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Health Care Policy Cost Index 2009: Ranking the States According to Policies Affecting the Cost of Health Care

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Congress is embroiled in a debate to, in effect, rework the health care sector of our economy according to a political agenda. The measures being considered would vastly expand government regulation and mandates, government control over health care decision-making, and government funding of health care spending, while also increasing and imposing an array of taxes, including levies affecting entrepreneurs and small businesses.

The argument for more government involvement is presented as a means for expanding health care coverage while also controlling costs, as odd as that might seem to those familiar with economics and the history of government health care involvement. After all, the reality has been the exact opposite with the federal government's two major health care programs – Medicaid and Medicare. Consider the following:

- **Medicaid.** From 1969 to 2009, the average annual increase in Medicaid spending was 12.8%. And over the past decade, the average annual increase was 9.0%.

- **Medicare.** Meanwhile, also from 1969 to 2009, the average annual increase in Medicare spending was 12.7%. And over the past ten years, the average rate of increase was 8.7%.

Keep in mind that from 1969 to 2009, inflation (as measured by the GDP price deflator) averaged 4.0% annually. And over the past decade, annual inflation averaged only 2.4%.

Small businesses understand the problems that come with the high cost of providing health care coverage. They often cannot compete for or they lose good workers due to being unable to afford health care coverage. And of course, there is the cost of providing coverage for themselves and their families. The lack of affordability in terms of health insurance means a larger number of uninsured.

Assorted variables factor into the health care cost equation. For example, expanded and improved means of treatment – such as innovation and invention when it comes to prescription drugs, medical devices, and other diagnostics and procedures – obviously carry costs, but come with great benefits in terms of saving and improving lives.

But there clearly are negative factors that influence costs as well. For example, rising third-party payments – that is, health care paid by employer-provided insurance or the government – turn out to be major drivers of health care costs. When someone else picks up the tab, health care providers and consumers have few incentives to be concerned about costs or utilization. As a result, costs rise. This is known as the third-party-payer problem.

A key health care reform measure that seeks to remedy the third-party-payer problem is the health savings account. HSAs restore insurance to what it's supposed to be, that is, protection against unforeseen, catastrophic events and costs. Dollars are placed tax-free into the HSA by the

employee, employer or both. Those resources are now owned and controlled by the individual, who makes health care decisions accordingly. During relatively healthy years, resources accumulate in the account. Meanwhile, each HSA is linked to a catastrophic insurance plan that kicks in during years with high health care expenditures.

Other major negative factors in the health care equation are government mandates and regulations. For example, elected officials take credit for mandating that insurance companies provide certain kinds of coverage, but each mandate and regulation comes with costs. For example, the Council for Affordable Health Insurance reported in “Health Insurance Mandates in the States 2009” that “mandated benefits currently increase the cost of basic health coverage from a little less than 20% to perhaps 50%, depending on the number of mandates, the benefit design and the cost of the initial premium.” Indeed, no matter how nice it might sound to some, government intervention in markets – including regulations and mandates – comes with costs.

The Small Business & Entrepreneurship Council’s “Health Care Policy Cost Index 2009” ranks the states according to seven policy measures that impact the cost of health care. (These factors are included in the broader “Small Business Survival Index 2009: Ranking the Policy Environment for Entrepreneurship Across the Nation.”) The health care policy measures are:

- **Health Savings Accounts.** Health Savings Accounts (HSAs) provide much-needed choice, competition and consumer control in the health insurance marketplace. HSAs are tax-free savings accounts owned and controlled by individuals. Funds can be deposited tax free into the account by the employee, employer or both, and earnings accumulate tax free. The funds are used to cover medical expenses. And each HSA is tied to a traditional catastrophic insurance plan to cover large health care expenditures.

Measurement in the Health Care Policy Cost Index: states providing a tax deduction for individuals making contributions to HSAs or imposing no personal income tax receive a “0”, while states not providing a deduction receive a score of “1.”¹

- **Health Care Regulation: Guaranteed Issue for Self-Employed Group of One.** Health insurance represents a significant cost for businesses. Taxes, mandates and regulations increase health care costs, increase the number of uninsured, and act as another disincentive to starting up or locating a business in a high-cost state. Guaranteed issue means that individuals may not be turned down for health insurance coverage no matter the condition of their health or risk status. So, incentives for people to purchase health insurance before they become ill are removed. A guaranteed issue mandate raises health care costs, in this case for the self-employed.

Measurement in the Health Care Policy Cost Index: state mandate for guaranteed issue in the self-employed group of one market (state imposing guaranteed issue gets a score of “1” and states not imposing gets a score of “0”).²

¹ Data source: “State That Allow Individuals to Deduct Health Savings Accounts Contributions, 2008,” Henry J. Kaiser Family Foundation at www.statehealthfacts.org.

² Data source: “Small Group Health Insurance Market Guaranteed Issue, 2009” from the Henry J. Kaiser Family Foundation at www.statehealthfacts.org.

• **Health Care Regulation: Community Rating for Small Group Market.** Community rating mandates that an insurer charge the same price for everyone in a defined region regardless of their varying health care risks. So, no matter what the risks involved, everybody pays the same price for insurance. That translates into higher costs across the board.

*Measurement in the Health Care Policy Cost Index: state mandate for community rating in the small group market (state imposing rate bands gets a score of “0.33”; state imposing adjusted community rating gets a score of “0.66”; state imposing pure community rating gets a score of “1”; and a state not imposing community rating gets a score of “0”).*³

• **Health Care Regulation: Guaranteed Issue for Individual Market.** Again, guaranteed issue means that individuals may not be turned down for health insurance coverage no matter the condition of their health or risk status. So, incentives for people to purchase health insurance before they become ill are removed. A guaranteed issue mandate raises health care costs, in this case for the self-employed.

*Measurement in the Health Care Policy Cost Index: state mandate for guaranteed issue in the individual market (state imposing guaranteed issue gets a score of “1,” for some products a score of 0.5, and states not imposing gets a score of “0”).*⁴

• **Health Care Regulation: Community Rating for Individual Market.** Again, community rating mandates that an insurer charge the same price for everyone in a defined region regardless of their varying health care risks. So, no matter what the risks involved, everybody pays the same price for insurance. That translates into higher costs across the board.

*Measurement in the Health Care Policy Cost Index: state mandate for community rating in the small group market (state imposing rate bands gets a score of “0.33”; state imposing adjusted community rating gets a score of “0.66”; state imposing pure community rating gets a score of “1”; and a state not imposing community rating gets a score of “0”).*⁵

• **Health Care: State High-Risk Pools.** For individuals that cannot get health coverage due to pre-existing conditions, some states have opted to set up high-risk pools. According to the Council for Affordable Health Insurance, high-risk pools “provide a safety net for the ‘medically uninsurable’ 1% to 2% of the population, who have been denied health insurance coverage because of a pre-existing health condition, or who can only access private coverage that is restricted or has extremely high rates.” CAHI is correct in noting that “state high-risk pools are a much better alternative to providing coverage for the medically uninsurable than imposing guaranteed issue laws on insurers which eventually increase the cost of insurance for everyone.”

³ Data source: “Small Group Health Insurance Market Rate Restrictions, 2009” from the Henry J. Kaiser Family Foundation at www.statehealthfacts.org.

⁴ Data source: “Individual Market Guaranteed Issue, 2008” from the Henry J. Kaiser Family Foundation at www.statehealthfacts.org.

⁵ Data source: “Individual Market Rate Restrictions, 2008” from the Henry J. Kaiser Family Foundation at www.statehealthfacts.org.

Measurement in the Health Care Policy Cost Index: states that have high-risk pools receive a score of “0” and states that do not have high-risk pools receive a score of “1.” (One caveat: The existence of a high-risk pool in a state does not necessarily mean it is being managed properly.)⁶

• **Health Care Regulation: Number of Mandates.** Beyond regulations like guaranteed issue and community rating, state laws impose a host of mandated benefits on insurers. These mandates, while often sounding reasonable, carry real and sometimes significant costs. Health care mandates are easy to impose, as politicians take credit for expanded benefits while denying the related costs.

Measurement in the Health Care Policy Cost Index: number of mandates imposed (state gets a score of 0.05 for each mandate imposed).⁷

The state rankings for the “Health Care Policy Cost Index” are:

Health Care Policy Cost Index									
Rank	State	HSA						Mandates	Health Index
		Deduct	GI/SE	CR/SG	GI/Ind	CR/Ind	HighRisk		
1	South Carolina	0	0	0.33	0.00	0.00	0.00	1.45	1.78
2t	Alaska	0	0	0.33	0.00	0.00	0.00	1.60	1.93
2t	Nebraska	0	0	0.33	0.00	0.00	0.00	1.60	1.93
4	Iowa	0	0	0.33	0.00	0.33	0.00	1.30	1.96
5	Wyoming	0	0	0.33	0.00	0.00	0.00	1.70	2.03
6	South Dakota	0	0	0.33	0.00	0.33	0.00	1.50	2.16
7	Oklahoma	0	0	0.33	0.00	0.00	0.00	1.90	2.23
8	Kansas	0	0	0.33	0.00	0.00	0.00	1.95	2.28
9	Utah	0	0	0.33	0.50	0.33	0.00	1.15	2.31
10	Montana	0	0	0.33	0.00	0.00	0.00	2.00	2.33
11	North Dakota	0	0	0.33	0.00	0.33	0.00	1.70	2.36
12t	Alabama	1	0	0.33	0.00	0.00	0.00	1.05	2.38
12t	Missouri	0	0	0.33	0.00	0.00	0.00	2.05	2.38
12t	Tennessee	0	0	0.33	0.00	0.00	0.00	2.05	2.38
15	Arkansas	0	0	0.33	0.00	0.00	0.00	2.15	2.48
16	Illinois	0	0	0.33	0.00	0.00	0.00	2.35	2.68
17	Kentucky	0	0	0.33	0.00	0.33	0.00	2.05	2.71
18	West Virginia	0	0	0.33	0.50	0.00	0.00	1.90	2.73
19	Mississippi	0	1	0.33	0.00	0.00	0.00	1.45	2.78
20	Idaho	0	0	0.33	0.50	0.33	1.00	0.65	2.81
21t	Indiana	1	0	0.33	0.00	0.00	0.00	1.70	3.03
21t	Wisconsin	1	0	0.33	0.00	0.00	0.00	1.70	3.03
23	Louisiana	0	0	0.33	0.00	0.33	0.00	2.50	3.16
24	Texas	0	0	0.33	0.00	0.00	0.00	2.85	3.18
25	Hawaii	0	1	0.00	0.00	0.00	1.00	1.20	3.20

⁶ Data Source: “State High Risk Programs and Enrollment, December 2007,” from the Henry J. Kaiser Family Foundation at www.statehealthfacts.org.

⁷ Data source: “Health Insurance Mandates in the States 2009,” by Victoria Craig Bunce and JP Wieske, Council for Affordable Health Insurance, 2009.

26	Ohio	0	0	0.33	0.50	0.00	1.00	1.45	3.28
27	Dist. of Columbia	1	0	0.00	0.00	0.00	1.00	1.35	3.35
28	Oregon	0	0	0.66	0.50	0.33	0.00	2.00	3.49
29	New Mexico	0	0	0.33	0.00	0.33	0.00	2.85	3.51
30	Georgia	0	0	0.33	0.00	0.00	1.00	2.25	3.58
31	Pennsylvania	0	0	0.00	0.00	0.00	1.00	2.60	3.60
32	Arizona	0	0	0.33	0.00	0.00	1.00	2.35	3.68
33	Delaware	0	1	0.33	0.00	0.00	1.00	1.40	3.73
34	North Carolina	0	1	0.33	0.00	0.00	0.00	2.50	3.83
35	Maryland	0	0	0.66	0.00	0.00	0.00	3.30	3.96
36	Virginia	0	0	0.00	0.00	0.00	1.00	3.00	4.00
37	Minnesota	0	0	0.33	0.00	0.33	0.00	3.40	4.06
38	Michigan	0	1	0.33	0.50	0.00	1.00	1.25	4.08
39	New Hampshire	0	1	0.66	0.00	0.33	0.00	2.20	4.19
40	Colorado	0	1	0.66	0.00	0.00	0.00	2.55	4.21
41	Nevada	0	0	0.33	0.00	0.33	1.00	2.60	4.26
42	Connecticut	0	1	0.66	0.00	0.00	0.00	2.70	4.36
43	Florida	0	1	0.33	0.50	0.00	0.00	2.60	4.43
44	California	1	0	0.33	0.50	0.00	0.00	2.80	4.63
45	Vermont	0	1	0.66	1.00	0.66	1.00	1.50	5.82
46	Washington	0	1	0.66	1.00	0.66	0.00	2.85	6.17
47	New York	0	0	1.00	1.00	1.00	1.00	2.55	6.55
48	Rhode Island	0	1	0.66	0.50	0.00	1.00	3.50	6.66
49	New Jersey	1	0	0.66	1.00	1.00	1.00	2.25	6.91
50	Massachusetts	0	1	0.66	1.00	0.66	1.00	2.60	6.92
51	Maine	0	1	0.66	1.00	0.66	1.00	2.75	7.07

Among the 50 states and District of Columbia, the best 15 states in terms of state health care policies are: 1) South Carolina, 2t) Alaska, 2t) Nebraska, 4) Iowa, 5) Wyoming, 6) South Dakota, 7) Oklahoma, 8) Kansas, 9) Utah, 10) Montana, 11) North Dakota, 12t) Alabama, 12t) Missouri, 12t) Tennessee, and 15) Arkansas.

Meanwhile, the worst states are: 37) Minnesota, 38) Michigan, 39) New Hampshire, 40) Colorado, 41) Nevada, 42) Connecticut, 43) Florida, 44) California, 45) Vermont, 46) Washington, 47) New York, 48) Rhode Island, 49) New Jersey, 50) Massachusetts, and 51) Maine.

Whether at the federal level or in the states, public policies impact health care costs. If policymakers are serious about having a positive impact on health care, then rolling back costly, unnecessary mandates and regulations, and implementing measures that remove obstacles to real, private sector choice and competition, are the reforms needed.