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Contact Ellen Berlin, Weber Shandwick
617-520-7115
eberlin@webershandwick.com

High Stakes for Companies and Workers as Massachusetts Seeks to Tame Health Care Costs
Even Modest Reductions in Growth Would Yield Major Benefits to the Economy

BOSTON – April 26, 2012 – A study by a leading health care economist concludes that if health care costs in Massachusetts grow more slowly than projected, workers could pocket as much as an extra $9,200 in take-home pay between 2011 and 2019. Over the same period, Massachusetts employers could save up to $34.5 billion in premium payments and preserve an additional $4.1 billion to invest in jobs and profits — all of which would otherwise be lost to rising health care costs.

The study, *Benefits of Slower Health Care Cost Growth for Massachusetts Employees and Employers*, was commissioned by the Blue Cross Blue Shield of Massachusetts Foundation and conducted by MIT economist Jonathan Gruber with research assistance from Ian Perry. The authors used a simulation model for Massachusetts businesses to estimate the impact of health care cost inflation on total employer health spending, employee wages, workforce investments, and employers' profitability for 2011 to 2019.

"This important study shows just how much is at stake for individuals, families, businesses, and the entire Commonwealth. We hope it will be a further catalyst for meaningful action to control the growth in health care costs," said Sarah Iselin, the Foundation's president. "The recent news about lower premium increases in Massachusetts is certainly encouraging, but we still have a long way to go before we can feel confident that our health care system is producing sustainable improvements in access, quality, and affordability for everyone."

In the face of rising health insurance costs, studies find, employers tend to reduce or blunt the rise of employee wages as well as offer less generous insurance coverage. But employers cannot pass along all the increased costs of health insurance as decreased wages and benefits. Any additional costs must be offset either by cutting jobs or by accepting lower business profits. Gruber and Perry find that if health insurance premiums in Massachusetts continue to grow at the projected rate of 6% over 2011–2019, employer spending on premiums will nearly double, Massachusetts employees will lose $61 billion in compensation, and employers will have to offset an additional $9 billion in costs, either through layoffs or reductions in profits.

However, if costs were to rise more slowly, both employees and employers would see significant benefits:

- Lowering the health insurance premium growth rate by **just one percentage point** (to 5% a year) over 2011–2019 would save $7.8 billion in employee take-home pay, or about $2,000 per worker over this period; it would also reduce employer sponsored insurance (ESI) spending by $10 billion and save another $1 billion for workforce investments and business profits.
- If health premiums were to rise at 4% per year, close to the **expected growth in the gross state product (GSP)**, workers would take home $5,800 more in pay, and employers would save $21.5 billion on premiums and an additional $2.6 billion to invest in jobs and or reap in profits.
- Under the most aggressive cost-saving scenario, in which health insurance premiums grow at just 2% per year, or about **1.5 percentage points less than projected per capita GSP**, employees would see an additional $9,200 in compensation, and employers would save $34.5 billion in ESI costs and preserve $4.1 billion in workforce investments and profits that would otherwise be eroded by the rising costs of health care.

The report's authors also point out that state and local governments would be major beneficiaries of lower growth in health insurance premiums. "Government would benefit not only from lower expenditures on their largest and fastest-growing budget items but also from the higher tax revenues that would result from higher wages, employment, and corporate profits," they write. Unless action is taken, they warn, "health insurance coverage will erode, workers' wages will stagnate, and employers will have fewer resources to invest in growing and strengthening the greater Massachusetts economy."

<u>About the Research</u>
The authors' findings were arrived at using the Gruber Microsimulation Model (GMSIM), which has been developed over the past 12 years to capture the responses of employers and individuals to changes in the health insurance environment. Dr. Gruber is a professor of economics at the Massachusetts Institute of Technology and directs the Health Care Program at the National Bureau of Economic Research. He was a key participant in designing the 2006 Massachusetts health care reform law, and became an inaugural member of the Health Connector Board, which oversees many aspects of health care reform implementation in the state. GMSIM modeling was used in developing the Massachusetts health reform law. It was also used by the Obama administration and Congress during the debate over national health care reform. GMSIM has also been used by California, Colorado, Connecticut, Delaware, Minnesota, Oregon, Vermont, and Wisconsin to estimate the effects of various health policy options.

<u>About the Blue Cross Blue Shield of Massachusetts Foundation</u>
The mission of the Blue Cross Blue Shield of Massachusetts Foundation is to expand access to health care for uninsured, vulnerable, and low-income individuals and families in the Commonwealth. The Foundation was established in 2001 with an endowment from Blue Cross Blue Shield of Massachusetts. It operates separately from the company and is governed by its own Board of Directors.