Healthcare BUSINESS STRATEGY™

Impact of State Healthcare Reform on Massachusetts Insurance Carriers

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by Debra A. Donahue

Health reform in Massachusetts played havoc on local plans' profitability, revenue, cost structures and enrollment. Lessons learned in Massachusetts can be transferred to other areas of the country as national reform is implemented. The Massachusetts health care insurance reform law (Mass Reform), enacted in April 2006, is sometimes thought of as a prototype of the Patient Protection and Affordable Care Act of 2010 (ACA). While different in many ways, Mass Reform offers health plans a model for what they may encounter if ACA is fully implemented. It also serves as a platform to understand what is likely to change if we have a new president in 2013. Many of Mark Farrah Associates' (MFA) Health Coverage Portal clients have inquired about the impact Mass Reform had on the health insurance carriers in the local market. Understanding Mass reform market impacts may help predict what could happen as national reform legislation takes hold or what changes might happen in the future. This brief looks at the changes on the uninsured market in Massachusetts, the impact on health plans (particularly to their net income) and discusses some of the other affects, six years of Mass Reform have wrought.

Background

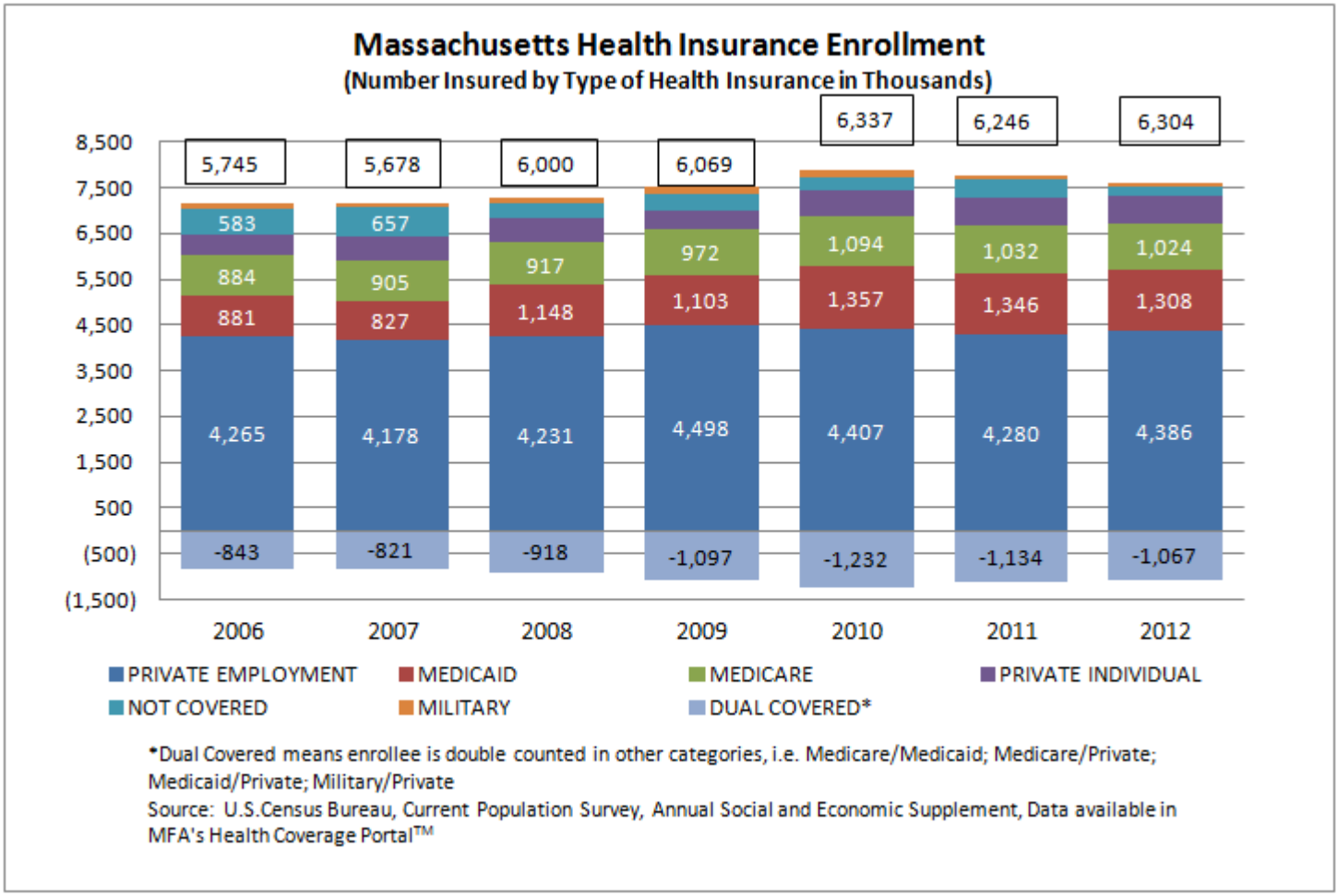
The Massachusetts health care insurance reform law (Mass Reform), enacted in April 2006, mandates that nearly every resident of Massachusetts obtain a state-government-regulated minimum level of healthcare insurance coverage and provides free health care insurance for residents earning less than 150% of the federal poverty level . The law was enacted in 2006, while Governor Willard Mitt Romney was in office (January 2003 – January 2007). The bill is often referred to as Romneycare; however it has been amended several times since he left office. In October 2006, January 2007, and November 2007, bills were enacted that amended and made technical corrections to the statute. The law was amended significantly in 2008 and twice in 2010 and major revisions related to health care industry price controls were introduced in the Massachusetts legislature in May 2012 and passed in August 2012.

The law and its amendments established an independent public authority, the Commonwealth Health Insurance Connector Authority, also known as the Health Connector. The Health Connector acts as an insurance broker to offer private insurance plans to residents, creating in essence a health insurance exchange, where individuals could purchase coverage. The reform legislation included modest tax penalties on residents for failing to obtain an insurance plan and tax penalties on employers for failing to offer an insurance plan to employees. These penalties will increase over time as the program is phased in.

Impact on Uninsured

One of the goals of Mass Reform was to decrease the number of uninsured in Massachusetts. The bill aimed to cover 95% of the state's 500,000 uninsured within a three year period.[1] According to U.S. Census Bureau statistics[2], the number of uninsured (not covered by any type of health insurance) fell from 583,000 in 2006 to 352,000 in 2009, a decline of 60%. In 2012, the uninsured population in Massachusetts is slightly more than 219,000, 3.4% of the population down from 9.2% in 2006.

At the time the legislation was passed, it was expected that about 100,000 additional Medicaid eligible people and another 200,000 who qualified as low income would be able to receive coverage[1]. Medicaid enrollment did increase by 222,000 from 2006 to 2009. Today one in five people in Massachusetts are covered by Medicaid (20.1%) up from 13.9% in 2006.



[1] Symonds, Willam C. "In Massachusetts, Health Care for All." Bloomberg Business Week 30 April 2006: http://www.businessweek.com/stories/2006-04-03/in-massachusetts-health-care-for-all-businessweek-business-news-stock-market-and-financial-advice.

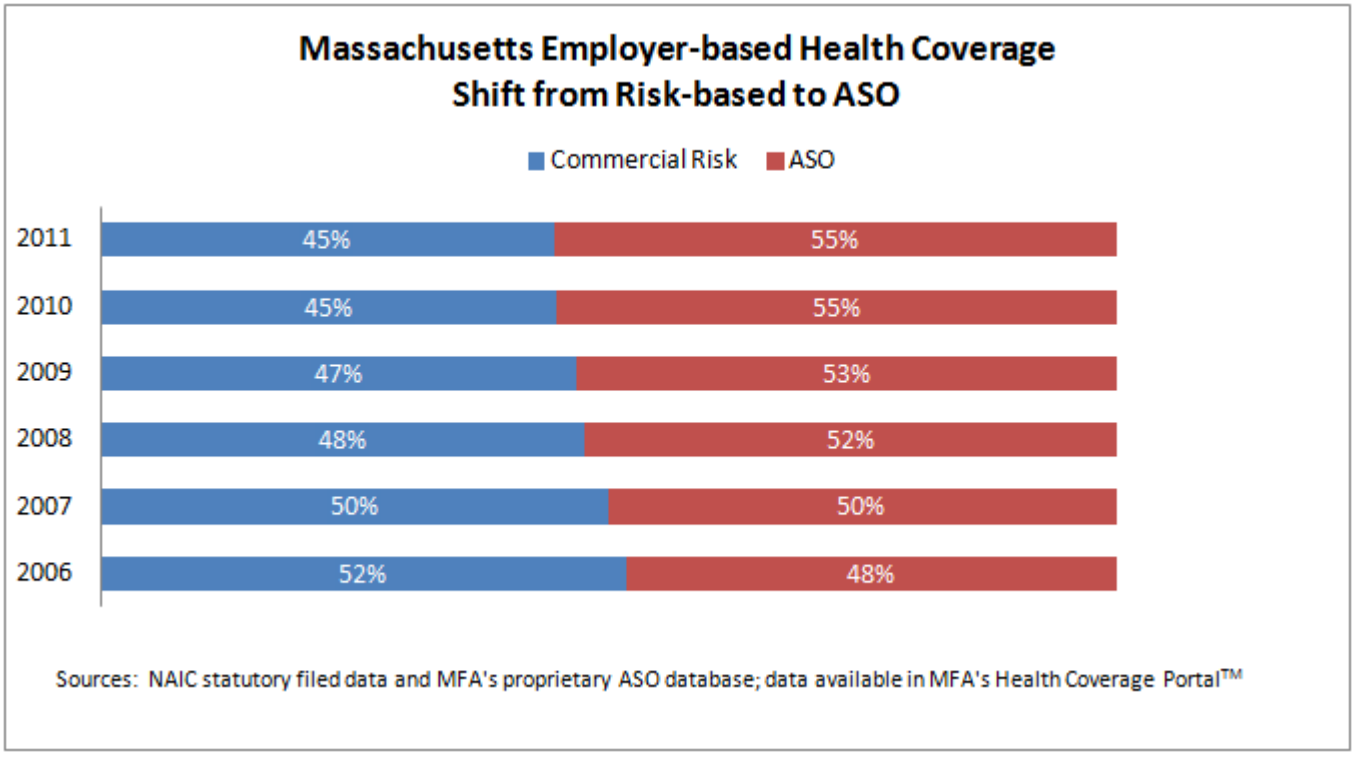
[2] U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement

The number of people enrolled in Private Individual coverage was expected to increase due to the implementation of the health insurance exchange (Health Connector). Enrollment in Private Individual coverage did increase from 441,000 in 2006 to 540,000 in 2008, but then fell to 425,000 in 2009. In 2011, individual coverage peaked at 633,000 and then fell in 2012 to 598,000. In 2012, 9.2% of the Massachusetts population purchases health insurance coverage on their own, up from 7.0% in 2006.

Employment-based coverage, based on Census numbers, declined slightly from 67.4% of the population in 2006 to 67.2% in 2012. Unemployment rates have fluctuated considerably overtime -- from 4.8% for Massachusetts in August 2006, to a high if 8.7% in October 2009, to 6.3% in August 2012[3] -- and certainly played a role in employment-based health insurance declines. However, it also appears that many of Massachusetts employers either switched to self-funded or administrative services only (ASO) plans or stopped hiring full time workers to avoid penalties levied for not offering health coverage for full-time employees.

In 2006, 52% of people with employer-based coverage in Massachusetts were enrolled in a fully insured, risk-based plan and 48% were covered by a plan their employer self-funded. By 2012, this mix had shifted to 45% covered by risk-based plans and 55% by ASO plans. It is difficult to determine if the switch from risk-based plans was the result of Mass Reform or Massachusetts employers following a national shift. Nationwide in 2006,

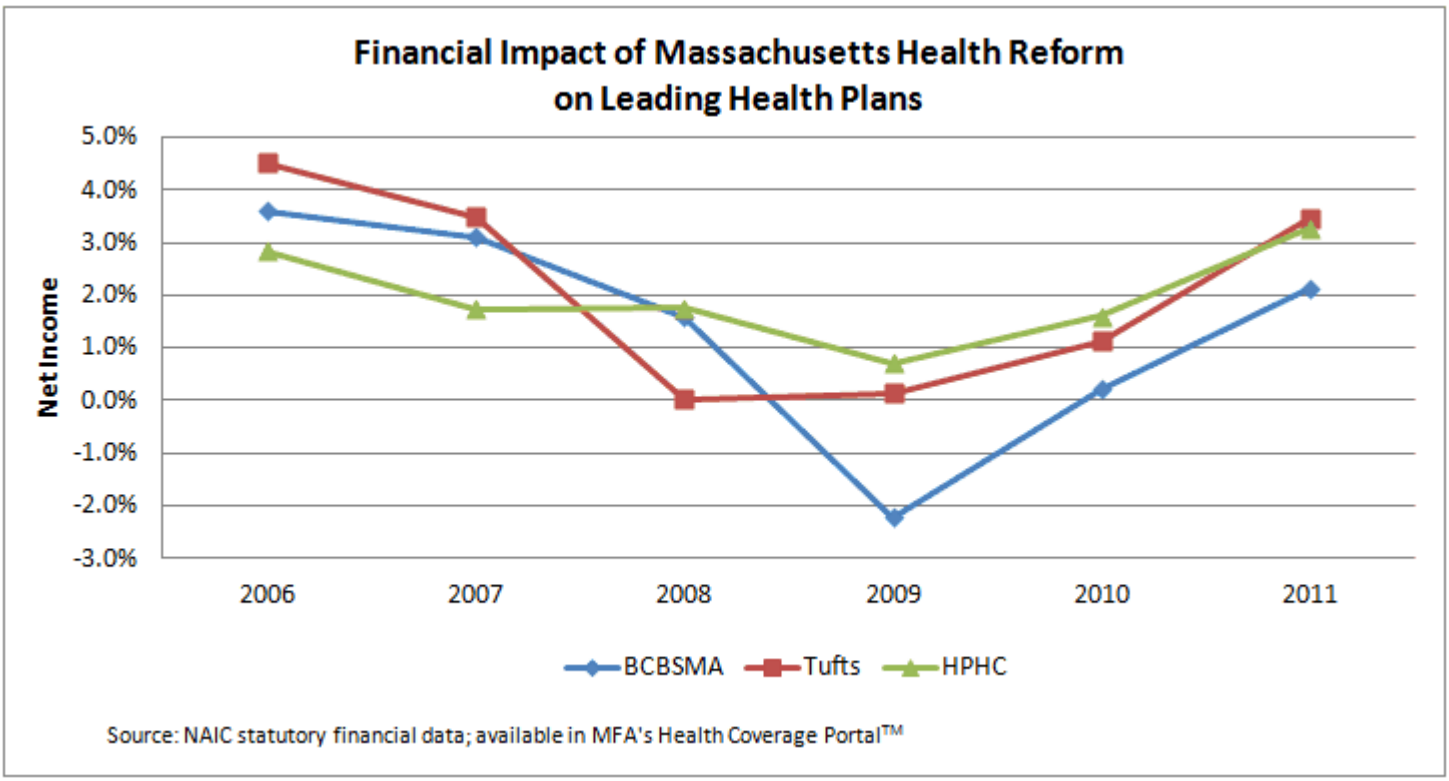
43% of enrollees who received coverage from an employer were covered by plans that were fully-insured, compared to just 36% enrolled in this type of plan in 2012. Massachusetts enrollment in risk-based plans saw the same 7% drop in enrollment as the nationwide enrollment in risk-based plans.



[3] Unemployment rates are seasonally adjusted and sourced from Local Area Unemployment Statistics (LAUS) from the Bureau of Labor Statistics.

Impact to Health Plans

Massachusetts health plans saw risk enrollment, revenue, and net income declines immediately following the implementation of Mass Reform. Due to the deteriorating performance of the local plans, the State government stepped in, during 2009, and allowed premium increases to keep pace with cost and utilization increases.



For the top three plans in the state, Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Care and Tufts Health Plan, market share remained virtually unchanged until 2011 when Tufts Health Plan purchased Network Health, a local Medicaid plan that also participated in Health Connector. None of the top three plans participated in the Medicaid market prior to Tufts' acquisition. The three leading health plans participate in the Health Connector but do not do so on the same scale as local Medicaid specialized plans, such as Boston Medical Center Health Plan and Neighborhood Health Plan. The increase in Medicaid business in the state also attracted new entrants to the market such as Centene.

Mass Reform impacted the market and local plans in many ways. While some of the impacts are difficult to isolate from other market trends, some changes from 2006 to 2012 in Massachusetts include:

- Financial impacts – declines in profit margins, net income, capital and surplus, and percent revenue increases year-over-year
- Increases in medical cost and utilization
- Growth in the Medicaid market
- Shift from fully insured to self-insured plans by employers
- Network issues – i.e. access to physicians/specialists, waits in physician offices
- New entrants into the local market
- Consolidation in the market

There are differences between regulations and how the national health care reform and Massachusetts health reform are implemented. One of the key differences was the addition of dependents to age 26 in national reform. From an actuarial perspective, young adults are typically among the lowest utilizers of health care. Adding millions of 18 to 26 year olds to their parents' policies may help bring down the overall cost and revenue per member per month in many plans. The national reform legislation also impacts the Massachusetts market. The purpose of this paper was not to contrast Obama-health reform versus Romney-health reform. The intent was to illustrate that by studying what happens in markets other than your own, you may be able to anticipate impacts and take corrective action to avoid the same mistakes other plans have made. MFA's 50-state Health Coverage Portal subscribers have a competitive advantage here. Regardless of your political views, changes are occurring in the health insurance market and the more data you have, the better prepared you will be to successfully respond.

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Market data for health insurance companies can be analyzed in many ways to provide strategic planning insights. The challenge is finding & aggregating the right data. The solution is the Health Coverage Portal™, a database that integrates market measures for all types of health coverage. 50-state Health Coverage Portal™ - and Selective-State Health Coverage Portal™ subscription rates are available. Custom portal designs can also be created upon request.

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