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[2005 Health Care Cost Quotient Rankings](#)

Health care costs are keeping business executives awake at night. According to a recent survey by accountant recruiter Robert Half Management Resources, the biggest concern for corporate executives during the next four years will be health care costs and health care in general.

A whopping 89 percent of the 1,400 chief financial officers surveyed ranked health care, including escalating costs for employee medical plans, as their biggest concern, easily topping energy costs, the federal budget deficit, government spending and other issues.

"Health care costs have a huge influence on a business that is expanding or relocating, and they have an impact on attracting and retaining good employees," said Ann Brown, chair of the National Association of Manufacturers' (NAM) Employee Benefits Committee, and co-owner of New Vista Image, a digital printer in Golden, Colo.

Even a blue-chip consumer brand like Starbucks is concerned about health care expenses.

Asked what the biggest challenge is to meeting his company's growth objectives, Howard Schultz, chairman of Seattle-based Starbucks Corp., said without a doubt it's health care costs.

"We just had to raise our prices for the first time in four years," he said. "That is primarily because of the rising cost of health insurance and also dairy prices. During the next two years, we will spend more for employee health care costs than we will for coffee. That's quite a statement."

Comments like these were reason enough for Expansion Management to examine health care costs, availability and quality in order to determine whether they varied enough from state to state to qualify as an important site location factor.

The data we uncovered proves that the answer is a resounding yes.

What we've come up with is our 2005 Health Care Cost Quotient™, the latest in our long line of "Quotient" studies, which include the Education

Quotient™, Logistics Quotient™, Quality of Life Quotient™, Legislative Quotient™ and High Value Labor Quotient™. This is the third year we've produced the Health Care Cost Quotient.

This year's top-ranked state in the Health Quotient is Kansas, followed by Tennessee, Louisiana, North Dakota and South Dakota. Among the top 20 finishers, the Midwest took top honors with nine states. Seven southern states finished in the top 20, while eastern and western regions each had two states. (For the rankings of all 50 states, see page 26.)

Businesses can expect a little relief this year on their worker health care expenses, predicted Joe Marlowe, senior vice president for Aon Consulting of Conshohocken, Pa.

"We are seeing some moderation in costs, pretty much across the U.S.," Marlowe said. "In 2005, employers can expect to see their health care costs increase in the range of 8 percent to 12 percent, which would be a reduction from the 2004 experience, when costs were growing at an average around 15 percent."

Eric Parmenter, senior manager and practice leader for compensation and benefit consulting for Grant Thornton LLP in Chicago, echoed those sentiments.

"Employer-sponsored health benefit costs will rise at an 8 percent national rate in 2005," Parmenter said. "Although the trend is slowing somewhat compared with the double-digit increases of the past few years, many employers will take little comfort in an 8 percent increase."

Parmenter's estimate matches up with projections in the 2005 Towers Perrin Health Care Cost Survey, which predicts an 8 percent increase in health care costs for employers in 2005.

"[This year] represents the first significant break in the double-digit cost spiral in [more than] a half-decade," according to the report. "But before employers and employees rejoice, closer analysis reveals that, dollar for dollar, the cost increase in 2005, at an average of \$582 per employee, is still unsustainable for most employers."

The Major Categories

The Health Care Cost Quotient is based on data grouped into five major categories: health care facilities, health care providers, health insurance costs, health care provider visit costs and malpractice costs.

Cost-related factors were given the greatest weight, given the fact that the study looks at health care costs from the employer's perspective.

Out-of-pocket costs for worker health insurance may be the most important measure for employers in the equation. Therefore, we went to the Agency for Healthcare Research and Quality (AHRQ), an agency of the U.S. Department of Health and Human Services, and used its Medical Expenditure Panel Survey as a guide to employer health insurance costs. We used statistics from AHRQ's Employer-Sponsored Health Insurance Data as our chief source.

States were ranked on both the average amount employers paid for single premium coverage per enrolled worker and the average total employee contribution for single health coverage. The AHRQ data was released in July.

To get a feel for the typical cost of a visit to a health care provider, we relied on health care cost data for the states from the ACCRA Cost of Living Index (third quarter, 2004).

We ranked states based on the

ACCRA's average cost data for patient visits to each of the following: doctor, dentist and optometrist. (ACCRA was formerly the American Chamber of Commerce Researchers Association.)

One organization that is working to minimize health care cost hikes is the National Business Coalition on Health (NBCH). This group has about 80 employer-based health care coalitions as members. NBCH and its member-coalitions advocate value-based purchasing of health care services by public and private employers.

The Health Care Cost Quotient included state-by-state counts of NBCH coalitions in its calculations, since these groups play a critical role in controlling the health care cost spiral.

"Businesses bear the brunt of health care costs, and in many cases, they just don't have the leverage or in-house expertise to help make the necessary changes in the health care system," said Donna Marshall, executive director of the Colorado Business Group on Health, a member of NBCH.

The 19 member-employers of the Colorado Business Group offer health insurance coverage and other benefits to 225,000 workers and dependents.

With skyrocketing medical malpractice premiums in the news on an almost-daily basis, we added two key malpractice measures in our state rankings: average medical malpractice premiums paid per doctor and how states stack up in the American Medical Association's (AMA) latest Medical Liability Crisis rating.

Sources for this data included the 2004 Insurance Fact Book from the Insurance Information Institute, the U.S. Census Bureau and the AMA.

"Medical malpractice premiums need to be addressed so employer health care costs can be minimized," said James Tunnell, vice president of policy and operations for the Arizona Association of Industries, which represents more than 100 manufacturers.

The Arizona Association of Industries will support efforts by the Arizona Medical Association to put an issue on the 2006 ballot that would place caps on medical malpractice awards.

Those efforts aren't coming a moment too soon. Arizona's average malpractice premium per doctor is one of the highest in the country.

Another state with a heavy bill for medical malpractice premiums is Mississippi, which ranked No. 47 for average malpractice premium paid per doctor.

But the state is moving forward on the malpractice front, according to Jay C. Moon, president of the Mississippi Manufacturers Association.

"We passed significant legislation at a special session two years ago that dealt almost exclusively with the medical side of the malpractice issue," Moon said.

To get an overall feel for the availability of health care providers, we looked at such yardsticks as the number of active non-federal physicians and nurses per 100,000 population.

Sources of the data included the AMA, U.S. Department of Health and Human Services' Health Resources and Services Administration, the U.S. Census Bureau and the Statistical Abstract of the United States: 2004-2005.

Finally, we tried to answer the broad question most employers ask themselves: Are the health care facilities adequate at a prospective location for their work force?

In addition to considering such basic data as the number of hospital beds per 100,000 population, we also considered the number of top-notch health care facilities from U.S. News & World Reports' Best Hospitals list and Solucient's Top 100 Hospitals list.

Tennessee, which ranked No. 2 in the Health Care Cost Quotient, has a wealth of well-regarded health care facilities and health resources.

"We have been health care innovators with leading organizations such as HCA and Vanderbilt providing strong business, research and management resources to our state," said Matthew Kisber, commissioner of the Tennessee Department of Economic and Community Development. "We have a governor [Phil Bredesen] who has a strong entrepreneurial background in the health care industry and fully understands its importance in business development and retention efforts."

We also included state rankings from Morgan Quitno's 12th annual "Healthiest State Award" to round out the Health Quotient calculations. **A**

Business Perspective

One manufacturing executive who wasn't surprised by Iowa's strong showing (No. 8) in the Health Care Cost Quotient is Ken Kneen, CEO of Al-jon Inc. of Ottumwa, Iowa. Al-jon, which employs 110 workers, builds heavy equipment used for scrap and solid waste processing.

"We've got a lot going for us, including a low percentage of children living in poverty, a low rate of uninsured families, and there's high access to prenatal care," said Kneen, who also serves on the NAM board of directors.

Kneen urged executives to make sure their workers buy into the company's health care plan.

If Al-jon employees participate fully in the company's wellness program, and they are considered well by the program, the company will pay nearly 98 percent of employees' insurance premiums.

For employees that don't participate, Al-jon has frozen its payout to 100 percent of January 1997 dollars, and employees are required to make up the difference.

"There's quite an incentive for [employees] to participate," Kneen said. "I think efforts like these will do more to keep our health care costs down than any government program."

Some businesses view a robust health benefit plan for their workers as an important recruiting tool.

"Establishing comprehensive, affordable health care as a key employment benefit for our full- and part-time retail hourly work force is one of Starbucks proudest accomplishments," Schultz said. "By providing a health benefit, Starbucks is able to reduce turnover, attract higher-quality applicants and ultimately foster a more fulfilled, productive partner."

The timing for the Health Care Cost Quotient couldn't be better.

"We find that many employers are starting to realize that health care and worker health benefits are really a core business issue and not just an HR issue," said Bern Shen, a physician who is director of the health program at the Institute for the Future, a Palo Alto, Calif.,-based forecasting think tank.

Shen sees even greater challenges down the road.

"Obviously, we are faced with the boomer bulge hitting the health care system at the very same time that nurses, in particular, will be aging out of the work force," he said. "We are also seeing a fraying of the safety net with both Medicare and Social Security looking more insolvent as time goes on."

With costs expected to continue to rise well above the rate of inflation, health care costs are becoming an increasingly important factor for business executives looking for the best location for their next manufacturing or service sector facility.

States that do nothing to bring the cost of health care under control will soon find that, like high taxes and a Byzantine regulatory environment, unwieldy health care costs will soon be driving businesses to neighboring states.

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