Policy Focus

How You'll Pay for ObamaCare

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

Hadley Heath, Policy Analyst, Independent Women's Forum

February 2011

Volume 1, Number 2

IN THIS ISSUE

Independent Women's Forum

WHAT YOU NEED TO KNOW

The health reform legislation passed in March 2010 (officially the "Patient Protection and Affordable Care Act," but more commonly referred to as "ObamaCare") was supposed to stop the rapid increase of health insurance prices and slow national spending on health care. Yet today many analysts believe that average insurance premiums will be driven higher and national spending on health care will increase faster, not slower, because of the new law.

The new health law requires that all insurance policies contain "minimum essential coverage." That means individuals will no longer decide what level of coverage is right for them. Instead, the government will decide. As a result, many Americans will have to purchase policies that cover treatments they don't want or need—and that will cost them more.

New restrictions about insurance pricing will force many to subsidize other policy holders. These mandates also mean insurance companies will compete less, and face less market pressure to control costs.

The Patient Protection and Affordable Care Act also dramatically increases government spending on health care. This spending will be financed by American taxpayers and their families for years to come.

Competitive markets are the best mechanism to keep prices low. In a truly competitive market, sellers work to offer the highest quality goods for the lowest possible prices in order to attract more buyers. This system of trading differs from a government-run program, because both buyers and sellers are free to make decisions about what kind of products to offer and buy.

Our current health care system isn't perfect, but ObamaCare takes us in the wrong direction toward higher prices and more government control. Instead, the government should repeal this counter-productive reform and embrace new legislation to empower patients and create a real health care market.

WHY YOU SHOULD CARE

Here's why you should be concerned about rising health care costs:

- **Discouraging Job Creation and Wage Growth:** Employers will be paying higher health care costs and therefore will have less money to spend on hiring workers and increasing wages. That means fewer jobs and lower pay—that's bad news given our high levels of unemployment.
- **Losing Your Current Coverage:** Most people under 65 have employer-sponsored health insurance. But as ObamaCare's mandates kick in and prices increase for employers, some businesses may choose to drop or reduce benefits.
- **A Bite Out of Your Budget—and the Government's:** When people pay more for health insurance, they have less money for other essentials. Rising government health care costs will also lead to more taxes, and mean the government has less for other urgent priorities.
- **More One-Size-Fits-All Care:** Along with rising prices, government interference in health care pricing will lead to less flexibility and innovation. People will ultimately be treated more like statistics than patients and have less control over the care they receive.

Finally, America can do better than moving toward government-controlled medicine! There are better ways to improve our health care system that will control costs without sacrificing quality.

MORE INFORMATION

How Government Mandates Raise Prices

The PPACA will affect each family differently, depending on their circumstance. President Obama promised during his 2008 campaign that his health reform plan would lower the average annual costs of premiums by $2,500. He has since avoided specific numbers, but continues to argue that his legislation will lower premium payments. Unfortunately, the opposite appears to be true. Most Americans will see premiums rise as a result of ObamaCare.

Here's the simple reason why: The PPACA empowers government to dictate how insurance companies do businesses and set specifications for what insurance policies must cover. Policymakers tried to convince Americans that such regulations would be a real benefit: "Insurers will be forced to provide more extensive coverage!"

Guess what? Those new benefits create new costs, and those new costs are passed on to policy holders.

Imagine how such regulations would work in the fast food industry. Bureaucrats decide that a plain old burger isn't enough for a complete meal, so they require all sandwiches to come with a drink and salad. That may sound okay, until you realize that you have to pay the price of a combo, even if you really only want the sandwich.

The same dynamic will work with health insurance. Already, many states force residents to buy health coverage they do not want or need. Teetotalers must buy coverage for alcoholic rehab. Nonsmokers must buy coverage for quitting programs. Not surprisingly, states with more mandates and regulations typically have higher premiums.

Now as a result of ObamaCare, the federal government is starting to require that insurers include more coverage. New mandates already in effect require health insurance companies to allow children to stay on their parents' policies to age 26 and that no one with a preexisting condition be denied coverage. These changes, while intended to help segments of the population facing particular difficulties, will push premiums higher for everyone. And in fact, reports suggest that these new regulations have already contributed to a seven to nine percent increase in premiums.

There are many more mandates to come. The PPACA gives a great deal of power to the Department of Health and Human Services to define "minimum essential coverage." You can be sure that they will be hearing from lobbyists representing a multitude of specialties who will argue that their treatment should be included as a must. With each new mandate, the price of your insurance will be pushed a little higher.

So, How Much Is This Going to Cost Me?

ObamaCare's exact hit on your wallet will depend on your circumstance.

About three-fifths of Americans under 65 currently have employer-sponsored insurance. We should expect this proportion to drop. Hewitt Associates reported that employers should expect insurance costs to increase by 8.8 percent in the next year. Small businesses (those with 50 or fewer workers) aren't required to provide insurance, so many will stop providing health insurance as costs rise. Large employers are now required to provide health insurance benefits or face a penalty, but many of these companies may also figure out that those penalties are less expensive than insurance premiums and also begin eliminating coverage.

So in addition to rising prices, many Americans may find that their biggest cost is the loss of their current coverage. In fact, a leaked administration memorandum warns that more than two-thirds of companies could be forced to change their current coverage. For small businesses, the total could reach 80 percent.

People who do keep their employer-sponsored coverage will come out the best. The CBO predicts that families who cost on average $13,375 now for large-employer-sponsored coverage will cost $20,100 in 2016, compared with $20,300 without the passage of the PPACA. Small-employer-sponsored families will see their annual premium costs rise to $19,200 instead of $19,300.

So this group will at least pay less, right? Not really. The $100 to $200 they save on premiums will be dwarfed by the law's new taxes and the new burdens on their employers which will ultimately decrease their income. So even this relatively lucky group loses because of the legislation.

Those in the individual market (and more of us will be in that market as employers drop group coverage) will fare much worse. Today, families that buy individual insurance pay $6,328 each year (Keep in mind, that those in the individual market get no tax subsidy. They pay with after-tax dollars unlike those covered by employers). Their annual costs will jump to $15,200 by 2016, when without the health reform law their costs would've risen to $13,100.

Like many cost estimates from the CBO, we should expect all these projections to be revised upward.

How Much Will This Cost Taxpayers?

One of the most outrageous claims by proponents of ObamaCare is that it will reduce the deficit. Harvard economics professor Greg Mankiw wrote on his blog, "I have a plan to reduce the budget deficit. The essence of the plan is the federal government writing me a check for $1 billion. The plan will be financed by $3 billion of tax increases. According to my back-of-the-envelope calculations, giving me that $1 billion will reduce the budget deficit by $2 billion."

This is how ObamaCare works. Health care entitlement spending increases, but taxes increase even more.

The PPACA can only pretend to reduce the deficit because it counts only six years of spending while counting ten years of new taxes. Overall, the CBO originally estimated that PPACA would result in $900 billion in new spending in the next decade. CBO can't provide an official estimate beyond that ten-year window, but the trend suggests spending will continue on an upward trajectory.

Already, CBO has revised its original score upwards multiple times (such as adding $115 billion for administrative costs). Whitehouse.gov says the law will cost approximately $100 billion each year for the next ten years. Yet that's almost certainly an understatement. Former CBO Director Douglas Holtz-Eakin released his own analysis, finding that the law will cost $1.072 trillion in subsidies during the first ten years and another $2.85 trillion in the decade after that. That's a total of nearly $4 trillion in new spending in the next 20 years.

The law pays for this spending spluge with numerous new taxes, including some with unexpected targets. For example, the law limits flexible spending accounts (FSAs) to $2,500 a year. FSAs allow parents with children with special needs to pay tuition for school using pre-tax dollars. Since many schools for special needs kids can cost around $14,000, the new restrictions mean these families are likely to face a big tax hit.

Most of ObamaCare's new taxes are aimed at high-earners and capital gains. But even if you don't fall directly into these categories, you will still be affected as more resources are removed from the private sector and controlled by government. This means less job creation, slowed wage growth, and more years of economic hardship for our country.

Taxes won't just go up on the federal level. States will also have to spend more as a result of ObamaCare, which requires that states expand their Medicaid programs.

Medicaid is already straining state budgets and suffers from doctor shortages since Medicaid reimburses doctors below private sector rates. The new law will put more people into Medicaid, making both problems worse. The goal of health reform should have been to fundamentally reform Medicaid to improve the program rather than just dumping more Americans into an already shaky system.

Government Control vs. Market Control

Everyone would like for health costs to be lower. The United States spends more on health care than any other country (as a proportion of our GDP). There are two different philosophies about how to control costs.

Government can attempt to reduce costs by mandate. This is the route ObamaCare takes. Government will tell you what kind of health insurance you must buy, tell insurance companies what they can sell at what cost, and tell doctors and hospitals the treatments they should make available.

Markets control costs through competition. Providers have to compete by offering better services at lower prices and finding ways to economize and make their products and services attractive. If they can't attract customers, they go out of business. This process helps make sure that we get the best value.

Americans trust the market process when we buy food, clothes, computers, and even other insurance policies. Most intuitively understand that having individuals making choices—rather than the government making choices on our behalf—is a better way to control costs and ensure that we get the quality we want.

Unfortunately, because of misguided government policy, we haven't had a functioning health insurance marketplace in a long time. Instead of ObamaCare's attempt to manage prices through government fiat, policymakers should focus on creating a more robust health insurance market, such as by changing the tax laws to put individual insurance on a level playing field with employer-provided insurance, allowing people to buy insurance across state lines, and encouraging mechanisms like Health Savings Accounts, which put patients in control of their dollars.

The simple point is that the health care debate isn't a debate between ObamaCare and the status quo. There are many better ways we can reform our health care system.

Lessons Learned from Massachusetts

President Obama has said that the PPACA is "essentially identical" to the health reforms passed in the state of Massachusetts.

That should set off alarm bells for anyone outside the Bay State. Massachusetts residents face some of the nation's highest premiums. Since their version of ObamaCare passed in 2006, premiums for private employer-sponsored health insurance for individuals increased six percent more than the nation as a whole. It's even worse for small-group coverage: Costs grew 14 percent more than the rest of the country between 2006 to 2008.

Health insurance now costs $14,723 for an average family of four in Massachusetts, compared to the national average of $13,027. That's nearly 12 percent higher. Reform hasn't made insurance more affordable. It's made it more expensive.

Do we want the United States to head down this same path?

WHAT YOU CAN DO

You can help lead the fight against the government takeover of the health care system!

- **Get Informed:** Here are some good sources of information on health care:
  - The Independent Women's Forum (www.iwf.org)
  - The Galen Institute (www.Galen.org)
  - The Heritage Foundation (www.Heritage.org/Initiatives/Health-Care)
- **Talk to Your Friends:** You can help friends and family members understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.
- **Become a Leader in the Community:** What are you waiting for? You can make a difference! Get a group of friends together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor to your local paper. Show up at your local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few committed people can change the world.
- **Remain Engaged Politically:** Too many good citizens see election time as the only time to pay attention to politics. Yet we need everyone engaged. Stay in contact with your elected Representatives and let them know your opinions. After all, they are supposed to work for you.

ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website www.iwf.org to get more information and consider making a donation to IWF.

SUPPORT IWF NOW!

OUR PARTNERS

independent women'svoice
A VOICE FOR THE MAINSTREAM

NeW
Network of enlightened Women

Contact us if you would like to become a partner!

CONNECT WITH IWF! FOLLOW US ON: