2010 fall seminar

National Health Care Reform: Challenges and Opportunities

Presented By:

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Agenda

- Massachusetts Health Reform History
- Massachusetts vs. Federal Reform
- Impact on Massachusetts of Federal Reform
- Concerns
- Opportunities

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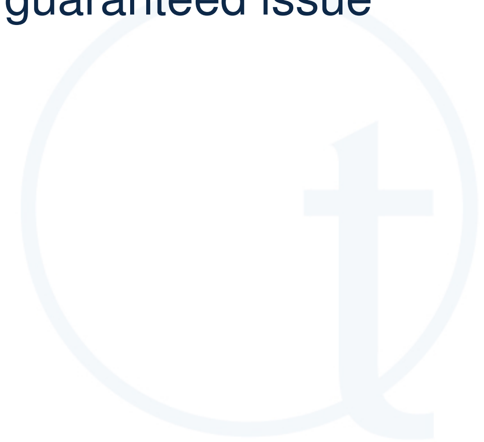
Massachusetts Health Reform (A History)

- Observations of a Participant
  - Reform has been over 20 years in the making
- Dukakis-era Expansion of Coverage (1988)
  - Employer mandate (later repealed)
  - Targeted program expansion
  - Some programs survived (CommonHealth, student insurance, Medical Security Plan)
  - State funds only (no federal participation)

Massachusetts Health Reform (continued)

- "Mass Health" Medicaid waiver (1996)
  - Weld/Clinton-era Medicaid expansion funded jointly by the state and federal governments
  - State demonstration waiver approved in the wake of the Clinton national health reform effort
  - 300,000 previously uninsured persons enrolled in "Mass Health" (expanded Medicaid)
  - Non group insurance reforms also passed (e.g. guaranteed issue and renewability, no pre-ex, formula rating)



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Massachusetts Health Reform (continued)

- Massachusetts Health Reform (2006)
  - Romney-era attempt to complete the circle using the “Mass Health” program and a new “Connector” as the foundation for near-universal coverage
  - Additional federal waiver funds, hospital uncompensated care pool were the main funding sources
  - An individual mandate and “soft” employer mandate increased enrollments
  - A mandatory minimum benefit level (MCC) was established

Massachusetts Health Reform (continued)

- "***Commonwealth Care***" for those not Medicaid eligible (income below 300% FPL) is essentially a Mass Health expansion administered by the Commonwealth Connector - Medicaid managed care organizations provide most of the coverage, and enrollees are highly subsidized
- "***Commonwealth Choice***" program (income over 300% FPL) is a commercial program administered/overseen by the Commonwealth Connector and is designed to help workers afford coverage

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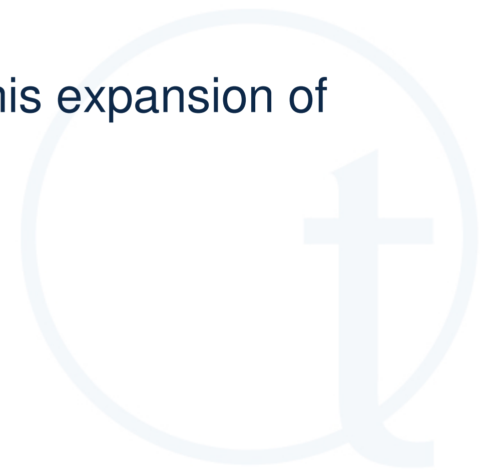
Massachusetts Health Reform (continued)

- An additional 360,000 previously uninsured persons have been enrolled since 2006
- The vast majority (270,000+) have enrolled in Mass Health (Medicaid) or Commonwealth Care (either free of charge or heavily subsidized)
- 91,000 have been insured through Commonwealth Choice (22,000 through the Connector)
- The uninsured rate is now under 3%, a historic low
- Yet the cost of insurance continues to rise
- Federal and state funded subsidies have enabled this expansion of coverage, not underlying cost controls
- A national model, perhaps, but a work in progress



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Massachusetts vs. Federal Reform

- New federal legislation (PPACA) adopts many features of the Massachusetts reform model, e.g.
  - Mandatory nationwide Medicaid expansion
  - Option for states to implement Commonwealth Care type programs
  - Mandatory state-based “exchanges” to promote commercial affordability
  - Individual and “soft” employer mandates
  - Minimum benefit level (“Essential Benefits”)
  - Insurance reforms

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Massachusetts vs. Federal Reform (continued)

- Although the Massachusetts model influenced the federal bill, many details differ, e.g.
  - Medicaid eligibility and subsidy levels
  - Feds use tax credits to subsidize business/individuals
  - Rules (TBD) for operation of state “exchanges”
  - Individual mandate penalty amounts
  - Employer mandate penalties, responsibilities
  - Federal “grandfathering” of existing plans
  - Essential benefits v. Minimum Creditable Coverage

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Massachusetts vs. Federal Reform (continued)

- A major difference affecting Massachusetts (and all states) stems from the way the federal reform bill is financed
- Massachusetts leveraged very generous state funding for public health, Medicaid, and uncompensated care to generate equally generous federal Medicaid reimbursements
- The federal government did not have such leverage and financed the expansion of coverage through new fees and taxes, many on the **health system itself**

Massachusetts vs. Federal Reform (continued)

- New federal health system fees and taxes (a partial list):
  - Annual fees on health plans, pharmaceutical manufacturers, DME sales
  - "Cadillac" tax on excess benefits
  - Medicare reimbursement cuts (health plans, hospitals)
  - Cost of "grandfathering" existing products
  - Medicare Part D subsidy reductions for employers
  - Health plan assessments to fund the cost of running "exchanges"?

Massachusetts vs. Federal Reform (continued)

- Why are these fees and taxes a problem?
- In the absence of underlying controls on medical costs these additional costs may cause commercial premiums to rise even faster
- The problem is even greater in other states that are not as ready for reform as Massachusetts
- These states will face new costs associated with insurance reforms, mandated benefits, Medicaid expansion, etc. in addition to the impact of new fees and taxes

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Impact on Massachusetts

- Not yet clear - HHS regulations will determine
- In general, Massachusetts (a model for reform) should be less affected than most states
- The potential impact ranges from federal deferral to Mass. rules (unlikely) to pre-emption of Mass. rules by new Fed. rules (also unlikely)
- Probably something in between will occur or gradual phase-in of the federal rules
- There are also federal requirements not in conflict with the Massachusetts system that will need to be adopted

Impact on Massachusetts (continued)

- Examples of new federal requirements that need to be adopted:
  - Large employers must automatically enroll employees in health plans (w/employee opt out)
  - No lifetime or annual limits on benefits
  - Restrictive rules on “grandfathered” plans
  - No cost sharing for preventive services
  - Dependent coverage through age 25 (affects SI)
  - New employer reporting requirements

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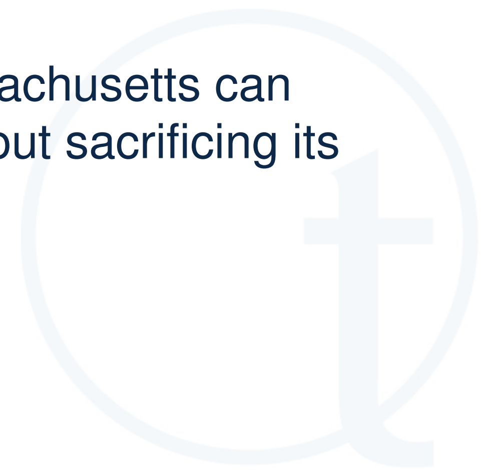
Impact on Massachusetts (continued)

- To summarize:
  - Health system fees and taxes, Medicare cuts may cause commercial premiums to rise faster
  - Will the Mass health reform program and federal waiver funding remain in place or be replaced by new federal rules or by something in between?
  - Employers and health plans face new rules, possible penalties, new reporting requirements
  - Opportunities: Much depends on whether Massachusetts can leverage new federal health reform dollars without sacrificing its existing programs



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Concerns about Federal Reform

- Cost, cost, cost
  - No underlying cost controls, many new health taxes
  - Medicare payment reductions – will there be a cost shift to commercial?
  - Weak individual mandate, adverse selection
  - Cost of insurance reforms nationwide
    - Guaranteed issue, renewability
    - No pre-ex
    - Age rating compression
  - Administrative costs of exchanges, grandfathering

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Additional Concerns

- How will "exchanges" operate?
  - Market-based buyer-seller mechanisms, crypto-regulators, government group purchasers?
  - Federal premium "cram-downs" (like MA small group rate caps)?
- Impact on employers
  - New rules, new constraints, new costs
  - Will more employers drop coverage?
- SI versus FI dynamics
  - Will there be a shift to self insurance?
  - Half the marketplace is already self-insured

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Opportunities in Federal Reform

- A new national focus on the kind of cooperation that brought about reform in Massachusetts
- A chance to avoid Massachusetts' mistakes
- National Medicaid expansion is the best way to cover the uninsured poor
- Exchanges, if designed properly, could begin to create a uniform commercial infrastructure that preserves competitive insurance markets
- Many well-funded federal pilots and demos may spur innovation

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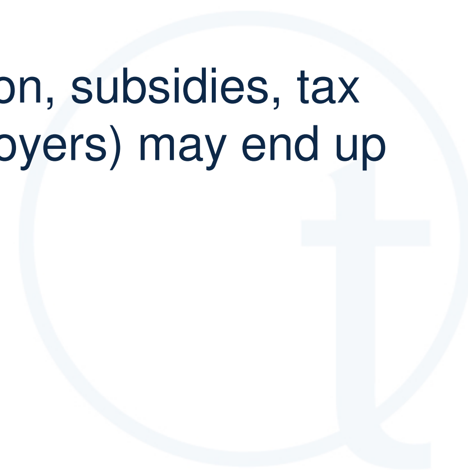
Specific Opportunities

- Premium and cost-sharing credits should help more individuals afford insurance
- Tax credits for small employers (25 employees or less) may help them continue to offer insurance
- Employer temporary reinsurance program for retirees over 55 (80% of claims cost reimbursable between $15,000 and $90,000)
- Temporary high-risk pool for those with pre-existing conditions
- Increased Medicaid and Medicare primary care physician fees

The Prognosis?

- There are many cost drivers in the legislation with some attempts to improve affordability
- It is an expansion of coverage first, reforms second
- Most other states will have a much harder time than Massachusetts making this work
- The Massachusetts experience may be a microcosm of what is to come – e.g. the Connector experience, payment reform and rate caps to hold down cost
- The federal government (through Medicaid expansion, subsidies, tax credits) and the health system itself (including employers) may end up paying most of the bill for expanded coverage



Thank You!