Health Reform in New England States: Massachusetts as a Possible Model

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Urban Institute Study
The Roadmap to Coverage in Massachusetts

- Estimated cost of the uninsured
- Developed options to move to universal coverage including
  - voluntary measures, i.e. the building blocks
  - employer mandates
  - individual mandates
  - employer mandates with an individual mandate
- Made cost estimates of several options
- Modeled macroeconomic effects
The Four “Building Blocks” That Would Improve Affordability

- MassHealth expansion to 200% FPL for children and parents and 133% for childless adults
- Tax credits to cap cost of coverage at 6-12% of family income up to 400% FPL
- New voluntary purchasing pool designed to lower premiums for small groups and individuals
- New publicly funded reinsurance that would pay 75% of costs above $35,000
Several Options to Achieve Universal Coverage

1. Individual Mandate: Building blocks + individual mandate

2. Employer Mandate: Building blocks + individual mandate + employer mandate for firms with 10 or more employees
   - Alternative Payroll Tax Bases, Tax Rates, Firm Size and Part-Time Worker Exemptions
Employer Mandate – Pay or Play

- Structured as a tax on employers with a credit for payments towards health insurance premiums
- Exemptions (small firms, part-time workers, dependents)
- Choosing tax rate and tax base
- Setting up plans for those whose employers pay, for exempt workers and for non-workers
Employer Mandate

Issues

1) Lower the tax rate, the more employers will choose to pay, but will pay less per worker

2) Government costs will be higher under an employer mandate, the lower the tax on employers, the more exemptions, the more generous the subsidies for those not covered by employers

3) Without individual mandate, will reach only some uninsured workers – to achieve universal coverage, must combine with an individual mandate

4) Significant effects on small, low wage businesses

5) ERISA challenges
Individual Mandate

- Requirement to obtain coverage meeting minimum standards

- Issues
  - Affordability/subsidies
  - Organize market to buy coverage
  - Employer response

- Government costs will be higher the more generous the subsidies; will be lower the more people can be covered through Medicaid
The Costs of Universal Coverage

- Estimated costs of achieving universal coverage to be $2.0 -$2.2 billion, including about $1.3 billion in the system supporting uncompensated care

- Costs vary with
  - Reliance on Medicaid
  - Generosity of the subsidies
  - Income levels to which subsidies are extended
  - Employer responsibilities
  - Use of existing safety net funding
Costs in Perspective

- We estimated that new revenues would be needed--$700-$900 million plus additional funds for MassHealth rate increases and residual funds for safety net providers
  - Increase insurer and/or hospital assessments
  - New provider taxes
  - Sin, sales, and income taxes
- $1.2 billion is:
  - about 0.3% of state gross domestic product
  - about 2.0% of current total health expenditures
  - about 5.0% of current state budget
- Could be raised with increase in sales tax from 5.0% to 6.2% or increase in income tax rate from 5.3% to 5.85%, along with some revenues from sin taxes or other sources
The Benefits of Universal Coverage

Improves the health of the uninsured

- Have much lower rates of mammography, pap smears, hypertension and cholesterol screening;
- Are much less likely to fill prescriptions, to see specialists when needed, and more likely to postpone seeking care because of cost;
- Are about 50% more likely to be hospitalized for avoidable conditions;
- Have higher mortality rates in general and from cancer, heart disease and trauma specifically.
The Benefits of Universal Coverage (cont.)

- Universal coverage would result in an estimated increase in economic well being from improved health of about $1.5 billion;

- Other benefits that are potentially associated with universal coverage that are difficult to quantify include:
  - Reduced financial uncertainty including bankruptcies;
  - Reduced inappropriate use of emergency rooms and strain on the delivery system used by all residents;
  - Greater workplace efficiency and higher earnings and tax payments.

- Financial burdens on low income families and small firms that currently purchase health insurance will be reduced by new government spending.
The Massachusetts Reform

- MassHealth expansion for children to 300% FPL plus added coverage for some adult groups
- MassHealth rate increases, adult benefits restored
- Individual mandate, with affordability provision
- Mandatory offer, mandatory take up
- Employer assessment ($295 if employer doesn’t contribute)
- Significant transitional support for safety net providers
- Connector
The Connector

- Links individuals and firms under 50 with plans
- Determines affordability; income related subsidies
- Operates Commonwealth Care Plan
  - Premium subsidies for those under 300% FPL for those without minimum employer contribution
  - No deductibles, limits on cost sharing
  - No premiums below 100% FPL
  - Only current Medicaid plans can provide coverage
- Unsubsidized component
  - Deductibles and limited network but mandated benefits
  - Employees can buy with pre-tax dollars
Defining Affordability

- High standard (people to pay a high percent of income)-- extends reach of mandate, lowers government costs, increases family burden
- Low standard -- need large subsidies, or limit reach of mandate
- Subsidies extend to 300% FPL
  - Income at 300% FPL for family of four is $58,000; 10% of income is $5800
  - Family premiums in Massachusetts are about $10,500
- Mandatory take-up may limit access to subsidies
What Will Happen to Premiums?

- Commonwealth Care
  - Limited to Medicaid Managed Care Plans; Premiums Affect Subsidy Costs

- Connector
  - Will low cost plans emerge?
    - Limited networks have not been popular
    - High deductible plans have not been popular – could change with HSA feature
  - Will high deductible plans contain costs?
  - Limiting networks to less than 50 workers limits ability to bargain/negotiate
Will Employers Drop Coverage?

- Firms offer coverage now because of competition for workers and exclusion of employer contributions from federal and state taxes.
- Allowing workers to buy coverage using Section 125 Plans could change incentives to offer.
  - Larger firms still likely to offer because of control over benefit designs, lower administrative costs.
  - Incentive for smaller employers on cusp to drop.
  - Will depend on attractiveness of plans in Connector.
  - Employer dropping will increase subsidy costs.
Summary

- Massachusetts has developed a workable structure to achieve universal coverage – it IS a model for other states assuming a commitment to achieve universal coverage.

- Many issues to be worked out with very short implementation period.

- A key issue is whether the state will be able to increase revenues or reduce safety net money if necessary to make subsidies generous and extend mandate?

- Additional funding likely to be needed but should be manageable.