



Be Careful What You Wish For

Repeal of the Affordable Care Act Would Be Harmful to Society and Costly for Our Country

Jonathan Gruber January 2011

Introduction

The new Republican leadership of the House of Representatives says repeal of the recently enacted Patient Protection and Affordable Care Act is their top priority. The Republicans pushing for repeal, however, conveniently ignore the enormous step backward that repeal would represent for health care in our country, for the income security of our citizens, and for the fiscal health of our government.

The Affordable Care Act is not just a law designed to cover the majority of our nation's uninsured, moving us into the league of industrialized nations which guarantee universal health coverage for its citizens. The law also takes the crucial first steps toward reining in our runaway health care costs. It ends discriminatory insurance practices that leave many of our citizens one bad gene, or badly timed accident, away from personal bankruptcy. It does so while introducing insurance market competition that will lead to lower health insurance premiums for some, and better coverage for others, in the so-called nongroup insurance market where workers without employer-provided health insurance turn for coverage. The Affordable Care Act does all this while significantly reducing our enormous federal budget deficit over the next 10 years.

Opponents of the new health reform law claim we can have many of the beneficial features documented above while repealing the parts they don't like. This is a misleading and dangerous assertion. In fact, virtually none of the accomplishments of the new law are possible without the entire law's infrastructure coming into place. That's why all of the harms of repeal documented in this issue brief below will take place if the new law were to be scuttled.

To understand the consequences of repealing the Affordable Care Act, we can turn to two sources of objective information. The first is the careful and comprehensive effort put in by the Congressional Budget Office to evaluate the law's impacts, including their recent report summarizing the effects of repealing the new law. The second is the closest case study we have where major elements of the new federal law are already in place—the state of Massachusetts, which passed a similar reform in early 2006. So let's now turn to the different harms repeal of the health reform would deliver up to the American people.

Repeal means more uninsured, and worse public health

The first noticeable feature of a world without the new health reform law would be the much higher share of Americans without health insurance coverage. Absent the Affordable Care Act, CBO projects that 54 million people in our country, or almost 20 percent of our nonelderly population, will be uninsured by 2019. The new law will cover 32 million of those uninsured, according to CBO, or about 60 percent, with much of the remainder undocumented immigrants who are ineligible for coverage. This is more than a projection: It is also the same percentage share of the uninsured in Massachusetts who have been covered by that state's health reform effort.

Clearly, repeal of the new law would have enormous negative consequences for our nation's public health. Numerous studies document the dire health implications of uninsurance. An earlier study by the Institute of Medicine estimated that, in the year 2000 (when 38 million persons were uninsured), there were 18,000 deaths per year due to uninsurance. This suggests that repealing the Affordable Care Act could lead to 15,000 more deaths per year due to higher lack of insurance.

Repeal means increased financial risk for U.S. households alongside distorted labor markets

The impact of repeal extends well beyond those households who are uninsured. Indeed, repealing the new law would reach any household who faces the risk of losing their employer-sponsored health insurance. This is because the Affordable Care Act will fix the fundamental broken system of nongroup insurance in the United States.

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Currently, individuals who do not have access to employer-provided group insurance coverage face a nongroup insurance market that is discriminatory and expensive. In most states individuals can be denied insurance coverage because they are ill or have their pre-existing illnesses excluded from coverage. Individuals who become ill can face personal bankruptcy as a result. Even when nongroup insurance is available, in most states insurance is priced according to individual health, with the oldest and sickest enrollees paying many multiples of younger and healthier enrollees.

There is a fundamental unfairness to a system under which individuals can face financial ruin because they have the wrong genes, or cross the street at the wrong time, but don't happen to have access to insurance through their employer. Moreover, such a system significantly distorts our labor markets by forcing individuals to stay in jobs that offer health insurance rather than to move to newer and more productive positions where coverage is not available. Millions of U.S. workers are not moving to better jobs for them or starting new businesses because there is nowhere to turn for insurance coverage should they leave their jobs.

The Affordable Care Act would fix this flaw in our system. Insurance companies would no longer be allowed to price discriminate or deny coverage based on health or pre-existing conditions, and price differentials by age would be lowered. Individuals would be free to move to the job of their choice or to become entrepreneurs without fear of facing uninsurance.

Repealing the new health reform law would leave us in a world of broken nongroup insurance markets, with the attendant financial risk for individuals and the continued distortion to our labor markets. Why? Because without the comprehensive framework of the new law, it is incredibly costly to make insurance fairer in nongroup markets.

If insurance companies must charge the same price to people whether they're sick or healthy, for example, then many healthy people will view this as a "bad deal" and not buy insurance. This results in higher prices because only the sick would buy insurance, chasing even more people out of the market. The result is a "death spiral" that leads only the sick to purchase insurance at very high prices. Several states tried such community rating reforms in their non-group markets over the past two decades, and the results were sharp rises in insurance prices and rapidly shrinking market size. The only way to make insurance market reform feasible is to pair it with large subsidies to purchase insurance and an individual requirement for coverage, as is the case with the Affordable Care Act.

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Direct evidence for this point comes from Massachusetts. In the late 1990s the state moved to a nondiscriminatory nongroup market, but without the subsidies and the individual requirement that are central to the Affordable Care Act. The result was a collapse of the state's nongroup market, so that by 2006 the state had by far the highest nongroup premiums in the nation. In 2006, the state implemented their comprehensive reform, which added to the insurance market reforms extensive low-income subsidies to purchase insurance and an individual requirement for coverage. This resulted in a 40 percent reduction in nongroup premiums in Massachusetts over a period where such premiums were rising by 14 percent nationally. That's just one reason why the new law is called the Affordable Care Act.

Repeal means a noncompetitive and expensive nongroup insurance market

Another reason the Affordable Care Act works to bring down costs is because without it, a typical health insurance policy is much more expensive in the nongroup market than in the group market, partly because nongroup insurance markets are less competitive than group insurance markets in many states. There is no common marketplace where individuals can compare the prices of all the options that are available to them in the nongroup market. As a result, existing market participants keep prices high and new firms are unable to promote lower costs as a tool of market entry.

The Affordable Care Act addresses this problem in two important ways. The first is by introducing competitive insurance exchanges in every state. Individuals would be able to shop more effectively, comparing their nongroup options in a competitive and transparent environment. This approach has already had a notable success in Massachusetts, where the introduction of the state's Connector health insurance exchange expanded the use of nongroup insurance and promoted the entry of a major new low-cost insurer into the state's nongroup insurance market.

Without the Affordable Care Act states are unlikely to be able to establish transformative and competitive exchanges for the purchase of nongroup insurance. Many states have tried over the past 20 years to establish insurance exchanges and they have virtually all either failed or had little impact. This is typically because insurers were afraid that individuals would choose to buy from the exchanges only if they were sick, which meant prices in the exchange were high and demand for exchange products was low. With low demand, exchanges could not establish the economies of scale necessary for success.

The success of exchanges under the new health reform law will be due to the fact that individuals will be both required to purchase insurance and that insurance purchase will be subsidized only through the exchange. This will promote exchanges on a scale necessary to succeed in promoting competition in state insurance markets.

The second way that the Affordable Care Act addresses the high costs of nongroup insurance is through the introduction of new tax credits to make health insurance affordable through the exchange. The typical middle-class family in the United States would now be provided financial support to ensure that they would not have to spend an unfair amount for the insurance they need to protect their family.

The upshot: Repealing the new law would mean returning to an era where individuals can't effectively compare their insurance options, guaranteeing continued noncompetitive and expensive insurance in this market. And it would mean that individuals would face the full prices in these noncompetitive markets without the necessary tax credits to make insurance affordable. Repeal, in short, would be unfair, ineffective, inefficient, and costly.

Repeal means free riders would continue to exploit the health care system

Another fundamental flaw in our current health care system before passage of the Affordable Care Act was that individuals could “free ride,” remaining uninsured until they need care and then turning to emergency rooms. Emergency rooms are required by law to provide care to all regardless of insurance coverage. The associated uncompensated care costs of treating these individuals amount to a more than \$40 billion a year tax on the insured in the United States

The Affordable Care Act ends this free riding by requiring that individuals purchase insurance if it is affordable for them (which it will be for most due to the subsidies described earlier). This personal responsibility requirement, originally the brainchild of Republican experts, would end the unfairness of a system where emergency room health care providers are required to treat everyone but individuals are not in turn required to pay their fair share of the costs of treatment. Repealing the new law would mean returning to a world where individuals can simply wait until they are sick to get treated, passing the costs on to the rest of society that is paying their share.

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Repeal means the continued decline of private insurance

There was an enormous erosion of private insurance coverage in the United States over the past decade. Employer-sponsored insurance fell by 15 percent and nongroup insurance has not grown to keep pace. The result today is an increase in both the ranks of the uninsured and the publicly insured.

The Affordable Care Act arrests this decline and promotes private insurance coverage. According to the CBO, the new law will lead to a small erosion in employer-sponsored insurance coverage, offset by a rise in nongroup insurance coverage that is almost five times as large. Overall, private insurance coverage in the United States will rise by 15 million people due to the Affordable Care Act.

Repeal would provide no cushion for our citizens to offset this rapid decline in employer-sponsored insurance coverage. Fifteen million fewer U.S. residents would have private insurance than without the law. The Affordable Care Act is not a government takeover of the U.S. health system; it is a means of using reformed private nongroup insurance markets to more effectively fight the steady decline in employer-provided group insurance. Repeal means a fundamental retreat from the promise of private health insurance coverage for our citizens.

Repeal means higher and more rapidly growing budget deficits

The Affordable Care Act delivers a unique dose of fiscal responsibility in an era of rapidly growing federal budget deficits. The new law offsets its new spending with even larger reductions in other spending and revenue increases. As a result, CBO estimates that the legislation will reduce the deficit by more than \$100 billion by 2019, and by more than \$1 trillion in the decade after that.

What is not widely appreciated is that deficit reduction due to the new health law will rise over time. The cuts in excessive spending and increases in revenues are back-loaded, not front-loaded as with so many other recent pieces of legislation. This is illustrated by the fact that the most recent CBO estimate shows that repeal would raise the deficit by \$230 billion over the next decade. And, because the net budget savings from the new health law will grow over time, repeal would raise the deficit by much larger and ever growing amounts into the future.

Repeal would therefore mean undoing the enormous fiscal benefits of this legislation. Offsetting a more than \$100 billion hole in the budget deficit by 2019 would require significant cuts elsewhere in the budget or other increases in revenues. And it seems highly unlikely that Congress would enact spending or revenue changes that would increase so rapidly over time. That means even fixes that offset the short-term costs of repealing the new law would not address the enormous long-term hole it would leave in our budget.

Repeal means a critical step backward on cost control

Reforming insurance markets and covering the uninsured are actually the relatively easy lifts for the new health reform law when compared to the more daunting and fundamental challenge—reducing the rate of growth in health care costs, which threatens to bankrupt our government and our nation. U.S. spending on health care is very high and a source of great concern but it is the growth rate of medical spending, not its level, that ultimately determines our country's financial well-being. Absent the Affordable Care Act, if current trends persist we will be spending an unsustainable 38 percent of our GDP on health care by 2075 because the growth of health care costs would continue to outstrip the growth rate of the overall economy.

Addressing the rapidly rising costs of medical care, however, faces two daunting barriers. The first is scientific: There is tremendous uncertainty about how to lower health care costs without sacrificing health care quality. There is a broad consensus that there is significant waste in our health care system. But there is little consensus about the best way to address that waste without risking the enormous gains in population health due to health care improvements in recent decades. The second barrier is political: There are major entrenched interests that are threatened by fundamental health care reform and who will strongly oppose any such efforts.

In the face of these barriers, our political process has found it difficult to make progress on significant cost-control efforts over the past several decades. The Affordable Care Act represents the most important step forward in cost control in at least 30 years. The new law pursues many different approaches toward cost control, studying them to see which ones work best. This is through provisions that:

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- Reduce consumer demand for excessive medical care through the “Cadillac tax” on high-cost insurance plans.
- Reduce health care provider payments by appointing a depoliticized board to make up-or-down recommendations to Congress on changes to Medicare’s provider payments.
- Set up dozens of health care pilot programs to test various approaches to revamping provider-payment incentives and organizational structure.
- Invest hundreds of millions of dollars in new comparative-effectiveness research.
- Launch pilot programs to assess the impact of various reorganizations of the medical malpractice process.

None of these approaches is guaranteed to work but together they represent a significant step toward fundamental cost control.

Importantly, they represent steps that are unlikely to happen if the Affordable Care Act is repealed. None of these ideas are new; most have been around for decades. But it was through the overall push for health reform that Congress was able to finally put them in place. Absent such a unifying framework, the barriers which have blocked cost-control efforts in the past will continue to stand in the way of moving forward on cost-control efforts.

Bottom line: Repeal is a dramatic step backward

The debate over repeal of the Affordable Care Act is characterized by enormous misinformation and confusion. Opponents of the legislation exploit this for political gains. A legitimate debate over the Affordable Care Act and the future of health care in America must recognize the fundamental improvements to our health care system put in place by this new law. Repealing would lead to:

- A society with poorer health and ultimately more deaths from lack of medical care
- A continued unfair and expensive nongroup insurance market that leads to economic instability, medical bankruptcy, and a less efficient job market where individuals are afraid to move to more productive job opportunities
- Continued free riding by those who pass billions of dollars in care costs onto the insured
- A massive decline in private insurance coverage

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- Huge and unsustainable increases in budget deficits reaching trillions of dollars over coming decades
- A fundamental step backward in our efforts to control the health care costs which threaten to bankrupt our society

The Patient Protection and Affordable Care Act is aptly named. Repeal would mean less health care protection for more and more Americans at higher and higher costs to themselves, their families, and our nation. We simply cannot afford to repeal the new law.

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