Cleaning Up Obama's Health-Care Mess

As President Barack Obama leaves office, he is bequeathing his successor a colossal mess in the form of his signature legislative achievement—both from the active effort to change the American health-care system through the Affordable Care Act and from the failure to address the budgetary crisis that will overwhelm the system over the next two decades unless radical changes are made. Indeed, the extent of the health-care problems facing the next president will be far greater than we have seen previously—and vastly more difficult to fix than was the case when Obama became president in 2009.

Obama failed to address the long-term crisis in funding Medicare even as he layered an expensive and severely flawed new benefit for all Americans on top of it. And as he fiddled, the overall national debt significantly incurred by increases in health-care spending grew without letup by about $11 trillion. That is more than the accumulated total debt that had accrued in the administration of every previous U.S. president in our history combined.

The looming budgetary tsunami that will follow from this level of indebtedness will make landfall during the years from 2025 to 2035. In 2025, Medicaid spending will go above $1 trillion for the first time. By 2026, all of the baby boomers will have retired and will no longer be in the labor force. In 2028, the Medicare hospital trust fund will be rendered insolvent. If the predictions of the Obama team are accurate, far more Americans will then be in health plans largely managed and run by the public sector—just as the public sector's spending on health care will overwhelm the federal government.

The responsibility for all this belongs to both parties, across multiple administrations and Congresses. But our outgoing president had a unique opportunity to deal with many of these problems and either ignored them or made them worse. He entered office with a mandate to do something about health care, and a readiness on the part of the American people to look at a reasonable option for getting that done. Unfortunately, the plan he did pursue, known now and forever as Obamacare, was not only costly, clunky, and complicated; it has also proved corrosive. The partisan way in which he passed it exacerbated tensions in Washington, made it less likely that the American people would accept it, and poisoned bipartisan relations so profoundly that it will now be harder to undertake the repairs that are needed both in the near and immediate future.

Obamacare was predicated on three main promises: that it would solve the problem of the 47 million uninsured; that it would bend the cost curve down; and that if you liked your health care you could keep it. In reality, the law was really focused on only the first one of those things: reducing the number of the uninsured.

And in fact, there are now fewer uninsured Americans as a result of the Affordable Care Act. That's not much of an accomplishment, really. If the government is going to subsidize the purchase of insurance and make it illegal not to possess insurance, the obvious end result will be fewer people lacking insurance. According to Obama-administration numbers, about 20 million people have been covered as a result of the ACA. But this is a far cry from covering the entirety of the 47 million uninsured, which Obama called for as he sought to sell the law to the American people. And it's far fewer even than the 32 million people the Congressional Budget Office initially predicted that the law would cover. In addition, the law did lead to large numbers of plan cancellations, generally estimated to be in the 2 to 7 million range. So the number of the newly covered is significantly lower than expected. And the administration also miscalculated how people would secure coverage. The law established, and sought to compel states to establish, so-called exchanges—publicly managed marketplaces for the purchase of medical plans from private insurers. But things didn't go as

planned and aren't going as we were promised they would.

For one thing, even the 20 million number might be inflated by as much as 10 percent. It includes not only those in the exchanges but also those between the ages of 18 and 26 who must now be covered under their parents' medical plans. There are somewhere between 2 and 3 million people in this category, and it's not at all clear that without this new benefit they wouldn't themselves have secured private-sector coverage from their own employers.

What's more, a great many of the 20 million among the newly covered are there because of Obamacare's expansion of Medicaid—government-provided health care for the very poor. Medicaid is an extraordinarily costly and deeply flawed program whose tangible benefits are not always apparent. One study in Oregon even went so far as to suggest that those covered under Medicaid "generated no significant improvement in measured physical health outcomes" compared with those who had no coverage. A voter hearing of the great promise of the Affordable Care Act would have been very disappointed indeed to discover that all it brought with it was a Medicaid-eligibility designation.

Furthermore, 19 states did not even accept the Medicaid expansion because of entirely rational fears about its long-term fiscal implications. The bill for Medicaid is typically shared by the states and the federal government; the federal government picked up about 57 percent of costs before Obamacare went into effect. Such costs are a real burden for states. Indeed, Medicaid is the largest aggregate expense in most state budgets; about one-quarter of all state spending is on Medicaid. The federal government agreed to pick up 100 percent of the costs of the Medicaid expansion for the first few years before reducing its share to 90 percent and then lowering it still more by some undetermined number in the future. It is not surprising that some considerable number of governors feared that the indeterminate figure would in the future add considerable burden to the Medicaid costs that their states already bear.

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Medicaid and the under-26 expansion, though, do not constitute the heart of the Affordable Care Act. The highly touted exchanges are the true center of Obamacare, and the picture they present is not a pretty one. The opening of the exchanges in the fall of 2013 proved that the warnings conservatives have long issued about the incompetence and ineptness of government were, if anything, an understatement. The sign-up mechanisms did not work, the waits were lengthy, and the inability to just check prices without disclosing one's personal financial situation made one wonder if the geniuses behind the system had ever even heard of Amazon.com.

The reaction across the board to the rollout of the exchanges was brutal, and deserved. While no one talks about the disastrous rollout three years later, it did have real and long-lasting effects. First, to the extent that the buy-in on the exchanges is lower than the administration anticipated, that surely stems in some measure from their awful launch. In addition, one has to wonder if the disaster cemented an already extant sense in the American consciousness that government is just not capable of taking on and solving the complex problems of 21st-century America. To the extent that future presidents come up against a wave of skepticism regarding ambitious plans for new government initiatives, the Obamacare rollout will bear much of the blame.

The administration did sort out some of those initial technical glitches. But technical glitches were the easiest part of the problem to fix. Better engineering can fix a software problem, but it cannot solve the problem of skewed incentives and a flawed understanding of behavioral economics. The heart of the problem with the

exchanges is that they feature poor risk pools. What this means in layman's terms is that the exchanges include more sick people, and fewer healthy people, than are needed to make insurance plans break even. Healthy people pay in far more in premiums than they take out from an insurance plan, while sick people get more in benefits than they pay in premiums, co-pays, and deductibles. For that reason, a workable insurance plan must have many more healthy people than it does sick people, and the Obamacare exchanges do not have the proper ratio of healthy to sick. Most of the problems of the exchanges stem from this simple fact. In 2016, 28 percent of exchange customers are in the 18-to-35 age range. For the risk pools to be properly balanced, the exchanges need 35 percent of their customers to be 18 to 35.

The problem is easy to explain; it's far harder to solve. A senior hospital official in Maryland described the situation to me in the following way: On the Maryland exchanges, it takes eight hours to sign up for an Obamacare exchange plan. If you are young and healthy, those eight hours sound interminable and like a waste of time and effort. If you are sick, those eight hours are an essential investment in making sure that you or a dependent receive the coverage needed to overcome serious health challenges. The sick make the investment; the healthy people go rock climbing or skateboarding or do whatever it is young and healthy people do.

This is not to suggest that simply reducing the amount of time it takes to sign up would miraculously heal the ills of the exchanges. The sickness is far deeper than that. The incentives in the exchanges are askew, as many healthy people just do not want to buy the plans, regardless of wait times, while sick people both want to and need to buy them. The Maryland example is a stark illustration of the problem, but it is not the totality of the problem.

One of the manifestations of the flawed risk pool is that premiums are rising, and rising quickly. Despite promises that the ACA would "bend the cost curve down," the average premium hike sought by insurance companies for 2017 is a whopping 24 percent. These increases come on top of earlier premium spikes in 2014. In President Obama's home state of Illinois, insurers are seeking to increase premiums of Obamacare exchange plans by up to 45 percent.

When confronted with evidence of premium hikes on the exchanges, the Obama administration response is oddly off point. Its spokesmen consistently reiterate that poor customers do not pay those rates because the subsidies provided by Obamacare cover much of the cost. This is certainly true for some of the customers, but this argument neglects two key points. First, only certain people are receiving the subsidies. The rest do have to pay the full freight, calling into question whether the exchanges are supposed to be a viable health exchange, or just a vehicle for costly subsidies for low-income Americans. Second, the fact that these miraculous subsidies cover part of the costs conveniently neglects to note that someone is paying for said subsidies. That said someone is you, dear reader, in the form of taxes and future debt obligations of the United States government. To say that rate hikes don't matter because subsidies pay the cost is like saying that tuition prices don't matter because some people get financial aid.

A second manifestation of the central Obamacare problem is that insurers are leaving the Obamacare exchange business. They are losing money on the exchanges, which leaves them with only two options: either raise rates sufficiently to cover the costs, which would spark the ire of both the Obama administration and the American people; or leave the exchanges, raising the ire of the Obama administration but not the American people. Some insurers, like Aetna and United (which lost more than $1 billion in its exchange plans) have largely pulled out. Blue Cross, in contrast, is staying in, but at a cost. Blue Cross plans saw their profits reduced by 75 percent from 2013 to 2015. So it is asking for large and unpopular premium hikes: That requested premium increase in Illinois of 45 percent was for a Blue Cross plan.

The ACA had hoped to solve the problem of having insufficient numbers of insurers participating by the creation of something called co-ops. Co-ops were intended to provide an alternative to the private insurance plans; they were nonprofit plans subsidized by government that would lack the supposedly rapacious features of profit-seeking insurance companies. In fact, one of the rules of these co-ops (23 were established) was that their boards of directors could not include anyone with previous ties to any of the existing carriers. As these newfangled plans lacked any kind of institutional knowledge of the workings of the health-care markets, unsurprisingly, most of the co-ops have collapsed at a cost of well over a billion dollars. They also left 250,000 people stranded and needing to look elsewhere for insurance coverage.

Without the co-ops, and with many insurers leaving, those who remain on the Obamacare exchanges have precious few choices. This means costs will continue to rise, and remaining plans, facing little competition, will have precious little incentive to improve their products. All of this—the poor risk pools, the rate hikes, the failure of subsidized entities, the lack of competition on the exchanges—was not only predictable to those with an understanding of market economics, but was widely predicted before the passage of the law in 2010.

So the next president will inherit a large, expensive, and costly subsidy program that does nothing to improve the overall cost and quality challenges of our health system. More Americans are now covered than was the case at the start of the Obama administration, but at great cost. Those costs include the more than $1 trillion spent on the programs already, Medicare cuts that can now no longer be applied to improving that program's failing finances, the creation of a new program that will be expensive to amend or politically costly to eliminate, and a marked increase in the skepticism of the American people in government's ability to accomplish much of anything.

In addition, and this is no a small thing, Obama handled both the health reform and our related fiscal challenge in such a heavy-handed way that it will be hard for the next president to build bipartisan coalitions with Congress to address thorny problems. Obama's heavy-handedness started early in his tenure and continued throughout. A few stories illustrate the marked rudeness of his approach. Early on, when challenged at a Potemkin-like forum for addressing his stimulus package, Obama told then–House Minority Whip Eric Cantor and other GOP leaders, "I won." During complex negotiations over the budget in 2012, Obama told Senate GOP Leader Mitch McConnell that "Rohit is being a real jerk about the spending offsets," referring to McConnell Deputy Chief of Staff Rohit Kumar. "Personally criticizing a member of my staff hardly seemed like the way to negotiate a deal," McConnell observed in his recent book, *The Long Game*. Obama also insulted Paul Ryan, then the chairman of the House Budget Committee, by inviting him to a presidential speech on the budget and then using the speech as an opportunity to criticize Ryan, to his face, for his budgetary approach. All this revealed a consistent unwillingness to work in a bipartisan way to make compromises with Congress and get things done. He initially got his flawed health-care bill through with no GOP votes, and he refused to make adjustments as circumstances changed.

All presidents face crises. They cannot know what those crises will be, but they do know that they will face them, and that they will be judged on how they respond. In this case, the new president will face a predictable crisis: the possibility of economic collapse in the immediate aftermath of his (possible) second term due to an unsustainable debt of $19 trillion and counting. President Obama has made his successor's challenges infinitely more difficult.