



ARIZONA  
**HEALTH**  
FUTURES

JUNE 2009

# *Truth and Consequences*

*GAMBLING, SHIFTING, AND HOPING  
IN ARIZONA HEALTH CARE*

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# Money, money, money, money Mark, a yen, a buck or a pound That clinking, clanking clunking sound is all that makes the world go round.

— Cabaret

If money makes the world go round, it's no wonder that the globe seems to be spinning out of control. Nowhere is this more evident than in health care.

High costs alone are enough to make anyone dizzy. How can health care and health insurance be understood now when tight budgets are presenting tougher and tougher choices to individuals and policy makers? One answer is to step back and take another look at what quality research says about the costs and benefits of health and health insurance and match those facts and figures with experiences among Arizonans. *Truth and Consequences* does just that. It also presents recommendations that could help Arizona fare better in the coming years. Money may make the world go round, but choices determine the future.

The L. William Seidman Institute in the W.P. Carey School of Business and Morrison Institute for Public Policy, both at Arizona State University, worked with St. Luke's Health Initiatives on this issue of Arizona Health Futures.

In addition to reviews of state and national economic studies, focus groups and interviews were held with metro Phoenix and metro Tucson residents who did not have, or recently lost, health insurance. This total of nearly 40 participants included a combination of majority and minority individuals from their early 20s to mid-50s with average to below-average incomes. Blue collar and white collar employees, hospitality workers, homemakers, and freelancers were interviewed. Reflecting the economic turmoil everywhere, some had recently been laid off from long-term careers. Participants' own words are used throughout the report to illustrate a variety of research findings.

## The New Normal

Traditionally, recessions have affected Arizona later than they have most other states. Not so with this one. This downturn's severity has been compared to those in the mid-1970s and early-1980s.<sup>1</sup> Conditions have put Arizona in a predictable upswing in demand for public and community services as employers economize and residents turn to the state's safety net for help.

The Arizona Health Care Cost Containment System (AHCCCS, the state's Medicaid program) illustrates the familiar phenomenon of down-time demand. The agency reported that the December 2008 caseload of approximately 1 million Arizonans is 6.7% above December 2007;<sup>2</sup> The February 2009 count of approximately 1.18 million is 7.8% above the previous year, as reported by the Arizona Joint Legislative Budget Committee.<sup>3</sup> A recent nationwide survey of Medicaid officials showed that original participation estimates would prove to be low almost everywhere, often "with the largest growth in states with the most significant budget shortfalls." When the study was published in January 2009, it was reported that Arizona was anticipating enrollment growth of 9-11% during the last half of FY 2009.<sup>4</sup>

Current circumstances have pushed Arizona and other states into a complex juggling act as they meet their obligations for balanced budgets. Accordingly, leaders must:

- Reconcile recent choices to expand public health insurance coverage with the need now to protect the bottom line.

*"I always had health insurance until I got laid off."*

*“I had health insurance my whole working life until I got laid off in 2000. Then I was diagnosed with cancer. Through my mom’s church in California, they treated me. I got benefits but they’ve just run out, and now I have nothing. I haven’t been able to get hired because I mentioned I had cancer.”*

- Balance increased demand with declining revenues, while not hurting the state’s capacity to compete in the future.
- Face swelling the number of uninsured adults and children, increasing health costs, and reducing economic competitiveness if residents are “disenrolled.”

State leaders can reduce expenditures, raise revenues, reorganize operations, or some combination of all three. For fiscal year 2009, Arizona’s leaders primarily chose the reduction route, which resulted in dramatic cuts and “sweeps,” although federal stimulus funds helped to plug some gaps. State revenue collections are projected to fall short by more than twice as much in the next fiscal year. Economists have warned that recovery cannot be counted on anytime soon. One Phoenix leader recently dubbed the reality at the end of Arizona’s go-go growth line the “new normal” for institutions in health and human services.

Unfortunately, more Arizonans are likely to become unemployed. Since 30-40% of those who lose jobs also lose health insurance, many will be saying goodbye to employer-based benefits.<sup>5</sup> All this will increase demand further for community services, including food, housing, unemployment insurance, job search, and health care. Many Arizonans who are unaccustomed to asking for assistance are, or soon will be, in line for support, in addition to those for whom public programs already provide a critical lifeline. The new castaways contrast with recent times when increases came mostly from population growth and choices to augment human capital and health coverage.

There’s certainly no shortage of challenges in Arizona. But as economist Paul Romer has noted: “A crisis is a terrible thing to waste.”

The times give Arizona a chance to devise new ways to meet the state’s fiscal obligations, while ensuring it emerges better able to compete. In surveys and town halls, Arizonans have often talked about quality of life in terms that reflect a desire for the state to be a place where highly skilled people and innovative businesses want to be. Health care certainly plays a part in both. To take advantage of the times, a quick review is in order.

## **Long-Term Challenges Meet the New Normal**

### **Growth, diversity, and aging will still affect Arizona.**

Current population projections show the state expanding from approximately 6.3 million residents now to more than 10 million in the early 2030s. The recent study *Preparing for an Arizona of 10 Million People* tallied the state’s infrastructure needs in the next 25 years, including health care, at approximately \$1 trillion.<sup>6</sup> The great majority of the 10 million are expected in the Sun Corridor, an urban mosaic that will span hundreds of separate units of government, including six counties, 58 municipalities, and four Native American communities.

As one of 20 “megapolitan” areas in the U.S., the Sun Corridor’s effects will be felt first in central Arizona and then throughout the state because of overlapping economic patterns and shared quality of life interests. Granted, focusing now on 10 million Arizonans may seem odd when the state no longer warrants the “fastest-growing” moniker. However, given Arizona’s current population, retirement trends, and birth rates, the state certainly has not seen the end of growth, even though its pace and nature may change.

The increasing diversity of Arizona’s population is as important as its expansion. Arizona has a “minority majority” future. More than half of the state’s K-12 population represents minority groups now, as does 40% of the entire population. Diversity is not actually the issue, of course. Rather, it is that historic inequities have created hard-edged disparities, putting many at an educational, occupational, and even a health care disadvantage. Erasing disparities is viewed by many as one of the state’s most serious issues as the economic demands for skills and learning increase and Arizona grows and ages.

Arizona is in the top five states nationally for the pace of aging. A consequence of aging and the state’s relatively high birth rate is that growth is fastest among the age groups that are not in

the labor force. Only Utah has a greater “dependency ratio,” or the number of state residents under 18 and over 65 compared to those of working age. While baby boomers are opting to work longer, and Arizona’s birth rates could ease, the state’s prime-age workers still will shoulder an increasing burden. Specifically on health, experts warn that Arizona’s relatively large population of children and young adults could mean more substance abuse and mental health needs. In turn, the substantial rise in the share of retirees will compound Arizona’s demand for health care.

**Arizona is starting from the second tier in the race for an innovative, high-value knowledge economy.**

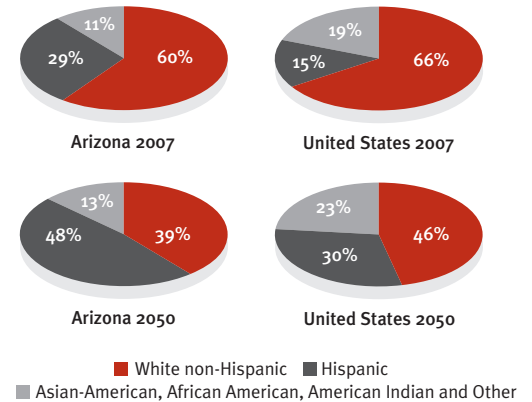
Even with top-flight rankings in some areas, Arizona’s economy places in the middle of states for overall strength and is below the national average in wages and incomes. The significant job creation numbers of past years are gone for now. Today, the state must compete on a global stage and is running to catch up in educational attainment, research, and innovation.

The state is striving now to diversify its economy, but Arizona’s average share of quality jobs and its above-average share of low-paying jobs leaves many workers and families with less to spend, fewer places to advance, and limited access to employer-sponsored health insurance.

**Health and human services in Arizona were straining to keep up even in the good times.**

The state’s rapid growth has been a factor in an ongoing mismatch between the number of health professionals and the needs of Arizonans. On the human services side, Arizona has depended heavily on community-based organizations to deliver state-funded social services and to fill local gaps. Human services professionals say that public and private dollars have not kept up with population growth or shifting needs in areas ranging from child care and homelessness to substance abuse treatment, literacy, and workforce development.

**“Majority” and “Minority” Will Soon Reverse in Arizona** | % Race/Ethnicity, U.S. and Arizona, 2007 and 2050



\*Percentages may not total 100 due to rounding.

Source: *Arizona in 20 Years and Beyond*, Maricopa Association of Governments, February 2009.

**ARIZONA’S ECONOMY BY THE NUMBERS**

Arizona GSP (current \$)  
\$247,028,000,000

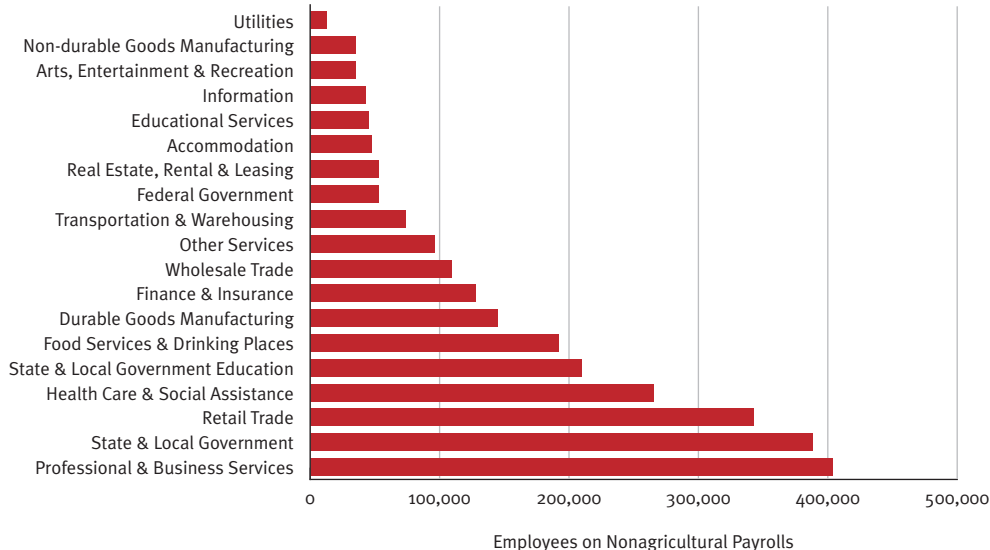
Average Wage per Job  
AZ \$41,223  
U.S. \$43,889

High Tech Jobs per 1,000 Residents  
AZ 19.4  
U.S. 18.6

Per Capita Personal Income  
AZ \$31,936  
U.S. \$36,714

Sources: Arizona Workforce Informer, 2009, U.S. Bureau of Economic Analysis, 2008, American Community Survey, 2005-2007.

**Arizona Nonfarm Employment by Industry Highlights Trade and Services** | 2007



Source: Arizona Department of Commerce, Research Administration. Prepared in cooperation with U.S. Department of Labor, Bureau of Labor Statistics.



*“Either you can’t afford it or they give it only if you work a certain amount of hours, and they always book you for less. Like 29 hours when you need 30.”*

## Arizona Health Care is Big Business

Factoring in the rate of health care spending since 2004, St. Luke’s Health Initiatives (SLHI) estimates health care in Arizona at the end of 2008 to be a \$28.7 billion industry. The sector is currently experiencing the same economic downturn as other industries, as more people lose jobs and delay or forego treatment because of high costs. Long-term trends, however, point to health care becoming bigger and bigger: What is today a \$2.5 trillion national industry and 18% of the nation’s gross domestic product (GDP) is projected to reach \$4.35 trillion in 2018 – over 20% of GDP.<sup>7</sup>

### Working and uninsured describe many Arizonans.

Although data sources vary somewhat because of different calculation methods, no one questions that Arizona has one of the nation’s highest levels of residents without health insurance – almost 20%, or one in five residents.

Eight out of 10 Arizonans without insurance are in households where one or more members works at least part time.<sup>8</sup> St. Luke’s Health Initiatives’ (SLHI) 2008 Arizona Health Survey (AHS) provides new information about this economically important group.

- Public coverage is not a choice for a family of three earning more than \$35,200 per year.

*“My job offers it, but I haven’t been there long enough, and I don’t know what it’s going to cost. I don’t know if I’ll be able to afford it. The guy I work with has insurance for himself through the company, but he doesn’t have his daughter on it because it costs too much. He’s trying to get it through AHCCCS. If he put her on his policy, it’d be so expensive that it’d be like, “What am I working for?””*

#### Where Health Dollars Come From

Health Spending by Payer in Arizona, 2004

PAYER	\$ (BILLIONS)	%
Employers	8.9	38
Medicare	6.8	29
AHCCCS	2.1	9
Uninsured	2.1	9
Government/military	1.5	6
Individuals	1.1	5
Other	1.1	4
Total Spending	\$23.6	100

Source: St. Luke’s Health Initiatives, 2006.

#### Where \$23.6 Billion Health Dollars Go

Health Spending by Category in Arizona, 2004

CATEGORY	%
Hospital Care	36
Physician/Clinical	33
Drugs	14
Dental	6
Nursing Home	4
Home Health	3
Durable Medical	2
Other Personal	2

Source: Kaiser Family Foundation, www.statehealthcarefacts.org.

- Young minority adults who did not graduate from high school and who have incomes slightly above the poverty level are most likely to be uninsured.<sup>9</sup> In Arizona, a third of Hispanic working-age adults lack coverage compared to 11% of non-Hispanic residents.
- For Arizonans as a whole, coverage increases with age as employment stabilizes and incomes rise. Fully 23% of Arizona adults under 40 are without insurance coverage, but only 12% aged 40-64 lack the support. Young people may think they do not need health insurance, and they are also less likely to have coverage at work.
- The most powerful predictor of health insurance coverage is whether an individual has access to employer-provided insurance. It follows that rates of uninsurance are high among able-bodied but unemployed adults (32%) and among those who work for small employers that often have trouble obtaining affordable coverage for their employees. Approximately 30% of those who work for firms employing less than 50 people lack health coverage.

*“We’d always had health insurance through my dad’s work, then after I graduated high school I could only keep it if I was a full-time student. That didn’t work out. Now I work at a restaurant and they don’t offer it. So I try to make sure I’m healthy and don’t do anything too crazy.”*

*“My husband worked for Lear Jet and always had health insurance. He was laid off in 2003, went into the field of A/C and those companies don’t provide health insurance unless you can pay for it. They say, ‘OK you can have health insurance but it’s \$700 a month.’ So right now we don’t have anything for [us or] my kids. So I’m like: ‘Don’t do that! Don’t jump!’ If they get hurt, I’m like, you know....Thank god [they haven’t had problems]. But my 5-year-old is a maniac, so...I take them to the public health clinic to get them immunized. When they get sick, I give them medication. I drown them with Airborne until they get better. My husband is on medication [high blood pressure, etc.] that costs \$200 a month.”*

- National studies show that uninsurance is likely to be a long-term situation for many people. Research also reflects that the longer the uninsured period, the more likely health issues are to arise.<sup>10</sup>
- More than half of those without health insurance have been without it for more than 3 years, while 73% had been without health insurance for at least one year.<sup>11</sup> Many Arizonans have not had health insurance for some years or ever, but many “churn” in and out of insurance, depending on employment and eligibility for public programs. Families are mixed. Children may have insurance through public programs, when parents do not. Further, all insurance is not created equal. Variations are significant, and the costs of maintaining and using it may still mean that consumers delay or avoid care because of concerns about co-pays and bills.

*“I haven’t been to the doctor or anything in 6 years. I get sick, but just colds or flu, whatever. I got a lot of friends who don’t have it, but they’re younger. I tried to get AHCCCS but I made, like, \$200 too much.”*

### **Health insurance premiums are going up, up, up.**

Insurance costs have been escalating for employers and individuals alike. Consumers and businesses of all types are paying more for coverage and services. In 2005, health insurance became as costly for employers as paid leave, which historically has been the most expensive benefit.<sup>12</sup>

For a single person, the average Arizona premium stood at \$4,294 in 2005, higher than the national average of \$3,991. In the same year, the average total family premium per enrolled employee was \$10,268, somewhat less than the national average of \$10,728. Arizona workers paid 18% of the total cost of health insurance premiums for single coverage and 28% for family coverage. Workers in small firms contributed 41% of the cost compared to the 26% employees in large firms contributed.<sup>13</sup> Nationally in 2008, the full annual cost of employer-sponsored health insurance averaged \$4,704 for an individual policy and \$12,680 for a family policy.<sup>14</sup>

### **Is COBRA an answer for some Arizonans?**

Realistically, no.

People who lose their jobs can continue health insurance coverage under COBRA, or provisions of the 1986 *Consolidated Omnibus Budget Reconciliation Act*. COBRA allows certain former employees and family members to continue health coverage temporarily at group rates. However, only approximately one of five people eligible for COBRA takes advantage of it. That’s because in order to maintain coverage, the former worker generally must pay the entire premium plus 2% for administrative costs. Because employers usually subsidize health insurance, the COBRA total required is often a surprisingly high cost—much greater than the amount workers were paying while employed.

### **Anyone Can Be Without Health Insurance** | % Uninsured by income, 2000

INCOME LEVEL	% UNINSURED
<10,000	18
10,000-20,000	40
20,000-40,000	19
40,000-60,000	16
>60,000	7

Source: Arizona Health Survey, SLHI, 2008.

### **Less than Half of All Arizonans Have Employer-Sponsored Health Insurance**

% Source, 2006-2007

SOURCE	%
Employer	48
Uninsured	19
Medicaid	16
Medicare	12
Individual	4
Other public	1

Source: Kaiser Family Foundation, [www.statehealthcarefacts.org](http://www.statehealthcarefacts.org).

*“It’s very frustrating. Especially when you know you’re sick but you can’t get anything done about it.”*

*“Last couple of jobs I had, I was working part-time. I wasn’t aware of any benefits I could get.”*

*“When I first was working, companies didn’t charge you for health care. Now, you have to work for it and pay for it. I miss those days. And it did have a lot to do with peace of mind. It was one less thing to worry about.”*

Many workers simply do not have the resources to pay for the insurance. Almost two-thirds of employees reported in a recent national survey that they would be hard-pressed to come up with the full cost of their employer-sponsored insurance premiums if they were no longer employed. In addition, insurance for an entire family may be at risk when a breadwinner loses a job.<sup>15</sup> Since Arizona ranks 38th nationally for net worth of households and 40th for household assets, COBRA may be a better idea in theory than in practice.<sup>16</sup> A recent study estimated that 43% of Arizona’s average monthly single-person unemployment insurance benefit of \$937 would be needed to cover the average COBRA charge. For a family, unemployment insurance would not cover the premium at all.<sup>17</sup>

*“A lot of times your job kind of sucks and you’re not happy with it, but you have to stay with it because you need health insurance.”*

### **THE SAFETY OF ARIZONA’S HEALTH SAFETY NET**

Arizona, like all states, has a safety net of public and private health care programs. Arizonans who provided input for *Truth and Consequences* found services for themselves and their children at public health departments and community organizations. Specific sources of assistance included county hospitals, community health centers, public health departments, emergency rooms, urgent care centers, churches, charities, and tribal benefits.

Many expressed gratitude for these community services, while noting these options were often less convenient than private services. Even though they had used some safety net programs and readily exchanged information about where to get services, most did not see themselves as charitable programs’ target users. They bristled, too, at what they perceived as being treated differently (and poorly) by mainstream providers because they did not have insurance. The consensus was that waits were longer and services skimpier; doctors did not want to do tests that might not be paid for. If they had had insurance, they said, those situations simply would not have arisen.

## **HOLDING ON TILL 65: Suzanne’s Story**

When Suzanne was laid off from her clerical position at a financial services company eight years ago, she lost her health insurance along with the job. At the time, she said, she couldn’t get commercial coverage – or coverage she could afford – because she was taking antidepressants. And because she had savings and kept working from her home, she made a few thousand dollars a year too much to qualify for AHCCCS.

Then she was diagnosed with diabetes. Then her gall bladder went.

Suzanne had her gall bladder removed– after spending some rough ER time – and ended up with a \$39,000 bill. Before AHCCCS would pay for it, she said, she had to “spend down” much of her savings – her IRA and 401(k). “I did get my gall bladder out and I feel better,” she said, “but now I have no savings.” Even though AHCCCS did pay for the operation, Suzanne said it was three years before she stopped getting collection letters for 15 bills from the hospital, the ambulance service, and others.

During the six months she was on AHCCCS, Suzanne said she took full advantage of it. “I went and got all these tests that I couldn’t afford – eyes, the dermatologist, the podiatrist.” When she reapplied for AHCCCS at the end of six months, the government said she made too much money. “They said the only way I can get back on is if I have another emergency thing happen,” she said. “What a system!”

Now Suzanne finds what little work she can in today’s shattered real-estate market. She’s not starving, she said, and would be fine if she could get enough work. She takes eight pills a day, often buying them more cheaply in Mexico. “Driving down there and across the border, you feel like you’re doing something illegal.” Up here, she checks the Internet for discounts and buys her meds wherever they’re cheapest – “Each medication qualifies under different plans. One Rx was with this card, another Rx was for that card. I don’t know how some of these plans work. But I use them.” It’s almost a full-time job itself, she said, but, at 62, it’s her job. “I’ve got to stay healthy for three more years.”



## SCARED BUT COPING: *Andrea's Story*

At first, Andrea said, she panicked after her husband lost a job, and they and their two kids lost their health insurance. The couple still makes too much money to qualify for AHCCCS – he as an auto mechanic, she as a charter school secretary – though not enough to afford commercial insurance. But they've gotten used to it.

"Now it doesn't affect me so much, because I know that if I have an emergency I can go to the ER," she said. "And I've found places like community clinics." Otherwise, Andrea said, she and her family haven't done much differently than before. "No, we're not purposely leading healthier lives, not using alternative medicine. I take medicine for my high blood pressure that I get at Wal-Mart. We use generics and find cheap ways to do things."

They are, in other words, gambling on good health. "I've been lucky. I have healthy kids," Andrea said. "Yes, I do wish I had insurance, but I have one of those attitudes that says, 'We'll just deal with it.'" There's also a principle involved, she said. "Health care is a privilege, not a right. We need to take this on as our own responsibility. You're not going to have the perfect health-care system."

The current one certainly isn't, she said. Andrea had her gall bladder removed about four years ago and still has more than \$30,000 in medical bills. But she hasn't been harassed about it. "I'm thinking maybe they'll write it off, or that I'll have to go into bankruptcy, she said casually, then laughed: "I'm waiting for them to repossess my truck first."

Andrea's trying to get insurance at her charter school job, but she's not sure it will come through, or that she'll be able to afford it if it does. Still, she's not letting it get her down. She gets yearly checkups at a community clinic, and has found that doctors and other healthcare providers will sometimes give cut-rate service if you just ask for it. "I'm not panicked about it. Maybe I should be, but I'm not," she said. "I'm more panicked about not having dental care – we're in the process of paying \$5,000 for braces for our daughter. There are some things you just have to do."

*"Health care is a privilege, not a right. We need to take this on as our own responsibility. You're not going to have the perfect health-care system."*

*"My oldest got in a car accident. His girlfriend and little brother had insurance, and they took them back right away at the ER. He waited seven hours until treatment. He was sitting there with glass in his throat, coughing it up. That was the longest night. We got there at 9 or 10 p.m. and I left at 4a.m. that morning, and he was just going back."*

*"There's a safety net if you have the strength to get through the bureaucracy and layers and layers of paperwork. If you get one thing wrong, then no."*

*"I have gone to the [name of clinic]. They calculate how much you pay on the basis of how much you make. When I told her I didn't make any money in the past month, she asked if I wanted to make a donation. But you have to go by their schedule and when they're available, even if you have to wait a long time. You have to take off work to do this."*

*"I think alternative doctors are a lot cheaper, and I think they treat the whole person rather than just the little part that's bothering you. That's the kind of care we need, not a quick fix. We need help to live better."*

*"Arizona will be a worse place to live."*

*"More suicide."*

### PARTICIPANTS IN TRUTH AND CONSEQUENCES DEAL WITH A VARIETY OF CONDITIONS

- torn rotator cuff
- husband passed out from dehydration
- braces for kids
- gall bladder removal
- seizures
- dental issues
- injuries from car accident
- endometriosis
- carpal tunnel
- diabetes
- depression
- high blood pressure
- cancer
- asthma
- kidney dialysis
- migraines

*"Too many people would wait too long to get help."*

“Mental health is another important topic. You really need health insurance for that. A lot of people are dealing with stresses from all sorts of different jobs and the economy and all that. They have some sort of breakdown or go crazy or go so crazy as to hurt someone else. Health insurance on that topic is very important.”

## Big: Costs of Treatment, Presenteeism, and More

The sign on the edge of the farm field advertised “Stones for Sale.” With prices starting at 5 cents, buyers could purchase rocks in three sizes: *Big*, *Big Big*, and *Big Big Big*. The same could be said for the numbers in health and health care. There’s nothing small or light weight about any of it.

Arizona health care expenditures are currently projected to be nearly \$30 billion annually. That puts Arizona roughly in the middle of the states on total health care spending.

But that figure – as big as it is – doesn’t cover everything. Total economic costs include three categories:

1. Treatment costs of a condition or disease
2. Loss of output or decrease in productivity
3. Loss of life or decline in quality of life

Chronic diseases provide a dramatic illustration of how costs mount up. Chronic diseases, which account for seven of the 10 leading causes of death in Arizona, are the most prevalent, expensive, and *preventable* of health problems.

Chronic diseases have any of the following characteristics: extend over long periods of time, do not disappear, leave residual disability, relate to avoidable behavioral or environmental risk factors, and are not preventable by vaccines. Major chronic diseases include heart disease and stroke, cancer, diabetes, chronic lower respiratory disease, asthma, and arthritis. The 10 leading causes of death in Arizona in 2005 were heart disease, cancer, accidents, chronic lower respiratory diseases, stroke, Alzheimer’s disease, influenza and pneumonia, diabetes, suicide, and chronic liver disease and cirrhosis.<sup>18</sup>

### Chronic diseases alone in Arizona create a \$21.5 billion total burden.

Analysts at the Milken Institute, who are well known for researching states’ competitiveness, turned their attention to the costs of chronic diseases because of their significant impact on economies, as well as the potential to reduce costs. The authors considered cancer, asthma, diabetes, hypertension, heart disease, stroke, and mental disorders from which approximately 162 million people in the United States suffered in 2003. They found huge costs and equally large potential payoffs to improving health in every state, including those, such as Arizona, that have somewhat lower rates of chronic conditions and rate better than average on *avoidable* costs. Milken’s authors noted: “While the avoidable treatment costs of less-than-optimal prevention and early intervention are large, the avoidable impact on GDP linked to reduced labor supply and lower rates of investment is gigantic.

**Chronic Diseases Touch Millions of People and Cost Billions of Dollars** | Treatment costs and productivity losses for chronic diseases in Arizona, 2003

CHRONIC DISEASE	NUMBER REPORTING CONDITION (THOUSANDS)	TREATMENT COSTS (BILLION \$)	PRODUCTIVITY LOSSES (BILLION \$)	TOTAL COSTS (BILLION \$)	AVERAGE COST PER PRC* (\$)
Cancer	161.4	0.60	4.14	4.74	29,368
Asthma	824.0	0.63	1.56	2.19	2,658
Diabetes	216.5	0.38	1.65	2.03	9,376
Hypertension	558.5	0.44	4.25	4.69	8,397
Heart disease	294.1	0.87	1.61	2.48	8,433
Stroke	33.1	0.16	0.30	0.46	13,897
Mental disorders	683.2	1.08	3.85	4.93	7,216
Total	2,770.8	\$4.16	\$17.36	\$21.52	\$7,767

\* Person reporting condition.

Source: *An Unhealthy America: The Economic Burden of Chronic Disease*, Milken Institute, 2007.

The good news implied is that the potential economic returns to initiatives that lead to a healthier population are enormous.”<sup>19</sup>

### \$4.2 billion or 2.3% of Arizona’s total economic output goes to treatment of chronic diseases.

The average cost of treating chronic diseases covers a wide range, and the total depends on costs per case and its incidence in the population:

- Based on national figures for 2003, treatment ranges from a high of \$5,700 per year for stroke victims to a low of approximately \$900 per year for asthma or hypertension.
- Milken Institute estimates that total treatment expenditures were \$277 billion in 2003, or 2.5% of the nation’s economic output. For Arizona, treatment costs were estimated to be \$4.2 billion, or 2.3% of Arizona gross state product – slightly less than the national average.
- The Milken Institute pegged the total cost (treatment costs plus productivity losses) of chronic disease in the U.S. in 2003 at \$1.32 trillion, or 12% of U.S. gross domestic product. Cancer (\$319 billion), hypertension (\$312 billion), and mental disorders (\$217 billion) pose the highest costs.
- Arizona’s total chronic disease costs also equal 12% of Arizona’s gross state product. The three most common chronic disease conditions in Arizona mirror the nation – asthma, mental disorders, and hypertension. The sources of highest total costs are also the same: cancer, hypertension, and mental disorders.
- In Arizona, the costs of mental disorders are especially large because these account for 25% of all cases of chronic disease in the state, compared to 19% nationwide.

### “Presenteeism” accounts for 80% of productivity losses.

It’s easy to understand the impact of work days lost due to illness, including wages and other compensation, premium pay for temporary help, premium pay for overtime work, and losses associated with substandard production. But while absenteeism is a substantial issue, presenteeism costs are more than twice the size of absenteeism for eight of 10 chronic diseases.<sup>20</sup> Presenteeism refers to the reduced productivity of those who come to work but are not able to function at a normal level because of their condition.

On the absenteeism side, people suffering from mental disorders miss an average 26 days of work per year at an annual cost of \$4,700. People with cancer miss about 17 days for \$3,100 per year. Presenteeism is a different matter. For example, those suffering from hypertension miss one full day of work per year, but lose the equivalent of .6 hours per day in diminished productivity. The annual costs of presenteeism exceed \$7,500 for people with migraine headaches and respiratory disorders and are more than \$5,000 per year for persons suffering from allergies, arthritis, asthma, diabetes, and mental disorders.

People with chronic diseases can reduce others’ productivity, too. Team effects are significant, especially for knowledge occupations such as paralegals, mechanical engineers, and others who work collabora-

### Workers Can Be Present But Not Productive Due to Health Problems | Productivity losses by source, 2003 (billions)

TYPE OF LOSS	\$ BILLIONS
Presenteeism, individual	828
Lost work days, individual	127
Lost productivity, caregiver	91

Source: *An Unhealthy America: The Economic Burden of Chronic Disease*, Milken Institute, 2007.

### Productivity Costs Surpass Treatment Dramatically | Estimates of the costs of absenteeism and presenteeism for chronic diseases

#### ABSENTEEISM CALCULATIONS

CONDITION	DAYS ABSENT PER YEAR PER CASE	ANNUAL \$ IMPACT PER CASE
Allergy	8.2	1,521
Arthritis	5.9	1,089
Asthma	12.0	2,221
Cancer	16.9	3,133
Mental disorder	25.6	4,741
Diabetes	2.0	365
Heart disease	6.8	1,257
Hypertension	0.9	170
Migraine	10.7	1,988
Respiratory disorders	14.7	2,727

#### PRESENTEEISM CALCULATIONS

CONDITION	DAYS ABSENT PER YEAR PER CASE	ANNUAL \$ IMPACT PER CASE
Allergy	0.9	5,000
Arthritis	0.9	5,000
Asthma	0.9	5,000
Cancer	0.7	3,889
Mental disorder	1.2	6,667
Diabetes	0.9	5,000
Heart disease	0.5	2,778
Hypertension	0.6	3,334
Migraine	1.6	8,890
Respiratory disorders	1.4	7,778

Note: Calculations assume an average hourly wage of \$23.15 and an average of 240 days worked per year.

Source: *The Health and Economic Costs of a Lack of Health Insurance Coverage*, L. William Seidman Research Institute, W.P. Carey School of Business, December 2008. from Goetzel, et al., 2004.

*“If you have health insurance, you get bumped up in the line at the ER.”*

*“At a public health clinic, you have to go wait in line. I try to avoid going because of cost.”*

**Potential Avoidable Costs Work Out to About \$3,000 Per Arizonan** | Projected and avoidable costs for chronic diseases in Arizona, 2023

CHRONIC DISEASES	\$ PROJECTED FOR 2023 (BILLIONS)	\$ AVOIDABLE (BILLIONS)	% AVOIDABLE
Cancer	22.56	8.42	37.3
Asthma	8.18	1.58	19.3
Diabetes	10.36	2.19	21.1
Hypertension	20.26	4.29	21.2
Heart disease	11.32	4.81	42.5
Stroke	2.06	0.49	23.8
Mental disorders	24.62	3.83	15.6
Total	\$99.36	\$25.61	25.8%

Source: *An Unhealthy America: The Economic Burden of Chronic Disease*, Milken Institute, 2007.

tively. Among paralegals, each lost work day can be associated with an additional loss of the equivalent of .93 work days among other members of a law office. Caregivers also suffer productivity declines that fuel presenteeism. These losses are estimated to be about 10% the size of the combined costs of individual absenteeism and presenteeism.

### **Chronic treatment costs in Arizona could balloon to \$99 billion in 2023, but \$25.7 billion might be preventable.**

Based on disease trends, population projections, and health care inflation forecasts, Arizona will face \$99 billion in chronic disease costs by 2023 when the state has approximately 8.5 million people. More than one quarter (26%) of the 2023 costs or \$25.7 billion could be avoided with lifestyle changes, such as addressing obesity, more exercise, less smoking, and reduced alcohol consumption. Greater use of screening services and drug therapies for the treatment of heart disease were considered as well.

## **IGNORING A CHRONIC CONDITION: *Josh’s Story***

At first glance, Josh looks like a man who’s either acutely embarrassed or wearing red theatrical makeup. In fact, he’s wrestling with a sudden and scary bout of high blood pressure. And he’s not at all sure what to do. “I’m unemployed and can’t afford health insurance,” he said. “It’s either eat and pay the rent, or pay insurance.” At 47, Josh, a trim man with bright blue eyes, is a recent transplant from Virginia with no family in Arizona. He says he’s been without insurance for about 10 years. “I’d rather keep a roof over my head at this point.”

Until now, Josh said, he hasn’t had any serious medical problems, but the idea of getting insurance has long been on his mind. “It’s always been a fear of mine: What if I get really sick?” One problem, he said, is that he didn’t know what programs were available to him— he thought public medical care was only for the elderly. “Some of this stuff is very confusing. It’s almost as if you need someone to take you by the hand and walk you through this.” So he said he has put off going to the doctor until absolutely necessary, and watched what he does and doesn’t do. “Yes, I do try to eat the best I can,” he said. “And sometimes I will avoid situations where I might get hurt, like mountain biking, because I’m afraid of dealing with those consequences.”

Josh hopes to get health insurance. For now though, he’s trying to keep calm, thinking that his recent spike in blood pressure is due mostly to stress. “I don’t have a clue where I could turn for help,” he said. “I have a lot of friends who don’t have it [insurance]. I think they’re dealing with it like I am: Hoping we don’t get sick.”

# The Impact of Health Insurance on Health

Researchers have long worked to explain the costs of poor health and the links between lack of insurance and health status, along with the connection between uninsurance and use of health services. Each issue has many nuances. For example, a correlation between insurance coverage and health may mean that a lack of coverage causes poor health, or poor health causes a lack of coverage, or that coverage and health are affected by something else entirely.

Consider the cases of income and educational attainment. People with low education levels and incomes are known to be more likely to smoke, to have poorer nutrition, and to be exposed to greater environmental and occupational health risks. They are more likely to be in poor health for these reasons. Yet, because of their educational and income status, they are also less likely to have access to affordable health insurance. Thus, education and income are related to insurance coverage and health status.

Despite the ambiguities, researchers have shown how the loss or lack of insurance can complicate health problems. The Institute of Medicine of the National Academies noted recently that “a robust body of well-designed, high quality research provides compelling findings about the harms of being uninsured and the benefits of gaining health insurance for both children and adults. The evidence also demonstrates that when adults acquire health insurance, many of the negative health effects of uninsurance are mitigated.” A California study from the mid-1980s specifically illustrated cause and effect. When the state eliminated Medi-Cal (Medicaid in California) coverage for a group of low income adults, researchers compared what happened to matched sets of residents with high blood pressure: those who lost coverage and those who still had it. Californians suddenly without coverage reported a significant decline in perceived overall health. Without health coverage, they experienced a loss of blood pressure control and subsequently higher blood pressure than those who retained coverage.<sup>21</sup>

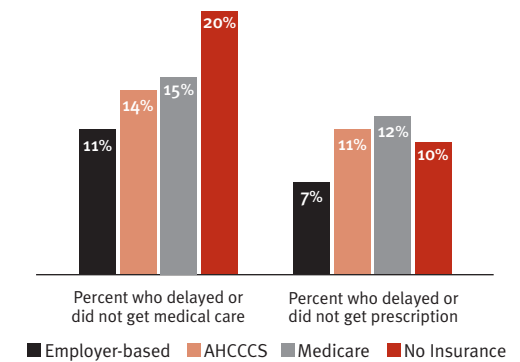
## Lower cost services now can avoid higher cost services later.

Over time numerous studies have shown “that having health insurance does lead to improved health by means of better access to medical care.”<sup>22</sup> Not having health insurance results in using fewer health services and greater likelihood of costly health outcomes later in life. Of course, even basic health services have costs. However, economists have shown that the biggest problem is when moderately priced services are not used that could avoid expensive ones later on. Major areas that are affected by a loss of insurance and where the economic costs of neglected care are substantial include:

1. Adult screening for cancer, heart disease, and other chronic diseases
2. Treatment and management of situations like hypertension and diabetes
3. Care for pregnant women and infants
4. Preventive health care services for children

The Institute of Medicine reported on a review of thousands of studies about health and health insurance, including research that examined the relationship between insurance coverage and health status for people with chronic diseases, such as hypertension, high cholesterol, diabetes, HIV/AIDS, and mental illness. One study followed 4,700 adults for more than 10 years and controlled for socio-demographic variables, health behaviors, and findings from an initial health examination. The risk of death was 25% higher for those without insurance than for those with private insurance. In another study of 148,000 adults who were tracked for two to five years, uninsured white males had a 20% greater chance of dying than did white men with employer-based insurance. Uninsured black men and white women each had a 50% greater risk of death than did their counterparts who had employer-based coverage.

**Arizonans Without Insurance Most Often Did Without Care** | Arizona adults who delayed or did not receive care because of cost



Source: Arizona Health Survey, SLHI, 2008.



**Basic Services Go By the Boards for Those Without Insurance** | Proportion (%) of adults without routine checkups in past two years by risk and insurance group

POPULATION	UNINSURED > 1 YEAR	UNINSURED < 1 YEAR	INSURED
All adults age 18-64	43	22	18
Smoker	52	28	22
Overweight	41	20	15
Hypertension	26	14	10
Diabetes	26	7	5
High cholesterol	29	10	11

Source: The Health and Economic Costs of a Lack of Health Insurance Coverage, L. William Seidman Research Institute, W.P. Carey School of Business, December 2008 from Ayanian, et al., 2000.

**Residents With Greater Control Over Insurance Say Their Health Is Better** | Insurance type by general health status, ages 18-64, 2008

	EXCELLENT	VERY GOOD	GOOD	FAIR	POOR
% Direct Purchase	36	38	20	5	1
% Other	26	21	28	22	4
% Employer-based	22	36	31	10	1
% Uninsured	16	23	37	22	3
% Medicare	12	29	29	21	9
% AHCCCS	5	26	39	22	9
% All types	17	31	32	16	4

Source: Arizona Health Survey, SLHI, 2008.

All told, there is consensus on some basic truths about health insurance.

- Adults without health insurance are less likely to have a regular source of health care. Continuity of care is especially important in the management of chronic diseases.
- People without health insurance are less likely to receive preventive and screening services.
- Adults without health insurance are less likely to receive standard prescribed treatments for chronic diseases.
- Those without insurance are more likely to delay seeking medical attention when it is needed and later to develop a more serious condition and face a higher risk of death. Evidence suggests that the percentage of avoidable hospitalizations is three times higher among the uninsured than among the insured. The length of time without insurance takes a toll as well. The effects for less than one year without insurance were often mixed, while those who went without for more than a year were clearly experiencing greater problems.
- Those without health insurance or who have public insurance tend to rate their health and quality of life lower than those with private insurance.

## TOUGHING IT OUT IS THE ONLY CHOICE: *Margaret's Story*

It wasn't the first time for Margaret, nor the last. "I was lying in my bed shaking and sweating and in more pain that I ever thought I could be in," she said. "My family members were going to call 911 but I said give me another 20 minutes, 'cause I was afraid of the bill. I gutted it out."

At 43, Margaret lives alone in Phoenix—alone with the problem that has plagued her for several years with "excruciating pain every month." A former employee with a marketing firm, she lost her health insurance when the firm went bankrupt and her own effort at a computer-financing startup failed.

"I am a fairly intelligent, independent woman, but I did not know what to do to get health insurance," she said. Commercial firms turned her down. But she doesn't have the \$3,500 she says would be the minimum cost of a procedure to deal with her condition. Nor does she have even the smaller amounts of money for more mundane medical needs.

"It [Lacking insurance] has definitely affected my daily life," she said. "You lose the emotional security of knowing you have health care. And if something happens, I don't go to the doctor." A badly twisted ankle. "Some sort of skin infection" that lasted a year. She said she also foregoes mammograms and other preventive measures. She's fought depression and anxiety. . She says she copes by doing a lot of reading on health care. "I also get advice from the girls at Sprouts."

Asked if she expects to have insurance in the future, Margaret quickly said, "I hope to. I want to go back to work so I can get it through my employer. Say a prayer for me."

## Arizonans prove the point: No insurance means less care, more delays, higher costs, and often financial hardship.

The 2008 Arizona Health Survey and interviews with Arizonans illustrate how the lack of health insurance affects residents' choices and health:

- For persons without coverage, more than six out of 10 Arizonans surveyed said they had no regular source of health care. This is roughly three times the rate reported by those with insurance.
- The rate of delayed care among the uninsured was almost twice as high compared to those with employer-based coverage. The percent of uninsured who did not obtain recommended prescriptions was 40% higher than among employer-covered respondents.

*“Am I doing it now? No. I did it when I had the insurance.”*

*“If something did happen, I would go to the ER. I see paying off a monthly payment to an insurance company much like a monthly payment to a hospital.”*

Nearly every person who provided input for *Truth and Consequences* had had health insurance at one time or another, if only as a young person covered by a parent's employer-based policy. A combination of employment circumstances and personal tradeoffs had put them into their current situations. They coped by trying to stay healthy, not doing “crazy” things, and using community-based services. They didn't go to the doctor unless absolutely necessary. Several had had devastating medical episodes that had left them with substantial debt and the possibility of bankruptcy. Still, unless a good job with benefits came along or public eligibility expanded to include them, not having health insurance was simply “the way things are.”

Looking back to when they had health insurance, a number of respondents noted that they had done everything health professionals suggested. Others reported that costs came into play even when they had coverage. As one person mentioned, “even if you have it, you have to pay for it.”

*“When I grew up I didn't have to worry about it, because my mom worked for a drug company. It's too expensive to get sick, and I don't understand why.”*

*“My son was scheduled for a well-child exam. It was going to be about \$200 just to take his height and weight. So we didn't do it.”*

Residents who do not have health insurance may see it as a personal situation rather than one that affects the entire community. They tend not to see the effects on public programs or shifts in costs to employers and taxpayers, since they are paying for the services they use. Many realize they are gambling on good health and hoping that nothing happens, but costs are too high to do much else.

*“I grew up with parents who didn't believe in health insurance. So now, even as an adult, it doesn't scare me, because my parents were always like, you pay out of pocket. I should probably be more cautious and aware.”*

*“Just recently we were on AHCCCS for 3 months [husband laid off from construction job]. But my husband started working again, and we didn't qualify any more. It doesn't bother me. Am I sick? My son broke his arm and we paid for it. We had to make payments, but we did it. I know if something catastrophic were to happen....I think about it. We [husband and I] care, but not so much.”*

*“Don't step on any cracks.”*

*“I'm asthmatic. There's a medication that works really well, but it costs about \$300 for a two-week supply. But I can't afford it, so my parents get me that during the winter, when it gets really bad. Otherwise, I just use emergency inhalers. They're mainly for asthma attacks for about \$20 a month.”*

*“I moved here in 2003, and health insurance wasn’t something I wanted to pay a lot of money for, because I typically haven’t had to use it. Feeling healthy, and having a history of being healthy and thinking I don’t need it, I don’t want to pay for it...I’m somewhat bulletproof. But I have pressure from my family to get something together. On some level I realize that [my attitude] doesn’t hold water.”*

*“I get migraine headaches, and I’m on a clinical study program and haven’t had one for 3 months. It takes a lot of work because I have to document everything. But it’s worth it. I worry about my kids being sick or being hurt. Can you imagine them breaking their arm or something and going to the ER and them asking, ‘Do you have health insurance?’ and I say, ‘No, but can you help them anyway?’”*

### **Arizonans carry \$2.5 billion in medical debt.**

Nationally, the average medical debt for those who filed for bankruptcy was \$12,000 in 2005.<sup>23</sup> The Commonwealth Fund reports that 51% of uninsured adults noted medical debt or bill problems in the organization’s 2006 survey. Of those, nearly half (49%) had devoted all of their savings to their medical bills. Basic goods and services such as food, heat, or rent were let go because of medical bills.<sup>24</sup>

Even those who have health insurance experience the consequences of medical bills and debt. The Commonwealth Fund survey identified that slightly over a third of adults under age 65 (35%) were paying off medical debt or had had problems paying medical bills in the past year. Another survey revealed that a quarter of U.S. adults said their housing problems stemmed from medical debt. The National Council on Health Care estimates that approximately 1.5 million families lose their homes to foreclosure every year due to unaffordable medical costs.

The Arizona Health Survey noted that some 36% of those without health insurance and 28% with coverage reported problems with medical debt. Approximately one in 10 Arizonans said they suffered “financial hardship,” meaning having large medical debts, being unable to pay for necessities, taking on credit card debt or a loan, using up savings, or declaring bankruptcy.<sup>25</sup> Total medical debt in the state is estimated to be \$2.5 billion, which is more than 8% of total state health care spending.

Arizonans underscored how health crises present unanticipated challenges, not just in recovery, but in paying the bills. Several participants admitted that they would file or were contemplating bankruptcy because of bills as high as \$36,000. At the same time, research from the Kaiser Family Foundation Commission on Medicaid and the Uninsured shows that consumers without health insurance often pay higher prices for care than those with coverage. This stands to reason, since insurers are able to negotiate better prices for their members and manage how costs are incurred.<sup>26</sup>

*“I’m going to file bankruptcy. I can’t pay my bills. My 14-year-old son doesn’t have health insurance. ‘Thank god’ he hasn’t been sick or hurt. What can you do? What can you do? You can yell, scream, whatever, But there is nothing you can do.”*

*“What if I  
got hurt?  
What’s going  
to happen  
to daughter?  
I think I’m  
pretty healthy  
overall.  
So I think  
I’m fine.”*

# AHCCCS: At the Heart of the Debate on Arizona's Future

Since its inception, AHCCCS has been part of every discussion of health, health care, and human services in Arizona.

As important as AHCCCS is as the source of health care for many Arizonans, it is perhaps just as notable as the symbol of a nearly 30-year tug of war between those pulling for expanded coverage and those seeking to limit eligibility to contain costs. The tension between service and saving has defined Arizona almost as much as population growth has.

At the same time, another tension has emerged between health care as a basic right for all and a commodity that is bought and sold just like any other service.

In mid-1988, AHCCCS served approximately 90,000 Arizonans. In the 1990s, Proposition 203 and KidsCare brought more Arizonans into AHCCCS. In 2000, Arizonans expanded eligibility again through Proposition 204, known as Healthy Arizona. Programs have been extended also to small businesses.

By late 2008, enrollment surpassed 1 million across all ages. Projections reflect at least another 100,000 members by the beginning of FY 2010-2011. Children outnumber adults in the program. AHCCCS' budget for FY 2009 from all state and federal sources totaled approximately \$6.3 billion, with some \$1.4 billion coming from Arizona's General Fund. Of this amount, an estimated \$1 billion is required by voter initiatives.<sup>27</sup>

## Is there a hidden health care tax?

While AHCCCS was spared the threatened loss of KidsCare and KidsCare Parents in the 2009 budget, previous reductions, including a freeze in payments to providers, have resulted in what major providers have called a "hidden health care tax" on hospitals and other providers. Indeed, the Arizona Hospital and Healthcare Association reports that AHCCCS now pays only 82 cents on a dollar of cost incurred by medical institutions. Arizona hospitals estimate that nearly \$563 million was lost due to underpayments by federal and state governments for Medicare and AHCCCS as early as FY 2006.<sup>28</sup>

*"It bugs me, I had to go to the AHCCCS office and it was humbling for me. It was really humbling. I wasn't in there saying this is my right. We really needed it."*

*"A lot times the government programs make it so you shouldn't be working to get it. You should try to keep people motivated, as long as they're trying, and help them."*

*"I used AHCCCS when I first came to Arizona. I broke my hand. Went to the hospital. I filled out the forms at the ER and the check came through real good. I started working and made too much money for AHCCCS. I don't work enough hours to get it [health insurance] at my job."*

### Children Account for Greatest Number of AHCCCS Participants

Distribution of Medicaid enrollees by group, FY2005

	# AZ	% AZ	# U.S.	% U.S.
Children	662,100	46	29,386,100	50
Adults	566,200	39	15,208,600	26
Elderly	91,800	6	6,053,900	10
Disabled	131,200	9	8,281,400	14
Total	1,451,200	100	58,929,900	100

Source: Kaiser Family Foundation, www.statehealthfacts.org.

### Adults With Disability Account for Greatest Per Person

AHCCCS Costs | Medicaid Spending Per Enrollee

	\$ AZ	\$ U.S.
Children	1,808	1,617
Adults	1,395	2,102
Elderly	8,183	11,839
Disabled	11,273	13,524
Total	3,066	4,662

Source: Kaiser Family Foundation, www.statehealthfacts.org.

*“I’m walking around, I’m breathing. Nothing hurts. What’s the problem?”*

*“I think it hit me when I turned forty. It’s just, you know, little things. I guess it never really dawned on me. I thought I’d be healthy forever.”*

*“Health insurance? That’s the last thing I’m worried about, paying health insurance. I have to pay my rent, car payment, like that.”*

### **Cuts in AHCCCS can be counterproductive.**

Because of its prominence in the state’s budget, AHCCCS is an attractive target in these difficult times. However, Arizona scholars have noted that reductions are counterproductive because “persons who leave AHCCCS in response to increased cost sharing or who are ‘disenrolled’ by changes in eligibility are not likely to replace public program insurance with private commercial insurance.”<sup>29</sup>

Findings from a recent study by Mathematica Policy Research show similar outcomes for children involved in the federal State Children’s Health Insurance Program (KidsCare in Arizona). The report showed that “Medicaid is a critical provider of health insurance coverage to children after they leave SCHIP and that, by comparison, private coverage has a relatively minor role. Moreover, once SCHIP children leave public insurance (either directly from SCHIP or via Medicaid), they are far more likely to become uninsured – and to remain uninsured for some time – than they are to obtain private coverage.”<sup>30</sup>

During the last recession in the early 2000s, ASU economists noted that reductions of \$51 million in state funds would result in a loss of \$132 million in matching federal funds. The analysis of five proposed changes also showed that a \$1 million reduction in state funding would:

- Decrease gross state product by \$5.1 million
- Reduce workers’ incomes by \$3.8 million
- Lead to the loss of 100 jobs
- Decrease state and local tax revenues by \$440,000<sup>31</sup>

Increased costs from more emergency visits, longer hospital stays, and less routine care were the results for Arizonans in a 2004 study that calculated the impacts of reducing AHCCCS enrollment by 10%. Scholars noted that those no longer in AHCCCS became uninsured, which led to delays in care, more emergency room visits, and greater avoidable costs. “Net expenditures increase by \$2.8 million.”<sup>32</sup> In turn, a report in 2008 noted that any potential savings in Arizona from cutbacks in children’s health insurance would be offset by increased Medicaid “medically-needy” spending, increased tax subsidies to private insurance, and more costs associated with uncompensated care. In today’s situation, a \$210 million reduction in state spending for AHCCCS would put the state out of compliance with contracts with providers, leading the way to potential lawsuits. In addition, it would trigger an additional \$400 million in federal matching reductions. The result would be more than \$600 million less for health services for Arizonans, plus lost jobs and less tax revenue.<sup>33</sup>

To some extent, those with insurance end up picking up the costs of those without.

This “cost shifting” is prevalent throughout public and private systems. Estimates put health insurance premiums for Arizonans who have insurance through private employers on average at \$1,293 more in 2005 because of the cost of healthcare for which the uninsured or other sources of reimbursement are unable to pay. By 2010, the cost of healthcare provided to people without health insurance and that is not paid out of pocket could exceed \$60 billion.<sup>34</sup> As noted in a report by the Employee Benefits Research Institute: “People who do not have health insurance are not dying in the street. They are getting late care. They’re getting more expensive care. And the cost of that care is being shifted to the private sector and to the government sector. Economists say these costs are picked up in various ways: by business and their employees, in the form of higher premiums for their insurance; by workers, in the form of taxes; and by all Americans in the form of an opportunity cost in lost value to the U.S. economy.”<sup>35</sup>

### **Rising unemployment will put more people in the uninsured category.**

National figures reveal that for each percentage point rise in the unemployment rate, Medicaid and SCHIP enrollment will increase by one million people (600,000 children and 400,000 nonelderly adults). This would swell Medicaid and children’s costs by an estimated \$3.4 billion, including \$1.4 billion in state spending. Along with increasing Medicaid and SCHIP enrollment, a 1 percentage



point increase in unemployment would also cause the number of uninsured adults to grow by 1.1 million.<sup>36</sup>

Other research shows that a one percentage point gain in unemployment pushes the number of uninsured residents up by 1.1%. Thus in Arizona, an increase from 7% to 8% unemployment would add approximately 12,800 people to the state's total of uninsured residents.

No matter how one looks at it, health, health care, and health insurance have substantial impacts on personal choices, economic well-being, and long-term costs.

## Health: An Investment in Arizona's Future

It's common sense: An investment in health produces benefits for the future. Individuals, states, and nations that take significant steps to improve health can improve productivity, quality of life, and well being.

### There is a health premium in earnings.

Workers with good health tend to earn more than those in poor health. Healthy people, according to the Employee Benefits Research Institute, participate in the labor force at higher rates and are more productive. Studies completed in 2000 calculated the "health premium" at between \$3,500 and \$4,000 for men who worked full time and between \$1,700 and \$4,200 for women." In turn, poor health reduced workers' wages by 15-30%.<sup>37</sup>

There is also a relationship between health insurance through work and participation in workplace retirement plans. Residents with health insurance at work are twice as likely to have a retirement and pension plan through their employer. Among workers ages 45-54, 71% of those with health insurance through their employer participated in an employment-based retirement plan, in contrast to 29% of those without health insurance at work.<sup>38</sup>

### SAVING MONEY AND SAVING LIVES GO TOGETHER

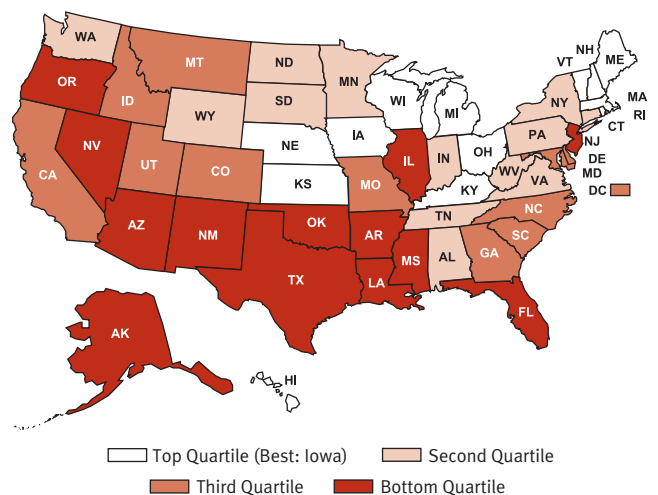
According to the Commonwealth Fund's 2007 *State Scorecard on Health System Performance*, all states could save money by improving their health systems. Arizona again ranked in the middle of states overall with positive rankings on some of 32 indicators and negative results for others. If Arizona's overall health care performance improved to the level of the top state, approximately 166,000 more children and 458,000 additional adults would have either public or private health insurance – reducing the number of uninsured by approximately 60%. Savings from fewer hospitalizations among older adults would total nearly \$58 million. As many as 1,190 premature deaths could be avoided.<sup>39</sup>

### Good health early in life has enormous economic and health benefits.

The push for maternal and children's health coverage is a familiar crusade because of its big payoffs. From nutrition programs to prenatal care and KidsCare, public programs have focused on these groups because of the dramatic benefits and reduced costs over time. For example, studies have shown that infant mortality declined 4% after the introduction of health insurance in one area, while the incidence of low birth weight babies born to single mothers decreased by 9%. Other nationwide and state research has demonstrated that Medicaid programs for low-income children reduce infant mortality by 8.5% and child mortality by 5%. Estimates of the cost of low birth weights ran from \$6-10 billion a decade ago – or twice as high as the costs of AIDS. More recently, estimates have tagged treatment

*"I don't take advantage of public health programs, so I wouldn't think about cutting health care unless you mention it. But I think they have to keep it for the low-income people."*

Arizona Lags Many Other States in Services to Children



Source: K. Shea, K. Davis, and E. Schor, *U.S. Variations in Child Health System Performance: A State Scorecard*, The Commonwealth Fund, May 2008.

related to low birth weight at an average of \$100,000. Total costs, including lower productivity and shorter lifespan, would be much greater. Numerous studies have shown the effectiveness of prenatal and neonatal programs in reducing the incidence and costs of low birth weight babies, as well as the positive impact of good health on school achievement.

The Commonwealth Fund’s 2008 *State Scorecard for Children’s Health Systems* shows Arizona has more to do to bring its efforts up to the best in the nation. The study puts Arizona in the lowest set of states overall, including on health disparities, equity, and potential to lead healthy lives. The study concluded that gains made in recent years should continue to be pursued to capitalize on the savings and revenues possible through healthy children, youth, and adults.<sup>40</sup>

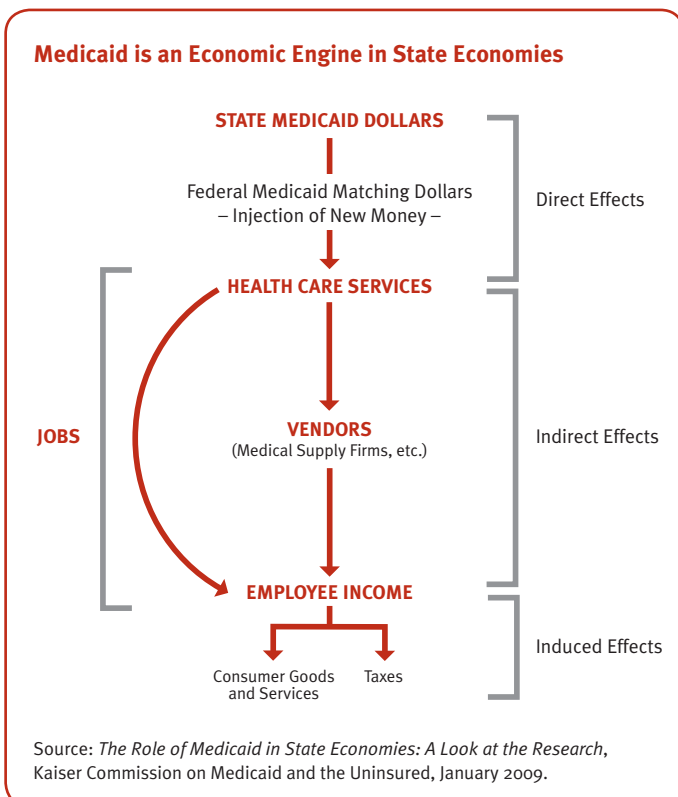
The costs of uninsurance associated with reduced life expectancy have been estimated by the Institute of Medicine. The IOM valued a life at \$4.8 million, or \$160,000 per year of quality life (quality adjusted life year, or QALY), and based its cost projections on evidence that uninsured adults receive fewer preventive and screening services and less timely services. The value of lost quality adjusted life years due to lack of insurance was found to rise with age and to be higher for men than for women. For a total U.S. uninsured population of 40 million in 2003, the costs were estimated to be between \$66 billion and \$131 billion. If the same patterns held true for 1 million uninsured Arizonans, costs in the state would be \$1.7 billion to \$3.3 billion.<sup>41</sup>

### Health care and social assistance are key to Arizona’s economy.

Along with filling the workforce and institutional gaps created by population growth, health care, medical research, and bioscience have been a focus in moving Arizona’s economy toward a high wage knowledge economy. The efforts reflect the many different roles health and health care play in the state. They generate tax revenue, support a quality workforce, and make Arizona attractive to new companies. Projected to be high-volume job generators well into the future because of population growth, aging, longer lives and medical advances, health and health care are largely sustainable, often knowledge-based sectors. More than half of the top 10 fastest-growing occupations in Arizona are in health care.

Until the beginning of 2009, health-related jobs were affected by the recession less than those in other areas. The entire health care and social assistance sector at the end of 2007 included 11% of Arizona’s employment, and was the second-largest sector after retail.<sup>42</sup> The state’s 119 hospitals alone account for some 192,100 jobs and pump a total of \$11.5 billion into Arizona’s gross state product.<sup>43</sup>

Nor should we forget about the economic role AHCCCS plays in the state. “Reductions in state and federal Medicaid spending will lead to declines in federal Medicaid dollars, decreases in the flow of dollars to health care providers, and consequently lead to declines in economic activity at the state level. For example, due to the federal match, a state with a 60% FMAP must cut overall Medicaid spending by \$2.40 to save \$1 in state Medicaid spending.”<sup>44</sup>



## Gambling, Shifting, and Hoping

*“I worked for seven or eight years, and I had health insurance. After I got married, my husband and I decided to start our own business. We got insurance for ourselves for about two years. But premiums were too high and coverage was pretty horrible. We’ve been without insurance now about six months. To let that lapse was about the scariest thing in the world to me because I thought, ‘What if something happens?’ I have a son now: ‘What if something happens to him?’ Thank god nothing has. We haven’t had any emergencies. But I don’t know what the future holds for us.”*

The Arizonans who participated in *Truth and Consequences* are well acquainted with the ups and downs of work, raising families, and caring for elder relatives. They expressed concerns about too few quality jobs, negative changes at major employers, lack of state leadership, the weak economy, cuts in education, limited support for single parents, and the mortgage meltdown. When asked about what they wanted leaders to talk to them about, they responded with quality jobs, education, and health. These Arizonans exemplified lost economic opportunities, and health care played a part in the waste of this human capital. At the same time, they still felt positive about their families, faith, jobs, friends, and current health.

Two things stood out particularly from these groups: good jobs are hard to find and health insurance would provide peace of mind and more confidence in the future.

*“We all get older, and that concerns me because I don’t have health insurance. I know that anything can happen to you, which is my main concern.”*

*“I don’t worry about me, but I should because I’m the one who takes care of her. What happens if I get sick?”*

*“The older you get I think the worse it gets. I never used to worry about it.”*

*“I think that your health is affected by your thinking. If you think you’re going to get sick, you will get sick. It’s inevitable. If you look for it, you’re going to find it. It’s how you think about it.”*

*“I guess that’s why I feel OK. My family’s there and outside of that is my church.”*

*“I’d hate knowing that I owe somebody and couldn’t pay them back.”*

These Arizonans confirmed what state and national studies have noted for some time. They are delaying care and getting less care. Their situations are stressful. They are a few steps away from requiring public support and are increasing the possibilities of problems later on. They are a good job away from health insurance. They are gambling on good health, hoping nothing happens, and coping with their situations. And they would welcome change.

Health, health care, and health insurance are three critical foundations for a livable, prosperous state. Whether as individuals making choices in our daily lives or as citizens making choices about public and private investments in our collective future, it is imperative that we stay as healthy as possible, have access to a health care system that is affordable and effective, and have stable health coverage that ensures a basic level of confidence and peace of mind when facing significant medical costs.

With greater attention to health, health care, and health insurance, Arizonans could be more prosperous and experience greater quality of life. Governments, individuals, and businesses could save on long-term costs. Kids’ life chances could be greater.

Of course, no one is against these foundations or would deny their benefits. The argument comes from the perception of not being able to afford the costs. But when one considers a \$99

*“Not having health insurance does affect your health. Stress. The mind-body connection. That’s how you get ulcers.”*

*“It’s scary. It really is. My husband is looking for a full-time job. I hope it is on the horizon.”*

billion future of chronic disease costs and the billions in the benefits of learning and earning, it's clear that Arizona cannot afford to keep to the same old path. The truth is that:

### **Arizona Could Stop Gambling on Health by Planning for Access to Quality, Affordable Care**

- Arizona has been taking the chance that residents won't need too much help. The state is betting, as uninsured residents are, that nothing happens, and there will be money to pay for it if something does. But what if unemployment rises to 11% as it did in the 1980s and stays there? What if chronic diseases continue to escalate, or if children go without care? Arizona could easily lose and face the future empty-handed with billions in bills. A better alternative would be planning for health as a major component of the state's economic and quality of life strategies. Employers will continue to play an important part in health care. Working more closely with employers on innovations and public/private partnerships that will cover more Arizonans is a vital next step. But planning should also include every stakeholder. Mapping community health assets, facilitating cross-sector dialogue, education and training, technical assistance, public education, evaluation of programs, and using research results could all put Arizona on a healthier, more cost effective path.

### **Arizona Could Move Beyond Shifting Costs by Strengthening Its Health and Human Services Systems**

- Arizona is a "shifter" and "shiftee" of costs that drag down institutions and the economy. Businesses, people, and governments shift costs to one another continually and openly. Bucks stop there, not here. This is hardly a new phenomenon. But should Arizona just soldier on? The alternative is viewing the real costs of health as investments in the state's people and their capacity to compete. Another is to calculate the benefits along with the costs of excellent human services systems. The costs often come first, but the benefits over time will be greater. Institutions, including the state, will spend billions more than necessary. Arizona will have to solve the same problem again and again.

### **Arizona Could Commit to Acting Along With Hoping**

- Arizona and its residents are simply hoping that times will get better and Arizonans will be back to work soon. Hope alone won't solve Arizona's deeply rooted problems, but it is a critical ingredient for a better economy and stronger communities. What if Arizona created a human capital strategy that included health as a cornerstone? What if asset building and a transparent health system with prevention and basic health services for everyone were developed? What if Arizona made the conscious decision to become a first tier state on economic and quality of life indicators and actually executed a plan to achieve it? Numerous models for better jobs, greater human capital, increased health, and robust quality of life are available, and other places have shown how wise planning can play out positively over time. Examples in Arizona exist to show how participatory processes with clear principles, goals, and indicators to track progress can work. But too often when push comes to shove, we fall back to traditional ways of thinking and acting. It isn't that Arizona cannot do things differently. It is simply that Arizona has to get started and stick with it.

When George W.P. Hunt was governor, he said we all had a part to play as "Arizona's champions and sponsors to make this star represent the best things in statehood and to typify the highest ideals in human brotherhood." Certainly, Arizonans deserve every opportunity to pursue the brightest future. Greater health, brought about through health care and health insurance, will pay tangible dividends in dollars and cents and provide the priceless return of confidence. The consequences of not acting to invest in the health of our people and communities are the most important truths to consider now.

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# ARIZONA HEALTH FUTURES

The purpose of *Arizona Health Futures* is to unravel an important health policy topic of relevance to Arizonans, provide a general summary of the critical issues, background information and different perspectives on approaches to the topic, tap into the expertise of informed citizens, and suggest strategies for action.



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