

# Massachusetts Health Plan Deserves Mixed Reviews

*By Michael Bond*

Massachusetts is embarking on a bold experiment with health insurance. The bipartisan plan recently signed into law by Gov. Mitt Romney requires all residents to carry health-care coverage. They may purchase it themselves or else receive it through their employer. The new law also requires firms with more than 10 employees to make a per-worker contribution to the state's health-care fund.

Although some parts of this plan do make sense, others set a worrisome precedent. Unfortunately, with the nation already beginning to gear up for contentious elections in 2006 and 2008, political rhetoric is likely to drown out the facts regarding health care in general and this reform in particular.

On the positive side, this plan creates an insurance exchange where individuals and small groups (i.e. fewer than 50 workers) may buy health insurance from competing providers. This exchange, which the Massachusetts plan calls the "Connector," is a mart where employees will even be able to choose the type of plan they want as well as the provider.

Offering choices represents a significant improvement over the current system. At present, virtually every employer still active in the health-insurance market offers its workers only one plan and, thus, no choice. When you get your health insurance from the company store, you get what the company wants, not necessarily what you need. After all, many employers grudgingly offer health benefits only because a federal law makes the health-care portion of their workers' total compensation tax free.

The "Connector" will let many competing health-insurance plans sell to employers who designate this mart as their carrier. Once employers have registered at the mart, their individual employees may select the plan that they deem best for their needs.

This has two positive impacts. First, it shifts the health insurance choice from the employer to the worker. Second, it gives providers freedom to develop a plan designed for the diverse needs of a particular group. This feature alone ought to lead to more competition and innovation by providers. That, in turn, ought to slow inflation in the cost of medical care. Moreover, it could also provide a higher quality of care in the long run.

Another positive part of the plan is its effect on two-income households. A couple may use the combined contributions of their different employers to buy the coverage they need. This combining of employer contributions is also allowed for a worker who has two part time jobs.

Another plus: Individuals will be able to buy their coverage at the exchange. Granted, current federal law doesn't allow individual workers the kind of tax break available to workers who receive coverage from their employers. Even so, these

individuals will at least be able to switch coverage during the annual enrollment period without fear of underwriting. For workers, the plan's portability is another important positive step, giving them the ability to change employers and keep the same coverage.

While these reforms are positive developments, there is much to be concerned about with this plan. First, the legislation does little to reduce the extensive mandated benefits that increase the cost of insurance. Second, for employers who don't make payments to the "Connector," the penalty is only \$295 per worker in a state where average health expense per capita is around \$6,000.

The plan provides for a subsidy from the state's uncompensated care plan to flow instead to the "Connector." Hospitals and other providers currently receiving payments from this fund have to enroll those individuals in health plans at the mart. Although this is good because providers will now need to negotiate prices with carriers, the Achilles heel of the proposal is that the subsidy is not sufficient to cover the mandated coverage.

For example, if Massachusetts signs up 700,000 uninsured residents with average health costs of just \$3,000 -- far below the current state average of approximately \$6,000 -- the deficit would be more than \$2 billion. Employers' contributions will offset some of this deficit, but back-of-the-envelope calculations indicate that the state will still be \$700 million short of the amount needed.

The plan presumes that this deficit would be offset by employer contributions to the "Connector" averaging about \$1,000 per worker. However, it doesn't take a genius to figure that many firms will forgo signing up at the state mart and simply pay the \$295 penalty per employee instead. Of course, if the average cost of the uninsured is closer to the state average of \$6,000, the incentive for businesses to avoid joining will be even greater. Massachusetts politicians can't compel businesses to do unprofitable things any more than they can cause the tide in Boston harbor not to rise.

*Michael Bond, Ph.D. teaches at Cleveland State University in Ohio and serves as an adjunct scholar at The James Madison Institute, a non-partisan policy center based in Tallahassee, Florida.*