Written by **Michael Tennant** on August 23, 2013

ObamaCare Will Lead to Insurance "Death Spiral," Study Says

Is the health insurance market headed for a "death spiral" of increasing premiums, fewer beneficiaries, and less competition under ObamaCare? A recent study from the National Center for Public Policy Research answers that question in the affirmative.

The study, by healthcare policy analyst David Hogberg, finds that the individual mandate's carrots and sticks will probably be insufficient to induce large numbers of currently uninsured "young invincibles" — healthy, childless 18- to 34-year-olds — to buy coverage. Yet these people are the ones who must enter the market *en masse* if the healthcare law's mandates on insurers are not to overwhelm them with older, more sickly — and therefore much more costly — beneficiaries.

Under ObamaCare, beginning next year insurers must accept all applicants regardless of pre-existing conditions and must charge them the same rates for the same coverage. Everyone — including proponents of the law — knows that under such conditions, most of the people who have heretofore been unable to obtain insurance because of pre-existing conditions will immediately purchase policies. This will result in a sudden, steep increase in the benefits that insurers must pay without a corresponding increase in premiums, and that can only be bad news for the insurance industry.

What the industry needs, therefore, is a large pool of healthy individuals also to enter the market. These people will pay premiums but rarely draw benefits, thereby subsidizing the benefits of the newly insured sick.

But healthy people already often balk at paying the relatively low rates insurers would charge them. "Indeed," Hogberg pointed out in a blog post, "the age group with the highest rate of uninsured is 18-34-year-olds. About 19.1 million are uninsured at any given time, according to the Census Bureau, and somewhere in the ballpark of about 11 million are uninsured for at least one year."

While others might chide these folks for taking such a risk, given that young adults have very few healthcare expenses, they are hardly being unreasonable in choosing to forgo health insurance in favor of saving money, particularly since many of them also have low incomes. As the *Washington Examiner*'s Philip Klein put it, "Purchasing health insurance, in aggregate, is a bad deal for younger Americans."

ObamaCare is only going to make it a worse deal, driving rates for the young and healthy even higher. "The design of Obamacare rests on the very assumption that windfall profits from selling younger and healthier Americans more insurance than they need will be enough to subsidize older and sicker Americans," observed Klein.

The law "sells" this insurance to young invincibles in two ways. First, it requires that they — and everyone else — carry health insurance or pay a penalty: the greater of $95 or one percent of income in 2014, rising to the greater of $695 or 2.5 percent of income in 2016 and succeeding years. Second, it subsidizes the purchase of government-approved insurance, which often includes benefits that healthy people — who frequently purchase catastrophic coverage when they buy any at all — do not need and would rather not pay for. The subsidies are based on income, with those with the lowest incomes getting the largest subsidies and those making over 400 percent of the Federal Poverty Level (FPL) getting none.

The question is whether the combination of penalty and subsidy will be potent enough to convince young invincibles to flood the insurance market next year. Hogberg's study, based on Census Bureau data and premium calculations by the Kaiser Family Foundation, concluded that it probably will not.

The study found that among 18- to 34-year-olds with no children, millions will benefit financially from choosing not to buy insurance next year and instead paying the penalty, even when the available subsidies are taken into account. Specifically, over 3.7 million individuals — 61 percent of the young invincibles — will save at least $500 if they opt out of health coverage next year, and over three million — 49 percent — will save at least $1,000.

"In both cases," Hogberg noted, "the uninsured comprise the bulk of these individuals. These people have already decided, for whatever reason, that purchasing insurance is not worth the cost. Getting these people to shell out $500 or $1,000 of their own after-tax income is going to be a difficult task, to say the least."

What's more, he wrote, "roughly two-thirds of the individuals for whom insurance will cost at least $1,000 more than the fine are men." Young men are the people most likely to have few, inexpensive claims — the very people the exchanges need to enter the pool to subsidize coverage of older and sicker individuals. With such a large incentive to forgo coverage, it seems unlikely that many will opt into the system in 2014.

In addition, Hogberg found that next year even low-income individuals — the ones who get the biggest subsidies — will benefit from paying the penalty instead of buying insurance and that in 2016 and later, those with incomes of about 300 percent of the FPL and higher will still have an incentive to forgo coverage.

All of this suggests that ObamaCare's insurance exchanges may be in some serious trouble very soon. The Obama administration estimated that about 2.7 million 18- to 30-year-olds would have to buy coverage on an exchange next year in order for the system to work. According to Hogberg's calculations, however, of the 4.3 million 18- to 30-year-old single people who will be eligible for exchange coverage, "about 2.9 million have a $500 incentive to avoid the exchange and about 2.38 million have a $1,000 incentive." Subtracting either of these figures from 4.3 million comes up well short of the administration's goal.

Should young invincibles succumb to the powerful incentives ObamaCare offers them to remain (or even become) uninsured, the exchanges will enter a "death spiral" of increasing claims costs for those buying coverage, followed by higher insurance rates to pay for those claims, which in turn will drive more healthy people out of the market, and so on, until only the sickest individuals maintain coverage and only a few insurers remain in business, driving premiums even higher.

And what happens then? As Richman's Law explains, "No matter how much the government controls the economic system, any problem will be blamed on whatever small zone of freedom that remains." Those in power will never admit that ObamaCare is the cause of the faltering insurance industry. Instead, they will claim that the industry's failure is proof that the only solution to America's healthcare woes is a British-style single-payer nationalized healthcare system. No wonder many observers are convinced that ObamaCare was never intended to solve anything but to pave the way for the fully socialized healthcare system its proponents, very much including Barack Obama, have wanted all along.

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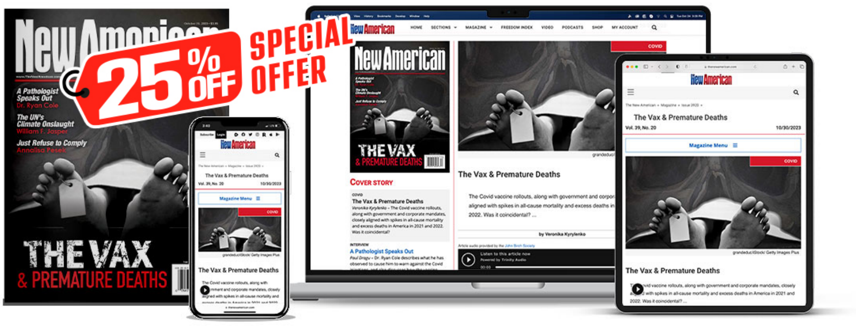

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