Massachusetts Taxpayers Foundation

Massachusetts Health Reform: The Myth of Uncontrolled Costs

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Overview

Three years after Massachusetts enacted its groundbreaking health care reform law, Chapter 58 of the Acts of 2006, the number of residents with health insurance has increased by more than 432,000, giving the Commonwealth by far the lowest rate of uninsured residents in the nation.

An analysis by the Massachusetts Taxpayers Foundation finds that the cost of this achievement has been relatively modest and well within early projections of how much the state would have to spend to implement reform.

Based on actual and projected spending data for the first four years of health care reform, the Foundation concludes that state budget spending on health reform has grown from a base of $1.041 billion in fiscal 2006 to a projected $1.748 billion in fiscal 2010. That is an increase of $707 million, half of which is supported by federal reimbursements. The $353 million state share translates into an average yearly increase of only $88 million (see Table 2, p.6).

How has Massachusetts been able to reduce the number of uninsured to less than three percent of its population while spending so few new public dollars? To a large degree, the answer can be found in the unique way the law's programs and incentives act in concert to expand access to subsidized coverage for low-income adults and children largely through a reallocation of funds from uncompensated care, while also encouraging enrollment in employer-sponsored and individual health insurance plans.

This "shared participation" approach to reform was instrumental in solidifying support for Chapter 58 from a broad spectrum of stakeholders, including hospitals, physicians, insurers, employers, unions and community groups, and it has helped keep the support solidly intact despite occasional but significant disagreements over some aspects of implementation.

Table 1 - Changes in the Massachusetts Insured Population Since the Implementation of Health Care Reform (rounded to the nearest 1,000)

Type of Insurance	6/30/2006	12/31/2006	6/30/2007	12/31/2007	6/30/2008	9/30/2008	Change since 06/30/06
Employer Group	4,292,000	4,356,000	4,396,000	4,422,000	4,431,000	4,440,000	148,000
Individual Purchase	40,000	39,000	36,000	65,000	76,000	79,000	39,000
Commonwealth Care	0	18,000	80,000	158,000	176,000	169,000	169,000
MassHealth	705,000	741,000	732,000	765,000	785,000	781,000	76,000
Total Members	5,037,000	5,154,000	5,244,000	5,410,000	5,468,000	5,469,000	432,000

Source: Massachusetts Division of Health Care Finance and Policy, *Health Care in Massachusetts: Key Indicators Report*, February 2009

Setting the stage for health care reform

While groundbreaking in its scope, the Massachusetts health care reform law evolved from a series of earlier reforms designed to ensure that all residents would have access to necessary medical care, regardless of income or health insurance status.

In 1985, the Commonwealth created an "uncompensated care pool" to reimburse acute care hospitals and community health centers for a portion of the costs of caring for low-income uninsured patients who did not qualify for Medicaid or other public programs. The pool was funded by a combination of federal and state dollars, assessments on the state's hospitals, and a surcharge on payments to acute hospitals and ambulatory surgery centers. For the most part, the cost of the provider surcharge was passed through to the employer community in the form of increased health insurance premiums.

Just over a decade later, Massachusetts was granted a federal "Medicaid waiver," giving the state added flexibility in the way it could spend Medicaid dollars. (Massachusetts receives a 50-50 match from the federal government for the state's Medicaid spending.) Massachusetts used its initial waiver authority to enroll eligible adults and children in private Medicaid Managed Care Organizations (MMCOs) through MassHealth, which includes both Medicaid and the State Children's Health Insurance Program (SCHIP). MassHealth members receive comprehensive medical benefits at little or no cost.

Together, uncompensated care and MassHealth represented a major public investment in meeting the health care needs of low-income residents. In FY06, the state fiscal year before health care reform was implemented, the price tag for uncompensated care reached $656 million and federal funding for Medicaid Managed Care Organizations totaled $385 million.

A key goal of health care reform was to minimize the need for new state spending by reallocating existing funds from uncompensated care to subsidized, private coverage for low-income, uninsured residents. Using estimates of the number of low-income uninsured residents in various income categories and the number of low- and moderate-income people receiving uncompensated care, policymakers projected that the cost of uncompensated care would decline as state subsidies for public insurance programs increased.

In 2006, the Centers for Medicare & Medicaid Services (CMS) and the Commonwealth reached agreement on an extension of the Medicaid waiver that gave the state the flexibility and continued federal funding it needed to accomplish this goal. A framework was now in place to achieve nearly universal health care coverage in Massachusetts by expanding both public and private insurance.

Early growth in subsidized care raised red flags

The centerpiece of health care reform on the public side is Commonwealth Care, a state-run subsidized insurance program for low- and moderate-income residents who are ineligible for MassHealth and who cannot otherwise afford coverage. Commonwealth Care members receive their coverage through private Medicaid Managed Care Organizations and their premium subsidies are based on family income.

Enrollment in Commonwealth Care had reached 80,000 members by the end of FY07, the first full year of health care reform, and six months later that number had almost doubled to 158,000, raising concerns that there were many more low-income uninsured residents than had been estimated. Anticipating that Commonwealth Care would continue to grow at a rapid pace, the Patrick administration projected that total state and federal spending for Commonwealth Care would jump to $1.09 billion in FY08 and $1.32 billion in FY09. In the eyes of some critics, this was evidence that Massachusetts health care reform was proving to be unaffordable.

As it turned out, however, the initial sharp climb in enrollment was not a sign that the state had grossly under-counted the uninsured population; rather, it was a function of the extraordinary success in enrolling individuals much faster than had been anticipated. Through a coordinated effort by several state agencies, the state had automatically enrolled tens of thousands of eligible individuals who had been receiving uncompensated care and many more were enrolled through a massive outreach program conducted by community agencies and by the state itself.

Instead of continuing its rapid growth, Commonwealth Care enrollment peaked at 176,000 members in mid-2008 and spending has since declined. In fact, as Massachusetts faces a budget crisis of historic proportions, Commonwealth Care is expected to spend at least $69 million less than its $869 million appropriation for FY09. The surplus will be carried forward in the Commonwealth Care Trust Fund, reducing the amount that will have to be appropriated for health care reform in FY10.

Calculating the public cost of health care reform

Using actual and projected spending data for the first four years of implementation, the Foundation has analyzed increases and decreases in each of the major spending categories that comprise health care reform. The analysis, summarized below and in Table 2, finds that new spending for Commonwealth Care and MassHealth was largely offset by decreases in uncompensated care pool payments and in supplemental payments to Medicaid Managed Care Organizations.

New Spending Under Health Care Reform: Commonwealth Care and MassHealth

As discussed above, fears that Commonwealth Care spending would reach $1.32 billion by FY09 proved to be unwarranted. Current estimates place the actual price tag for FY09 at $800 million and project FY10 spending of $880 million.[1] While this is "new" spending, most of it is effectively offset by a shift in funding from institutional support to support for individuals' health coverage.

The second major area of new public spending under health care reform is related to MassHealth. Prior to reform, MassHealth was providing full coverage to more than 700,000 state residents, but there were gaps in eligibility and coverage for certain categories of low-income and disabled individuals. Chapter 58 closed these gaps by expanding MassHealth eligibility for children, the long-term unemployed, legal immigrants, people living with HIV, children and working adults with

[1] The $880 million, which is used in this report, is an administration estimate and is also included in the House budget. Because of proposed cutbacks in eligibility for some categories, the Senate Ways and Means budget is reduced by $140 million.

disabilities, and small businesses with low-income employees. It also restored a number of MassHealth benefits that had been cut four years earlier.

In addition, Chapter 58 mandated substantial Medicaid rate increases to hospitals and physicians who had been underpaid for years. However, the Governor's mid-year budget cuts in FY09 effectively eliminated the increases, so they are not included in the spending for FY09 and FY10.

In total, the MassHealth provisions of health care reform will cost an additional $487 million in FY10.

Reduced Spending Under Health Care Reform: Uncompensated Care and Payments to Medicaid MCOs

The Massachusetts Uncompensated Care Pool was replaced by the Health Safety Net on October 1, 2007, and the state implemented new eligibility rules and benefits. With Commonwealth Care and MassHealth eligibility and benefit expansions in place, and with the state's requirement that residents maintain insurance coverage if it is affordable, the number of people eligible for uncompensated care has fallen significantly. As a result, the Health Safety Net is expected to spend $381 million in FY10, $275 million less than the amount spent on uncompensated care before health care reform.

The supplemental Medicaid MCO payments that had been used to support the state's two major safety net hospitals, Boston Medical Center and Cambridge Health Alliance, were eliminated under health reform, and this $385 million in federal spending was shifted into expanded coverage for low-income, previously uninsured individuals.

Finally, recognizing that the Boston Medical Center and Cambridge Health Alliance would continue to need financial support during the transition to Commonwealth Care, the drafters of Chapter 58 authorized new supplemental payments – known as "Section 122" payments – for three years starting in FY07. These special payments end in FY09 so there is no net increase in annual spending from FY06 to FY10 in this category.

Overall, the projected increase in spending for Commonwealth Care and MassHealth expansions from FY06 to FY10 is $1.367 billion, and the net decrease in spending for uncompensated care and Medicaid MCO payments is $660 million. This yields a net increase in health care reform spending in fiscal year 2010 of $707 million, with the state's share $353 million, an average annual increase of just $88 million.

Table 2 - Health Care Reform Spending FY06-FY10
($ millions, projections as of May 2009)

	FY06 Actuals	FY07 Actuals	FY08 Actuals	FY09 Estimated Spending	FY10 Projected	Change FY06-FY10
Commonwealth Care	0	133	628	800	880	880
MassHealth Coverage Expansions, Rate Increases and Benefit Restorations	0	224	355	452	487	487
Uncompensated Care Pool/Health Safety Net Trust Fund	656	665	416	406	381	-275
Supplemental Payments to Medicaid MCOs (federal share)	385	0	0	0	0	-385
Supplemental Payments to Safety Net Hospitals	0	287	287	200	0	0
Total	**1,041**	**1,309**	**1,686**	**1,858**	**1,748**	**707**
State Share of FY06-FY10 Increase in Spending						**353**

Source: MTF analysis of Patrick administration data. Massachusetts receives 50 percent in matching funds from the federal government for the state's Medicaid spending, which includes all waiver-related spending.

Revenue sources are earmarked for health care reform

While the Commonwealth faces a grave budget crisis brought on by a collapse in tax revenues, it is important to note that the state has identified various revenue sources to cover much of the increase in health reform spending. A $1 per pack increase in the state cigarette tax is expected to generate $160 million for health reform in FY09 and $145 million in FY10, and a “one-time assessment” on health care providers and insurers will produce $53 million in FY09.

Other revenue sources that were built into Chapter 58 include a continuation of the annual $320 million uncompensated care contribution from the private sector to the Health Safety Net Trust Fund; individual tax penalties assessed on Massachusetts residents who do not meet the requirements for maintaining coverage, projected at $12 million in FY09 and FY10; and the employer fair share assessment, projected at $12 million in FY09 and $20 million in FY10.

In March 2009, the Patrick administration proposed using $40 million of federal stimulus funds for acute hospital rate increases in FY10 and $120 million to continue supplemental payments to Boston Medical Center and Cambridge Health Alliance in FY10, but given the state's fiscal crisis these payments are not expected to take place.

Private health care coverage accounts for almost half of the newly insured

The dramatic increase in insured residents that has resulted from the introduction of Commonwealth Care and the expansion of MassHealth is only one aspect of the health care reform success story in Massachusetts. Another hallmark of Chapter 58 is its use of individual and employer incentives and responsibilities to build on the state's historically high level of employer-sponsored coverage.

Almost 90 percent of the Massachusetts businesses that are subject to the health care reform law – those with more than 10 full-time-equivalent employees – offer health insurance to their employees. Yet, prior to health care reform, there were tens of thousands of workers in the state who chose not to accept employer-sponsored coverage.

The individual mandate provisions of Chapter 58 require Massachusetts residents to maintain adequate, "creditable" health insurance or be subject to tax penalties unless no "affordable" option is available to them. (The standards for creditable coverage and affordability are determined by the Commonwealth Health Insurance Connector Authority and its public-private board of directors.) With this requirement in place, employer-sponsored enrollment has increased by 148,000 and the number of individuals buying private coverage directly has grown by 39,000 (Table 1).

Strong, steady growth in privately funded coverage has helped dispel concerns that public programs would replace, or "crowd out," private coverage. In fact, the Foundation estimates that the added cost to Massachusetts employers for newly insured employees and dependents is at least $750 million – more than double the $353 million increase in state spending since health reform was enacted.

Conclusion

Massachusetts broke new ground with its approach to health care reform, and thus far the underlying financial model of shared participation is working well, with major strides in reducing the size of the uninsured population and only a marginal impact on state spending.