California Health Care Foundation

Massachusetts-Style Coverage Expansion: What Would it Cost in California?

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EXECUTIVE SUMMARY

Introduction

The recently-enacted Massachusetts legislation (H 4850) to extend coverage to all residents has received much attention. Of particular interest is the mandate that all individuals have coverage, which will move Massachusetts closer to universal coverage for its residents. If California enacted a similar law, what would be the cost to employers, individuals, and state government?

The central feature of the California model, discussed in the issue brief from which this executive summary is drawn, is an individual mandate: All residents must obtain health insurance. The state would set up a pool through which individuals not offered health insurance through employment could obtain coverage, and low-income people would be eligible for premium subsidies. Employers would be required to coordinate with the pool, but would not be required to contribute toward the cost of coverage for workers. The key assumptions of the model as it relates to the Massachusetts model are outlined in Table 2.

The adoption of a Massachusetts-style coverage model in California would cost the state an amount estimated between $6.8 billion and $9.4 billion. If employers reduced their health insurance offerings, the cost estimates would be even higher. While substantially more than suggested by budget assumptions in Massachusetts, the $9.4 billion cost estimated here translates to a state cost of only about $1,450 per uninsured Californian.

Why Would an Individual Mandate Look Different in California?

Although per capita income in California ($24,420) and Massachusetts ($28,509) are both above the U.S. average, substantial differences exist in the income and health coverage characteristics of their non-elderly populations, as shown in Table 1. A much higher proportion of California's population is uninsured and low income; therefore, a much larger share of California's population would need financial assistance in order to afford coverage.

Table 1. Insurance and Poverty Status of the Non-Elderly Population in California, Massachusetts and the U.S., 2004

NON-ELDERLY IN 2004	CA	MA	U.S. Total
Uninsured	20.7%	13.1%	17.8%
Employer Coverage	55.6%	69.4%	63.2%
Medicaid	16.8%	14.5%	13.3%
Under 250% FPL	42.8%	28.7%	38.8%
Among those Under 250% FPL, % Uninsured	31.6%	22.4%	29.3%
Uninsured and Under 250%	13.5%	6.4%	11.4%

Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2005. Author's tabulations using online Table Creator at www.census.gov/hhes/www/cpstc/cps_table_creator.html.

Massachusetts and California also differ on the relative amount of state spending on care for the uninsured. Massachusetts is re-directing almost $1 billion from its uncompensated care pool and

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Table 2. Comparing an Illustrative Individual-Mandate Approach for California to the Massachusetts Approach

AN ILLUSTRATIVE PROPOSAL FOR CALIFORNIA	HOW THE MASSACHUSETTS APPROACH DIFFERS
1. Everyone must have health insurance. For illustration, assumes a fully phased-in mandate and 100 percent compliance.	**1. Everyone must have health insurance.** Enforced through income-tax penalties that do not apply to individuals for whom coverage is deemed not "affordable."
2. A state-authorized pool is established to contract with private health plans to provide coverage for people who do not have access to employer-sponsored coverage.	**2. A pool, the "Commonwealth Health Insurance Connector,"** plays a similar if not identical role.
3. Subsidies through the State Pool a. People below the poverty level or eligible for Medi-Cal pay nothing toward premiums. Other people under 250 percent FPL get sliding-scale subsidies. b. The sliding scale specifies the percent of family income that subsidized people are required to contribute. Subsidies end at 250 percent FPL, at which point the contribution is 6 percent of family income.	**3. Subsidies through the "Connector"** a. People below the poverty level pay nothing toward premiums. Other people under 300 percent FPL get sliding-scale subsidies. b. Generally same. Contribution levels have not been specified. The maximum level illustrated in Governor Romney's original proposal was 5.8 percent of family income.
4. Subsidies for and Use of Employer Coverage a. Those eligible for sliding-scale subsidies or public coverage programs must enroll in employer coverage that is available to them. In a baseline ("lower-bound state-cost") estimate, subsidies are available only to those eligible for Medi-Cal who enroll in cost-effective employer coverage. b. Under an upper-bound state-cost estimate, subsidies are available to help all low-income people enroll in employer coverage. The state pays the same proportion of the worker's premium for employer coverage as it would pay of the premium for coverage through the exchange.	**4. Subsidies for and Use of Employer Coverage** a. Subsidies for employer coverage are available only to people eligible for existing public coverage programs.
5. Benefit Levels and Public Program Status a. People eligible for Medi-Cal under current rules continue to receive all Medi-Cal benefits and services, either directly or as a state-paid supplement to their employer-plan benefits. b. Children enrolled through the pool receive Healthy Families coverage. c. Adults up to 250 percent FPL and ineligible for Medi-Cal who enroll through the pool receive benefits planned under the never-implemented Healthy Families expansion to parents. d. People above 250 percent FPL must have, at a minimum, coverage with a deductible of no more than $5,000 and an out-of-pocket limit of no more than $10,000. e. Under the upper-bound state-cost estimate, children and adults up to 250 percent FPL who enroll in employer coverage are eligible for a state-paid supplement to their employer-plan benefits.	**5. Benefit Levels and Public Program Status** a. People eligible for Medicaid get Medicaid benefits. b. Children under 300 percent FPL and not on Medicaid or employer coverage get S-CHIP. Pre-existing law requires them to enroll in employer coverage, with full premium assistance, if it is available and cost effective for the state. c. Details of subsidized coverage not yet specified, but people below 100 percent FPL buying through the Connector get "comprehensive coverage" and no one below 300 percent FPL buying through the pool is subject to a deductible. d. Health plans offered through the pool will meet requirements, to be determined by its board, for "minimum creditable coverage."
6. Employer Definitions and Requirements a. All employers, whether or not they offer coverage, must establish section 125 plans to enable their workers to pay health insurance premiums with pre-tax dollars. b. Employers that currently offer coverage are assumed, but not required, to continue doing so.	**6. Employer Definitions and Requirements** a. b.Employers with more than 10 employees must establish section 125 plans to enable their workers to pay health insurance premiums with pre-tax dollars. b. Employers with more than 10 employees must offer and contribute toward coverage or pay a "Fair Share Contribution" of up to $295 per worker per year. (Governor Romney vetoed this requirement, but the legislature may override the veto.)

Notes: Federal Poverty Level (FPL) is $9,800 for a single person.

other related spending toward the low-income subsidies established under the legislation. That amount equates to between $1,300 and $1,800 per uninsured person per year. California's $2 billion in DSH funds for uncompensated care, on the other hand, would provide only about $300 per uninsured Californian per year if re-allocated.

Conclusion

A Massachusetts-style individual mandate in California would require billions of dollars in additional state spending as well as higher spending by employers and individuals. However, because the approach would leverage federal tax subsidies and require the participation of both the healthy and the sick, per person state costs would be relatively low. Coverage expansion approaches that mandate individual or employer participation have the potential to expand coverage more broadly, and at lower state cost per person, than voluntary approaches.

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To learn more about the Massachusetts legislation and the illustrative mandate model for California that is covered in this executive summary, see the complete issue brief "Massachusetts-Style Coverage Expansion: What Would it Cost in California?" at www.chcf.org.