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What's Next for Obamacare?

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The surprising and transformational national election of 2016 has left many wondering what is to become of President Obama's signature healthcare reform. Republicans mounted sustained and energetic resistance since its inception. But now, they have responsibility for what comes next. The US healthcare system is widely recognized as both inequitable and inefficient. Obama and the Democrats opted to prioritize the former with the Medicaid expansion and the health insurance exchanges. Over 20 million more Americans are now insured, an achievement Democrats wish to preserve. In addition, almost three million young Americans under 26 are now covered by their parents' plan. Republicans will not simply end these programs with a return to the 2009 status quo. More likely, Medicaid expansion will be reformed, perhaps with risk adjusted per capita allocations or block grants as well as loosening of state implementation oversight. Funds may be distributed more evenly across the states including to those that previously opted out, such as Texas and Florida. Coverage may become less generous. Blue states with large enrollment gains thus far stand to lose the most with reduced federal subsidies. This seems unlikely to disturb Republicans very much. Health insurance exchanges are already reeling in many states from poor design. A death spiral of adverse selection has set in with enrollment of high utilization beneficiaries, rising costs and ever higher premiums that serve to dissuade relatively healthy members from remaining. This drives averages costs and premiums even higher. Inadequate penalties for those who choose not to sign up through the health exchanges are part of the problem but these are more likely to be eliminated than sharply increased. According to the IRS, about 7.5 million Americans paid

an average fine of \$200 for not having health insurance in 2014. Republicans will probably give insurers a freer hand to set premiums based on expected cost. This will allow for more attractive premiums for the relatively healthy. Those with chronic or pre-existing conditions may be directed to assigned risk pools. Health savings accounts are likely to be coupled with high deductible policies. These tax advantaged instruments will be more beneficial to those with higher incomes. Insurer consolidation across state lines can also be expected. Out-of-state insurers will find formation of new provider networks difficult but acquisition of existing ones may be attractive.

Obamacare offers less to improve efficiency. But the high deductible nature of the exchanges should be welcomed by Republicans as a form of consumer-driven health care. Many of the innovations in delivery such as Accountable Care Organizations that incentivize integration and cost savings will likely survive and further develop. Other measures such as a powerful federal organization called the Medicare Independent Payment Advisory Board, though never formed, is sure to be stricken from the books. The Cadillac Tax which imposes a 40 percent surcharge on rich plans above a threshold and not slated to take effect until 2020 will also be a target. It is not popular and has already been postponed for two years. On the other hand, economists are generally of one mind that tax preferences for health insurance leads to over-insurance and excessive healthcare expenditures. Republicans may opt to repeal the tax but tinker with the exclusion of employer-provided health insurance as taxable compensation.

These and other measures will alter the course of health sector development but the landmark nature of Obama's achievement will endure. On the other hand, the greater issue of displacement of much of the economy by low productivity health services will continue to confound politicians loath to provide leadership about

what is not worth paying for. An inefficient health sector will still sap the growth potential of an already anemic economy. Further leadership on the issue remains salient for future elections.