

## Providing Health Care for the Unemployed: The Medical Security Trust Fund

The Medical Security Trust Fund, which funds health insurance for more than 30,000 people in Massachusetts, is at risk of running out of money within the next few months. The Trust pays for health insurance coverage for people with incomes less than 400 percent of the federal poverty line who are receiving unemployment compensation. However, because the funding for the Trust has never kept pace with inflation, because money has been taken out of the Trust for other purposes, because the length of time individuals can receive unemployment benefits has been extended, and with employer contributions currently low and unemployment high, this piece of the state's health care safety net is at risk of unraveling.

The Medical Security Program, the health insurance program provided by the Medical Security Trust Fund, was created in 1988 as part of the Commonwealth's proposed universal health care plan. Although the major provisions of that year's extensive universal health care access bill were repealed, the Medical Security Program remains. This program is administered by the state's Division of Unemployment Assistance.

The statute creating the Trust specifies that contributions to the Medical Security Trust Fund should be adjusted to keep pace with inflation. This adjustment has never happened. Eligible employers – those who employ six or more employees – pay a contribution of 0.12 percent on the first \$14,000 of each employee's wages paid during the calendar year into the Medical Security Trust Fund. This contribution amounts to a maximum of \$16.80 annually ( $\$14,000 \times .0012 = \$16.80$ ). The statute governing the Medical Security Trust also states that "the unemployment health insurance contribution wage base shall equal the product of (i) the unemployment health insurance contribution wage base for the then previous calendar year; and (ii) the sum of one and the health insurance inflation rate for the then previous calendar year. . . ."<sup>1</sup> The employer's contribution to the Fund was capped at \$16.80 per employee per year in the first years of the program's existence, and remains capped at \$16.80 per employee per year almost 20 years later.

Furthermore, the idea underlying the funding structure of the Trust is that it would build a surplus in times when unemployment is low, in order to be able to pay for needed health insurance during times when unemployment is higher. In 2001 and 2002, when the Medical Security Trust Fund was running a substantial surplus, more than \$190 million was removed in large part to help fund the state's uncompensated care pool which is the fund providing reimbursement to hospitals and other health care providers for a portion of their costs associated with providing health care to uninsured patients. Not surprisingly, however, shortly after this period of growing surpluses in the Trust, the economy turned, demand for the Medical Security Program grew, and the balance in the Trust dropped precipitously.

Moreover, current economic conditions have put new pressures on the Medical Security Program. Rising unemployment means that more people are eligible for the program. Recent federal extensions to unemployment compensation have also extended eligibility for Medical Security Program health care benefits,

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<sup>1</sup> Mass. Gen. Laws ch. 151A, § 14G.

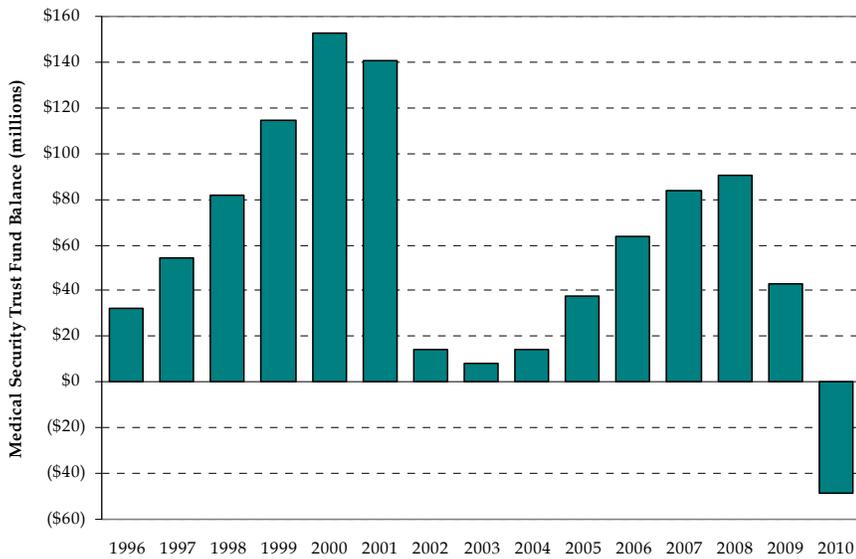
meaning that the program is covering more people for a longer period of time. Finally, the state’s health reform law requires that everyone have health insurance or pay a penalty, which also increases demand.

Spending on the Medical Security Program is eligible for federal Medicaid reimbursement, now boosted from 50 to 61 percent of spending through 2010 due to provisions of the federal stimulus bill (ARRA).<sup>2</sup> In order to receive this enhanced reimbursement rate, it is important to note that the Commonwealth may not change eligibility guidelines for the program. Furthermore, like most federal Medicaid reimbursement, the federal

reimbursements generated by the Medicaid Security Program go into the General Fund and are not directly available to finance the Medical Security Program.

According to a recent analysis by the Division of Unemployment Assistance,<sup>3</sup> the Medical Security Trust Fund could run out of money as early as in December 2009, and could have a deficit as high as \$48.8 million by the end of Fiscal Year 2010. Although the Governor is currently proposing transferring \$30 million from the General Fund into the Medical Security Trust Fund to help cover the costs of the Medical Security Program in this current fiscal year, this transfer is intended to be one-time, and would not in any case cover the full cost of the projected deficit.

Medical Security Trust Projected to be in Deficit by FY 2010



Source: Comm. of Mass., Office of the State Comptroller, *Statutory Basis Financial Reports*; Current year estimates from Division of Unemployment Assistance.

Had the employee contribution wage base kept pace with inflation over the years – as dictated by statute – the Trust would likely not be in deficit. For example, following the statute and increasing the employer contribution based on the health insurance inflation rate, instead of a maximum contribution of \$16.80 per employee, the FY 2010 contribution would be \$56.41 – 0.12 percent of the first \$47,000 in wages.<sup>4</sup> FY 2008 contributions to the Trust could have been as much as \$115 million, which would have been an additional \$67 million available in that one year to support the Medical Security Program.<sup>5</sup> Since the program’s inception, health care inflation has been on average 5.6 percent annually. It is therefore not surprising that a contribution rate that has never been adjusted for inflation would be inadequate to support current health care costs.

<sup>2</sup> For a discussion of the Medicaid reimbursement provisions of the American Recovery and Reinvestment Act, see Mass. Budget and Policy Center, “American Recovery and Reinvestment Act – Health Care,” available at <http://massbudget.org/696>.

<sup>3</sup> Division of Unemployment Assistance, “Medical Security Program: Options for Addressing Current Trust Fund Status,” Nov. 4, 2009 (Presentation).

<sup>4</sup> There is no one commonly-used health insurance inflation rate. For this calculation, we derive the health insurance inflation rate from per capita expenditures on private health insurance, based on figures from the federal National Health Expenditures. See Centers on Medicare and Medicaid Service, *National Health Expenditure (NHE) Amounts by Type of Expenditure and Source of Funds: Calendar Years 1965-2018*, available at [www.cms.hhs.gov](http://www.cms.hhs.gov), as well as U.S population estimates from the U.S. Census Bureau [www.census.gov](http://www.census.gov). The population estimates are for the civilian non-overseas population.

<sup>5</sup> This very rough estimate is based on employment data from the “Occupational Employment and Wage Statistics” for May 2008 from the Mass. Department of Labor, using entry salary levels and estimated employment numbers.