

HJR 48 BRIEFING PAPER

Health Care Financing Reforms:

Comparing Montana Conditions with Massachusetts

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Prepared By:
Pat Murdo, Legislative Analyst

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Legislative Services Division
PO Box 201706
Helena, MT 59620-1706
PHONE: (406) 444-3064
FAX: (406) 444-3036
<http://leg.mt.gov/>

Singling Out Massachusetts' Reforms

House Joint Resolution No. 48 asked for an interim study of healthcare financing reform. The Economic Affairs Interim Committee, to which the HJR 48 study was assigned, decided to look at the Massachusetts reforms, among others. Essentially the Massachusetts reforms rely on what is being called a shared responsibility of private and public payers and individuals to achieve coverage of the population to as great a degree as possible. The key components of the Massachusetts plan sought to expand coverage by private and public insurers but did not address concerns about the costs of health care. The reforms did call for pricing of insurance premiums to negotiate premiums that generally are under \$300 a month.

Before going into the specifics of the Massachusetts reforms, a review of the insurance picture in Massachusetts—with relevant comparisons to Montana—may be useful.

Table 1: Comparison of Health Insurance Coverage in Massachusetts, Montana*

	Massachusetts	Montana
Overall rate of uninsurance	7%	19%
Businesses with 1-9 employees not offered insurance	40%	42.4%
Businesses with 1-4 employees not offered insurance		60%
Businesses with 5-9 employees not offered insurance		47%
Ratio of businesses with fewer than 10 employees to total	13.1%	18.1%
Children under age 18 covered by private insurance	77.5%	64.1%
Children under age 18 covered by government insurance	21%	27.8%
Children under age 18 not covered by any insurance	4%	12.76%
Adults aged 18 to 64 covered by private insurance	77.5%	69%
Adults aged 18 to 64 covered by government insurance**	13.85%	14.45%
Adults aged 18 to 64 not covered by any insurance	11.4%	17.4%
Seniors aged 65 and above covered by private insurance	61.4%	65.2%
Seniors aged 65 and above covered by government insurance	92.7%	94.9%
Seniors aged 65 and above not covered by any insurance	Unavailable	1.66%

*The business-related information for Montana figures are for 2006, except for the data for businesses with 1-9 employees, which is from a 2004 report and survey by Steve Seninger at the University of Montana Bureau of Business and Economic Research. Massachusetts figures are 2007 from various state government data bases. The grouping of 5-9 employees is (6-10) in the Montana survey. For the age-related insurance information, the source is U.S. Census data at:

http://www.census.gov/hhes/www/cpstc/cps_table_creator.html. The totals may not add to 100% due to rounding or coverage by more than one group. Details in Appendix A along with data on Montana insurers.

**Government insurance includes Medicare, Medicaid, or Military

The Massachusetts reforms were designed to:

- expand the public insurance coverage in the state's Medicaid program, called Commonwealth Care, for those up to 300% of the federal poverty level, including adults;
- provide a subsidy adjusted for income for people earning between 150% and 300% of the federal poverty level and no-cost coverage in Commonwealth Care to those under 150% of the federal poverty level; and
- create a Commonwealth Choice program by which employees in firms that employ fewer than 50 workers could buy insurance through a health insurance exchange--what now is called a Connector—and provide incentives for employees and employers to do so.

In implementing these reforms, Massachusetts built on existing statutory requirements that:

- included a system of modified community rating;
- did not allow medical underwriting; and
- required insurance companies to issue insurance—a provision called “guaranteed issue”.

Community rating is a system in which insurance purchasers are pooled into a universe without distinction as to certain conditions, such as age, although age may be a modification factor within a narrow band. Workers in certain industries may be in a pool, which may address their potential exposure to illness or other risks. Guaranteed issue means an insurance company cannot exclude someone from coverage because of a preexisting illness, such as diabetes. Montana has neither guaranteed issue or community rating, although Insure Montana does provide for pools of coverage.

Other background conditions in Massachusetts

- **Use it or lose it**--Massachusetts faced a threat from the U.S. Department of Health and Human Services to reconfigure its approach to handling uncompensated care. Massachusetts had a DHHS Medicaid demonstration waiver to fund uncompensated care at hospitals, and federal officials had indicated they would not likely allow renewal of the demonstration waiver. The federal money that would have gone to that program was estimated at about \$385 million of the \$1 billion pool for uncompensated care.
- **Abundant managed care options**—As indicated by Table 2, Massachusetts insurers channel the majority of their health benefit plans through health maintenance organizations. In contrast, Montana has few managed care plans specific to HMOs.

Massachusetts’ conditions and innovations

- **Mandatory individual insurance** -- . The "catch" is that people who do not obtain "affordable coverage" face revocation of their personal income tax deduction. Affordable coverage is defined by a Health Insurance Connector Authority. If affordable coverage is not available, then no penalties apply.
- **Free-rider penalty** -- A company with 11 or more employees that does not contribute to an employee's health insurance plan and that has an employee that receives frequent assistance from the state's uncompensated care pool can be charged up to 55% of costs expended by the pool for the employee after costs pass \$50,000.
- **Fair-share required contribution** -- Companies with 11 or more employees that do not contribute to their employees' health insurance purchase through the Connector face a free-rider penalty of \$295 per worker per year.
- **Combination of individual and small group markets** -- The Health Insurance Exchange uses community rating and allows insurers to target all individuals no matter their employer, including part-time or contract workers with large employers. However, the large employers (over 90% of which provide insurance) are exempt from these laws.
- **Portability of insurance** -- An individual who purchases insurance from the Health Insurance Exchange, or Connector, can move among jobs that do not provide insurance and maintain insurance or -- if the employee works at 2 jobs and both employers contribute a portion toward the purchase of health insurance, the employees can combine those insurance contributions from each employer. Similarly, a working couple

Table 2: Massachusetts Insurance Picture, 2006

Insurers	Market Share, 2006	Business Type	Covered Lives/yr
Small Group Health Insurance Plans			827,200
Blue Cross Blue Shield of Massachusetts, Inc.	7.10%	nonprofithospital/ medical service corp	58,718
Commercial Carriers	6.00%		49,573
Mid-West National Life Insurance Co of Tennessee	2.00%	for-profit	16,588
MEGA Life & Health Ins. Co., The	1.90%	for-profit	15,654
Tufts Insurance Co.	0.90%	for-profit	7,119
United Healthcare Insurance Co.	0.50%	for-profit	3,765
John Alden Life Insurance Co.	0.20%	for-profit	1,869
Union Security Insurance Co.	0.20%	for-profit	1,280
Guardian Life Insurance Co of America, The	0.20%	for-profit	1,094
New England Life Insurance Co.	0.00%	for-profit	171
Aetna Life Insurance Co.	0.00%	for-profit	119
Health Maintenance Organizations	86.90%		718,909
Blue Cross Blue Shield of MA HMO Blue, Inc.	45.10%		372,752
Harvard Pilgrim Health Care, Inc.	17.70%		146,361
Tufts Associated Health Maintenance Org, Inc. (a)	13.70%		112,919
Fallon Community Health Plan, Inc.	4.00%		32,899
Health New England, Inc.	3.30%		27,297
Neighborhood Health Plan, Inc.	1.20%		9,848
United Healthcare of New England, Inc.	1.00%		8,259
ConnectiCare of Massachusetts, Inc.	0.80%		6,994
Overall Insurance Market			
Medicare-Medicaid			1,800,000
Health Maintenance Organizations (closed)			1,700,000
Self-funded			1,500,000
Community Insurance/Blue			500,000
Other Government Programs			200,000
Insured Out-of-State			130,000
Uninsured			370,000
(a) doing business as Tufts Associated Health Plan and Tufts Health Plan			

could combine their contributions from their separate jobs into a policy purchased from the Connector into a family policy funded by both.

- **Insurance Clearinghouse** -- The Connector, operated by the state, serves as a clearinghouse for private insurers that offer plans meeting certain requirements set by a quasi-public Health Insurance Connector Authority. An insurer may tailor plans for the Connector but encourage people to buy plans that are not under the regulations of the Connector. The Connector provides businesses with fewer than 50 employees and individuals looking for insurance with human resource-type services and provides marketing efficiencies to insurers. The human resource-type services include collection of premiums and payments to insurers as well as handling government premium subsidies for qualifying purchasers.
- **Section 125 pretax benefits** -- The Connector serves as a benefit plan for purposes of Internal Revenue Service regulations for Section 125 pretax contributions by employees and employers, who may help pay into the Connector for employees' insurance. This expands pretax benefits to all employees, not just those in firms that have been large enough to offer cafeteria plans and Section 125 pretax benefits.
- **Mandate "light"**-- For 19-26 year-olds purchasing insurance sold through the Connector there is a provision for fewer mandates to encourage this low-risk age group to obtain insurance.

Projected cost of Massachusetts reforms

The state expects to spend \$1.4 billion per year for the first three years (most of this will come from the uncompensated care pool and some from employer contributions and general revenue) plus the \$385 million that would have been lost from the federal government because its previous uncompensated care pool program had not been renewed.

See 2 separate attachments that are part of Appendix A:

- Montana Insurers and Third Party Administrators
- Statistics on Montana and Massachusetts insurance by employment and whether insured or not, plus Insure Montana participants