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Obamacare: Impact on Future Generations

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President Obama and other proponents of the recently passed health care law argue that the legislation was desperately needed to improve the nation's health system for both today's citizens as well as future generations.

But there are many reasons to be concerned that this new law will instead deliver both a lower quality health system and more costly and burdensome government for those paying taxes in future years.

Another Runaway Entitlement Program. The centerpiece of the new legislation is a large-scale coverage expansion. The Medicaid program is expanded to cover all households with incomes up to 133 percent of the federal poverty level (FPL), and subsidized insurance is provided for families with incomes between 133 and 400 percent FPL. The Congressional Budget Office (CBO) estimates that these two expansions will bring 34 million people onto the federal entitlement rolls by 2017.[1] Moreover, by 2019, CBO says the cost of these "coverage" provisions is likely to escalate very rapidly and in line with the rising costs of existing health entitlement programs, including Medicare.

Proponents claim that the tax hikes and spending reductions in the bill will be more than sufficient to pay for the added costs of another large expansion in federal spending. And, in fact, CBO's cost estimate shows a net deficit reduction from the health-related provisions of the bill at $124 billion over the period 2010–2019.

But, for many reasons, the impact on future taxpayers is likely to be much more adverse than CBO's estimates indicate.

The True Cost of the Legislation:

Omission of the Medicare "Doc Fix." The Obama Administration and leaders in Congress chose to use all of the tax hikes and spending cuts they could find to create another new entitlement instead of paying for a fix for Medicare physician fees (the so-called "doc fix"). Under current law, those fees are set to get cut by 21 percent in June. The Obama Administration wants to undo the cut permanently, but it does not provide any offsetting savings. The result will be a spending increase of between $250 billion and $400 billion over a decade. Passing an unfinanced "doc fix" wipes out all of the supposed savings from the new legislation and greatly adds to the burden on future taxpayers.

The CLASS Act Gimmick. The new health law creates a voluntary long-term care insurance program, called the Community Living Assistance Services and Supports (CLASS) Act. Those who sign up for it must pay premiums for five years before becoming eligible for benefit payments. Consequently, premiums paid by enrollees build a small

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surplus—about $70 billion over 10 years according to CBO—which the health law's proponents claim as deficit reduction. But these premiums will be needed in short order to pay actual claims.

Moreover, the Chief Actuary of the Medicare program predicts that the program will experience severe adverse selection.[2] When that happens, the program will either need to dramatically cut benefits or get a major federal bailout. Thus, not only is it inappropriate to claim the $70 billion in premiums as savings, but this program will almost certainly become a huge new unfinanced burden on future taxpayers.

Medicare Cuts. CBO and the Chief Actuary for the Medicare program have both stated that Medicare spending cuts cannot be counted twice—to pay for a new entitlement expansion *and* to claim that Medicare's financial outlook has improved.[3] But that is exactly what the proponents of the new legislation do. If the Medicare cuts and tax hikes for the hospital trust fund (about $400 billion over 10 years, according to CBO[4]) are used solely to improve the capacity of the government to pay future Medicare claims, then the health law becomes a massive exercise in deficit spending.

But the problems do not end there. Many of the assumptions used to build the official cost projections are likely to prove entirely too optimistic.

Estimates of Employees Dropped from Job-Based Coverage. The new insurance arrangements in the state-based exchanges will provide massive new subsidies to low- and moderate-wage households. For instance, at 200 percent FPL, the subsidy for a family of four will reach nearly $11,000 in 2014. But CBO estimates that only 3 million Americans will move from job-based insurance into the exchanges to take advantage of the subsidies, even though there are about 130 million Americans under age 65 with incomes between 100 and 400 percent FPL. Douglas Holtz-Eakin and Cameron Smith of the American Action Forum have estimated that as many as 35 million people will be moved out of job-based coverage and into subsidization. If that is the case, the 10-year cost of the coverage expansion provisions would jump by $400 billion more.[5]

Upward Pressure on Health Care Inflation. If, as CBO projects, some 30 million or more people get heavily subsidized comprehensive insurance coverage, it is certain that higher demand for services will put upward pressure on the prices charged for those services. Of course, in government-regulated insurance such as Medicaid, the fees are not as flexible. But in private plans, there is nothing to stop the added demand from pushing fees higher in coming years.

Arbitrary Government Payment Rate Reductions. The President has spoken often of the need to "bend the cost curve" of health care with "delivery system reform." But the provisions in Medicare aimed at changing the way doctors and hospitals are organized and provide services are mainly small and untested pilot projects that are very unlikely to fundamentally change the cost structure of American medicine.

The real cost-cutting in the law comes in the form of payment rate reductions in the Medicare program that are applied across the board and without regard to any assessment of quality of the care.

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1. Douglas W. Elmendorf, Director, Congressional Budget Office, letter to the Honorable Nancy Pelosi, Speaker, U.S. House of Representatives, March 20, 2010, at *http://www.cbo.gov/ftpdocs/113xx/doc11379/Manager'sAmendmenttoReconciliationProposal.pdf* (May 28, 2010).
2. Richard S. Foster, Chief Actuary, Centers for Medicare and Medicaid Services, "Estimated Financial Effects of the 'Patient Protection and Affordable Care Act,' As Amended," April 22, 2010, at *http://www.politico.com/static/PPM130_oact_memorandum_on_financial_impact_of_ppaca_as_enacted.html* (May 28, 2010).
3. CBO Director's Blog, "Effects of the Patient Protection and Affordable Care Act on the Federal Budget and the Balance in the Hospital Insurance Trust Fund," December 23, 2009, at *http://cboblog.cbo.gov/?p=448* (May 28, 2010).
4. Douglas W. Elmendorf, letter to the Honorable Paul Ryan, Ranking Member, Committee on the Budget, U.S. House of Representatives, March 19, 2010, at *http://www.cbo.gov/ftpdocs/113xx/doc11376/RyanLtrhr4872.pdf* (May 28, 2010).
5. Douglas Holtz-Eakin and Cameron Smith, "Labor Markets and Health Care Reform: New Results," American Action Forum, May 2010, at *http://americanactionforum.org/files/LaborMktsHCRAAF5-27-10_0.pdf* (May 28, 2010).

The Chief Actuary of the Medicare program believes that these cuts will lead to large-scale abandonment of Medicare by hospitals that can no longer afford to take patients at the government's below-cost rates.[6]

The Opposite Effect. The President and congressional leaders have argued that a primary benefit from the health law will be reduced long-term budget pressure and thus a brighter future for coming generations of taxpayers. But when the cost estimate is adjusted for omissions, gimmicks, double-counting, and unrealistic assumptions, it is clear that the new health law will increase the burden, not lessen it.

One recent estimate projects the bill will add more than $500 billion to the deficit over the next 10 years and $1.5 trillion in the decade following.[7] And any cost-cutting that does occur under the new law will come in the form of arbitrary governmental controls that will put up barriers to care in future years.

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6. CBO Director's Blog, "Effects."
7. Douglas Holtz-Eakin and Michael Ramlet, "The Fiscal Implications of the Patient Protection and Affordable Care Act," *Health Affairs* (forthcoming).