

# Obamacare Failed Because It Made More Sense to Remain Uninsured

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Now-former President Barack Obama's legacy is defined by the passage of the Affordable Care Act, which is more commonly referred to as Obamacare. Obamacare completely changed the way consumers shopped for health insurance and received medical care.

Generally speaking, since its approval, Obamacare hasn't been well liked. The Kaiser Family Foundation's Health Tracking Poll, which has measured consumer sentiment toward Obamacare on a near-monthly basis since its passage in March 2010, finds just a handful of months where the "favorable" views outnumber the "unfavorable."

Yet, in spite of its unpopularity, Obamacare succeeded in one of its core goals: to reduce the uninsured rate in the United States. According to the

Centers for Disease Control and Prevention, as of mid-2016 the uninsured rate, including Medicare enrollees, was just 8.9%. By comparison, the uninsured rate was 16% in the quarter preceding the rollout of Obamacare. The ability of Obamacare to drastically impact the uninsured rate can be attributed to the expansion of Medicaid programs in 31 states, as well as lower- and middle-income individuals and families gaining access to two key subsidies (the Advanced Premium Tax Credit and cost-sharing reductions) which made getting coverage and medical care more affordable.

However, Obamacare has not been without its failures -- and one in particular was absolutely crippling.

## **Obamacare has been unsustainable for insurers**

One area where Obamacare failed miserably, despite more than 20 million people gaining access to health coverage, was in sustainability. Out of the five largest health insurers in the country, three have substantially reduced their ACA plan coverage options in 2017, while a fourth has threatened to back away in 2018 if things don't improve.

Image source: Getty Images.

**UnitedHealth Group** (NYSE: UNH), the nation's largest health insurer, announced that it would be reducing its individual ACA plan offerings from 34 states in 2016 to just three this year. **Humana**(NYSE: HUM) and **Aetna** (NYSE: AET) followed with county-based coverage cuts of nearly 90% and 70%, respectively, after federal regulators moved to block their merger. And **Anthem** (NYSE: ANTM), which has been viewed as a major beneficiary of Obamacare, says that it could reduce its coverage in 2018 (assuming Obamacare were to survive till then) if its margins didn't improve. With unsustainable losses, three big insurers have already pulled back on their coverage, and in doing so, they reduced the number of plan options many consumers had to choose from.

Further hurting consumer choice was the failure of the risk corridor, a type of risk-pooling fund that was designed to be capitalized by overly profitable insurers, and would distribute funds to ACA insurers that were losing excessive amounts of money because they priced their premiums too low. Nearly \$2.9 billion was requested by money-losing insurers, but only \$362 million wound up being paid out. As a result, three-quarters of Obamacare's approved healthcare cooperatives had to shut their doors in 2016.

## **Healthy adults stayed on the sidelines**

Digging even deeper, the real issue with Obamacare and why the program wasn't sustainable for insurers was the lack of healthier young adult enrollment.

When the ACA was signed into law, one of the biggest changes was the mandate requiring insurers to accept all applicants, regardless of whether or not they had preexisting conditions. Prior to Obamacare, insurers could turn away people that they believed would be too costly to insure. Under Obamacare this is no longer the case, meaning insurers were hit by what's known as "adverse selection." In layman's terms, it means insurers saw a large influx of sicker enrollees when Obamacare began enrolling consumers in Oct. 2013.

On the flip side, the premium payments of healthier young adults were supposed to help counteract adverse selection. That, unfortunately, hasn't been the case, with young adult enrollment coming in well below expectations.

The grim reality of Obamacare is that healthy adults, many of whom didn't qualify for any premium subsidies, were never properly incentivized to buy health insurance, which made remaining uninsured more palatable.

## **It made sense to remain uninsured**

To begin with, the Shared Responsibility Payment, or SRP, failed to adequately represent the cost of annual insurance premiums. The SRP is the penalty consumers were required to pay if they chose not purchase health insurance, as required by the individual mandate.

In 2014, the SRP averaged about \$150 per uninsured person, according to **H&R Block**. In 2016, where the SRP increased to the greater of \$695 or 2.5% of your modified adjusted gross income, the Kaiser Family Foundation estimated an impact of \$969 per uninsured household. However, a \$969 penalty is no match for the average annual cost of a bronze-tier plan, which has the lowest premium on the ACA exchange. According to HealthPocket, the average bronze plan premium was \$257.68 in 2016 for a 30-year-old, or about \$3,092 a year. The average healthy adult could have saved more than \$2,100 by remaining uninsured on a static basis, and probably well over \$1,000 even if they qualified for a health premium deduction when filing their taxes.

But it wasn't just the lack of correlation between the SRP and premium costs that kept healthier adults on the sidelines. Should you actually need to head to the doctor, rising deductible costs meant sizable out-of-pocket expenses before your health coverage really kicked in. The average deductible for an individual bronze plan in 2016 was \$5,731. Think about this for a moment: If you're a healthy adult who purchased a bronze plan, you could have to shell out \$3,092 in premiums and \$5,731 in deductibles before your insurer would step in and begin covering your medical expenses.

What's more, because hospitals and medical offices dislike writing off uncollected revenue, they'll often give discounts to uninsured consumers that'll pay in full or up front for services. There simply wasn't a strong enough incentive to coerce healthy young people to enroll, which ultimately doomed Obamacare.

The biggest challenge that lies ahead for President Trump and the Republican Congress is going to be finding a way to encourage healthy adults to enroll in

health insurance without using a penalty for "encouragement." If Trump is interested in keeping the clause requiring insurers to accept all applicants, then not having a dangling carrot to coerce enrollment could lead to failure once again.

Suffice it to say, the future of healthcare in America is once again up in the air.

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