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HEALTH CARE IN HAWAII

Implications for National Reform

Statement of Mark V. Nadel, Associate Director
National and Public Health Issues
Health, Education, and Human Services Division

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SUMMARY

Health care reform has risen to the top of the national domestic policy agenda and many observers have cited Hawaii's health insurance system as a possible model for the nation. For almost 20 years Hawaii has been a leader in the effort to achieve universal access to health insurance. It is the only state that requires employers to provide health insurance for their employees, and it has public programs to provide coverage to residents not insured through the employer mandate.

Hawaii has the highest level of insurance coverage of any state in the nation. Estimates of the percentage of Hawaii's residents lacking health insurance in 1991 ranged from 3.75 to 7.0 percent in comparison with the national average of 14 percent. Nevertheless, Hawaii's employer mandate and government programs do not ensure coverage for everyone in the state. Further, some residents with insurance encounter problems obtaining access to health services and need community health centers and other safety-net programs. For example, private providers are not always willing to serve Medicaid patients.

Hawaii has experienced the same trend of rising costs as the rest of the nation. From 1972 to 1991, Hawaii's annual per capita health care expenditure generally matched the national average. However, health insurance premiums are lower than in the nation as a whole and in the last decade have risen more slowly in Hawaii than nationally. GAO identified two factors that contribute to lower premiums in Hawaii: reduced cost shifting and insurance companies' use of modified community rating for small businesses.

Hawaii's requirement that employers provide health insurance has not resulted in large disruptions in Hawaii's small business sector. Business owners, however, have expressed concern about the cost and inflexibility of the employer mandate. Hawaii's successful implementation of employer-based health coverage may have been helped by a set of favorable circumstances, such as the large number of employers already providing health insurance at the time the mandate took effect. Thus, if a national employer mandate is adopted, Hawaii's experience might not be replicated throughout the country.

35 hours per week has been lower than or comparable to the average for the nation over the past several years.[7]

More than three-fourths of the small businesses surveyed reported that the mandate has had little or no effect on employment levels, salaries, or other benefits. Nonetheless, about one-fifth of the small businesses said that they had hired workers who already had insurance through a spouse or another employer to avoid the cost of insuring that worker.

Business leaders we interviewed said that because of Hawaii's low unemployment rate--below 5 percent in July 1993--employers would offer health insurance without the employer mandate to compete for qualified workers. A large number of employees may have already been insured when the employer mandate took effect, as neither of the major insurers experienced unusually large enrollment increases at that time, according to insurance officials. However, the mandate may be preventing some employers from dropping health insurance coverage, particularly during economic downturns.

The business leaders we interviewed had two complaints related to the inflexibility of the health insurance mandate. First, they were unhappy about the current cap on required employee contributions. This cap--1.5 percent of gross pay--results in employers paying most of the health insurance premiums, with some employers opting to pay the entire premium. Second, since passage of the 1974 act, five new mandated benefits have been included in the state insurance code,[8] and businesses are concerned about what they regard as an escalating trend of new mandated benefits.

IMPLICATIONS FOR HEALTH CARE REFORM

Hawaii's experience offers three lessons:

-- In Hawaii, the one state with an employer mandate, the mandate did not have a large adverse impact in the small business sector. However, factors unique to Hawaii may have contributed to this outcome. For example, Hawaii may have started with a higher percentage of insured individuals than the country has now. Additionally, at the time Hawaii

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[7]The Bureau of Labor Statistics reported that in 1992, 18.2 percent of Hawaii's work force was employed fewer than 35 hours per week, compared with 19.2 percent nationwide.

[8]These benefits are well-baby care, in vitro fertilization, mammogram screening, mental health and substance abuse treatment, and newborn adoptee coverage.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to testify on our recently released report on health care in Hawaii.[1] Hawaii has been a leader in the effort to achieve universal access to health insurance. It is the only state that mandates employers to provide a minimum set of health insurance benefits to employees, and its public programs extend coverage to many residents without employment-based insurance. Hawaii officials and other observers have suggested that Hawaii's system provides a model for health care reform for the nation.

There are three key findings I would like to highlight. First, Hawaii's employer mandate did not have a large adverse impact in the small-business sector. Second, while Hawaii's system of near-universal access has resulted in lower health premiums, its per capita health care costs have risen at a rate similar to the national average. Finally, Hawaii's experience indicates that an employer mandate by itself will not necessarily result in universal access to health care.

Before I present the details of the results from our recent report describing Hawaii's experience, let me first provide some background information on Hawaii's system.

BACKGROUND

Hawaii is the only state to require employers to provide health insurance to their workers.[2] Under Hawaii's 1974 Prepaid Health Care Act, employers and employees share the cost of employee health insurance premiums. The employee's contribution is limited to half the premium cost or 1.5 percent of the employee's gross wages, whichever is less. In 1991, a worker earning the average annual wage of $24,128 would have paid at most $30 per month, or about one-third of the premium cost for individual coverage under a small business policy. Under the act, employees must elect the insurance unless they have comparable coverage from another source or waive coverage for religious reasons.

Individuals in Hawaii without employer-sponsored health insurance may be eligible for coverage under Medicaid or the

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[1]Health Care in Hawaii: Implications for National Reform (GAO/HEHS-94-68, Feb. 11, 1994).

[2]The Employee Retirement Income Security Act of 1974 preempts state authority to regulate certain self-insured employer health plans. Hawaii is the only state to have a limited exemption from this act.

Without mandated employer-sponsored health insurance, these individuals may choose to go without insurance coverage.

Even with health insurance coverage, some residents in Hawaii have difficulty obtaining health care services because of limited provider availability, especially on the outer islands, or a limited willingness on the part of providers to serve Medicaid patients. State officials told us that they hoped the new Hawaii Health QUEST project will improve access to care by increasing the compensation for care for lower-income residents and improving the availability of care on all the islands.

To some extent, people who cannot obtain care from private providers may receive care from community health centers. These state and federally supported nonprofit centers are designed to provide direct services to hard-to-reach populations, such as the homeless, and those without the ability to pay. These centers also provide some services, such as language capabilities and outreach to the homeless, that are generally not available from private providers.

OVERALL COSTS PARALLEL NATIONAL TREND BUT PREMIUMS ARE LOWER

The cost experience in Hawaii is seemingly anomalous because, while per capita health care costs in Hawaii are close to the rest of the nation's, insurance premiums are lower in Hawaii. The Prepaid Health Care Act was intended to expand access to coverage, but it did not include explicit efforts to control health care costs. Between 1980 and 1991, per capita expenditures for hospitals, physicians, and prescription drugs increased at an average annual rate of 9.8 percent in Hawaii and 9.4 percent in the nation as a whole.

By contrast, health insurance premiums are lower in Hawaii than in the nation as a whole. In 1991, annual premiums for three of the most prevalent health plans in Hawaii--one large-business plan and two small-business plans--were almost $400 lower than the U.S. average cost of $1,604 for comparable coverage. Unlike most other states, premiums for small businesses in Hawaii are generally not much different from those for large businesses. We also found that health insurance premiums are increasing at a slower rate in Hawaii than in the nation as a whole.

Several factors may contribute to Hawaii's lower premium costs. One is the reduced amount of cost shifting to private insurance to pay the cost of care for uninsured individuals. In addition, because eligible employees are required to accept health insurance, costs are spread over a wider risk pool, including both healthy and less healthy people. Another factor that may lower costs for some employers is the major insurers'

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