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MEMORANDUM

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NEW ENGLAND PUBLIC POLICY CENTER

To: Lynn Browne, Executive Vice President and Economic Advisor
From: Heather Brome, Policy Analyst
Re: Status of current proposals for Massachusetts health reform
Date: January 5, 2006

On January 3, 2006, you requested that we look into the main proposals for health insurance reform in Massachusetts. The following memo summarizes our findings.

Summary

- Massachusetts must create a new program to cover the uninsured by July 2006 or risk losing hundreds of millions of dollars in federal funding.
- This summer, Governor Romney introduced a bill that would create a mandate for individuals to obtain health insurance and loosened restrictions in the health insurance market so that insurance providers could create new lower-cost plans for small groups and individuals. The House passed a version of this bill that also includes a payroll tax on employers who do not provide health insurance to help cover the costs of the uninsured and eliminates a current surcharge on health plans and employers that provide insurance that currently covers the uninsured. The Senate passed a version of the bill with no individual mandate, but "Free Rider Surcharges" on individuals with higher incomes who use the free care programs and employers who do not provide health insurance whose employees use the free care programs. Both the House and Senate bills expand Medicaid programs and eligibility.
- The House and Senate versions of the bill are currently in conference committee and a new version is expected to be worked out over the next few weeks.

The governor's plan

In January 2005, Massachusetts renegotiated a component of the Medicaid program with the federal government known as the MassHealth waiver. The new waiver agreement, effective July 1, 2005, allows Massachusetts to use certain funding mechanisms until July 1, 2006, but requires that Massachusetts create a new program to cover the uninsured by July 2006 or risk forfeiting hundreds of millions of dollars in federal funding. Governor Romney released a plan over the summer that would obligate every person in Massachusetts to obtain health insurance. The plan includes a combination of enrolling those eligible in Medicaid ("MassHealth") who are currently not enrolled, linking those who can afford care with appropriate providers, and subsidizing care for those who are priced out of Medicaid but cannot afford private premiums. The latter two would be administered through a new public/private entity called the Commonwealth Care Exchange, which would act as a clearinghouse for insurance companies offering individual plans with premiums as low as $200 per month. To cover the cost, Romney's proposal seeks to divert funds from the state's uninsured care pool—approximately $1 billion—which currently defrays the costs incurred to hospitals by patients who cannot afford emergency care.

The House plan

House Bill 4479, passed overwhelmingly on November 3rd, builds on elements of Romney's plan while also expanding responsibilities to businesses as well as individuals and increasing eligibility for MassHealth. The first part of the bill addresses personal responsibility in obtaining health insurance. As of January 1, 2007 every Massachusetts resident would be required to have "creditable" health insurance coverage and newcomers will have 63 days to obtain "creditable coverage." Proof of insurance will be indicated by residents on yearly tax returns, and penalties will be assessed based on income. Additionally, if the penalty goes unpaid for 60 days, the Registry of Motor Vehicles will be notified and the individual will be unable to renew his or her driver's license.

The bill also increases the household income limit for eligibility for Medicaid. Children would be eligible if their household income were 300 percent of the federal poverty level (FPL), or $48,270 for a family of three, an increase from the existing limit of 200 percent of the FPL. Parents would be eligible with household incomes up to 200 percent of the FPL, versus 133 percent today. The bill also establishes a Commonwealth Care Program for individuals not eligible for Medicaid or MassHealth, but whose household income does not exceed 300 percent of FPL. This program would have a sliding scale of premium payments reflecting ability to pay.

Like both other plans, the House plan loosens restrictions on health insurance markets grouping small group and non-group markets—that is, small businesses and individuals could now purchase the same plans—and allowing insurers to sell more limited plans than are currently allowed. The House plan also creates different standards of coverage for young adults ages 19 to 26 in order to create affordable premiums for students and young people—as low as $140 per month.

To fund the plan, the legislation proposes a new payroll tax, effective July 1, 2006. Initially, companies with more than 10 employees would be taxed at 3 percent of payroll; those with more than 100 employees would pay 5 percent of payroll. These rates would rise to 4 percent and 6 percent respectively in January 2007 and 5 percent and 7 percent in July 2007. These rates were based on estimates that health insurance costs for a typical company were between 12 and 15 percent of payroll. This tax is deductible against health insurance costs paid by the company, so a tax of 7 percent of payroll should be fully deductible for most companies providing health insurance to employees.

Amidst concerns that firms that have many highly compensated employees would be exposed to the tax even if they provide insurance, the schedule was set so that only the first $94,200 of an individual's wages would count towards the total payroll and employees covered by their spouse's health insurance plans would be excluded from the payroll calculation. Additionally, part-time workers would be counted as full-time workers for the purposes of calculating payroll, in order to encourage employers to offer health insurance to part-time workers and discourage them from shifting from full-time to part-time employees in order to avoid health insurance costs. Revenues obtained through penalties and payroll tax will be paid into the Commonwealth Care Fund. The House plan would also phase out the existing surcharge on health plans and insurers that funds the uninsured care pool.

The Senate bill

On November 11, the Senate unanimously passed Senate Bill 2282, which amends House Bill 4479. The Senate Bill differs dramatically from the House bill in that there is no requirement for residents to purchase insurance and there is no new payroll tax. The Senate plan is more cautious than both Romney's and the House Bill; it seeks to provide coverage to far fewer of the uninsured in Massachusetts than both Romney's and the House's plans. The plan expands Medicaid coverage eligibility to low-income parents and legal immigrants and would restore certain Medicaid benefits for dental care, eyeglasses, and prosthetics that were eliminated in 2002. Like both other plans, the House plan would allow insurance companies to provide cheaper private health plans than currently possible; however, there would be no mandate to enroll in these plans. The bill also includes a "Free Rider Surcharge" of 30 to 100 percent of free care costs for individuals or dependents who earn between 300 and 400 percent of the FPL, decline employer-sponsored insurance, and use partial free care. A "Free Rider Surcharge" of 100 to 150 percent of free care costs would also be assessed on employers who have more than 50 employees when an employee (or their dependent) not offered insurance uses free care.

Hammering out a compromise

On November 16, the House rejected the amended version of the bill. Members of the House and Senate on the conference committee will be working to hammer out a compromise over the next few weeks. Of particular interest is how each of the proposals is funded. Senator Jack Hart has reported that three conference committees—health care, a supplemental budget, and economic stimulus—are all working together as much as possible, since those bills will use a large portion of state revenues. Originally the House plan estimated nearly $650 million in revenues from the payroll tax, but after the bill was altered to adjust the payroll formula, that estimate dropped to $350 million. The rest of the funding would come from the state's settlement with tobacco companies. Estimated costs of the Senate plan are only $105 million, $47.5 million of which would come from the federal government and the rest from scaling back planned increases in Medicaid reimbursements to hospitals. The most controversial element of the debate is the proposed payroll tax in the House bill. Lobbyists on both sides of the issue have weighed in. Those lobbying against the tax claim that the revenue estimates are inflated, that the tax might create perverse financial incentives that would encourage employers to drop their coverage, would raise the total costs of providing universal coverage, would be a burden on the Massachusetts economy, and would particularly harm small businesses. Lobbyists for the bill argue that the tax falls only on companies who do not provide health insurance and would actually reduce costs for the majority of Massachusetts employers, including small businesses. The legislation would also create more affordable health insurance plans for small businesses, making it easier to provide coverage.

The next likely outcome will be a compromise between the House and Senate bills that will be worked out over the next few weeks in conference committee. This bill has moved quickly through the House and Senate and with a very strong financial and political incentives to have a law by the end of June, it is likely that some agreement will be reached soon. Once a compromise is reached, the amended bill will return to both the House and the Senate for approval. The bill will then be sent to Governor Romney for approval.

Sources

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