



Insight

How Expanding Obamacare Drives Up Health Care Costs & Government Spending

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Five years after passage of the Affordable Care Act (ACA), progressives are now releasing plans to expand on the legislation. The most recent plan has a lot in common with the ACA, including substantially increasing the costs for both taxpayers and consumers once again.

Things That Will Cost More

Higher Premiums... FOR EVERYONE! Insurers fully covering 3 doctor visits annually may sound like a good idea but it will ultimately raise the cost of premiums for everyone. Not only will this proposal not save individuals \$100 a year, but premiums will increase by more than the average cost of 3 sick visits because without any cost sharing people will be more likely to go to the doctor's office, even when it may not be necessary. And, for those individuals that do not make a trip to the doctor, their premiums will increase as well.

Increasing Out of Pocket Expenses To Get A Tax Break. The proposal also contains a progressive tax credit that is a targeted tax benefit for individuals with high health costs. However, the structure of the credit will create an incentive for individuals to underinsure, and if they do become sick, to spend more money to reach the 5 percent credit eligibility threshold.

Government Price Controls Lead To Higher Premiums & Fewer Options For Consumers. The plan blocks insurers' ability to implement rate increases that will discourage insurers from taking risks in their plan designs or entering new markets. This will lead to stagnation, monopolies, and ultimately, higher premiums and fewer options for consumers.

A More Expensive Health Care Structure. The plan calls for a shift away from fee-for-service care towards bundled payments and [Accountable Care Organizations \(ACOs\)](#). There is some evidence that bundled payments may be more efficient, but ACOs are not. [ACOs are expensive](#) to start up, difficult to manage, and are inconsistent (at best) when it comes to generating savings or providing quality care.

Unanswered Questions

The proposal raises more questions than it answers. For instance, the plan does not make clear who would qualify for the deductive tax subsidies or how much people would be eligible for. Further, the plan does not explain how the government will be able to demand "rebates" from drug companies sufficient to cover this massive expense.

The plan supporters fail to explain how the proposal would be implemented without further constricting networks or increasing premiums.

In all of these proposals, any action that would lead to increased premiums means higher costs for all Americans, and through the exchange subsidies, higher costs for the federal government. These are not savings, but simply redistributed costs, with less and less incentive for individuals and providers to manage their health care expenses.

Budget Impact

The most glaring omission from this expansion of the ACA is what it will cost the federal government, and equally important, how will it be financed. Originally, the ACA was estimated to reduce the deficit by **\$143 billion** over the budget window. But this was in part achieved by a hodge-podge of tax increases, including those on **small business, medical devices, and costly health insurance plans**. At the time these tax provisions were estimated to increase revenues by a combined \$69 billion, or nearly half of the budget “savings” claimed by proponents of the ACA. But since enactment, one of these taxes has been **repealed**, and there is growing and bipartisan opposition to the **medical device tax** and the “**Cadillac tax**” on expensive insurance plans. With the patchwork of financing mechanisms of the ACA crumbling, it’s unclear how these new expansions would be financed.