Massachusetts Health Care Reform

June 6, 2006

The healthcare status quo is unsustainable

- Double-digit, annual increases in insurance premiums
- Half a million uninsured in Massachusetts, 40 million nationwide
- Many businesses, particularly small businesses, are dropping health insurance benefits due to costs
- Significant barriers to entry for individuals and small businesses who want to buy coverage
  - Part-timers, contractors, workers with more than one job
  - Participation and contribution rate requirements
- Limited information available to consumers and businesses that would allow for informed cost and quality decisions
- Hospitals mandated to provide emergency care (EMTALA)
  - $1.3 billion spent by state to reimburse free care in MA
  - No consequences to individuals who choose to free-ride – they get care

The Uninsured in Massachusetts

• Total Commonwealth Population:		6,400,000
• Currently insured (93%)		5,940,000
-Employer, individual, Medicare or Medicaid		
• Currently uninsured (7%)		460,000
-≤100% FPL	Medicaid Eligible but unenrolled	106,000
-~100-300% FPL	Commonwealth Care	150,000
->300 FPL	Affordable Private Insurance	204,000

Healthcare reform law's objectives

Insurance market reforms

Existing Market	Reformed Market
Dysfunctional individual market	Individual/small market merge
Limited take-up of HSAs	More products with HSAs
"Any willing provider"	Value-driven networks
Bad value for younger adults	19-26 year-old market
No consequence for lifestyle choices	Tobacco usage is a rating facto
Hard cut-offs for dependent status	More flexible up to 25 years-o
Growing list of mandatory benefits	Two year moratorium
Optional, smaller risk pools	Mandatory, larger risk pools

These reforms coupled with other product development can lower existing premiums

Today's average small group monthly premium	**$350**
• Value driven networks	10-20%
• Expanded use of HSAs, Deductibles, Coinsurance	5-22%
• Moderate co-pays	4-9%
• Further pharmacy benefit management	1-5%
Potential Monthly Premium for Affordable Plan	**$154-280**

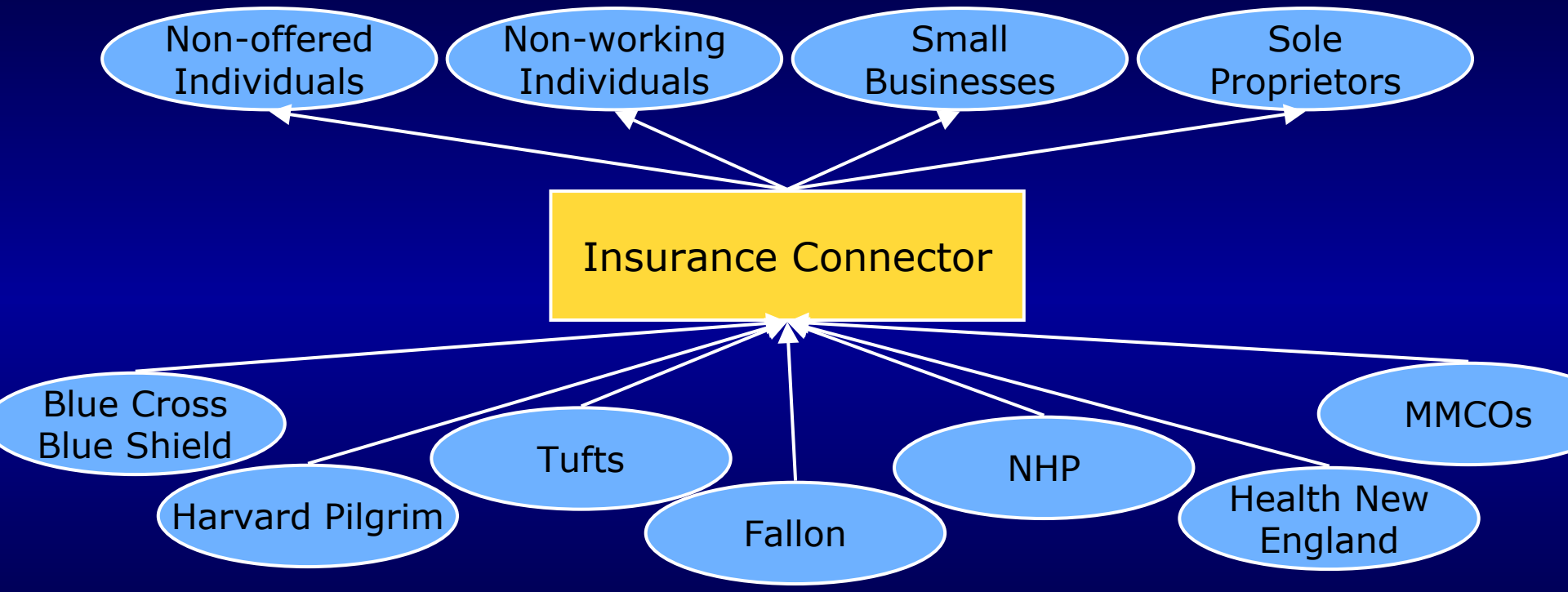
Insurance reform allows products that represent good value, and are comprehensive

	Existing Market	Reformed Market
Primary care	Yes	Yes
Hospitalization	Yes	Yes
Mental Health	Yes	Yes
Prescription Drugs	Yes	Yes
Provider network	"Open Access"	Defined
Annual deductible	"First Dollar Coverage"	$250-$1,000
Co-pays	Low ($0,10,20)	Moderate ($0,20,40)

The Connector is an efficient nexus between buyers and sellers

- Small businesses will be able offer multiple affordable products to their employees
  - Premiums paid with pre-tax dollars
  - Eliminates minimum participation and contribution hurdles
- Market signaling: ease of purchase and good value
- Purchase of insurance by the individual, not the employer
  - Employer shifts to defined contribution model
  - Employee and individual choose and own the insurance
- Mechanism for reaching non-traditional workers
  - Part-timers and seasonal workers
  - Contractors and sole-proprietors
  - Individuals with more than one job
- Health insurance will be portable between small businesses

The Connector makes it work



"Commonwealth Care" makes private insurance affordable for eligible individuals

- Redirects **existing** spending on the uninsured away from opaque bulk payments to providers to direct assistance to the individual

- Premium assistance up to 300% of the Federal Poverty Level (FPL)
  - Zero premium for individuals under 100% FPL
  - Premiums increase with ability to pay up to 300% FPL
  - No cliff; glide-path to self-sufficiency
  - No deductibles permitted for low-income individuals

- Private insurance plans offered exclusively through Medicaid Managed Care Organizations (MMCOs) for first three years

- The Connector will serve as the exclusive administrator of Commonwealth Care premium assistance program
  - Works closely with Medicaid program to determine eligibility

- SCHIP and Insurance Partnership programs expand to achieve the

"Commonwealth Care": Sliding scale premium assistance example

FPL	Single Person Income	Weekly Premium*	% of Income
<100%	$9,800	Free	NA
150%	$14,700	$6.92	2.4%
200%	$19,600	$11.54	3.1%
250%	$24,500	$18.46	4.0%
300%	$29,400	$32.31	5.7%

*All numbers assume **NO** pre-tax treatment and **NO** employer contribution

Employers will remain the cornerstone for the provision of health insurance

- Existing IRS/ERISA provisions
- Existing and new state non-discrimination provisions
- Requires all companies with 11 or more FTEs to set up a section 125 cafeteria plan such that part-timers and contractors can purchase insurance with pre-tax dollars
  - No contribution required
  - Free rider surcharge could apply for those companies without section 125 cafeteria plan and pattern of excessive use of "free care"
- Uncompensated Care Pool Assessment on companies not offering employer-sponsored health insurance
  - Tied to the use of "free-care" by uninsured employees
  - Maximum assessment is $295/employee/year
  - "Offering employer" to be determined by regulation

The law contributes to market stability by addressing cost shifting

- Medicaid rate increases to hospitals and physicians
  - Tied to pay-for-performance measures
- Enroll eligible individuals in the Medicaid program
  - On-line, streamlined application process
  - Outreach grants
  - 77K in the last twelve month period
- Reforms the Uncompensated Care Pool reimbursement mechanisms
- Section 125 cafeteria plan requirement
- Personal responsibility

The Personal Responsibility Principle

- Given Medicaid, premium assistance and affordable insurance products will be available, all citizens will have access to health insurance they can afford
- In this new environment, people who remain uninsured would be unnecessarily and unfairly passing their healthcare costs to everyone else
- Personal responsibility means that everyone should be insured or have the means to pay for their own healthcare

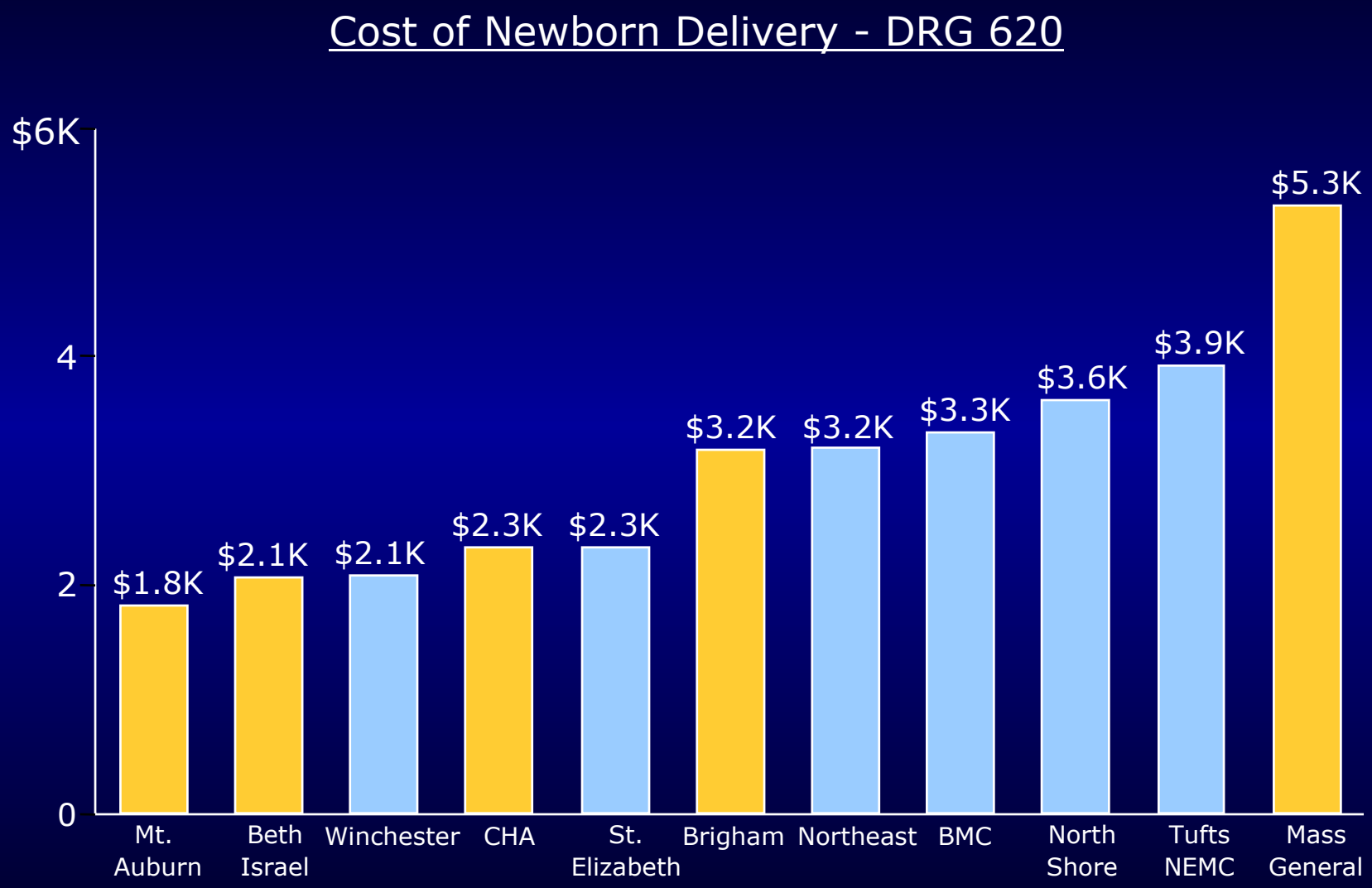
Personal responsibility: health insurance is the law

- Statewide open-enrollment period in March 2007
  - Both Commonwealth Care and whole insurance market
- Beginning on July 1, 2007 all Massachusetts residents will be required to have health insurance
- Enforcement mechanisms
  - Indicate insurance policy number on state tax return
  - Loss of personal tax exemption for tax year 2007
  - Fine for each month without insurance equal to 50% of affordable insurance product cost for tax year 2008

...nic law contains strong cost containment provisions

- Cost and Quality Council with new power to collect price and quality data
  - Hospital, physician, specialist, procedure, complications, volume, etc.
- Path to creating data necessary for real consumer engagement
- Electronic Medical Records
  - Massachusetts E-Health Collaborative implementing electronic medical record system pilot programs in three regions
  - Integrate an entire "community of care" from primary care to acute hospitalization
  - $50 million seed investment by Blue Cross/Blue Shield of MA
- $5 million investment in Computerized Physician Order Entry systems
- Pay for performance required in the Medicaid program
  - Utilization of electronic medical record as a proscribed variable
  - Coordination with private payers to ensure rational approach

Cost does vary among providers



Organizing principles for a "fully insured" population

- Keep small businesses and individuals from dropping insurance by reforming insurance laws
- Introduce lower-priced, comprehensive health insurance products
- Create a Connector to permit pre-tax premium payments and facilitate purchase for small businesses and individuals
- "Commonwealth Care" provides premium assistance for lower income individuals and families
- Promote a culture of insurance and personal responsibility
- Focus on cost containment and efficiency strategies