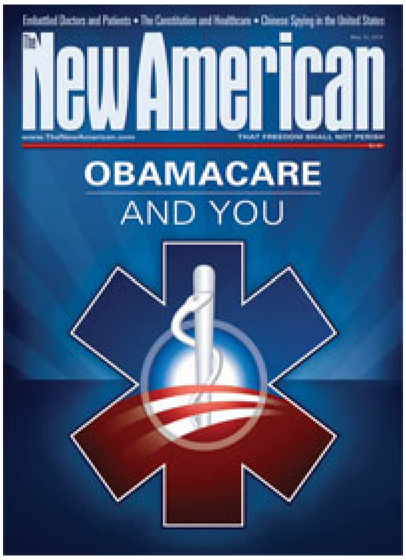
Outcome of ObamaCare



Americans who want to know how ObamaCare, the recently passed healthcare reform package, will impact the nation need only look toward Massachusetts. "The Massachusetts law was the model for national reform," the Massachusetts state government says on its website. The Bay State passed similar legislation in 2006, mandating all of the major provisions that are present in this year's ObamaCare:

• Requiring individuals to purchase government-approved health insurance (and fining those who do not comply);

• Requiring employers to offer "affordable" health insurance to their employees (and fining employers who do not comply);

• Forcing insurers to eliminate "pre-existing conditions" from their policies;

• Allowing young adults to stay on their parents' plan until age 26;

• Establishing government-regulated "insurance exchanges"; and

• Heavily subsidizing the cost of purchasing insurance for the poor.

Four years after the Massachusetts reform passed, the healthcare package shepherded by Republican Governor Mitt Romney through the overwhelmingly Democratic legislature is in crisis. Costs to the state government have created a budget deficit and fiscal crisis; insurance costs have spiraled upward, with taxpayers facing the highest premiums in the nation; and the six largest insurance companies are suing the Governor's Commissioner of Insurance in state court to raise insurance rates and avoid a repeat of the more than $200 million in losses they incurred in 2009. And last summer, the state's 10-member healthcare advisory board proposed healthcare rationing as a means of controlling costs.

This is the model upon which Obama's national healthcare program was based.

Budget-busting Subsidies

The Massachusetts fiscal crisis is extraordinary because the state has been raking in the bucks from federal stimulus money for its healthcare experiment. The nonpartisan Massachusetts Budget and Policy Center noted:

> Nationally, one of the largest single allocations within the American Recovery and Reinvestment Act (ARRA) is more than $128 billion provided to states for health care. Massachusetts will receive … more than $3.5 billion … [in] direct health care benefits, funding for health care providers, funding for community-based health care and public health programs, and funding for health care research.

Massachusetts' $3.5 billion in federal healthcare subsidies amounts to more than $500 for every man, woman and child in the Bay State.

But that hasn't been enough money for the burgeoning Massachusetts healthcare budget, already under assault by high premiums for state employees and Medicare and Medicaid premiums.

Massachusetts State Treasurer Tim Cahill warns that Romneycare "is bankrupting the state and would have bankrupted our state if not for the federal government being overly generous with Medicaid reimbursements over these last four years. They've really propped the system up to keep it in place."

Yet, over in Washington, D.C., Democratic leaders trumpeted the similar healthcare package on the federal level as a deficit reducer. The White House website claims that the new law "puts our budget and economy on a more stable path by reducing the deficit by more than $100 billion over the next 10 years — and more than $1 trillion over the second decade."

Despite the political promises of deficit reduction, the $938 billion ObamaCare legislation will actually lock in huge deficit spending on healthcare initiatives. ObamaCare does include $525 billion in tax increases and $455 billion in Medicare and Medicaid spending cuts over the next 10 years, but the Congressional Budget Office estimated that the bill would save only $143 billion compared with current law. That may sound like progress, but the key component of that estimate was "compared with current law." Congression-al appropriators had already allowed the current law on Medicare and Medicaid to be on a path toward immense waste and out-of-control spending.

In the face of trillion dollar annual deficits projected out into the indefinite future, cutting less than $15 billion per year from expected increases — which ObamaCare would do — won't substantially change that trajectory.

While some Medicare and Medicaid cuts in the bill would have been positive steps on their own, one of the key means by which the Obama administration claims "savings" in the bill is to cut physician reimbursements through Medicare and Medicaid. These payments are already below market costs, and Obama's own U.S. Centers for Medicare & Medicaid Services concluded that "the estimated savings shown in this memorandum for one category of Medicare proposals may be unrealistic." The reason was because it would bankrupt or force out of the Medicare market within a decade a fifth of the healthcare providers. The federal agency concluded: "Providers for whom Medicare constitutes a substantive portion of their business could find it difficult to remain profitable and, absent legislative intervention, might end their participation in the program (possibly jeopardizing access to care for beneficiaries)."

The way Washington politicians are able to claim the new healthcare law cuts the deficit is by engaging in what can only be called creative accounting. This creative accounting might be compared to a family that spent $3,000 on a vacation last year and plans to spend $10,000 on the summer vacation this year despite only having an income to support the same $3,000 vacation. So the wife proposes the family makes "cuts" of $500 to the $10,000 vacation plan, arguing that the cuts bring the family closer to their budget. But the reality is that committing to a $9,500 vacation on a $3,000 budget is a foolish path that takes them further from their goal of living within their means. All the bill has done is lock the nation into the path toward insolvency that Obama correctly warned about.

Spiraling Premium Costs

The increased cost to government is only a small part of the problem with the national healthcare law, however. Most of the additional costs will be borne by insurers and their customers, as has happened in Massachusetts. Before the healthcare mandate in Massachusetts, the state government picked up the tab for indigent medical care by reimbursing hospitals directly. Now, as in Massachusetts, much of the cost of the subsidies will be foisted upon insurers, and therefore, upon policyholders. Thus, it shouldn't be any surprise that the leftist Commonwealth Fund of Massachusetts recently concluded the Bay State therefore had the highest family health insurance premiums in the nation (averaging $13,788 in 2008 and projected to increase to an estimated $26,730 by 2020).

While the Commonwealth of Massachusetts has substantial authority to regulate insurance rates, authority for the federal government to regulate health policy rates is not clearly delineated in Obama's bill. But the Obama administration is already campaigning for that power. Obama proposed legislation to grant the executive branch power to regulate rates at a February 2010 "health care summit," and his Secretary of Health and Human Services, Kathleen Sebelius, has been railing against insurance industry pricing. "If insurance companies are going to raise rates, the least they can do is tell us why," Sebelius charged in a March letter posted on the HHS website, adding her opinion that insurance industry profits were "wildly excessive."

A good part of the reason policy rates are increasing in Massachusetts — and will increase nationally under the new federal law — is the requirement that insurance companies must accept all policies despite "pre-existing conditions." People with chronic diseases such as multiple sclerosis or cancer are guaranteed to lose money for insurance companies. The whole purpose of insurance is to pay a small amount that anticipates an unlikely but possible catastrophic healthcare cost; insurance companies plan to make money on most of the insured while losing money on the few who fall sick.

But the ban on exempting pre-existing conditions imposes a different type of burden upon insurance companies. It can be likened to requiring home insurance companies to insure a house against loss while it is on fire. Such a requirement is liable to abuse, as has already happened in Massachusetts.

The Massachusetts system is being "gamed," according to the *Boston Globe*, by consumers who purchase insurance for a few months to take care of expensive surgery that they know is coming — such as a knee replacement — and then cancel the coverage after the operations: "Thousands of consumers are gaming Massachusetts' 2006 health insurance law by buying insurance when they need to cover pricey medical care, such as fertility treatments and knee surgery, and then swiftly dropping coverage, a practice that insurance executives say is driving up costs for other people and small businesses." This can happen because the fine costs less than carrying the insurance.

The tactic is forcing insurers to register huge losses. "This week Blue Cross Blue Shield reported a big uptick in short-term customers who ran up costs more than four times the average, only to drop the coverage within three months," the *Wall Street Journal* reported on April 9. "Last July, Charlie Baker detailed similar gaming at Harvard Pilgrim, the health plan he used to run. Between April 2008 and March 2009, about 40% of its new enrollees stayed with it for fewer than five months and on average incurred costs about 600% higher than the company would have otherwise expected."

Blue Cross Blue Shield of Massachusetts, a supporter of ObamaCare, is nevertheless a party suing the Massachusetts government in court in the hopes of avoiding a repeat of their massive 2009 losses, claiming: "We are hopeful these additional funds can be used to offset the impact of the law's new taxes while addressing the serious problem of cost shifting from public payers like Medicaid to private payers like Blue Cross Blue Shield of Massachusetts. This cost shifting, or underpayment to doctors and hospitals by government payers, adds significant costs for private employers and consumers who participate in private health plans." Blue Cross Blue Shield of Massachusetts, the state's largest insurer, lost $149.2 million in 2009 — the first such loss in 13 years.

Clearly, the reason rates are increasing in Massachusetts isn't corporate greed and excessive profits.

You can't make that argument when the insurers are losing money. Thus, it's hardly surprising the Massachusetts Attorney General's office recently investigated the healthcare system in the state and concluded that "the present health care marketplace does not allow employers and consumers to make value-based purchasing decisions." Of course, a large part of the reason both insurers and hospitals charge prices for care that have little relation to the actual cost of the care is because they have to make up for their losses incurred as a result of costly government mandates such as the no pre-existing conditions mandate. The Massachusetts Attorney General's Office concluded: "Our findings show the system lacks transparency in both price and quality information, which is critical for employers and consumers to be prudent purchasers." Sadly, that same office failed to notice that the mandates have made that transparency all but impossible.

While the Massachusetts Attorney General's Office report failed to link the pre-existing conditions mandate as the reason for the disconnect from the actual cost of the services and the price charged, they did conclude that "our preliminary review has revealed serious system-wide failings in the commercial health care marketplace which, if unaddressed, imperil access to affordable, quality health care."

ObamaCare, like Romneycare, also relies upon both an individual and corporate tax increase called a "mandate." The numbers are a slightly different between the Massachusetts and Obama system, but the intent is still the same: Fine individuals on their income taxes if they don't purchase health insurance and fine companies that don't offer "affordable" coverage to employees. The employer mandate is soft in Massachusetts at $295, but ObamaCare's employer mandate can cost companies many thousands of dollars.

In Massachusetts, the individual mandate can cost a family as much as $1,116 per year in higher taxes. The ObamaCare mandate is smaller at first, just $95 per year in 2014 for failure to purchase insurance, increasing to $750 per year by 2016. But Romney's law started with a penalty of about $100 as well. The Massachusetts penalty is expected to increase to more than $3,500 in coming years, in order to cover half the cost of purchasing the state's Medicaid program, MassHealth. Once Obama gets the mandate tax started, there's no telling how high the penalty could go. The tax will certainly rise steeply in coming years.

Rationing

ObamaCare has no immediate provision for healthcare rationing, but if Massachusetts' experience is any indicator it will soon be back on the table. Even before the current Massachusetts rate war between Governor Deval Patrick and the insurance companies began, state regulators in the Special Commission on the Health Care Payment System proposed healthcare rationing as a means of controlling costs. "Hospitals and doctors may be put on budget" as the *Boston Globe* termed it on July 17 last year, noting that "patients could find it harder to get procedures they want but are of questionable benefit if doctors are operating within a budget. And they might find it more difficult to get care wherever they want, if primary doctors push to keep patients within their accountable care organization."

The Massachusetts commission concluded the state should adopt limits on hospital healthcare spending and government-mandated "evidence-based" standards for distributing medicine. A major part of the cost problem in Massachusetts — as in the rest of the country — has been defensive medicine based upon a broken malpractice system. But the Massachusetts commission failed to take notice of this, just as malpractice reform went unaddressed by the ObamaCare legislation.

Because ObamaCare is a virtual carbon copy of Massachusetts' Romneycare, the nation will likely suffer a similar fate as the emerging Massachusetts disaster. The *Boston Business Journal* on April 1 reported "rate hikes that have reached 50 percent for some small businesses." And the "solution" politicians have settled upon is to blame insurance companies for the mandates and the rotten system the politicians have set up. But this political posturing offers no solution to insurance companies that are already bleeding millions. "It's like telling Dunkin' Donuts to charge 50 cents for a cup of coffee when all the ingredients and labor add up to a dollar," Lora Pellegrini, president of the Massachusetts Association of Health Plans, told the *Boston Business Journal* for March 5. Most insurers in Massachusetts have simply stopped writing new policies in order to cut their losses, a lesson the Bay State should have learned after chasing nearly all national auto insurance companies out of the state after instituting auto-insurance price regulations in the late 1970s (none of the five top nationwide auto insurers would write new policies in Massachusetts for -dec-ades).

Governor Patrick's office automatically rejected any healthcare-premium increases of more than 4.8 percent, which is 150 percent of the Medical Price Index for 2009, a measure of inflation in the medical industry. When six insurers took the state to court, the Governor's office yanked the six off the Mass Health Connector, the state health insurance exchange. As of April 12, only a single insurer is offering insurance on the Connector.

The *Wall Street Journal* for April 9 summed up the position in Massachusetts:

> State officials have demanded that the insurers — under the threat of fines and other regulatory punishments — resume offering quotes by today and to revert to year-old base premiums. Let that one sink in: Mr. Patrick has made the health insurance business so painful the government actually has to order private companies to sell their products (albeit at sub-market costs).

But the federal plan is in some ways worse than the Massachusetts plan in the number of new bureaucracies it creates. The bill includes state grants for "home visitation" and "corrective action plans" and even "improvements in parenting skills" and "improvements in school readiness and child academic achievement." Though these grants are officially for "at risk," i.e., inner city, communities, it sets the principle to allow the government to snoop into every home in America to assess parents' ability to be parents and manage every American's lifestyle. In addition to families in "at risk" communities, the stated homes to be serviced include residences that have "users of tobacco products in the home," "families that are or have children with low student achievement," "families with children with developmental delays or disabilities," and "families who, or that include individuals who, are serving or formerly served in the Armed Forces."

Another section of the bill calls for creation of a National Prevention and Health Promotion Strategy that would make a "list of national priorities on health promotion and disease prevention to address lifestyle behavior modification (smoking cessation, proper nutrition, appropriate exercise, mental health, behavioral health, substance use disorder, and domestic violence screenings) and the prevention measures for the 5 leading disease killers in the United States."

The bill authorizes "individualized wellness plans" demonstration projects and a billion-dollar "National Health Service Corps" to see to it that its goals are fulfilled. The bill creates grant authorities to supervise lifestyles for all stages of life, from infants and school-age children all the way up to senior citizens. Under Obama's healthcare package, your pot belly or the Oreo cookie snack you pack for your child at lunch literally becomes a federal issue.

Americans who wish to avoid this mess need to mobilize for a full repeal of the healthcare law by pressuring Congress for a full repeal and pressuring state legislators to nullify ObamaCare within their states.

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