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Obamacare Redux

"If you like your doctor you will be able to keep your doctor, period. If you like your health care plan you'll be able to keep your health care plan, period." Or not. We all have things we wish we had never said and for Obama this quote has to be up there near the top of his list. The launch of his signature legislation, universal health care, the program that was to be the crowning achievement of his administration, has been a disaster. Any poll that asks regarding his effectiveness, trustability, leadership or just overall good-guyness has him way towards the bottom. The President is not having a good season. His famously zen approach to legislation and administration has not served him well. By report, Obama believes that general plans can never be implemented with precision because we can never predict all of the factors that will be acting around them in the future. This is doubly true with administration. Regulations may be as exact as we can make them but they can never be up to the task of controlling an unknown set of circumstances. Better to keep our eye on the ball and hold firmly to the general intention. The rest will work itself out.

This attitude may be fine in a monastery but in a hot house political atmosphere where the president is constantly expected to "do something" it needs some refinement. The problems with Obamacare are serious but each one individually is not so difficult to understand. Confusion

arises because there are so many of them and they interact.

The first problem is the law's complexity. In order to get ACA (Affordable Care Act—the bill's official title) passed Obama had to make deals and compromises all over the place. Insurance companies were brought on board with the promise of more customers. Doctors went along thinking they would have fewer non-paying patients. A whole constituency simply wanted universal health care, regardless of how it is organized. The result is an ungainly patchwork of provisions which are often in conflict.

Media attention has focused on the insurance exchanges and their information technology problems. Since the government is subsidizing a large part of the new individual policies which will be purchased on those exchanges it needs a vast array of

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personal information on the people who will be covered. That information resides in a number of heretofore unconnected locations. It may be with the IRS, it could be recorded in various state and local welfare offices, in an unemployment bureau, by the Department of Defense or several other agencies. This information has to be matched up with the many provisions of the many plans offered by the many insurance companies. The consumer has to know what his choices are, the government has to know if he is eligible for a subsidy and if so how much.

The technical problems involved in getting all of this information together were easily foreseen and should have been resolved long before the program's launch. Indeed, McKinsey & Co., one of the country's largest consulting firms, was commissioned to study the preparations for ACA's implementation. They issued their report in March. The main problems detected were the absence of a single person in charge and the lack of any serious White House involvement. The Center for Medicare and Medicaid Services, the agency charged with administering medicare/medicaid, was institutionally responsible for implementing the website but the task was assigned to various teams, all acting without coordination and with no central authority. There continued to be no one individual in charge until after the October 1, launch date and, according to a congressional investigation,

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there was virtually no White House involvement. Only after October 1, with public outrage mounting, was Obama moved to "do something" and put a single technology expert in command of the project.

As we might expect and just to drive the point home three twenty something techies got together and in a single weekend programmed a site that gathers all of the available information in a workable format. Anybody can go there, input age, family size and income and get a complete listing of the available plans in any given area and the cost to that individual. The only thing that cannot be done there is to actually sign up for the plan. The name of the site is HealthSherpa, just in case anyone feels particularly frustrated by the government site.

A mismatch of incentives is another and ultimately the most important problem with Obamacare. The key to the program's success is that the young and healthy with middling to high incomes will essentially subsidize the older, sicker and poorer. This requires a mandate to participate. Those who never would have bothered with insurance or who would have gotten much cheaper coverage on the basis of their health and age must now be forced to get much more expensive plans. Penalties will be imposed on those who refuse. The problem here is that the penalty is much cheaper than the mandate. In the first year the penalty for non-compliance is $95 or 1% of income. In 2016, when the penalty reaches its last and highest stage, the penalty is still either $695 or 2.5% of taxable income. A single person with $75,000 in gross income and $50,000 of taxable income would pay a penalty of $1,250, while the insurance premium would be $3,000 to $6,000. Even with an income of $30,000 a 30 year old would pay a penalty of $695 against a premium of at least $1,500.

Employers of over 50 employees are likewise mandated to provide health insurance. But again, ordinary premiums will be much higher than a penalty which can range from $2,000 to $3,000. Employers who have a workforce of low wage and often part time personnel will be incented to maintain work hours below 30 hours per week, since the law only requires coverage of full time employees.

As if the penalty were not weak enough, the government's capacity to levy it is severely constrained. There is no mechanism for enforcing collection except in the instance where the payee has a tax refund balance sitting with the IRS. The IRS may levy the penalty as an additional part of the tax, but it can do nothing to collect it.

While insurance companies were

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willing to endorse Obamacare they have become increasingly concerned about potential effects of this mismatch. They are facing the costs of a customer base that essentially has people taking out more than is put in. As a consequence they are trying to force medical providers to accept a payment schedule which is much lower than what private insurance has traditionally paid. Doctors and hospitals who thought Obamacare would be to their benefit are now facing the prospect of payments which could be 50 to 60% of other private insurance plans. They may also have to provide services and deal with maladies that they consider outside their range of competence. This serves to reduce the number of medical providers who are willing to participate in any given network; which means a patient will have a much narrower range of options for treatment. Millions of Americans may find that their doctor no longer accepts patients from their insurance provider. Obama's promise might be turned on its head. "If you like your doctor you can keep your doctor" needs an addendum: "unless your doctor doesn't like you". In other words if your doctor won't accept the rates and requirements of your health insurance plan.

It is possible that these problems will ultimately shake out and everybody will look back on them as just growing pains. It is also possible they will sink Obamacare. The problem with Obamacare is more political than economic or medical. It is a piece of legislation that could be cobbled together only by the acquiescence of too many disparate constituencies with opposing interests. For all of its 2000+ pages it is poorly thought out when considering its potential consequences and it is in the hands of an administration that has not taken implementation seriously.

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