Obamacare Repeal and Replace Won't Reduce Healthcare Costs - How it Could Impact Personal Finances

March 8, 2017 - The so called Affordable Care Act (Obamacare) was sold to Americans with a number of promises that turned out to be false. "If you like your doctor, you can keep your doctor." "If you like your plan, you can keep your plan." And of course the promise that under Obamacare, the average family would play $2,500 less for their insurance than they did pre-Obamacare. The promises of the GOP to repeal the law were one of the primary reasons last year's elections turned out the way they did. But a look at the first draft of the repeal and replacement plan put forward by GOP leadership yesterday reveals a plan that could actually make matters worse for the vast majority of Americans.

Tweet

```
(function() {
var s = document.createElement('SCRIPT'), s1 = document.getElementsByTagName('SCRIPT')[0];
s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();
```

```
 (function() {
  var po = document.createElement('script'); po.type = 'text/javascript'; po.async = true;
  po.src = 'https://apis.google.com/js/plusone.js';
  var s = document.getElementsByTagName('script')[0]; s.parentNode.insertBefore(po, s);
 })();
```

What's in the bill?

Before we go into the bill's failures, we need to take a quick look at what is included in the bill.

First of all, the bill would kill most of the new taxes that were imposed by Obamacare. That includes the income tax surcharge and the 3.8% tax levied on home sales when profits from the sale exceed $250,000 ($500,000 for married couples). It would also kill the so-called "Cadillac tax," which impacts healthcare plans that are often negotiated by unions for their members. The tax has the effect of discouraging the purchase of the best healthcare plans available.

In addition to the tax cuts mentioned above, the proposed bill would end the mandates for individuals and businesses to purchase health insurance.

The bill would kill the current subsidies offered by the federal government to people who buy insurance through the federal or state insurance exchanges. Those subsidies would be replaced with tax credits for everyone who purchases insurance; not just those who purchase insurance through an exchange.

The bill would also allow consumers to purchase insurance across state lines. That's currently illegal for individual purchasers because health insurance is regulated by the states and not the federal government. The bill would force states to allow interstate sales of health insurance.

Impact of the changes mentioned above.

The changes offer a mixed bag for consumers. The tax reductions and the end to the individual mandates are largely positive. They should help stimulate the economy by putting more money into the hands of consumers and businesses. They could also result in many consumers returning to the purchase of catastrophic care plans. These plans tend to be less expensive.

There is also a good chance that consumers will be able to purchase plans that better meet their needs with a-la-carte coverage. Such coverage might allow consumers to exclude coverage for pre-existing conditions that are not life threatening; thus reducing their premium expenses.

On the other hand, offering tax credits for the purchase of health insurance could be very bad for consumers and taxpayers alike. Under Obamacare, only plans that are purchased through a government-run exchange are eligible for taxpayer subsidies. But the GOP plan would offer tax credits to everyone who purchases insurance. For many, those subsidies would be substantially less than they currently receive. But by offering tax credits to everyone, the GOP plan could be a lose-lose proposition; increasing insurance costs for many and increasing the cost to taxpayers at the same time.

Finally, the ability to purchase insurance across state lines may have a short term impact that reduces prices for some buyers. But long term, we think it will do nothing to drive down prices.

Interstate health insurance - How insurance companies are like big banks.

Over the past few months, GOP leadership has repeatedly stated its desire to allow consumers to purchase insurance plans offered in other states. That sounds great until you realize that we've been through this process once before. Not for health insurance, but rather with big banks.

If you are a millennial, you don't remember a time when you couldn't go across state lines to find a branch of your bank. But if you are a little older, you certainly remember that. Bank deregulation was sold to consumers in much the same way as the GOP is trying to sell interstate health insurance. It was supposed to reduce consumer costs by allowing banks to scale their businesses and reduce their costs. Those savings would be passed down to consumers.

Instead, it lead to a wave of bank consolidations. The end result has been reduced competition and increased consumer costs while bank profits have soared.

There is nothing in the current bill that would prevent the same thing from happening in the health insurance industry. On the other hand, there is already evidence that the same type of consolidation would occur rapidly. That because there are already large companies that operate insurance companies in multiple states. From their perspective, consolidation would have the immediate impact of reducing costs. But it's unlikely that any of the savings they realize would be passed on to consumers.

The writing is already on the wall here but unfortunately, congress seems to be ignoring it.

Free market principles are missing completely

If you listen to the members of congress who are pushing the new bill, one thing you will repeatedly hear is that allowing the interstate purchase of health insurance will drive costs down because it allows for a free market. Actually, it doesn't.

If there is any single thing that can drive down costs in any market, it is competitive pricing. Unfortunately, this bill doesn't address that issue at all. While you may be able to look at insurance plans and determine which plan is the best value, you still have absolutely no idea what service providers (hospitals, labs and doctors) charge for their services.

The only way to drive down costs is by getting competitive pricing from the actual service providers. If the goal of this legislation is to make insurance more affordable and to reduce the costs of healthcare, then it needs to include language that forces providers to publish their rates for service. And these published rates need to be easily accessible to the general public.

This would change the way that insurance is purchased and used. If you think about it, healthcare is the only industry that we know of that charges consumers based on whatever their health insurance plan will allow rather than having set fees. And people without health insurance are charged a different rate than those who have it. For lack of a better term, healthcare providers base their prices on how much money they can extort from you.

Where do we go from here?

It's too early to tell if congress will actually pass the bill introduced yesterday but there is already opposition to it from both the left and the right. One key group, the Freedom Caucus, which is made up of conservative Republicans has already come out in opposition. Without major changes, if that group continues to oppose the legislation it isn't likely to move forward.

In the end, whatever happens is going to leave a lot of people unhappy. As previously stated, forcing providers to publish their prices could be the one thing that would reduce costs for everyone and which really shouldn't be objectionable to either side. It's ironic that an area where both sides may be able to see eye to eye isn't even mentioned.

With some luck and a lot of hard work we're hopeful that there will be substantial modifications made to the bill before it reaches a final vote.

byJim Malmberg

Note: When posting a comment, please sign-in first if you want a response. If you are not registered, click here. Registration is easy and free.

Follow me on Twitter:

Follow ACCESS