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The American Health Care Act: WINNERS and LOSERS

The Republican-controlled House of Representatives, in their second attempt, narrowly passed the first of their planned three-step process to repeal and replace the Affordable Care Act. The big question now is: will the American Health Care Act be passed in the Senate? And if so, what impact will it have?



Let me begin by saying that the AHCA will NOT be passed through the Senate in its current form. If anyone is willing to make a bet against that statement, please give me a call because I am giving good odds. I don't see any scenario where the Senate passes this bill without at least some changes. Those changes could be minor or they could look like a major overhaul. If you ask me to handicap the chances that the Senate will pass any form of the AHCA, I would say right now it's a 50/50 proposition. Consider the fact that there were 19 Republicans in the House of Representatives who voted against the bill. In the Senate, the Republicans can only afford to lose 2 votes and still pass a bill. Remember, too, that Representatives have the luxury of running for election in districts that are often drawn specifically to protect their seats. Senators must run in statewide elections and face, typically, more opposition for their seats. Be that as it may, let's take a look at the bill in its current form and examine what it would do and the potential impacts it would have. Once the Senate is finished making their changes, we can revisit this analysis.

I will focus this analysis on the areas of Medicaid, the exchanges, benefits and underwriting, and high-risk pools. These are the major provisions of the AHCA and the ones that are likely to have the most impact if passed.

Medicaid: _____

The AHCA will have a major impact on the current Medicaid structure and funding. If passed, the AHCA would slowly wind down Medicaid expansion by closing new enrollment in 2020. The nature of Medicaid is one where people leave when they find employment and then sometimes return at a later date. Under the AHCA, if you entered Medicaid under the terms of the ACA Medicaid expansion and then lost your qualification status after 2020, you would not be allowed to return again under the rules of the ACA Medicaid expansion. This would slowly reduce the number of people on Medicaid. This is a perfect political example of having your cake and eating it too. The Republicans can say that they didn't repeal Medicaid expansion. They can also say that they have reduced Medicaid numbers to those who want to see that happen.

The other major change is in the way Medicaid is funded and controlled. The AHCA would cap federal spending on Medicaid and transfer a lump sum of money to the states. The states would then have the challenge of figuring out how to care for their Medicaid population with a limited amount of federal funding.

 **Winners:** These changes will go a long way in helping to solve the federal budget problems by limiting federal outlays for Medicaid. Some projections score these savings at over \$800 billion over 10 years. Depending on your views on the role of the federal government vs. states' rights, some would consider this a win for the states, as they would have more control over how the Medicaid programs are run in their states.

 **Losers:** Any reduction in Medicaid spending at the federal level translates into either an increase in Medicaid spending at the state level or a reduction in Medicaid spending overall through reductions in the number of people covered and/or reductions in the services covered. The clear losers in this environment are the providers of care and the Medicaid recipients who will either lose their coverage or have it reduced in some way. Remember that a reduction on \$800 billion in expense is a reduction of \$800 billion in revenue to providers of care.

The ACA Exchanges:

The AHCA makes significant changes to the current exchange environment. First, the new bill eliminates both the individual and employer mandates. The bill also changes the current premium subsidy to a flat tax credit that is only indexed to age, not to income or geography. These changes could significantly change the current form of the ACA exchanges at a time when payers are running far away from them. Simply put, without the employer and individual mandates, a reduction in government assistance to pay for the premiums and no protection for future premium increases, we can expect to see the exchange death spiral shift into overdrive.

 **Winners:** This is another move that will help federal budget problems. By reducing exchange subsidies and insulating the federal government from the impacts of future premium increases, the House has plugged another gaping budgetary hole.

 **Losers:** These changes are going to have a big impact on many of the people who count on the ACA exchanges for their insurance coverage. At best, their cost of purchasing coverage through the exchange is going to increase. At worst, they may be faced with no option to purchase coverage at any price if the insurance companies continue their mass exodus of this economically flawed market. This, combined with the Medicaid changes, is the reason why many are predicting huge increases in the number of uninsured if the AHCA passes. The other losers are the insurance companies who choose to stay in the exchanges. Without the employer and individual mandates and reductions in the premium subsidies, the overall risk pool should get significantly worse as this becomes a bad deal for healthy people and only beneficial for those individuals with significant health issues or illnesses.

“ We can expect to see the exchange death spiral shift into overdrive ”

Insurance Benefits and Underwriting:

As a former insurance executive, I know that the art of health insurance is not about paying claims for sick people as much as it is about predicting, avoiding, and mitigating risk. The final piece is rating for the risk that you underwrite. The biggest problem with the current structure of the ACA exchanges is the fact that every major insurance company has concluded that unless something significantly changes, the exchanges are not stable or sustainable. Simply put, they are designed to draw substantial risk while limiting the insurance companies' ability to mitigate and successfully rate for that risk. This means the exchanges will never be a profitable environment for insurance companies. When I worked on the payer side, one of my employers continually reminded its executives that the only growth they were interested in was “profitable growth.” We all knew that being smaller and more profitable was far more desirable than growing “bad business” that would damage our earnings. The AHCA has several provisions that are designed to help insurance companies improve their ability to manage and rate for risk.

The AHCA creates a mechanism for states to pursue a waiver that would either allow insurance companies to deny coverage for pre-existing conditions or consider them in the rates they offer. This is known as medical underwriting. It also allows states to make changes to or eliminate the “essential health benefits” required under the ACA. Further, it would change the age-related maximum underwriting factor from 3 times to 5 times. This means that the difference in premium, based purely on age, would go up from the current 3 times to a new maximum of 5 times. These changes would allow insurance companies to either avoid high-cost individuals or increase their rates significantly. It would also allow them to potentially sell benefit plans with significantly reduced benefits while also lowering the cost for young, healthy people at the expense of the pre-Medicare crowd.

 **Winners:** The clear winners here are the insurance companies and the young, healthy population. Insurance companies will get several risk mitigation tools back into their toolbox. Young, healthy people who want to buy insurance will find it more affordable and will be able to purchase a bare bones catastrophic policy.

Losers: The sick are the clear losers. Avoiding and mitigating risk doesn't make it go away. Rather, it only shifts who is responsible for that risk. The population that has benefited most from the ACA is the population that will get hurt the most by these changes. People who have serious health issues would find themselves facing significant increases in their cost for obtaining coverage, or worse yet, being unable to purchase any coverage given their specific issue.

High-Risk Pools:

The last major area in this proposed legislation is the discussion of creating and funding high-risk pools to help states solidify the individual insurance market places. The ACHA bill proposes up to \$140 billion that could be sent to individual states over ten years to help accomplish this. While this may seem like a lot of money, it needs to be put into perspective. "Over ten years" means that up to \$14 billion per year could be allocated to help cover "high-risk" individuals to take the pressure off the bleeding insurance companies. Currently, the most expensive 5% of the U.S. population accounts for almost 50% of all of the healthcare spending. In other words, this 5% of the population accounts for almost \$1.5 trillion dollars of healthcare spending. So allocating \$14 billion per year won't even cover 1% of the expected cost for the sickest 5%. If you look at the top 1%, they account for almost 25% of all the expenses or \$750 billion in healthcare costs. Spending \$14 billion to handle high-risk individuals only covers about 2% of the costs of the top 1% of the population. This is the economic equivalent of putting bandaids on bullet wounds.

Winners: The only winners here are politicians who can spin this as a solution to caring for the very sick in our country.

Losers: People who are considered "high-risk" or who may find themselves in that category in the future.

Summary:

While I could write at great length about the political drivers behind all of this and the motivations of either party in this fight, I choose not to. It would only serve to give me a headache and leave a bad taste in my mouth that could only be cured by an unhealthy amount of Scotch. Rather, I will leave the political commentary to others and focus on what this would mean for the macroeconomic problems that our current healthcare environment has created. Here's a good clinical analogy: will this treatment help cure an otherwise dying patient? The simple answer is no, it will not.

The biggest problem with our current healthcare environment isn't due to individual mandates, or underwriting rules. It isn't a function of governmental subsidies or Medicaid expansion.

Our biggest problem is that we have not figured out how to provide healthcare to the people in this country without breaking the bank.

In a recent interview, Warren Buffet was quoted as saying that medical care is "the tapeworm of American economic competitiveness." Well put, Mr. Buffett. In order to truly make things better we are going to have to grapple with the reality that we can't provide everything for everyone. We are going to have to figure out how to better ration healthcare because it will need to be rationed even more in the future. Those are simply the facts. The Affordable Care Act didn't do anything to address this issue and the American Health Care Act doesn't either.

Until we address the fundamental issue of cost control, all of this effort in Washington and the political battle it creates is really nothing more than an act of futility. We are giving aspirin to a cancer patient and, while yes, it is accurate to say we are doing "something," it clearly isn't nearly enough to address the real problem.



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