"We had great success in access but affordability is really the next challenge. We have the highest health care costs in the nation."

Lora Pellegrini
President
Massachusetts Association of Health Plans

Leader Turns Follower

A Pioneer With Individual Mandate, Massachusetts Scrambles to Conform With US Health Reform Requirements

As the central provision of U.S. health care reform is scheduled to take effect next year, health insurers and government officials in Massachusetts, which served as a model for the federal law, are scrambling to comply with portions of the Affordable Care Act.

On Jan. 1, 2014, the major provision of the 2010 U.S. health reform law — the individual mandate that requires most Americans to buy health insurance, or pay a tax penalty, kicks in. The law requires all insurers to offer coverage to anyone regardless of their health status. Individuals, and small businesses with 50 or fewer full-time equivalent employees will be able buy coverage through the online insurance exchanges that are being run by the states, the federal government, or both.

But back in 2006, Massachusetts enacted health reform — with the centerpiece being the individual mandate — as a way to get near-universal coverage for residents. Signed into law by then-Gov. Mitt Romney, the mandate requires everyone 18 or older to buy health insurance or pay tax penalties. On Oct. 1, millions of people will be able to enroll through these Web-based shopping markets for standardized plans with coverage that takes effect on Jan. 1. Although Massachusetts was the model for the Affordable Care Act "we still have challenges to comply with the federal law," said Lora Pellegrini, president of the Massachusetts Association of Health Plans. The Bay State is dominated primarily by nonprofit insurers. "We had great success in access but affordability is really the next challenge," said Pellegrini. Because more people have coverage, they're sensitive to the price of insurance, she said. "We have the highest health care costs in the nation," Pellegrini said, noting premiums reflect the cost of what doctors and hospital charge for medical care. Although Romney signed Massachusetts' health reform into law, his successor, Democrat Gov. Deval Patrick, "made implementation of the law one of his administration's major priorities," said John McDonough, professor at the Harvard School of Public Health.

The biggest challenge now is adjusting Massachusetts' law to conform to the ACA, said McDonough. Among the issues Massachusetts is working out is how its mandate penalty aligns with the ACA penalty, McDonough said. This year, in Massachusetts, the tax penalty was about $1,270. The tax penalty for 2014 under the ACA is $95 or 1% of household income, whichever is greater. If someone's income is $50,000, their penalty is $500, McDonough said. Massachusetts' reform brought together the small group and individual markets into one merged market. Small businesses that shop for coverage on the state's exchange, known as Massachusetts Health Connector, are those with 50 or fewer employees. Under the ACA, nearly all states have decided not to merge these markets, Pellegrini said. Regardless of the federal law, Massachusetts will continue to have the merged market, she said.

Health insurers currently offering coverage in the connector include Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Care, Tufts Health Plan, Health New England, BMC HealthNet, Fallon Community Health Plan, Neighborhood Health Plan, Network Health, and, since 2010, Centene Corp., a national Medicaid managed care company. Jean Yang, executive director of the Massachusetts Health Connector, said due to the ACA, the connector will offer one, new integrated program with some people eligible for subsidies starting next year. It's essentially combining Commonwealth Care, a subsidized program, and Commonwealth Choice, which are unsubsidized health plans that serve the commercial individual and small group markets, she said. Some Commonwealth Care members

■ MASSACHUSETTS HEALTH, PAGE 5

■ MASSACHUSETTS HEALTH, FROM PAGE 4

will be moved to the newly expanded Medicaid program in MassHealth, Yang said. The remainder can access coverage through the new, integrated program. The connector needs to transition many members "from one reform framework to another," Yang said, noting there's lots of work "to make sure that this process actually goes through."

Members in Commonwealth Care will now get coverage through the private market with subsidies or will be part of the state's Medicaid program, Pellegrini said. Massachusetts also received approval to phase in certain ACA rating rules to avoid market disruption in 2014, said Dan Mendelson, chief executive officer of Avalere Health. The federal government will allow a three-year phase-out of certain rating rules in the small group market, he said. In some ways, "it's easier to build something from scratch instead of trying to retrofit things," said Massachusetts Insurance Commissioner Joseph Murphy, who said the crux of the ACA overlay concerns changes in the rating factors. Massachusetts' insurers use nine rating factors to come up with the premium that small businesses and individuals pay. The ACA eliminates some and only allows four rating factors to be used, Murphy said, noting the feds granted the three-year transition that starts in 2014. The four rating factors under the ACA are family composition; ages of covered members; geographic location of business or individual policyholder's residence; and tobacco usage of covered members. Industry will be removed under the current ACA rules.

The removal of the industry rating factor is probably one of the biggest, said Tom Policelli, chief executive officer of Minuteman Health, a new entrant to the Massachusetts insurance market as the state's only nonprofit, member-governed Consumer Oriented and Operated Plan created as part of federal health reform. An industry with good claims experience will no longer be given credit for it, Policelli said. "That basically means you're baking in automatic price increases" for small companies that were receiving lower premiums. What Massachusetts has not done successfully is find a way to control premium costs, "and that's what we're here to try to help do," Policelli said.

Plan designs are changing to meet the ACA's requirements. Starting in 2014, "a Massachusetts bronze is a federal silver," Policelli said, noting in Massachusetts, what used to be a bronze plan will look similar to a silver plan under the ACA. In the next few years, Massachusetts, as with the ACA, also will be required to move to 100 or fewer employees as to what's defined as the small-group market, Murphy said. "That will be a fairly big change and we'll need to analyze what the impact is on the marketplace." Aspects of ACA exchanges were modeled after Massachusetts's own health reform efforts, though states setting up their own exchanges have significant flexibility in their model, Mendelson said. The U.S. Department of Health and Human Services is operating the exchange in 35 states, under a "facilitator" model, allowing any plans that meet the federal requirements to be approved for participation on the exchange.

In contrast, six of the 15 states that are running their own exchange, including Massachusetts, are actively negotiating with insurance issuers through a competitive model to determine which plans may be offered on the exchange, what the benefits will include, and in some cases what premiums will be, Mendelson said. McDonough noted two models. The Massachusetts model is where an exchange is "an aggressive purchaser" on behalf of its buyers to put pressure on insurers to hold down premiums and cost-sharing as much as possible. Others, like in Utah, put up the product of any licensed insurer, and buyers are told to make their own judgments, McDonough said. California, New York, Maryland, Connecticut and Rhode Island are following Massachusetts, McDonough said.

—Fran Matso Lysiak

In some ways, "it's easier to build something from scratch instead of trying to retrofit things."

Joseph Murphy
Massachusetts Insurance Commissioner