Even with a High Court win, Obamacare won't work

Forbes, By Shawn Tully -

May 22, 2012: A new study shows that the basic requirements of President Obama's health care plan have been tried, and failed, in many states in the past two decades.

The Obama administration maintains that its Affordable Care Act is a complex construct that's endangered if the Supreme Court finds its central feature -- the requirement that all Americans buy health insurance -- unconstitutional.
It's certainly true that eliminating the "individual mandate" will immediately expose the plan as unworkable. It can only succeed by creating a broad, universal insurance pool that collects big premiums from the young and healthy. If the young and healthy aren't required to sign on, they won't.
Hence, the pools won't be remotely large enough to pay for the older, sicker folks who get the best deal, and are bound to flock to the state exchanges.

Continued next page →

In reality, the reform plan's success doesn't depend on the Supreme Court's decision at all. Its faulty design virtually guarantees that all the things the administration warns will happen if it loses will happen anyway. Even if it stands, the legislation will spawn insurance plans crowded with high-cost folks, driving premiums higher, hobbling competition as carriers abandon the exchanges, and leaving tens of millions of Americans uninsured.

Here's the reason the Affordable Care Act's future is predictable: Its basic requirements have been tried, and failed, in many states in the past two decades. A new study, prepared by Milliman, Inc. for AHIP, the group representing America's healthcare insurers, examines the experience of eight states, including Kentucky, Maine and Washington, that adopted the two basic pillars of the Obama plan in the 1990s.

Those two measures are Guaranteed Issue, and Community Rating. The former requires that insurance companies accept all patients regardless of their medical condition, at any time they want to sign up. Community Rating dictates that insurers cannot charge different premiums based on health status, and face limits on how much they can vary premiums according to a person's age.

All eight states encountered similar problems. People who'd been previously uninsured bought coverage as soon as they suffered a heart attack or contracted diabetes. Pregnant women entered the plans, then dropped out after giving birth. Premiums for young, healthy people soared. Typically, a 60-year old's medical care runs about six times that of someone in their twenties. But in New York, insurers must charge exactly the same premiums for both. For many years, Maine limited the difference to just 20%.

So the young Americans needed to make the plans work mostly dropped out. Instead of shrinking the ranks of the uninsured -- the goal touted by the states -- their numbers often increased, rising 30% in Washington from 1993 to 2000. Premiums jumped as the insurance pools became dominated by older, sicker patients. From 1996 to 2002, for example, premiums in the individual market rose 44% in Maine. Carriers fled. By 2000, 31 out of 39 counties in Washington didn't have a single insurer offering coverage to people not covered by their employer or a federal plan.

By the early 2000s, most states either abandoned or radically changed the two provisions that caused the damage. Kentucky and New Hampshire repealed both guaranteed issue and community rating. Washington substantially loosened its provisions. New Jersey and Maine both expanded the range insurers could charge for patients of different ages, with Maine going from a limit of 20% to a band that expands to five-to-one by 2015. South Dakota and Iowa repealed guaranteed issue in 2004 and 2003 respectively.

The Affordable Care Act is embracing the provisions that many states tried, and then rushed to escape. It imposes guaranteed issue, so that patients with any pre-existing condition must be granted coverage any time they apply. It also limits differences in premiums according to age to a three-to-one range. That would force insurers to raise premiums for 20-year olds by at least 50%, and lower them for 60-year olds to far below their actual costs, forcing the young and healthy to subsidize older, sicker Americans.

That goal may sound laudable, but it won't work. The Affordable Care Act professes to ensure that all Americans buy insurance, but undermines its own

goals by setting penalties so low that the young and healthy, and many middle-aged and healthy, will not buy coverage. The penalties start at 2014 at either $95 a year, or 1% of income, whichever is higher. They reach a maximum of 2.5% of income in 2016. Those small penalties may be irrelevant anyway. The measure also provides that anyone who can't find a policy priced at 8.5% of their income or less is exempted from buying insurance.

The plan's champions argue that it will work where the state plans didn't because of the big subsidies it provides. But that's not what the math shows. Take a 30-year old, single person earning $50,000. He or she would get no subsidy under the Obama plan. A policy would cost our candidate, say, $10,000 a year, far more than that person is paying now--again, courtesy of community rating. The penalty for foregoing coverage is just $1250 a year in 2016.

But remember, if the policy costs over 8.5% of income, you can drop your insurance and pay no penalty, and the $10,000 more than qualifies. So our healthy 30-year old is making a rational economic choice by going uninsured. In fact, he or she is really "insured" after all since a non-payer can sign up for coverage, no questions asked, any time they get sick.

It may be true that the Obama plan would work if it pulled all Americans into the insurance pools, even though that would force the young to pay more than their costs. But it doesn't come close. The Supreme Court drama is a distraction from the real issue: A "reform" plan that the experience of the states, and its own jerry-rigged system of penalties and subsidies, guarantee will fail.