Lecture 10: Understanding Obamacare and the Individual Mandate

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Introduction

- We will use the tools we covered in the last lecture to think about the design of the Affordable Care Act (nickname: Obamacare)
- Everyone has opinions about politics (including me).
- The goal of this lecture is to think about the theory behind the bill.
- At the end we will have an open discussion about the theory and the pros/cons.
- I hope this lecture shows you how the ideas of this class have profound impacts on policy and your everyday life.

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History of US Health Insurance

- Since the Civil War, a very early form of insurance existed in the form is sickness funds.
- 1929: Great Depression put financial pressure on hospitals.
- To accommodate, Baylor and then the American Hospital Association developed plans where people paid a premium out of their paycheck for a guarantee of 21 days in a hospital.
- WW2 wage controls + tax code changes + organized labor resulted in a dobling of Americans covered from 1940 to 1950.
- Further growth driven by Medicare and Medicaid expansions in the 1960s.

History of US Health Insurance

- The rise of commercial insurance companies in the 60s and 70s drove competition for customers, and also drove adverse selection (why?)
- Blue Cross and Blue Shield moved away from a single premium price (why?)
- Since the 70s, many changes, including:
  - Rise of managed care (HMOs, Kaiser, etc).
  - Rise of PPOs (now 56% of market).
  - Rise of high deductible health plans (who might like these?)
  - Increase in state regulations.
- In 2010, the Affordable Care Act passed and changed many aspects.

Source: History of Health Inusrance In the United States

Main Aspects of the ACA

- **The Individual Mandate:** Those without health insurance must pay a tax penalty.
- **Employer Mandate:** Employers with 50 or more employees must offer health insurance coverage.
- **Medicaid Expansion:** Increase income limit for Medicaid eligibility.
- **American Health Benefit Exchanges:** Create exchanges for individuals to buy coverage. Implement subsidies and credits for low-income individuals using exchanges.
- **Cost Reductions:** Changes to prescription drug approval and other aspects to reduce costs.
- **Insurance Plan Regulations:** See Next Page

ACA Insurance Plan Regulations

- Must cover dependents until age 26.
- Premium increases must be reviewed by regulators.
- Limit premium differences based on age (must be less than 4:1)
- Prohibit lifetime limits on the dollar value of coverage
- Prohibit the exclusion of individuals with pre-existing conditions.
- Limit deductible prices

Source: Kaiser Family Foundation Summary of the Affordable Care Act

Main Criticisms of the Bill

- More access/lower prices will drive up demand and costs.
- Greater bureaucracy.
- Reducing consumer choice through the mandate.
- Disruption of existing coverage.
- Excessive burden on businesses (employer mandate).
- More taxes (tax on high value health insurance plans).

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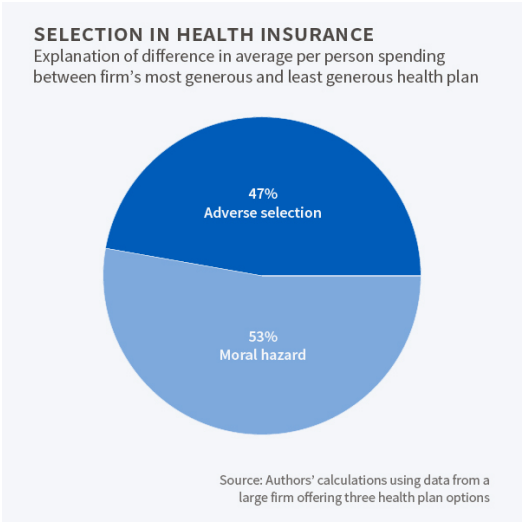
The Two Channels

There are two market failures that plague most insurance markets, including health insurance.

- **Adverse selection:** Less healthy people are more likely to buy health insurance if insurance companies cannot condition premiums on health status.
  - Problem 2 from the problem set. Similar to Market for Lemons.
  - People are also likely to wait to get insurance until they need it (this has been recognized as a big issue after the ACA passed) or to get high deductible plans.
  - The result is that the pool of people that are insured will be on average less healthy than the overall population.
  - This can greatly reduce insurance company profits.
- **Moral Hazard:** Once people buy health insurance, they are likely to over utilize medical care because they only bear some of the marginal cost.
  - Problem 1 from the problem set. Similar to manager and shareholder.
  - Results in inefficiently high medical care spending.

How Big Was Each Channel Pre-ACA?



Source: Powell and Goldman (2020), Pre-ACA data

How did the ACA Impact the Two Channels?

- Increased preventative care but increased risky drinking (Courtemanche et. al., 2019)
- Increased self-assessed health and risky drinking among young adults, but not preventative care (Barbaresco, 2015)
- Increased coverage for young people (Wettstein, 2017)
- Premiums rose from 2015 to 2016 (Graetz et. al., 2017)
- Individual mandate reduced adverse selection in MA. (Hackman et. al., 2015)
- Adverse Selection in ACA Exchange Markets: Evidence from Colorado (Panhans, 2019)
  - A $1 increase in premiums results in $0.85-0.95 increase in healthcare expenditures in the ACA exchanges.
  - A drop in premiums in Colorado resulted in $1,324 in costs.
  - Many insurers are exiting the exchanges or raising premiums.

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Questions

- Which criticisms of the ACA seem legitimate? Which do not?
- Given what has happened since passage, do you think the ACA will continue to achieve its goals?
- Was the ACA a good idea compared to the status quo?
- Do you have any alternatives? If so, what are the potential strengths and weaknesses of your approach.
- Open comments/debate are welcome. This is a controversial topic with no easy answers.