



# Iowa State Planning Grant

**2004 Final Report to the Secretary**

**U.S. Department of Health and Human Services**

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**Iowa Department of Public Health**

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## EXECUTIVE SUMMARY

Iowa has been a State Planning Grant (SPG) participant since October 2000. Our purpose in participating in the program has remained the same: to identify policies that will help expand access to affordable health insurance coverage for all Iowans. While we have not yet developed a proposal to expand the affordability of health insurance in our state, we have succeeded in providing much needed information, based on solid research, that will help Iowans and their elected representatives make informed decisions about how the ambitious goal of assuring that all Iowans who desire to be covered by a health insurance policy, can make the choice to be covered.

Prior research conducted in 2001 and 2002, allowed the Iowa SPG project (Iowa-SPG) to develop information so that policymakers and the Iowa public would have a better understanding of who are the uninsured in Iowa and the reasons why individuals and families are without health coverage. We obtained the information by commissioning a survey of the uninsured so that we could learn from the perspective of uninsured individuals themselves, what are the private and public sector barriers to full health insurance coverage in Iowa.<sup>1</sup> This knowledge helped form the basis for designing the strategies to expand insurance coverage in Iowa presented in our initial report to the secretary submitted in October 2001.

While the SPG effort was received within Iowa, and the strategies developed were viewed as potentially sound policy interventions, the prevailing view, both among the public and the legislature was that the time was not ripe for expansion of publicly subsidized health insurance programs in Iowa beyond State Children's Health Insurance Program eligibility increases. This view was largely a product of the declining revenue shortfalls the state began experiencing in late 2000, and which have turned around only recently. During this period, Iowa's executive branch has been steadfast in promoting increased access to health care. There is reason to believe that as the revenue picture improves, and as the perceived crisis in health care financing begins to occupy a more important portion of the public policy dialogue, that Iowa will take on health care reform as it did in the 1990s.

We designed Iowa's latest HRSA State Planning Grant research effort, Rethinking Health Insurance Project (ReThinking Project) around the idea of advancing the public dialogue in Iowa surrounding the need for health care financing reform. We chose this focus as we believe larger reform will lead to policy answers to the problem of uninsurance in our state. For the multi-part ReThinking project, we have obtained funding, beyond what HRSA provides, to allow us to use new methods to collect and disseminate data in pursuit of the goal of expanding access to affordable insurance and care.<sup>2</sup> The completed ReThinking Project will consist of three parts:

- Part 1. Policy Analysis. We examine existing and proposed models of health care delivery. These analyses are needed to provide a basis for possible trade-offs to test in the surveys of the general population, businesses, and providers.
- Part 2 Survey Research. The 2004 Iowa Business Survey, and the Iowa Consumer Survey. Additional research may be needed as information from the Business and Consumer surveys are used to inform policy.

- Part 3: A Documentary. The Access Story. Working from surveys and interviews, this will be a 60-minute look at access to health care. We will explore how access differs according to whether one has or does not have health insurance, and what the consequences might be to business and to individuals and families.

We have completed Part 1 and are part way through Part 2 as described in this report. We are still in the process of obtaining financing to complete Part 2 and Part 3.

Some have characterized the ReThinking Project as being little more than a public relations campaign on the issue of uninsurance. There is some truth in that sentiment. We do want to see the public dialogue become more productive and lead to reform of the health care system which will make uninsurance an obsolete concept. We believe we have applied sound policy research to our quest to inform political bodies and the public of the effects of uninsurance and the effects of unchecked increases in health care costs on businesses and the Iowa economy.

## SECTION 1. HEALTH INSURANCE COVERAGE IN IOWA

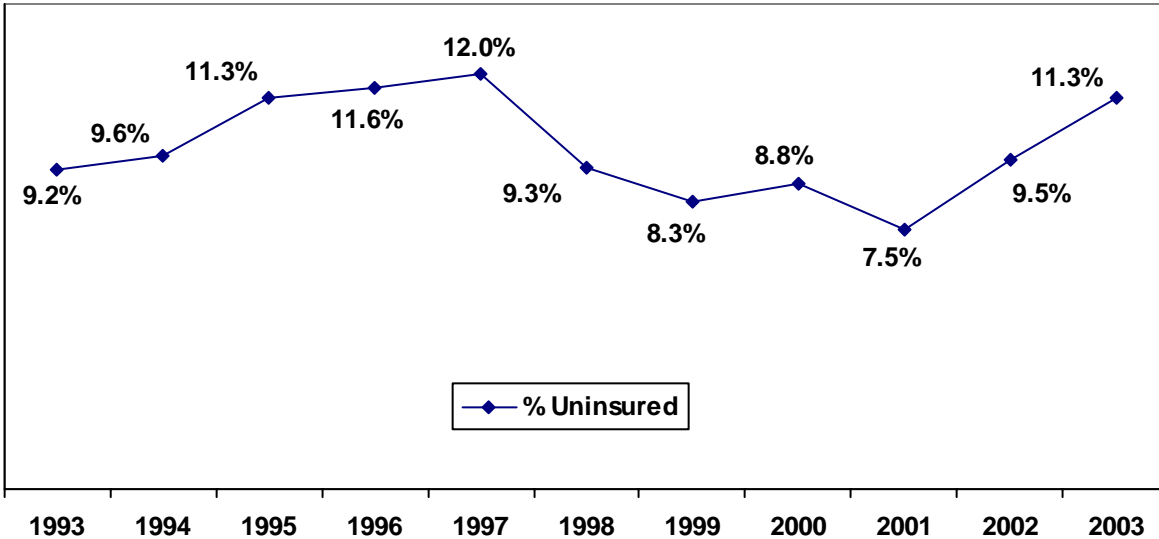
To help achieve the goal of a complete and “data-driven picture” of Iowa’s uninsured population, Iowa-SPG, initially developed in the winter of 2001, baseline information on uninsured Iowans based on an analysis of Current Population Survey (CPS) data.<sup>3</sup> For the purposes of this report we have updated some of the key data initially gathered between the years 2000 to 2003.

There have been some important changes in insurance coverage since Iowa joined the State Planning Grant program in late 2000. In this section we provide information on the most pertinent of these changes in light of the research we conducted in 2004.

### A. Iowa Health Insurance Coverage Changes: 2001 - 2003

Iowa' has enjoyed a comparatively low rate of uninsurance for a number of years. (Figure 1) Looking at CPS 3-year average uninsured rates, we see that Iowa had the third lowest rate of uninsurance at 9.5 percent, only behind Minnesota (8.2 %) and Rhode Island (9.3%).<sup>4</sup> However, looking at 2-year moving averages (2001-2002 and 2002-2003) we see that among the 20 states who had an increase in their rate of uninsured persons, Iowa experienced the third highest rate of increase (1.9%) after Montana (2.2%) and Oregon (2.2%).

Figure 1. Iowa Uninsured Rate 1993-2003: All Persons



In 2001, our initial SPG year, we used CPS to estimate the total number of uninsured Iowans at 216,000. The latest CPS data, released August 26, 2004, shows the number of uninsured Iowans has grown to 329,000. (Table 1).

**TABLE 1. IOWA HEALTH INSURANCE COVERAGE STATUS 2001 & 2003 - ALL PERSONS**

COVERAGE STATUS	2001		2003	
	%	Persons (000)	%	Persons (000)
Not Covered	7.5%	216	11.3%	329
Employment-based	69.0%	1,973	65.2%	1,905
Medicaid	7.8%	224	8.0%	233
Medicare	15.0%	429	15.9%	465

Source: Bureau of the Census, Current Population Survey, 2004 Annual Social & Economic Supp.

Table 2 shows the coverage status for persons under 65 years of age and under 18 years of age, respectively. It is important in Iowa, when evaluating coverage, to focus on persons under the under age 65 as 13 percent of the state's residents are over the age of 65 and benefit from the quasi-universal coverage provided by the Medicare system. The increase in the number of uninsured Iowans under 18 is seen as surprising given the increasing numbers of children enrolled in the Iowa's State Children's Health Insurance Program known as hawk-i.

**TABLE 2. IOWA HEALTH INSURANCE COVERAGE STATUS 2001 & 2003 PERSONS UNDER 65 AND PERSONS UNDER 18**

COVERAGE STATUS	2001		2003	
	Under 18	Under 65	Under 18	Under 65
<b>Not Covered</b>	4.7%	8.7%	8.6%	13.1%
Persons (000)	34	215	60	329
<b>Employment-based</b>	77.7%	75.9%	68.4%	71.1%
Persons (000)	557	1,881	478	1,786
<b>Medicaid</b>	16.0%	8%	17.1%	8.2%
Persons (000)	115	198	120	206
<b>Medicare</b>	0.7%	2.1%	1.0%	2.3%
Persons (000)	5	51	7	59

Source: Bureau of the Census, Current Population Survey, 2004 Annual Social & Economic Supp.

**Iowa has faced significant employer health premium rate increases since 2001.** Iowa employers continue to face double digit premium increases (Table 3) According to David Lind, author of a yearly survey of Iowa employer benefit costs, employers are paying an average of \$811 a month for family (preferred provider) coverage, with their employees contribute \$276 to the total. The premium increases are much higher for smaller employers who make up the bulk of Iowa employers. [Firms with less than 50 employees represent 94.7% of Iowa employers (Census Bureau: 2001)].

**TABLE 3. IOWA EMPLOYER HEALTH INSURANCE PREMIUM INCREASES, 2001-2004**

EMPLOYER SIZE	2001	2002	2003	2004
20 – 49 employees	19.1	19.4	22.0	20.9
50 – 249 employees	18.9	20.1	18.7	14.9
250 – 999 employees	17.5	16.3	15.4	13.7
1000 + employees	10.3	17.4	17.2	15.8
Weighted Ave.	17.4	18.7	18.2	15.7

Source: 2003 Iowa Employer Benefits Study© by David P. Lind & Associates, L.L.C

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## SECTION 2. IOWA 2004 BUSINESS SURVEY

The impetus behind the 2004 Iowa Business Survey was to explore the current attitudes of business decision makers towards the current state of employer-sponsored health insurance in Iowa and to assess the impact of increases in employee health insurance premiums on the Iowa businesses and on the Iowa economy. A main goal of this study was to test how open business decision-makers might be to different approaches to health insurance. We did find majority support for most ideas tested an indication that Iowa businesses see a need for change as well as the supportive reaction towards a conceptual model of health care financing.

### A. Approach and Methods

The 2004 Iowa Business Survey was designed J. Ann Selzer, PhD (Selzer & Company, Inc., Des Moines, IA), in consultation with John Schneider, PhD of the University of Iowa College of Public Health.

The sample frame was intended to be broadly representative of Iowa businesses. The sample of employers was provided by Survey Sampling, Inc. of Fairfield, Connecticut drawn from business directories and yellow page listings.<sup>5</sup>

The telephone survey was conducted from the 4<sup>th</sup> through the 18<sup>th</sup> of March, 2004 with interviews lasting approximately 19 minutes.

The margin of error for the oversamples of Adams and Mahaska business decision makers is plus or minus 14.7 percentage points (Adams) and plus or minus 8.9 percentage points (Mahaska).

### B. Key Findings

#### 1. The Mood of Iowa Business

A major theme in these findings is the conflict between businesses absorbing rising costs or passing costs onto employees. While most businesses have opted for the former more often than the latter, both reactions to rising costs threaten the businesses' ultimate viability.

If businesses are living with lower profits, this is bad news for the Iowa economy. So are a number of actions businesses are taking in reaction to higher health insurance costs. They are curtailing spending on equipment and other investments that would enable them to expand and offer new products and services. This results in lower corporate income tax revenues and lower sales tax revenues. As employees are asked to pick up a larger share of the tab, that diverts money that could be spent on sales-taxed items. Again, state coffers suffer. To put a dollar number on these decisions, we've created an economic model that takes a conservative approach in calculating the drag on the Iowa economy of the decisions businesses are making. While this is not intended to be a definitive look at the relationship between rising rates and the state economy, this model does raise enough concern that the status quo threatens the Iowa business environment.

The burden of health insurance costs for Iowa businesses appears not to discriminate on the basis of location or size of the company. Businesses statewide of all sizes and in rural and metro counties alike report having problems managing their bottom lines while paying the increasing burden of health insurance.

**Business decision makers feel better about the state of the nation than the state of the state.** When asked their sense of the direction of the nation, business leaders gave no clear majority opinion; 46 percent said the nation is headed in the right direction and 45 percent of businesses said the nation has gotten off on the wrong track. More pessimistic were the 53 percent of businesses who said that the direction of the state has gotten off on the wrong track; only 35 percent stated the state is headed in the right direction. When comparing their last year's financial situation, more companies (43%) said their financial outlook was staying the same. \*\*However, there was no majority opinion and businesses throughout the state were themselves going all directions, from those who said things were improving (35%) to those who believed their financial situation was getting worse (21%).

Though businesses were more likely to report their financial situation as improving (35%) than declining (21%), most stated they did not plan to hire more employees in the coming year. Almost three-quarters (72%) of businesses said they intend to keep the same number of employees they currently had. Only 18 percent said they planned to add employees in the next year and 7 percent said they were more likely to downsize their current workforce.

## 2. Evidence of a Growing Crisis in Health Insurance

**Iowa businesses have coped with double-digit percentage increases in insurance premiums.** Confirming research conducted by David P. Lind & Associates in 2003 (Table 3, above) 82 percent of Iowa businesses who offer health insurance (35% of all businesses interviewed) said their premiums had increased an average of 14.75 percent (the median for the respondents was 11.86%). Half of the businesses who offered health insurance (50%) paid the entire premium for their employees' policies; another 45 percent of businesses paid part of the premium, resulting in an average of contribution of \$337 per employee, per month for health insurance (the median is \$316).

**Most commonly, Iowa businesses chose to absorb the increase rather than take other action.** A full 75 percent of Iowa businesses who offer health insurance said they 'took the hit' of recent increases squarely on their bottom line. About half (48%) said they lived with lower profits as a consequence.

**In reaction to higher premiums, Iowa businesses curtailed spending.** One in five (22%) said they put off buying equipment or making other purchases and roughly the same proportion (19%) said they cut back on investments they would ordinarily have made in the company for development of new products and services.

**Few businesses have reacted by burdening employees.** While one in four respondents (25%) required employees to pay more of their health insurance premium than in prior years, very few chose to layoff workers (2%), or to reduce or eliminate other employees benefits (6%), convert some workers to part-time status (6%), reduce employee compensations in the form of

salaries or bonuses (10%), or put off hiring new workers or left positions unfilled (12%). (Table 4)

**However, if premiums continue to rise at the same rate as they have recently, employers could be forced to look to employees to contribute a greater portion of their compensation towards the payment of health insurance.** A majority of Iowa businesses (58%) said they will look to employees to pay more of their premiums in the future if costs continue to rise. That does not mean businesses are abdicating their role in paying for increases. A majority are still inclined to absorb most of the premium cost (57%), and live with lower profits (54%). But employees will begin to more clearly bear the brunt of increasing employer-sponsored insurance premiums as more companies react by laying off workers (15%), reducing or eliminating other employees benefits (32%), converting some worked to part-time status (22%), reducing employee pay in the form of salaries or bonuses (30%), or putting off hiring new workers or leaving positions unfilled (36%). In addition, about one in five (21%) said they are using contract workers instead of hiring because of health insurance costs. (Table 4)

Almost half (44%) said they would also consider raising the prices of the goods and services they sell to address rising insurance costs. This is double the percentage who said they had done this in recent years as a consequence of large increases in premiums (21%). (Table 4)

**TABLE 4. ACTIONS BUSINESSES HAVE TAKEN IN RESPONSE TO RISING HEALTH INSURANCE PREMIUMS**

	<b>Recently (%)</b>	<b>In Near Future (%)</b>
Absorb the cost	75	57
Live with lower profits for your company	48	54
Require employees to pay more of the premium than before	25	58
Put off buying equipment or making other purchases	22	46
Cut back on investments you would ordinarily make in the company for development of new products or services	21	44
Raise prices on the goods or services you sell	19	39
Put off hiring new workers or leave open positions unfilled	12	36
Reduce or eliminate employee pay, in salary or bonuses	10	30
Convert some workers to part-time to reduce the number of employees in the plan	6	22
Reduce or eliminate other employee benefits	6	32
Lay off some workers	2	15

Source: 2004 Iowa Business Survey

**Newer businesses are more likely to feel the pinch in their bottom line recently, but also more likely to shift burden to employees in the future.** Companies that have been in business less than ten years were more likely to say they responded to past increases in health

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insurance costs by living with lower profits (59% compared to the overall average of 48%). This will continue to be the dominant strategy if the cost of providing employer-sponsored insurances continues to increase; 67 percent said they would absorb future cost increases, a number higher than the overall average of 54 percent. However, these newer businesses were also more likely to say they would reduce or eliminate other employee benefits (44% compared to the overall average of 32%).

### **INTERPRETATION**

Embedded in these data is a conflict between employers helping their employees gain access to [employment-based] group coverage while giving heed to the profit imperative of a healthy bottom line. We sense employers have been reluctant to shift much of the cost of health insurance to employees. The reasons seem obvious. First, most Iowa businesses are small—a majority have fewer than five employees. This means relationships between employer and employee are more personal. Business owners are likely reluctant to reduce, in effect, employees' take home pay by asking them to pay more of their insurance premiums. To do so would put interpersonal relationships at risk, relationships that extend beyond the workplace and into the community. As importantly, compensation changes could set in motion employee decisions to seek employment elsewhere. In small companies, changes in personnel hurt productivity. In a state with low unemployment, the company also suffers while searching for an adequate replacement. To avoid these circumstances, business decision-makers have likely felt forced to manage the increase as a cost of doing business.

**While few businesses see rising health insurance costs as an immediate threat to their ability to offer a health insurance plan, many report the situation is approaching crisis.** One in three Iowa businesses that offer health insurance said they could foresee a time within the next five (15%) or ten years (19%) when their company could no longer offer health insurance as part of employee compensation. Huge majorities, said the prognosis for business success is grim unless costs level off:

- ◆ 92% agree companies are being hurt by the cost of health insurance;
- ◆ 55% said their companies are not as financially successful as it could be because of what's happened with health insurance, and
- ◆ 79% said health insurance is creating a state of crisis for business.

**Because they cannot predict what's likely to happen with health insurance costs, companies cannot plan or act effectively.** A majority of 54 percent agreed they are hindered from business planning because they don't know what to expect with health insurance costs. Forty-two percent (42%) agreed they could expand their companies if health insurance costs weren't a concern. And, one in four (27%) said they would probably hire more employees if health insurance were not as expensive.

**There is a personal stake as well.** Forty-four percent (44%) said they are worried about the security of their own health insurance coverage.

### INTERPRETATION

Taken together, these findings point to a drag on the Iowa economy as businesses react to rising health insurance premiums. So far, the business itself has borne the brunt of the increase. That approach, however, threatens the company's viability. If the company has lower profits, that means, in all likelihood, that the owner is living with lower take-home pay. That consequence sets in motion decisions as to how long the company will be viable.

Companies are also leaving positions unfilled, deciding not to expand, and some are looking to employees to take up the slack in paying for more of their premiums themselves. In effect, businesses are forced to find a new revenue stream (employees) to offset rising costs. It's not their first choice; but ultimately it will become a common part of the equation whereby Iowa businesses try to balance revenues against rising expenses.

Looking to the future, the situation looks graver. Iowa businesses said they will continue to absorb costs, but the threat is likely to weigh heavily.

Summing up, the situation is grave. From an economic point of view, the state of Iowa suffers from numerous and sometimes small decisions employers are making in reaction to rising costs. Consider the following:

- ◆ Iowa companies are living with small profit margins, which means the company, if incorporated), is paying less in state income tax.
- ◆ Iowa companies are putting off buying equipment and making other investments that are vital to developing new products and services. That reduced spending likely means less sales tax is paid. Because health insurance is not taxed, that results in reduced state revenues.
- ◆ Iowa companies are leaving open positions vacant and show aversion to adding staff because of concern for rising health insurance costs.
- ◆ When employees pay more of the premium, that most likely shifts spending from taxable goods and services, as health insurance is not taxed. That affects state revenues as well.
- ◆ Iowa companies expect to have to raise prices to offset rising health insurance costs. Over time that will make them less competitive—certainly with companies that do not offer health insurance.

**This is hardly a climate in which companies will want to start offering health insurance if they don't already.** In fact, very few of the 65 percent of Iowa companies responding to this survey who do not offer health insurance are even considering it (11%).

### INTERPRETATION

The recent focus on the uninsured is short-sighted if it does not take into account the overall business climate in which decisions are made by businesses whether to offer health insurance or not. Unless something is done to stabilize costs, businesses are

unlikely to take on the risk of increasing labor costs that go with offering health insurance. That is, unless they set it up with assistance from the state for employees to pay all or most of the premium. Only then could they avoid the economic and interpersonal downsides of absorbing rising costs or forcing employees to pay more.

### 3. Solutions

**Businesses believe in the payback of offering health insurance.** A majority of 60 percent said their employees are more productive on the job because they have health insurance and half (51%) said that they feel like there is a good return on investment for the money they spend on health care.

**Some have already taken some action to make their existing plans more affordable.** In addition to requiring employees to pay more of the premium (28%), some businesses have: raised the deductible amount the employee must pay (37%), raised the co-pay for doctor visits (27%), and changed to a less costly plan with more restrictions on coverage (19%).

**Many are open to new ideas for health insurance delivery.** While a slight majority of businesses (54%) reported they are committed to their current health care plan, 39 percent said they are open to some other option or arrangement. Businesses show support a change through attitudes revealed in this survey (Table 5):

- ◆ A strong majority of 79 percent of businesses that offer health insurance agreed that when individuals have to pay for health care themselves, they are more careful with their health care expenditures than they are when insurance pays all or most of the cost.
- ◆ Two in three (66%) agree government programs are not doing all they could, as there are still many without health insurance in Iowa.

**One radical departure from the current system of health care wins cautious support.** In order to test more firmly businesses' openness to change, we offered a short description of a system that postulated a combination of individual, business and government involvement in paying for health insurance for all. The main planks of the conceptual plan are these:

- ◆ Requiring all Iowans to carry a catastrophic insurance policy with a high deductible. With statewide participation, the average premium was estimated to be \$100 per family of four.
- ◆ Employer contributions of \$3,000 per year into medical savings accounts for each employee.
- ◆ Employees would use these accounts to pay for ordinary health care expenses.
- ◆ Excess money would rollover each year and earn untaxed interest.
- ◆ The government would help low-income Iowans get help if needed.

The key concept, businesses were told, is to help businesses stabilize costs while still providing a genuine benefit for employees. A full 57 percent of all businesses said they think their company would be better off in a system like this, compared to what they have now. This included 68 percent of those who currently offered health insurance and 53 percent of those who do not currently offer a health care plan.

**Table 5. Reaction to Selected Changes in Health Insurance Delivery**

	FAVOR %	OPPOSE %	NOT SURE %
<b>Money individuals spend to buy their own health insurance would not be taxed, as it is now</b>	84	8	8
Offer health insurance now	88	8	4
Do not offer health insurance	85	7	8
<b>Instead of buying health insurance, employers would pay a fixed tax-deductible amount per month into an employee-directed medical savings account for use only on health care expenses</b>	56	33	11
Offer health insurance now	65	25	10
Do not offer health insurance	52	39	9
<b>The state would require all Iowans to have, at a minimum, a policy for catastrophic coverage for themselves and their families, which would cost no more than \$100 per month</b>	53	38	10
Offer health insurance now	60	36	4
Do not offer health insurance	49	41	10
<b>The state would set the standards for only three types of policies insurers could sell—a basic policy, an expanded policy, or a premium policy—making shopping for insurance easier</b>	54	33	13
Offer health insurance now	55	36	9
Do not offer health insurance	54	33	13
<b>The government would help low-income individuals buy catastrophic insurance and pay medical expenses. This would replace the current Medicaid program.</b>	48	33	19
Offer health insurance now	53	29	18
Do not offer health insurance	47	36	17

Source: 2004 Iowa Business Survey

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## INTERPRETATION

The purpose of this study was not to propose immediate solutions to the current state of perceived crisis for businesses facing rising health insurance costs. Rather, we sought to explore whether business decision-makers are open to the idea of changing the system—even radically.

These findings suggest that businesses are open to ideas that help them stabilize costs and so better plan labor expenses. Whatever fear policy-makers may have that business leaders will smite any attempt by government to influence and, perhaps, even regulate health insurance is probably overestimated. These data clarify that current concerns are so strong that relief, even in the form of a plan that includes government mandates, would not be immediately dismissed. It depends on presentation.

**The actions business leaders take in reaction to rising health insurance costs create a material drag on the Iowa economy.** Findings from this survey were used in an economic model to calculate the monetary value of business decisions. Our goal was to provide a conservative—rather than an aggressive--- estimate of the lost wages from business keeping positions open, lost state income tax from less profitable corporations, lost state sales tax revenue as businesses spend more on untaxed health insurance and less on taxed business equipment and other strategic investments. An analysis conducted by John Schneider, Ph.D. of the University of Iowa's College of Public Health shows a current drag of at least a half billion dollars on the Iowa economy. His full report is included in the appendix of this report.

**More immediately, rising health insurance costs reduce the state treasury.** Both sale tax and income tax revenues are affected when health insurance rates rise. Spending on health insurance is not subject to sales tax. When companies have less profit, they pay less in corporate income tax (business tax). In many small yet meaningful ways, rising health insurance rates mean the state of Iowa will suffer lower tax revenue. Dr. Schneider's conservative calculations show a loss of about \$60 million in state tax revenue based on actions employers have taken in response to rising rates. In the future, when more employers intend to pass on a greater share of the cost to employees, the loss rises to about \$90 million.

## 4. Sidestories

**Young businesses.** One in five Iowa companies (21%) have been in business for less than 10 years. They represent proportionally greater opportunity for growth than their older counterparts (26% said they are likely to add employees within the next year, compared to 17 percent of businesses that are at least 10 years old). But their struggle with health insurance is taking a greater toll. Two in three (66%) said if things continue in the current direction, the cost of health insurance threatens their company's viability (compared to 50% of older businesses).

Part of this stems from a greater unwillingness to burden employees. Just 7 percent said they have asked employees to pay more as premiums have increased, compared to 27 percent of older firms. Still, they are more likely to report living with lower profits both now (59%, compared to 46% of older businesses-) and in the future if increases persist (67%, compared to 53% of older companies).

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One more red flag among younger companies: They are less likely than older companies to report seeing the value of health insurance. Just 41 percent agreed they see a good return on the investment they make in health insurance, compared to 53 percent of older firms. It is no great wonder that younger firms are more open to new arrangements for health insurance that would include employers, employees, and the government to insure Iowans (54%, compared to 38% of companies in business for at least 10 years).

### **INTERPRETATION**

The conclusion we draw from this analysis is that interest in changing the way health insurance is delivered is likely to increase in coming years. This is due in part to the greater than average pressures felt by newer companies. But there also appears to be an openness to doing things differently; the direction of evolution in attitudes toward health insurance favors change.

## **5. Rural Iowa**

In this study, we oversampled in two Iowa counties—Adams and Mahaska—in order to see how business dynamics play on a small stage. We find little to distinguish these counties from the overall sample, though Mahaska businesses seem to favor employee involvement in paying for rising costs than we see in the state overall. In most other ways, these counties look much like the rest of the state.

**Mahaska County.** This industrial-based county of about 10,000 households was the focus of additional attention in this study, as was Adams County, the smallest county in the state with about 2,200 households. What we found was counterintuitive.

Adams County appears obviously economically pressed, with a substantial amount of deserted homes in a number of its small towns. The one thriving economic center, Corning, recently lost its department store, owned by one of the county's leading families. There is no dentist in Adams County. As one drives the rural roads, the place seems deserted.

By contrast, Mahaska County displays an economy in motion. The hospital has just completed a large new addition and recently recruited several new medical specialists to the county. Construction is a constant as one drives through the small towns and there is much more traffic on the main roads than in Adams County.

Our expectation was that our survey of businesses would show Mahaska to be in front of the curve and Adams behind it, struggling to keep up. Perhaps we did find that, but the curve wasn't the one we expected. Adams looks much like the state as a whole. There was a similar sense of optimism in the way the way businesses describe their current state of business affairs and they reacted to premium increases for health insurance the same way the state as a whole is responding. They are absorbing the cost, with few shifting the burden to employees. Companies in Mahaska County, however, convey a different situation. They were more likely to say the company's financial situation is getting worse (27%, compared to the average of 21%); and they were less likely to say they will be adding employees in the next year (11%, compared to 18%).

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These are slight, but perhaps telling differences. Mahaska County companies were more likely than average to say they had asked employees to pay more of their premiums (46%, compared to the average of 25%), had put off hiring (27%, compared to the average of 12%), and had lay off workers (18%, compared to the average of 2%) in reaction to rising health insurance costs. While they were as likely as average to say they absorbed most of the cost of increases in the past few years, they were notably less likely to say they would take that tack if the rate of increase persisted (36% of Mahaska County businesses said they will absorb most of the cost, compared to 57% overall). They were also more likely to say they would cut back on development for new products and services (55%, compared to 39% overall) if costs continued to rise as they have been. On virtually every other indicator, however, Mahaska County looked like the rest of the state.

#### **INTERPRETATION**

Perhaps Mahaska County offers a cautionary counterpoint to the way the state overall has been reacting. Companies in Mahaska County have already tried putting more burden on employees—a strategy that will become more prominent statewide if increases persist. But it hasn't made them more successful. It hasn't made future increases less threatening. They are no more ready for change than the state as a whole; but they've had more experience, it seems, trying different approaches—which don't seem to have delivered them from the state of near-crisis they report.

#### **C. Next Steps**

Our next study will help expand on the economic impact of rising health insurance rates by bringing in the consumer point of view. Even if rates increased at a slower rate in the future than in the past few years, employers expect to pass a greater share on to employees. That may induce employees to opt for plans with higher co-pays and higher deductibles in order to curb costs. Attitudes toward health insurance coverage and public policy will be a key feature of this new study.

In addition, this study will chart new territory. Past research teaches us that individuals make a multitude of life choices based on their health insurance coverage. A June 28, 2004 article in *The Los Angeles Times* mentions rising concern among those in the health insurance and health insurance policy fields of individuals marrying in order to get health insurance benefits. Our survey will help identify such trends.

The impact of health insurance on job productivity and entrepreneurialism will be a cornerstone of our future research. We believe the risk associated with rising health insurance costs serves as a barrier to new business starts. Our study will quantify how many Iowans have considered starting a business and whether health insurance played a part in their decisions.

With these data, we can:

- ◆ Calculate economic impact of consumer decisions.
- ◆ Apply economic models of what might happen under a number of policy scenarios.
- ◆ Virtually pilot some programs to identify opportunities and weaknesses.

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## SECTION 3. ECONOMIC EFFECTS OF INCREASES IN HEALTH INSURANCE PREMIUMS

### A. Introduction<sup>6</sup>

The Iowa Business Survey indicated that Iowa businesses face four possible “Faustian bargains” as they attempt to deal with the rising costs of health insurance benefits: (1) a negative impact on profits, (2) a “passing on” of the costs to consumers in the form of higher prices, (3) a negative impact on the workforce, either through lower wages or fewer full-time equivalent (FTE) workers, or (4) a reduction in the amount of resources that get re-invested in the business (i.e., which are critical to growth).

### B. Methodology

Using the data from the Iowa Business Survey, we combined a variety of economic modeling methods to conduct the simulation models. The models were created within a series of linked spreadsheets that supported sensitivity analyses and parameter changes. Where necessary, the models relied on the concept of “multipliers.”

Each dollar spent in the economy typically generates economic activity greater in value than the initial dollar spent. This is referred to as the “multiplier effect.” In the case of employers, the multiplier effect is greater than one as long as some part of every dollar is turned around and put to use employing employees, purchasing equipment, and purchasing supplies.

When analyzing small economies (counties, metropolitan areas, and in some cases states), the effect of the multiplier will vary depending on the geographic flow of funds. For example, expenditures conducted over the Internet may generate additional revenue in other parts of the country; similarly, expenditures at a national chain store will generate additional local value through employment and perhaps some services (e.g., custodial), but some non-trivial proportion of economic activity will occur beyond the market boundaries of the chain store. In our sample, we were dealing primarily with firms that kept most of their proceeds within the state, hence the state-level multiplier is likely to be somewhere in the neighborhood of two to three, meaning that for every \$1 that firms spent, \$2 to \$3 worth of economic activity was generated.

**Note:** Throughout these analyses, we do not explicitly model the “positive” side of health insurance premium increases, which is that health insurance companies and (presumably) providers of care would earn higher revenues. It is true this would result in gains to the economy. However, given that the dollars would stay more or less within the health community (as opposed to the diverse spending by workers), we do not anticipate these effects to even come close to offsetting the effects of altering workers’ spending habits across the state.

### C. Profits

A surprisingly large 81 percent of businesses indicated they would “absorb” increases in health insurance premiums by accepting a lower level of profit or surplus (also known as operating margin). We found this to have three negative impacts on Iowa business and the Iowa economy as a whole as:

- ◆ Lower profits reduce the amount of state business tax revenue, and
- ◆ Lower or declining profits discourage investment, growth, and
- ◆ new entrepreneurialism.

**Business tax revenue.** We estimated that a 12 percent increase in health insurance premiums would result in a loss in Iowa business tax revenue of \$14.9 million per year (Appendix Table 2). When businesses were asked how they might react to consecutive years of 12 percent increases, the effect on profits lowered to \$13.5 million per year. The reduction is due mainly to the large number of firms that indicated they would not be able to continue absorbing the increases, and instead would attempt to pass the costs on to consumers. As we see below, passing costs on to consumers has an even larger negative effect on Iowa businesses and the Iowa economy.

**Business climate.** We estimated that a 12 percent premium increase would reduce median profit margins by 0.74 percentage points (Appendix Table 2). This is a very large effect considering that the average profit margin for all firms is likely to fall in the 2-5 percent range (we assume a median of 3 percent). Normally it would seem surprising for health insurance premiums to have such a large effect on profit margins. However, Iowa firms tend to be smaller in size compared to the national average, which means that health insurance premiums are likely to make up a larger proportion of total operating costs. As average profit rates decline, the business environment faces several challenges. First, the market may not look as attractive to new businesses, and new businesses are the backbone of economic growth. Second, existing businesses may be less likely to view their business as viable, which may result in the curtailing of employee hiring, production, and investment, all of which also exert downward pressure on sustainability and growth.

#### **D. Prices**

The concept of “passing the costs on to consumers” is largely misunderstood, often by businesses themselves. Theory and empirical evidence in economics suggests that virtually all “demand curves” (which show the relationship between prices and the quantity purchased) are downward sloping, which means that higher prices result in lower quantities purchased. The underlying concept is that demand has some “elasticity,” meaning that as prices rise consumers react by buying less of it and/or more of something else, something cheaper (i.e., a substitute). These concepts tend to hold in virtually all nominally competitive markets. Insofar as Iowa businesses are doing business in competitive markets, they can expect that their customers will buy less as prices rise.

The result of this can be seen in Appendix Table 3. After firms raise their prices to exactly offset premium increases, the quantity of items sold decreases. Multiplying the new price by the new quantity sold, we estimated a net decrease in revenue of \$7,390 per firm. Combined with the increase in costs attributable to health insurance, the net result was a one percent reduction in revenue after the price increase. Statewide, these effects are non trivial. The reduction in revenue translates to a reduction in the private gross state product by \$50.8 million, and the reduction in state business tax revenue due to the associated decline in profits is \$3.6 million.

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As mentioned above, a surprising finding was that most firms anticipated price increases in the future. Based on their current situation, 19 percent of respondents indicated they had passed the premium increases on to consumers. When asked about the future under the assumption that health insurance premiums would continue to rise at 12 percent, the proportion of firms willing to pass costs on to consumers sharply increased to 44 percent. Under this scenario, private gross state product declined by \$117.6 million and state business tax revenue fell by \$8.2 million.

## **E. Labor**

Although Iowa firms appeared to be reluctant to pass costs on to employees, 43 percent nevertheless indicated that they have done one or more of the following: required employees to pay more of the premium, reduced pay, laid off workers, put off hiring new workers, converted workers to part time, or reduced other employee benefits. Taken together, these actions result in a decrease in the businesses' labor expenses.

Reducing labor expenses has a three-pronged effect on the Iowa economy (Appendix Table 4). First, it results immediately in lower levels of payroll tax revenue (\$5.6 million), lower levels of employee spending (\$169.9 million), and lower levels of state sales tax revenue (\$8.5 million) due to reduction in employee spending.

Reductions in labor expenses can also be viewed from the counterfactual: supposing health insurance were not a problem (i.e., not the fastest growing component of labor expenses), would your firm have more employees (Survey Q21e; Survey Q22)? Close to 40 percent of firms agreed that they would be larger were it not for the high cost of health insurance, and on average these firms indicated that they could add 1.2 employees. This is a non-trivial finding: if we believe these findings, it indicates that there is an apparent "discontinuity" in how firms view their payroll budget. In other words, they would be willing to spend \$27,000 on a new employee rather than cutting \$7,300 (additional costs due to health insurance rate inflation) from their budget. One plausible explanation for this is that the new worker generates revenue, whereas absorbing the costs of health insurance does not generate new revenue.

For these reasons, not being able to hire those additional 1.2 workers has an even larger negative effect than passing the costs on to existing workers. It results in lower levels of payroll tax revenue (\$10.8 million), lower levels of employee spending (\$322.5 million), and lower levels of state sales tax revenue (\$16.1 million) due to reduction in employee spending.

The results are staggering when estimates are based on anticipated changes (Survey Q14) rather than actual changes (Survey Q10), due mainly to the large number of firms (74%) indicating a future willingness (or necessity, if you consider some of their other related responses) to pass costs on to workers (Appendix Table 4). In these models, the combined labor effect on state revenue is a loss of \$70.7 million and the effect on private gross state product is a loss of well over three quarters of a billion dollars (\$847.4 million).

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## **F. Investment**

Business investment is the “coin of the realm” for economic growth. As businesses expand, they hire more workers and generate new business throughout the state (e.g., a car repair shop may support a lunch cart, etc.).

For business spending, we assumed a 2.0 multiplier because businesses spend mainly on other businesses, and as those dollars trickle through the economy they are likely to “turn over” more times, mainly through the positive impact on employment.

If firms were to simply offset health insurance premium increases by dipping into funds set aside for investment and growth, the loss to the economy would be on the order of \$147.5 million each year (Appendix Table 5). The amount more than doubles to \$300.4 million when firms are asked to anticipate future reactions. When asked about current means to offset health insurance premium increases, 28 percent of firms indicated that they had raided the investment cookie jar (Survey Q10), compared to 57 percent of firms indicating a willingness or necessity to raid the investment piggy bank in the near future.

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## SECTION 4. IOWA 2004 BUSINESS INTERVIEWS

### A. Introduction

From May 24 to June 10, 2004, Dr. J. Ann Selzer, president of Selzer & Company conducted 11 interviews with businesses that are members of the Iowa Business Council, and with Mahaska County businesses who had participated in the previous described Iowa Business Survey conducted by Selzer & Company in March of 2004, entitled “2004 Iowa Business Survey” (The interview script is attached hereto as Appendix II)

The purpose of the Mahaska County interviews was to explore in greater depth the survey findings to better understand how Iowa companies think about buying health insurance. For Iowa Business Council members, the purpose of the interviews was to better understand the thinking of and decisions made by large companies, most of which self-insure. We explained some of the survey findings and our calculation of lost state tax revenue and asked for reactions.

### B. Overview

These interviews confirmed what the Iowa Business Survey revealed: continually increasing costs of health insurance place Iowa businesses in a tough situation where many now fear for the viability of their insurance plan and of their businesses. Health savings accounts (HSAs), newly expanded with the start of this calendar year, are one way businesses are trying to stabilize costs while educating their workforce on the actual costs of health insurance and healthcare. While many said they do not like the idea of greater government involvement in health care, they recognize that market forces do not appear to be sufficient to keep costs down. So, they are open to new ideas that might help stabilize costs.

### C. Key Findings

**Businesses expect health insurance rates to go up every year.** The consensus among most businesses is that the way for them to manage rising health insurance rate increases is for them to just expect increases every year and to attempt to plan and budget accordingly. However, there is an admitted difficulty in trying to anticipate that amount of the increase, as it seems to fluctuate.

*“It increases every year. Last year, 7 percent increase over 2002. That’s about the same increase as we’ve seen. In 2001, it was quite a bit higher—20 percent.”*

*“We have it (health insurance) available; we furnish it for one driver. That’s kind of his bonus. It’s jumped twice. It was \$500 and some two years ago. Now we pay \$1,143 per month. It will soon be close to double and we more than doubled our deductible.”*

**For businesses, lower company profits threaten their viability.** Most businesses have tried to absorb most of the cost and live with lower profits. That means they put off buying equipment or making other purchases, they put off hiring, and they live with less in what they take home in salary, bonuses, or distributions of earnings.

*“If they (Iowa businesses) are trying to absorb the increased cost themselves, they can only do that so long. That actually takes away from what could have been profit. That’s what we’re doing here. We haven’t raised our costs. I’m in a pretty competitive market, so I’m trying to keep under what others charge to keep afloat. I can’t jack up my prices right now. That might threaten my ability to stay in business. If I go out of business, then my savings might not cover everything.”*

*“I haven’t come up with a solution. The type of companies we work for, we have to bid on what we do. I have to stay competitive and still try to make ends meet. It’s really rough. A year and a half ago I had to take a 10 cent a mile pay cut to get the contract. Very much I worry we won’t be able to afford health insurance.”*

**Most employers are starting to pass on higher costs to employees.** One large company started asking employees to contribute a little towards their premiums a few years ago—about \$1.50 a week—and still got push-back from employees.

*“Some think it’s totally, totally unfair. It’s something that is owed to them.”*

*“I can honestly say that if we hadn’t initiated premiums from employees, we would have to take a hard look at benefits and see if we would have to eliminate the pension plan.”*

*“The tools of the past have stopped working. High-deductible plans shift costs to employees, some say. But if the old tools have stopped working (managed care, HMOs—there is still 15% inflation). You HAVE to shift thinking.”*

**Employers are working to educate employees as they share the cost.** Communication between employers and employees about how high costs affect the company is seen as critical to keeping costs down.

*“You want a happy workforce, but the company can’t pick up all the charges. We can’t afford to put a product out if we’re spending a lot per piece on health. You are responsible for your own health. Your lifestyle will affect what you pay and what the company pays. How can you spend less? What questions should you ask of your doctor? We do monthly articles and discussions (lunch and learn). We send out information to help educate our employees.”*

*“We have just announced that we are going to make a high-deductible health plan available January 1, 2005. It will have an HSA. We have bought into the notion that the time has come for employees to be more aware of what health care costs are. They will be better informed consumers.”*

*“Most human resource benefits people are scared of letting employees have too much control, because they don’t know themselves. We need insurance educators who can teach.”*

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**Businesses are actively looking into alternative ways to offer health insurance.** The most attractive alternative appears to be HSAs (Health Savings Accounts).

*“The HSA is the way to go. You are saving on premiums, and you have tax savings. You have to educate young people on what a tax bracket means. That amount needs to go into HSA. Then, you have caps. With life and disability, employer pays 100 percent in order to get participation, so they just drop it. What is amazing about HSAs is how quickly the employers say, how do I share the savings with employees? It’s a heck of a lot more than a tax savings. What’s the really big factor is Subchapter S and LLC can participate with tax exempt dollars federal.*

*Yet, contribution not state tax exempt . The thing that would really help magnificently is if the state of Iowa had an HSA for its workers, and the public schools, and the city and county workers. They would save \$15 million in premiums in the school system; from \$36,000 per month to \$16,000 per month. They could fund additional risk that way.*

*One employer saved \$18,000 and gave each employee \$1,000 to put in HSA. It’s a win-win.”*

Businesses have tried many things to try to cut costs. One large business opened an onsite medical clinic in an attempt to deal with small issues before they get bigger and more costly. Another switched PPOs and saved \$650,000 per year.

*“Last year we gave choices. Three plans. Each has same coverage benefits, but different deductible, different co-pay. Employee pays a premium of their choice at the low cost of \$10 per week for single (employees) to the higher cost of \$11 per week for singles.”*

*“We’re looking at consumer-driven health plan; higher deductible. We’ve added coinsurance to the co-pay; pay \$20, plus 20 percent.”*

The previous business survey found that one of the common ways businesses handle rising insurance costs is to spend less on equipment, supplies, and other investments in developing new goods and services. Health insurance is not subject to sales tax, which makes businesses wonder if this is shifting a significant amount of money out of state tax revenues.

*“I look at this the same way. If you take \$6,000, if I could invest it, and we’re at a 7 percent rate, that’s \$400 we’re taking away from the state.”*

*“For businesses and for the state, doing nothing is not an option.”*

*“The State of Florida is going to have an HSA for its workers. This is the way we can stop the problem and get more money back to the small employer who can create more jobs, more tax for the state of Iowa. If boomers don’t start putting money away, how are they going to pay for what’s coming.”*

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## **D. Conclusion**

Pressures from dramatic increases in health insurance have created a climate open to change among the business community. The adage that the only things that make institutions change is calamity and catastrophe is borne out in the survey data and enlightened by the interviews. Many businesses feel that point has already arrived. In response, many businesses, especially large companies, are already dramatically reconfiguring their health plans with HSAs, on-site medical professionals, and incentives to employees to help keep costs down. In the short term, these innovations may help reduce costs. The long-range impact remains to be seen.

## APPENDIX I

## IOWA DEPARTMENT OF PUBLIC HEALTH – IOWA BUSINESS SURVEY

1,003 Iowa Business Decision-makers

SELZER &amp; COMPANY

March 4-18 2004

Margin of Error: +/- 3.5

**(Ask for name on list.)**

Hello. This is \_\_\_\_\_ calling from SELZER & COMPANY, a survey research firm located here in Iowa. We're taking a short survey today on important issues that affect businesses like yours. Your individual responses will be kept confidential and the results will be used to inform public policy. This survey is being done on behalf of a state agency, and we're looking for the most senior person who can talk about your company's performance, and employment trends. This will take only a few minutes of your time. **(If contact name suggests another person, verify it is a senior level person with influence on major company decisions.)**

1. I'd like to begin by asking about your view of the nation and the state. In general, do you think things in the nation are headed in the right direction, or have they gotten off on the wrong track?

Right direction

Wrong track

Not sure

2. What about here in Iowa? Do you think things in the State of Iowa are headed in the right direction, or have they gotten off on the wrong track?

Right direction

Wrong track

Not sure

3. Compared to last year, would you say your company's financial situation is improving, staying the same, or getting worse?

Improving

Staying the same

Getting worse

1 Not sure

4. I'm going to mention some approaches businesses can take to be more profitable. For each, please tell me if this is a top priority for your company, a mid-level priority, or whether this is really not a current focus.

			Not a	
	Top	Mid-level	Current	Not
	<u>Priority</u>	<u>Priority</u>	<u>Focus</u>	<u>Sure</u>

- A. Attracting new customers to increase revenue
  - B. Adding new services or products so that you do more business with existing customers to increase revenue
  - C. Holding down expenses on materials or supplies
  - \*D Holding down employee-related expenses
5. Within the next year, do you expect to add employees, keep the same number of employees, or downsize the number of employees or leave open positions unfilled at your company?

18	Add employees	Ask b
	Keep the same number of employees	Skip to Q.6
	Downsize the number of employees or leave open positions unfilled	Ask c
	Not sure	Skip to Q.6

- b. How many employees do you anticipate adding? **(Let respondent volunteer.)**

Mean:                      Median:                      Fill in number 1-999 **then skip to Q.6.**

- c. How many employees do you anticipate you will lose? **(Let respondent volunteer.)**

Mean:                      Median:                      Fill in number 1-999

6. I'm going to mention some employee benefits businesses sometimes offer their workers. For each, please tell me if this is something you currently offer, something you don't offer but are strongly considering, or something you don't offer and aren't considering. **(Rotate list.)**

Currently	Don't offer/	Not	Not
<u>Offer</u>	<u>Considering</u>	<u>Considering</u>	<u>Sure</u>

- A. Dental insurance
- B. Vision insurance
- C. Health insurance
- D. Life insurance
- E. Disability insurance
- F. Company contribution to a retirement plan

**Note: This question defines companies who DO offer health insurance (Q.6c, AC = 1) and Those that DO NOT offer health insurance (Q.6c, AC = 2,3).**

**(Ask Q.7-Q.X only of those that currently offer health insurance.)**

7. I want to focus the next few questions on health insurance. How would you describe the quality of coverage in your health insurance plan—is it very good, reasonably good, barely adequate, or not really adequate? **(n=353)**

Very good  
Reasonably good  
Barely adequate  
Not really adequate  
Not sure

8. Does your company pay all, part, or none of the premium for your employees' policies? (n=353)

Company pays all	<b>Ask b and c</b>
Company pays part	<b>Ask b and c</b>
Company pays none	<b>Skip to Q.9</b>
Not sure	<b>Skip to Q.9</b>

- b Can you give me an idea of the average dollar amount the company pays per employee for health insurance on a monthly basis?

Mean:                  Median:                  Fill in number 1-999

- c. How many employees does that number represent?

Mean:                  Median:                  Fill in number 1-9999

- 9a. In the past year or two, have your health insurance premiums gone up, down, or stayed about the same? (n=353)

Went up	<b>Ask b</b>
Went down	<b>Ask b, then skip to Q.11</b>
Stayed the same	<b>Mark "0" for Q.9b and skip to Q.11</b>

- b Can you give me an idea of the percent change in the cost of premiums for health insurance just for last year?

Mean:                  Median:                  Fill in number 1-99

(Ask Q.10 only if AC = 1 in Q.9a.)

10. How did your company handle the increased cost of health insurance—did your company: (Read list. Rotate. Mark all that apply.) (n=286) (Percentages do not add to 100)

Absorb most of the cost  
Require employees to pay more of the premium than before  
Raise prices on the goods or services you sell  
Reduce or eliminate employee pay, in salary or bonuses  
Put off buying equipment or making other purchases  
Lay off some workers  
Put off hiring new workers or leave open positions unfilled  
Convert some workers to part-time to reduce the number of employees in the

- plan
- Live with lower profits for your company
- Reduce or eliminate other employee benefits
- Cut back on investments you would ordinarily make in the company for development of new products or services
- None of these (VOL)
- Not sure

11. I'm going to mention some things companies do to try to keep the cost of health insurance down. Please tell me if this is something you have done in the past two years, something you are considering doing within the next two years, or something you're not considering. (n=353)

	Haven't		
Have	done/	Not	Not
<u>Done</u>	<u>Considering</u>	<u>Considering</u>	<u>Sure</u>

- A. Changed to a less costly plan with more restrictions on coverage
- B. Increased the dollars employees contribute to the premium
- C. Lowered or dropped company contributions for coverage of spouses or children
- D. Raised the deductible amount employees must pay
- E. Raised the co-pay amount for doctor visits

12. Have you seriously considered whether there may come a time your company can no longer offer health insurance as an employee benefit because of expense? (If yes, ask:) What do you see as the likely time frame for that happening—the next couple of years, the next five to ten years, or beyond 10 years? (n=353)

- Yes, within the next couple of years
- Yes, within the next five to ten years
- Yes, beyond 10 years from now
- No, do not see a time the company will drop health insurance plan
- Not sure

13. For the following statements, please tell me if you agree strongly, agree, disagree, or disagree strongly. (n=353)

Agree		Disagree	Not
<u>Strongly</u>	<u>Agree</u>	<u>Disagree</u>	<u>Strongly</u>
			<u>Sure</u>

- A. I have been careful about hiring because I worry about the cost of health insurance
- B. I am personally worried about the security of my own health insurance

- C. My company is not as financially successful as it could be because of what's happened with the cost of health insurance
- D. If health insurance were not as expensive, I would probably hire more employees
- E. I use contract workers instead of hiring because of health insurance costs
- F. I feel like there is a good return on investment for the money spent on health insurance
- G. Because my employees have health insurance, they are more productive on the job
- H. If things continue the way they are going, the cost of health insurance threatens my company's viability
- I. We've had job offers turned down by people the company would like to hire because our health insurance plan isn't generous enough
- J. I've thought twice about hiring more experienced people because my insurer charges a much higher premium for older people
- K. My company has lost business to companies in other countries because their employee costs are lower

**(Ask Q.14 and Q.15 only if AC = 1 in Q.9a.)**

14. I'd like you to consider how your company might react if in the next two years or so the cost of your health insurance plan increase at the same rate each year as you experienced last year [INSERT RATE FROM Q.9b]. For each strategy I mention, please just answer yes or no if this is something your company would likely do or not. **(Read list. Rotate. Mark all that apply.) (n=286) Multiple answers accepted, percentages add to more than 100.**

- Absorb most of the cost
- Require employees to pay more of the premium than before
- Raise prices on the goods or services you sell
- Reduce or eliminate employee pay, in salary or bonuses
- Put off buying equipment or making other purchases
- Lay off some workers
- Put off hiring new workers or leave open positions unfilled
- Convert some workers to part-time to reduce the number of employees in the plan
- Live with lower profits for your company
- Reduce or eliminate other employee benefits
- Cut back on investments you would ordinarily make in the company for development of new products or services
- None of these (VOL)
- Not sure

15. I'm going to return to the short list of ways businesses can be more successful that we talked about earlier. Still imagining that for each of the next two years the cost of health insurance would rise the same percentage it has recently, how would that affect your ability to do each of the following—would rising health insurance costs be a major obstacle, a minor obstacle, or no real obstacle (**n=288**)

Major    Minor    No real    Not  
Obstacle Obstacle Obstacle Sure

- A. Your ability to attract new customers to increase revenue  
 B. Your ability to add new services or products so that you do more business with existing customers to increase revenue  
 C. Your ability to hold down expenses on materials or supplies  
 D. Your ability to hold down employee-related expenses

**(Ask everyone.)**

16. Would you say your company is reasonably committed to your current health insurance plan or something like it, OR are you open to some other arrangement that would include participation by employees, employers, and government to insure Iowan? (**n=353**)

Committed to current health insurance plan or something like it

Open to some other arrangement

Not sure

**Now skip to Q.20**

**(Ask Q.17 through Q.19 only of companies who do not offer health insurance, AC = 2,3,4 in Q.6c.)**

17. I'm going to mention some reasons companies don't have health insurance plans for employees. For each, please tell me if this is a major reason you don't have health insurance, a minor reason, or if it really does not apply to your company. (**n=650**)

Major    Minor    Does not    Not  
Reason Reason Apply Sure

- A. Most employees are covered elsewhere  
 B. Employees prefer wages or other benefits  
 C. Revenue is too uncertain to commit to a plan with monthly expenses  
 D. The business can't afford it  
 E. A large portion of the company's workers are seasonal, part-time, or high-turnover

- F. The company does not need to offer health insurance to recruit and retain good workers
- G. It's common in this industry not to provide health insurance
- H. Not offering health insurance allows the company to be more profitable than our competitors
18. Has the company ever offered employees some type of health insurance plan? **(If yes, ask:) Was that within the last five years, or longer ago than that? (n=650)**

Yes, within last five years	<b>Ask b</b>
Yes, but longer ago than the last five years	<b>Ask b</b>
<hr/>	
No, has not ever offered health insurance	<b>Skip to Q.19</b>
Not sure	<b>Skip to Q.19</b>

- b. Which one or two of the following would you say are the main reasons the company decided to drop its coverage? **(Read list. Accept up to two answers.) (n=108)**

The cost was increasing  
 Too few employees were enrolled in the plan  
 Employees had other coverage  
 The company's financial situation changed and couldn't keep paying for it  
 The owner got coverage somewhere else and decided to drop the employee plan  
 None of these (VOL)  
 Not sure

19. If the cost of health insurance were not a burden to your company, do you think you would be able to attract a different kind of worker with better skills than you have now if you offered health insurance? **(n=650)**

Yes  
 No  
 Not sure

**(Ask everyone.)**

20. I want to talk now about some changes that might be made to the way companies buy and pay for health insurance. For each, I want you to think about your company and its future and tell me whether this is something you would strongly favor, favor, oppose, or strongly oppose.

Strongly Favor      Strongly Oppose      Not Sure  
Favor      Favor      Oppose      Oppose      Sure

- A. The state would set the standards for the only three types of policies insurers could sell—a basic policy, an expanded policy, or a premium policy—making shopping for insurance easier.
- B. Instead of buying health insurance, employers would pay a fixed tax-deductible amount per month into an employee-directed medical savings account for use only on health care expenses
- C. The state would require all Iowans to have, at minimum, a policy for catastrophic coverage for themselves and their families, which would cost no more than \$100 per month
- D. Money individuals spend to buy their own health insurance would not be taxed, as it is now
- E. The government would help low-income individuals buy catastrophic insurance and pay medical expenses. This would replace the current Medicaid program.

**(For those whose companies do not offer health insurance—AC=2,3,4 in Q.6---, ask only those items with asterisks.)**

21. Some of the ideas above are based on a few basic principles. For each I mention, please tell me if you strongly agree, agree, disagree, or strongly disagree

Strongly		Strongly	Not
<u>Agree</u>	<u>Agree</u>	<u>Disagree</u>	<u>Disagree</u>
		<u>Disagree</u>	<u>Sure</u>

- A. Companies are being hurt by the cost of health insurance (**n=353**)
- B. Government programs are not doing all they could, as there are still many without health insurance in Iowa (**n=353**)
- C. My company would trade-off having fewer choices in what kind of health coverage we could buy if our costs were lower and stable (**n=1003**)
- D. Health insurance is creating a state of crisis for businesses (**n=353**)

- E. My company could expand if health insurance costs weren't a concern **(n=1003)**
- F. My company would save on employee time if buying and administering the health insurance plan weren't so time consuming **(n=1003)**
- G. My company can't plan effectively for the future when we don't know what might happen with health insurance costs **(n=1003)**
- H. When individuals have to pay for health care themselves, they are more careful than they are when insurance pays all or most of the cost **(n=353)**

**(Ask Q.22 and Q.23 only if respondent agrees in Q.21e, AC=1,2.)**

22. You indicated your company could expand if health insurance costs were no concern. About how many new employees might your company add with that kind of expansion?

Mean:            Median:            Fill in number 0-999

23. What sort of percentage increase in your annual revenue might that kind of expansion result in?

Mean:            Median:            Fill in number 0-99



Three to four  
 Five to nine  
 Ten to 19  
 20 to 49  
 50 to 99  
 100 or more  
 Refused/not sure

- 102 I'm going to mention some broad industry categories. Which one best fits your company? (Read list. Read parenthetical comments if necessary.)

Manufacturing  
 Professional (law, medical)  
 Retail trade  
 Wholesale trade  
 Finance, investments, insurance, real estate  
 Construction  
 Personal services (hair, cleaning, lawn, etc.)  
 Business services (computer consultant, marketing, research)  
 Agriculture or ag-related business  
 Transportation, communications, electric, gas, or sanitary services  
 Non-profit  
 Other (specify)  
 Refused/not sure

- 103 How many years has your company been in business?

Less than two years  
 Two years up to five years  
 Five years up to 10 years  
 10 years or more  
 Not sure

- 104 Is your company headquartered in Iowa or in another state?

In Iowa  
 In another state  
 In another country (VOL)  
 Not sure

- 105 What is your title?

President, CEO, Chair, Owner  
 Chief Financial Officer (COO), Chief Operations Officer (COO)  
 Senior or Executive Vice President  
 Other (specify:)  
 Refused/not sure



## APPENDIX II

## ECONOMIC SIMULATION TABLES

**Table 1.**  
**Baseline economic data on Iowa firms**

<b>BASELINE</b>	<b>Median Firm</b>	<b>Firms w/ HI</b>	<b>Statewide Total</b>	<b>Low (-5%)</b>	<b>High (+5%)</b>
<b><i>Baseline income statement data</i></b>					
Total number of firms statewide	80,392	36,176			
Percent operating margin	3.00%	36,176			
Total revenue	\$990,521	36,176	\$35,833,483,904	\$34,041,809,709	\$37,625,158,100
Total operating costs (TOC)	\$960,805	36,176	\$34,758,479,387	\$33,020,555,418	\$36,496,403,357
Total operating margin (OM)	\$29,716	36,176	\$1,075,004,517	\$1,021,254,291	\$1,128,754,743
<b><i>Role of health insurance</i></b>					
HI cost per employee	\$4,046	36,176			
Median number of employees	15.00	36,176			
Total HI cost	\$60,690	36,176	\$2,195,545,716	\$2,085,768,430	\$2,305,323,002
HI cost as percent of total cost	6.32%	36,176			
Annual percent change in HI cost	12.00%	36,176			
Net change in TOC due to HI	\$7,283	36,176	\$263,465,486	\$250,292,212	\$276,638,760
Net % change in TOC due to HI	0.76%	36,176			
New TOC	\$968,088	36,176	\$35,021,944,873	\$33,270,847,630	\$36,773,042,117

Notes:

1. Assumes 12% annual increase in health insurance premiums
2. Assumes 45% of all Iowa business establishments offer some form of health insurance to employees
3. Assumes an "anticipated" set of adjustments, based on survey Q14

**Table 2.**  
**Absorbing costs of health insurance premium increases**

<b>(A) Profits</b>	<b>Median Firm</b>	<b>Firms w/ HI</b>	<b>Statewide Total</b>	<b>Low (-5%)</b>	<b>High (+5%)</b>
<b>Baseline data</b>					
Total number of firms statewide	80,392	36,176			
Baseline % operating margin	3.00%	36,176			
Baseline total revenue	\$990,521	36,176	\$35,833,483,904	\$34,041,809,709	\$37,625,158,100
Baseline total operating costs (TOC)	\$960,805	36,176	\$34,758,479,387	\$33,020,555,418	\$36,496,403,357
Baseline operating margin (OM)	\$29,716	36,176	\$1,075,004,517	\$1,021,254,291	\$1,128,754,743
<b>Role of health insurance</b>					
HI cost per employee	\$4,046	36,176			
Median number of employees (statewide)	15.00	36,176			
Total HI cost	\$60,690	36,176	\$2,195,545,716	\$2,085,768,430	\$2,305,323,002
HI cost as percent of total cost	6.32%	36,176			
<b>Effect of an increase in HI premiums</b>					
Annual percent increase in HI cost	12.00%	36,176			
Net change in TOC	\$7,283	36,176	\$263,465,486	\$250,292,212	\$276,638,760
New TOC	\$968,088	36,176	\$35,021,944,873	\$33,270,847,630	\$36,773,042,117
Net % change in TOC due to HI	0.76%	36,176			
Percent of firms opting for (A)	73.00%	36,176			
New OM	\$22,433	26,409	\$592,423,493	\$562,802,318	\$622,044,667
Net \$ change in OM	(\$7,283)	26,409	(\$192,329,805)	(\$182,713,314)	(\$201,946,295)
New % operating margin	2.26%	26,409			
Net percentage point change in OM	-0.74%	26,409			
Net change in state business tax revenue		26,409	(\$13,463,086)	(\$12,789,932)	(\$14,136,241)

Notes:

1. Assumes 12% annual increase in health insurance premiums
2. Assumes 45% of all Iowa business establishments offer some form of health insurance to employees
3. Assumes an "anticipated" set of adjustments, based on survey Q14

**Table 3.**  
**Passing the costs on to consumers**

<b>(B) Prices</b>	<b>Median Firm</b>	<b>Firms w/ HI</b>	<b>Statewide Total</b>	<b>Low (-5%)</b>	<b>High (+5%)</b>
<b>Baseline data</b>					
Percent of firms opting for (B)	44.00%	36,176			
Total revenue	\$990,521	15,918	\$15,766,732,918	\$14,978,396,272	\$16,555,069,564
Price per unit (assume 10,000 units sold)	\$99	15,918	\$1,576,673	\$1,497,840	\$1,655,507
<b>Effect of an increase in HI premiums</b>					
Additional revenue to offset HI increase	\$7,283	15,918	\$115,924,814	\$110,128,573	\$121,721,054
New revenue breakeven target	\$997,804	15,918	\$15,882,657,732	\$15,088,524,845	\$16,676,790,618
New price per unit (assume 10,000 target)	\$100	15,918	\$1,588,266	\$1,508,852	\$1,667,679
Change in price per unit	\$0.73	15,918			
Percent change in price	0.74%	15,918			
Price elasticity of demand	-2.00	15,918			
Percent change in quantity sold	-1.47%	15,918			
New number of units sold	9,853	15,918			
New net revenue after price increase	\$983,131	15,918	\$15,649,103,431	\$14,866,648,260	\$16,431,558,603
Net change in revenue	(\$7,390)	15,918	(\$117,629,487)	(\$111,748,013)	(\$123,510,961)
New TOC	\$968,088	15,918	\$35,021,944,873	\$33,270,847,630	\$36,773,042,117
New \$ OM	\$15,043	15,918	\$239,447,687	\$227,475,303	\$251,420,071
Old \$ OM	\$22,433	15,918	\$357,077,174	\$339,223,315	\$374,931,032
Net \$ change in OM	(\$7,390)	15,918	(\$117,629,487)	(\$111,748,013)	(\$123,510,961)
Net change in state business tax revenue		15,918	(\$8,234,064)	(\$7,822,361)	(\$8,645,767)

## Notes:

1. Assumes 12% annual increase in health insurance premiums
2. Assumes 45% of all Iowa business establishments offer some form of health insurance to employees
3. Assumes an "anticipated" set of adjustments, based on survey Q14

**Table 4.**  
**Passing the costs on to employees**

<b>(C) Labor</b>	<b>Median Firm</b>	<b>Firms w/ HI</b>	<b>Statewide Total</b>	<b>Low (-5%)</b>	<b>High (+5%)</b>
<b><i>Passing costs on to employees</i></b>					
Percent of firms opting for (C)	74.00%	36,176			
Median number of employees	15.00	26,771			
Mean annual earnings per employee	\$23,036	26,771	\$616,686,067	\$585,851,764	\$647,520,371
HI cost per employee	\$4,046	26,771	\$108,313,589	\$102,897,909	\$113,729,268
Total payroll cost per employee (incl. HI)	\$27,082	26,771	\$724,999,656	\$688,749,673	\$761,249,639
Total taxable payroll	\$345,540	26,771	\$9,250,291,009	\$8,787,776,459	\$9,712,805,560
Annual percent change in HI cost	12.00%	26,771	\$3,212	\$3,052	\$3,373
Net change in TOC due to HI	\$7,283	26,771	\$194,964,460	\$185,216,237	\$204,712,683
Multiplier for employee expenditures	1.50	26,771			
Net change in total payroll to offset HI	(\$7,283)	26,771	(\$194,964,460)	(\$185,216,237)	(\$204,712,683)
Change in state payroll tax revenue	(\$364)	26,771	(\$9,748,223)	(\$9,260,812)	(\$10,235,634)
Change in employee spending		26,771	(\$292,446,689)	(\$277,824,355)	(\$307,069,024)
Change in state sales tax revenue		26,771	(\$14,622,334)	(\$13,891,218)	(\$15,353,451)
<b><i>Want to hire more but cannot due to HI</i></b>					
Percent of firms that would expand	50.00%	26,771			
Change in staffing if HI not a problem	1.2	13,385			
New total number of employees	16.20	13,385			
New total payroll	\$373,183	13,385	\$4,995,157,145	\$4,745,399,288	\$5,244,915,002
Net change in total payroll w/new	\$27,643	13,385	\$370,011,640	\$351,511,058	\$388,512,222
Change in state payroll tax revenue	(\$1,382)	13,385	(\$18,500,582)	(\$17,575,553)	(\$19,425,611)
Change in employee spending	(\$41,465)	13,385	(\$555,017,461)	(\$527,266,588)	(\$582,768,334)
Change in state sales tax revenue		13,385	(\$27,750,873)	(\$26,363,329)	(\$29,138,417)

Notes:

1. Assumes 12% annual increase in health insurance premiums
2. Assumes 45% of all Iowa business establishments offer some form of health insurance to employees
3. Assumes an "anticipated" set of adjustments, based on survey Q14

**Table 5.**  
**Postponing growth**

<b>(D) Investment</b>	<b>Median Firm</b>	<b>Firms w/ HI</b>	<b>Statewide Total</b>	<b>Low (-5%)</b>	<b>High (+5%)</b>
Percent of firms opting for (D)	57.00%	36,176			
Net change in investment to offset HI	(\$7,283)	20,621	(\$150,175,327)	(\$142,666,561)	(\$157,684,093)
Multiplier for business expenditures	2.00	20,621			
Estimated net effect of change in investment	(\$14,566)	20,621	(\$300,350,654)	(\$285,333,121)	(\$315,368,187)

Notes:

1. Assumes 12% annual increase in health insurance premiums
2. Assumes 45% of all Iowa business establishments offer some form of health insurance to employees
3. Assumes an "anticipated" set of adjustments, based on survey Q14

**Table 6.**  
**Summary of statewide effects**

<b>SUMMARY</b>	<b>Statewide Total</b>	<b>Low (-5%)</b>	<b>High (+5%)</b>
<b>(A) Profits: "Absorbing" the costs of HI</b>			
Net change in state business tax revenue	(\$13,463,086)	(\$12,789,932)	(\$14,136,241)
<b>(B) Prices: Attempting to pass on to consumers</b>			
Net change in state business tax revenue	(\$8,234,064)	(\$7,822,361)	(\$8,645,767)
Net change in revenue	(\$117,629,487)	(\$111,748,013)	(\$123,510,961)
<b>(C) Labor: Shift costs to employee</b>			
Change in state payroll tax revenue	(\$9,748,223)	(\$9,260,812)	(\$10,235,634)
Change in employee spending	(\$292,446,689)	(\$277,824,355)	(\$307,069,024)
Change in state sales tax revenue	(\$14,622,334)	(\$13,891,218)	(\$15,353,451)
<b>(C) Labor: Unable to hire</b>			
Change in state payroll tax revenue	(\$18,500,582)	(\$17,575,553)	(\$19,425,611)
Change in employee spending	(\$555,017,461)	(\$527,266,588)	(\$582,768,334)
Change in state sales tax revenue	(\$27,750,873)	(\$26,363,329)	(\$29,138,417)
<b>(D) Investment: Postponing growth</b>			
Estimated net effect of change in investment	(\$300,350,654)	(\$285,333,121)	(\$315,368,187)
<b>Total Effect on state revenue</b>	<b>(\$92,319,163)</b>	<b>(\$87,703,205)</b>	<b>(\$96,935,121)</b>
<b>Total Effect on private gross state product</b>	<b>(\$1,265,444,291)</b>	<b>(\$1,202,172,076)</b>	<b>(\$1,328,716,505)</b>
<b>TOTAL</b>	<b>(\$1,357,763,454)</b>	<b>(\$1,289,875,281)</b>	<b>(\$1,425,651,626)</b>

## Notes:

1. Assumes 12% annual increase in health insurance premiums
2. Assumes 45% of all Iowa business establishments offer some form of health insurance to employees
3. Assumes an "anticipated" set of adjustments, based on survey Q14

## APPENDIX III

## 2004 IOWA BUSINESS INTERVIEW SCRIPT

SELZER &amp; COMPANY

Name of Company	
Name of Person	
Phone number	
Date of Interview	

**Interviews with Iowa Business Council members**

Thanks.

We've conducted a survey of 1,003 Iowa businesses to understand what's happening with health insurance rates and how the company is making decisions about their own plan. Our approach is on the front line of the health insurance debate and the findings are getting national exposure.

I have a few questions that will help us better understand the issues at an individual company's level. You'll hear me typing to take notes. At the end, I'll ask about your permission to attribute your comments to you and your company. I don't envision I'll be asking for sensitive information, but sometimes you just never know.

1. First. The statewide average for health insurance premiums showed an increase of 15-20 percent last year. Do you have a rough idea of whether your premium went up, down, or stayed the same?
--

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2. What did you do about the increase?
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3. Of course, many companies do more than one thing. Let me read a list and just answer yes or no if your company did this or not.

- Absorb most of the cost
- Require employees to pay more of the premium than before
- Raise prices on the goods or services you sell
- Reduce or eliminate employee pay, in salary or bonuses
- Put off buying equipment or making other purchases
- Lay off some workers
- Put off hiring new workers or leave open positions unfilled
- Convert some workers to part-time to reduce the number of employees in the plan
- Live with lower profits for your company

Reduce or eliminate other employee benefits  
 Cut back on investments you would ordinarily make in the company for development of new products or services  
 Changed the policy so that it had a higher deductible or a higher co-pay.  
 If yes, was it still higher?

4. Can you give me an idea of the kind of issues that were debated as you were decided what to do about the increases?

5a. Do you have a rough idea of how much the company spends per year on health insurance?

5b. And, that's for how many insured lives?

5c. And, how many employees?

6a. Have you looked at or thought about different ways to deliver health insurance?

6b. HSAs are being introduced. Any thought on that?

7. One of the things we wonder about is how companies can plan their yearly budgets or make a five-year plan if they don't know what will happen with health insurance. Can you speak to that?

8. We also wonder if companies the size of yours think the state of Iowa could or should be doing something from a policy perspective that would help you deal with the cost and not have to devote so much attention and concern to health insurance?

9. We've been following with interest the comments of Bill Ford, III, chairman of Ford Motor Companies, who says the health insurance system in this country is broken and it will put his company out of business. He spends \$800 to \$1,300 per car on health insurance, something his competitors in Germany and Japan do not have to do—or at least it's not accounted for in the same way. We're curious whether other companies in other industries share his alarm or whether the expectation is that this is a minor blip on the curve and will take care of itself.

10. Our survey found that one of the common ways businesses handle rising insurance costs is to spend less on other things. We've worked with an economist to try to understand what the impact of that might be—health insurance is not subject to sales tax, so we wonder if this is shifting a significant amount of money out of state tax revenues. Any thoughts?

11. We're also wondering about how your company would have to adapt or change in any way if your health insurance rates were to go up 15 percent per year for the next five years—in effect, doubling.

12. We'll be presenting the findings of our study to Iowa's U.S. Senators and the Congressional delegation, in addition to some notables in the health care industry in June. Is there any message you would be interested in conveying?

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<sup>1</sup> The 2001 Iowa Survey of the Uninsured is a telephone survey of households in Iowa with at least one household member who is uninsured. The survey was administered in the winter of 2001. The survey was supplemented by a series of focus-group sessions with a broad range of uninsured persons throughout the state in addition to the survey of uninsured. The focus groups were designed to develop a better understanding of the reasons why individuals are without health coverage, their attitudes about health insurance, and the kinds of initiatives that could be effective in enabling these individuals to obtain coverage. The results are fully described in the Iowa 2001 Final Report to the Secretary.

<sup>2</sup> Funding for the ReThinking project has come from the Iowa Department of Economic Development, the Iowa Department of Public Health (IDPH), and from the HRSA State Planning Grant project.

<sup>3</sup> This portion of the project was provided by the Lewin Group (Lewin).

<sup>4</sup> This low rate of uninsured state residents, relative to the nation as a whole, reflects both the good fortune of a low rate of unemployment, 4.1% seasonally adjusted in March 2004 (tenth lowest in US), previous state health insurance reform initiatives, and a strong employer sponsored health insurance ethic. On the downside, there is some thought that the state may be experiencing a chronic labor shortage which limits the state's ability to grow its economy and generates little uninsured surplus labor.

<sup>5</sup> The margin of error for the main sample of all business decision makers statewide is plus or minus 3.5 percentage points. This means that if this survey were repeated using the same questions and methodology, 19 times out of 20, the findings would not vary from the percentages shown in this report by more than is plus or minus 3.5 percentage points.

<sup>6</sup> This material is taken from the "Notes on the Impact of Health Insurance Costs on Iowa Businesses," prepared for the ReThinking Health Insurance project by John Schneider, PhD, University of Iowa College of Public Health updated May 11, 2004.