

## Mirror Image? Romneycare vs. Obamacare

If Massachusetts health insurance reform is a precursor to Obamacare then look for a system that will work but will result in rising costs and maybe more intense broker interaction.

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Phil Edmundson, CEO of Boston-based William Gallagher Associates, gets tired of defending his home state's healthcare plan. "Every time I go to an out-of-state meeting," he says, "the first thing they ask is, 'Just how bad a budget buster has it turned out to be?'"

Truth is, it hasn't. The Bay State is still afloat, more people are insured, and by all accounts brokers who specialize in health insurance are doing well. Edmundson credits former Republican governor Mitt Romney and his negotiating skills for making Romneycare—as it is referred to with both respect and derision—happen in 2006.

"Governor Romney was very smart," Edmundson says. "He took the good ideas from both sides of the aisle and made them work." But ask Edmundson about the 2010 Affordable Care Act, aka Obamacare, and he's not so sure.

The Massachusetts microcosm was the out-of-town tryout for bringing Obamacare to the national stage. The similarities, as a checklist on thinkprogress.org shows, are obvious. Are individuals mandated to get it? Yes and yes. Do employers have to assist them? Yes and yes. Are there health exchanges for those who don't fit into employer plans or don't want to? Yes on both counts. And the list goes on.

"Massachusetts is trying to be the poster child for healthcare reform," says broker Vinnie Daboul, who has been involved in employee benefits for many years. "There's not a lot you read about that doesn't reference us."

Democrats clearly studied the Romney playbook when they passed the Affordable Care Act. And they are not shy about admitting it, even holding thank-you parties in his honor and sending him messages on Twitter.

In contrast, Republican Romney has disowned his child. He doesn't like to talk about it. And when he does, he criticizes it, saying in his book *No Apology* that what works in Massachusetts might not work in Texas or California.

Meanwhile, Massachusetts officials are struggling to bring costs under control, an effort that might rely more heavily on government influence. A recent study by Lockton, the largest privately held independent broker, shows that many employers, particularly in the retail, restaurant and entertainment industries, might terminate their health plans or fire workers in coming years.

The one certainty: Brokers will play a key role in helping clients and companies understand this new world of health insurance. To succeed, they'll have to stay ahead of the health insurance curve, know where the sweet spots are and how to hit them, and avoid the "commodity" end of the spectrum that may be taken over by the low-budget health exchanges. There's still time, even in early-entry states like Massachusetts. But eventually time will run out.

## Confluence of Events

Recent events have made this a particularly good time to revisit healthcare, a subject *Leader's Edge* tackled in May 2010. The 2006 Massachusetts Health Care Reform Plan now has five years of flawed but not fatal history, so the Bay State's successes, failures and prospects provide a cloudy but important view of how the national healthcare plan will look when most of its key provisions take the national stage in 2014. Recent studies show what has and hasn't worked.

The Affordable Care Act now faces legal challenges from 27 states. Republicans, sensing weakness and looking for an advantage in the 2012 elections, have come up with their own healthcare proposals, which are focused on cutting healthcare spending and moving parts of Medicaid spending to the states.

Romney, who has thrown his hat in the ring for the Republican presidential nomination by forming a presidential exploratory committee, once pointed to healthcare as a major achievement of his administration. Now he sees it as a liability. Romney ignored all requests for interviews.

Most importantly, the second phase of healthcare reform is ready to kick in, and the Bay State will once again lead. Massachusetts has been successful in getting people under the health insurance umbrella, just as Obamacare is predicted to do. But now the other shoe—controlling costs—is about to drop, and, like the first act, this drama will be closely watched for its repercussions on the national stage.

## Upside, Downside

The biggest success of Romneycare was to bring both uninsured and underinsured residents into the big tent of healthcare. "Massachusetts has the highest rate of insurance in the country, with 98.1% of residents insured," heralds an April Blue Cross Blue Shield of Massachusetts Foundation study. The study found that "401,000 more residents have health insurance than before reform."

The nonpartisan Congressional Budget Office (CBO) predicts similar growth nationally. "We estimate that the (2010) legislation will increase the number of non-elderly Americans with health insurance by roughly 34 million in 2021," the CBO says.

The plan's proponents, like the Massachusetts Taxpayers Foundation (MTF), claim the cost—at least to taxpayers—hasn't been excessive. "The \$353 million state share (over the first four years) translates into an average yearly increase of only \$88 million," says the Foundation—a pittance for a state with a nearly \$30 billion annual budget. Public support for the state's healthcare plan "has remained strong," according to the Massachusetts Blue Cross study, with two out of three adults supporting it. And the study says there's no evidence that the state's health exchange, where residents can buy coverage, has been "crowding out" employer-offered plans.

## The Naysayers

But Massachusetts was already an insurance-savvy state, with among the nation's highest rate of insureds, even before Romneycare. So it didn't have as far to go as states like Texas, where an estimated 9.3 million, or 44% of those under 65, were uninsured at some point during 2007-2008, according to Families USA, a national organization for healthcare consumers.

Since Massachusetts already spent a lot on programs to help the uninsured through an “uncompensated care pool” and certain Medicaid payments, that money could be transferred to help pay for the new program, reducing its costs.

Another advantage: Romney won accolades (and federal money) by getting ahead of the curve with the nation’s first healthcare plan, which won him a Medicaid waiver to help support part of his plan. All of that, critics say, is simply borrowing from Peter to pay Paul.

Others, such as Aaron Yelowitz and Michael Cannon of the conservative Cato Institute, say the favorable statistics are skewed because people lie. Massachusetts taxpayers who identify themselves as uninsured are subject to penalties, a provision in the state’s healthcare law that, according to Yelowitz and Cannon, induces uninsured residents “to conceal their true coverage status.”

## Cost Cutting

But the biggest criticism of Romneycare is that, like Obamacare, it focused on making sure the uninsured got medical care without much concern about bringing down costs. And Massachusetts, or “Taxachusetts” as it is sometimes called, arguably has the nation’s highest health insurance costs.

“Can we expect the existing healthcare market in Massachusetts to successfully contain healthcare costs?” asked the state Attorney General Martha Coakley in a hearing last year. “To date the answer is an unequivocal no.”

Of course, the Bay State contains some of the nation’s best doctors and leading research and teaching hospitals, many of them nonprofit. Massachusetts had high medical costs before Romneycare, and the overall cost of medical care is skyrocketing not just in Massachusetts but also throughout the nation.

But advocates of Massachusetts’ landmark plan admit that it was flawed from the start because it didn’t tackle costs. “It was good that we got people covered,” says Eric Linzer, senior vice president of Public Affairs of the Massachusetts Association of Health Plans (MAHP), which represents many of the major healthcare providers. “But if we did it over again, we should tackle affordability and access at the same time.”

Linzer says it’s not the health insurers who are to blame for the high cost of care, but the practitioners: doctors, hospitals, labs and research facilities that perform unnecessary tests and charge excessive fees for them. Aetna recently sued six New Jersey doctors for medical bills it called “unlawful and excessive,” including \$57,000 for a bedside consultation and \$56,000 for an ultrasound.

## Cracking the Code

So once again, Massachusetts is likely to be the first to put its head in the lion’s mouth of healthcare reform, with Gov. Deval Patrick, a Democrat, leading the charge. “Just as we have shown the nation how to deliver care to everyone, we...will be the ones to crack the code on cost containment,” Patrick has said.

The governor’s plan to use accountable care organizations, or ACOs, to monitor medical expenses and control costs is similar to what the U.S. Health & Human Services Department will try to do in 2012—put together teams of doctors, hospitals and other healthcare suppliers to monitor the care that patients receive. Under the federal plan, the Centers for Medicare & Medicaid Services would develop a benchmark to measure ACO performance. Successful ACOs would be rewarded and pass savings on to members. Those that fall short would be held accountable for losses.

Some argue the current fee-for-service structure encourages doctors and hospitals to give patients more tests and procedures so they can collect higher fees. Patrick's proposed legislation gives him the authority to scrutinize these fees through the ACOs and, effectively, put healthcare providers on a diet. Quality, not quantity of care, will be the wave of the future, he says.

Patrick's action, like every attempt to move government into medicine, set off a firestorm of criticism. "An ACO is an HMO on steroids," claims the *Weekly Standard*, citing actress Helen Hunt's memorable and profane rant against HMOs in the film "As Good as It Gets."

Other critics simply don't like the fact that ACOs represent another turn away from the free market toward a government-controlled economy. "I'm skeptical about ACOs," says Joel Wood, senior vice president of government affairs for The Council. "It's driven by a Washington-based mindset."

## Brokers Can't Relax

For brokers, the biggest temptation is to sit back and watch, particularly since the industry successfully dodged any legislative impact from Obamacare last year. Just as the Massachusetts health plan hasn't proven to be a car wreck for the state's budget, it also hasn't hurt the state's brokers, Edmundson says.

The greatest fear was that higher costs would force employers to terminate their plans and send workers to "The Connector," the state's health exchange. Or, vice versa, that employees and small businesses would go there themselves. (The Connector pays commissions to brokers, but they're not huge.)

Thus far, that hasn't happened. "We haven't lost business to The Connector, and it's been in operation for four years now," says Daboul.

One reason might be that Massachusetts tends to attract professionals, who are, in turn, attracted by a good health plan. Take the experience of Analysis Group, which, while based in Boston, does economic consulting through nine other locations in North America.

Analysis Group is self-insured and uses a broker to help find excess coverage and monitor the two health plans it offers to its 500 employees. Both are preferred providers (PPOs). One, for older employees who tend to use doctors more, has higher premiums but lower co-pays; the other, for recent graduates and younger staffers, charges lower rates but has higher co-pays.

"Our medical plans are a recruiting tool," says Leigh Lozano, a human resources representative for the company. "Employees don't have to take our insurance, but most do."

The past, however, may not be prologue, in Massachusetts or elsewhere. Daboul makes it clear that he and TD are positioning themselves toward larger companies and the high end of the market.

"I tell people to look at me as if I were your CPA or attorney, not just selling you a product," he says. "Those who broker the old-fashioned way will be out of business. You have to bring value to customers."

Testifying before the House Committee on Education and the Workforce, in March, Lockton Benefit Group's president, Michael Brewer, said the current federal model actually encourages some employers to terminate their

plans and send their workers to the state health exchange. For example, if a company offers coverage to some employees but not others, the penalty is \$3,000 a year for each employee who is not covered and who instead obtains coverage in an insurance exchange. But if the employer terminates its group plan and offers coverage to no employees and at least one full-time employee obtains subsidized coverage in an insurance exchange, the employer faces a penalty of \$2,000 per year for each full-time employee.

Brewer said Lockton's model predicts that industries such as retail, restaurant, hotel and amusement parks, caught in a "damned if you do, damned if you don't" quandary, would start eliminating full-time jobs after 2014. That would put a serious dent in the 160 million workers who now receive coverage through employee-sponsored group health plans—and likewise the brokers who serve them.

## Watch Massachusetts

Edmundson doesn't know what the future holds, but today, he argues, "employers with large populations of part-time and seasonal employees need more advice than ever from brokers. The rules and regulations under the Affordable Care Act are so complex."

Complexity works to the advantage of those, like brokers, who understand it, and few aspects of healthcare reform stand to be more complex than the mishmash of ACOs that might soon monitor medical costs.

"The true meaning of ACO is Awesome Consulting Opportunities," jokes the *Weekly Standard*, which reports that consultants' phones are "ringing off the hook" with questions about it. If consultants, why not brokers?

Small businesses are also a likely target of the health exchanges, and the Massachusetts Connector is looking to expand to cover more of them. But MAHP's Linzer, who's certainly in a position to know, says they, too, need the services that a broker can provide.

"We work closely with small businesses," says Linzer. "They need the same services as any bigger corporation. They need to find the coverage that best meets the needs of their employees. And they need to bring healthcare costs under control."

The Council's Wood has been watching Massachusetts and the rest of the country closely to see which way employers will go. At this point, he says, there's no consensus. "Employers don't know what they're going to do," he says. Most, he adds, won't do anything until 2014 shows them where things are headed. "Employers will be looking to brokers for answers," Wood says.

And brokers should be looking—and looking hard—at Massachusetts.