Health Insurance Exchange Study in Minnesota

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Presentation to the Federation of Tax Administrators
2008 Revenue Estimation and Tax Research Conference

September 17, 2008
Portland, Maine

Overview

- What is an Exchange?
- Minnesota Exchange proposal
- Fiscal implications
- Objectives of the exchange study
- Methods and data
- Findings
What is a Health Insurance Exchange?

- Serves small firms and individuals seeking to buy health insurance, by facilitating
  - Transitions between group to individual coverage without changing plans and providers
  - Employee choice
  - Multiple-employer contributions to coverage

- Location for State-funded premium assistance for low-income workers and individuals

An Exchange Requires:

- Regulatory consistency for small groups and individuals
  - Same products, same rating rules
  - If the Exchange competes, same rules market-wide

- Broad risk pooling
  - In and outside the Exchange, if it competes
  - Can, but need not, merge small group and individual risk
Minnesota Exchange Proposal

- Begin regulatory reforms needed to build an Exchange:
  - Guaranteed issue to individuals
  - Adjusted community rating for individuals

- Individual mandate: all residents must be insured
  - Affordability exemption
  - State-financed premium assistance

MN Exchange Proposal, cont.

- Employers with 11+ employees must offer Section 125 plan, either
  - With a group health plan
  - A premium-only plan to help employees purchase individual coverage
Fiscal Implications

- Personal-income tax: exempt personal expenditure for
  - Current group coverage or to take offer of coverage
  - Current or new individual coverage
  - MinnesotaCare coverage
- Minnesota Working Families Tax Credit
- State premium tax revenues
- State expenditure for premium assistance
- State expenditure for Medicaid, SCHIP (federal match)
- State expenditure for MinnesotaCare (no federal match)

Objectives of the Study

- Measure impacts on coverage
  - Private insurance (individual and group)
  - MinnesotaCare
- Measure impacts on personal spending for health insurance
- Measure fiscal impacts: State revenues and expenditures
Study Objectives, cont.

- Consider design and implementation issues for an Exchange
- Consider legal obligations and tax issues for employers and workers when Section 125 offer is mandatory

Microsimulation Method

MN Healthcare Access Survey 2004 → Estimated state population data FY2009 → MICROSIMULATION LOGIC

- Econometric estimates
  - Employer offer
  - Worker take up
  - Individual demand, private
  - Individual demand, public
  - Insurance underwriting

- Exchange design/rules
  - Rating
  - Premium assistance

Person-level data with simulated FY2009 coverage and premium payments → Fiscal impact model and estimates
Input Data

- Person-level household survey data
  - Demographic information
  - Family relationships
  - Income ($ and FPL)
  - Employment information, all family members
  - Source of health insurance, policyholder/dependent
  - Offer of health insurance, if not taken
  - Insurance-family payments for coverage

Input Data, cont.

- Employer-level data
  - Medical Expenditure Panel Survey-Insurance Component (MEPS-IC), state sample
    - Offer of Section 125 by firm size (mean and standard deviation)
    - Percent and amount of premium paid by employer, by firm size (mean and std. dev.)
Input Data, cont.

- State administrative data
  - Insurer financial reports ("state page" history)
  - State health program expenditures and enrollment, projected
  - State revenues by relevant source, projected

Principles of the Microsimulation Logic

- People respond to price changes
  - No price change, no behavior change
- An individual mandate increases the probability of a price response
- People fully anticipate tax consequences
- People at very low levels of income subjectively discount tax consequences
Major Findings: Gains in Coverage

- Community rating and guaranteed issue help a little
  - Net gain in private coverage, some loss
  - Modest increase in MN Care enrollment

- An individual mandate can help a lot
  - Even with exemption for affordability, but
  - Premium assistance works

- Much greater use of Section 125 helps

- Combined reforms make a big difference

Percent Uninsured, Under Age 65

<table>
<thead>
<tr>
<th>Case</th>
<th>Current case</th>
<th>Guaranteed issue &amp; community rating</th>
<th>Individual mandate, affordability exemption</th>
<th>Individual mandate, subsidies</th>
<th>Mandatory offer Section 125</th>
<th>Combined with affordability exemption</th>
<th>Combined with subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current case</td>
<td>10.6%</td>
<td>10.1%</td>
<td>4.6%</td>
<td>2.3%</td>
<td>9.3%</td>
<td>5.2%</td>
<td>2.7%</td>
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</tbody>
</table>
### Fiscal Impacts FY2009 ($ millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Revenue change</th>
<th>Expenditure change</th>
<th>Net impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed issue + community rating</td>
<td>$1.8</td>
<td>$4.0</td>
<td>-$2.2</td>
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<tr>
<td>Individual mandate, exemption</td>
<td>$0.6</td>
<td>$521.0</td>
<td>-$520.4</td>
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<tr>
<td>Individual mandate, subsidies</td>
<td>$1.3</td>
<td>$684.0</td>
<td>-$682.7</td>
</tr>
<tr>
<td>Section 125 offer</td>
<td>-$83.7</td>
<td>$0.0</td>
<td>-$83.7</td>
</tr>
<tr>
<td>Combined, with exemption</td>
<td>-$90.6</td>
<td>$570.0</td>
<td>-$660.6</td>
</tr>
<tr>
<td>Combined, with subsidies</td>
<td>-$91.5</td>
<td>$761.0</td>
<td>-$852.5</td>
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</table>

### Fiscal Cost Effectiveness

<table>
<thead>
<tr>
<th>Description</th>
<th>$ in millions</th>
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</thead>
<tbody>
<tr>
<td>Guaranteed issue &amp; community rating</td>
<td>$2.2</td>
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<tr>
<td>Individual mandate, exemption</td>
<td>$94</td>
</tr>
<tr>
<td>Individual mandate, subsidies</td>
<td>$1,886</td>
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<tr>
<td>Section 125 offer</td>
<td>$1,831</td>
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<tr>
<td>Combined, exemption</td>
<td>$1,390</td>
</tr>
<tr>
<td>Combined, subsidies</td>
<td>$83.7</td>
</tr>
<tr>
<td>Combined, with exemption</td>
<td>$2,666</td>
</tr>
<tr>
<td>Combined, with subsidies</td>
<td>$2,341</td>
</tr>
<tr>
<td>Total</td>
<td>$682.7</td>
</tr>
<tr>
<td>Per newly insured person</td>
<td>$83.7</td>
</tr>
</tbody>
</table>

$ in millions