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Obamacare: Under the Knife

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OBAMACARE
UNDER THE KNIFE

By Kylan Rutherford

Obamacare is on the congressional operating table right now, and Republicans are eager to start cutting.

Hours after Trump took office, the first incisions were made to tear down the law. However, the recent failure to pass a proposed alternative has stalled efforts to build something to put in Obamacare's place. Instead, it appears that the President and Congress will let The Affordable Care Act (ACA) bleed out. The diagnosis for Obamacare is grim, and the doctors aren't stitching.

Why Repeal Failed

Congress started surgery on Obamacare with a hand tied behind their backs. Republicans hold a majority in the Senate, but they do not have enough seats to end a filibuster and move to a vote. Their solution was to redefine their changes to The Affordable Care Act as "reconciliation." This classification limits what can be manipulated, but allows for a simple majority vote, which Republicans thought they could gather. However, several of the votes they were counting on wanted more drastic changes, which reconciliation can't tackle. Collusion failed, and this initial push to get something passed crashed in defeat.

Congressional rules only allow for reconciliation legislation to be passed once a year. Health Care reform was going to be filed, through some technicalities, under 2016. This keeps 2017 open for tax reform, another Trump campaign promise. A quick push was crucial to squeeze in two reconciliations, and this initial loss all but closes the 2016 window. Forced to choose one, Trump has evidently opted for tax reform, meaning any health care reform will be significantly slowed. Until Republicans can muster enough support in the Senate for a proper replacement, all they can do is stab more holes in The ACA in hopes that the legislation's death will force compromise.

Obamacare's Diagnosis

Several forces are already causing The ACA to lose blood. The more pressing issues for insurance companies and consumers are the state of the following three issues:

1. The mandate that all have health insurance
2. The guaranteed issue of health insurance, regardless of pre-existing conditions
3. The governmental fund set up by the Obama administration to save insurance companies from a death spiral

The Mandate

Currently, Obamacare dictates a mandate requiring every American to hold health insurance or be subject to a penalty fee. Despite this, many individuals have opted to pay the fee rather than insurance premiums. Additionally, hours into his presidency Trump issued an executive order urging federal agencies to be much more lenient on penalizing those without health care, and has indicated the administration won't pursue enforcement of the mandate.[1]

Health insurance is a way to alleviate the risk of unforeseen medical costs in the future. Insurance companies predict the risk associated with each client, calculate the total risk of their pool of clients, and then charge a premium that adds up to enough money needed to cover predicted medical costs with each client sharing that burden; everyone pays some, regardless of how sick they get, but no one is left with a full bill. In theory, a mandate leads to more healthy people buying insurance, which should produce lower premiums for everyone involved. But that did not happen.[2] Uncertainty generated by such a drastic growth in the pool of clients, combined with complex regulations, actually caused insurance premiums to go up instead of down. Reducing enforcement of the mandate will compound this effect, and could generate major issues in other areas of the legislation.

Guaranteed Issue

Insurance companies discriminate; if someone smokes, they will pay more for health insurance because they are more likely to get sick. Before Obamacare, insurance companies could discriminate against individuals with preexisting conditions and deny them coverage.

Obamacare imposes "guaranteed issue," dictating that companies cannot refuse health care to anyone based on preexisting conditions.[3] Through this policy, Americans with preexisting conditions have access to more health care options and can anticipate lower premiums. Healthy individuals end up sharing the cost, but the mandate was intended to offset any increase in their premiums. Without the mandate, not enough healthy people will buy insurance to keep guaranteed issue profitable. Discrimination provides a viable way for an insurance company to avoid failure and keep rates lower, but guaranteed issue takes this strategy away from them.

The Death Spiral

Instead of tightening restrictions on which individuals they insure, companies either have to rely on government aid to stay solvent, or close their doors. This path to closure is often referred to as the death spiral. There are three ways that insurance companies can die.

1. Adverse selection. Insurance companies struggle to accurately predict rates because clients are incentivized to misrepresent their condition. Thus, costs are higher than revenue, and the company must raise premiums, reject clients, or close.

2. Moral hazard. When an individual becomes insured, their potential financial costs of an unhealthy lifestyle decreases, thus their risk of sickness rises. Similar to adverse selection, this can weaken or destroy an insurance company's profitability.

3. The death spiral. As insurance premiums continue to rise, only the very sick will choose to buy health insurance. At some point along this spiral, insurance companies will die, as losses add up.

To prevent a death spiral, Congress made government funds available for use during what was called the "Risk Corridor." Because of the drastic change in who participated in health care markets (a big increase in clients), accurate pricing became effectively impossible. The Risk Corridor Funds were intended to shore up insurance companies that priced too low and incurred losses.

Insuring the insurance companies in this way created an additional moral hazard; almost all the companies underpriced. With the promise of tax dollars to bail them out if they lost money, they had no motivation to price correctly. A death spiral was avoided, but moral hazard racked up a hefty bill, now up to around 8.3 billion dollars.[4] If Republicans choose to stop bailing out companies, the insurance market may again face a death spiral risk.

Letting Obamacare decay will cause another period of uncertainty, and Congress and the President have to decide how they will proceed. Promising a "bailout" of sorts will generate security for insurance companies and individuals who rely on them, but the past shows such a bailout will not be free. Without funds to shore up potential losses, companies will be forced to predict more accurately, but the tendency will be to price high rather than low. More companies will likely fail.

The Bottom Line

No matter what happens in Congress, someone is going to pay for health care. Don't expect a replacement to Obamacare anytime soon, but do expect continued weakening of its infrastructure. Republicans have already started pulling plugs on the legislation, and the health insurance industry's resilience will be tried, with no guarantee of any bailout. Obamacare, Congress's patient, has a lot of preexisting conditions, and it doesn't sound like anyone wants to give it insurance.

Notes:

1. "Executive Order Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Repeal," The White House, https://www.whitehouse.gov/the-press-office/2017/01/2/executive-order-minimizing-economic-burden-patient-protection-and, (January 20, 2017).
2. Brian Blase, "Overwhelming Evidence that Obamacare Caused Premiums to Increase Substantially," https://www.forbes.com/sites/theapothecary/2016/07/28/overwhelming-evidence-that-obamacare-caused-premiums-to-increase-substantially/#2bcab13615be, (July 28, 2016).
3. Kimberly Amadeo, "Obamacare Pre-Existing Conditions," https://www.thebalance.com/obamacare-pre-existing-conditions-3306072, (January 5, 2017).
4. Shelby Livingston, "The state of the ACA's risk corridors," http://www.modernhealthcare.com/article/20161205/NEWS/161129937, (December 5, 2017).

BYU Tech Club

At The Base Of Silicon Slopes


Flickr User: a4gpa

By William Adams

Almost a decade has passed since Josh James christened the area connecting Salt Lake and Utah Counties as Silicon Slopes. James, the founder of Omniture and Domo, originally chose the nickname as a nod to the technology metropolis of Northern California and as a bit of a marketing ploy to garner attention for Utah's own nascent tech scene.[1]

Since that time, Silicon Slopes has kept Utah's press corps busy and propelled its business community to lead the nation in economic growth.[2] The few original acres surrounding Thanksgiving Point have expanded to include most of the Wasatch Front, comprising dozens of startups and even spawning four unicorns.[3] As the proliferation of tech companies has continued, businesses have turned to local universities to fuel their growth. For Brigham Young University, the response to such explosive growth is the formation of what some have called "the newest, hottest club on campus": the BYU Tech Club.

The story of BYU's Tech Club begins in late 2014. John Koelliker was a sophomore on an investment banking recruiting trip in San Francisco. Amidst the stops to different financial institutions, the group paid a visit to Facebook's corporate headquarters. A light bulb went on in John's head: "We should be placing more top students at tech companies in Silicon Valley!"

Returning to school, John couldn't find an organization specifically designed to help students from every major learn more about tech and get connected to opportunities at companies like Google or Apple. "There were several niche clubs trying to