

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

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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