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

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

The health care policy debate has been raging for decades at the federal level and in the states. The two major problems that dominate the discussion are the estimated number of uninsured individuals, and the cost of health care.

Small businesses certainly know 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. Rising health insurance costs mean fewer resources for investment, expansion, or salary increases for current employees. For self-employed individuals, the lack of affordable health coverage is an ongoing source of worry and frustration. High health insurance costs also serve as a barrier to entrepreneurship, as individuals may hesitate to leave the security of a job where they currently have coverage. In general, 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 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.

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.

Additional negative factors in the health care equation are government mandates and regulations. For example, some elected officials think it is a good idea to mandate that insurance companies provide certain kinds of coverage. But each mandate and regulation comes with added costs. No matter what the intentions of elected officials or policymakers have been, government intervention in markets – including regulations and mandates – comes with costs.

The Small Business & Entrepreneurship Council's "Health Care Policy Cost Index" ranks the states according to five policy measures that impact the cost of health care. Four of these factors are included in the "Small Business Survival Index 2008: Ranking the Policy Environment for Entrepreneurship Across the Nation," which was just published in December 2008. The health care policy measures are:

- **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 Small Business Survival Index: number of mandates imposed (state gets a score of 0.05 for each mandate imposed).<sup>1</sup>*

- **Health Care Regulation: “Play or Pay” Mandate.** Among the most costly mandates for businesses is the “play or pay” mandate. That is, government requires businesses to either provide health insurance coverage to their employees, or, if not, to pay some kind of tax to support government-provided health care programs. (Note: the state of Hawaii simply mandates coverage by businesses for employees working more than 20 hours per week.)

*Measurement in the Small Business Survival Index: imposition of a “play or pay” mandate (state gets a score of “0” for no mandate or a score of “1” imposing a mandate).<sup>2</sup>*

- **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 Small Business Survival 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>3</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 Small Business Survival 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>4</sup>*

- **Health Care Regulation: Community Rating.** Community rating mandates that an insurer charge the same price for everyone in a defined region regardless of their varying health care

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<sup>1</sup> Data source: “Health Insurance Mandates in the States 2008,” by Victoria Craig Bunce and JP Wieske, Council for Affordable Health Insurance, 2008.

<sup>2</sup> Data source: American Benefits Council, state of Vermont, Hawaii Uninsured Project, and Families USA.

<sup>3</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).

<sup>4</sup> Data source: “Small Group Health Insurance Market Guaranteed Issue, 2007” from the Henry J. Kaiser Family Foundation at [www.statehealthfacts.org](http://www.statehealthfacts.org).

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 Small Business Survival 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>*

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

### **Health Care Policy Cost Index**

	<i>State</i>	<i>HSA Deduct</i>	<i>Health: GI/SE</i>	<i>Health: CR</i>	<i>Health: Mandates</i>	<i>Play/Pay</i>	<i>Health Costs Score</i>
1	Idaho	0	0	0.33	0.75	0	1.08
2	Utah	0	0	0.33	1.15	0	1.48
3	Iowa	0	0	0.33	1.25	0	1.58
4	Michigan	0	0	0.33	1.30	0	1.63
4	Ohio	0	0	0.33	1.30	0	1.63
6	Alaska	0	0	0.33	1.40	0	1.73
7	South Carolina	0	0	0.33	1.45	0	1.78
8	South Dakota	0	0	0.33	1.55	0	1.88
9	Pennsylvania	0	0	0.00	1.90	0	1.90
10	Nebraska	0	0	0.33	1.60	0	1.93
10	Wyoming	0	0	0.33	1.60	0	1.93
12	Dist. of Columbia	1	0	0.00	0.95	0	1.95
13	Kentucky	0	0	0.33	1.65	0	1.98
14	North Dakota	0	0	0.33	1.70	0	2.03
15	Oklahoma	0	0	0.33	1.80	0	2.13
16	Kansas	0	0	0.33	1.85	0	2.18
17	West Virginia	0	0	0.33	1.90	0	2.23
18	Missouri	0	0	0.33	1.95	0	2.28
18	Alabama	1	0	0.33	0.95	0	2.28
20	Illinois	0	0	0.33	2.00	0	2.33
20	Montana	0	0	0.33	2.00	0	2.33
20	Tennessee	0	0	0.33	2.00	0	2.33
23	Arkansas	0	0	0.33	2.05	0	2.38
23	Georgia	0	0	0.33	2.05	0	2.38
25	Oregon	0	0	0.66	1.80	0	2.46
26	Louisiana	0	0	0.33	2.15	0	2.48
27	Delaware	0	1	0.33	1.25	0	2.58
28	Virginia	0	0	0.00	2.75	0	2.75
29	Arizona	0	1	0.33	1.45	0	2.78
29	Mississippi	0	1	0.33	1.45	0	2.78
31	New Mexico	0	0	0.33	2.55	0	2.88

<sup>5</sup> Data source: “Small Group Health Insurance Market Rate Restrictions, 2007” from the Henry J. Kaiser Family Foundation at [www.statehealthfacts.org](http://www.statehealthfacts.org).

32	Nevada	0	0	0.33	2.60	0	2.93
33	Texas	0	0	0.33	2.70	0	3.03
33	Wisconsin	1	0	0.33	1.70	0	3.03
35	Hawaii	0	1	0.00	1.15	1	3.15
36	Indiana	1	0	0.33	1.85	0	3.18
37	Minnesota	0	0	0.33	3.20	0	3.53
38	New Hampshire	0	1	0.66	1.95	0	3.61
39	North Carolina	0	1	0.33	2.35	0	3.68
39	Rhode Island	0	1	0.33	2.35	0	3.68
41	Florida	0	1	0.33	2.40	0	3.73
42	New York	0	0	1.00	2.75	0	3.75
43	New Jersey	1	0	0.66	2.10	0	3.76
44	Colorado	0	1	0.33	2.45	0	3.78
45	Maryland	0	0	0.66	3.15	0	3.81
46	California	1	0	0.33	2.50	0	3.83
47	Vermont	0	1	0.66	1.35	1	4.01
48	Connecticut	0	1	0.66	2.55	0	4.21
49	Maine	0	1	0.66	2.65	0	4.31
49	Washington	0	1	0.66	2.65	0	4.31
51	Massachusetts	0	1	0.66	2.15	1	4.81

Among the 50 states and District of Columbia, the best 15 states in terms of state health care policies are: 1) Idaho, 2) Utah, 3) Iowa, 4) Michigan, 4) Ohio, 6) Alaska, 7) South Carolina, 8) South Dakota, 9) Pennsylvania, 10) Nebraska, 10) Wyoming, 12) District of Columbia, 13) Kentucky, 14) North Dakota, and 15) Oklahoma.

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

Our elected officials talk a great deal about “solving the health care crisis.” Unfortunately, the origins of the crises can largely be traced back to governmental policies that raise the costs of health care, and thereby limit the availability of health care coverage. If policymakers are serious about having a positive impact on health care, then significantly limiting the number of mandates and regulations makes sense at the federal and state levels.