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YELOWITZ: Obama's other Massachusetts problem

Aaron Yelowitz and Michael F. Cannon

The flood of angry voters in Massachusetts isn't the only blue-state problem coming from Ted Kennedy's old stomping grounds.

In 2006, Massachusetts enacted a health care law that is essentially identical to the Obama plan - and voters there have seen the consequences. Both Obamacare and the Massachusetts plan aim to expand health insurance coverage via private-sector mandates, private-insurance subsidies, an expanded Medicaid program and a new health insurance "exchange."

President Obama has avoided any comparisons between his plan and the Massachusetts law, with good reason. Premiums for employer-sponsored insurance - 96 percent of the Massachusetts' market - are rising 21 percent to 46 percent faster than the national average. State officials have whitewashed the cost overruns, but they are simultaneously raising taxes and threatening to impose a Canadian-style payment system, in which doctors and hospitals do the dirty work of rationing care.

In a new Cato Institute study, we found that the Massachusetts law's runaway costs are delivering far less than supporters claim. Using 2008 data from the Census Bureau's Current Population Survey, "the survey of record" for measuring trends among the uninsured, and controlling for relevant variables and using other New England states to control for unobserved factors, we found unflattering results.

Official estimates of coverage gains overstate the law's impact by at least 45 percent. At best,

the law covered 297,000 previously uninsured residents, and the uninsured rate is 3.8 percent rather than 432,000 and 2.6 percent, as Massachusetts claims.

Yet even those estimates are overly optimistic, as Massachusetts appears to have driven many uninsured residents underground.

There is evidence that many residents responded to the law - whose "individual mandate" makes it a crime not to have health insurance - by concealing their insurance status from the Census Bureau. Our results suggest that Massachusetts' actual uninsured rate may be 5.1 percent or higher and that state officials may be overstating the coverage gains by 112 percent or more.

In addition, the law's Medicaid expansion spurred many residents to substitute Medicaid for private insurance, much as critics fear a "public option" would. Private coverage fell by 14.6 percentage points among low-income children - despite no discernable increase in total coverage - and by 6.2 points among low-income adults. (Because the Senate version of the president's plan would expand Medicaid, maybe it contains a "public option" after all.)

We also found that the law has done a better job of giving residents coverage than moving the population toward better health. Self-reported health improved for some residents but fell for others.

Finally, it appears the law has made Massachusetts a less attractive place to live for young adults.

Even before 2006, Massachusetts forced young consumers to pay inflated premiums for the purpose of subsidizing their elders. The law's new "individual mandate" forces those young adults to accept that bad deal or pay a penalty. As a result, the number of young adults relocating to Massachusetts has fallen by 60 percent.

The Obama plan and the Massachusetts law bear another similarity: So far, no one has bothered to estimate their full cost.

The nonpartisan Massachusetts Taxpayers Foundation used creative accounting to declare the law's cost to be "modest." Using unpublished data provided to us by the foundation, however, we conservatively estimate total new spending under the law to have exceeded \$1 billion in 2008 - 57 percent higher than the foundation's published estimate. The total cost is much higher, as our estimate includes only one category of mandatory private-sector spending.

But at least we have a vague idea of the full cost of the Massachusetts law. Unlike the way it handled the Clinton health plan, the Congressional Budget Office has produced no cost estimates of the Obama plan's private-sector mandates. A recent CBO memo reveals that Democrats have been working meticulously to suppress any such estimates.

Massachusetts has done the nation a great favor. It is providing a preview of life under the Obama health plan: a lot of pain for very little gain.

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