



*Health Care Reform:
Expanding Access
Without Sacrificing Jobs*

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MTF

Introduction

Over the course of the past year, state policy makers have grappled with the important issue of extending health care coverage to every Massachusetts resident. The Governor, House and Senate have all proposed major reform packages which share the same goal of achieving broader coverage but differ in a number of significant respects. The two legislative versions of reform are now under consideration by a conference committee that must reconcile the differences between the plans. Their deliberations are given extra urgency because of a federal deadline that requires the Commonwealth to develop – and submit for Washington’s approval in early 2006 – a blueprint for expanding coverage for the state’s uninsured, or risk losing a significant amount of the federal Medicaid dollars that help sustain MassHealth, the primary health care “safety net” for disabled and low income individuals.

Because of the complicated nature of the state’s health care system – and the attendant complexity of the major changes to that system now being considered – the Foundation has undertaken a review of the reform proposals, with a focus on three key issues:

- *The individual mandate* – the proposal to require every resident of Massachusetts to have health insurance.
- *The payroll tax* – the House’s plan to impose a new payroll tax on employers who do not provide health coverage to their employees.
- *Expanded spending and eligibility for MassHealth* – the varying recommendations by the administration, House, and Senate to increase spending for the Medicaid program and expand eligibility to groups that currently do not qualify for coverage.

Based on the analysis of these issues, the Foundation has developed a number of specific recommendations which are presented in the final section of this report.

The Foundation strongly recommends that the state **adopt an individual mandate**. On both cost and policy grounds, this approach is the most likely to advance the goal of providing universal health coverage to the state’s residents.

MTF equally strongly urges that lawmakers **reject the proposed payroll tax**. The evidence indicates that such a tax would actually encourage some employers to drop coverage while increasing the overall costs of reform and producing little net additional revenues. The tax would have a particularly severe impact on small businesses in the state, and the timing of the tax could not be worse – the state’s economy is struggling, so far unsuccessfully, to regain the jobs lost in the 2001-2003 recession.

In MTF’s view, the state should **err on the side of caution in expanding Medicaid**. Given the many questions surrounding the federal waiver, budget neutrality, and the potential loss of matching dollars that Massachusetts is currently receiving, the state must proceed with great care in considering any broad expansions in MassHealth.

Given the costs and uncertainties of such a major reform of the state’s health care system, it is clear that the proposed changes will need to be implemented over a number of years, with the commitment of state dollars held within reasonable limits. MTF recommends that the state **earmark for health care reform an additional \$200 million a year over the next three years**.

Individual Mandate

Under an individual mandate, all residents of Massachusetts would be required to have health insurance, and the level of benefits would have to meet standards set by the state. As with the state's mandatory automobile insurance, all residents would have to demonstrate that they have coverage, and would face penalties for non-compliance.

Such a mandate is central to both the Governor's and the House's health reform proposals. While an individual mandate is not included explicitly in the Senate's reform legislation, it is implicit in several provisions that are designed to encourage individual responsibility.

The individual mandate is widely acknowledged among health care experts as critical to the effort to ensure universal coverage. This conclusion is highlighted by The Urban Institute, a national think tank which has conducted the only independent study to evaluate universal coverage in Massachusetts. While extending other forms of coverage would have some impact on reducing the number of uninsured, the Urban Institute study found that only an individual mandate could ensure coverage for those who decline employer plans, do not enroll in Medicaid, or do not work. The study analyzed the effects of both the individual mandate and of a combined individual and employer mandate (an employer mandate would require every employer in the state to provide coverage to their employees or face a new payroll tax).

According to the Institute, the individual mandate would be the least expensive of the options designed to achieve universal coverage. Compared to an employer mandate, the individual mandate would introduce few market distortions in the way people obtain health coverage. Fundamentally, all additional costs would be kept to a minimum because the individual

An individual mandate is widely acknowledged as critical to the effort to ensure universal health coverage and, according to the Urban Institute, is the least expensive of the options for achieving that coverage.

mandate would support – rather than undermine – the existing employer-based system, a system that already covers the vast majority of Massachusetts residents at an annual cost to employers of around \$10 billion.

The Urban Institute study also noted another key advantage of the individual mandate: It would actually increase employer coverage without imposing any new requirements on employers. With all individuals legally obliged to have insurance, there would be greater pressure on employers to offer coverage as firms compete to attract workers. In addition, those employees who currently decline their employer's offer and opt to go without insurance would want to join their employer's plan once the individual mandate became effective. The Institute concluded that under an individual mandate employers would spend an additional \$210 million a year on their employees' insurance.

An individual mandate would compel younger healthy individuals to obtain coverage. This is vital for two reasons. First, the young now comprise the largest proportion of the uninsured, as a young worker is twice as likely to be uninsured as someone over 35. Covering this group is a key step towards universal coverage.

Second, bringing young healthy individuals into the market would better spread risk. Health insurance works by distributing the costs of illness across a broad spectrum; the costs to the individual are the lowest when

many healthy people are buying insurance. Without the individual mandate, those individuals with the greatest likelihood of becoming ill would be the most likely to buy insurance. If only those with a greater risk of ill health participated, the price of premiums would rise to meet the higher costs of covering this group. And as premiums rose, those least likely to need the insurance would drop their coverage, further increasing the costs of covering the remainder. This cycle has historically made insurance less and less appealing to younger people who are most likely to be in good health.

Concerns have been raised about the practicalities of implementing and policing an individual mandate for health coverage. However, there is already a successful precedent for such a mandate in Massachusetts. In 1989, the Legislature enacted a bill which required students to have health insurance coverage as a condition for enrollment in higher education. This coverage, known as QSHIP, vastly reduced student reliance on the Uncompensated Care Pool.

In the broad national debate over health reform, the only significant economic criticism of the individual mandate has been affordability. However, due to the lower numbers of uninsured in Massachusetts, the state is in the fortunate position of needing to subsidize relatively few individuals. Consequently, each of the proposals requiring the individual mandate is also able to include substantial provisions for assisting the estimated 200,000-240,000 uninsured individuals who cannot afford insurance.

Furthermore, all of the proposals now under consideration contain plans for new, low cost health insurance products, possibly at half the price of current coverage. These products will make insurance more affordable for those earning above the

poverty level but previously priced out of the market. The combination of subsidies and low cost products addresses the issue of affordability and makes the individual mandate a viable option for achieving universal coverage in Massachusetts.

Payroll Tax

The House has proposed to finance a portion of the costs of expanded health coverage by imposing a new payroll tax on employers who do not offer health insurance to their employees.

Unfortunately, this payroll tax would undercut the goals of the House's health reforms by undermining existing employer-based coverage and raising the overall costs of reform while producing little new revenue. Even worse, it would place an added burden on the already weak Massachusetts economy, putting at risk the Commonwealth's ability to sustain the health coverage that it already provides.

The new payroll tax proposed by the House would undermine existing employer-based coverage, raise the overall costs of reform while producing little new revenue, and place an added burden on the already weak Massachusetts economy.

Perverse Incentives One of the main problems with the proposed tax is the perverse incentives it would create.

Over the last five years, the number of small firms that offer insurance to their employees has been steadily falling in response to higher premiums. The new payroll tax would accelerate this trend of declining coverage rather than reversing it.

Under the House plan, employers who do not provide health coverage would be subject to a tax ranging from five to seven

**MTF Analysis of the Proposed Payroll Tax -
No New Revenues**

According to the House’s original estimates, the proposed payroll tax would raise \$650 million. However, that proposal contained several serious flaws. As the Foundation determined shortly after the House’s plan was announced, more than half of the revenue from the new tax would be derived from high-salary firms that already provide health insurance for their employees. The tax proposal was then substantially amended, capping the salary subject to the tax at the same level as Social Security contributions and exempting the salary of individuals with health coverage from a source other than the employer, for example under a spouse’s policy.

These amendments addressed the deficiencies in the House’s bill but also greatly reduced the potential revenues. After accounting for the changes, the House reduced its revenue estimate to \$356 million, a figure that we believe significantly overstates the potential revenues from the tax. Based on the Foundation’s analysis, the revenue derived from the tax would be \$175 million, which when combined with the proposed elimination of the \$160 million insurer surcharge would produce virtually no new revenues.

Summary of MTF’s Revenue Estimate

	Number of Employees		Totals
	11 to 99	100 +	
Total payroll (billions)	\$36.00	\$88.30	\$124.30
Employers not offering insurance	7%	2%	
Payroll of firms not offering insurance (billions)	\$2.52	\$1.77	\$4.29
Percent of workers with coverage obtained from source other than employer	30%	30%	
Payroll of firms not offering insurance reduced for exempted employees (billions)	\$1.76	\$1.24	\$3.00
Proposed tax rate	5%	7%	
Estimated revenue (millions)	\$88	\$87	\$175

percent of payroll. While the intended purpose of the tax is to create a financial incentive for firms to provide health coverage for their employees, its impact would be the opposite – because the cost of the tax would be significantly lower than the cost of providing insurance. For this reason, it is inevitable that some employers who can barely afford the health care expenses they currently face would opt to drop their coverage and pay the tax instead. And employers who do not currently provide health coverage would have no financial incentive to do so.

Cost As a result of the perverse incentives and other factors, the new payroll tax would raise the total costs of providing universal coverage. According to the Urban Institute report, the collective additional spending by government, employers and individuals would be nearly twenty percent greater under an approach that combined an individual mandate and an employer mandate with a payroll tax, compared to an individual mandate alone. Not only would the existence of the tax reduce the societal pressure on employers to offer insurance, but – as the Institute’s modeling confirms –

**MTF Analysis of the Proposed Payroll Tax
(Continued)**

The amended payroll tax is designed to affect only firms that do not provide health insurance. The tax is levied on all firms with more than 10 employees, but allows companies to credit their health care costs against their tax liability. In the event that these expenses are equal to or greater than the liability, the employer will owe nothing. For firms with 11-99 employees there is a five percent payroll tax; for firms with 100 or more employees there is a seven percent payroll tax.

The Department of Revenue provided the payroll statistics used in the Foundation's revenue estimate. These figures show the total 2005 payroll for all Massachusetts firms, broken down by company size and capped at the Social Security contribution level of \$94,200.

According to the Division of Health Care Finance and Policy, seven percent of Massachusetts firms with 11-99 employees and two percent of firms with 100 or more employees do not offer health insurance. Based on these percentages, the payroll of companies that do not offer insurance totals approximately \$4.29 billion.

Because the salaries of individuals with coverage from another source are exempted from the tax, we have reduced the estimated payroll of firms not offering insurance by 30 percent to a total of \$3 billion. National studies have concluded that between 30 and 50 percent of employees of firms that do not offer insurance have coverage from another source; we have used the more conservative 30 percent figure.

Applying the proposed tax rates – five percent for companies with 11-99 employees and seven percent for those with 100 or more employees – results in estimated total revenues of \$175 million from the tax.

Proponents of the payroll tax have argued that the new tax is more equitable than the existing insurer surcharge, which would be abolished under the House proposal. The annual \$160 million surcharge is currently levied on insurers and those companies who self-insure and is used to help fund the Uncompensated Care Pool.

However, it is almost certain that the planned relief from the surcharge will fail to reach all employers. While those who self-insure would receive a reduction in their costs of approximately 1.5 percent, other companies would see savings only if insurers elected to pass them on. Given the escalating costs of health insurance, which have been increasing at double digit rates for the past few years, at best employers would see a slightly lower rate of growth in their premiums for one year. What is striking, however, is that the imposition of the payroll assessment combined with the abolition of the surcharge would raise virtually no new revenues.

the tax would give an economic incentive to some employers to drop their coverage because their employees would be better off receiving publicly subsidized insurance. This is true not only when public coverage is

cheaper for the employee, but also when the public insurance is more comprehensive than the employer-provided alternative. This adds to the total costs because more extensive care is more expensive care. In the

Urban Institute simulation, over seven percent of those who currently receive employer coverage in Massachusetts – an estimated 290,000 individuals – would lose it.

While the House bill differs in some respects from the proposal analyzed by the Urban Institute, it also contains a largely overlooked provision that would create additional incentives for certain employers to drop their existing coverage. Under current state law, individuals who earn less than 300 percent of the federal poverty level are eligible for a state subsidy towards the costs of their coverage. Normally, this eligibility is limited to individuals who were previously uninsured.

However, the House bill extends the eligibility for a state subsidy to employees covered under an employer plan, providing the employer pays the state the amount it was previously contributing for employee coverage. As subsidies would then go to the employee, this could make employees substantially better off. As a result, employers with a large proportion of workers earning under 300 percent of the federal poverty level would be encouraged to drop coverage in order to help their employees. At the same time, it would necessitate additional spending by the state.

Economic Impact The proposed payroll tax would also have significant negative economic impacts, placing an added burden on the Massachusetts economy at a time when the state's job growth is badly trailing the nation's.

Firms operating in Massachusetts face some of the nation's highest labor costs, health insurance premiums, energy costs and unemployment insurance taxes. A new payroll tax would only worsen the competitive disadvantages that these firms already must contend with as a result of these high costs.

Massachusetts has long had the reputation as a state that is unreceptive to business. While the tax reforms of the 1990s went a long way toward reversing that perception, the spate of business tax increases in recent years (adopted under the guise of “loophole closing”) has resurrected that image. The negative perception would only be strengthened by the imposition of an expensive new payroll tax, which would brand Massachusetts as the only state other than Hawaii with an employer mandate to provide health coverage.

Industries such as manufacturing and tourism would be at greater risk of job loss and closures as a result of the payroll tax, because labor comprises a greater proportion of their costs and margins are low.

Looking toward the future, Massachusetts is trying to develop those industries which will power economic growth in the coming decades, in areas such as life sciences, telecommunications and software. Over the last year, in particular, we have been losing ground in attracting and retaining these companies – despite large advantages such as the presence of world class universities and access to venture capital – because of fierce competition from other states.

Unfortunately, the proposed tax would hit businesses, many of them start-ups, in the very sectors we are trying to stimulate. This would come at a time when the state is already performing poorly in translating one of its core strengths – innovation – into employment, as a recent report from the Massachusetts Technology Collaborative concluded.

The tax would also have a range of other negative economic consequences, including some combination of higher prices, lower

wages, and tighter margins; those impacts will vary with each industry's – and each firm's – individual circumstances.

What is clear is that the state's small businesses are likely to be the most severely affected by the new tax. In the short term, some firms may be able to absorb the tax by passing the costs to consumers in the form of higher prices or by taking temporary measures such as postponing the hiring of new staff. Other small businesses will find it necessary to lay off some employees to afford the costs of the new tax for their remaining workers.

This will be a particularly attractive option for firms who can reduce their tax rate – or escape the liability altogether – by reducing their workforce to ten or fewer employees, which would exempt them from the tax. Finally, the tax may even force closures among firms who are unable to lay off workers and have neither the margins nor the capital to finance the tax. Certain industries, such as manufacturing and tourism, are likely to be at a higher risk of job losses and closures because labor costs comprise a high proportion of their costs and margins are low.

Over the longer term, the tax is almost certain to result in lower wages in many firms. On average, firms that do not offer insurance already pay less than firms that do, and the tax would further increase the gap between those firms. As a result, some of the state's lowest paid workers could face even lower wages in the future. The Employment Policies Institute has found that those most harmed by a payroll assessment are “less likely to be educated, and more likely to be a minority, a single parent, and unmarried.” Where the minimum wage prevents employers from reducing the wages of employees, more jobs – or hours of work – will be lost. The effect of this could be sizable: The Employment Policies Institute concluded that 43 percent

of the employed uninsured earn within three dollars of the minimum wage.

In addition, the timing of this tax, coming during a period of lackluster job growth in Massachusetts, would make its impact even more damaging. While the United States as a whole exceeded pre-recession job levels some time ago, Massachusetts has only regained 36,000 of the 205,000 jobs lost in the 2001-2003 recession. In fiscal 2005, the rate of job growth in the Commonwealth was only one-third the nation's, and recent trends give no cause for optimism. In August, September and October, Massachusetts actually lost jobs, and in November added only 500 jobs – an annual rate of growth of less than 0.2 percent.

Fairness Proponents of the payroll tax have talked about its fairness, but this claim falls short in two important respects.

First, the vast majority of businesses who do not provide health coverage would escape the new assessment. Under the provisions of the House bill, firms with ten or fewer employees would be totally exempt from the tax. According to statistics from the Division of Health Care Finance and Policy, these firms comprise 93 percent of all employers who do not offer insurance and employ 36 percent of the working uninsured. Since almost all firms with over 100 employees offer health insurance, the burden of the tax would fall on only 4,000 small to mid-sized firms.

The tax would also be unfair to the employees of firms that would have to pay the assessment. The firms subject to the tax will typically be contributing to the costs of insuring the employees of exempt firms, rather than contributing towards the coverage of their own employees. This is because, due to lower average wages in smaller firms, an employee of an exempt firm is more likely to be eligible for the subsidies than an employee of a firm that must pay the assessment.

Medicaid

The state's Medicaid program – formally known as MassHealth – is central to health reform in Massachusetts. All three of the major reform proposals now under consideration would increase MassHealth spending – which is currently matched dollar-for-dollar by the federal government – and, in the House and Senate plans, substantially expand eligibility for the program in the effort to reduce the number of uninsured. In each case, however, the proposed expansions of Medicaid spending and eligibility depend upon approval from Washington. Moreover, the timetable for health care reform is also being driven by the potential loss of almost \$400 million of federal Medicaid reimbursements under a July 1, 2006 deadline agreed upon in the state Medicaid waiver.

Thus, a key financial question for the reforms is what kind of limitations may be placed on the federal matching funds. At the same time, there is the further risk that expanded eligibility could balloon the costs of the program beyond affordable levels. This could happen if many of those who are currently privately insured switched to Medicaid coverage if they became eligible as a result of the reforms.

The Waiver The Massachusetts Medicaid waiver constrains the design of any health reform program dependent on federal funds. Without the waiver, the state would receive federal matching funds only for the costs incurred in providing medical care for a federally defined base population comprised of very poor families and the disabled. Waivers are granted to states to allow them to tailor their Medicaid programs to their specific populations as well as to encourage cost savings.

The waiver gives the Commonwealth latitude in spending its Medicaid dollars on two conditions. First, the waiver requires that the base population receive a specified

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standard of care. Second, the federal contribution must be no more than it would have been in the absence of a waiver. That is to say, if the base population can be treated more cost effectively under the waiver, additional federally matched funds are available for expanding coverage to other populations not traditionally covered by the Medicaid program.

Budget Neutrality The projected total cost of covering this base population without a waiver is known as the budget neutrality cap. It is calculated over the whole life of the waiver, which for Massachusetts runs from 1998 to 2008. Expenditures above this limit must be borne entirely by the state.

The difference between the cap amount and actual expenditures is known as the budget neutrality cushion. This cushion represents the additional amount that Massachusetts can spend over the remaining three years of its waiver and still attract federal matching funds. The administration calculates that \$338 million is available under the cushion. While others disagree, the state should take a conservative approach to this issue.

Federal Disallowances Although states have some freedom in their spending under a waiver, the Centers for Medicare and Medicaid Service (CMS) – the federal agency that administers the Medicaid program – may still decline federal matching funds for certain kinds of expenditures. And if the state spends over the budget neutrality cap without prior federal agreement, it may be required to scale back eligibility for

expansion populations or even, as a last resort, rescind such expansions in their totality.

CMS has determined that Massachusetts must discontinue some of the practices it has used to draw down matching federal funds under the current waiver. In order to preserve \$385 million in federal dollars, the Commonwealth must either identify qualified existing spending or introduce new spending that will gain approval by CMS. CMS has said these plans must be submitted no later than January 15, 2006 to allow sufficient time to be reviewed and take effect July 1, 2006.

Eligible But Unenrolled Individuals

Enrolling the 40,000 to 60,000 individuals who are currently eligible for MassHealth, but unenrolled, can be accommodated without exceeding budget neutrality. The Governor's, House and Senate plans all aim to cover this group.

The House and Senate plans also increase the enrollment cap for MassHealth programs for the long term unemployed, disabled and those who are HIV positive. These limited measures should be affordable and would provide the most appropriate coverage for these medically complex populations.

Eligibility Expansions The House and Senate proposals go much further than uncapping enrollment levels in existing programs. While the eligibility proposed in the two legislative plans differs in several respects, it is an open question whether either approach is affordable. Given these uncertainties, it will be critical for the state to err on the side of caution in considering expansions to the current program.

Other Financing Concerns

There are several other financing concerns with the reform proposals. The House plan relies on an initial \$255 million from tobacco settlement funds in fiscal 2007, an amount which would drop to \$160 million

per year in 2008 and 2009. However, it is inaccurate to consider these tobacco settlement dollars as "new" money, since they are already being spent to support the state budget and will be needed for that purpose in future years.

In addition, there are questions in both the House and Senate proposals about whether funding is sustainable given the realities of medical inflation.

As noted earlier, the House plan depends on raising \$356 million annually from the payroll tax by fiscal 2009. Based on the Foundation's estimates, this tax would generate only \$175 million a year and produce almost no net additional revenues given the House plan's elimination of the present \$160 million annual surcharge on insurers.

MTF Recommendations

Expanding health care coverage to all Massachusetts residents is one of the most complex – and potentially expensive – policy initiatives undertaken by the state in many years. The Commonwealth's leaders – the Governor, the House, and the Senate – have each produced substantive proposals to reach that goal. While their respective approaches differ in many respects, several important elements stand out as key to any successful health reform that advances the goal of expanded health coverage while preserving the competitiveness of the state's economy.

Adopt an individual mandate – arguably the most important component of successful health reform. As the foregoing analysis has shown, the individual mandate is the least expensive approach and the one most likely to extend coverage to all Massachusetts residents. It would preserve the existing employer-based system – without introducing perverse incentives that undercut current coverage or impose unnecessary additional costs that would

have to be borne by the state. It would provide the greatest opportunities for maximizing private dollars to support expanded coverage. And it can be structured in a way that preserves affordability.

While the individual mandate itself requires little funding to implement, in order to be viable it must be supported by several policy building blocks.

Make available pre-tax treatment of health benefits. All employed individuals should be made eligible for pre-tax treatment of their health benefits. For many of those who are self-employed, work part-time, have multiple employers, or who work for an employer who does not offer coverage, this tax benefit – effectively a 15-30 percent decrease in the cost of their health premiums – would make health coverage affordable without additional cost to the state. This benefit would also attract those who have declined the coverage offered by their employer because of the cost.

Develop flexible and portable private insurance products. Without new health insurance products that offer a broader range of benefit packages to choose from, health coverage will remain both expensive and hard to access for many individuals who have some ability to pay. This is especially true for those who have foregone health insurance because they judge themselves to be at low risk of illness or injury. Products which achieve large cost savings – and thus lower premiums – through higher deductibles and copays and tighter network requirements would be an affordable alternative for these individuals.

Provide subsidies for those who cannot afford insurance unassisted. Even with pre-tax treatment of benefits and new private insurance products, health coverage will remain out of the financial reach of many Massachusetts residents. Although the majority of the uninsured work, many have incomes below 300 percent of the federal

A Critical Administrative Element of Reform

The so-called Insurance Exchange/Connector, as proposed respectively in the Governor's and the House's plans, will make it possible to ensure pre-tax treatment of health benefits and to create affordable new private insurance products for individuals and families. It will provide the infrastructure through which hard-to-reach individuals and small groups can better access private health insurance. It will also reduce the level of administration and outreach required on the part of insurance companies.

poverty level; even at that level, an affordable policy could easily consume 12 percent or more of household income. In order to cover these individuals, the state will need to provide subsidies to help offset the costs of insurance. The subsidies should be scaled by income from zero to 300 percent of the federal poverty level, requiring smaller contributions from those who earn less. This graduated approach establishes the principle of shared responsibility while providing flexible coverage at little or no cost to those who need it most.

Ensure that all who are eligible for MassHealth coverage are enrolled. While the combination of subsidies and affordable products available through the proposed Exchange/Connector would cover nearly 90 percent of the state's uninsured, the remainder should be covered through MassHealth, the costs of which are matched dollar-for-dollar by the federal government. There are an estimated 40,000 to 60,000 individuals who are eligible for MassHealth coverage by virtue of income or disability but who remain unenrolled. There should also be a limited expansion of MassHealth

coverage in the CommonHealth, Essential and HIV programs to cover the approximately 18,000 additional individuals who have demonstrably complex medical needs but are currently excluded due to enrollment caps.

Fully reimburse Medicaid providers for their costs. To succeed in the long run, the state's reform initiative must provide for the overdue increases in Medicaid reimbursement rates. Systematically underpaying providers results in cost-shifting to private insurance and employers and threatens the financial health of the hospitals which treat a disproportionate number of Medicaid patients.

Implement reform over three years. Given the costs of these components, the proposed reforms will need to be implemented incrementally, and the commitment of state dollars kept within reasonable limits. MTF recommends that the state earmark for health care reform an additional \$200 million a year over the next three years. In the Foundation's view, this level of funding represents the upper limits of affordability for the state budget, which is already burdened by the rapid growth in health care costs that is affecting every employer in the state. At the same time, the \$160 million insurer surcharge should be retained, although with universal coverage the surcharge would be shared by the entire population.

This incremental approach to achieving universal coverage mirrors the staged roll-out proposed by each of the plans. By the end of fiscal 2009, the state will have had three years in which to gather data and resolve some of the outstanding questions regarding the precise size of the uninsured population and how utilization of the free care pool will change. The state will also be able to evaluate which components of reform have been the most successful and

determine what elements of reform need to be amended.