

**SMALL BUSINESS & ENTREPRENEURSHIP COUNCIL'S**

# Health Care Policy Cost Index 2011:

Ranking The States According to Policies Affecting the Cost of Health Care



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*Protecting small business, promoting entrepreneurship*

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## **Health Care Policy Cost Index 2011: Ranking the States According to Policies Affecting the Cost of Health Care**

As reported by the federal government in early January 2010, national health care spending increased in 2009. While expenditures rose by 4%, reportedly the smallest jump over the half-century the numbers have been tracked, health care spending as a share of the economy increased from 16.6% in 2008 to 17.6% in 2009, the biggest one-year leap.

If this increase were simply a case of consumers having access to and choosing new and improved care, then it would not be a problem. But in addition to a down economy, *The Wall Street Journal* reported that “federal Medicaid spending helped push up health costs.”

Whenever government expands, higher costs result. New or increasing government health care programs, for example, mean expanded third-party payments. Third-party payments create perverse incentives whereby health care providers and consumers need not be concerned about prices or utilization. And when government is the third-party payer, few incentives exist to be concerned about how taxpayer funds are spent.

As for health care mandates, the more services that government requires insurers to cover inevitably means higher insurance costs. The same applies to increased regulation in general, that is, costs rise when government effectively overrules or distorts the private, competitive marketplace.

In March 2010, the President signed the Patient Protection Affordable Care Act (PPACA) into law. This massive government intervention into our nation’s health care system greatly increased government spending, regulation, mandates and taxes. Unless Congress repeals all or key parts of PPACA, the phase in of the law will inevitably mean increased costs.

What has happened at the federal level is only part of the health care cost story. The states impose policies that affect the accessibility and affordability of health care services and insurance as well.

In fact, in Massachusetts, for example, former Republican Governor Mitt Romney led the way in advancing a PPACA-style health care plan before major action in Washington. The Massachusetts Model paved the way for President Obama’s misguided health care plan, including mandating that individuals and employers purchase health insurance, or pay a fine. Costs have accelerated in Massachusetts, with more challenges growing with regard to quality and the availability of care. Understanding the impact of government intervention in the marketplace, this is no surprise.

## **Health Care Policies State-by-State: Which states are imposing the greatest costs and which one the least?**

The Small Business & Entrepreneurship Council's "Health Care Policy Cost Index 2011" 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 2010: 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."*<sup>1</sup>

- **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").*<sup>2</sup>

- **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").*<sup>3</sup>

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<sup>1</sup> Data source: "State That Allow Individuals to Deduct Health Savings Accounts Contributions, 2008," Henry J. Kaiser Family Foundation at [www.statehealthfacts.org](http://www.statehealthfacts.org), and HSAs for America at <http://www.health-savings-accounts.com/state-income-tax.htm>.

<sup>2</sup> Data source: "Small Group Health Insurance Market Guaranteed Issue, 2010" from the Henry J. Kaiser Family Foundation at [www.statehealthfacts.org](http://www.statehealthfacts.org).

<sup>3</sup> Data source: "Small Group Health Insurance Market Rate Restrictions, 2010" from the Henry J. Kaiser Family Foundation at [www.statehealthfacts.org](http://www.statehealthfacts.org).

• **Health Care Regulation: Guaranteed Issue for Individual Market.** Guaranteed issue means that individuals may not be turned down for health insurance coverage no matter the condition of their health or risk status. Incentives for people to purchase health insurance before they become ill are removed. The 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”).<sup>4</sup>*

• **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”).<sup>5</sup>*

• **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.”

*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.)<sup>6</sup>*

• **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).<sup>7</sup>*

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<sup>4</sup> Data source: “Individual Market Guaranteed Issue, 2010” from the Henry J. Kaiser Family Foundation at [www.statehealthfacts.org](http://www.statehealthfacts.org).

<sup>5</sup> Data source: “Individual Market Rate Restrictions, 2010” from the Henry J. Kaiser Family Foundation at [www.statehealthfacts.org](http://www.statehealthfacts.org).

<sup>6</sup> Data Source: “State High Risk Programs and Enrollment, January 2010,” from the Henry J. Kaiser Family Foundation at [www.statehealthfacts.org](http://www.statehealthfacts.org).

## Health Care Policy Cost Index

### *State Rankings from Best to Worst*

Rank	State	HSA	GI/SE	CR/SG	GI/Ind	CR/Ind	HighRisk	Mandates	Index
1	South Carolina	0	0	0.33	0.00	0.00	0.00	1.45	1.78
2	Alaska	0	0	0.33	0.00	0.00	0.00	1.65	1.98
3	Iowa	0	0	0.33	0.00	0.33	0.00	1.35	2.01
4	Indiana	0	0	0.33	0.00	0.00	0.00	1.75	2.08
5	South Dakota	0	0	0.33	0.00	0.33	0.00	1.45	2.11
6	Nebraska	0	0	0.33	0.00	0.00	0.00	1.80	2.13
7	Wyoming	0	0	0.33	0.00	0.00	0.00	1.85	2.18
8t	Montana	0	0	0.33	0.00	0.00	0.00	1.90	2.23
8t	Oklahoma	0	0	0.33	0.00	0.00	0.00	1.90	2.23
10	Alabama	1	0	0.33	0.00	0.00	0.00	0.95	2.28
11	North Dakota	0	0	0.33	0.00	0.33	0.00	1.70	2.36
12	Tennessee	0	0	0.33	0.00	0.00	0.00	2.05	2.38
13	Utah	0	0	0.33	0.50	0.33	0.00	1.25	2.41
14t	Kansas	0	0	0.33	0.00	0.00	0.00	2.10	2.43
14t	Missouri	0	0	0.33	0.00	0.00	0.00	2.10	2.43
16	Arkansas	0	0	0.33	0.00	0.00	0.00	2.25	2.58
17	Illinois	0	0	0.33	0.00	0.00	0.00	2.30	2.63
18t	Mississippi	0	1	0.33	0.00	0.00	0.00	1.45	2.78
18t	West Virginia	0	0	0.33	0.50	0.00	0.00	1.95	2.78
20	Idaho	0	0	0.33	0.50	0.33	1.00	0.65	2.81
21	Kentucky	0	0	0.33	0.00	0.33	0.00	2.25	2.91
22	Arizona	0	0	0.33	0.00	0.00	1.00	1.65	2.98
23	Wisconsin	1	0	0.33	0.00	0.00	0.00	1.75	3.08
24	Hawaii	0	1	0.00	0.00	0.00	1.00	1.15	3.15
25	Louisiana	0	0	0.33	0.00	0.33	0.00	2.55	3.21
26	Ohio	0	0	0.33	0.50	0.00	1.00	1.45	3.28
27	Texas	0	0	0.33	0.00	0.00	0.00	3.00	3.33
28	Dist. of Columbia	1	0	0.00	0.00	0.00	1.00	1.35	3.35
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
31t	Pennsylvania	0	0	0.00	0.00	0.00	1.00	2.85	3.85
31t	Virginia	0	0	0.00	0.00	0.00	1.00	2.85	3.85
33t	Minnesota	0	0	0.33	0.00	0.33	0.00	3.20	3.86
33t	Nevada	0	0	0.33	0.00	0.33	1.00	2.20	3.86
33t	New Hampshire	0	1	0.33	0.00	0.33	0.00	2.20	3.86
36t	Delaware	0	1	0.33	0.00	0.00	1.00	1.60	3.93
36t	North Carolina	0	1	0.33	0.00	0.00	0.00	2.60	3.93
38	Maryland	0	0	0.66	0.00	0.00	0.00	3.35	4.01
39	Michigan	0	1	0.33	0.50	0.00	1.00	1.25	4.08

<sup>7</sup> Data source: "Health Insurance Mandates in the States 2010," by Victoria Craig Bunce and JP Wieske, Council for Affordable Health Insurance, 2010.

40	California	1	0	0.33	0.00	0.00	0.00	2.80	4.13
41	Oregon	0	0	0.66	0.50	0.66	0.00	2.45	4.27
42	Florida	0	1	0.33	0.00	0.00	0.50	2.45	4.28
43	Colorado	0	1	0.66	0.00	0.00	0.00	2.70	4.36
44	Connecticut	0	1	0.66	0.00	0.00	0.00	2.95	4.61
45	Washington	0	0	0.66	1.00	0.66	0.00	2.85	5.17
46	Vermont	0	1	0.66	1.00	0.66	1.00	2.10	6.42
47	New Jersey	1	0	0.66	1.00	0.66	1.00	2.25	6.57
48	New York	0	0	1.00	1.00	1.00	1.00	2.60	6.60
49	Rhode Island	0	1	0.66	0.50	0.00	1.00	3.45	6.61
50	Massachusetts	0	1	0.66	1.00	0.66	1.00	2.35	6.67
51	Maine	0	1	0.66	1.00	0.66	1.00	2.65	6.97

Among the 50 states and District of Columbia, the best 15 states in terms of state health care policies are: 1) South Carolina, 2) Alaska, 3) Iowa, 4) Indiana, 5) South Dakota, 6) Nebraska, 7) Wyoming, 8) Montana, 8) Oklahoma, 10) Alabama, 11) North Dakota, 12) Tennessee, 13) Utah, 14) Kansas, and 14) Missouri.

Meanwhile, the worst states are: 36) Delaware, 36) North Carolina, 38) Maryland, 39) Michigan, 40) California, 41) Oregon, 42) Florida, 43) Colorado, 44) Connecticut, 45) Washington, 46) Vermont, 47) New Jersey, 48) New York, 49) Rhode Island, 50) Massachusetts, and 51) Maine.

In the end, at the federal and state levels, two policy paths exist on the health care front. One is about more government control and interference, and therefore increased costs, fewer choices and diminished care. The other entails reforms that expand choice and competition for consumers and businesses. Under the second policy path, small business owners and individuals win with more affordable choices, higher levels of innovation and better quality care.