



What a drag it is...

The Economic Impacts of Rising Health Insurance Premiums



Anne Kinzel, State Planning Grant Director

July 2004

Acknowledgments

The Iowa Department of Public Health, the Iowa Department of Economic Development, and the Health Resources and Services Administration of the U.S. Department of Health and Human Resources State Planning Grant Program (www.hrsa.gov/osp/stateplanning), generously funded the “*What a Drag*” Study”. I am deeply grateful for the financial support provided by the IDPH Bureau of Health Care Access and Bureau Chief Doreen Chamberlin.

Ann Selzer, PhD, of Selzer & Co. conducted the *Iowa Business Survey* and *Iowa Business Interviews*. John Schneider, PhD, of the University of Iowa College of Public Health performed the economic analysis of the survey data. This study could not have been completed without their expertise and professionalism and the ‘championing’ of our work by Iowa Department of Public Health Director Mary Mincer Hansen.

Anne Kinzel
July 2004

**DEPARTMENT OF PUBLIC HEALTH
BUSINESS SURVEY REPORT
OVERVIEW**

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.

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.

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.

A main goal of this study was to test how open business decision-makers might be to different approaches to health insurance. We find majority support for most ideas tested an indication that Iowa businesses see a need for change.

KEY FINDINGS

The Mood of Iowa Business

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 give no clear majority opinion; 46% say the nation is headed in the right direction and 45% of businesses say the nation has gotten off on the wrong track. More pessimistic are the 53% of businesses who say that the direction of the state has gotten off on the wrong track; only 35% say that the state is headed in the right direction.

When comparing their last year's financial situation, more companies (43%) say their financial outlook is staying the same. However, there is no majority opinion and businesses throughout the state find themselves going all directions, from those who say they are improving (35%) to those who say that their financial situation is getting worse (21%).

Though businesses are more likely to report that their financial situation is improving (35%) than declining (21%), most say they don't plan to hire more employees in the upcoming year. Almost three-quarters (72%) of businesses say that they intend to keep the same number of employees they currently have. Only 18% say they plan to add employees in the next year and 7% say they will most likely downsize the number of employees they have.

The 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, 82% of Iowa businesses that offer health insurance (35% of all businesses interviewed) say their premiums have increased an average of 14.75% (the median is 11.86%).

Half of businesses that offer health insurance (50%) pay the entire premium for their employees' policies. Another 45% of businesses pay 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% of Iowa businesses that offer health insurance say they took the hit of recent increases on their bottom line. About half (48%) say they lived with lower profits as a consequence.

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

Few businesses have reacted by burdening employees. While one in four (25%) required employees to pay more of their premium than before, very few laid off workers (2%), reduced or eliminated other employees benefits (6%), converted some worked to part-time (6%), reduced employee pay in the form of salaries or bonuses (10%), or put off hiring new workers or left positions unfilled (12%).

However, if premiums continue to rise at the same rate as they have recently, employers may be forced to look to employees for increased contributions. A majority of Iowa businesses (58%) say they will require 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 cost (57%), and live with lower profits (54%). But employees will feel more pain as more companies react by laying off workers (15%), reducing or eliminating other employees benefits (32%), converting some worked to part-time (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%) say they are using contract workers instead of hiring because of health insurance costs.

Almost half (44%) say they will also look to raise prices on the goods and services they sell to address rising insurance costs, double the percentage who say they have done this in recent years as a consequence of large increases in premiums (21%).

Table 1. Actions Businesses Have Taken In Response to Rising Health Insurance Premiums	Recently (%)	In Near Future (%)
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

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 are more likely to say they dealt with past increases in health insurance costs by living with lower profits (59% compared to the overall average of 48%). That will continue if costs continue to rise; 67% say they will absorb future costs, higher than the overall average of 54%. However, they are also more likely to say they will reduce or eliminate other employee benefits (44% compared to the overall average of 32%).

Interpretation

Embedded in these data is a conflict between employers taking care of their employees and giving heed to the need 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. That means relationships are more personal. Business owners are likely reluctant to lower, 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. As importantly, it 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 say they foresee a time within the next five (15%) or ten years (19%) when their company can no longer offer health insurance. Huge majorities, however, say the prognosis for the business is grim unless costs level off:

- ♦ 92% agree companies are being hurt by the cost of health insurance;
- ♦ 55% say their companies are not as financially successful as it could be because of what's happened with health insurance, and
- ♦ 79% say 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% agree they are hindered from planning because they don't know what to expect with health insurance costs. Forty-two percent (42%) agree they could expand their companies if health insurance costs weren't a concern. And, one in four (27%) say they would probably hire more employees if health insurance were not as expensive.

There is a personal stake as well. Forty-four percent (44%) say 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 say 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 as a C corp), is paying less in state income tax.
- ♦ Iowa companies are putting off buying equipment and making other investments that would help the company develop 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. That will make them less competitive—certainly than 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% 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 dramatically rising costs that go with offering health insurance. That is, unless they set it up 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.

Solutions

Businesses believe in the payback of offering health insurance. A majority of 60% say their employees are more productive on the job because they have health insurance and half (51%) say 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%), have 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%) report they are committed to their current health care plan, 39% say they are

open to some other option or arrangement. Businesses show support a change through attitudes revealed in this survey:

- ◆ A strong majority of 79% of businesses that offer health insurance agree that 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.
- ◆ Two in three (66%) agree government programs are not doing all they could, as there are still many without health insurance in Iowa.

Asked whether they favor or oppose some specific changes in the way companies buy and pay for health insurance, a majority of companies that offer health insurance all five tested changes.

Table. 2 Reaction to Selected Changes in Health Insurance Delivery	Favor %	Oppose %	Not Sure %
Money individuals spend to buy their own health insurance would not be taxed, as it is now	84	8	8
Offer health insurance now	88	8	4
Do not offer health insurance	85	7	8
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	56	33	11
Offer health insurance now	65	25	10
Do not offer health insurance	52	39	9
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	52	38	10
Offer health insurance now	60	36	4
Do not offer health insurance	49	41	10
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	54	33	13
Offer health insurance now	55	36	9
Do not offer health insurance	54	33	13
The government would help low-income individuals buy catastrophic insurance and pay medical expenses. This would replace the current Medicaid program.	48	33	19
Offer health insurance now	53	29	18
Do not offer health insurance	47	36	17

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 postulates 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 lowans 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 lowans get help if needed.

The key concept, businesses were told, is to help businesses stabilize costs while still provide a genuine benefit for employees.

A full 57% of all businesses say they think their company would be better off in a system like this, compared to what they have now. This includes 68% of those who currently offer health insurance and 53% of those who do not currently have a health care plan.

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, indeed, 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 Public Health department shows a 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 (though a small “premium tax” is assessed). When

companies have less profit, they pay less in corporate income 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. By way of comparison, the state's Department of Agriculture received \$43 million in state funding.

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% say they are likely to add employees within the next year, compared to 17% of businesses that are at least 10 years old). But their struggle with health insurance is taking a greater toll. Two in three (66%) say 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% say they have asked employees to pay more as premiums have increased, compared to 27% 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).

One more red flag among younger companies: They are less likely than older companies to report seeing the value of health insurance. Just 41% agree they see a good return on the investment they make in health insurance, compared to 53% 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 openness to doing things differently; the direction of evolution in attitudes toward health insurance favors change.

Mahaska County. This industrial-based county of about 10,000 households was the focus of additional attention in this study, in addition to 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 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.

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 is a similar sense of optimism in the way the way businesses describe their current state of affairs and they are reacting 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 are more likely to say the company's financial situation is getting worse (27%, compared to the average of 21%); and they are less likely to say they will be adding employees in the next year (11%, compared to 18%).

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 are as likely as average to say they absorbed most of the cost of increases in the past few years, they are notably less likely to say they'll take that tack if the rate of increase persists (36% of Mahaska County businesses say they will absorb most of the cost, compared to 57% overall). They are also more likely to say they will cut back on development for new products and services (55%, compared to 39% overall) if costs continue to rise as they have been.

On virtually every other indicator, however, Mahaska County looks 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.

Next Steps

The next study will help shore up the economic impact of rising health insurance rates from the consumer point of view. Even if rates increase 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 this next piece of 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.

IOWA BUSINESS SURVEY BUSINESS INTERVIEWS

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 Mahaska County businesses who had participated in the previous Iowa Business Survey conducted by Selzer & Company in March of 2004, entitled "Economic Analysis of Health Insurance on Iowa Businesses."

For the Mahaska County interviews, the purpose of the study 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.

OVERVIEW

These interviews confirmed what the March 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 say 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.

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% increase over 2002. That’s about the same increase as we’ve seen. In 2001, it was quite a bit higher—20%.”

“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."

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% 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 on-site 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%."

Reactions to our economic analysis. 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% 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."

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.