



F A C T S H E E T

Release: March 12, 2009

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Fact Sheet: Arizona Chamber Foundation Study on the Impact of the Hidden Healthcare Tax

Government Increasing Health Insurance Premiums for Businesses & Consumers

- When public insurance programs—the Arizona Health Care Cost Containment System (AHCCCS) or Medicare—pay providers below cost for care they provide to patients, employers and consumers pick up the tab. Business and healthcare leaders have dubbed this the “hidden healthcare tax” because it increases healthcare costs for private payers: businesses that purchase healthcare coverage for their employees and consumers.
- Arizona’s 3.5 million privately insured consumers pay 40 percent above cost for hospital services in order to cover losses incurred from AHCCCS, Medicare and uncompensated care.
- The total cost to Arizona employers and their employees for AHCCCS underpayment to hospitals in 2007 was \$407 million.
- In 2007, private insurance payments for Arizona hospital services exceeded costs by \$1.3 billion in order to offset underpayment from AHCCCS (paid hospitals 79 percent of cost, underpaying a total of \$407 million); Medicare (paid hospitals 89 percent of cost, underpaying a total of \$481 million); and uncompensated care (cost hospitals \$390 million).

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- The Arizona Chamber Foundation recently released a study conducted by The Lewin Group focusing on the impact of the hidden healthcare tax. The study revealed that public program underpayment, coupled with uncompensated care, added \$1,017 to the annual price tag of a typical family health insurance policy, bringing the cost to \$11,617. It also increased by \$396 the annual cost of a single health insurance policy bringing the price tag to \$4,519.
- In 2007, AHCCCS and Medicare underpayment to hospitals, as well as uncompensated care cost:
 - employers and additional \$941.7 million (\$301.3 million due to AHCCCS underpayment);
 - employees an additional \$292.8 million (\$93.7 million due to AHCCCS underpayment); and
 - private purchasers of health insurance an additional \$41.4 million, \$13.2 million of it due to AHCCCS underpayment).

State Budget Decisions & 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.

Arizona Hospital Margins Demonstrate Efficiency, Dedication to Cost Containment & Commitment to Investing in Healthcare

- In 2007, the average hospital margin in Arizona—income realized from operations, investments and philanthropy—was 5.3 percent, 18th lowest in the nation. Regionally, hospital margins were 7.8 percent for hospitals in the Mountain division as designated by the American Hospital Association (Colorado, Idaho, Nevada, New Mexico and Wyoming).
- 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).

Background

- The Arizona Chamber Foundation commissioned The Lewin Group—a national healthcare policy research and management consulting group—to research payments to Arizona’s hospitals for patients covered by AHCCCS, Medicare, other government payers as well as private insurers. The Lewin Group also compared payments to the cost of treating patients as well as the impact of underpayments on employers and other private insurance consumers through the “cost shift.” The report, which was released March 16, is called *An Analysis of Hospital Cost Shift in Arizona*
- 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.
- Sixty-six of Arizona’s hospitals classified as community hospitals by the *American Hospital Association’s Annual Survey* were included in the study, which covers 2007.

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