which this crowd-out population has new disposable income that is spent locally. It is a comparison between the current situation in which this population spends a set amount on health care, and a situation in which the federal government pays for this health care and the population spends the money they were previously using for health care on other goods and services. Thus, there is a net increase in economic activity from this group.

(2) As stated in the executive summary, this study did not explicitly capture the effects of changes in uncompensated care costs. The study reports that uncompensated care costs often shift to individuals and employers via higher insurance premiums. If these costs fall (due to Medicaid expansion), it follows that this would add to economic activity through the lowering of these premiums. Offsetting that effect would be any dollars allocated to health care for the uninsured that are not spent anywhere or are spent outside of South Carolina after expansion is implemented. This is a separate cost/benefit analysis that was not undertaken as part of our study.

(3) DSH funds were excluded because our study was designed to look only at the impact of Medicaid expansion on South Carolina. Federal DSH funds are being reduced regardless of whether or not South Carolina opts into Medicaid expansion. The relevant comparison is between (a) opting into expansion and losing DSH funds and (b) opting out of expansion and losing DSH funds. DSH funding does not depend on whether or not South Carolina opts into expansion.

(4) The scope of work of this project, as defined by the SCHA, was to look at one specific scenario – that is – the economic impact of Medicaid expansion on South Carolina if the projected number and cost of newly eligible enrollees approximate the estimates that were provided in the April 2012 Milliman report. While alternative scenarios can certainly be tested, that would fall outside of the scope of work undertaken in the present study.

(5) The premise of this question reflects a fundamental misunderstanding of the methods used in this (and similar) impact studies. It is not correct to assume that our previous study was wrong simply because total employment in health care rose in recent years with accompanying declines in Medicaid spending. For example, assume that a private company supported 3,000 direct and indirect jobs in South Carolina and that their leaving the state would cause South Carolina to lose those jobs. If the private company ended up leaving the state and a year later South Carolina had still netted an overall job increase, one should not conclude that the jobs were not lost when the company exited the state. The correct conclusion would be that the state lost those 3,000 jobs but gained other jobs elsewhere. Federal money taken out of our state, however, will lead to a loss of total spending (and jobs) in health care (especially hospitals), which may be picked up by other sources of funding: *all else remaining the same.* But if the spending came from in-state sources, the compensated health care spending would be at the expense of other businesses in the state. In any case, health care employment is not by any means *solely* dependent on Medicaid funding. It is incorrect to assume that overall health care (or even hospital) employment rises and falls exclusively based on Medicaid funding. Correlation does not imply causation.

(6) The impact that Medicaid expansion will have on the labor supply of health care professionals was not part of our scope of work in this project. Nevertheless, we did consult with various hospital executives in conjunction with the SCHA in our efforts to obtain background information and to present our initial findings. The labor supply effects of expanding businesses are not typically part of impact studies. Please see any recent impact studies of major manufacturers that located in South Carolina.

(7) Our scope of work, as defined by SCHA, was to use the April 2012 Milliman estimates as the basis for projecting the economic impact of Medicaid expansion in South Carolina. It was beyond the scope of our research to evaluate the methodology by which the Milliman numbers themselves were derived. Milliman numbers from the April 2012 report are frequently being used in policy debates in South Carolina regarding Medicaid expansion. Our goal was to make our estimates compatible with these existing data to aid in the discussion.

(8) I would never sign my name to a document I did not write nor would I fail to include authors who did help write the document. The SCHA provided a scope of work, but gave no specific direction on methodology or presentation. We were never guided towards a particular result, a presentation style, nor asked to make any changes to any parts of the document.

(9) In the academic economic literature, standard applications of well-known techniques are not found in the refereed journals. Like all other state impact studies, our analysis was conducted using input-output analysis, which is the industry standard modeling technique used by regional scientists across the world. The methodology has been rigorously tested in the economics literature and is widely used by regional economists. Our entire research team scrutinized the creation and estimation of the South Carolina regional model, and various health care professionals via SCHA evaluated all assumptions made to help ensure their accuracy. This process meets the criteria for peer review among economic impact studies – that is – a team of professional economists implementing a widely accepted methodology while consulting with industry experts in the particular field of examination.

(10) As outlined in answer (6), an analysis of the impact Medicaid expansion would have on the labor supply of health care professionals fell outside our scope of work. Detailed questions on the nature of the scope of work should be addressed directly to the SCHA. Further, any ACA mandates that go into effect regardless of whether or not South Carolina opts into Medicaid expansion were excluded from our analysis, as outlined in answer (3).

(11) Once again, our analysis only considers those factors that result from South Carolina opting into Medicaid expansion. Any effects from the ACA that will occur independently of South Carolina's decision was intentionally excluded from this analysis.

If you have further questions that arise, I believe it would be more appropriate for you to direct them to the SCHA. They will contact me as needed to provide a response on specifics that they cannot answer.

Sincerely,

Joseph C. Von Nessen, Ph.D.
Research Economist