The Daily Dish

Obamacare Premiums

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On Tuesday the Internal Revenue Service (IRS) announced some tax benefits will increase in 2017 in order to adjust for inflation. According to the IRS the standard deduction for married couples in 2017 will be $12,700, up from $12,600, and both the earned income tax credit and the amount exempt from the estate tax will also see slight increases. The top individual tax rate will apply to those making $418,400 or more as opposed to $415,050 or more in 2016.

Yesterday the American Action Forum released an analysis of Donald Trump's proposal to cut 70 to 80 percent of U.S. Regulations. The analysis finds that in order to achieve this goal, between $700 and $800 billion in regulatory costs would need to be cut. The analysis further shows that it would likely take a generation in order to accomplish this goal.

Eakinomics: Obamacare Premiums

Late Monday (surprise!), the Department of Health and Human Services (HHS) released its report on the premiums for Obamacare policies in those 38 states that will use the federal exchange in both 2016 and 2017 (Kentucky has abandoned its state exchange and will join in 2017; it was excluded.) By now the headline has been trumpeted far and wide: premiums on the "benchmark" (i.e., second-lowest cost silver) plan will rise an average of 25 percent. But there are some real horror stories as well. Arizona is expected to see an increase in the average benchmark of 116 percent, Oklahoma is expected to increase 69 percent, and seven other states are expecting benchmark increases of 40 percent or more.

In exchange (pun intended) for the privilege of sharply higher premiums, consumers will be rewarded with limited choices. About 20 percent of shoppers will have only one choice, residents of at least five states will have only one insurance company, and the average number of insurers per county is down from 5 in 2016 to 3 in 2017.

Nevertheless, the administration put a rosy face on the outlook, saying "Marketplace consumers will have affordable options. More than 7 in 10 (72 percent) current Marketplace enrollees can find a plan for $75 or less in premiums per month, after applicable tax credits in 2017. Nearly 8 in 10 (77 percent) current Marketplace enrollees can find a plan for $100 or less in premiums per month, after applicable tax credits in 2017." How does that work? The key is the subsidies known as Advanced Premium Tax Credits (APTCs), which 85 percent of marketplace enrollees receive.

Indeed, for a 27-year-old at roughly 250 percent of the Federal Poverty Level (FPL) tax credits are expected to increase by 62 percent, while for a family of four in the same FPL level, tax credits are expected to increase 47 percent. As Marketplace tax credits adjust to match increases in benchmark premiums, some consumers in areas that had low benchmark premiums in 2016 may be newly eligible for tax credits in 2017.

The upshot? The taxpayer is being left holding the bag. In 2016, the federal government paid roughly $280 per person per month in premiums. If that number is extrapolated out over the 11.1 million effectually enrolled in the 2016 individual market, then taxpayers will shell out roughly $32 billion in premiums before 2016 is over. If APTCs increase by 50 percent overall (a rough guess based on what we know) for the projected 11.4 million effectually enrolled per month in 2017, the tab will rise to $50 billion.

Obamacare advocates like to argue that premium hikes aren't damaging because the subsidies rise automatically, thereby preventing the low-risk individuals from dropping insurance and creating a death spiral. Perhaps, but it comes straight out of the pocket of Americans. Moreover, because the regulatory noose is so tight, there is no guarantee that the death spiral won't occur on the supply side as more insurers depart the exchanges.

The new data are another "I told you so" moment for those who feared the poor design of Obamacare from the start. And the only strategy apparent for its advocates it to simply throw more of someone else's money at the problem.