Written by **Michael Tennant** on August 30, 2013

Affordable Care Act's Biggest Problem: Making Care Affordable

Judging by the Obama administration's push to get people enrolled in the insurance exchanges of the Affordable Care Act (ACA), one would think that is the most pressing problem for the healthcare law. But according to *National Journal*, "Perhaps the biggest obstacle Obamacare faces today isn't getting people in the system, but making sure those who do get in actually receive affordable care."

That's because, writes Clara Ritger, "for the vast majority of Americans, premium prices will be higher in the individual exchange than what they're currently paying for employer-sponsored benefits, according to a *National Journal* analysis of new coverage and cost data. Adding even more out-of-pocket expenses to consumers' monthly insurance bills is a swell in deductibles under the Affordable Care Act."

The assumption on the part of the healthcare law's backers is that most employers will continue to offer health insurance to their employees, especially since they will be penalized for failing to do so. Thus, they argue, even if the law does drive individual rates up significantly, it will not affect many people, and a large portion of those who are affected will be cushioned from the shock by generous taxpayer subsidies.

However, as Ritger points out, only about half of Americans currently get health coverage through their employers, and the number of employers offering health insurance has been declining for at least a decade. What's more, ObamaCare's incentives to drop coverage for employees are considerably greater than its penalty for doing so, meaning that the trend away from employer-sponsored insurance is likely to continue and perhaps even accelerate.

ObamaCare's employer mandate penalizes employers with 50 or more full-time employees at least $2,000 per full-timer who buys insurance on an exchange because his employer failed to offer him affordable coverage. Since employers often pay much more than $2,000 per year per employee for health coverage, it will be in their financial interest to drop coverage and pay the penalty — and perhaps even to offer their employees a pay increase to cover the cost of insurance they will now have to buy on the exchange.

"The amount you have to gross up their wages so they can get their own insurance and the cost of the penalties may add up to less than the cost of providing care," Caroline Pearson of healthcare and public-policy advisory firm Avalere Health told Ritger.

This approach may be particularly attractive to small businesses that are already struggling to pay for coverage.

"To any small employer, it's a no-brainer," National Center for Policy Analysis senior fellow Devon Herrick told Ritger. "If workers can get better coverage that's subsidized, it makes sense for the employer to stop providing health insurance."

Employers can also take steps to limit their exposure to the employer mandate, enabling them to avoid covering many of their employees. Some are already forcing employees to work fewer than 30 hours per week, thereby keeping those workers from being classified as full-time under the ACA. Others are laying off existing employees or refusing to hire new ones in order to keep their headcounts below the magic number of 50.

The law provides further incentives for employers to stop offering coverage. Mandatory coverage requirements and fees, for instance, both make health insurance more expensive. Beginning in 2014, employers must pay a fee of $65 for each covered person. (It's only a buck a head this year.) That's just one reason that many companies — including, most recently, United Parcel Service — are refusing to cover employees' spouses, particularly if those spouses can obtain coverage from their own employers. In addition, by delaying the employer mandate by a year but keeping the individual mandate and the exchanges on schedule, the administration has given employers a golden opportunity to dump workers onto the exchanges next year with no penalty.

Clearly, many Americans are going to lose their employer-based health insurance and end up having to buy coverage on an exchange. The Obama administration touts the fact that premiums for individual insurance in some states are going to be lower than forecast by the Congressional Budget Office. Ritger speedily rains on the administration's parade.

"Premiums may be lower than predicted, but they're not competitive with what workers are now paying for employer-sponsored care," she writes.

Moreover, she reports, "fewer than half of all families and only a third of single workers would qualify for enough Obamacare tax subsidies to pay within or below those averages next year."

In fact, she notes, "a single wage earner must make less than $20,000 to see his or her current premiums drop or stay the same under Obamacare.… That's equivalent to approximately 34 percent of all single workers in the U.S. seeing any benefit in the new system." The remaining single workers will therefore have a strong incentive to forgo coverage and pay the income-based individual mandate penalty (or, as the administration would have it, the "shared responsibility payment").

Therein lies one of the major challenges for the whole ObamaCare scheme. In order to subsidize the benefits of the newly insured sick, whom insurers must cover under the law, a large pool of young singles — the healthiest and least insured people in the country — must buy insurance. But a recent study by the National Center for Public Policy Research found that, even factoring in the penalty for lack of coverage, 61 percent of young, childless singles stand to save at least $500 next year by opting not to buy insurance.

Singles aren't the only ones whose pocketbooks will suffer under ObamaCare. Ritger found that only about 43 percent of families of four — those earning no more than $62,300 a year — will pay less for coverage on an exchange than they are currently paying for coverage through an employer. For many of the remaining families, the higher premiums will cost more than the penalty for forgoing coverage, so they, too, may choose not to carry insurance.

Furthermore, if premiums continue to rise more quickly than the rate of inflation — something ObamaCare's many mandates almost guarantee — the disparity between premium and penalty will grow larger and encourage more people to drop coverage. If that happens, the insurance industry will enter a "death spiral" of increasing premiums, fewer and sicker beneficiaries, and reduced competition as insurers go out of business.

Despite all these negatives, Ritger argues that "Obamacare is doing what it was intended to do: make health care affordable for the nation's lowest earners by spreading out the costs among taxpayers."

That is, the law is socialistic in nature, as many of its opponents have asserted. As with all other socialist programs, a few (in this case, "the nation's lowest earners") benefit at the expense of the many ("taxpayers"). And like all other socialist programs, ObamaCare has been doomed from the start. Unfortunately, 300 million Americans are — whether they like it or not — along for the journey into the abyss.