UC BERKELEY
LABOR
CENTER

Data Brief

UC Berkeley Center for Labor Research and Education
December 2016

DATA BRIEF

California's Projected Economic Losses under ACA Repeal

by Laurel Lucia and Ken Jacobs

If Congress follows through on President-elect Trump's campaign promise to repeal the Affordable Care Act (ACA), 3.7 million Californians enrolled in the Medi-Cal expansion would lose that coverage,[1] and another 1.2 million individuals enrolled through California's health benefit exchange, Covered California, would lose federal subsidies to make private health insurance more affordable.[2] These two ACA provisions are the largest drivers of the historic reduction in the state's uninsured rate from 17.2% in 2013 to 8.6% in 2015.[3]

Not only would repeal of the ACA reverse much of these coverage gains, but California would lose approximately $20.5 billion in annual federal funding for the Medi-Cal expansion and Covered California subsidies. The economic losses associated with these lost federal dollars would be partially offset by limited economic gains from other provisions that may be included as part of the repeal of the ACA, which could yield $6.3 billion in tax cuts to California insurers and high-income households and nearly $1.3 billion in eliminated penalties for uninsured individuals and employers not offering affordable coverage.

In this brief, we estimate the effects on employment, gross domestic product (GDP), and state and local tax revenue in California with the elimination of the major health insurance expansions, reduction in taxes, and removal of penalties

Laurel Lucia *is manager of the health care program at the UC Berkeley Center for Labor Research and Education.* ***Ken Jacobs*** *is Chair of the UC Berkeley Center for Labor Research and Education.*

under a partial repeal of the ACA. A summary of these estimates is shown in Exhibit 1. We also estimate losses for select medium and large counties that would be especially harmed economically by ACA repeal because of their high share of population (more than 10%) enrolled in the Medi-Cal expansion: Fresno, Kern, Los Angeles, San Bernardino, San Joaquin, Stanislaus, and Tulare Counties.[4]

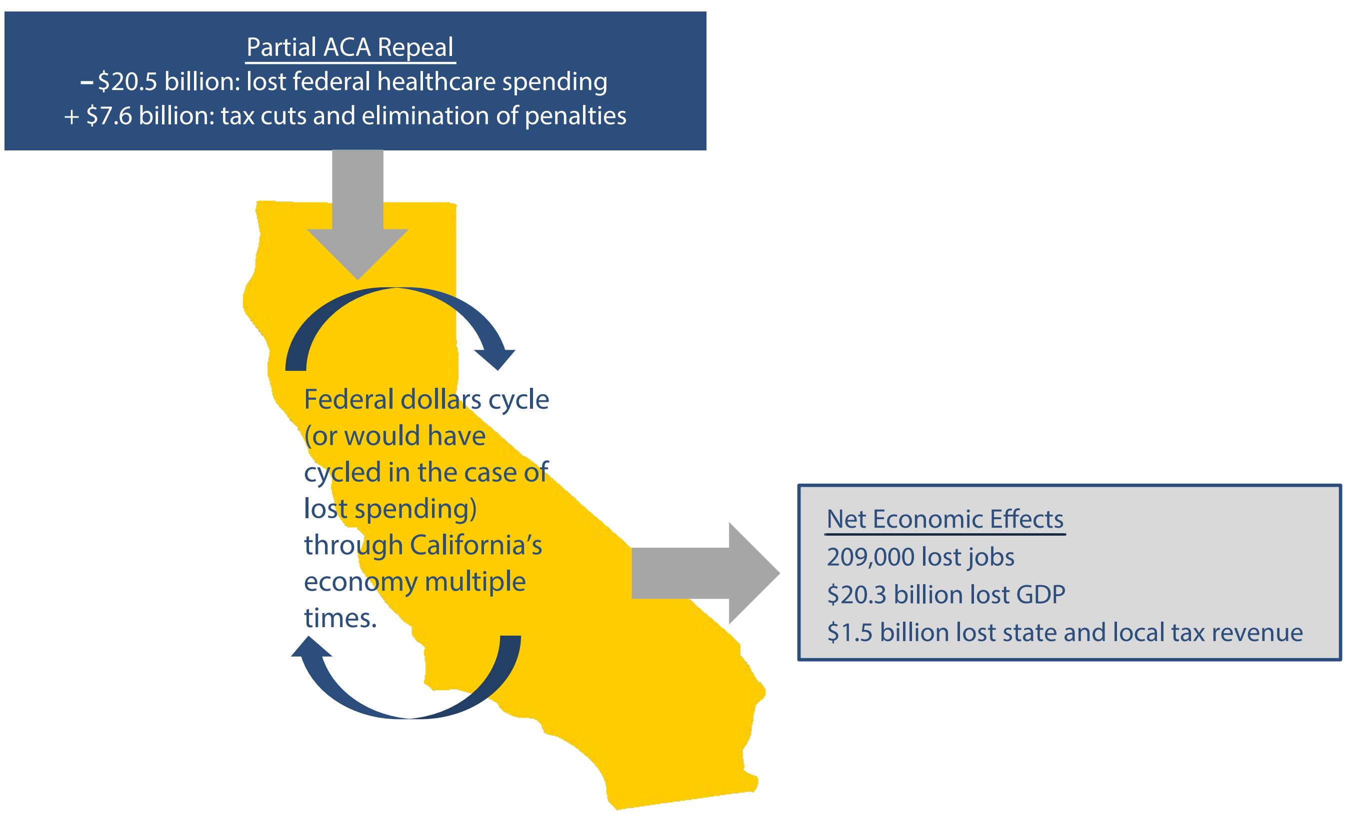
Background on Partial ACA Repeal

In December 2015, using the budget reconciliation process, Congress passed H.R. 3762, which repealed key components of the ACA. The legislation was vetoed by President Obama. Only legislative provisions with budgetary implications can be repealed using the budget reconciliation process, which requires 51 votes in the Senate for passage of a bill (as it is not subject to filibuster, which requires 60 votes to end). H.R. 3762 maintained certain aspects of the ACA such as the requirement that insurers offer coverage to applicants regardless of pre-existing conditions and minimum benefit standards for private coverage.

This analysis assumes that Congress will consider a bill in 2017 that is similar to H.R. 3762. We focus on the ACA provisions that would have the largest impact on the economy if repealed, including the elimination of:

- The Medi-Cal expansion, which extended eligibility for Medicaid to adults without children under 18 living at home and certain parents (estimated $15.5 billion in federal funding to California);[5]

Exhibit 1: Projected Net Economic Losses to California under Partial ACA Repeal



Source: Authors' analysis using IMPLAN

- Premium and cost-sharing subsidies to make coverage more affordable for eligible enrollees in Covered California (estimated $5.0 billion in federal funding subsidizing Californians' health insurance);[6]
- An increase in the Medicare payroll tax rate for high-income households, and a surtax on those taxpayers' net investment income (estimated $4.9 billion in taxes paid by Californians);
- A fee paid by insurers (estimated $1.4 billion paid by California insurers);
- The penalties owed by large employers not offering affordable employer-sponsored insurance (estimated $990 million paid by California employers); and
- The tax penalty for uninsured individuals (estimated $300 million paid by Californians).[7]

Methods

This analysis is conducted using IMPLAN, an industry-standard input-output economic modeling software package. Under H.R. 3762, the tax and penalty components were repealed immediately but the repeal of the health insurance programs was delayed for two years. This analysis estimates the economic effects once all provisions are repealed, but the results are presented in 2017 dollars.

We focus on the economic impact of the change in federal spending and tax revenues because these dollars are coming from outside the state's economy (or leaving the state economy) and the changes in federal spending and tax revenues are relatively predictable. However, this analysis does not include other potential effects on the economy, both positive and negative, that are more difficult to predict and model. These include the effects of turmoil in the individual insurance market resulting from the repeal and the subsequent effects on consumer health spending and financial security, as well as any long-run effects of a projected reduction in the federal deficit under a bill like H.R. 3762.[8] (See the methodology notes for further details in the Appendix.)

Employment Loss

The reduction in federal health insurance funding would lead to the loss of approximately 250,000 jobs in California, which would be slightly offset by the addition of 20,000 jobs due to the tax cuts for high-income households, 11,000 jobs due to the elimination of the fee on insurers, 8,000 due to the elimination of the penalty for large employers not offering affordable coverage, and 2,000 jobs due to the elimination of the penalty for the uninsured. The net effect of partial ACA repeal would be the loss of 209,000 jobs in California.[9]

The majority (135,000) of these lost jobs would be in the healthcare industry, including at hospitals, doctor offices, labs, outpatient and ambulatory care centers, nursing homes, dentist offices, other healthcare settings, and insurers. But jobs would also be lost in other industries. Suppliers of the healthcare industry, such as food service, janitorial, and accounting firms, would experience reduced demand, leading to job loss. The lost jobs also include those lost due to the "induced effect" of healthcare workers spending less at restaurants, retail stores, and other local businesses.

These job losses would be offset to a limited extent by jobs added due to the tax cuts and elimination of penalties, which would leave certain Californians with additional disposable income, leading to limited increases in spending and jobs in their local communities. The impact is limited not only because the value of the tax cuts and elimination of penalties is substantially less than the value of the healthcare spending cut, but also because healthcare spending cuts have a more severe impact on jobs than equivalent tax increases.[10]

Approximately three-quarters of the net job loss would be in five industries: healthcare, restaurants and other food and drinking places, real estate, insurance agencies and brokerages, and employment services (Exhibit 2). These estimates also account for the fact that, without repeal of the ACA, the federal dollars would circulate through the California economy multiple times until the dollars eventually leave the state when consumers purchase goods or services that are produced elsewhere. The ripple effect associated with the increased consumer spending, or "induced effects," and the continued circulation of dollars through the economy is often referred to as the "economic multiplier effect."

Exhibit 2: Industries with Most Job Loss under Partial ACA Repeal

Industry	Projected Net Job Loss in California
Healthcare*	-135,000
Restaurants and other food and drinking places	-8,000
Real estate	-6,000
Insurance agencies, brokerages, and related activities	-6,000
Employment services	-5,000
Subtotal among these industries	**-160,000**
Total job loss	**-209,000**

* Includes hospitals, doctor offices, labs, outpatient and ambulatory care centers, nursing homes, dentist offices, other healthcare settings, and insurers.

Note: Job impacts are rounded to the nearest 1,000 jobs

Source: Authors' analysis using IMPLAN

The estimated loss of healthcare jobs that would occur under partial ACA repeal (135,000) falls within the range of total healthcare jobs—367,000—added to the California economy after the ACA was enacted in March 2010. Of these 367,000 healthcare jobs, 183,000 jobs were added between December 2013, immediately before the two major ACA coverage expansions were implemented, and September 2016, the latest date for which data is available.[11] Healthcare job growth in the state in anticipation of the ACA likely started sometime between March 2010 and the end of 2013, in part due to the early implementation of the Medi-Cal expansion in the state through the Low Income Health Programs,[12] but it is not possible to pinpoint an exact date because the timeframe for hiring decisions related to the ACA probably varied significantly by provider and region. The healthcare industry has been a major source of California's employment growth during the recovery from the Great Recession.[13] Some healthcare industry job growth would have occurred without the ACA, but much of the healthcare job growth nationally in 2014 and 2015 has been shown to be related to the coverage expansions under the ACA.[14]

Some California counties would be especially adversely affected by partial ACA repeal because they have a higher-than-average share of their population enrolled in the Medi-Cal expansion,[15] the largest source of federal spending in this analysis. Six of the seven counties listed in Exhibit 3 also have unemployment rates that are already higher than the statewide rate.

Exhibit 3: Projected Job Loss and Current Unemployment Rate in California and Select Counties* under Partial ACA Repeal

	Projected Net Job Loss	Current Unemployment Rate (October 2016)
California total	**-209,000**	**5.3%**
Fresno County	-6,000	9.2%
Kern County	-5,000	9.1%
Los Angeles County	-63,000	5.1%
San Bernardino County	-12,000	5.8%
San Joaquin County	-4,000	7.6%
Stanislaus County	-3,000	7.9%
Tulare County	-3,000	10.8%

*Analysis includes medium and large counties (population over 400,000) with more than 10% of the county population enrolled in the Medi-Cal expansion

Note: Job impacts are rounded to the nearest 1,000 jobs

Source: Authors' analysis using IMPLAN; California Employment Development Department, Monthly Labor Force Data for Counties, October 2016

GDP Loss

Due to the economic multiplier effect described earlier in this brief, more than $20.3 billion in GDP would be lost in the state with the net effects of the lost federal healthcare spending, tax cuts, and elimination of penalties under partial ACA repeal. This includes the direct effect on the healthcare industry, the indirect effect on suppliers, the induced effect of reduced spending by affected healthcare workers in their communities, and the induced effect of increased spending by individuals affected by the tax cuts and elimination of penalties. This estimate also reflects multiple rounds of effects as the dollars circulate through the state's economy. In Exhibit 4, the projected GDP loss is also presented for select counties with high enrollment in the Medi-Cal expansion as a share of population.

Exhibit 4: Projected Net GDP Loss in California and Select Counties* under Partial ACA Repeal

	Projected Net GDP Loss ($ millions)
California total	**($20,337)**
Fresno County	($516)
Kern County	($359)
Los Angeles County	($5,806)
San Bernardino County	($900)
San Joaquin County	($324)
Stanislaus County	($283)
Tulare County	($193)

Source: Authors' analysis using IMPLAN

*Analysis includes medium and large counties (population over 400,000) with more than 10% of the county population enrolled in the Medi-Cal Expansion

State and Local Tax Revenue Lost

The state would lose an estimated $1.5 billion in state and local tax revenue as a result of the net effects of the lost federal healthcare spending, tax cuts, and elimination of penalties under partial ACA repeal. Federal funding for Medi-Cal and Covered California subsidies supports jobs in the healthcare industry and at healthcare suppliers, and the income that these workers spend locally supports jobs in a variety of industries, as discussed earlier in this brief. The Californians who hold these healthcare, restaurant, insurance broker, and other jobs pay state income and sales taxes. The federal spending also increases the state's corporate profit tax revenues, along with some other smaller taxes and fees. If key components of the ACA are repealed, the loss of federal funding would spur a loss of these tax revenues. This reduction in tax revenues would be partially offset by an increase in state and local tax revenues as a result of increased spending by individuals affected by the tax cuts or the elimination of penalties.

Conclusion

The ACA not only significantly expanded access to health insurance in California, but it also provided economic stimulus at a time when the state was still recovering from the Great Recession. As California is one of the states that made the greatest gains in health coverage under the ACA,[16] it is also one of the states with the most to lose economically if key components of the ACA are repealed. The partial repeal of the ACA would not only lead to a substantial decline in health coverage in California, but it would also lead to significant economic losses, including more than 209,000 lost jobs, $20 billion in lost GDP, and $1.5 billion in lost state and local tax revenue. Some medium and large California counties' economies – Fresno, Kern, San Bernardino, San Joaquin, Stanislaus, and Tulare – would be especially harmed due to their residents' high level of reliance on the Medi-Cal expansion and above-average unemployment rates.

Appendix: Methodology Notes

Scope of analysis

This analysis focuses on the economic impact of a change in federal spending and tax revenue under partial ACA repeal. The analysis does not include any economic losses associated with reductions in healthcare spending by the state or California consumers as a result of ACA repeal, such as the potential cessation of state contributions to the Medi-Cal expansion if the federal funding is eliminated, or the loss of premium and out-of-pocket spending by any Covered California enrollees who become uninsured after repeal. Those within-state spending changes are not included because much of that state and consumer spending would likely be re-directed to other purchases that also have an impact on the state economy, whereas the lost federal spending may not come back to the state. Additionally, it is outside of the scope of this brief to model how those Californians' healthcare utilization patterns would change with the loss of the Medi-Cal expansion and subsidies through Covered California.

Nor does this analysis take into account the economic harm associated with the significant turmoil that would likely occur in the health insurance market if the individual mandate is repealed while maintaining the requirement that insurers offer coverage regardless of applicants' pre-existing conditions. According to the Urban Institute's national analysis of the expected effects of a federal policy change similar to that assumed in this analysis, "If Congress partially repeals the ACA with a reconciliation bill like that vetoed in January 2016 and eliminates the individual and employer mandates immediately, in the midst of an already established plan year, significant market disruption would occur. Some people would stop paying premiums, and insurers would suffer substantial financial losses (about $3 billion); the number of uninsured would increase right away (by 4.3 million people); at least some insurers would leave the nongroup market midyear; and consumers would be harmed financially."[17]

Finally, our analysis also does not model the potential economic effects on the state as a result of the federal deficit reduction that would be projected to occur under a bill like H.R. 3762.[18] It is possible that a reduction in the federal deficit would affect the state's economy over the long run, however it is difficult to predict and quantify these effects.

IMPLAN analysis

This analysis was conducted using IMPLAN Online 2015. Some of the provisions that would be included under ACA repeal would be eliminated immediately, while the effective date for other provisions would be delayed. For simplicity, the effects are modeled as if they all take place in 2017, and results are presented in 2017 dollars.

Modeling healthcare spending reduction

Federal spending on the Medi-Cal expansion and Covered California subsidies is modeled as flowing to a set of IMPLAN industry sectors using the default IMPLAN 536-industry sector system. Eight percent of spending is allocated to IMPLAN Sector 432 "Insurance Carriers" to reflect administrative spending.[19] Nine percent of the non-administrative spending is removed from the analysis to reflect drug spending, since drug spending is likely to have a smaller economic impact locally compared to other health care spending which tends to be more local and pays for services that are more labor-intensive.[20] This is a conservative assumption given that drug spending has some impact on all local economies (supporting pharmacist and pharmacy technician jobs, for example) and that a number of drug companies are based in California.

The remaining healthcare spending is distributed across the following eight IMPLAN sectors:

475 Offices of physicians
476 Offices of dentists
477 Offices of other health practitioners
478 Outpatient care centers
479 Medical and diagnostic laboratories

481 Other ambulatory health care services

482 Hospitals

483 Nursing and community care facilities

The distribution of this spending is weighted across these eight sectors according to the relative share of economic output in the state in 2015, however the results are in 2017 dollars. The county-level analysis assumes a share of lost federal spending that is proportional to each county's share of the state's enrollment in the Medi-Cal expansion and subsidized Covered California insurance.[21]

Modeling elimination of insurer fee

While the practical effect of the insurer fee may vary by insurer, payer type, and region, this analysis assumes that the most common insurer response has been to pass on the fee to consumers via higher premiums.[22] The elimination of the insurer fee therefore is assumed to slightly reduce premiums for insured Californians. (The Joint Committee on Taxation, for example, estimated that premiums would be 2% to 2.5% lower under repeal.[23]) Those premium savings could then be spent by families on other household needs. The elimination of the fee is therefore modeled as an increase in household income, spread proportionally across households of all income levels. Congress placed a moratorium on the fee in 2017; therefore the analysis uses the Congressional Budget Office's (CBO) national estimate of $11.3 billion in lost tax revenue in 2018.[24] It is assumed that California's share of the fee is proportional to California's share (12.5%) of the nation's insured individuals.[25] The county share of the statewide fee estimate is proportional to each county's share of the insured.[26]

Modeling changes in the tax on high-income households

Our analysis uses CBO's estimates of the lost federal tax revenue under an increase in the Medicare payroll tax rate for high-income households, and a surtax on those taxpayers' net investment income. The repeal of the Medicare payroll tax increase is estimated to reduce federal tax revenue by $8.9 billion in 2017, and the repeal of the tax on net investment income is estimated to reduce federal tax revenue by $20.8 billion in 2018. The 2018 estimate is used for the repeal of the tax on net investment income because it is more consistent with CBO's estimates of the effects on an ongoing basis than CBO's estimate for 2017.[27] It is assumed that California's and the counties' share of the tax cut is proportional to the state and county share of U.S. households earning more than $200,000.[28] The tax cut is modeled as an increase in household income, applied only to households earning more than $200,000.

Modeling elimination of employer mandate

CBO projects that penalty payments by employers under the ACA would yield $9 billion in federal revenue in 2017.[29] CBO also assumes that "after a few years, the costs of the penalty will be passed on to workers in the form of reduced wages (just as payroll taxes levied on employers are)."[30] For this analysis, we assume that the repeal of the employer mandate would result in wages that would otherwise not be paid. The elimination of the employer mandate is therefore modeled as an increase in household income, spread proportionally across households of all income levels. It is assumed that California's share of the employer penalties is proportional to California's share of the U.S. workforce, approximately 11%.[31]

Modeling elimination of individual mandate

The elimination of the requirement that all individuals have health insurance or pay a penalty is modeled as an increase in household income for families that would otherwise pay the penalty, spread proportionally across households of all income levels. CBO estimates that the individual penalty for uninsured individuals would yield $3 billion in federal tax revenue in 2017.[32] We assume that California's share of that tax revenue is proportional to the state's 10% of the U.S. uninsured.[33] The county share of the statewide reduction in penalties is estimated in proportion to each county's share of the uninsured.[34]

Endnotes

[1] California Department of Health Care Services, Medi-Cal Monthly Enrollment Fast Facts, June 2016.

[2] Covered California, Active Member Profile, March 2016.

[3] U.S. Census Bureau, Table A1: Population Without Health Insurance by State, American Community Survey, 2013-2015.

[4] Medi-Cal Expansion enrollment as a share of population is from UC Berkeley-UCLA analysis of California Department of Health Care Services data. Dietz M, Lucia L, Kominski GF, and Jacobs K, ACA Repeal in California: Who Stands to Lose?, UC Berkeley Center for Labor Research and Education and UCLA Center for Health Policy Research, December 2016. For purposes of this analysis, medium and large counties are defined as those with a population of more than 400,000.

[5] The vast majority of these federal funds are for newly eligible enrollment under the ACA, but this also includes the "welcome mat" effect in which some Californians who had been eligible for Medi-Cal nonetheless only enrolled after the expansion, as a result of ACA policy changes such as improved outreach and streamlined enrollment procedures. If the ACA were repealed, an inverse effect on enrollment might occur over time. State of California, Enacted Health and Human Services Budget 2015-2016.

[6] Covered CA, Active Member Profile, March 2016. Covered California, News Release: Californians Received an Average of $5,200 Per Household through Covered California to Help Them Purchase Affordable Health Insurance in 2014, January 26, 2015.

[7] See methodology notes for details on assumptions and sources for the estimated effect the repeal of these taxes and penalties would have on California. The repeal of the ACA excise tax on high-cost employer-sponsored insurance plans was not included in this analysis because implementation of that provision was delayed until 2020.

[8] Congressional Budget Office (CBO), Estimate of Direct Spending and Revenue Effects of H.R. 3762, The Restoring Americans' Healthcare Freedom Reconciliation Act, as Passed by the Senate on December 3, 2015, and Following Enactment of the Consolidated Appropriations Act, 2016, January 4, 2016.

[9] All job estimates in this brief are rounded to the nearest 1,000 jobs.

[10] Jacobs K, Lucia L, and Lester TW, The Economic Consequences of Proposed California Budget Cuts, UC Berkeley Center for Labor Research and Education, May 2010.

[11] Authors' analysis of Current Employment Statistics data for California "Health Care and Social Assistance Industry," not seasonally adjusted. U.S. Department of Labor, Bureau of Labor Statistics, Current Employment Statistics, 2010-2016.

[12] Approximately 650,000 Californians received access to care prior to being transitioned to Medi-Cal in 2014 through the Low Income Health Programs. California Department of Health Care Services (DHCS), Medi-Cal Outreach and Enrollment Update, presented at DHCS Stakeholder Advisory Committee. May 7, 2014.

[13] Bohn S and Cuellar Mejia M, The California Economy: Employment Update, Public Policy Institute of California, December 2014.

[14] Roehrig C, Turner A, and Hempstead K, Expanded Coverage Appears to Explain Much of the Recent Increase in Health Care Job Growth, *Health Affairs* Blog, November 20, 2015.

[15] In California, 9.4% of the population was enrolled in the Medi-Cal Expansion as of 2016. The seven counties examined in this economic analysis had Medi-Cal Expansion enrollment rates that exceeded 10% of county population:

Fresno (12.0%), Kern (10.9%), Los Angeles (11.4%), San Bernardino (10.6%), San Joaquin (10.2%), Stanislaus (11.6%) and Tulare (11.9%) Counties. Dietz et al., 2016. These enrollment rates only include those Californians eligible under the Medi-Cal expansion, not the "welcome mat" effect in which some Californians who had been eligible for Medi-Cal nonetheless only enrolled after the expansion, as a result of ACA policy changes such as improved outreach and streamlined enrollment procedures.

[16] California had the greatest percentage point decline in its uninsurance rate between 2013 and 2015, compared to other states, according to data from the American Community Survey.

[17] Blumberg LJ, Buettgens M, and Holahan J, Implications of Partial Repeal of the ACA through Reconciliation, Urban Institute, December 2016.

[18] CBO, January 4, 2016.

[19] Administrative costs were 8% of Medi-Cal expenditures in Fiscal Year 2011. California Healthcare Foundation, Medi-Cal Facts and Figures: A Program Transforms, May 2013. The average national medical loss ratio in the individual market was 8% in 2014. Clemans-Cope L and Karpman M, Changes in Claims, Premiums, and Medical Loss Ratios Across and Within States' Individual Markets Between 2010 and 2014, Urban Institute, October 2015.

[20] According to 2015 National Health Expenditures data, expenditures on prescription drugs at retail outlets constitute 15% of spending on personal health care expenditures (exclusive of administrative costs) in private insurance and 7% in Medicaid. Nine percent is the weighted average of Covered California subsidy and Medi-Cal spending analyzed in this brief. Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group, National Health Expenditures, 2015.

[21] Dietz et al., 2016.

[22] Some insurers have stated that they are passing on the cost of the fee to purchasers and enrollees in the form of higher premiums. The fee may also affect government spending, in the case of plans that contract with Medicare and Medicaid. Kirchhoff SM, Patient Protection and Affordable Care Act: Annual Fee on Health Insurers, Congressional Research Service, December 12, 2013.

[23] Kirchhoff, 2013.

[24] CBO, January 4, 2016.

[25] Kaiser Family Foundation, Health Insurance Coverage of the Entire Population, 2015.

[26] UCLA Center for Health Policy Research, California Health Interview Survey 2015.

[27] CBO, January 4, 2016.

[28] U.S. Census Bureau, American Community Survey 2015.

[29] CBO, Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2016 to 2026, March 2016.

[30] CBO, How CBO Estimates the Effects of the Affordable Care Act on the Labor Market, December 2015.

[31] Authors' analysis of Current Employment Statistics data, not seasonally adjusted nonfarm employment. U.S. Department of Labor, Bureau of Labor Statistics, Current Employment Statistics, 2015.

[32] CBO, March 2016.

[33] Kaiser Family Foundation, Health Insurance Coverage of the Entire Population, 2015.

[34] UCLA Center for Health Policy Research, California Health Interview Survey 2015.

Institute for Research on Labor and Employment
University of California, Berkeley
2521 Channing Way
Berkeley, CA 94720-5555
(510) 642-0323
laborcenter.berkeley.edu

UC BERKELEY LABOR CENTER

UC Berkeley Center for Labor Research and Education

The Center for Labor Research and Education (Labor Center) is a public service project of the UC Berkeley Institute for Research on Labor and Employment that links academic resources with working people. Since 1964, the Labor Center has produced research, trainings, and curricula that deepen understanding of employment conditions and develop diverse new generations of leaders.

ACKNOWLEDGEMENTS

We would like to thank Jesse Rothstein and William H. Dow for their review of this brief. Thanks also to Jenifer MacGillvary for her help in preparation of the brief. Funding for this research was provided by The California Endowment.