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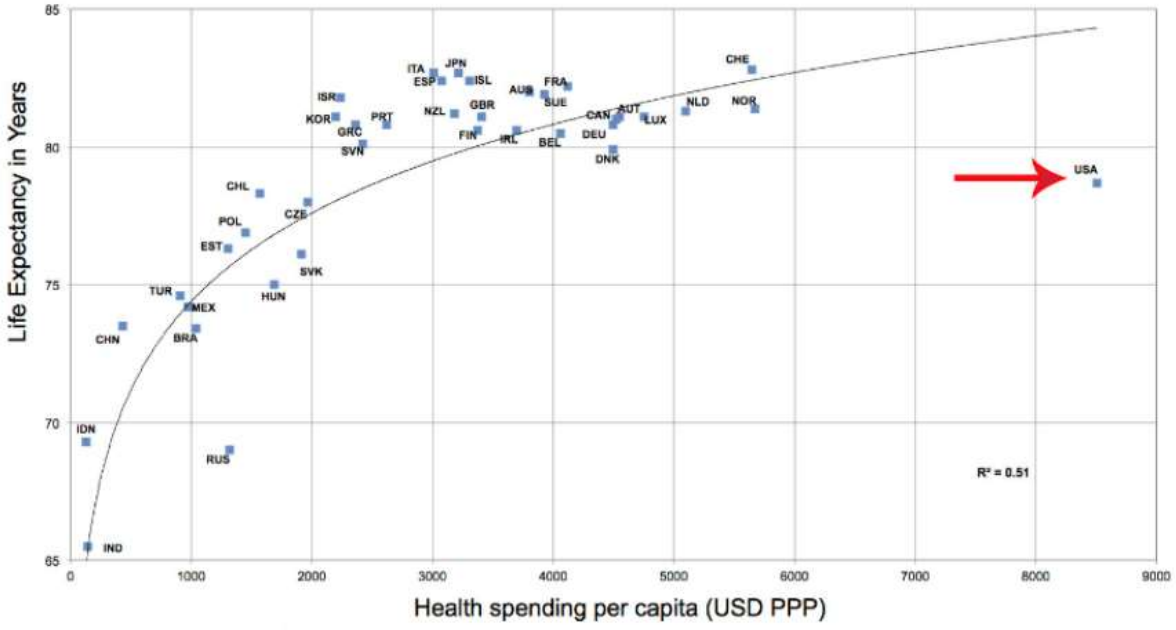
Texas and the Affordable Healthcare Act

The debate on healthcare in the US has been going on for the better part of this century. This debate has multiple sides to it with multiple proposed fixes including single payer, increased privatization, obligatory purchasing and many more. The single issue that most people agree on is that the current system is flawed. Comparing the United States' system to other countries such as Canada and the UK it is easy to see why we spend vastly more than other similar countries in healthcare while acquiring often the same (or similar) benefits. The only case where one can see the advantage of the US system is when it comes to the availability of things like MRIs.



We clearly see here that when looking at life expectancy compared to Health spending per capita USA lies well out of the normal area. With a Life expectancy that is comparable the Chilean expectancy while spending about $6,000 more per capita. By no means is our life expectancy horrible. After all we comparable to other countries such as Denmark, Belgium, Canada, and Finland. The issue we see lies in the amount of spending we to achieve these

results. Most people within the USA recognize this issue of overspending for the same level of healthcare as other countries.

One important question to ask is: Why might we see better outcomes from countries that rely on more government intervention than the US? The answer lies within the lack of assurances in costs for the insurance agency. When a normal good is sold within a competitive market the producer knows what their cost will be. This would also be true if a company were to insure a coin flip or another game of chance. Due to the law of large numbers a company can assume that given enough flips around 50% of the coin flips will be heads and 50% will be tails. However, when it comes to health each individual person can be thought of as having their own "chance of sickness" on top of this most of the time it is near impossible for a company to tell what this chance is by looking or even talking to a potential customer. In fact, it is in the customers best interest to lie about their chances and claim to have a much lower chance of getting sick than it is in reality.

A logical next step is for the company is to attempt to average all their customers' chances for sickness and use that to calculate their expected costs. Doing this within a free market makes your insurance only worthwhile for people whose costs are higher than the estimated price. This form of adverse selection means that as the company reevaluates their customers estimated cost over and over it will rise until only the most expensive customers remain. This effectively prices out anyone who either cannot afford the high price and anyone who isn't a high cost customer. Another possible issue that will likely happen in this market is that companies will likely not want to serve people who have clear preexisting conditions.

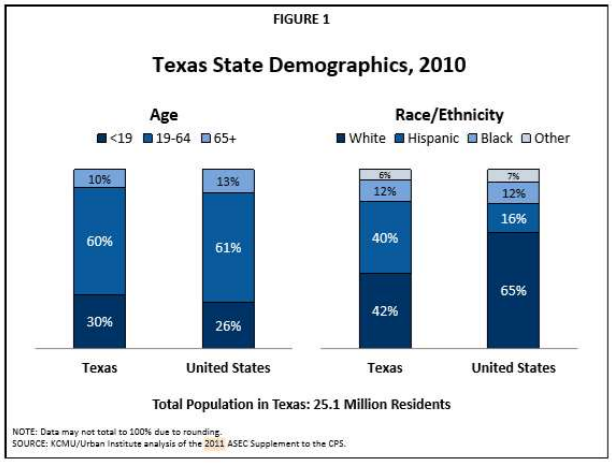
Another theory as to the rising costs of medicine is known as Baumol's Cost Disease. This theory works off the premise that over time certain things become cheaper and more efficient to produce much faster than others. For example, while we require less farmers to produce more food than ever before currently it still takes an artist the same amount of effort and time to produce a painting or a teacher to educate their students. This inequality in efficiency growth means that over time the cost of food will fall when compared to the cost of art or education. Medicine can be seen as an area that would have slower growth. While the practices themselves have become more efficient it still takes around the same number of doctors to patients.

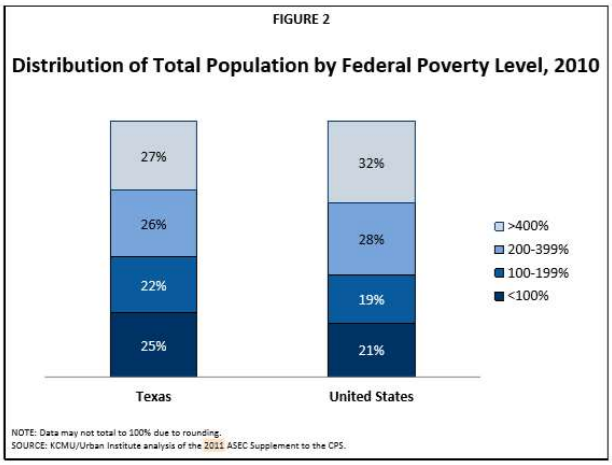
One way things like this have been combated in the past has been through employer insurance. In this system all of a company's employees are bunched into common a risk pool and all given health insurance while having a portion of their salary taken to pay for the entire pool's expenses. This eliminates the issue of people with low expected costs dropping out of the risk pool since now you are obligated to pay into the fund. This of course requires for the company to be large enough for the law of large numbers to apply.

One issue with countering adverse selection through forced participation is that the participants might feel inclined to use the insurance more often than they would if they were paying for their own insurance. This situation is called "moral hazard" since now the customer is likely to use the insurance more than is "socially optimal". This will likely drive up prices and makes it risky to start such a fund as an employer since there is a chance you didn't calculate the estimated cost correctly. Because of this, some employers opt to use a health savings account in place of a form of employer coverage (note that another reason an employer might use a health savings account plan is because they are not large enough for the law of large numbers to apply) In this system employees receive a portion of

their earnings in a health fund that is cheaper since it is nontaxed but cannot be used for anything but healthcare related expenses. This system combats moral hazard because now the employee is not pulling from a "group pot" but rather from his own account. This method of course will benefit people who are either healthy enough to wait for the savings account to accumulate before using it or have a high paying job where the account will accumulate more rapidly.

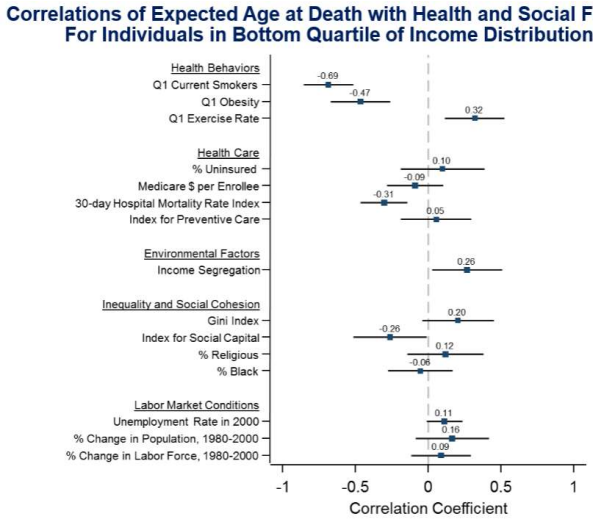
The next thing we must look at is the current healthcare landscape when it comes to Texas.





Texas has a slightly younger population than the united states as well as a smaller elderly group. This is important when it comes to Medicare removing these people from the risk pool should make the prices of insurance lower. Elderly people generally have more medical difficulties than younger. One top of this we see that Texas has a larger than normal young population this also should lower insurance prices since younger people are in general healthier than their older counterparts. Texas has a larger than normal low-income population which will matter when speaking about access to healthcare. One important statistic not shown here is the higher than average rates of smoking, alcoholism, obesity, births to teen mothers, and rates sexually

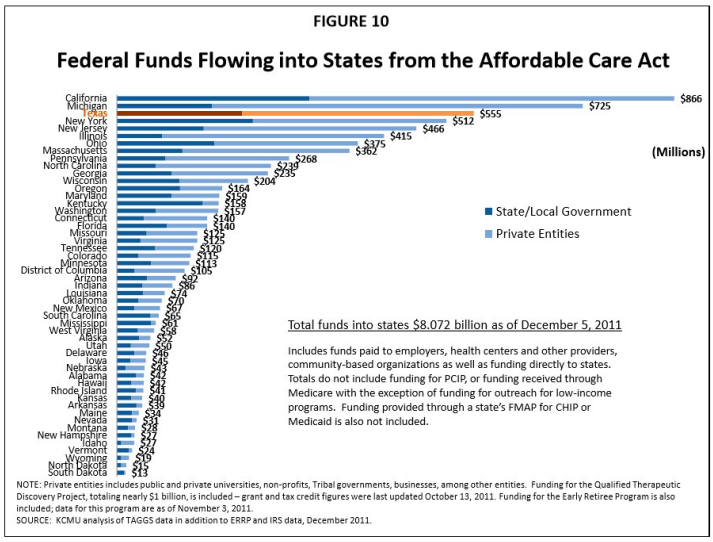
transmitted diseases. (02) This is pivotal when attempting to view the Texas healthcare landscape. These all would increase insurance costs due to not only the increased likelihood that an afflicted person will encounter health issues. But also, most of these afflictions aren't obvious when encountering a person. Thereby making it near impossible for an insurance company to filter these people out of the risk pool and attempt to offer them specifically a higher price.

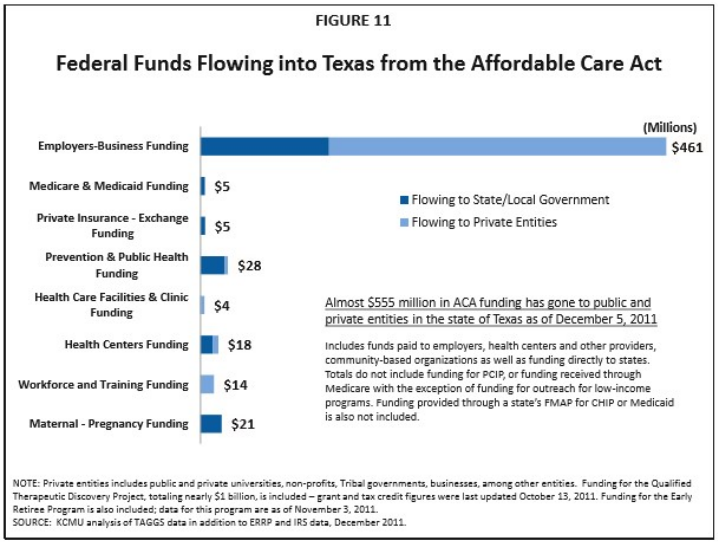


Texas also had the highest rate of uninsured people in the country(02). This makes logical sense when applying the issues we just talked about. These hidden costs will likely increase the cost of insurance far out of what a non-afflicted person would consider reasonable. This in turn would raise the expected cost of the insurance agencies yes again and we now have adverse selection occurring. Without the healthy people subsidizing the poor it is likely that the price will skyrocket. Take into consideration now the higher than average percentages of people bellow or close to the poverty line and we see a second issue. Not only is the price for said insurance high but it is likely that individuals who don't earn much will not be able to afford it. Our goals with any level of reform here are obvious, we want to lower the cost of insurance for people and for those who cannot afford insurance we want to increase accessibility. This second part is especially important in a state where so much of the population is so close to the poverty line. While some of these people may even be able to afford insurance if coerced it may be unpractical for them to spend such a high percentage of their income on

healthcare when other costs such as food, clothing, or education may be more pressing and more rewarding matters to attend to.

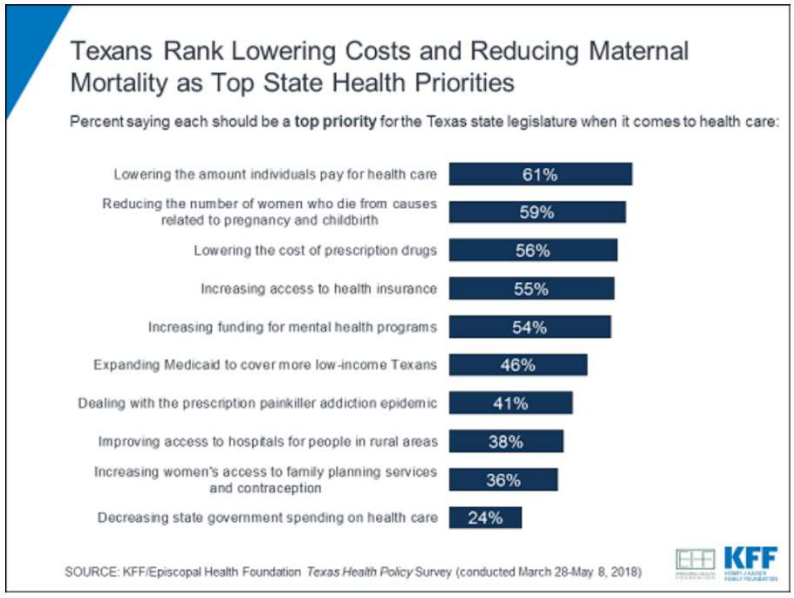
Enter the Affordable Care Act; When looking at the issues plaguing the health insurance market of Texas, specifically population demographics, if the ACA had a hope to assist in the market as a whole it would need to try and help Texas. Looking at the statistics of pure money alone it is easy to see that the ACA, at the very least, tried to help. The first thing the ACA did was increase the eligibility for Medicaid (a federally funded insurance program made to help those under the poverty). To fund this the federal government has put aside up to $66.6 billion for Texas alone. This was an obvious attempt to increases access to care for those who could not afford to pay the high premiums of the market. One fascination part of the funds flowing into Texas is that the clear majority of them have gone to private entities. This shows one of the compromises that the ACA had it was made in an attempt to improve the markets rather than an attempt to take over the markets. The ACA also has ensured people with preexisting conditions that they cannot be turned down due to this condition. This however has allowed for some insurance companies to offer people with conditions





different plans than other people raising their costs since they are no longer in a risk pool with healthy people. The next step of the ACA was to mandate people purchase health insurance. This mandate was later shifted to be a tax on those who don't purchase insurance. The tax was varied depending on your community in an effort to account for your locality as well as your situation. On paper it is obvious to see the goal here. Policy makers wanted to decrease the number of people who were refusing to purchase healthcare due to their low estimated cost. Doing it by taking their money however was considered controversial to say the least. After all this meant that if you just barley didn't qualify for Medicaid you were now taxed. Because of this (and other reasons) the state of Texas decided to enter a coalition of states that oppose the ACA. They ended up losing the supreme court case and so the ACA is here to stay. One last important point is that the ACA allowed for some programs to continue despite being against the new regulations. This of course created some complications because now programs were not uniform. This also allowed for more agencies to discriminate against specific groups of high cost individuals.

The ACA has been by and large unsuccessful. While it is clear that attempts were made to curb healthcare costs no such real affect was had, and we can see this clearly with polls taken in Texas. Of the top 3 responses 2 of them have to do with costs being too high. On top of this of the top 9 responses 5 have to do with increasing access to healthcare for individuals. The hard discussion to have



is where we go from here. While some say that the ACA meddled too much others say it didn't go far enough. Some people even say that the healthcare market as a whole is flawed, and it would be best if the government took over the sector in the name of efficacy and access for all.

One interesting topic amongst all this discussion is the fact that the government has allowed small period health insurance plans that don't follow the typical rules set for all other (except grandfathered insurance plans). These plans were supposed to be for people who were in need of insurance but were perhaps between jobs. And they have surprisingly had low premiums in comparison to the long-term law-abiding plans. In fact premiums in these plans were seen to be up to 54% lower than their long-term compatriots.(Politz) This of course is huge since natural intuition would have one think these plans ought to be very expensive due to adverse selection. After all, who would sign up for a short-term insurance plan other than someone who expects to go through a costly experience soon? Here in lies the solution because the plans don't have to abide by normal plan rules they can almost completely screen out not only those with preexisting conditions but also people who are more elderly than the insurance company would like. On top of this the insurance agency can refuse to cover specific procedures or events. Thereby pushing people who would like to get insurance before rapidly undertaking a costly surgery out of their risk pool. While these plans are specific they do also show us what a more privatized version of health insurance might look like. They also show us exactly who the companies would like to cater to. This trade off, of coverage and access to price, is exactly what some consumers might want in their long-term plans as well.

Health insurance is a hotly debated issue in the modern economic and political scene. And rightly so, insurance can be a safety net when done perfectly or a trapdoor otherwise. One such solution would be to go to a single payer system. While this plan might be born of a genuine hope to help

all those who need it you now give the government the ability to literally decide between life and death. To see this in action one only needs to look at recent events in the UK. Charlie Gard who was denied treatment due to his genetic condition.(Dixon) Alfie Evan who after the UK courts claimed (despite his mother claiming he "liked hugs and snuggles") that the child was to die in the UK even when the pope had offered treatment in the Vatican.(Nance) When the government controls healthcare they in effect control who lives and who dies. Perhaps another solution might be found in the short-term health plans. Attempting to expand these of course will require a period of genuine trial. What should we do with those who the private companies refuse to cover or price out? Where do we draw the line for the discrimination? If we aren't ok with the government deciding who lives and dies why should we be ok with private companies doing it? Our decisions will have to take into account a countless number of possibilities and will affect everyone those who are alive and those who are yet to be born.

"Governments Never Learn. Only People Learn"

-Milton Friedman

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