

# **Modeled Impact of a Proposed Alcohol Excise Tax on Medicaid Savings**

**The Economic and Health Effects of a Twenty-Five Cents per Drink  
Alcohol Excise Tax Increase in New Mexico**

Prepared by:  
Kitty Richards, MPH, MS

Healthy Places Consulting, LLC



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## Summary

- It is estimated that New Mexico Medicaid paid over \$99 million to treat illness created by excessive drinking in 2015.
- Raising New Mexico alcohol excise taxes by 25 cents per drink would save Medicaid nearly \$10 million a year in reduced health care costs created by excessive drinking.

## Background

Excessive alcohol consumption is defined as binge drinking (5 or more drinks in a sitting for men, 4 or more for women) heavy drinking (15 or more drinks per week for men, 8 or more for women), any alcohol consumption by youth who are younger than 21 years old, and any alcohol consumption by pregnant women. Excessive drinking not only affects our health status, it places an enormous toll on our economy as well. In 2010, excessive drinking cost the U.S. \$247 billion, or approximately \$2.05 per drink (Sacks, et al. 2015).

Research suggests that increases to alcohol excise taxes result in decreased alcohol consumption, particularly among problem drinkers, and cost savings from increased productivity, decreased health care expenditures for the care and treatment of alcohol related illnesses, and decreased government costs for public safety and the criminal justice system (Sacks, et al. 2013).

This report expands on an earlier report describing the potential economic and health benefits of an alcohol excise tax increase for New Mexico, which can be read in its entirety here: <https://alcoholtaxessaveslives.org/the-facts/the-report>. In this report we provide an analysis of the impacts of a tax increase on New Mexico's Medicaid and general fund expenditures that have historically been used for the care and treatment of alcohol related diseases.

## **Methodology**

Total costs of excessive alcohol consumption for New Mexico for 2010 were derived from 2010 National and State Costs of Excessive Alcohol Consumption (Sacks, et al. 2015). The health care costs of excessive alcohol consumption for New Mexico are calculated as 14.9% of total costs based on the proportion of health care costs to total costs found in Sacks et al. 2006 State Costs of Excessive Alcohol Consumption (2013).

The 2006 Economic Costs of Excessive Alcohol Consumption in the US (Lewin Group, 2013), was updated in 2013. Based on data from tables III-2, III-8, III-9, III-12, and III-14, a percentage of New Mexico's 2010 total health care costs for the care and treatment of alcohol related diseases were apportioned to Medicaid and the state's general fund. Health care costs included specialty care for abuse and dependence, hospitalizations, ambulatory care, nursing home care, drugs and services, fetal alcohol syndrome, prevention and research, training, and health insurance administration.

The share of 2015 Medicaid expenditures allocated to the state and to the Federal government were based on 2015 Medicaid expenditures data by source of payment (New Mexico Health and Human Services Department, email communication from K. Nerison, June 2016). Twenty-two percent of Medicaid expenditures were allocated to the state and 78% were allocated to the Federal government.

Medicaid and general fund savings attributed to an alcohol excise tax of 25 cents were based on a modeled 9.98% reduction in alcohol consumption. Our modeling provides conservative estimates because we assume the decrease in alcohol consumption from a 25 cents per drink increase in the alcohol excise tax will be evenly distributed among all drinkers. Other models suggest the decrease in consumption will be the greatest among those who consume alcohol excessively, resulting in an even greater reduction in alcohol related illness, and associated costs, than estimated here (Jernigan, et al. 2011).

## **Findings**

Total costs associated with excessive alcohol consumption in New Mexico in 2010 were \$2,233 million per year. Of total costs, \$332.7 million was spent health care. Of 2010 health care costs, 44% were paid for through Medicaid (\$77.65 million) and state and local governments (\$68.54 million), totaling \$146.19 million (Sacks, et al. 2015).

Table 1. Costs of excessive drinking to New Mexico in millions

<b>Total costs of excessive alcohol consumption</b>	<b>2,232.9</b>
Health care costs of excessive alcohol consumption	332.7
Health care costs of excessive alcohol consumption covered by Medicaid, state, and local government	146.19
Health care costs of excessive alcohol consumption covered by state and local government only	68.54
Health care costs of excessive alcohol consumption covered by Medicaid only	77.65

Based on an annual growth rate of 5% per year in Medicaid expenditures from 2010 through 2015 (Henry J. Kaiser Family Foundation, Urban Institute and KCMU analysis of CMS Form 64 data, FY 1990-2014), a projected \$99 million in Medicaid dollars were spent to treat and care for illnesses caused by excessive alcohol consumption in New Mexico in 2015. The estimated share of Medicaid expenditures borne by the state and Federal government were \$21.81 million and \$77.33 million, respectively.

Table 2. Estimated 2015 NM Medicaid costs attributable to excessive drinking

Health care costs of excessive alcohol consumption covered by Medicaid only	99.14
Medicaid health care costs of excessive alcohol consumption covered by state government	21.81
Medicaid health care costs of excessive alcohol consumption covered by Federal government	77.33

This modeling predicts that a 25 cents per drink alcohol excise tax increase will reduce Medicaid expenditures by \$9.9 million. Further, the alcohol excise tax will reduce non-Medicaid health care costs provided by state and local governments through the state's general fund and other revenues, such as gross receipts taxes, by \$6.84 million annually. Please note that these figures are likely underestimated since a tax increase will have the greatest impact on those who drink alcohol excessively.

Table 3. Estimated reductions in Medicaid and state-funded health care resulting from a 25¢ per drink alcohol excise tax increase (in millions)

Reduced Medicaid expenditures	9.90
Reduced Non-Medicaid health care costs to state's general fund	6.48

An enormous economic burden is placed on New Mexico taxpayers who, through their tax dollars, subsidize costs associated with the care and treatment of illnesses caused by excessive drinking. Raising New Mexico alcohol excise taxes to 25 cents per drink will lead to healthier New Mexicans and provide significant reductions in state funded health care costs.

## Bibliography

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