

**BRIEF ANALYSIS**

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## Is Hawaii a Model for Health Care Reform?

“The only place that has achieved nearly universal coverage and has less of a cost burden on its system is Hawaii,” says First Lady Hillary Rodham Clinton. “Hawaii has twice the number of doctor visits per capita and one-half the hospitalizations,” says Senator Edward Kennedy. Should Hawaii be a model for U.S. health care reform? Let’s take a look.

**Has Hawaii Achieved Universal Coverage?** Hawaii is the only state with an employer mandate. The state requires most employers to pay 50 percent of their full-time employees’ health insurance premiums, and employees must pay the other half. However, many part-time employees and their dependents and many unemployed, low-income people remain uninsured.

While the Hawaii Department of Health says that only 2 to 3 percent of the population is uninsured, no outside corroboration supports this claim, and other estimates contradict it. For example:

- The Urban Institute estimates that 11 percent are still uninsured.
- The Employee Benefit Research Institute (EBRI) estimates that 8.1 percent are uninsured.
- The *Hawaii State Data Book, 1991*, estimates that about 6 percent are uninsured.
- The 1991 Current Population Survey shows a figure of 7 percent uninsured.

Assuming that the actual rate is 9 percent, Hawaii is no better off than Iowa or Wisconsin and only 1 percentage point below seven other states. If enrollees in the State Health Insurance Program (SHIP) are included, the

rate drops to 7 percent. However, it is not clear that SHIP enrollees should be included. Interestingly, 17 percent of Hawaiians say they have put off health care because they couldn’t afford it.

**What Kind of Health Insurance Do Hawaiians Have?** SHIP is the state’s program of subsidized insurance for low-income families. Those with the very lowest incomes, including about 60 percent of the program’s enrollees, pay no premiums. However, SHIP provides only minimal coverage: some preventive and primary care, five days in a hospital and 12 physician visits per year. Thus SHIP enrollees are classic examples of the underinsured.

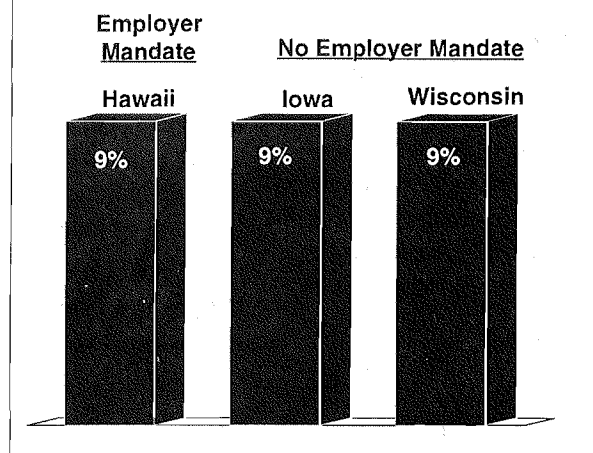
Most Hawaiians who are privately insured are in managed care programs. About 56 percent are enrolled in the Hawaii Medical Service Association (HMSA) — a Blue Cross insurer — and another 18 percent are in Kaiser Permanente, a health maintenance organization. Other insurers and the self-insured make up the remaining 25 percent of the private market. Although benefits are similar

to those enjoyed by privately insured people in other states, Blue Cross, Kaiser and the state itself have sought to restrict the supply of hospital beds and expensive equipment — primarily through vigorous application of certificate-of-need regulations.

**Has Hawaii Contained Health Care Costs?** Admirers of the Hawaiian system claim it has successfully controlled costs. The facts tell a different story.

- Between 1980 and 1991, per capita health care expenditures for hospitals, physicians and prescription drugs increased 9.8 percent annually for the state of Hawaii, while for the nation as a whole they increased only 9.4 percent.

### Percent of Population Uninsured



- In 1991, per capita spending was \$1,889 in Hawaii, compared with \$1,877 in the United States as a whole.

While officially Hawaii spent only 9 percent of its gross state product (GSP) on health care in 1992, some believe that Hawaii's system permits it to hide certain costs. The chief economist of the Bank of Hawaii has estimated that actual spending was closer to 12 percent of GSP in 1992.

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### ***Until recently, Hawaii had fewer MRI scanners per capita than Canada.***

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While it is true that Hawaii has lower average insurance premiums, \$1,224 versus the U.S. average of \$1,604 for an individual in 1991, that is mainly because 12 percent of Hawaiians work for several different employers and have double or triple coverage. When people are insured two or three times for the same medical bills, the average premium obviously will be lower.

**Has Hawaii Done Better at Controlling Administrative Costs?** Hawaii has some of the highest health care administrative costs in the country. Steffie Woolhandler and David Himmelstein of Harvard (both of whom advocate national health insurance) argue that:

- Hawaii has the highest hospital administrative costs as a percent of total hospital spending in the United States.
- It also has the fifth highest salary costs for hospital administration — 24.7 percent of total hospital costs compared with a national average of 22.4 percent.

While Woolhandler and Himmelstein have at times been criticized for overestimating the magnitude of administrative costs, the relative rankings are probably accurate.

**How Has the Hawaiian Health Care System Affected Business?** Although Hawaii's economy once was dominated by a few large employers — mostly plantations, which had a history of providing medical care — today the state's economy is primarily based on small businesses. Of the 29,000 small businesses in Hawaii, 90 percent have fewer than 19 employees.

Hawaii's employer mandate has had a significant adverse impact on business. Since the national eco-

nommic recovery began in 1990, Hawaii has fared worse than all other states and the District of Columbia. According to *U.S. News and World Report*:

- Hawaii ranks 49th in income growth rate and 43rd in employment growth rate.
- Hawaii has the worst business bankruptcy rate and is 48th in new business growth rate.

Some of this poor performance is undoubtedly related to the burden of the Hawaiian health care system. According to a 1993 Lou Harris poll conducted for the Kaiser Foundation:

- About 55 percent of Hawaii's employers restricted wage increases, 33 percent reduced other employee benefits and 60 percent raised prices to help offset the burden of employer mandates.
- About 40 percent of the employers reduced the number of employees and 10 percent hired part-time instead of full-time workers to avoid the mandate.

**Has Hawaii Maintained the Quality of Care?** Senator Kennedy and others argue that Hawaii's more centralized control of the health care system has led to a better distribution of physicians and more effective utilization of resources, hospital beds and technology.

However, there is evidence to dispute this. For example, in 1986 Hawaii had two medically underserved areas (where the ratio of physicians to patients was too low). In 1993, there were 12 medically underserved areas.

Further, Hawaii's efforts to limit the supply of health care resources may be causing health care rationing.

- The national average for acute care hospital beds per 1,000 population ranges between 4.2 and 4.76, compared to only 2.1 in Hawaii.
- While the average number of beds for nursing home patients nationally is 56 per 100,000, Hawaii has only 18 per 100,000.
- Until recently, Hawaii had only one MRI scanner per one million people, while the U.S. average was one per 100,000 and even Canada had one per 400,000.

The shortage of MRI scanners was so severe that some physicians were encouraging Hawaiians to fly to the mainland for an immediate MRI rather than wait for the procedure.