

# POLICY BRIEF



February 2013

## The Business Case for AHCCCS Expansion

### Cost Shift/Hidden Health Care Tax on Business

Businesses in all industry sectors have lined up in support of AHCCCS expansion because it helps their bottom line. Ninety-eight percent of large employers (200 or more workers) and 61 percent of small employers (3-199 workers) chose to provide health insurance coverage for their employees in 2012 according to research conducted by The Kaiser Family Foundation and Health Research & Educational Trust. Doing so helps them attract top-caliber candidates for open positions. However, steep annual increases in health insurance premiums make offering coverage a more and more difficult decision, particularly for smaller companies.

While several factors influence the cost of health insurance, one of the more influential factors is the “cost shift” or “hidden health care tax.” This phenomenon occurs when uninsured individuals seek health care services in hospital emergency departments. The uninsured often take this route because hospitals are required to provide care to anyone who shows up regardless of their ability to pay. When a patient lacks health insurance and does not have personal funds to pay their hospital bill, the provider must write off the cost. This is considered to be uncompensated care. Seeking to recover a portion of these costs, hospitals pass along higher costs to private insurance companies. This, in turn, drives up rates for employers and their employees with private health insurance.

In 2009, the Arizona Chamber Foundation commissioned the Lewin Group, a nationally recognized consulting and research firm specializing in the health care industry, to conduct a study to quantify the cost shift in Arizona. The Lewin Group found that underpayments by Medicare and AHCCCS as well as the cost of providing uncompensated care increased private health insurance premiums in Arizona by 8.8 percent or \$361 per privately insured person in 2007 (the most recent year of available data at the time). A typical annual family policy of \$11,617 cost an additional \$1,017 due to the cost shift, and an average annual single premium cost an additional \$396.

The cost shift has grown rapidly since this study was conducted, causing health insurance premiums to rise further. Since that time, hospital reimbursement rates have been cut twice, the Proposition 204 population has been frozen resulting in over 141,000 people losing coverage, and numerous other budget reductions have put pressure on the system. As a result, hospital uncompensated care rose 81 percent during the last two quarters of available data relative to the two quarters prior to the Proposition 204 freeze. It is estimated that hospitals in the City of Phoenix alone will have \$540 million in uncompensated care in fiscal year 2013. A more recent 2012 study by the actuarial firm Milliman puts the cost shift at \$1,800 per family policy.

### State Budget

The business community has a deep vested interest in the well-being of the state budget, both expenditures and revenues. A balanced and frugal budget puts less pressure on government to generate tax revenue, much of which is paid by business. Recent progress on lowering key business taxes such as property and corporate income have been critical in making Arizona more competitive for job creation. Keeping expenditures in check is essential to ensuring that we do not back-slide on this important progress.

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*The Arizona Chamber Foundation (501(c)3) is a non-partisan, objective educational and research foundation. The mission of the Arizona Chamber Foundation is to be a leading resource for forwarding-thinking, expert research and analysis on public policy issues that impact Arizona's business environment with a focus on the core drivers of economic prosperity - strong infrastructure, competitive tax structure, qualified workforce, minimal regulations, and efficient government.*

The proposed expansion of AHCCCS would be funded by a provider assessment, which cannot be passed along to patients or insurance policy holders. The provider assessment would cover not only the expansion of AHCCCS from voter-mandated 100 percent FPL up to 133 percent FPL, but rather the entire unfunded Proposition 204 population. By unfunded, we mean the portion that is not covered by tobacco tax and settlement funds.

This approach is very positive because it frees up General Fund dollars in the amounts of \$62 million in FY 2014, \$136 million in FY 2015, and \$155 million in FY 2016. These funds, which would likely have otherwise been directed to AHCCCS in order to comply with the voters' will, can now be redirected to other state government priorities, such as education and public safety, without any need to raise taxes. This fiscally-responsible approach will further strengthen Arizona's burgeoning reputation as a top choice location for business.

### Employment

Hospitals are a major part of Arizona's economy, generating \$28 billion in total economic activity.<sup>1</sup> Direct employment by hospitals in Arizona accounts for 83,961 jobs.<sup>2</sup> Each of these hospital jobs supports at least two additional jobs in other sectors. In Arizona, the percentage of total non-farm employment supported by hospitals employment is 8.12 percent. Every dollar spent by a hospital supports around \$2.30 of additional business activity.<sup>3</sup> Not only do hospitals directly employ health care staff, they hire or contract with businesses to do a wide variety of support services such as janitorial, landscaping, food service, construction, accounting, legal services and more.

### Access to Care

Businesses consider many criteria when deciding where to locate or expand operations. Arizona has made great headway in recent years by way of legislation that has dramatically improved the tax and regulatory climate. However, ready access to high quality health care is a consideration for many businesses. Maintaining Arizona's ability to provide world-class care will figure into the site selection process for many businesses.

Of particular concern are rural communities that have only one hospital to serve the region. When rural hospitals are under financial strain, access to primary

and specialty health care services may be at risk. In emergency situations, rapid access to care may make a critical difference in patient outcomes. The ability to recruit new businesses to communities with limited access to care could be compromised, resulting in a damaging ripple effect throughout the economy. Enhanced Medicaid funds will make a real and tangible difference in the ability of rural hospitals to continue to serve their communities with the highest quality of care.

In the urban counties of Maricopa and Pima, competition for business locates is fierce. Every day we compete with cities around the country that have strong health care systems, providing excellent quality care. Turning down \$1.6 billion annually in federal funds would make it far more difficult for Arizona to effectively attract new business. With this influx of funds, we will be better positioned to leverage the recent progress made in our tax and regulatory systems.

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<sup>1</sup>Phoenix Access to Care Ordinance fact sheet, 2012.

<sup>2</sup>American Hospital Association analysis based on 2011 Bureau of Labor statistics data.

<sup>3</sup>Ibid.