

A Single Amendment Makes ACA Affordable and Sustainable

Healthcare costs are extremely skewed with just 1% incurring some 20% of all health costs, and 5% consuming about half. To spread all insurance costs over all members results in less than enthusiastic “return on investment” for most, especially younger and healthier people. Something needs fixing but what. To begin, let us go back to the days before ACA.

Then, health insurers could reject people with pre-existing conditions. This forced millions not only to pay the costs for these conditions but also for all medical attention including ordinary care. ACA prohibiting pre-existing exclusions shifted many billions of dollars of costs to health insurers.

Second, health insurers capped the amount they would pay out in any year or over a lifetime. ACA prohibiting any limits shifted many more billions of dollars to health insurers.

With these huge shifts in costs to insurers, nearly everyone would have to participate in an insurance program in order for insurers to have any hope of financial survival. ACA recognized the need for full participation and included the “dreaded” individual mandate. Note that President Nixon proposed a healthcare reform in the 1970’s that also included an individual mandate and for exactly the same reason.

However, even with full participation, the cost shift to insurers was so great that they would have no choice but to raise premiums and deductibles. ACA also recognized this new imbalance, and added a “Risk Corridor” provision that would provide rebates to insurers who suffered extraordinary losses. The fallacy of this thinking was that after 3 years, the market would stabilize and be self-funding by insurers who had healthier enrollees and who enjoyed extraordinary gains.

In ACA’s first two full years, 2014 and 2015, reimbursable insurers’ losses exceeded \$8 billion, but only several hundred million were reimbursed. Senator Rubio had slipped into a spending law a provision claiming to save taxpayers from an “insurance industry bailout.” The chaos from blocked funds was entirely predictable. ACA’s initial concerns became a self-fulfilling prophecy with insurers pulling out of areas with the highest losses and boosting premiums and deductibles in areas where they stayed. Of course, this cannot be sustained.

After years of 60+ failed votes to “repeal and replace” ACA, Republicans went to work with their own plan. One of the key elements in their solution was to fund high-risk pools for people with high medical costs. In effect, by removing high cost people from the general population, costs for the remainder would drop substantially, similar to what existed

prior to ACA. Their proposal effectively shifts billions from insurers to the government that would fund these high-risk pools. Ironically, this is 180° contradictory to Senator Rubio’s effort to save taxpayers from an insurance industry bailout.

However, there is a subtle difference between the ACA and Republican solutions. With segregated pools, members are either in or out, attaching a stigma to those IN the high-risk pools. It also removes medical confidentiality with regard to members. Finally, if the past is any guide, state run high-risk pools are also prone to manipulation and funding reductions.

On the other hand, ACA reinsurance will allow all members to join in the community pool, and only when an individual’s costs exceed some threshold, reinsurance kicks in and covers those excess costs. This “ceiling” is not a new concept. It is exactly what insurers did when they set annual coverage limits before ACA. Government would assume all payments above some limit. If that limit was still too high for some health insurers, existing private reinsurers could step in to reduce health insurer’s risk. Reinsurers already sell policies to self-insured companies that want to lower their risk.

Reinsurance also offers other advantages. Primary insurers cover everyone’s routine medical costs. Members deal with one insurer for all their healthcare needs. Further, reinsurance requires minimal infrastructure change to process high cost claims. Former insurer “ceilings” simply become thresholds where, instead of denying members’ excess claims, insurers simply forward them to the government for payment.

As noted above, healthcare costs are extremely skewed at the high end. Shifting huge costs from insurers to government lowers insurer’s costs to that near pre ACA. With ACA caps on insurer’s profits, insurers will have to lower premiums and deductibles by billions of dollars. Not only will reductions reflect claims cost transfer to government, but also 15%- 20% overhead that insurers now add to those billions of dollars.

Finally, when premiums and deductibles are lowered, so will premium supports and co-pay help of which some 85% of enrollees receive. With net enrollee payments unchanged, all reductions in insurers’ costs reduce enrollee support costs. Overall, net federal spending increases should be modest.

The solution? Since ACA’s Risk Corridor” has “expired”, all one needs to do is replace it with [a] “Excess of Loss Treaty Reinsurance”, [b] with permanent government financing, and [c] with thresholds adjustable for inflation. One Amendment would have a multi-billion dollar favorable impact on ACA.