Modeling Health Reform in Massachusetts

John Holahan

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Roadmap to Coverage in Massachusetts

Goals

1) Develop plans to expand coverage to estimated 532,000 Massachusetts residents without coverage;
   - Create more affordable coverage for low-wage workers and small firms;
2) Minimize disruption of employer sponsored coverage and existing insurance market;
3) Minimize expansion of government and need for new tax revenues.

The Uninsured in Massachusetts

- Nearly three-quarters of the uninsured were from low and moderate income families;
- Young adults (ages 19-34) made up the largest share (43%) of the uninsured;
- More than 85% of the non-elderly uninsured came from working families;
- Workers in small firms made up nearly half of the working uninsured.

Advantages of Massachusetts

- State had a strong base of employer and public coverage and a relatively low uninsurance rate;
- Increasing health care costs were likely to continue to increase the number of uninsured;
- A high level of current spending on the uninsured through the uncompensated care pool and other programs, providing resources that could help fund new coverage;
- Waiver renewal potentially made a substantial amount of federal and state funds available.

Roadmap to Coverage: Building Blocks

Each expansion option has common building blocks

- MassHealth Expansions to 200% FPL for children and parents and 133% of FPL for childless adults;
- Tax credits for difference between premiums and specified percentage of income (sliding from 6% to 12% of income) for those up to 400% of FPL;
- Government reinsurance which pays 75% of costs above $35,000 in individual and small group markets;
- Voluntary purchasing pool open to all; would ease access to, and increase choice of plans for small firms and low income individuals.

Steps Needed to Achieve Universal Coverage

Individual Mandate

- Builds on all other components of reform;
- All residents would be required to purchase at least a high deductible plan;
- No change in tax treatment of employer sponsored insurance; no change in incentives for employers to provide coverage;
- Enforcement through tax system.

Steps Needed for Universal Coverage

Employer Mandate

- Employer required to pay tax but would receive credit against tax liability for contributions to worker and dependent health insurance;
- Tax rate and tax base can be set at different levels, e.g., 10% on large base vs. 5% on smaller base;
- Small firms and part time workers can be exempt or included;
- Employer mandate combined with individual mandate would achieve universal coverage.

Modeling Challenges

1. Establish the baseline

- Current Coverage Distribution
  - Survey data issues
- Current Expenditures/Premiums

2. Estimate Behavioral Responses

- How will individuals and firms respond to change in eligibility, prices, subsidies
  - Eligibility for public programs
  - Subsidies to firms
  - Tax credits or subsidies in individual market
  - Merger of individual and small group market
- How do individual take-up responses vary with health status, age, incomes?
- How do employer responses vary with firm size and firm wage distribution

Modeling a Policy Change Example – A Public Expansion

- Uninsured – estimate take up models that show how previous changes in policy have affected participation
  - How many newly eligible choose to participate
  - Variation in take up by age, income, race-ethnicity, region

- Private - ESI and Non Group – how are firm offer rates and worker take up rates affected by Medicaid expansion
  - Employee dropping of coverage, by income and health status
  - Firm dropping of coverage, by firm size and firm wage distribution; what share drop coverage if workers gain eligibility for public coverage

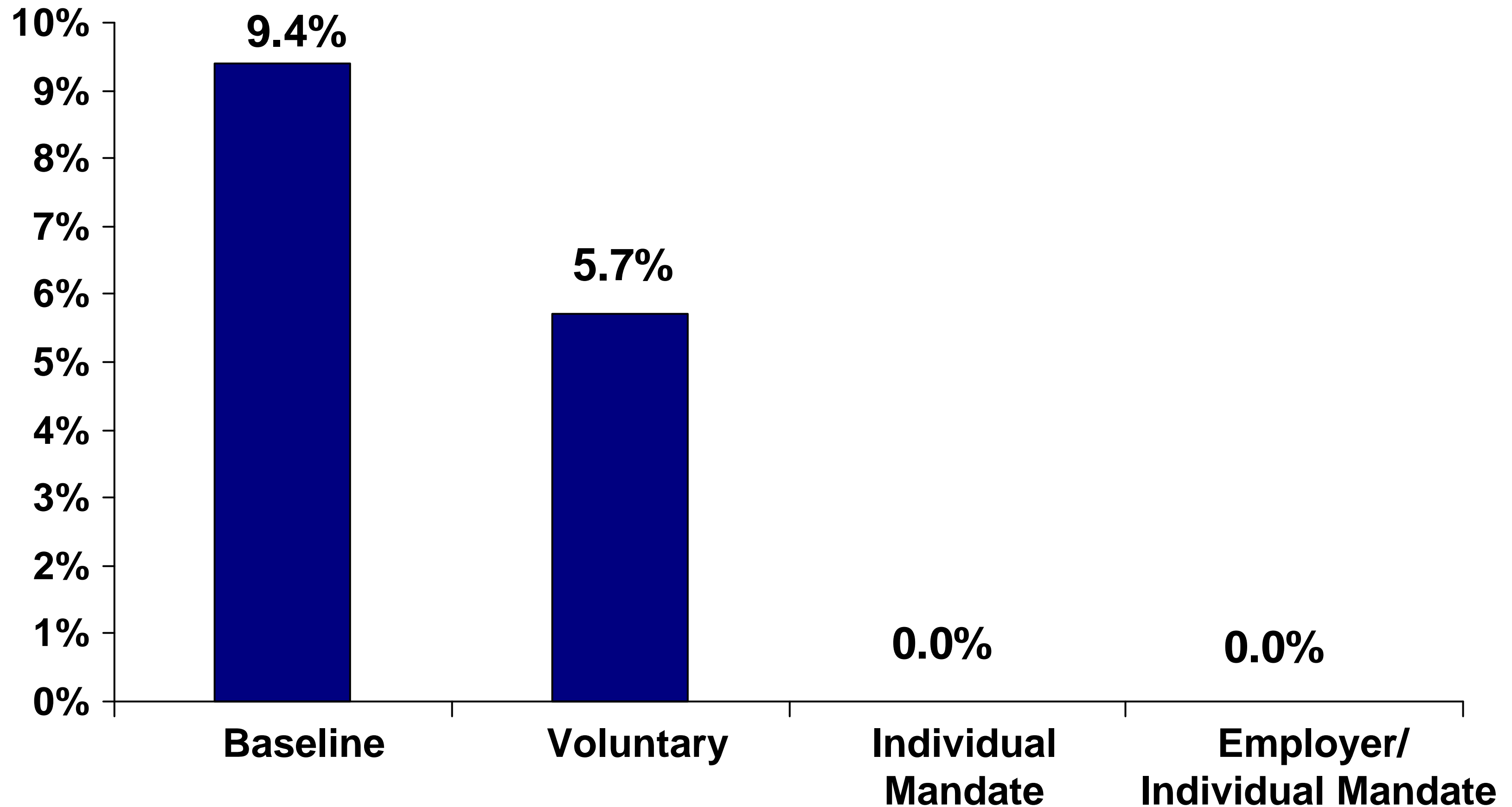
3. Issues Harder for Modeling

- Changes in benefit packages & cost sharing
- Reducing stigma in public programs
- Use of waiting periods to prevent crowd-out
- Higher or lower provider payment rates
- Managed care

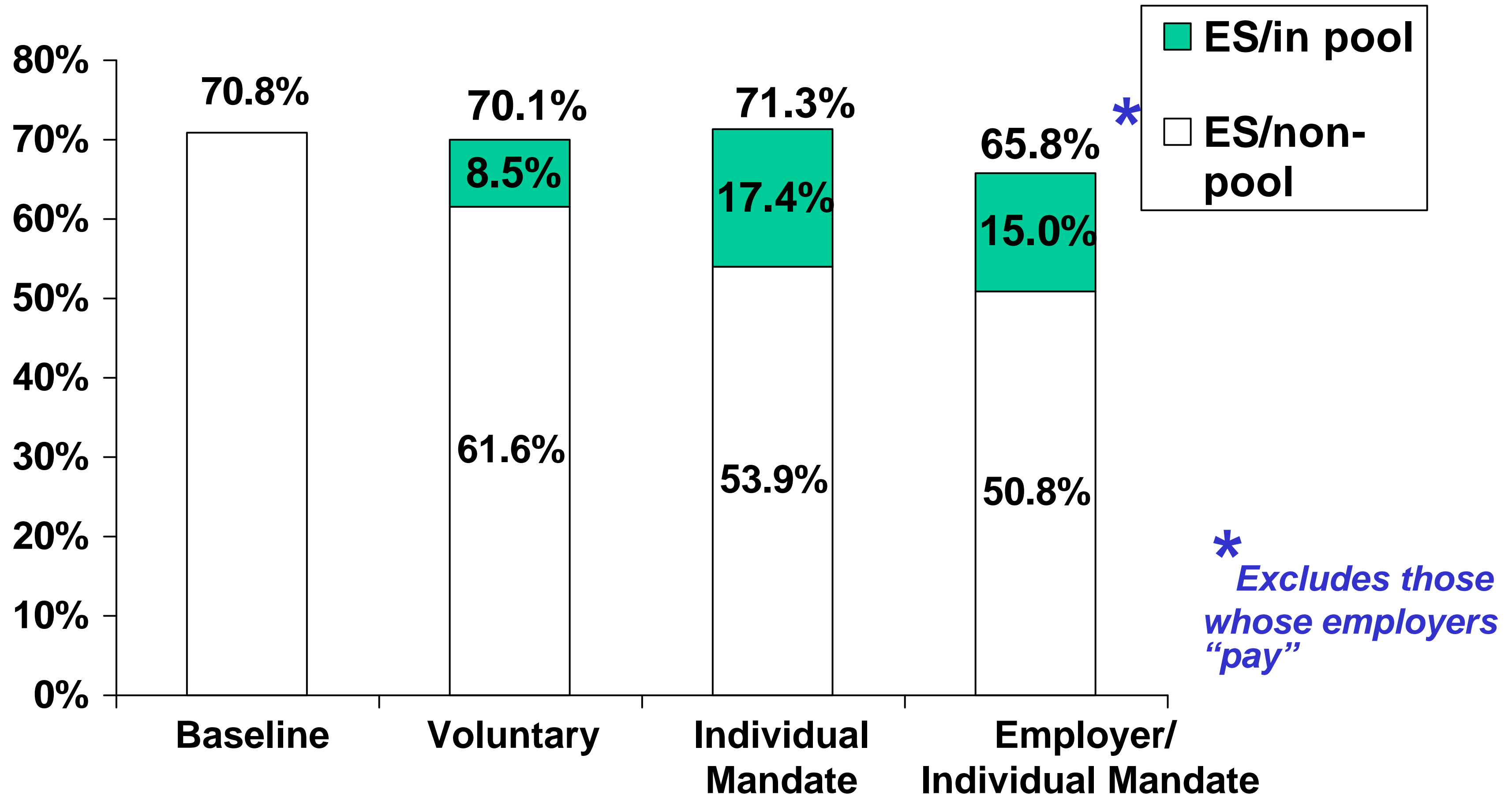
Results

- **We (The Urban Institute) modeled the coverage and cost impacts of several approaches**
- **The following presents results for:**
  - A voluntary expansion;
  - An individual mandate;
  - An employer mandate (8% tax with exemptions) with an individual mandate.

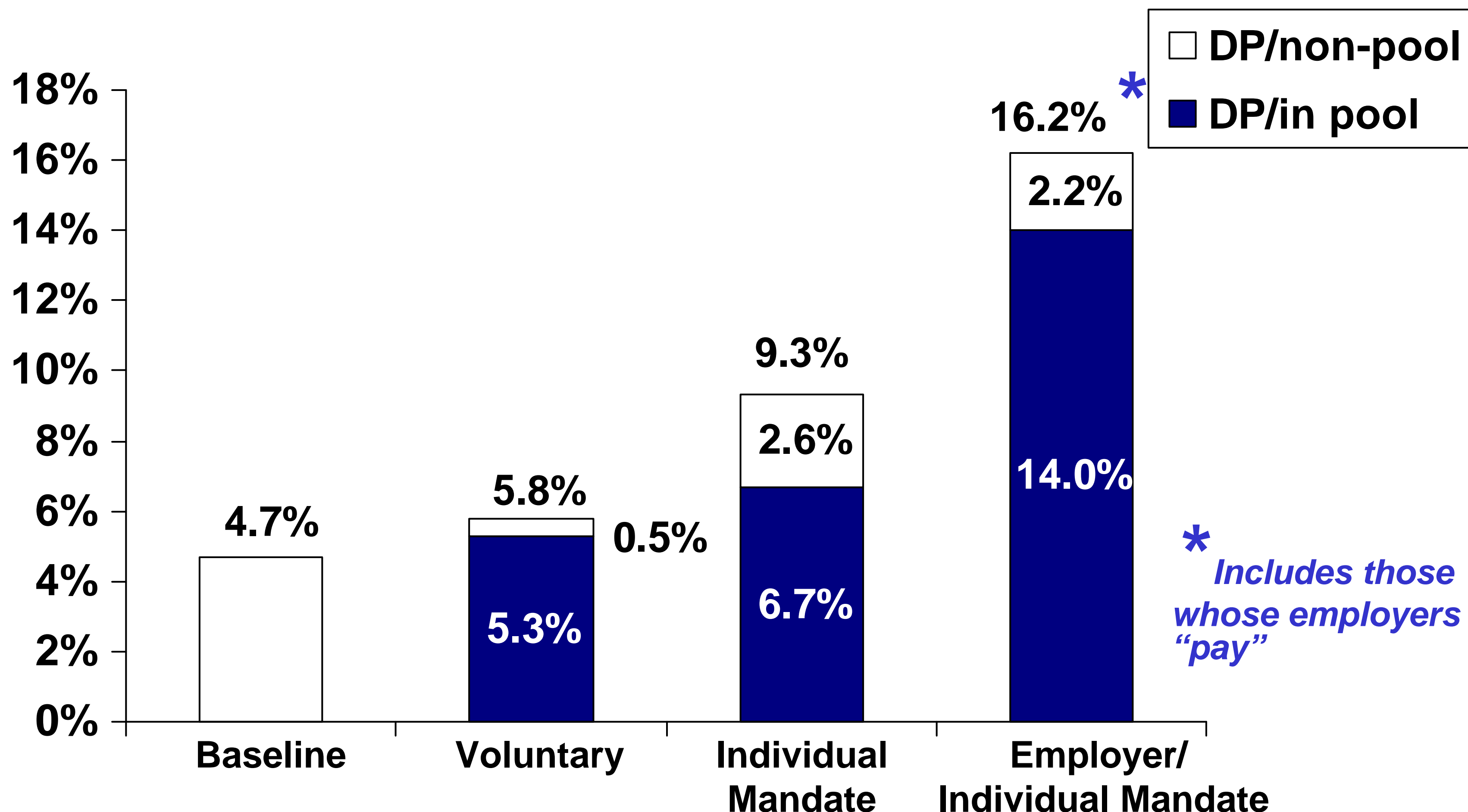
Voluntary Approach Would Leave 321,000 Uninsured; Only a Mandate Achieves Universal Coverage



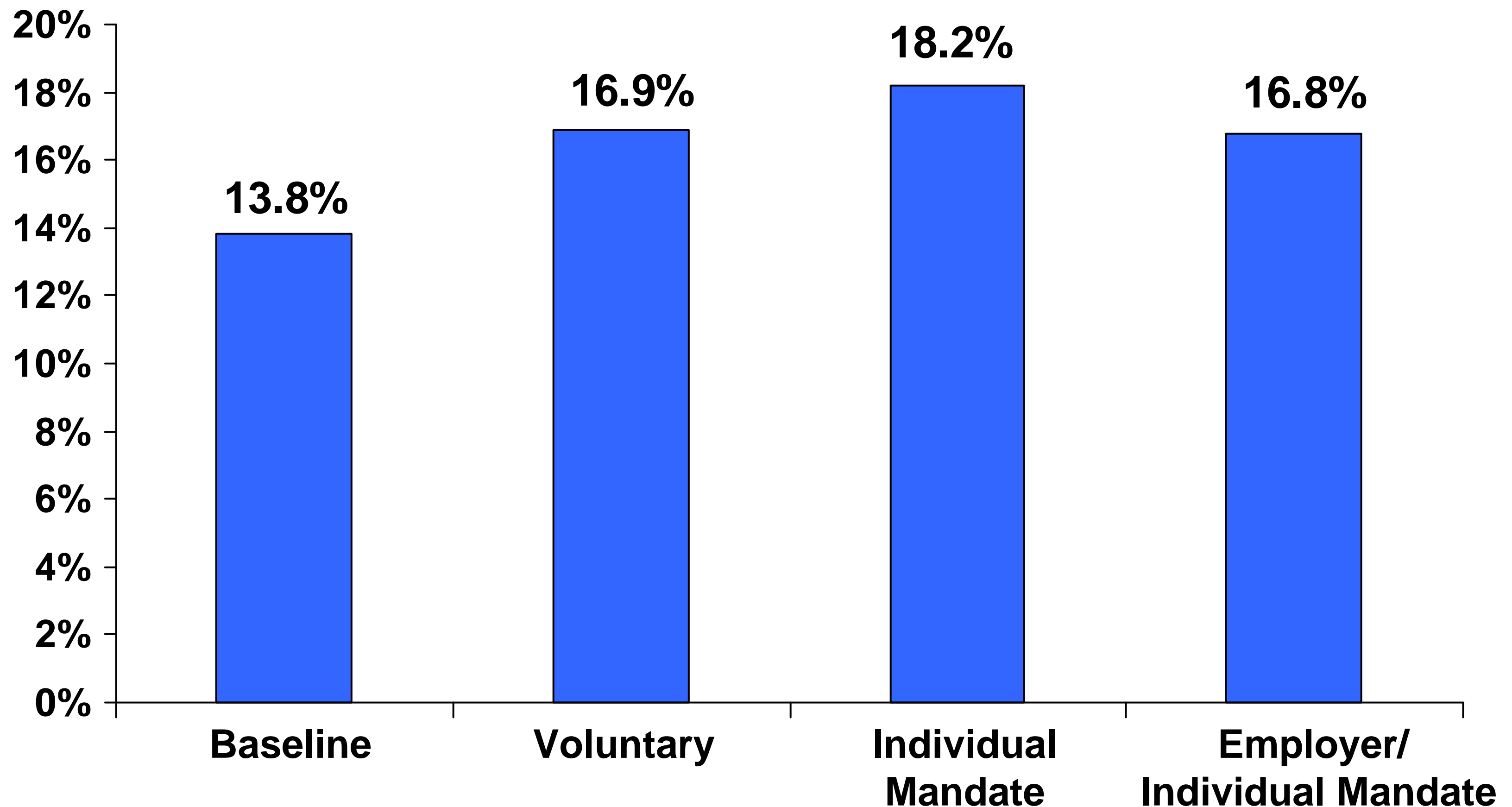
Employer Coverage Remains Stable Under Voluntary Approach and Individual Mandate, but Drops Under Employer Mandate Due to the "Pay" Option



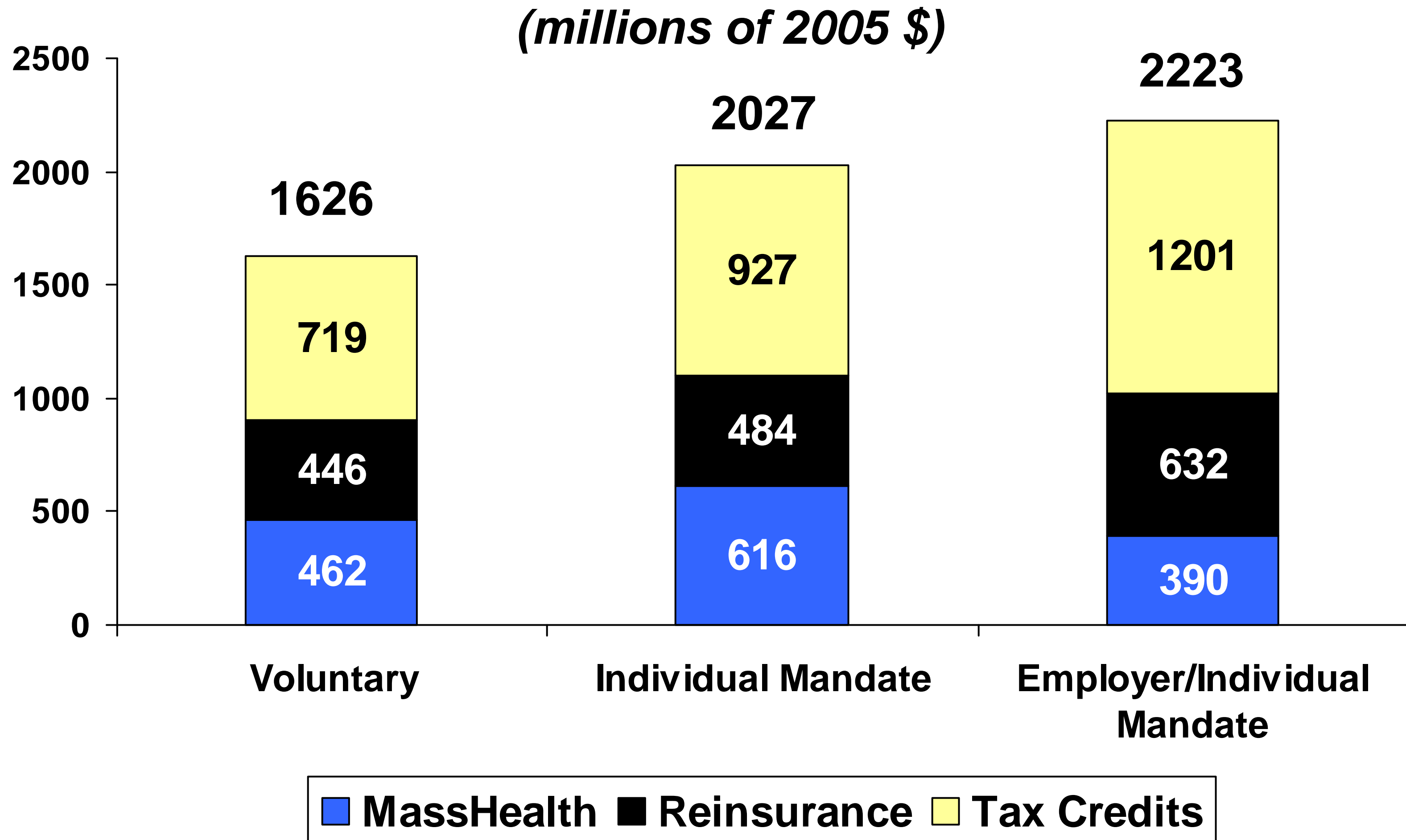
Direct Purchase of Coverage Increases Under Each Reform Due to the Purchasing Pool; Pool is Largest Under the Employer Mandate



MassHealth Enrollment Grows with New Eligibility Rules; Under Employer Mandate, More Eligibles Opt for Pool



Government Spending Increases Under Reform; As Pool Grows, So Do Costs of Tax Credits and Public Reinsurance, Making Employer Mandate Most Expensive



Employer Spending Increases for Firms that Do Not Currently Offer Coverage and Falls for Firms that Do; Largest Effect for Small Firms

Voluntary

Individual Mandate

Employer/Individual Mandate

1000
800
600
400
200
0
-200
-400

Not Offering
Offering
Total

243
-266
(-3%)
-23

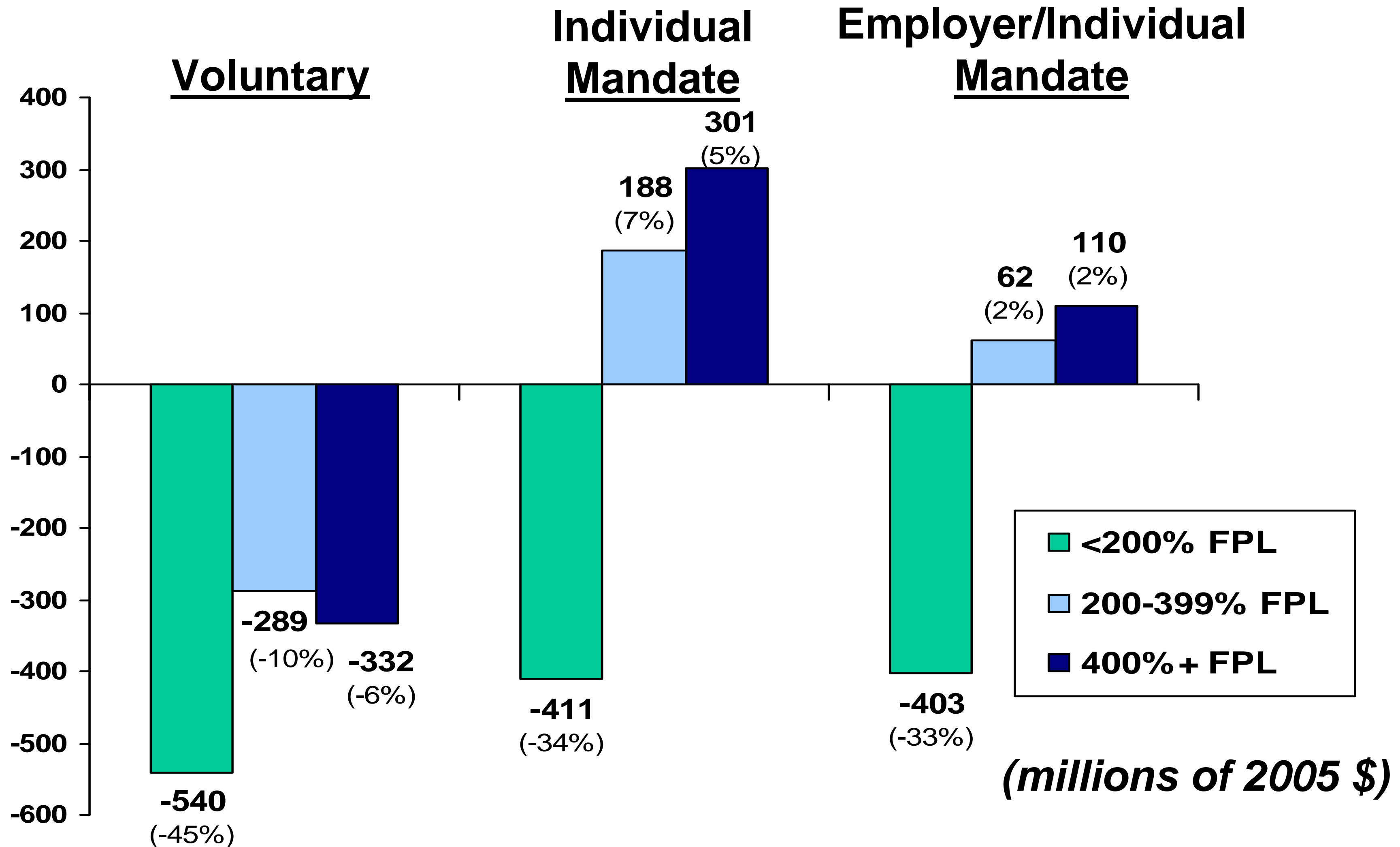
349
-140
(-1%)
210

637
128
(1%)
765

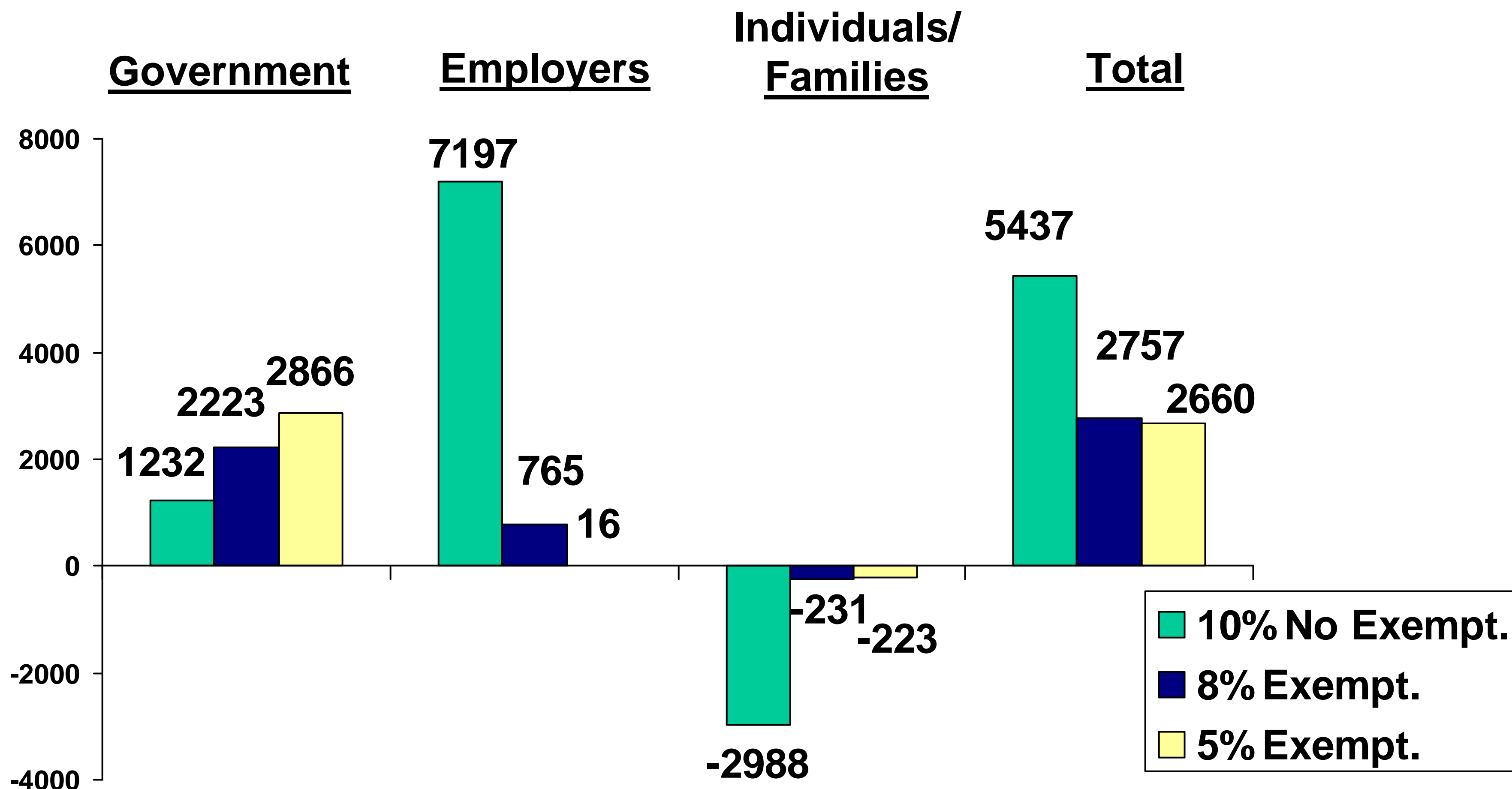
(millions of 2005 $)

Note: Percentage Change in Parentheses

All Options Provide Savings to the Low Income; Mandates Lead to Modest Health Spending Increases for Higher Income Families.



Employer Mandates with Higher Payroll Tax Rates Lower Government Costs But Increase Spending for Employers



Overview of Findings

- **Voluntary Plan:**
  - Government Cost = $1.6 billion, but 321,000 uninsured
  - Savings at all income levels; greatest savings to low income
- **Individual Mandate:**
  - Government Cost = $2.0 billion
  - Small aggregate increases in employer & individual spending
  - Spending by low income people falls significantly
- **Employer/Individual Mandate:**
  - Government Cost = $2.2 billion
  - Little change in individual spending; employer spending increases in aggregate, sharply for those not now offering
  - Pay option leads to larger pool, resulting in more tax credits & public reinsurance
  - Measures that would lower government costs would increase employer or individual spending or both

The Compromise

- MassHealth expansion for children to 300% FPL
- MassHealth rate increases, adult benefits restored
- Individual mandate, with affordability provision
- Mandatory offer, mandatory take up
- Employer assessment ($295 if employer doesn't contribute)
- Free rider surcharge
- Significant transitional support for safety net providers
- Connector

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