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Romney Care: Good for Massachusetts?

The Cost of Romney Care in Massachusetts and Its Implications for Obama Care

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In his celebrated book, *The Road to Serfdom*, Friedrich Hayek argued that democratic socialism ultimately gives way to authoritarianism as government finds it necessary to reduce freedom in order to make socialism work. The process begins by curtailing freedom in some small way to achieve a social end that seems overwhelmingly attractive. But then further curtailments of freedom become necessary in order to make the socialist plan work until there are no freedoms left.

Thus it is with U.S. health care. All the government programs and policies relating to health care began with some noble goal in mind, and all have led to more and more curtailments of our freedom, with negative consequences for health care as well as freedom.

None of this was on the mind of anyone, however, when, with great fanfare, Mitt Romney signed his signature health care reform into law at Faneuil Hall in April 2006. Here supposedly was an example par excellence of transcending ideological differences for the common good. The state would get universal health insurance coverage and do so through a plan that embraced free-market principles. Ted Kennedy and some of the state's most influential business groups were on board. Even that bastion of free-market conservatism, the Heritage Foundation, had a hand in crafting the legislation. This would be the brilliant political stroke that would set an example for the nation and carry Romney to the presidency.

As a matter of fact, there are plenty of self-congratulations going around. Advocates of Romney Care point out that, as a result of its passage, 98% of state residents have health insurance. The cost to state taxpayers has been low – only $88 million a year – or so it has been claimed.[1]

On the other hand, the whole process through which Romney Care was adopted smacks of crony capitalism. The law was pushed through as a result of intense lobbying by major insurance companies and hospitals in Massachusetts – the constituency that would have the most to gain by adding 400,000 people to the health care rolls. Business associations that hold themselves out to be disinterested protectors of state finances were part and parcel of this lobbying effort.

And now the whole unsavory exercise is sullying Mitt Romney's renewed quest for the Presidency. Massachusetts Health Care Reform, or Romney Care as I will call it, paved the way for Obama Care, and Romney can rue the day he set the stage for this federal takeover of health care.

[1] Massachusetts Taxpayers Foundation, *Massachusetts Health Reform: The Myth of Uncontrolled Costs*, May 2009, http://www.masstaxpayers.org/publications/health_care/20090501/massachusetts_health_reform_the_myth_uncontrollable_costs (accessed November 15, 2011).

Romney Care, Romney's protestations to the contrary, provided a blueprint for Obama Care. Each plan provides for an individual mandate, an employer mandate, an expansion of Medicaid, taxpayer-financed subsidies for the purchase of insurance and the provision of an insurance exchange—the Connector in Massachusetts.

Because of these similarities, the state's experience under Romney Care gives us some clues as to what we can expect under Obama Care. So far this year, the Beacon Hill Institute published two studies on the economic consequences of Romney Care. Both studies have found their way into the GOP primary race.

What we found

We found that since Romney Care was adopted:

- State health care expenditures have risen by $414 million;
- Private health insurance costs have risen by $4.311 billion;
- The federal government has spent an additional $2.418 billion on Medicaid for Massachusetts;
- Medicare expenditures increased by $1.426 billion;
- All of these amount to a cumulative cost of $8.569 billion; and
- The state has been able to shift the majority of the additional costs to the federal government.

How do we come up with these figures?

We estimated the effects of health care reform by comparing the actual value of each cost indicator with the value it would have had if Romney Care had not been implemented and

based on cost trends in Massachusetts and the nation. We used both 2006 (the year reform was enacted) and year 2007 (first full year of implementation) as alternative "event" dates in separate analyses. We then conducted two comparisons. First, we compared the growth rate of the expenditure variable in Massachusetts before and after the "event dates" – again, using first 2006 and 2007 as event dates. Second, we compared the growth of the expenditure variable in Massachusetts after each "event" date with the growth rate of the same variable in the United States as a whole, in order to exclude national factors that have contributed to the Massachusetts growth rate.

Romney Care sparked increases in private health insurance premiums. By 2009, premiums for plans covering a single person rose by $284 per year and premiums for family plans increased by $2,504 per year. The increase over the previous trend, which we attribute to Romney Care, was $81 per year for single plans and $247 for family plans.

Our findings should not come as a surprise. What else could we expect when we push 400,000 people into the formal health care system without increasing the supply of doctors and hospital beds? In the rush to adopt this legislation it could have occurred to someone that dramatically increasing demand without also increasing supply would lead to higher prices.

The number of emergency room visits rose from 2.351 million in 2006 to 2.521 million in 2009, or by 7.2%. The total cost of emergency visits has soared by 36%, or by $943 million.[2] Under

[2] See Office of Health and Human Services, "Hospital Summary Utilization," http://www.mass.gov/?pageID=eohhs2subtopic&L=6&L0=Home&L1=Researcher&L2=Physical+Health+a

Romney Care, the state Health Safety Net Fund (HSNF), previously known as the Uncompensated Care Fund, which provides payments to hospitals and community health centers for delivering care to the uninsured and underinsured, underwent a drop in payments by about $250 million from FY 2007 to FY 2008. However, Safety Net Care payments began to rise again in FY 2009, possibly due to the recession. In fact, the HSNF experienced a shortfall of $100 to $125 million in FY 2011, meaning that the hospitals and community health centers had to absorb these losses.[3]

Our results mirror the findings of a 2010 study by John F. Cogan, R. Glenn Hubbard and Daniel Kessler.[4] In this study, the authors found that "the differential growth in Massachusetts versus the United States between 2006 and 2008, as compared to the growth from 2004 to 2006, is 5.9 percent." Small employers were particularly hard hit. "In particular," they said, "family premiums for employers with less than 50 employees grew 9.4 percent more from 2006-08 in Massachusetts than the United States." According to the authors, their findings "suggest that policy makers should be concerned about the consequences of health reform for the cost of private insurance."

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nd+Treatment&L3=Health+Care+Delivery+System&L4=DHCFP+Data+Resources&L5=Hospital+Summary+Utilization+Data&sid=Eeohhs2 (accessed June 24, 2011).

[3] Massachusetts Department of Health and Human Services, Division of Healthcare and Finance Policy, "Health Safety Net Annual Reports for 2010, 2009, 2008 and 2007," http://www.mass.gov/Eeohhs2/docs/dhcfp/r/pubs/10/hsn_2010_annual_report.pdf (accessed January 2010).

[4] John Cogan, R. Glenn Hubbard and Daniel Kessler, The Effect of Massachusetts' Health Reform on Employer-Sponsored Insurance Premiums," *Forum for Health Economics & Policy* 13:2 (2010) http://www.scribd.com/doc/65978537/Hubbard-Report-on-Romney-Care (accessed November 14, 2011).

Economic effects

In our second report, the Beacon Hill Institute (BHI) identified the economic effects of Massachusetts health care reform. We proceeded with our analysis by treating the higher premiums demanded of invividuals as a result of Romney Care as a kind of tax on their incomes. Like any other such tax, the higher premiums would raise labor costs for employers and reduce take-home pay for workers. By considering the sensitivity of employer demand to the cost of labor and by considering the sensitivity of labor supply to the implicit tax on wages, we could estimate the effect on employment. There should be no difference conceptually between an increase in health care premiums and an increase in payroll or income taxes for their effects on job creation.

In order to tackle the problem of estimating the effects of increased premiums on jobs and other economic indicators, we utilized our State Tax Analyis Modeling (STAMP) Program, which we developed for the purpose of determining how tax changes and other policies changes affect economic activity. Over the years, we have made dozens of applications of our STAMP model to state policy issues, working in the process with state governments and research institutes.

Using our STAMP model, we found that the state created 18,313 fewer jobs in 2010 than it would have had the Health Care Reform law not been in place. The higher insurance premiums under the health care reform law also hurt profit margins, causing firms to reduce investment in Massachusetts by $21.28 million to $29.32 million in 2010. The lower employment levels have crimped income and wage growth in Massachusetts. Real (price-adjusted) disposable income

is, on average, $2.48 billion or $376 dollars per person lower in 2010 than it would have been without Romney Care.

Commenting on our study, Michael Widmer of the Massachusetts Taxpayers Foundation (or MTF) claimed that "there is no evidence to conclude that Massachusetts health reform cost jobs."[5] This benign attitude toward the effect on jobs was not in evidence, however, when Widmer's group worked strenuously to head off – what else? – a payroll tax that the Massachusetts House of Representatives had proposed as a way to raise money and to induce employers to provide health insurance to their employees.

MTF strongly supported Health Care Reform but argued that the proposed payroll tax would "have significant economic impacts, placing an added burden on the Massachusetts economy at a time when the state's job growth is badly trailing the nation's." According to MTF, "certain industries, such as manufacturing and tourism, would be at greater risk of job loss and closures as a result of the payroll tax, because labor comprises a greater proportion of their costs and margins are low."[6] So a payroll tax is bad, but higher premiums charged by the insurance companies make no difference.

This makes no sense. If a new payroll tax would cost jobs, then we have to ask why sharply higher insurance premiums wouldn't have the same effect. The reality is that Romney Care just

[5] *Factcheck.org*, "Romney's Health Care Law Killed Jobs?" (September 27, 2011) http://www.factcheck.org/2011/09/romneys-health-care-law-killed-jobs/ (accessed November 15, 2011).
[6] Massachusetts Taxpayers Foundation, "Health Care Reform: Expanding Access without Sacrificing Jobs," December 2005 http://www.masstaxpayers.org/publications/health_care/20051201/health_care_reform_expanding_access_without_sacrificing_jobs (accessed November 14, 2011).

ended up increasing costs through increased premiums rather than through a new tax. The outcome is the same—lost jobs and investment.

Free riders

The reason why Romney Care provides for individual and employer mandates is to resolve the free-rider problem: Without the mandates, so it is argued, individuals and employers would game the system by expecting hospitals to provide patient care without being able to recover the costs of providing that care. These persons then become free riders – people who take advantage of laws that entitle them to receive care but without paying their fair share. Romney Care was designed to alleviate this problem.

However, there is still room for people to game the system. People can buy insurance only upon being diagnosed as needing a non-emergency procedure such as a hip replacement and then cancel their insurance after receiving the treatment or procedure. Businesses can likewise game the mandate by canceling their health insurance plans and shifting their employees to newly subsidized state plans. Massachusetts taxpayers and health insurance policyholders pick up the tab for these "jumpers and dumpers."

In a third study that is yet to be published, the Beacon Hill Institute (BHI) estimated the prevalence and cost of gaming the mandates. [7] We find that in 2009, between 2,089 and 2,659 individuals gamed the individual mandate in this way at an estimated cost of between $29.3

[7] David G. Tuerck, Paul Bachman and Michael Head, *The Massachusetts Health Care Reform Mandates: The Gaming Gamble*, The Beacon Hill Institute at Suffolk University (Forthcoming, November 2011).

million and $37.3 million.[8] In an attempt to stem the number of free riders, the Massachusetts legislature recently limited the time period for individuals to purchase coverage and imposed higher individual fines – more controls. However, it is unclear if these changes will discourage individuals from skirting the mandates in the face of surging insurance premiums. This is especially true for individuals seeking non-emergency treatment who find it convenient to register during the open enrollment period and still cancel their plans after receiving treatment.

ObamaCare faces similar free rider problems. While the Massachusetts law has cost the state and policyholders tens of millions of dollars, the cost to taxpayers from jumping on and off a federal plan will surely be several times larger.

Reaction

The critics of our study can't quite make up their mind just what it is they want to criticize. According to one Romney campaign spokesman, the BHI "study is deeply flawed" because "it is based on the assumption that Massachusetts health care reform caused the rate of health care cost increases to accelerate.[9] According to this spokesman, "health care cost increases have slowed since the passage of reform. This error therefore invalidates the study."

There is no doubt that health care costs have risen steeply since Romney Care was adopted. And it is undeniable that Romney Care contributed to this increase whether or not the rate of

[8] The latest Massachusetts Department of Revenue report available is for 2009.
[9] Matt Viser, "Perry says new study shows Romney health plan cost state 18,000 jobs," *Boston Globe*, (September 15, 2011) http://www.boston.com/Boston/politicalintelligence/2011/09/perry-says-new-study-shows-romney-health-plan-cost-state-jobs/W3dMawYIafOg9ev8DlmjTM/index.html. (accessed November 14, 2011).

increase rose since the law was passed. As I discussed earlier we took great pains to make sure that the increased costs that we attributed to Romney Care were only those costs that rose relative to past trends in Massachusetts and relative to the increase in costs for the country as a whole. The difference is that the Romney spokesman picked three data points in making her comparison, whereas we applied regression analysis to all the data available to us.

More fundamentally, we might have expected costs to have fallen since Romney Care was adopted, considering the hoopla that attended its adoption. It is quite embarrassing that Romney must argue, again, erroneously, that costs didn't go up as fast as they had before. What he should be able to do is point to a downward shift in costs that was made possible by the introduction of Romney Care.

Worse still, his defenders seem to vacillate between claiming that Romney Care did not raise costs and saying that it was never intended to lower costs in the first place. Referring to the idea of imposing cost controls, Tim Murphy, the head of Romney's Health and Human Services agency, said "I would never do that in a million years…We didn't think it was the proper role of government."[10] Likewise, Jonathan Gruber, the lead economist on the project, who went on to advise on Obama Care, said that "cutting costs was never the intention of the original bill."[11]

[10] Jennifer Haberkorn, "Mitt Romney may be haunted by Massachusetts health care costs," *Politico.com*, October 26, 2011, http://www.politico.com/news/stories/1011/66957.html#ixzz1diH6Ry30 (accessed October 31, 2011).
[11] Ibid, 2.

In fact, both Gruber and Murphy knew from the start that the bill would never cut costs. In a 2006 report, Gruber said that the Health Connector "faces an 'iron triangle' or competing pressures: the desire for affordability; the desire to minimize the public sector costs of subsidies; and the desire to ensure comprehensive insurance coverage for individuals…If [the Connector] wants to make sure that insurance is comprehensive it must either make that insurance less affordable through higher premiums," he said, "or raise the subsidies to offset those higher premiums."[12] According to Politico, "both Gruber and Murphy said that when the law was crafted, it was assumed that lawmakers would likely have to come back for future reforms."[13]

All that stands in contrast to what Romney and his allies told us when he was selling the bill to the public. In a letter to the state legislature Romney said that "lastly, but perhaps most critically, this bill takes bold steps to contain health care costs." He went on: "By putting an end to cost-shifting from the uninsured and from the Medicaid program, businesses and individuals will no longer bear the cost of others' health care….This bill places critical health care cost and quality information in the hands of businesses and consumers. By creating cost and quality transparency, individuals will make more informed decisions about where and how to seek care."[14]

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[12] Jonathan Gruber, "The Massachusetts Health Care Revolution," *The Hastings Center Report,* (September-October 2006) 17, http://www.thehastingscenter.org/Publications/HCR/Detail.aspx?id=1456 (accessed November 14, 2011).
[13] *Politico.com*, October 26, 2011.
[14] See archived version of veto letter available at http://www.ncsl.org/print/health/vetoletter.pdf (accessed November 15, 2011). See also Politico.com, October 26, 2011.

Additionally, at a briefing sponsored by the Alliance for Health Reform and the Kaiser Family Foundation on May 8, 2006, Tim Murphy made a presentation entitled "Massachusetts Health Care Reform." One of his slides is entitled, "a "fully insured" population is the cornerstone to controlling health care costs." He argued that the two arms of healthcare reform are: i) "Insure the uninsured;" and ii) "Contain healthcare costs."[15]

In a *CQ.com* article from 2006 entitled "Mitt Makes His Case for Mass Health Bill," Romney is quoted saying that "a fully insured population is the cornerstone for controlling health care costs."[16]

But health care costs have risen, and now we are in store for another extension of government control over the health care system – exactly what Hayek predicted. The solution du jour is the institution of global budgets, as recommended by a commission set up to deal with ever-rising premiums. As explained by Attorney General in a June 2011 report, "a global budget is a targeted maximum amount of money that a health insurer will pay to cover *all* the care a patient receives for a given period of time (regardless of where the patient obtains that care)." [17]

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[15] "The Massachusetts Health Plan: How Did They Do It?" a presentation by Tim Murphy to the Alliance for Health Reform and the Kaiser Family Foundation (May 8, 2006). See http://www.allhealth.org/briefing_detail.asp?bi=77; Slides available at http://www.allhealth.org/briefingmaterials/TimMurphy-185.pdf (accessed November 15, 2011).

[16] *CQ.com*, "Mitt makes his case for Mass Health Bill," (April 25, 2006) http://tinyurl.com/6swk3of (accessed November 14, 2011).

[17] Office of Attorney General Martha Coakley, "Examination of Health Care Cost Trends and Cost Drivers, Pursuant to G.L. c. 118G, § 6½(b) Report for Annual Public Hearing June 22, 2011." (June 2011) http://www.mahp.com/assets/pdfs/attorney-general-report.pdf (accessed November 14, 2011).

There is, however, good reason to doubt that the institution of global budgets will do any good. In June, the Attorney General pointed out that in a 2010 report she "examined whether the existing health care market has successfully contained health care costs, and found the answer to be an unequivocal no."[18] The Attorney General finds that "the market players – whether insurers, providers, or the businesses and consumers who pay for health insurance – have not effectively controlled costs in recent years." As for globally paid providers, they "do not have consistently lower total medical expenses."

The report goes on to say that "the information we reviewed shows that the shift to global payments without other fundamental changes may not only fail to control cost, but may exacerbate market dysfunction and market inequities by establishing widely different per member per month rates based on historic pricing disparities." It turns out that "providers paid under a global risk contract do not have consistently lower TME [Total Medical Expenses] than providers paid under a fee-for-service contract. Some risk-sharing provider groups are among the highest TME providers in the state while some groups paid on a fee-for-service basis are among the lowest TME providers in the state."

So what are we to do if the global budgeting won't reduce costs? It should come as no surprise that state officials are now suggesting price controls as a solution to the problem. A Special Commission on Provider Price Reform has come up with recommendations that, in effect, put the insurance companies in the business of imposing price controls on hospitals. Insurers are

[18] Office of Attorney General Martha Coakley, "Examination of Health Care Cost Trends and Cost Drivers, Pursuant to G.L. c. 118G, § 6½(b), Report for Annual Public Hearing March 16, 2010" (March 2010) http://www.mass.gov/ago/docs/healthcare/2011-hcctd-full.pdf (accessed November 14, 2011).

encouraged to force hospitals to accept a "market-based median price" for their services.[19] So much for the cozy cabal that had hospitals and insurers banding together to make business for themselves through individual and employer mandates.

Thus, the gloomy Hayekian prediction comes true in Massachusetts even as the federal government embarks on the failed project that Romney Care inspired. One control begets another control until our freedoms wither away.

Candidate Romney could defend himself by arguing, correctly, that the state legislator hijacked his plan by adding mandates that he didn't want, and he could say that, but for his plan, we would have ended up with a far worse, single payer system. He could say that politics is the art of the possible, and we should be grateful that the legislature didn't inflict something far worse. He could also argue that he was acting to preserve nearly half a billion dollars in federal funding that the federal government was threatening to withdraw if certain changes weren't made. But what he shouldn't say is that Romney Care worked for Massachusetts even if it might not work elsewhere.

Romney Care worked for Massachusetts only because it imposed costs on individual rate payers and the federal government rather than the state government, so that political resistance to the higher costs would be minimized. It's worth repeating something I said earlier: Romney

[19] Special Commission on Provider Price Reform, *Report*, (November 9, 2011): 28, http://www.scribd.com/doc/72390154/Massachusetts-Special-Commission-On-Medical-Care-Price-Provider-Reform-2011, (accessed November 15, 2011).

Care has resulted in an $8.6 billion increase in costs overall. Of this, $2.4 billion of which was picked up by the federal government, while the state saw an increase of $414 million. That is in addition to the billions of dollars in federal funding for the existing Medicaid program. In short, absent the desire and the ability to offload costs onto the federal government, Romney Care wouldn't exist.

And now we have Obama Care, which Romney Care inspired and which lacks any convenient way to shift costs to some higher governmental level. The United Nations will not be picking up the tab.

I used to say that the real pity about socialized medicine in the United States is that Canadians won't have any place to go for health care. Perhaps now both Canadians and Americans will have to find some offshore location to get the health care that the Son of Romney Care will make unavailable here. Mitt Romney might make a great president but he won't unless, upon becoming president, he can free himself of this albatross that he created – and should have known he was creating – when he laid out his plan to become President the first time around.