



February 12, 2007

To: Sen. Ken Chevront and Rep. Robert Meza
From: M. V. Lee Badgett, Ph.D. and Danielle MacCartney, Ph.D.
Re: Financial effects of domestic partner benefits on State of Arizona

Providing domestic partner benefits to State of Arizona employees' domestic partners will have several financial effects on the state. The possibility of cost increases is usually high on the list of employer concerns about partner benefits, although a great deal of evidence suggests that cost increases will be small. However, just as important are the benefits that the State of Arizona will see if state employees can cover a domestic partner, and those benefits will offset some of the costs of coverage. Based on our own research and a review of research of other academics, we conclude that the State of Arizona will see the following effects from offering benefits to state employees' same-sex or different-sex domestic partners:

1. *Spending related to Medicaid and uncompensated health care for uninsured people is likely to fall.*
2. *Current employees will be healthier, more satisfied, and less likely to leave their jobs.*
3. *Domestic partner benefits will increase the ability of public employers to recruit talented and committed employees.*
4. *In addition to the benefits, health care costs would increase by a small amount.*

Below we present some calculations and summaries of studies to support these conclusions.

1. Spending related to Medicaid and uncompensated health care for uninsured people is likely to fall and income tax revenues will rise, offsetting some of the costs of domestic partner coverage.

Offering domestic partner benefits to public employees will likely reduce the number of people who are uninsured or who are currently enrolled in Medicaid and other government-sponsored health care programs. A recent study using government data shows that people in same-sex couples were twice as likely as married people to be uninsured, and people in unmarried different-sex couples were three times as likely to be uninsured. One in five people with a same-sex partner lack insurance, and one in three people with an unmarried different-sex partner are uninsured. That study finds that if employers offer domestic partner benefits, some people who are currently uninsured are likely to receive insurance. Fewer uninsured people also translates into savings for the state budget, since the state and local government contribution to uncompensated care averaged \$276 per uninsured person according to a recent study. Access to a partner's health insurance will also reduce the number of people eligible for Medicaid, adding to the state's offsetting savings.

Finally, costs will also be offset to some degree by the fact that the value of domestic partner benefits is taxable income according to the IRS, leading to higher state and federal income tax payments.

2. Current employees will be healthier, more satisfied, and less likely to leave their jobs.

A growing body of research shows that offering domestic partner benefits has several positive effects on current employees, particularly gay, lesbian, and bisexual employees. These effects on employees would likely benefit the State of Arizona as an employer.

First, a supportive workplace climate and supportive policies--including domestic partner benefits--increase disclosure, or "coming out", of lesbian, gay, and bisexual employees.

Second, this increase in disclosure has positive benefits to worker health. Using different measures of general anxiety or anxiety in particular contexts, several studies found either that people who were more out reported lower levels of anxiety and less conflict between work and personal life, or that more closeted people reported higher levels of anxiety.

Third, lesbian, gay, and bisexual workers who are more out will be better workers. Several studies show that out workers report greater job satisfaction. In addition, some survey participants who were more out also reported sharing their employer's values and goals more than workers who were more closeted. A 1995 study shows that more out workers report higher levels of satisfaction with their co-workers. Finally, partner benefits reduce gay, lesbian, and bisexual workers' turnover and increase their commitment to firms.

3. Domestic partner benefits will increase the competitiveness of the state in recruiting and retaining talented and committed employees.

Increasingly, U.S. employers provide domestic partners of employees with the same employee benefits that spouses are covered. In 1990, only a handful of employers offered domestic partner benefits, but the number increased dramatically through the 1990s into this decade (Badgett, 2001). In 2006, one organization that tracks employer policies, the Human Rights Campaign, lists 9,384 employers offering health benefits to the domestic partners of employees. Recent surveys of U.S. employers find that 14% to 56% of employers now provide health care coverage to partners. Now more than 264 companies in the Fortune 500 offer domestic partner benefits.

From another perspective, Arizona's state government peers increasingly cover domestic partners of their own employees. Thirteen states (California, Connecticut, Illinois, Iowa, Maine, Montana, New Jersey, New Mexico, New York, Oregon, Rhode Island, Vermont, and Washington) and the District of Columbia, along with 137 cities and counties, provide coverage to domestic partners of state or local government employees. In Arizona, the cities of Phoenix, Scottsdale, Tempe, and Tucson, along with Pima County, already offer domestic partner benefits to employees.

Many Arizona employers already offer domestic partner benefits to employees, including US Airways, Avnet Inc., PetSmart Inc., BFI Waste Systems, and over 30 other private employers. Therefore, in order to remain attractive to employees who have or might someday have domestic partners, public employers will need to offer comparable benefits.

Indeed, evidence suggests that employees make decisions about job offers based on domestic partner benefits. A March 2003 poll by Harris Interactive/Witeck-Combs found that 6% of heterosexual workers reported that domestic partner benefits would be the most important factor in deciding to accept a new job—more than those who would look for on-site child care. In that study, almost half (48%) of lesbian, gay, and bisexual employees said that partner benefits would be their most important consideration if offered another job. Furthermore, 7% of heterosexual workers who actually changed jobs reported that partner benefits were the most important factor in that decision—a factor almost as common as changing jobs for better retirement benefits (12%).

Public employers' provision of domestic partner benefits also sends an important positive signal to a much larger group of employees and to the private sector. A 2006 Harris Interactive/Witeck-Combs poll finds significant support for the principle of equal benefits for all employees: 69% of heterosexual employees agreed that "Regardless of their sexual orientation, all employees are entitled to equal benefits on the job, such as health insurance for their partners or spouses." A recent study by Richard Florida found that heterosexual employees, even those without unmarried partners, often look for domestic partner benefits as a signal of an employer that values diversity and creativity. In a follow-up study, Florida argued that regions that do not embrace the benefits of diversity-friendly policies risk alienating the creative workforce that is the key to gaining a competitive edge in the global market.

This evidence suggests that partner benefits will become increasingly important in competing for talented and committed employees of all sexual orientations. Recruitment and turnover are costly for public employers, although the cost varies from job to job. For example, one recent study calculated the training, vacancy, hiring, and recruiting costs for a registered nurse to be \$62,000 to \$67,000. Since partner benefits are expected to reduce turnover and to make state employment more attractive, turnover costs are likely to fall, offsetting at least some of the expenses of coverage.

4. Health care costs would increase by a small amount relative to the State's total spending on health benefits.

The State of Arizona uses the "Benefit Options" program to provide state and university employees with affordable health insurance. As domestic partners and their children sign up for coverage, the state plan will incur additional expenses. Because the state's Benefit Options medical plan is self-insured, the state plan would be responsible for paying those costs. To estimate the total cost of providing health insurance coverage to the domestic partners of state and local government employees in Arizona, we use data from the State of Arizona Benefit Options 2005 Annual Report to estimate new enrollment and added costs.

Estimated cost per enrollee: In 2005, the total claims expenses for Benefit Options were \$377,960,900. We adjust this figure by the Consumer Price Index for medical care to account for two years of health care inflation, predicting expenditures of approximately \$410 million in 2007. We then calculate average spending per covered person by dividing that total by the number of covered employees and estimated dependents from the 2005 report (totaling approximately 122,500 people), resulting in a figure of \$3,344 per person covered.

Predicted new enrollees: To calculate predicted partners we multiply the number of state employees and retirees currently receiving health insurance benefits by the likely take-up rates for partners and children. A recent study suggests that some partners will already have health insurance and others might not take up the coverage because employees will be taxed on any costs borne by employers. That study found that 0.1% - 0.3% of employees are likely to sign up a same-sex partner, and 1.3%-1.8% of employees are likely to sign up a different-sex partner. To account for uncertainty in the sign-up rate, we use the range of possible enrollment suggested by this study, or 1.4% to 2.1%. (The City of Phoenix experienced a 1.3% increase in enrollment of domestic partners.) Because some partners will also have children, we further assume that each partner of an active employee comes with an average of 0.18 additional dependents, an assumption derived from information on active employees in 2005. Overall, we predict that between 968 and 1451 new partners and children would enroll in Benefits Options.

Calculating total costs: Multiplying the number of new enrollees by the average cost per enrollee generates predicted total costs of \$3.2 million to \$4.9 million. Since the state's share of costs is 84%, the cost to the state of allowing employees to sign-up a domestic partner would be \$2.9 million to \$4.4 million after adding in payroll taxes owed on the value of the benefits to employees. These additional costs are equivalent to only 0.7% to 1% of Benefit Options expenditures by the state.

For references to studies cited, see M. V. Lee Badgett and Gary J. Gates, "The Effect of Marriage Equality and Domestic Partnership on Business and the Economy," The Williams Institute, 2006. <http://www.law.ucla.edu/williamsinstitute/publications/MarriageEqualityontheEconomy.pdf>; Michael Ash and M. V. Lee Badgett, "Separate and Unequal: The Effect of Unequal Access to Employment-Based Health Insurance on Same-sex and Unmarried Different-sex Couples," *Contemporary Economic Policy*, Oct. 2006.