



M E D I A R E L E A S E

Release: March 12, 2009

Contacts:

Suzanne Taylor, Executive Director, Arizona Chamber Foundation, 602-248-9172, ext. 125, staylor@azchamber.com

Bridget O’Gara, Vice President of Communications, Arizona Hospital and Healthcare Association, 602-445-4300, ext. 4318, bogara@azhha.org

Regena Frieden, Director of Brand Marketing and Corporate Communications, Blue Cross Blue Shield of Arizona, 602-864-4046, rfrieden@azblue.com

Arizona Chamber Foundation Unveils Study on the Impact of the Hidden Healthcare Tax on Businesses & Consumers

Arizona employers and the state’s 3.5 million privately insured consumers pay 40 percent above cost for hospital services primarily because the state and federal governments significantly underpay hospitals for those same services, according to a study released today by the Arizona Chamber Foundation.

“This study shines a light on what Arizona business and healthcare leaders refer to as the hidden healthcare tax,” said Suzanne Taylor, executive director, Arizona Chamber Foundation. “The study demonstrates that when state or federal lawmakers reduce hospital payment levels to below their costs, Arizona businesses and consumers pick up the tab in the form of higher health insurance premiums.”

The study—*An Analysis of Hospital Cost Shift in Arizona*—conducted by the nationally recognized Lewin Group, found that in 2007 private insurance payments for Arizona hospital services exceeded costs by \$1.3 billion in order to offset underpayment from:

- **State Government**—The Arizona Health Care Cost Containment System (AHCCCS), Arizona’s Medicaid program—which paid 79 percent of hospitals’ costs for providing services—underpaid Arizona hospitals \$407 million.
- **Federal Government**—Medicare—which paid Arizona’s hospitals 89 percent of hospitals’ costs for delivering services—underpaid Arizona hospitals \$481 million.
- **Uncompensated Care**—Arizona’s hospitals absorbed \$390 million in 2007—4.4 percent of their total costs—for services they delivered but for which they received no compensation.

-more-

Public insurance programs (e.g., AHCCCS and Medicare) are the primary drivers behind the hidden healthcare tax, paying hospitals below what it costs to treat patients. To cover these costs, hospitals shift the burden to *private* health insurers by negotiating higher rates to provide coverage.

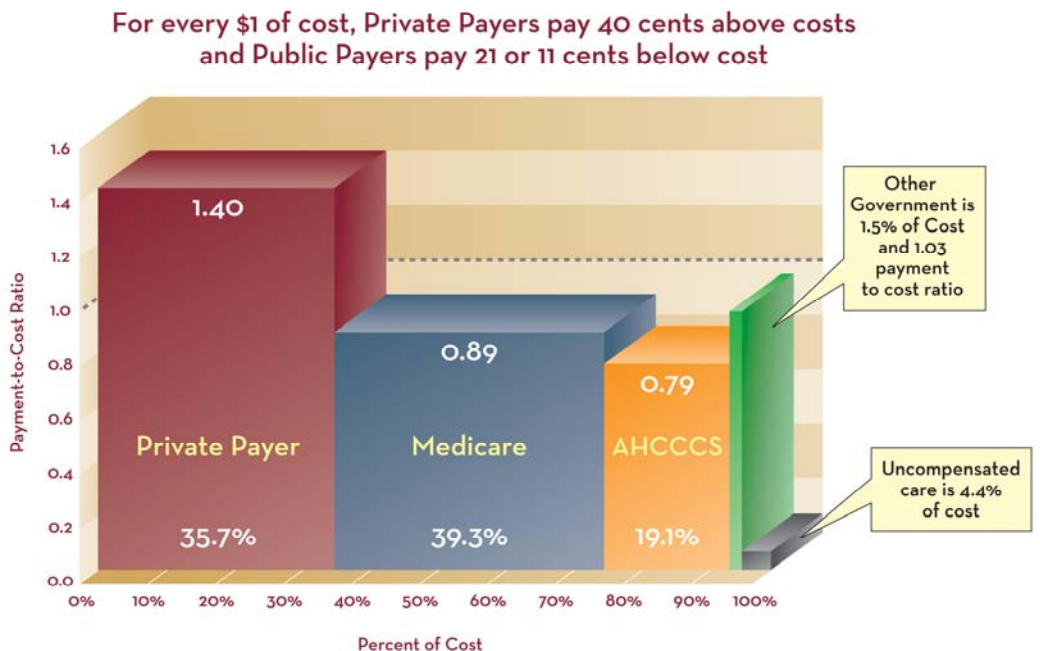
“In this downturn, the hidden healthcare tax is particularly harmful to the economic well-being of our state,” said Taylor. “Employers throughout Arizona are grappling with incredible challenges ranging from declining revenues to shrinking credit. The hidden healthcare tax is another weight on businesses that want to continue providing employer-based insurance to their employees.”

The Hidden Healthcare Tax & Its Impact on Employers, Employees & Health Plans

How does the hidden healthcare tax impact employers’ financial health and consumers’ pocketbooks? Arizona employers and their employees typically share the cost of health insurance coverage with employers paying an average of 81 percent of a single policy and 75 percent of a family policy for workers enrolled in their respective health plans.

According to the Arizona Chamber Foundation study, in 2007 inadequate payment by AHCCCS and

Medicare, as well as uncompensated care, increased private health insurance premiums in Arizona by 8.8 percent or \$361 for every privately insured person.



The study revealed that public program underpayment in 2007:

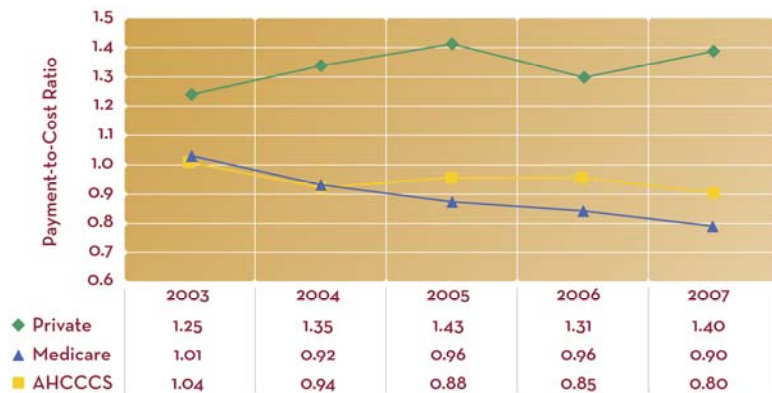
- added \$1,017—\$324 of which is due to AHCCCS underpayment—to the annual price tag of a typical family health insurance policy, bringing the cost to \$11,617; and
- increased by \$396—\$126 of which is due to AHCCCS underpayment—the annual cost of a single health insurance policy, bringing the price tag to \$4,519.

Underpayment by public insurance programs for hospital services exacts a steep price on employers, their workers and private purchasers of health insurance. In 2007, the cost shift due to AHCCCS, Medicare and uncompensated care cost:

- employers an additional \$941.7 million, \$301.3 million resulting from AHCCCS underpayment;
- employees an additional \$292.8 million, \$93.7 million of it due to AHCCCS underpayment; and
- private purchasers of health insurance an additional \$41.4 million, \$13.2 million of it resulting from AHCCCS underpayment.

“This cost shift is real,” said Mary Semma, vice president of Network Management and Administration, Blue Cross Blue Shield of Arizona. “We owe it to our 1.3 million customers to make policy makers aware of this problem.”

Cost to Payment Ratios: Public Payers Paying Less While Private Payers Remain Relatively Constant



Source: Lewin Group analysis of AHA Annual Survey data

AHCCCS Cuts Increase the Hidden Healthcare Tax

Since the 2008 legislative session, Arizona’s hospitals have sustained approximately \$103 million in cuts to public programs—\$42 million in FY 2008 and \$61 million in FY 2009. Legislators are considering FY 2010 cuts to valuable safety net programs including:

- AHCCCS payment rate freeze;
- 5 percent AHCCCS payment rate reduction;
- Disproportionate Share Hospital payments;
- Graduate Medical Education; and
- AHCCCS payments to rural hospitals.

According to The Lewin Group, over the two fiscal years (2009 and 2010) these hospital payment cuts would result in:

- **State Savings**—\$95 million
- **Lost Federal Funds**—\$250.4 million
- **Total Dollar Increase in Private Insurance Premiums Due to the Cost Shift**—A total of \$1.48 billion in FY 2009 and \$1.63 billion in FY 2010.
- **Individual Increase in Premiums for Privately Insured Arizonans Due to the Cost Shift**—A 19 percent increase.

Public Program Underpayment & Its Impact on Hospitals

The payment shortfall from public payers and uncompensated care also is taking its toll on Arizona's hospitals. The Lewin Group study found that hospitals' total margins— income realized from operations, investments and philanthropy—are lower than hospital margins both regionally and nationally. The study shows in 2007:

- Arizona hospital margins were 5.3 percent compared to 7.8 percent for hospitals in the Mountain division as designated by the American Hospital Association (Colorado, Idaho, Nevada, New Mexico and Wyoming). Nationally, hospital margins were 6.1 percent.
- Arizona ranked 18th lowest for total hospital margins when compared to other states.
- Arizona's short-term, acute care hospitals ranked sixth in the nation and second lowest in the Mountain division for their inpatient costs per visit (\$4,837), well below the national average (\$5,267).

The Lewin Group report notes that Arizona's hospitals absorb a portion of the shortfall from public payer underpayment and uncompensated care by reducing costs and altering some of the services they offer patients. Additionally, because of the perpetual payment shortfall, hospitals may be less able to fund social programs that benefit their communities. However, the study concludes, hospital profit margins are necessary in order for hospitals to expand capacity, update technology, hire staff, as well as cover the costs associated with operating a medical facility.

“The Arizona Chamber Foundation study provides lawmakers information that demonstrates the public's connection to the budgeting process with regard to hospital payment levels for AHCCCS,” said John Rivers, president and CEO, Arizona Hospital and Healthcare Association. “This is a good first step to addressing the hidden healthcare tax in our state.”

About the Arizona Chamber Foundation

The Arizona Chamber Foundation produces research studies on Arizona's public policy issues in an effort to provide timely and relevant information and to educate decision makers and the public on matters of importance to the State of Arizona.

About the Arizona Hospital and Healthcare Association

The Arizona Hospital and Healthcare Association represents 95 of the state's hospitals, providing leadership on issues affecting the delivery, quality, accessibility and cost effectiveness of healthcare in Arizona.

About Blue Cross Blue Shield of Arizona

Blue Cross Blue Shield of Arizona, an independent licensee of the Blue Cross and Blue Shield Association, is the largest Arizona-based health insurance company. The not-for-profit company was founded in 1939 and provides health insurance products, services or networks to nearly 1.3 million individuals.

###