

The Massachusetts Universal Coverage Initiative

In April 2006, Massachusetts enacted legislation that aims to achieve nearly universal health care coverage in the state. The legislation relies on an individual mandate to encourage the take-up of private, market-based coverage by uninsured and underinsured state residents. The plan also expands Medicaid coverage and provides premium subsidies to make private coverage more affordable for low-income individuals and families. The state will rely on an insurance purchasing pool to negotiate plan bids for the individual and small group markets. It will also impose penalties on employers that do not provide health insurance to their workers. The plan is due to be fully implemented by July 2007, when all residents are required to have coverage.

Proposal in Brief

Target population: 95% of all uninsured residents.

Sources of Coverage: Affordable, private insurance; Medicaid expansions.

Coverage Incentives: Individual mandate; premium subsidies; employer responsibility.

Financing: Federal Medicaid and DSH funding; Assessments on employers, insurers, and hospitals; State funding; Individual premium payments.

Timing: All residents are required to be covered by July 1, 2007; premium subsidies began October 1, 2006.

PROPOSAL SUMMARY

Individual Mandate: The Massachusetts plan relies on an individual mandate to achieve universal coverage. The law stipulates that all state residents over the age of 18 must obtain creditable health coverage¹—provided by a public program, an employer, or through the individual market—by July 1, 2007, if it is affordable to them. If the state deems that a resident did not have access to any affordable sources of coverage, the mandate will be waived. Beginning in 2008, all residents must indicate on their state tax forms that they had creditable coverage for the previous year. Individuals failing to carry coverage may no longer claim a personal exemption on their state income taxes for 2007. Additionally, for 2008 and thereafter, individuals failing to carry coverage will be assessed a financial penalty equal to one-half of the annual premium cost for an affordable health plan.

Premium Assistance: For low-income individuals not eligible for Medicaid, the Massachusetts plan creates the Commonwealth Care Health Insurance Program, which will offer premium subsidies to Massachusetts residents with incomes between 100-300 percent of the federal poverty level (FPL).² Individuals below 100 percent FPL will pay no premiums; others will pay sliding scale premiums from \$60 to \$135 per month. Initially, all subsidized insurance products will be offered by Medicaid managed care plans. However, in the future, individuals below 300 percent FPL may be able to use the subsidies to pay for any plan offered in the state. These products will have no deductibles and cost-sharing will be limited to current Medicaid levels. Enrollment in Commonwealth Care began October 1, 2006.

Medicaid Expansions: The Massachusetts plan expands the Medicaid program, called MassHealth, to higher-income children with family incomes between 200-300 percent FPL.³ It will also lift an existing Medicaid enrollment cap, enabling 12,000 beneficiaries currently on the waiting list to enroll in MassHealth, and expand benefits for some populations. Additionally, the state will increase provider payment rates for most physicians (4-8 percent) and hospitals (9.6 percent) in order to increase provider's willingness to see Medicaid patients. Medicaid managed care organizations will also receive increases to their capitated payments that reflect these provider payment updates.

Massachusetts Quick Facts

Total Population:

6.3 M (US total: 292.9M)
13th largest state

No. and Percent Uninsured:

0.68M; 11% (US: 46.6M; 16%)
6th lowest uninsured rate

Median Household Income:

\$55,658 (US: \$44,684)
5th highest

Undocumented Immigrants:

About 200,000; 3%
(US: 9.3M; 3%)
10th highest number of
undocumented immigrants

Avg. Annual Cost of Employer-Sponsored Insurance (ESI)

(individual per year):

\$4,141 (US: \$3,705)
4th highest

Medicaid Enrollment:

1.2 M; 19% (US: 55.0M; 19%)
19th in % pop. covered

Medicaid Coverage of Working Parents:

133% FPL (US avg: 87% FPL)

Sources: US Census Bureau; Kaiser State Health Facts; Urban Institute Estimates of Undocumented Immigrants, January 2004.

The Connector: The Massachusetts model creates an insurance purchasing pool, called the Commonwealth Health Insurance Connector (“Connector”). The Connector will function as a centralized location where individuals and employees of small businesses can purchase health insurance. The statute combines Massachusetts’ individual and small group insurance markets, thereby expanding the overall risk pool for these market segments to help reduce average monthly premiums. The Connector will solicit bids for insurance offerings from the state’s health plans, creating one-stop shopping for consumers. Any small business with fewer than 50 employees will have the option to designate the Connector as the source of coverage for its workers, who may then enroll in any of the available plans. Employers will still be able to subsidize this coverage to the level they choose, and no minimum contribution is required to participate. Employers with 11 or more full-time equivalent employees (FTE) will be required to make administrative changes necessary for workers to contribute to health insurance and other benefits using pre-tax dollars.

The Massachusetts law encourages health plans to develop “affordable” insurance products with premiums around \$200 per month.⁴ This is significantly below current premiums for small group coverage in Massachusetts, which average \$350 per month for an individual. Plans are expected to cut premiums by increasing deductibles, creating tiered provider networks, and using coinsurance to steer beneficiaries to lower-cost providers.⁵ To encourage younger people to participate, Massachusetts will create a separate risk pool and require health plans to offer separate, lower-cost insurance products for individuals 19-26 years old.

Employer Penalties: All Massachusetts employers that do not offer health insurance coverage will incur penalties, known as the “Fair Share Contribution.” Employers with 11 or more FTEs will be fined up to \$295 per worker per year if they do not offer health insurance and/or do not make a reasonable contribution toward coverage. Non-offering employers may also be subject to a free-rider surcharge if their employees utilize free care.⁶ Companies with at least 25 percent of employees participating in health insurance offerings or companies that pay at least one-third of premium costs for individual coverage will not be subject to the penalties.

OTHER KEY COMPONENTS

Wellness, Prevention, & Care Coordination: The statute establishes a Medicaid wellness program that will reduce monthly premiums for beneficiaries who make healthy lifestyle decisions, such as enrolling in a smoking cessation program. Private insurers may also offer premium discounts to individuals who enroll in wellness programs.

Quality: The Massachusetts law calls for an expansion of the state’s existing website that reports on the cost and quality of hospitals and physicians. The state will establish a Health Care Quality and Cost Council that will set quality improvement and cost-containment goals for the state. Additionally, the Massachusetts plan aims to reduce racial and ethnic disparities in health care by improving both

data collection and quality of care for minority populations. Beginning in 2008, hospitals will be required to collect and report health care data related to race, ethnicity, and language. Lastly, the plan creates a Health Disparities Council that will recommend legislative actions to reduce health disparities.

The state will develop a pay-for-performance program that makes hospital rate increases contingent upon facilities meeting quality standards and performance measures for these populations. Massachusetts will also study the possibility of creating a Community Health Outreach Worker Program that would directly target vulnerable populations.

Health Information Technology (HIT): The Massachusetts legislation does not include any provisions to expand HIT in the state.

BUDGET ESTIMATES

State officials expect the plan to cost \$4.1 billion over the next three years.⁷ Massachusetts will redirect much of its current spending on uncompensated care, as part of its Free Care Pool, to pay for premium subsidies and Medicaid expansions. As more uninsured residents obtain health insurance, the state will reduce the amount of funding dedicated to safety net coverage.⁸ Additional funding will come from the employer penalties (\$218.5 million over 3 years) and from general state revenues (\$375 million over 3 years).

NEXT STEPS FOR IMPLEMENTATION

The Massachusetts legislation includes a rapid timeline for the state to issue regulations, collect plan bids and sign contracts, and conduct outreach and enrollment. Over the next several months, the state will develop information campaigns about new coverage options for individuals and small businesses. May 2007 marks the proposed start of the Connector open enrollment period. In July 2007, plans sold through the Connector will become effective, and all Massachusetts residents will be required to have health insurance.

SOURCES

<http://www.mass.gov/?pageID=gov2subtopic&L=3&L0=Home&L1=In+Focus&L2=Governor's+Health+Care+Plan&sid=Agov2>.

<http://www.mass.gov/legis/bills/house/ht04pdf/ht04479.pdf>.

<http://roadmaptocoverage.org/>.

¹ Creditable coverage refers to the minimum benefit package that residents must obtain either through the Connector or through other coverage sources. The state is expected to release proposed regulations defining creditable coverage in February 2007.

² To qualify for the Commonwealth Care program, individuals must not have been insured for the past six months. Furthermore, individuals will not be eligible for the program if their employer offers coverage and contributes to at least 33 percent of the premium cost for individuals or 20 percent of the cost for families.

³ New MassHealth enrollees may not have access to employer-sponsored insurance. These children will receive the same benefit package provided to children in the MassHealth Family program, with monthly premium requirements of \$12 to \$28 per child.

⁴ Initial plan bids for the Connector averaged about \$380 per month. As a result, the state is reconsidering the minimum benefit packages and has asked plans to re-submit lower bids.

⁵ The legislation also relaxes insurance regulations to permit managed care plans to offer Health Savings Account (HSA) coverage options. It also imposes a two-year moratorium on new mandatory benefit legislation.

⁶ A free-rider surcharge will be imposed when an employee receives uncompensated care more than three times or the company has five or more instances of workers receiving uncompensated care in a year. The surcharge will range from 10-100% of the cost of providing the uncompensated care after the employee receives \$50,000 or more in state-funded health care.

⁷ Budget estimates from McDonough, John, et al. "The Third Wave of Massachusetts Health Care Access Reform," Health Affairs, Web Exclusive, 14 September 2006.

⁸ The state does not plan to completely eliminate its safety net funding because it is unlikely to achieve 100 percent coverage for all residents, especially for undocumented immigrants. The state will convert part of its existing Free Care Pool into a Safety Net Care Fund that will continue to provide Medicaid disproportionate share (DSH) funding to hospitals for uncompensated care. Grant money will also be allocated to continue the state's support for safety net hospitals and community health centers.