

Massachusetts: Map for Missouri?

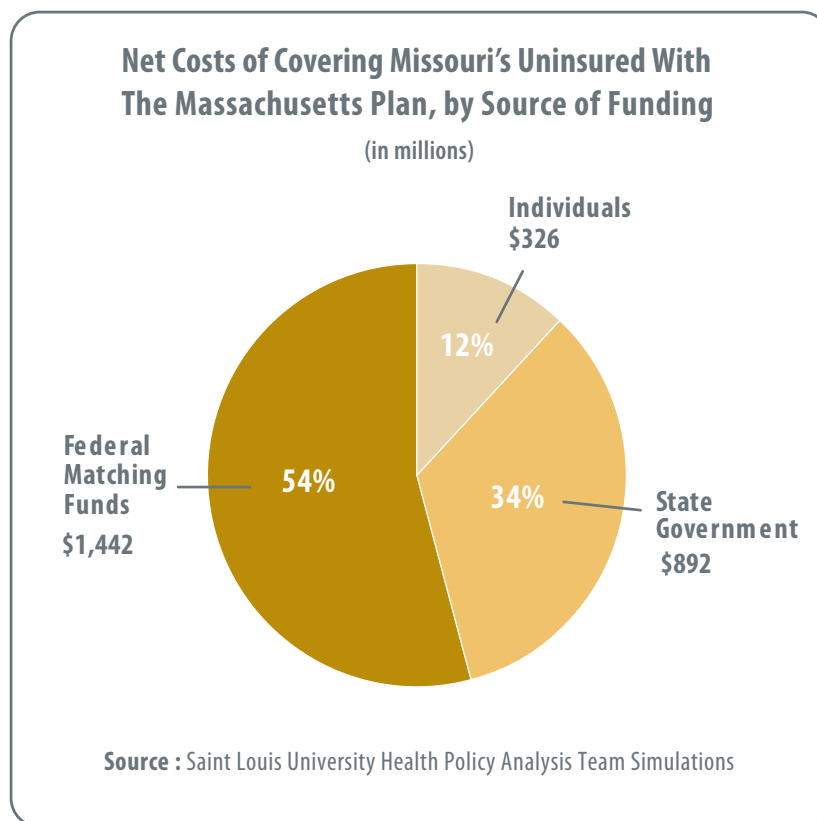
Costs and Financing of Strategies for Universal Coverage: Issues for Policymakers

In April 2006, the Massachusetts Legislature passed sweeping health reform legislation (An Act Providing Access to Affordable, Quality, Accountable Health Care, H4479) to achieve universal health insurance coverage. The legislation expands access to affordable coverage through several strategies. As this legislation enters the implementation phase, other states will look to Massachusetts as a possible model for health care reform. This brief provides the estimated costs, both public and private, for implementing a Massachusetts-inspired approach in Missouri. The report was prepared for the Missouri Foundation for Health by researchers at Saint Louis University.

Costs

The estimated net costs of covering the uninsured in Missouri under a Massachusetts-type plan is \$2.6 billion. The costs would be allocated in the following way:

- ◆ About 34 percent (\$892 million) of the net costs would be covered by the state government.
- ◆ Approximately 54 percent (\$1,442 million) of the costs would be covered by federal matching funds.



- ◆ Individuals would pick up 12 percent (\$326 million) of net costs. Those individuals who are currently uninsured would contribute, after premium assistance, \$544 million for their share of premiums. Premiums for those currently insured could experience a corresponding collective decrease of \$219 million in costs due to insurance market reforms such as large risk pools. The difference between the two groups, approximately \$326 million, would be the total net cost increase borne by individuals.
- ◆ In the aggregate, employers under this system could experience a small reduction in health insurance expenditures based on changes to the private insurance market. Employer health insurance costs for covering the presently uninsured would be almost \$599 million. However, this may be offset by approximately \$617 million in premium savings related to likely insurance market reforms, including larger risk pools that would occur as more individuals purchase insurance.

Public Financing

To adopt the Massachusetts model, the Missouri state government would need to redirect a number of current revenue sources in order to raise the \$892 million to finance public and private health insurance coverage. If the state redirected funds currently allocated for care for the uninsured, \$327.3 million would be available for coverage expansion. The remaining \$564.7 million could require new state funding sources.

Existing state funds that could potentially be reallocated include:

- ◆ **State and Local Funds for Care of the Uninsured.** The state, counties, and cities provide a variety of funds to support medical services for the uninsured, including funding for clinics and hospitals. With fewer uninsured Missourians, these funds (\$151.8 million) could be applied to expanding Medicaid or to financing a premium assistance program.
- ◆ **Missouri's Share of Medicaid Disproportionate Share Hospital (DSH) Payments.** Medicaid DSH payments compensate hospitals for medical services to the uninsured. Under the Massachusetts plan, individuals are required to have health insurance. A similar mandate in Missouri

would remove the need for DSH payments to offset uncompensated care, thus freeing \$175.5 million in state funds to partially fund a Medicaid expansion program or a premium assistance program.

Potential new sources of revenue, include, but are not limited to:

- ◆ **Funds from a Tobacco Tax Initiative.** If the Tobacco Tax Initiative appearing on the November 2006 ballot were to be approved by voters, approximately \$290 million per year would be generated for “health care access and treatment.”
- ◆ **General Revenue Surplus.** The state recently reported an unanticipated general revenues increase of \$620 million for fiscal year 2006. Such funds could support a universal coverage plan.
- ◆ **Revenues from a Provider Tax on Private Insurers.** If a 2 percent tax on all private insurance premiums were to be assessed, approximately \$100 million could be netted for expanding health coverage.
- ◆ **A Sales Tax on Medical Services.** If a sales tax were to be assessed on medical services, at the current tax rate, it is estimated that \$628 million would be raised for a Massachusetts-like plan in Missouri.

Policy Considerations

Financing a Massachusetts-type universal coverage expansion in Missouri would depend on addressing the following critical factors:

- ◆ **Redirecting Health Care Funds.** To implement a Massachusetts-style insurance expansion, Missouri would need to raise \$892 million in state funding. Redirecting funds currently allocated for care for the uninsured would finance 37 percent (\$327.3 million) of those costs. The remaining portion would require new funding sources.
- ◆ **Ability of Missouri to Obtain Federal Matching Funds.** In order to achieve universal coverage in Missouri, the state would need to secure significant federal matching funds.

Summary

Implementing the Massachusetts plan for universal coverage in Missouri would require a commitment of funds by both Missouri (\$892 million) and the federal government (\$1.4 billion). Some of the state and federal costs could be financed by shifting existing government funds. The remaining portion would require new state and federal revenues. This brief identifies several options for financing that state's portion of a Massachusetts-modeled universal coverage program in Missouri.

The information presented here is taken from a series of issue briefs prepared by the Saint Louis University Health Policy Legislative Analysis Team. Other subjects covered by the series include Medicaid expansion, insurance purchasing pools, a premium assistance program, and individual and employer mandates. The authors of this brief are Heather Bednarek, PhD, Assistant Professor of Economics, School of Business; Sidney Watson, JD, Professor of Law; Timothy McBride, PhD, Professor of Health Management and Policy, School of Public Health; and Muhammad Islam, PhD, Associate Professor of Economics, School of Business.