



# Romneycare Versus Obamacare

Two Names; Same Model

Maura Calsyn July 2012

### Introduction

Mitt Romney, the Republican Party candidate for president, says he abhors Obamacare. The Center for American Progress Action Fund takes him at his word. But we also take very seriously his past embrace of comprehensive health care reform that he signed into law in 2006 when he was governor of Massachusetts. That law—"Romneycare"—provided much of the foundation for the Affordable Care Act—"Obamacare." The Affordable Care Act and the Massachusetts law share the goal of expanding access to quality health care. And both laws contain the same building blocks:

- Reforming the private health insurance marketplace
- Giving individuals a choice between purchasing health insurance and paying a penalty to offset their costs should they become sick
- · Creating exchanges and providing financial assistance for individuals who could not otherwise afford insurance
- Relying on employer-sponsored insurance
- Expanding Medicaid to cover more low-income individuals

At their core both laws foster shared responsibility for our health care system. All actors in the health care system—insurers, consumers, employers, and the government—play important roles in guaranteeing access to affordable health care. Under both laws most people will continue to obtain health insurance through their employers, and both laws require larger employers to either provide coverage or pay a penalty. Romneycare and Obamacare both expect uninsured individuals to purchase insurance if they can afford to do so. Both also reform the private health insurance marketplace, expand Medicaid, and provide financial help for those who would otherwise have trouble paying for coverage.

Just a few years ago, this approach was not at all controversial among conservatives. The Heritage Foundation, a conservative think tank, first proposed an individual mandate in 1989. Its authors recognized that "each household has the obligation, to the extent it is able, to avoid placing demands on society by protecting itself."2

"Using tax penalties, as we did, or tax credits, as others have proposed, encourages 'free riders' to take responsibility for themselves rather than pass their medical costs on to others."

- Mitt Romney

## **Comparing Romneycare and Obamacare**

Major provisions	Affordable Care Act	Massachusetts health law
Individual mandate	Yes	Yes
Employer responsibility	Yes	Yes
Affordability credits	Yes	Yes
Standard benefit package	Yes	Yes
Establishes exchanges	Yes	Yes
Prohibits insurance company from canceling coverage	Yes	Yes
Bans denying medical coverage for pre-existing conditions	Yes	Yes
Medicaid expansion	Yes	Yes
Medicare savings	Yes	No Authority
Delivery system reforms	Yes	No

Source: Igor Volsky, "White House Consulted Romneycare Advisers To Shape Obamacare," Think Progress, October 11, 2011, available at http://thinkprogress.org/health/2011/10/11/340381/white-house-consulted-romneycare-advisers-to-shape-obamacare/.

Conservative economists also proposed a mandate as part of a plan that "supports and makes use of competitive markets" and "avoids relying on the public tax or expenditure systems whenever possible." In 1993 Sen. John Chafee (R-RI)—along with 18 Republican co-sponsors—introduced legislation that included a mandate as an alternative to the Clinton administration health reform plan." And in 2005 the George W. Bush administration agreed to waive certain Medicaid rules to give Massachusetts the funding and flexibility to operate Romneycare. When the waiver was up for renewal in 2008, President Bush again signed off on the policy.

This approach works. In Massachusetts there is near universal coverage—only 1.9 percent of the population remains uninsured—and over 411,000 individuals have enrolled in health plans through the state's exchange, the Connector. Since 2005 the percentage of employers that offer insurance coverage has increased from 70 percent to 82.6 percent.<sup>6</sup> Given these results, it's not surprising that the law remains wildly popular: Polls show that over 60 percent of the state's residents approve of the law, and only one-third oppose it.<sup>7</sup>

Despite this overwhelming support and the law's success, Gov. Romney has joined the rest of the Republican Party in opposing these same policies now that they are part of Obamacare, making the repeal of the president's law a central theme in his campaign.

In its place Gov. Romney would adopt the most draconian of the far right's health agenda— proposals that fail to address the issues of affordability and access to care. And his support for Medicare "premium support" and Medicaid block grants would increase premiums for seniors and shred our nation's health care safety net.

The Center for American Progress Action Fund finds this sharp turn to the right troubling; even more so because the Republican presidential nominee has yet to give an explanation that makes any sense—other than out of political necessity—about why he's turned his back on his prior approach to health care reform. To fully understand how much Romney's policies have changed, this issue brief explores the many similarities between Romneycare and Obamacare.

# Reforming the private health insurance market

The first building block of both Romneycare and Obamacare is guaranteeing that all people—regardless of their health status—have access to health insurance. To do so, both laws require insurance companies to enroll all individuals who apply for coverage, even if they are sick or have a pre-existing condition—a reform called "guaranteed issue."

Guaranteed issue would do little to help sicker or older individuals if insurance companies could still charge those consumers exorbitant rates that they could not afford. Both laws, therefore, also require some form of "community rating"—the practice of charging the same premium to all members of a risk pool, regardless of their expected health needs. The premiums paid by healthy people who spend less on health care subsidize the cost of insuring sicker, higher-cost people in the pool. Both Romneycare and Obamacare include some form of community rating, although the president's law allows insurance companies more flexibility to adjust rates based on an individual's age and smoking habits.

Both plans also expand dependent coverage, generally allowing children to stay on their parents' plan until they're 26 years old. Under Romneycare, however, children could only stay on their parents' plan for two years after they're no longer claimed as a dependent or until they turn 26, whichever came sooner.

The Affordable Care Act also includes a number of additional market reforms and protections for patients. First, the law prohibits insurance companies from placing annual or lifetime limits on benefits. Second, the law requires insurance companies to spend 80 percent to 85 percent of premium dollars on health care services and health care quality improvement efforts, rather than on administrative costs—a policy known as the "medical loss ratio." If an insurance company does not meet this threshold, it must rebate the difference to its customers.

Providing a choice between purchasing health insurance or paying a penalty

Because Romneycare and Obamacare prohibit insurers from denying coverage to older or sick individuals and limit their ability to charge these consumers higher premiums,

"No, no, I like mandates. The mandates work."

- Mitt Romney

some people might decide to wait until they are sick to purchase insurance. This is problematic for several reasons. Without a sizable number of healthy individuals to spread the risk to insurers of covering older, sicker consumers, the average cost of insuring people in the market will rise, which in turn will raise premiums for everyone else. If this "adverse selection" occurs, those in better health will be even less willing to purchase insurance, which in turn will cause costs to rise even further—a scenario deemed the "death spiral."

Both Romneycare and Obamacare have the same solution to this problem: Requiring every uninsured person who can afford insurance to make a choice to either purchase coverage or pay a penalty, with certain limited exceptions. In Massachusetts this approach has led to nearly universal coverage and the Affordable Care Act should have a similar effect when it is fully operable.

Individuals have a responsibility to purchase insurance if they can afford to do so. Both Romneycare and Obamacare also recognize that caring for the uninsured exacts a high cost on society. Uncompensated care is paid for by taxpayers through public programs, by health care providers through lost profits, and by providers shifting costs to private insurers. Private insurers may then increase premiums for the rest of their customers.

The choice between purchasing health insurance and paying a penalty helps combat this cost shift. If you're uninsured it will still be your choice whether you want to buy insurance, but if you can afford insurance and choose not to purchase it, other taxpayers will no longer subsidize your care for free. The penalties in Massachusetts are generally comparable in scope and magnitude to those under the Affordable Care Act. Specifically:

- Both laws exempt low-income individuals. The mandate in Massachusetts exempts those with income below 150 percent of the federal poverty level—\$16,755 for an individual and \$34,575 for a family of four—whereas the federal mandate exempts those with income below the federal income tax filing threshold (roughly 90 percent of the federal poverty level, or \$10,053 for an individual or \$20,745 for a family of four).
- Both also exempt individuals who cannot afford coverage. The mandate in Massachusetts exempts those for whom the premium of the lowest-cost plan exceeds an affordability threshold. The federal mandate exempts those for whom the premium of the lowest-cost plan exceeds 8 percent of income.
- Both allow an individual to claim an exemption due to financial hardship, even if a penalty would usually apply to an individual.
- Both mandates exempt those who refuse to obtain health insurance because of their religious beliefs.

"And now [Romney] is saying he wants to tear down the very model that he was promoting."

-John McDonough, Harvard University professor who helped shape both Gov. Romney's and President Obama's health care plans

There are a few differences between the two laws:

- In Massachusetts the mandate only applies to adults. The federal mandate applies to taxpayers and their dependents, requiring taxpayers to pay reduced penalties on behalf of their dependents.
- How the penalties are calculated differ. In Massachusetts the penalty for not having qualified insurance is 50 percent of the amount that an individual would pay for the lowest-cost plan after taking into account any premium subsidy. Under the Affordable Care Act, the fully phased-in penalty in 2016 will be the greater of \$695 per adult (half of that for children) or 2.5 percent of the amount of income that exceeds the federal income tax filing threshold. But the penalty may not exceed an overall cap equal to the national average premium of the lowest-cost plan.

Because of these differences in design, fewer people with incomes below 300 percent of the federal poverty level will be exempt under the federal mandate. Moreover, the federal penalties will be higher for people with incomes below 250 percent of the federal poverty level. On average, the federal penalties, once fully phased in (in 2016), will be slightly higher than the penalties in Massachusetts—about \$674 per person under the federal law compared to \$537 per person in Massachusetts.8

# Creating exchanges and helping people afford the cost of health insurance

Both Romneycare and Obamacare make shopping for insurance easier and purchasing insurance more affordable. Both create new, virtual marketplaces for uninsured individuals and small businesses to shop for health insurance products. These marketplaces—called exchanges—provide both individuals and small businesses with one-stop, streamlined shopping for health insurance, where individuals and small businesses can compare insurance plans. Both laws also help low- and middle-income individuals afford the cost of insurance, but when compared to Romneycare, the federal law gives even more middleclass individuals and families significant tax relief.

Under Romneycare, individuals with incomes up to 300 percent of the federal poverty level—currently \$33,510 for individuals and \$69,150 for a family of four—qualify for subsidies to help pay for the cost of health insurance on the Connector. The sliding scale of subsidies varies based on the customer's income, with individuals with incomes up to 150 percent of the federal poverty level9—\$11,170 for individuals and \$23,050 for a family of four—exempt from paying premiums. Plans offered to these individuals do not have deductibles and are sponsored by managed-care organizations that participate in the state's Medicaid program.<sup>10</sup>

The Affordable Care Act includes tax breaks for millions of middle-class individuals and families. It provides various levels of financial assistance in the form of premium tax credits and cost-sharing reductions. The distribution of this assistance varies, however. Overall, the subsidies under the Affordable Care Act are smaller than those offered in Massachusetts. But the federal law extends tax credits to people with incomes up to 400 percent of the federal poverty level—currently \$43,320 for individuals and \$88,200 for a family of four.

Middle-class individuals with incomes between 300 percent and 400 percent of the federal poverty level will receive significant financial assistance under the Affordable Care Act. For instance, the unsubsidized premium for a 50-year-old individual with an income of \$39,000 is approximately \$6,900. Under the Affordable Care Act, that person will receive a tax credit of roughly \$3,100, reducing the premium cost to about \$3,800. The tax benefit if that same individual had a family of four earning \$80,000 is even greater: Without the law's premium tax credits, the family's premium would be about \$16,800; with the tax credits, the family will pay about \$7,700, a savings of roughly \$9,100.11

## Relying on employer-sponsored insurance

Both Romneycare and Obamacare recognize that most nonelderly individuals obtain health insurance through their own employment or through their spouse's or parents' jobs. To protect this source of coverage, both laws require larger employers to provide insurance to their employees. But there are differences in which businesses must meet these requirements and the penalties for not complying.

Businesses in Massachusetts with 11 or more employees must meet the state's "fair and reasonable contribution" requirement. For businesses with over 50 employees, at least 25 percent of the employer's full-time employees must be enrolled in the employer's health insurance plan, and the employer must pay at least one-third of the premium cost for the employees' health insurance plan. For businesses with 11 to 50 employees, the employer must meet one of these criteria. If the employer does not meet these requirements, it pays a "fair share" contribution of \$295 per employee.

Employers with more than 10 employees must also offer a "cafeteria plan" that allows employees to purchase health care with pre-tax dollars. If employees do not have insurance through their jobs, they will be able to purchase insurance through the Connector. Evidence from Massachusetts suggests that employers have maintained coverage and benefit levels since the state's implementation of health reform, and the vast majority of residents continue to receive coverage through their employers.<sup>12</sup>

The Affordable Care Act requires fewer employers to offer health insurance, but it imposes higher penalties if those businesses choose not to do so. The law requires employers with 50 or more employees to offer insurance or pay a penalty of \$2,000 per each full-time worker. Employers are responsible for this penalty once any employee purchases subsidized insurance on an exchange. And employers with over 200 employees must automatically enroll employees into employer-sponsored plans, with employees able to opt-out.

The federal law also offers tax credits to small businesses for up to 50 percent of their health insurance costs. Employers with fewer than 25 full-time employees and average annual wages below \$50,000 can already offset the cost of up to 35 percent of their contribution to employees' health insurance plans, if the employer pays at least 50 percent of the premium. In 2014 this credit will increase to up to 50 percent of employers' contributions toward insurance plans.

# Expanding Medicaid

Both Romneycare and Obamacare rely on expanded Medicaid eligibility to cover more low-income individuals. Eligibility for Medicaid, a federal/state partnership to provide health care to low-income Americans, is largely determined by each state. Although all states must meet minimum federal requirements, state Medicaid programs vary widely. In most states Medicaid only covers certain groups of low-income individuals—mostly working parents with incomes well below the poverty line.

Massachusetts expanded Medicaid to cover children with family incomes of up to 300 percent of the federal poverty level and raised enrollment caps for certain adults.<sup>13</sup> Eligibility requirements for adults remain the same, although they are more generous than in many other states: Parents with incomes up to 133 percent of the poverty level, pregnant women with incomes up to 200 percent of poverty level, and long-term unemployed individuals under the poverty level all qualify for the program.

The Affordable Care Act expanded the federal minimum Medicaid eligibility level to all people with incomes up to 133 percent of the poverty line (plus a 5 percent automatic income disregard, bringing the income limit up to 138 percent). Estimates showed that if fully implemented, this expansion would result in 17 million Americans gaining critical health coverage.14

## Conclusion

Just a few years ago Gov. Romney supported comprehensive health care reform that guaranteed access to health insurance, expanded Medicaid eligibility, and made coverage more affordable to low- and moderate-income people. Today he runs from these same policies in order to attack Obamacare. The Republican presidential nominee needs to

explain to the American people very specifically why he enacted Romneycare, why the specific provisions he once supported are now unsupportable, and how the far right health care agenda he now supports will affect the health and pocketbooks of the people of Massachusetts and the United States today.

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#### **Endnotes**

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- 2 Ibid.
- 3 Mark V. Pauly and others, "A Plan for 'Responsible National Health Insurance," Health Affairs 10 (1) (1991): 5-25.
- 4 Health Equity and access Reform Today Act of 1993, S. 1770, 103rd Cong. (Nov. 22, 1993). In 2007, 10 Republican senators cosponsored the Health Americans Act (S. 334), which also included an individual mandate.
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- 6 Sharon K. Long, Karen Stockley, and Heather Dahlen, "Massachusetts Health Reforms: Uninsurance Remains Low, Self-Reported Health Status Improves As State Prepares To Tackle Costs" Health Affairs, January 24, 2012, available at http://content.healthaffairs.org/content/early/2012/01/24/ hlthaff.2011.0653.abstract?rss=1
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- 13 Kaiser Family Foundation: Commission on Medicaid and the Uninsured, "Massachusetts Health Care Reform Plan" (2006), available at http://www.allhealth.org/briefingmaterials/ Kaiser-MAHealthCareReformPlan-240.pdf
- 14 Congressional Budget Office, "CBO's Analysis of the Major Health Care Legislation Enacted in March 2010" (2011)