

The Negative Economic Impact of Cuts to Hospital Funding: Potential Jobs Lost



Background

The health care sector represents nearly 18 percent of the United States' economy and, currently, one of the few bright spots in terms of job growth. Hospitals are the largest component of this sector, employing more than 5.4 million people. As hospitals and hospital employees buy goods and services from other businesses, they create additional jobs and economic impact throughout the community.

As lawmakers look at ways to reduce the deficit, cuts to Medicare and Medicaid are often discussed, but rarely with consideration for the broader impact that these cuts could have on the overall economy, and the jobs situation in particular. To fill this gap, Tripp Umbach developed a calculator for the American Hospital Association (AHA) that estimates the potential number of direct and indirect jobs lost given a set level of cuts to Medicare and Medicaid.

Potential Job Losses Due to the Budget Control Act of 2011

Under the *Budget Control Act of 2011*, if the Joint Select Committee on Deficit Reduction is unable to come up with the required level of budget cuts, or Congress fails to approve the recommendations of the committee, the Medicare program would be subject to a sequester of up to 2 percent— that translates to a projected cut of approximately \$41 billion from 2013 to 2021 for hospitals. With more than two-thirds of hospital spending going to the salaries and wages of caregivers and other workers, this cut could lead to cutbacks and layoffs at hospitals that would ripple throughout the economy as hospitals and hospital employees reduce their spending on the goods and services provided by other businesses. By 2021, this cut could lead to more than 194,000 jobs lost.

Budget Control Act of 2011: 2 Percent Medicare Sequester Potential Direct and Indirect Hospital Job Losses

	Projected Cut¹ (billions)	Potential Jobs Lost² (cumulative)
2013	\$3.5	92,866
2014	\$3.8	103,982
2015	\$4.0	113,537
2016	\$4.4	127,021
2017	\$4.6	138,870
2018	\$4.9	150,788
2019	\$5.1	163,647
2020	\$5.5	178,675
2021	\$5.8	194,522

¹Based on AHA analysis of Congressional Budget Office spending projections for hospitals.

²Based on Tripp Umbach Job Loss Calculator. Job numbers represent the potential number of jobs lost in each year relative to current law payment levels. Figures are not additive.

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Methodology

The methodology employed in this research shows the potential negative employment impact that reductions in funding from government programs that pay for care provided by community hospitals would have on the nation as a whole. Community hospitals impact the national economy by more than \$2 trillion annually. Hospitals are major employers in their states and often the largest employer in the communities in which they are located and, therefore, major generators of personal income for residents. Businesses operating within each state in the wholesale, retail, service and manufacturing sectors also benefit from the expenditures of a hospital and its staff on goods and services. Federal reductions in payments to hospitals will have a significant impact on hospital spending, which in turn will impact both employment and economic activity on a community, state and national basis.

All of these “direct” expenditures are re-circulated in the economy as recipients of the first-round of income “re-spend” a portion of this income with other businesses and individuals within each state. This re-spending is often termed the “multiplier” or “indirect” effect. Tripp Umbach has utilized the resources of RIMS (Regional Industrial Multiplier System), the method of estimating regional input-output (I-O) multipliers developed by the Bureau of Economic Analysis (BEA), which is based on the work of Garnick and Drake. In the 1980s, BEA completed an enhancement of RIMS, known as RIMS II (Regional Input-Output Modeling System), and published a handbook for RIMS II users. In 1992, BEA published a second edition of the handbook, in which the multipliers were based on more recent data and improved methodology.

RIMS II is based on an accounting framework called an I-O table. For each industry, an I-O table shows the distribution of the inputs purchased and the outputs sold. A typical I-O table in RIMS II is derived mainly from two data sources: BEA's national I-O table, which shows the input and output structure of nearly 500 U.S. industries, and BEA's regional economic accounts, which are used to adjust the national I-O table in order to reflect a region's industrial structure and trading patterns. Using RIMS II for impact analyses has several advantages. RIMS II multipliers can be estimated for any region composed of one or more counties and for any industry or group of industries in the national I-O table. The cost of estimating regional multipliers is relatively low because of the accessibility of the main data sources for RIMS II. According to empirical tests, the estimates based on RIMS II are similar in magnitude to the estimates based on relatively expensive surveys. The methodology used for this study measures the effect of both direct and indirect business volume and employment. In conjunction with the specific employment multipliers supplied from RIMS II, Tripp Umbach utilized data from the American Hospital Association Annual Survey on historical patterns of revenues and expenses to determine a ratio for the level of employment loss that would result from a given level of reduction in payments for hospital care.

Qualifications

Tripp Umbach is a national leader in conducting economic impact studies, consultation, and communication services for a wide variety of clients including but not limited to leading corporations, universities, hospitals, medical schools, academic medical centers, public events, convention centers, airports, amusement parks, and PGA golf events. Tripp Umbach has provided consultation and economic impact analysis services to more than 200 clients in all regions of the United States since 1990. Our consultants are skilled in all types of economic impact analysis including linear cash flow modeling, IMPLAN, and Input/ Output Analysis. Our studies are truly customized to match the needs of our diverse clients.

Since 1990, Tripp Umbach has completed many notable economic impact studies including:

- Analysis for 50 of the top 100 hospitals ranked by U.S. News & World Report.
- Corporate client studies for Highmark Blue Cross & Blue Shield, Inc., Pennsylvania Higher Education Assistance Agency, Translational Genomics Research Institute, 3M, General Electric, and many other companies throughout the United States.
- Studies for leading academic institutions such as The University of Washington, University of Alabama, The Pennsylvania State University, University of Michigan, University of Iowa, Illinois University, University of Arizona, Michigan State University, and the University of California.
- Four national studies measuring the economic impact of all 130 medical schools and more than 400 teaching hospitals for the Association of American Medical Colleges (AAMC) making Tripp Umbach the most qualified firm to assess the feasibility and economic impact of a new or expanded medical school or hospital campus

For more information on input-output modeling, please see:

Daniel H. Garnick, “Differential Regional Multiplier Models,” *Journal of Regional Science* 10 (February 1970): 35–47 ; and Ronald L. Drake, “A Short-Cut to Estimates of Regional Input-Output Multipliers,” *International Regional Science Review* 1 (Fall 1976): 1–17.

U.S. Department of Commerce, Bureau of Economic Analysis, *Benchmark Input-Output Accounts of the United States, 1987* (Washington, DC: U.S. Government Printing Office, 1994); and U.S. Department of Commerce, Bureau of Economic Analysis, *Local Area Personal Income, 1969–92* (Washington, DC: U.S. Government Printing Office, 1994).

Daniel M. Otto and Thomas G. Johnson, *Microcomputer-Based Input-Output Modeling* (Boulder, CO: Westview Press, 1993), 28–46.

Regional Input-Output Modeling System (RIMS II), 39–57 ; and Sharon M. Brucker, Steven E. Hastings, and William R. Latham III, “The Variation of Estimated Impacts from Five Regional Input-Output Models,” *International Regional Science Review* 13 (1990): 119–39.