RealClear Health

More Money Without Reform for Obamacare

By Chris Pope
March 03, 2021

On February 27th, the House of Representatives voted 219 to 212 to pass the American Rescue Plan Act. As part of $1.9 trillion in omnibus spending, the bill represents congressional Democrats' first serious attempt to amend the Affordable Care Act since that reform went into effect. The legislation would provide additional funds to entice holdout states to expand Medicaid to able-bodied adults and would expand subsidies for individuals to purchase plans from the ACA's exchanges. Yet, recent research suggests that the proposed increase in subsidies might do more to inflate health insurance premiums than to reduce costs for enrollees.

The enthusiasm for Medicare for All in the Democratic presidential primary owed much to popular disappointment with the Affordable Care Act. In his 2008 campaign for the presidency, Barack Obama had promised "affordable, universal health care for every single American" and to "lower premiums by up to $2,500 for a typical family per year."

Yet, while the ACA extended Medicaid coverage to 12 million additional Americans, its reforms to insurance markets rules have proven to be counterproductive. By requiring insurers to price plans without regard to pre-existing medical conditions, the legislation encouraged many Americans to wait until they developed major medical risks before signing up. This caused the average medical needs of those enrolled to soar, and forced plans to raise premiums, hike deductibles, and tighten networks, in order to stay in business.

As a result, average premiums on the individual market more than doubled from 2013 to 2017. For 2020, a family of four must pay premiums averaging $17,244 and an additional deductible of $7,767 before the plan covers major medical expenses. Households headed by older adults, or those in relatively expensive states, may pay even more.

The individual market has been anchored by the presence of subsidies which expand as necessary to guarantee a defined benefit at a limited share of income to low-to-middle-income Americans. While the number of subsidized enrollees in ACA plans has held steady since 2014 at just over 8 million, unsubsidized enrollment has plummeted from 9.4 million to 5.2 million.

In the spirit of the proposal made by Joe Biden during his presidential campaign, House Democrats have sought to patch the ACA by expanding subsidies for the purchase of plans. They propose to do so firstly by expanding eligibility for subsidies to households with incomes more than four times greater than the federal poverty level and secondarily by expanding the generosity of subsidies to which enrollees would be entitled.

The proposed bump in subsidies would remain in effect for only two years; but congressional Democrats will likely seek to make it permanent in a future round of legislation. According to the Congressional Budget Office, the proposal would cost $22 billion in 2022 – an increase of roughly a third on the amount currently spent on subsidies for the exchange. CBO estimates that this would reduce the number of Americans uninsured by 1.3 million (out of 30 million).

With health insurance premiums at their current levels, enrollees are exposed to much greater costs than the ACA's authors initially anticipated. The House proposal attempts to remedy this with a simple infusion of federal funds. Yet, it might do less to reduce individuals' premiums than they might imagine, because even though premiums remain high, they will not exceed the 8.5% of income needed to make many middle-to-upper income individuals eligible for these additional subsidies.

Nonetheless, the interaction of the subsidies with the ACA's age band provision (which allow insurers to vary premiums threefold according to policyholders' age) might still entitle older enrollees to significant subsidies. A recent study by Brian Blase of the Galen Institute noted that a 60-year old heading a family of four with an income of $159,000 would become eligible for premium subsidies of $15,868 under the proposal. Instead of simply targeting subsidies at the poor and the uninsurable, the ACA's "community rating" regulations have artificially inflated the premiums imposed on healthy potential enrollees, which in turn has produced a grievance and demand for subsidies for people who would have no need for them in an actuarially priced market.

ACA supporters argue that such subsidies may indirectly serve to reduce premiums across the board, by attracting a healthier pool of enrollees into the market. Yet, the health insurance market they have engineered is not so straightforward. An increase in the generosity of subsidies also serves to reduce the price sensitivity of plan enrollees. Maria Polyakova of Stanford University and Stephen Ryan of Washington University in St Louis have estimated that more than half of the value of subsidies is captured by insurers. The further expansion of subsidies proposed by House Democrats, which would entitle millions to plans costing $0 post-subsidy, would likely generate an additional windfall for insurers.

As the open-ended nature of ACA subsidies already invites cost increases through commitments to increase subsidies proportionately, establishing $0 premium plans and removing the cap on eligibility for subsidies might eliminate much of the incentive for pricing restraint that remains. With most enrollees shielded from plan cost increases at the margin, insurers and medical providers could conspire with state legislators to increase the cost of insurance at the expense of the federal deficit. This dynamic is no mere supposition, but already occurs with the practice of silver-loading – by which insurers work hand in hand with state regulators to manipulate benchmark premiums for the sake of claiming greater federal subsidies.

Whatever good the ACA has done to reduce the problem of uninsurable high-risk individuals being unable to afford insurance coverage is the result of the subsidies that the legislation has made available. Yet, the House proposal moves beyond providing a subsidized safety net for the uninsurable, to provide subsidies for individuals who ought to have no problem purchasing actuarially priced insurance in return for trapping them in an uncompetitive and overpriced exchange.

It is reasonable for Democrats to want to reduce the cost of ACA plans for enrollees, and increased subsidies in some cases might be appropriate. But if Congress should not keep throwing more and more money at an inflationary ACA market without limit. Instead, it need to think more about pairing increases in subsidies with reform, and an expansion in the choice of competitively-priced alternatives.

Chris Pope is a senior fellow at the Manhattan Institute