ObamaCare Rate Hikes: Bad News for Consumers and Democrats

On November 1, annual enrollment in the ObamaCare exchanges will open, and it won't be good news for consumers. Insurers are expected to increase their premiums significantly.

It will also be bad news for Democrats. Voters will be going to the polls one week later to elect a new president and determine the makeup of one-third of the Senate and the entire House of Representatives. An electorate dissatisfied with the affordability of healthcare under the Affordable Care Act (ACA) could result in major gains for Republicans, possibly including the White House.

ObamaCare opponents have long warned of exploding premiums owing to the law's many flaws, including guaranteed issue and community rating, which encourage those who require the most healthcare to flood the exchanges and discourage those who require the least from buying insurance at all. Although exchange enrollment has indeed lived up to critics' expectations — only 28 percent of federal exchange enrollees in 2016 were between the ages of 18 and 34, while 35 percent is the desired threshold — premiums have not risen to their forecast heights, increasing by an average of just eight percent this year. Some of this is the result of insurers' underpricing their policies in an effort to attract customers; some can be attributed to federal programs designed to mitigate insurers' risks.

ObamaCare's best years, however, may already be behind it. The federal risk-mitigation programs expire at the end of 2016. Meanwhile, insurers have been losing money on the exchanges and need to hike rates in order to remain solvent. Some — such as UnitedHealth Group, which expects to lose $650 million on exchange policies this year — are getting out while the getting is good.

"I think a lot of insurance carriers expected red ink, but they didn't expect this much red ink," Greg Scott, who oversees Deloitte's health plans practice, told *Politico*. "A number of carriers need double-digit increases."

Politico cited a few examples:

> Blue Cross and Blue Shield plans, which dominate many state exchanges, saw profits plummet by 75 percent between 2013 and 2015, according to an analysis by A.M. Best Co. A chief reason for the financial woes: "the intensity of losses in the exchange segment."
>
> Health Care Service Corp., which operates Blue plans in five states, dropped out of New Mexico's exchange for this year after regulators refused to approve rate hikes as big as the company sought. In Texas, Illinois and two other states where HCSC does business, medical costs for individual customers exceeded premiums by more than $1.3 billion last year….

> Even New York-based Oscar, the much ballyhooed, tech-savvy startup bankrolled with billions in venture capital dollars, is sputtering. Medical costs for Oscar's individual customers in New York, where it has the most customers, outstripped premiums by nearly 50 percent last year, according to financial filings.

Blue Cross Blue Shield of North Carolina is also considering exiting the exchange after losing $400 million on its exchange policies over the first two years.

Meanwhile, the ObamaCare co-ops, which were supposed to show the private sector how it's done, are imploding. Over half have already failed, and with more than $400 million in combined losses last year, the remaining 11 aren't likely to last much longer. The New Mexico co-op is forecasting rate hikes of about 33 percent this year, which will hardly draw more consumers into the co-op and may drive out those few who are already in it.

"In some cases the hole is getting deeper rather than getting better," Scott told *Politico*.

The fact is that the exchanges and co-ops, for a variety of reasons, simply cannot attract enough young, healthy people to foot the bill for covering the old and the sick. Exchange coverage, despite insurers' best attempts at keeping premiums down, is still expensive, in part because of the ACA's many mandates on insurers, and the law's subsidies are insufficient to offset these costs. Exchange plans are often stingy, with high deductibles and narrow provider networks. The combination of these two factors makes paying the individual-mandate penalty, despite its steep increases, often a much better deal than buying insurance. In addition, the law's mandate that insurers cover young-adult children on their parents' employer-sponsored policies has taken millions of prospective young customers out of the market.

As a result, enrollment has been far below forecast. "Roughly 12.7 million Americans signed up for Obamacare plans during the most recent open enrollment period," wrote *Politico*. "That's far below the 22 million projected by the Congressional Budget Office, and it's certain to decline as some drop out."

"The pool is far less healthy than we forecast," said Brad Wilson, CEO of Blue Cross Blue Shield of North Carolina, told *Politico*. "That's an issue not just here in North Carolina, but all over.… We need more healthy people in the pool."

But how to go about it? Some insurers have argued for tightening the rules surrounding enrollment, and the Obama administration says it is going to do that, finally taking the prudent step of requiring people to prove that they're eligible to enroll outside the normal period. Others want more flexibility in the policies they can sell on the marketplaces, which is to say they want a freer market.

"We have real concerns about the next year or two based on the experience so far," Ceci Connolly, CEO of the Alliance of Community Health Plans, told *Politico*. "Even for our members that are getting close to breaking even on this, they say that it's a really challenging and unpredictable environment."

Democrats, meanwhile, have real concerns about the next several months. Given that their party bears sole responsibility for ObamaCare, any negative news about the law plays directly into Republicans' hands.

"Any reports of premium increases will immediately become talking points on the campaign trail," Larry Levitt, senior vice president for special initiatives at the Kaiser Family Foundation, told *Politico*. "We're in an election where the very future of the law will be debated."

Republicans have argued for repealing and replacing ObamaCare, though they have often hedged on just exactly what their replacement would be, perhaps fearing assaults from both the Left (that the plan is insufficiently socialistic) and the Right (that it remains too much so). This gives Democrats an opening to fight back.

“The Republicans will try to make [Hillary] Clinton own the higher prices, but the problem is that Republicans have no alternative or answer,” Democratic pollster Anna Greenberg told *Politico*. “They are in the position of taking away insurance if they repeal Obamacare.”

And that is a prime reason why the federal government should get out of the healthcare game altogether: Making Americans’ health subject to the winds of politics is a surefire recipe for constant instability and conflict. A free market in health insurance and care would enable people to obtain care via cooperation — the voluntary exchange of resources — rather than coercion. It would also achieve the stated objectives of ObamaCare, protecting patients and making healthcare affordable. What’s more, unlike ObamaCare, Medicare, Medicaid, and the rest of the federal interventions into healthcare, it would have the advantage of being constitutional.