

**What exactly was/is “Obamacare”, or the “Affordable Care Act (ACA)? What has been the big fight about it?** Debates about US Healthcare for the last decade have often been expressed in terms of reactions to “Obamacare,” which was a major healthcare reform passed in 2010, with the two main goals of (1) expanding coverage and (2) keeping costs down. (As we’ve discussed previously, the US has healthcare that is more expensive, and arguably less effective, than any other rich country). The ACA is a lengthy bill, but it had four major impacts on US healthcare<sup>1</sup>.

1. **Expansion of Medicaid.** The single biggest impact of the law has probably been the expansion of federally-funded Medicaid benefits to families making 133% of the federal poverty line (around \$30,000 for a family of four). Around 15 million people have gained coverage because of this. However, because of a Supreme Court ruling, the various states can choose to allow this or not. This has led to a dramatic increase in insurance rates in the 38+ states (& DC) that have chosen to do so, but doesn’t affect the people living in the other states at all. These states are generally in the South or Mountain West, with Wisconsin being a notable exception.
2. **Coverage of young adults to age 26.** Young adults were allowed to stay on their parent’s insurance plans until age 26. (These plans are largely from the parents’ employers, and as such, are supported by tax breaks). Around 3 million people have gained coverage through this.
3. **The “Employer Mandate.”** Medium- and large employers were given a variety of incentives to offer insurance to full-time employees (tax breaks for coverage, penalties for not expanding coverage). This coverage had to meet certain minimal conditions.
4. **The exchanges.** For people who couldn’t get coverage through any of the above (or the VA, or Medicare), a system of federally funded exchanges was created). More on this below...

**Why were the exchanges created?** Before the ACA exchanges were created, a large number of people found it difficult or impossible to get health insurance, on the basis of their age or pre-existing health conditions. Insurance companies were also free to drop them when they got ill, or to raise their premiums by arbitrarily large amounts. Moreover, the health insurance they *could* buy was often inadequate, as it came with lifetime caps, after which the insurance companies would refuse to pay. While these people could seek care from the emergency room, etc., this simply shifted costs onto the government, hospitals, insurance companies, etc. So, the creation of the exchanges had two motives: (1) to make sure these people could get adequate health care and (2) to get more control over health-care costs paid by individual, insurance companies, and the government. It was widely agreed that the U.S. needed to do something with regards to these issues, given the fact that it has consistently spent more on health care than any other nation, while achieving subpar results.

**Who buys insurance on the exchanges?** The ACA exchanges are meant to provide a way for people to buy insurance who wouldn’t otherwise be able to get it. These people are (1) too young to receive Medicare, (2) make too much money to qualify for Medicaid (or live in a state that hasn’t expanded Medicaid), and (3) fail to qualify for employer-based health insurance. This may be because they don’t work enough hours, are self-employed, or work for a small business. Even if these people don’t log on to the official “exchanges” to buy insurance, they are subject to many of the rules governing these exchanges (governing the costs of the plans, the type of plans offered, etc.).

**What role DID the “individual mandate” play?** It’s important to remember that the *reason* insurance companies were refusing to cover these people was that they cost a lot of money. If the ACA had simply required that the insurance companies cover these patients (without making any other changes), this may have led to the insurance companies going bankrupt, which would have led to a whole-sale collapse of health care financing in the U.S. So, for example, this would have led to a case where people could simply wait until they were sick, log online to buy insurance, have the insurance company pay their bills, and then cancel the insurance. In order to make sure the insurance companies could remain solvent, policy makers needed to ensure that *healthy customers also signed up*.

In 2017, the individual mandate was repealed as part of a tax bill. Health care economists have predicted this will have two major effects (though they may take a while to show up, since it only took effect in 2019): (1) it will lead to an increase in the price of health insurance (for those buying it on the exchanges), and (2) it will lead to a significant reduction in the amount of people who are covered by health insurance (because they can’t afford it, choose not to buy it, etc.). In 2021 (after the election of Joe Biden), however, the government began

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<sup>1</sup> For a recent analysis of how the ACA and subsequent legislation has effected US healthcare, see Rachel Garfield et al., “The Uninsured and the ACA: A Primer – Key Facts about Health Insurance and the Uninsured amidst Changes to the Affordable Care Act - Introduction,” *The Henry J. Kaiser Family Foundation* (blog), January 25, 2019, <https://www.kff.org/report-section/the-uninsured-and-the-aca-a-primer-key-facts-about-health-insurance-and-the-uninsured-amidst-changes-to-the-affordable-care-act-introduction/>.

providing additional financial support for people looking to buy plans. As of early 2022, this seems to have increased overall enrollment in ACA health care plans. (However, it's very likely that COVID made people more likely to sign up for health insurance!).

## OK, SO WHAT ARE SOME OF THE PROPOSED CHANGES?

There have been quite a few proposed modifications to ACA proposed before (and since) 2010. However, each solution has its own problems. Basically, it's very difficult to find a health care proposal that: (1) represents a clear improvement over the status quo and (2) is actually politically realistic. In the U.S., this is tough. The American Medical Association, for example, has been a powerful opponent of many healthcare reform efforts, including the creation of Medicare in the 1960s, Bill Clinton's (failed) 1993 Bismark-style healthcare plan, the 2017 (failed) Republican American Healthcare Act, etc. Similar things might be said of the insurance industry lobby, the pharmaceutical lobby, and the (many!) people who would love to see the health care system fixed in general terms, but do NOT want to risk losing their own care. For example, the 2021 attempt to reform Medicare (by allowing it to negotiate for lower drug prices with drug companies) failed yet again, despite the fact this is overwhelmingly popular with many voters (both liberal and conservative).

**Repeal the ACA entirely?** Some conservative and libertarian politicians have called for simply repealing "Obamacare", and starting from scratch. Depending on the details, it might (1) significantly increase overall health spending and/or (2) cause large numbers of people to lose health insurance, and/or (3) it would simply reintroduce the problems the ACA was supposed to solve. The worst scenario would be repealing just the "unpopular" parts—the individual mandate and employer mandate, or the requirements that young people buy full plans—while leaving everything else the same. This would likely collapse large sections of the health insurance market, at least in the long terms. The failed health care bills of early 2017 ran into problems with area (2) (and perhaps 1, as well, though there wasn't much time for detailed analysis).

One of the best-developed proposal along this line<sup>2</sup> essentially pushes many more people *into* ACA-style exchanges (including many who are currently on Medicare, Medicaid, or employer health-insurance), encourages the use of HSAs to pay for day-to-day expenses, and focuses nearly all federal government resources on subsidizing the purchase of catastrophic care. It's not clear whether this would lower costs *in general* however, even if it (might) lower federal government spending. While most conservative proposals drop the Obamacare mandate, the logic of the problem *forces* them to have some mechanism to make it fairly costly for healthy people to drop their insurance coverage (for example, only allowing people to sign up for insurance every 2-5 years, or charging them higher costs if they try to re-enroll after dropping insurance, etc.).

**What to do with pre-existing conditions?** If the ACA is repealed completely OR if it is weakened in certain ways (so, for example, companies are again allowed to sell "short term" health plans, or to charge different prices on the basis of health indicators), the problem of pre-existing conditions will quickly re-emerge, since these people will again be either denied health insurance or charged rates much higher than they can afford. These could be covered by so-called "**high-risk pools**" (basically, a government-organized insurance plan for just these people). However, given that there are LOTS of people who might use these pools (perhaps as many as 30 million total, and around 3 million currently using the health care exchanges) AND their health care costs are very high (much higher than they could afford with considerable government subsidy), the costs to federal/state governments (and thus, to taxpayers) are likely to be very high (perhaps in the hundreds of billions of dollars per year, if it covered all high-risk people). In the past, when these have been tried, governments and taxpayers haven't been willing to fund them with the money required (and, so they failed to provide these people with adequate health insurance).

**Replace the ACA with Medicare/Medicaid for all? Or expand it with a "public option?"** By contrast, many liberal/progressive politicians have consistently favored extending the Medicare system (which currently covers only people over a certain age) to cover all Americans, in much the same way it does in Canada. This would require (1) significant tax increases and (2) a dismantling of private insurance, including (very popular) employer-based health insurance. Even if this ended up lowering costs and improving outcomes in the long-run, there would likely be significant short- to medium-term drawbacks. Most proposals of this type have suggested somehow "phasing" this change in (perhaps by extending it slowly to new age groups), but even this would encounter political problems<sup>3</sup>.

A more modest version of this proposal is to create a government-run **public option** (which might even be Medicare or Medicaid) that will be available to all individuals in the exchanges. Since the federal government could spread risk across *all* markets (and because it wouldn't need to make a profit) it might be better positioned to offer affordable coverage. The worry here is the government would either be too

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<sup>2</sup> Avik Roy, "Transcending Obamacare: A Patient-Centered Plan for Near-Universal Coverage and Permanent Fiscal Solvency" (Manhattan Institute, September 13, 2014), <https://www.manhattan-institute.org/html/transcending-obamacare-patient-centered-plan-near-universal-coverage-and-permanent-fiscal>; Avik Roy, "Obamacare Was Built to Fail," Vox, October 7, 2016, <http://www.vox.com/the-big-idea/2016/10/7/13191250/obamacare-exchanges-crisis-arrogant-progressives>.

<sup>3</sup> There are a wide variety of these proposals. See: "Compare Medicare-for-All and Public Plan Proposals," *The Henry J. Kaiser Family Foundation* (blog), April 11, 2019, <https://www.kff.org/interactive/compare-medicare-for-all-public-plan-proposals/>.

good at this (and essentially eliminate private insurance) or too bad (with private insurers managing to stick the government with just the really expensive consumers). This sort of proposal might plausibly be combined with a further expansion of Medicaid to low-income or extremely sick people, which would also remove stress from the individual markets.

**Increase the size of the mandate? Or make health insurance a better deal for the young and healthy?** The Swiss system (a model for both U.S. liberals and conservatives) achieves universal coverage with large, enforced penalties for those who don't sign up for health insurance (it also allows the government to assign insurers to people who don't voluntarily sign up). Could the US do something similar (that is, reinstitute the individual mandate and ALSO make it larger).

The short answer is "Yes, but..." Significantly increasing the fine (for example, increasing it from 2.5% to 5+% of income) for not having health insurance would almost certainly increase enrollment in the ACA exchanges by young, healthy adults. This would lure insurance companies back, and would lower costs overall. This is, in some ways, the "simplest" solution. However ("but..."), it seems highly politically unrealistic at this point, given the unpopularity of taxes and penalties. There is also a risk that the U.S. Supreme Court might deem this unconstitutional, since it would be a "penalty" and not simply a "fee." Alternatively, one could allow health insurers to charge more to older consumers than they do now, and to lower costs for younger enrollees (some conservative proposals have done this). However, these proposals have been highly unpopular with older adults.

## THE PROBLEM OF HEALTH CARE COSTS, WITH OR WITHOUT OBAMACARE

One big problem that faces *every* health care system is how to constrain rising cost, which is in large part a response to the fact that people are living longer, and consuming more medical care. However, there is also a fair amount of needless spending, driven both by providers and consumers. The US has been slowly trying out a number of techniques to try to lower these costs, including:

1. Allowing hospitals/providers to keep some of the "savings" if they manage to successfully treat patients for reduced costs.
2. Penalizing hospitals for "readmissions" for things like pneumonia. One big problem: hospitals are often too quick to discharge patients, who then have to come back. This is an expensive process.
3. Using Medicare payments in various ways to lower treatment costs (e.g., "We're only going to spend so much money on X. You'll need to figure out a way to get it done.")
4. Refusing to subsidize "Cadillac insurance" plans with low premiums, that encourage people to go to the hospital/doctor for any small complaint they might have. While this seemed promising in the early 2000s, research in recent years has cast doubt on whether it will actually work (as it turns out, many people simply won't go to the doctor if they have to pay a copay!).

Many of these are based on things that have seemed to work in other countries. However, it's worth remembering that the U.S. government has significantly less control over health care costs than other countries do (for example, U.S. Medicare is *forbidden by law* to bargain over drug prices, while Canadian Medicare regularly does this).

## REVIEW QUESTIONS

1. Write a short introduction to the Affordable Care Act intended to explain the basics of it to someone who doesn't know much about it. You want to make this explanation as clear, simple, and unbiased as possible.
2. Describe ONE proposal for reforming US healthcare (from these notes, the readings, or elsewhere) that you find most interesting. Now, explain the proposal carefully in your own words, and consider what might be the best arguments for and against it.