



Economic Impact on Minnesota's Health Care Delivery System

*Joint Minnesota House Human Services Policy Committee
and Finance Division*

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Overview

1. Unemployment
2. Changing nature of private insurance
3. Hospitals first line of defense
4. Rural Impact
5. State and Federal Action
6. More recent data!

Caveats

1. Aggregate data on providers only through 2007
2. Most impact on health care in MN started mid-year in 2008 with aggregate data only available this time next year
3. Clear indications of down-turn in last quarter of 2008 as reflected by job cuts, program changes, drop in capital expenditures....2007 data should be viewed as positive buffer for what is happening NOW!

1. Unemployment will increase numbers of Uninsured

Minnesota Unemployment Rates

- Unemployment continues to increase
 - 4.5% in January of 2008
 - 6.9% in December 2008
- 55,400 jobs lost just in '08
- Largest unemployment rate since 1984



Source: MN Dept of Employment and Economic Development

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Health Care as Employment Sector

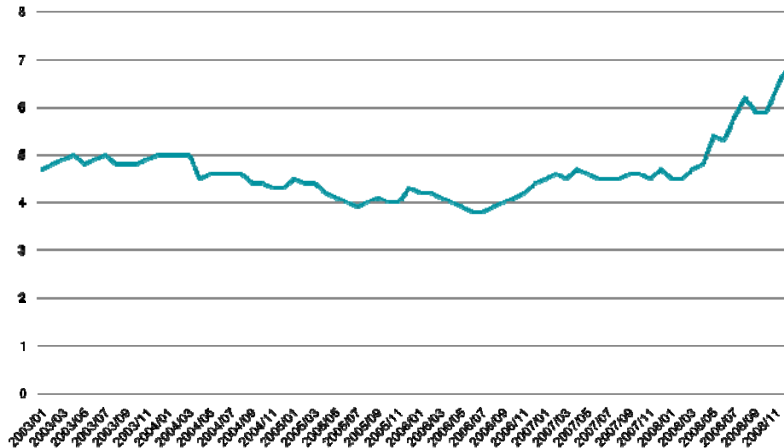
- Key employer in MN
 - *Over 20% of all non-farm employment*
- Educational and Health Care Services *added* 11,000 jobs over 2008
 - *Unemployment rates could have been worse*
- Recent evidence of job loss in health care industry



Source: MN Dept of Employment and Economic Development

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Minnesota Monthly Unemployment Rate 2003 - 2008

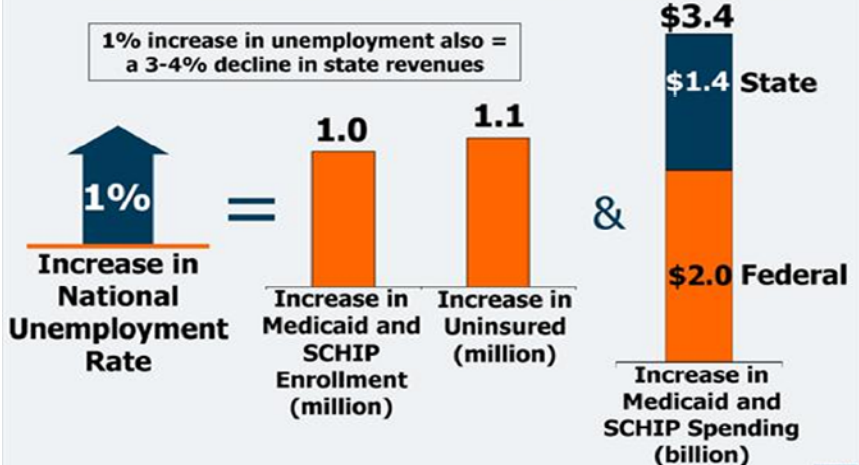


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Source: MN Dept of Employment and Economic Development

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Impact of Unemployment Growth on Medicaid and SCHIP and the Number Uninsured



Source: Stan Dorn, Bowen Garrett, John Holahan, and Aimee Williams, *Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses*, prepared for the Kaiser Commission on Medicaid and the Uninsured, April 2008

Kaiser Family Foundation

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Minnesota Implications: Urban Model

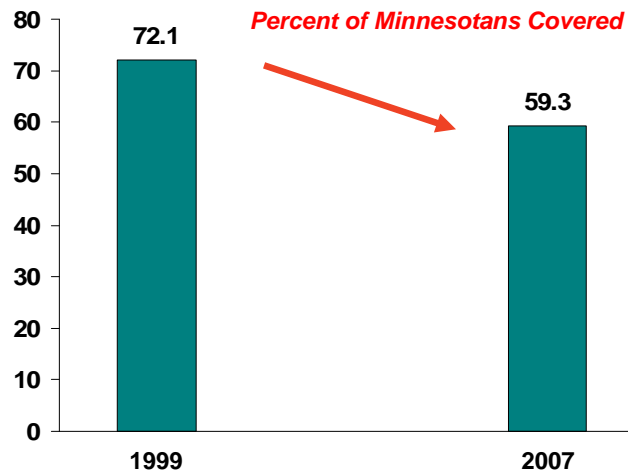
Due to 2.4 percent point increase in unemployment increase in one year

- Increase in number of uninsured: 6,355
- Increase in number on Medicaid/SCHIP: 6,201
- Potential increase in uninsured with strict cuts in Medicaid/SCHIP = 12,500

2. Changing Nature of Employer-Sponsored Coverage

- Drop in employer-sponsored coverage
- Increase in deductibles and high deductible plans
- More out-of-pocket spending for indiv and families

Drop in Employer-Based Coverage



Drop in Employer-Sponsored Coverage

- Increase demand in the individual market and on MCHA
- More uninsured
- Increase pressure on public programs for those with lower incomes

Increase in High Deductible Plans

- Higher OOP spending for both individual and family health insurance plans
- Result in delay in seeking care or foregone care
- Result in more uncompensated care if consumers cannot meet the deductible or do not have an HSA
- Leads to more less patient revenue and more bad debt for hospitals

Enrollment in HSA/HDHP Plans-Jan 2008

Highest States Enrollment

CA: 639,000
FL: 397,000
IL: 384,000
TX: 358,000
OH: 353,000
MN: 325,000

% of Private Coverage Under age 65

MN: 9.2%
LA: 9.0%
DC: 8.7%
VT: 7.5%
CO: 7.1

High Deductible Health Plans (US 2008)

Individual Policies

- Average Annual Deductible = \$2,046
- Average Annual OOP Limit = \$3,195
- Premium = \$3,185

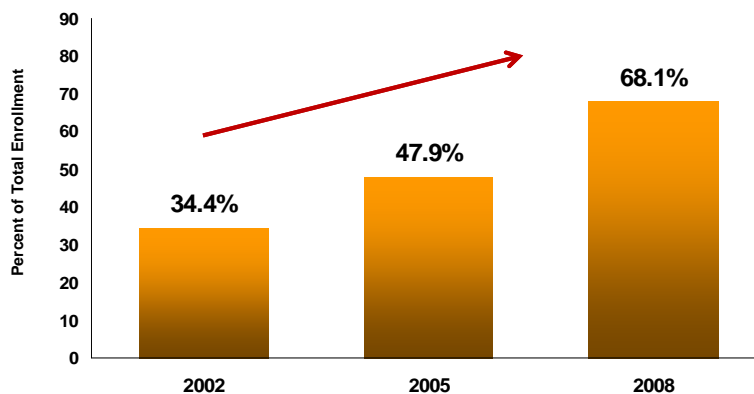
Family Policies

- Average Annual Deductible = \$3,998
- Average Annual OOP Limited = \$6,110
- Premium = \$8,241



Source: American Health Insurance Plans, April 2008

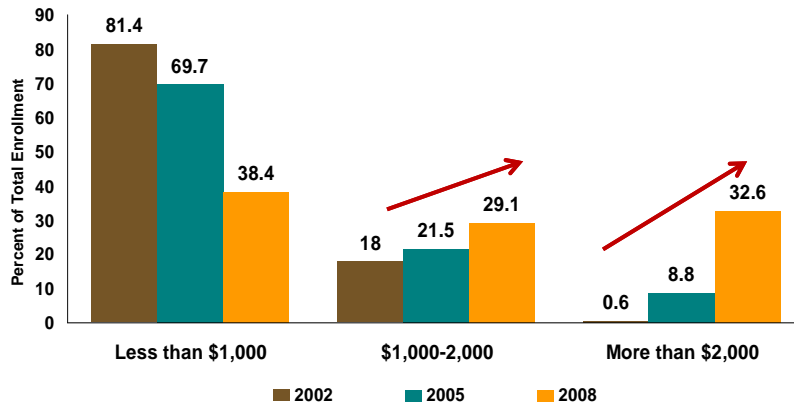
MN Small Group Market: Increase in Percent of Enrollees With a Deductible



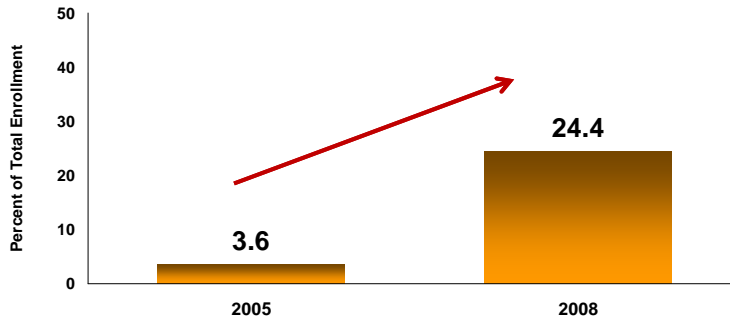
Source: MDH, Health Economics Program

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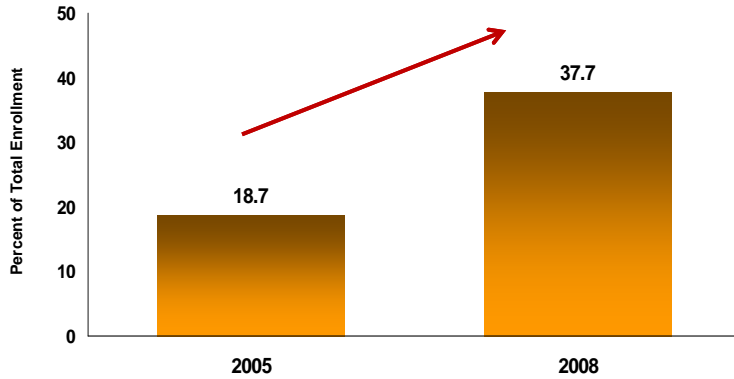
Distribution of Deductibles in MN Small Group Market



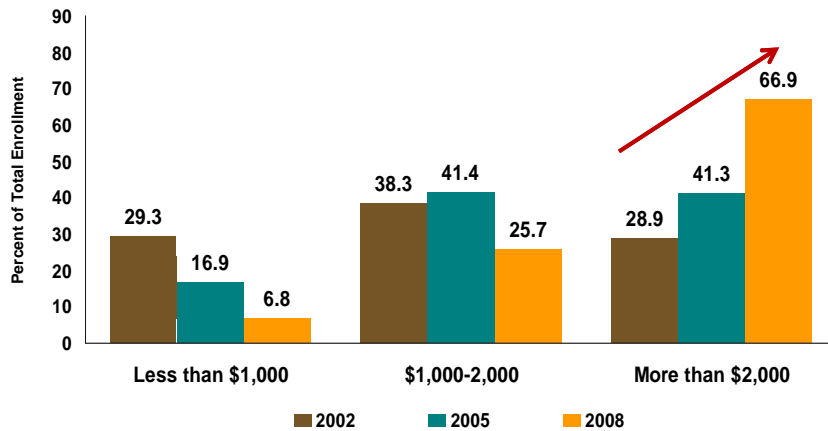
MN Small Group Market: High Deductible Health Plans with Savings Option



MN Individual Market: High Deductible Health Plans with Savings Option

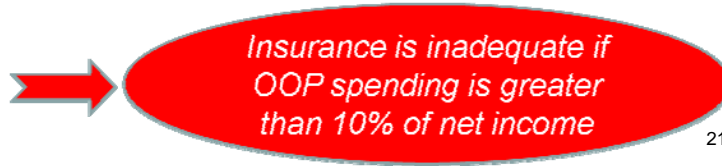


Distribution of Deductibles in MN Individual Market

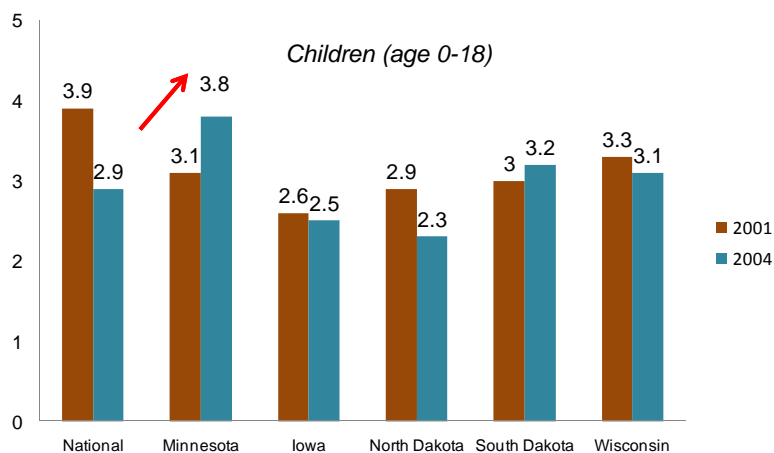


Increase in Numbers of Underinsured with Private Health Insurance Coverage

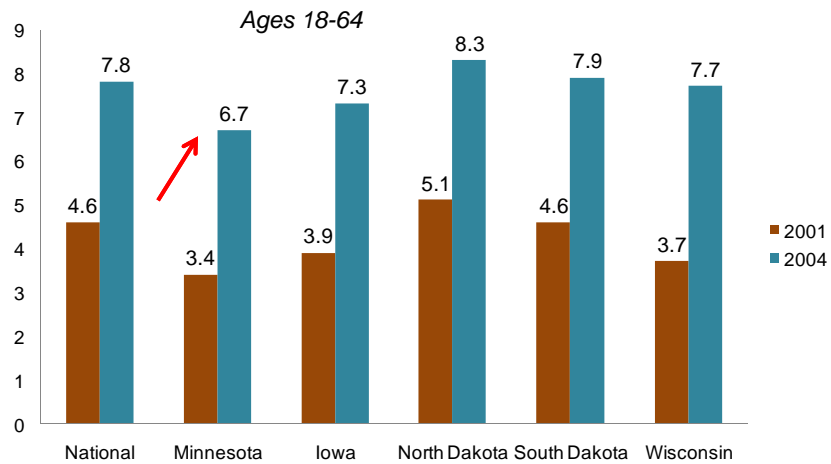
- The financial impact of a catastrophic illness on family income
- High out-of-pocket (OOP) expenditures, including coinsurance, copayments, and deductibles (*generally excludes premiums...*)
- Plans OOP costs that are so high they cause the beneficiary to delay or forgo care



Estimates of Out-of-Pocket Spending >10% of Household Income for Privately-Insured



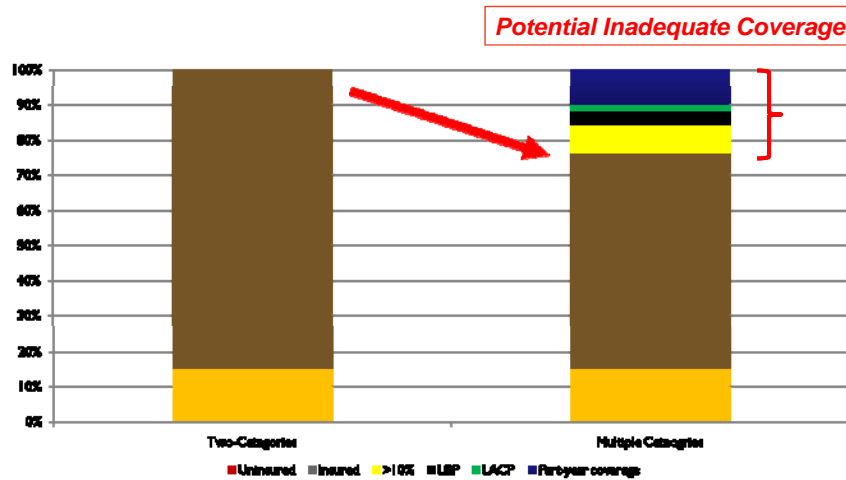
Estimates of Out-of-Pocket Spending >10% of Income for Privately Insured Adults



www.shadac.org

Source: Blewett et al., MCR in press, 2009

Monitoring Changing Nature of Private Health Insurance Coverage



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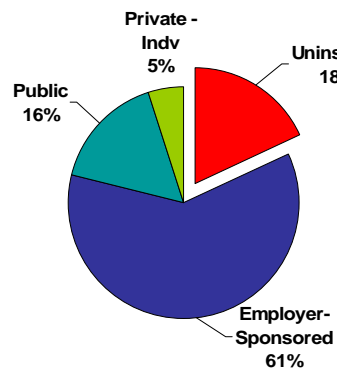
> 10% of Income on OOP costs; Limited Benefit Plans; Local Access to Care Programs

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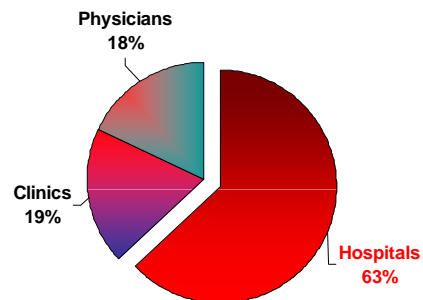
3. Impact on Hospitals – *early impact*

Hospitals provide the most free care

Distribution of Health Insurance Coverage



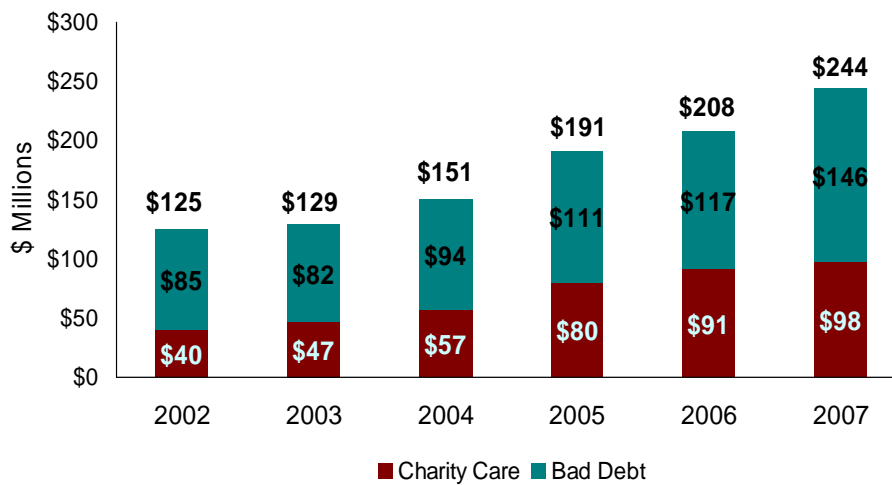
Percent of Uncompensated Care Costs by Provider Type



General Impact: Hospitals

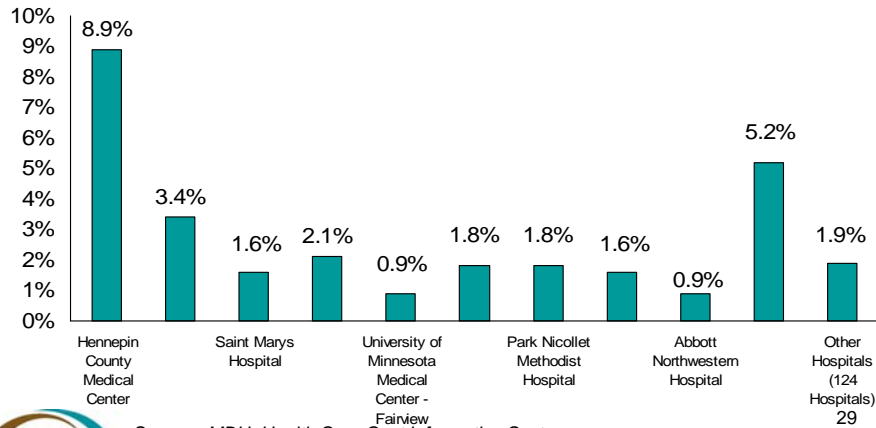
- Decrease in patient revenue
- More patients delaying or foregoing elective surgery due to high co-copayments/deductibles
- Increase in uncompensated care
- More uninsured working-age adults needed care but cannot pay
- Hospitals are key to care for the uninsured
- Increase in bad debt
- Increased cost of borrowing money, access to capital and loss in investment portfolio
- Loss in philanthropy

Minnesota Hospital Uncompensated Care: 2002 to 2007



Minnesota's Largest Providers of Hospital Uncompensated Care, 2007

Uncompensated Care as Percent of Hospital Operating Expenses



www.shadac.org

Source: MDH, Health Care Cost Information System

Financial Ratios At Minnesota Hospitals 1998 to 2007

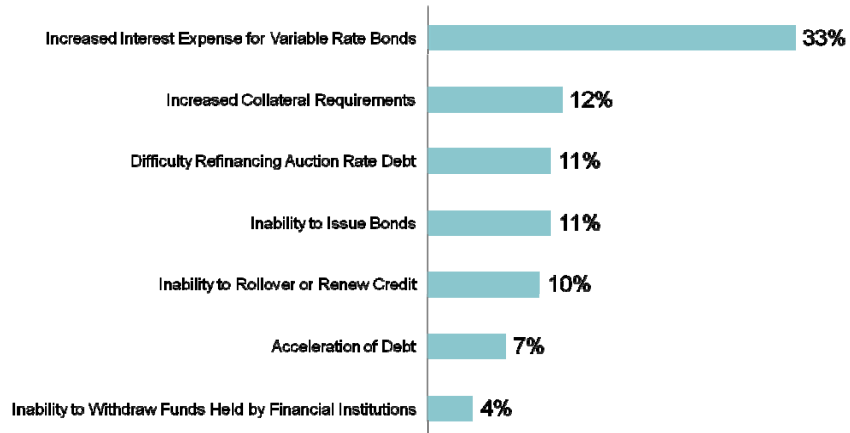


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Source: MDH, Health Care Cost Information System

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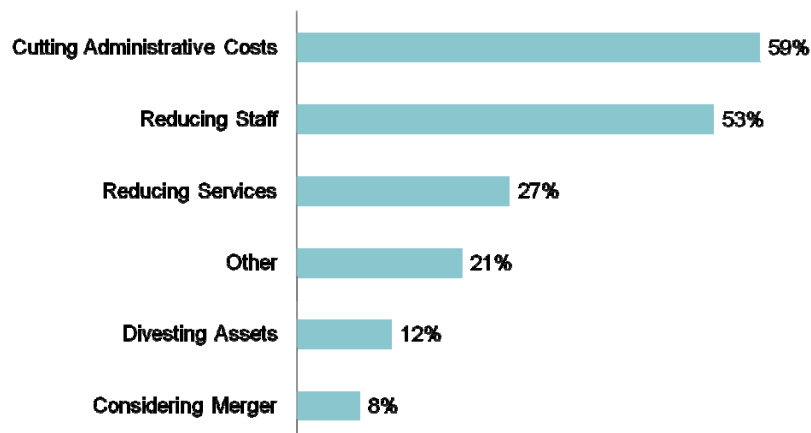
Percent of US Hospitals Reporting Various Effects of Credit Crisis, November 2008



Source: AHA (November 2008). Rapid Response Survey, *The Economic Crisis: Impact on Hospitals*

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US Hospitals Making or Considering Changes in Response to Economic Concerns, November 2008



Source: AHA (November 2008). Rapid Response Survey, *The Economic Crisis: Impact on Hospitals*

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4. Rural Health Care

Rural: Greater Impact in General

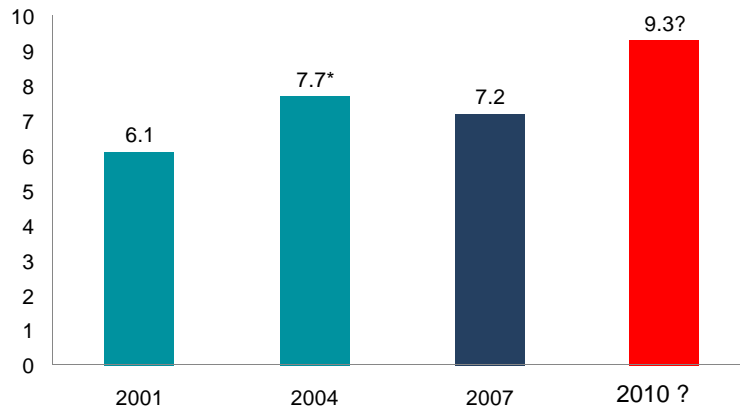
- Recession will hit harder in smaller rural communities
- More small employers, more pressure on costs and more uninsured
- Hospitals operating on a smaller revenue based\ and will have bigger impact when patient volumes decline
- Certain areas of the state facing higher rates of unemployment and uninsurance
- The safety net is fragile

5. State/Federal Budget/Health Policy

Estimated Impact on MN Uninsurance Rates

- 84,000 uninsured from proposed cuts
 - *more uninsured from cuts to MN public programs*
- Increase in the number of uninsured due to unemployment through 2008: 6,355-12,500
- Total potential increase if unemployment continues through 2009 at same rate:
 - 6355-12,500
- **Potential increase for 2010: 9.3%**
 - 483,000 Uninsured

Trends in MN uninsurance rates



Federal Stimulus Package

(1) 6.2 percentage point increase in the federal portion of FMAP for Medicaid

- MN at 50% would increase to 56.2%

(2) Additional reduction in the state's share of Medicaid costs based on the state's unemployment rate compared to a base period

Estimated that MN will receive \$2 billion in federal funding for Medicaid over 3 years (2009-11)

(3) Federal subsidy of COBRA

To be eligible, states cannot cut Current Medicaid eligibility levels...

6. Conclusion

The perfect storm may be brewing.....



Hennepin County Medical Center

From the Star Tribune
February 5, 2009

Even before factoring in the unknown costs of caring for newly uninsured people, the hospital would lose an estimated \$25 million in state funding during calendar year 2010 and perhaps as much as \$40 million over the biennium.

Those figures include matching federal dollars that would disappear because of the state cuts.

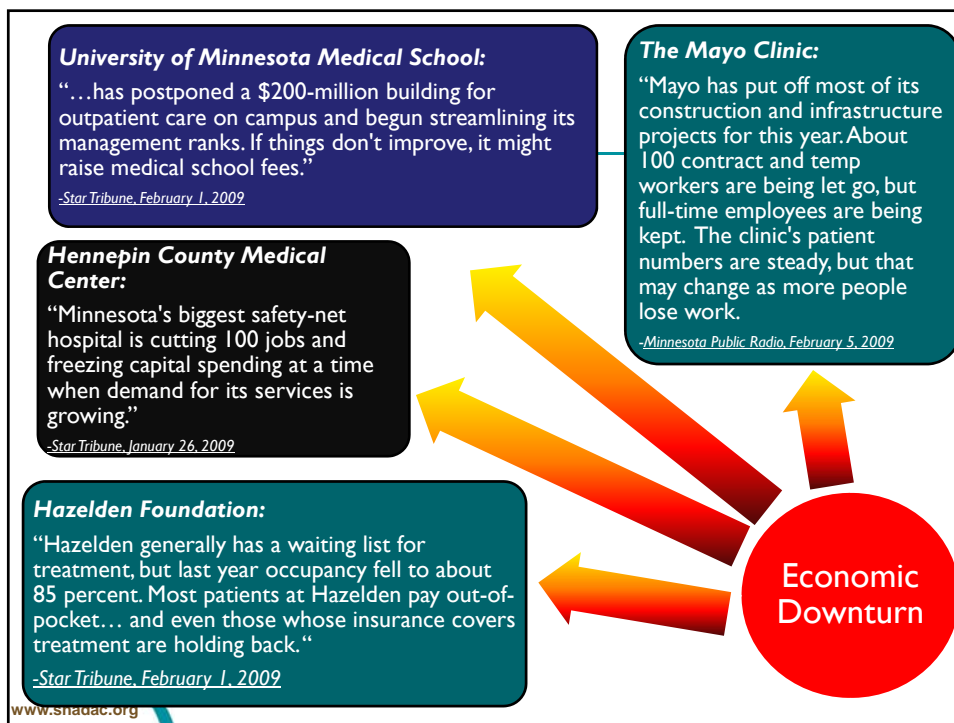
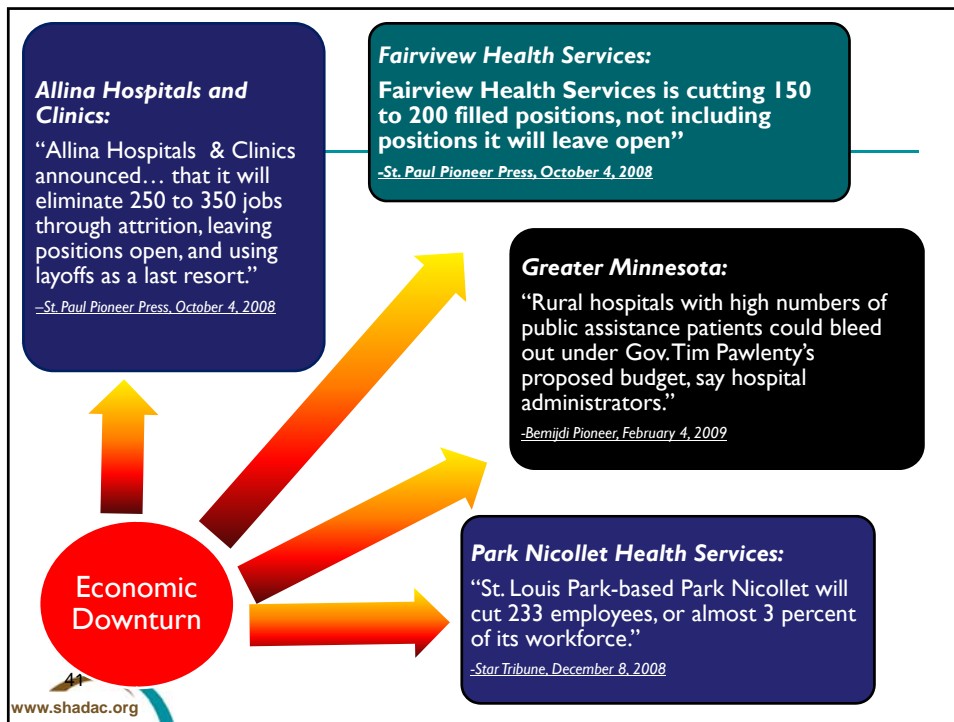
North Country Health Services

From the Bemidji Pioneer
February 4, 2009

There's no hospital in outstate Minnesota, outside the metro area, that has a higher relative Medicaid, Medical Assistance" caseload, according to NCHS President Jim Hanko.

Costs of community benefits rose from \$5.98 million in 2007 to \$7.5 million last year.

**Struggling
Hospitals in the
News**



Silver Lining

- Our good health insurance coverage and non-profit climate may have insulated us from early impact
- Crisis is a time for efficient, safe, and appropriate health care – no extra money to waste
- Push for more price and cost transparency
- Preserve the HCAF– your going to need it to meet targeted needs
- Time to think creatively and “outside the box”

Some Ideas

- Eliminate state tax subsidy for the purchase of health care policies
 - *Or to be fair add state tax credit for COBRA coverage*
- Use HCAF to subsidize COBRA coverage
 - *Possible add-on to federal stimulus subsidy*
- Use HCAF to help pay for increase in hospital uncompensated care
- Long-term – improve efficiency and increase savings for access expansions

Data and Research

- Monitor private health insurance coverage in terms of premiums, copays, deductibles and out-of-pocket payment
- Opportunity to right size the health care system by putting more money in primary care than hospital care
- Impact on rural health care system
- Monitor strength and stability of the safety net
- What is the right-sized system?

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