

The Massachusetts Health Insurance Program

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Background: *The Numbers*

The Uninsured in Massachusetts

- Total Commonwealth Population: 6,200,000
 - Insured (94%) 5,830,000
 - **Uninsured (6%) 370,000**

Three-pronged strategy for covering the uninsured:

<100% of FPL	Enroll Medicaid Eligible	70,000 (19%)
100-300% FPL	Subsidize Using Free Care Pool \$	140,000 (38%)
>300% FPL	Affordable Plans Through New Conduit	160,000 (43%)

Note: Uninsured estimates based on August 2006 Division of Health Care Finance and Policy statewide survey
Updated estimates should be available within the next few months

Background: *The Law*

- Massachusetts health care reform law was enacted in April 2006
- “Individual mandate”: all Massachusetts residents are required to obtain “minimum creditable” health insurance by December 31, 2007, as long as “affordable” health insurance is available
 - Cannot be without health insurance for any consecutive 3 month period
- Individuals who do not obtain coverage will be penalized:
 - For tax year 2007, personal income tax filers will lose their personal exemptions, resulting in a tax penalty of \$219 for individual filers and \$439 for joint filers
 - For tax year 2008, personal income tax filers will be assessed one-half the cost of the least expensive health care plan available to them
 - Amount of the penalty will depend on the characteristics of filer and available plans

Background: *The Law*

- All individual penalties to be assessed by Department of Revenue through personal income tax return filing process
- Employer contribution: employers with 11 or more employees who do not make a “fair and reasonable” contribution to “creditable” health insurance coverage for their employees must pay a \$295 annual to the state (“fair share assessment”) to help defray the cost of providing health care
- Employers must offer a Section 125 health insurance plan to allow employees to purchase health insurance on a pre-tax basis, or they may be required to reimburse the Commonwealth for state health care costs of uninsured employees (“free rider surcharge”)

Background: *The Connector*

- “Health Insurance Connector” established by the law as an independent public authority overseen by a board of ten directors.
- Designed to be an insurance conduit or exchange offering:
 - Standardized benefit plans
 - More affordable coverage options – merger of small-group and non-group insurance markets
 - Expanded access – creation of Commonwealth Care (subsidized) and Commonwealth Choice (unsubsidized) programs
- Many key policy decisions (including design of benefit plans and definition of health insurance “affordability”) not set in law, but left to Connector Board

Background: *The Connector*

- Law charges Connector with defining:
 - “Minimum Creditable Coverage” - determining what constitutes “floor” of health insurance coverage that a Massachusetts resident needs to obtain.
 - Affordability Standards - spelling out maximum amount that an individual of a particular income will be expected to spend on health insurance to comply with the individual mandate.
- DOR will use these definitions in enforcing individual mandate and imposing penalties

Individual Mandate: “*Minimum Creditable Coverage*”

Connector Board decided to phase-in definition:

Through December 31, 2008:

Any state-licensed or self-insured health plans

Beginning January 1, 2009:

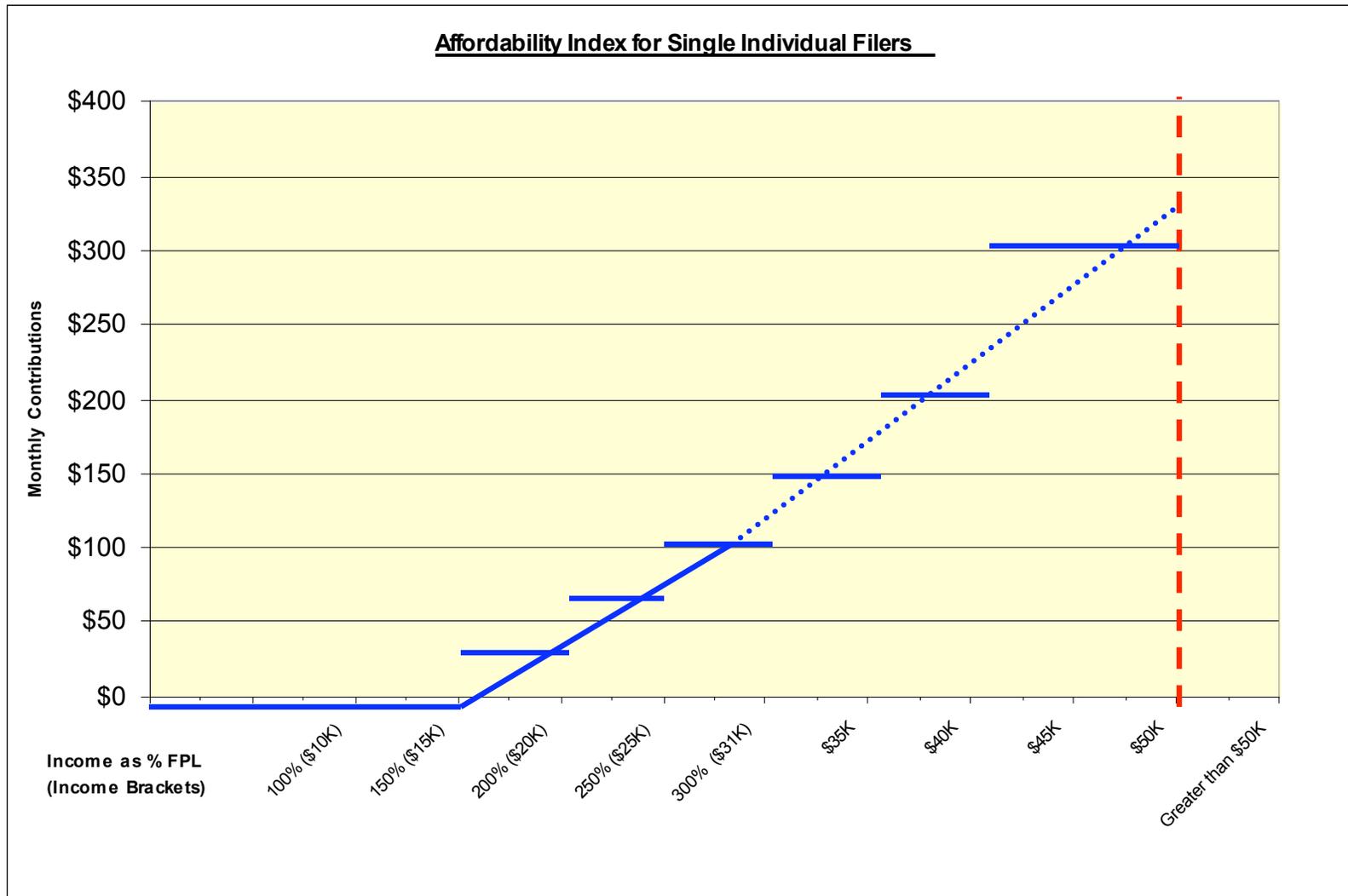
1. Comprehensive health plans, including Rx
2. No annual or per sickness benefit maximum
3. No indemnity fee schedule of benefits
4. Deductible capped at \$2,000/\$4,000
5. Cover (3/6) preventive care visits prior to deductible
6. Out-of-pocket max. of \$5,000/\$10,000

New Connector Program: *Commonwealth Care*

- Government-subsidized, comprehensive health insurance for uninsured individuals with incomes up to 300 percent of the federal poverty level (FPL)
- Sliding fee scale with least expensive enrollee contributions ranging from 1.7% to 4.7% of annual income, ranging from \$35 to \$105 in premium costs to buyers
- Coverage is through a choice of four private health insurance plans – Medicaid Managed Care Organizations (MMCOS)
- Average Premium: 29,000 individuals fully subsidized, others will average \$45 per person per month (\$540 annually)

Individual Mandate: *Affordability*

Connector Board decided to structure affordability by extending Commonwealth Care's enrollee contribution scale:



New Connector Program: *Commonwealth Choice*

- The Connector offers several health plans primarily to individuals and small employers (≤ 50 employees)
- Enrollment began on May 1, 2007 for coverage effective July 1, 2007
- No subsidies
- Premiums: Range from \$200 to over \$500 per month, depending on characteristics of purchaser, with average of \$322 per person per month (\$3,864 annually)

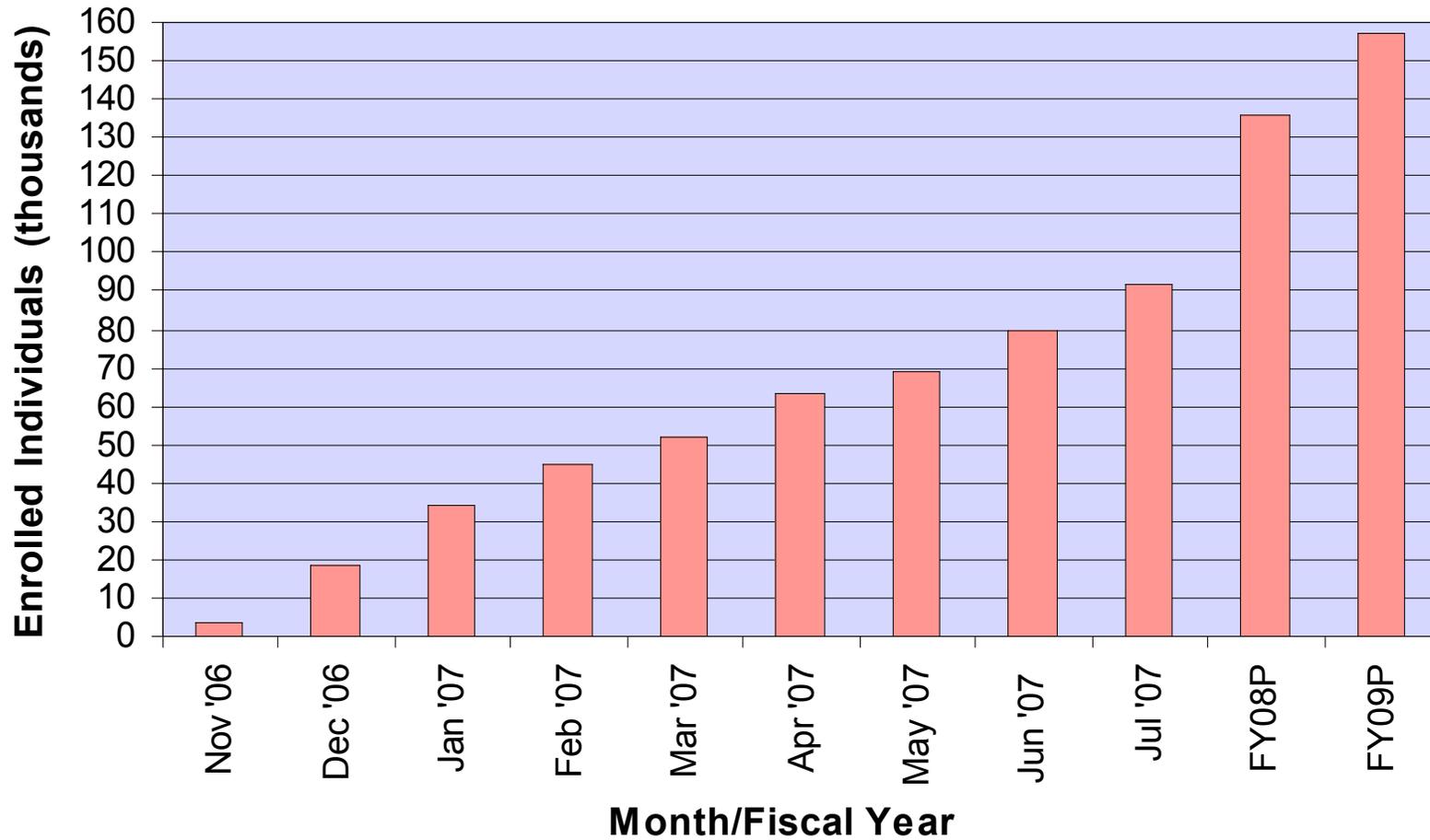
Timeline for Coverage

- Summer 2006: Connector begins operations
- October 1, 2006: Commonwealth Care Phase I (for those with income up to 100% FPL) launched
- January 1, 2007: Commonwealth Care Phase II (for those with income 100-300% FPL) launched
- Spring 2007: Board makes key policy decisions on minimum creditable coverage and affordability
- May 1, 2007: Commonwealth Choice launches

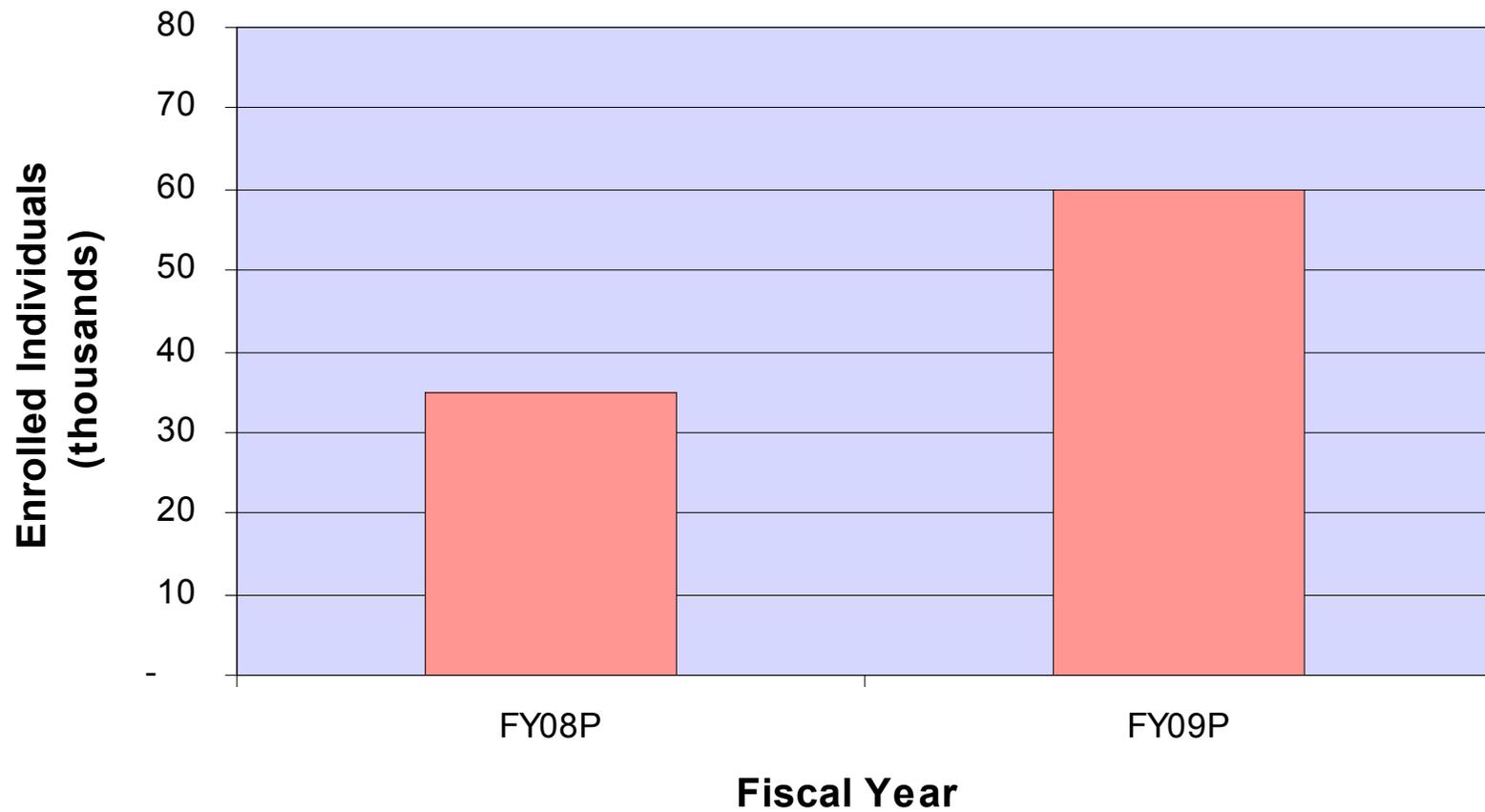
Key State Tax Estimating Issues

- Pre-Tax Health Insurance Expenditures (Tax Loss)
- Impact on Massachusetts Business Profits (Tax Loss)
 - Individually Purchased (through Connector) vs. Additional Purchases through Employers
- Impact on Massachusetts Insurance Premium Taxes (Tax Gain)
- Impact on Massachusetts Economy (Uncertain Tax Impact)

Enrollment History and Projections - Commonwealth Care (Subsidized)



Enrollment Projections - Commonwealth Choice (Non-Subsidized)



Revenue Impacts – State General Fund

- Annual pre-tax spending for Commonwealth Care (subsidized) projected to be approximately \$45 million in FY08 and \$64 million in FY09
 - income tax revenue reduction of \$2.5 million in FY08 and \$3.5 million in FY09 at Massachusetts income tax rate of 5.3%
- Pre-tax spending for Commonwealth Choice (unsubsidized) projected to be \$65-\$70 million in FY08 and \$180-\$190 million in FY09
 - income tax revenue reduction of \$4 million in FY08 and \$10 million in FY09 at Massachusetts income tax rate of 5.3%
- Many in >300% of FPL cohort will enroll through non-Connector programs, available at Connector prices; total additional population of 100,000 uninsured has potential pre-tax spending of \$386 million, for a potential \$20 million annual revenue impact.

Revenue Impacts – State General Fund

- Some uninsured who have access to employer-provided health insurance will purchase plans through their employers, rather than through the Connector Connector plans.
- Increase in use of employer-provided plans will increase business costs, resulting in a decline in taxable business income. We do not yet have a projection for the resulting tax revenue loss.
- Offsetting revenue: some premium payments will be taxed at a premium tax rate of 2.28%, so that a significant portion of income tax revenue loss should be recovered.

Revenue Impacts – Dedicated Funds

- DOR is not involved in estimating the \$295 “fair share” and “free rider” surcharges on employers who do not provide health insurance or Section 125 plans
- Individual mandate penalty payments by uninsured individuals will be assessed through income tax returns
- Connector is assuming that by tax year 2009, virtually all filers with incomes below 300% of federal poverty level will obtain subsidized insurance by, so there should be minimal revenue impact from these filers.

Revenue Impacts – Dedicated Funds

- The Connector provides estimates of the number of individuals who will purchase its policies, but not the number who will purchase non-Connector policies directly through providers or employers.
- Based on Connector estimates, the maximum number of filers who would be assessed penalties would be 150,000 in tax year 2007 and 90,000-100,000 in tax year 2008
- At \$220 per uncovered individual, maximum amount of penalty payments would be \$30-\$35 million for tax year 2007
- However, actual aggregate penalty payments are likely to be lower, since some uninsured will purchase policies through employers

Revenue Impacts – Dedicated Funds

- Penalties will be much higher for tax year 2008, particularly for taxpayers who have incomes > 300% of FPL
 - At average premium payment of \$322 per month, the penalty (half of the annual cost of coverage) is about \$1900
 - Actual penalty will depend on the profile of the individual and available plans
 - Increase in penalties is likely to result in greater purchases of health insurance and a significant reduction in individuals being penalized

Revenue Impacts - Uncertainties

- Health insurance takeup rates are based on Connector estimates, not any formal model
- Researchers at MIT have developed a health insurance participation model, which has not been formally used by Connector
- Some uninsured individuals will choose to purchase health insurance through their employers
 - Individuals' premium costs will be different than if purchased through Connector, resulting in variation from revenue estimates
 - Will reduce business profits and taxable income, resulting in additional tax revenue loss

Revenue Impacts - Uncertainties

- Starting in tax year 2008, determining the amount of the individual penalty (half of the cost of the most affordable plan) will become much more difficult:
 - Cost of plan depends on characteristics of individual (smoker/non-smoker, age, geographical location, etc.)
 - Health insurance status will have to be tracked monthly
- Hardship appeals criteria are flexible – makes it more difficult to project number of participants

Administrative & Compliance Challenges

- Department of Revenue (DOR) is responsible for enforcing individual mandate through annual income tax return filing process
- To avoid penalty, a filer must certify on his/her individual income tax return he/she was not without health insurance coverage for any consecutive 3 month period during a calendar year
- Some low-income uninsured are not required to file income tax returns, so will not be subject to DOR-imposed penalties
- Insurers are required to issue a new Massachusetts “1099-HC” form to document each filer’s health insurance status. DOR cannot force non-Massachusetts insurers to issue these forms

Administrative & Compliance Challenges

- Annually, insurers must provide DOR with datasets showing monthly insurance status of all insured individuals. DOR will match these data to information on individual tax returns to determine whether filers met individual mandate
 - Concerns about quality of data from insurers
 - Issues surrounding those individuals who switch jobs or switch insurers mid-year
- Potential increase in non-filers to avoid penalties, especially starting in tax year 2008 when penalties increase substantially