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Obamacare: Impact on the Uninsured

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The Administration's health policy agenda—embodied in Congress's two giant health care bills (H.R.3590 and H.R.4872)—is now law. The justification for the new law's burdensome taxes, unprecedented mandates, deficit spending, and stifling government regulation is that millions of Americans will now be insured. But the real impact Obamacare will have on the uninsured is not what many Americans might have expected.

The Wrong Way to Expand Coverage. The Congressional Budget Office (CBO) is reporting that the new health care law will decrease the number of uninsured in 2019 by 32 million.[1] However, this does not mean that universal coverage will be achieved—23 million Americans will remain without coverage, including illegal immigrants.

Of those Americans that do become insured, 16 million will be added to Medicaid, and 24 million will obtain coverage in the newly-created exchanges. Moreover, an estimated 3 million Americans will lose their current employer-based insurance, and another 5 million will lose their current non-group or other form of coverage.

Obamacare expands coverage by increasing the size of government. Rather than making health insurance markets more responsive to Americans' personal wants and needs, lawmakers enacted a top-down approach that will impose their will on the rest of the country. This "reform" will result in less choice and competition for health care consumers and, although more Americans will be "covered," the quality of this coverage will decrease. Moreover, certain provisions of the new laws will make obtaining health insurance *less* desirable by increasing costs, causing even more Americans to drop or lose coverage.

Millions of Americans Dumped into Medicaid. In order to cover low-income uninsured citizens, Obamacare expands eligibility for Medicaid to include all Americans that fall under 133 percent of the federal poverty level. However, Medicaid is a low-performing, low-quality federal program that fails to meet the needs of its beneficiaries. For example, Medicaid's failure to cover the cost to providers of seeing Medicaid patients has greatly reduced the number of doctors who will see Medicaid patients.

As a result, Medicaid beneficiaries have become even more reliant on emergency care than the uninsured. According to the Centers for Disease Control's National Center for Health Statistics, Medicaid patients comprised 25.5 percent of all emergency room visits in 2006, while the uninsured made up only 17.4 percent. What is more, the emergency room visit rate among Medicaid patients was higher than that of the uninsured: Medicaid's emergency room visit rate was 82 per 100 Medicaid patients, while that of the uninsured was 48 per 100 uninsured patients.[2]

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Increasing the number of Americans reliant on Medicaid will further compound its current shortfalls. States are currently facing serious budget cuts due to decreasing revenues, a trend that is expected to continue in the years to come.[3] Though under new law, the federal government will cover the cost of expanding *benefits* in the initial years, states will have to pay the additional administrative costs of the expansion. And after 2017, the states will begin to pay a portion of the benefits expansion as well.

This increasing financial burden will force state legislators to make budget cuts, either to other state programs or to Medicaid itself, which would mean reduced benefits or even further reduced physician reimbursement rates. Both of these outcomes would be disastrous for Medicaid beneficiaries' access to quality care. Under new law, the federal government will pay to increase primary care physician reimbursement rates to equal those paid by Medicare—but only for two years, leaving Medicaid in the same lurch it started in.

Finally, examples of state Medicaid expansions, such as the expansion of TennCare in Tennessee, have shown that adding the uninsured to Medicaid does not increase positive health outcomes. For instance, Heritage Health Policy Fellow Brian Blase found that following TennCare expansion, health outcomes in Tennessee actually deteriorated and Tennessee's mortality rate declined at a much slower rate than in surrounding states that did not expand their Medicaid programs.[4]

Increasing Premiums Will Reduce the Number of Newly Insured. Strict new insurance regulations will cause the cost of coverage to skyrocket, encouraging the currently uninsured to remain uninsured. According to Heritage analysts Rea Hederman and Paul Winfree, attempting to micromanage the insurance industry by "trying to fix one flawed policy (the rating restrictions and guaranteed issue requirements) by adding another flawed policy (the mandate and costly subsidies) only makes the policy outcome even worse."[5] In this case, bad policy will adversely affect the new law's ability to increase the number of insured.

A guaranteed-issue provision will allow Americans to wait until they are sick to seek out insurance, causing insurance premiums to soar. The individual mandate is intended to combat this by forcing Americans into the insurance market before they are sick. However, since the individual mandate penalty will be significantly less expensive than the cost of an insurance plan, this provision will not achieve universal coverage, and insurance risk pools will begin to consist more exclusively of only those who need insurance the most: the sick and the elderly. Younger, healthier Americans will likely choose to pay the penalty, purchasing insurance only if needed.

The effects this will have on premiums will be exacerbated by the inclusion of community rating, which forbids insurers to raise premiums for older patients more than three times the amount charged to younger patients. Young and healthy Americans will be the losers in this equation: the Associated Press predicts that health premiums for young adults will increase by 17 percent, causing fewer of them to purchase insurance.[6]

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1. Congressional Budget Office, "H.R. 4872, Reconciliation Act of 2010 (Final Health Care Legislation)," March 20, 2010, at *http://www.cbo.gov/doc.cfm?index=11379&zzz=40593* (April 16, 2010).
2. Stephen R. Pitts, M.D., M.P.H., F.A.C.E.P., et al. "National Hospital Ambulatory Medical Care Survey: 2006 Emergency Department Summary," National Health Statistics Reports No. 7, August 6, 2008, at *http://www.cdc.gov/nchs/data/nhsr/nhsr007.pdf* (April 19, 2010).
3. Dennis Smith, "Medicaid Expansion Ignores States' Fiscal Crisis," Heritage Foundation *WebMemo* No.2744, January 5, 2010, at *http://www.heritage.org/Research/Reports/2010/01/Medicaid-Expansion-Ignores-States-Fiscal-Crises.*
4. Brian Blase, "Obama's Proposed Medicaid Expansion: Lessons from TennCare", Heritage Foundation *WebMemo* No.2821, March 3, 2010, at *http://www.heritage.org/Research/Reports/2010/03/Obamas-Proposed-Medicaid-Expansion-Lessons-from-TennCare.*
5. Rea S. Hederman, Jr., and Paul L. Winfree, "How Health Care Reform Will Affect Young Adults," Heritage Foundation *Center for Data Analysis Report* No. CDA10-02, January 27, 2010, at *http://www.heritage.org/Research/Reports/2010/01/How-Health-Care-Reform-Will-Affect-Young-Adults.*

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Removing young and healthy patients from risk pools will in turn result in further premium increases, as only sick and elderly patients will be left, creating a "death spiral" as cause and effect intertwine to result in evermore increasing premiums, causing more Americans to drop coverage.

Finally, the new law requires that the Department of Health and Human Services mandate benefits and services that must be covered by all health plans. Increasing the value of all health plans will, of course, increase their cost, further aggravating the aforementioned problems.

Some Will Lose Current Coverage. The ranks of the currently uninsured will not simply be reduced by the new law. Rather, as millions of Americans find themselves newly covered, a substantial number will also find that they will lose the coverage they currently carry as a result of the health care overhaul. According to the CBO, 8–9 million Americans that currently receive employer-sponsored coverage will lose it. Of these, 1–2 million would go from receiving coverage from an employer to obtaining coverage through the exchanges.[7]

The source of the loss of employer-sponsored insurance is that, under the new law, businesses will pay a penalty of $2,000 for failing to offer insurance to their employees. However, as noted by Heritage analysts John Ligon and Robert Book, even if employers do offer insurance, if low-income employees are eligible to purchase insurance in the exchanges instead and opt to do so, the employer will pay a $3,000 fine. For employers who hire a high proportion of low-income workers, this creates a strong incentive to drop coverage altogether, much to the detriment of other employees who will not receive subsidies to purchase insurance in the exchanges.[8]

Though the net effect of the new health care law will be to increase the number of insured, several million Americans will also lose their coverage as a direct effect of the federal overhaul. Many Americans who would not currently be able to call themselves uninsured may be surprised when they are able to do so in the years to come as a result of the President's health care agenda.

Not What Was Promised. President Obama and congressional leadership promised the American people health care reform that would increase access to health care while simultaneously creating greater choice and competition and curbing increasing health expenditures Instead, lawmakers passed into law a top-down, heavy-handed government approach that will increase coverage at the expense of the other two objectives, instead limiting choice and increasing health spending.[9]

Moreover, more than half of the newly insured will find themselves subjected to the low-quality coverage offered by Medicaid, and several provisions in the bill will either discourage the uninsured from seeking coverage or cause the insured to lose the coverage they currently have.

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6. Carla K. Johnson, "Health Premiums Could Rise 17 Pct for Young Adults," Associated Press, March 29, 2010, at *http://www.google.com/hostednews/ap/article/ALeqM5hLAMW_KTqY_JVMQF-gNn3O0_uUcQD9EOIBQO0* (April 20, 2010).
7. CBO, "H.R. 4872."
8. John Ligon and Robert A. Book, "The House Health Fix: Even Higher Tax Penalties for Employers," Heritage Foundation *WebMemo* No.2837, March 19, 2010, at *http://thf_media.s3.amazonaws.com/2010/pdf/wm_2837.pdf*.
9. The Centers for Medicare and Medicaid Services finds that under H.R. 3590, overall national health expenditures would increase by $222 billion over the next 10 years. See Richard S. Foster, Chief Actuary, Centers for Medicare and Medicaid Services, "Estimated Financial Effects of the 'Patient Protection and Affordable Care Act,' as Passed by the U.S. Senate on December 24, 2009," January 8, 2010, at *http://www.cms.gov/ActuarialStudies/Downloads/S_PPACA_2010-01-08.pdf* (April 19, 2010).