The Republican Healthcare Plan that K Street Wrote

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In all the discussion of the new Republican health care plan, the answer to one crucial question remains obscure: Who is this bill crafted to benefit?

In order to benefit individuals, a plan would have to focus on choice, competition, flexibility – the things that allow people to purchase what best suits their needs. Enter the next act in the health care reform drama – Paul Ryan's "American Health Care Act" (AHCA for short). Republicans believe in free markets, right? So clearly the fundamental underpinnings of a Republican-designed health care plan will focus on freedom and individual choice, right? Uh … right?

A close look at the AHCA reveals a different operating philosophy, one more tied to preserving the status quo and appeasing industry interests than to improving cost of care, and choice for individuals. Put more simply, Paul Ryan's Obamacare substitute is fundamentally geared toward keeping a stable customer base for insurers and encouraging universal insurance coverage rather than toward enabling a free market for health care.

Remember, when Obamacare was being debated, it was touted as the answer for people who lacked "access" to health care, and it was going to give this access by making health insurance more "affordable." Thus, Obamacare's official name: the Patient Protection and *Affordable* Care Act.

Yet, as has been well documented, the insurance industry was a looming presence in the room as the law was drafted, and in the end many of the big insurers supported its passage. And why not? They got a guaranteed expansion of their customer base (via the mandates), built-in bailouts for a few years (the risk corridors), and more protections against other competing health care delivery methods like health savings accounts (HSA).

If the law worked as planned, the new (unwilling) customers would more than make up for the burdensome regulations, which had the bonus effect of making the big insurers harder to compete with anyways!

You can't blame insurers for acting in their own self-interest. Democrats under Obama were going to pass some major health care overhaul, and insurers got involved to make sure the deal screwed them as little as possible (and, maybe they could get a silver lining in there, too). This is how things work in a heavily regulated economy – the big players in the industry get together and spend a ton of money on lobbying to make sure the system works to their advantage. Or, at least, to their competitors' disadvantage.

Whether the insurers were actively present in the drafting of this new bill or whether its authors were simply too afraid of political fallout to challenge the status quo, the AHCA continues in the same direction as Obamacare. The first evidence of this deference to industry is how the tax credits at the AHCA's core are allowed to be used – for insurance only.

These refundable credits (meaning that if you don't earn enough to owe any taxes, you still get a payment from the IRS) are only allowed to be used to purchase a third-party payment plan (and, of course, the government gets to define what constitutes an acceptable level of insurance).

This is, as the Cato Institute's Michael Cannon has been pointing out for years, a "soft mandate" on the purchase of government-approved insurance. If you buy the kind of product the government approves of, you get rewarded by the tax credit. If you choose some other way to buy health care, you're out of luck, and your tax dollars will go to subsidize other folks who choose to buy the insurance that the government wants you to buy.

Senator Rand Paul, R-Ky., (A, 93%) and Congressman Mark Sanford, R-S.C. (A, 90%) have a plan that lets you stow money you'd normally pay the government in payroll taxes in a wide-open health savings account. You could use this money to buy whatever level of health insurance you want on the individual market; you could use it to pay for preventative care such as gym memberships and holistic medicine. Under this plan, you have options. But that level of freedom is anathema to most politicians, and is certainly a danger in the eyes of health industry lobbyists.

But, the Republican leaders will tell you breathlessly, the AHCA *does* expand HSAs, and those let you keep more of your own money for health care! And so it does … a little. The AHCA repeals Obamacare's restrictions on how much you can contribute to an HSA. But lest you labor under the illusion that you can save and spend on health care as you see fit, HSA funds can still not be used toward purchasing health insurance, and the government still strongly restricts what else you can use the money for.

Under the American Health Care Act's structure, health savings accounts exist merely for you to save enough money to pay some of the deductible … when you do have to use the insurance plan that they are nudging you toward buying … with your totally voluntary tax credit.

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Then there's the penalty for failing to keep continuous insurance coverage. If that sounds kind of like Obamacare's individual mandate, that's because it kinda is. The only difference is that you can opt out of insurance entirely and not get fined for that, but if you're uninsured and choose to buy a plan, insurers are *mandated* to plug you with a 30 percent premium surcharge. Not that insurers are likely to complain, since it appears that they get to pocket that money.

Now, it actually makes some sense for insurers to do something like this, in order to discourage "free riders" who only bother to purchase insurance coverage after they've already gotten sick. There is no reason for such a penalty to be mandated by law, however, except as another technocratic nudge to push people into buying an insurance plan. This new "baby individual mandate" is perhaps the single most damning bit of proof of the influence the insurers had over the crafting of the AHCA.

Politicians are loath to disrupt the status quo, because it would mean some people might lose their current coverage. There might be turbulence in the insurance markets, and some companies might be harmed and some individuals might not get to keep the coverage they have now. And turbulence is bad for politicians. Better not to rock the boat — even if that means choosing the well-being of insurance companies over the freedom of Americans to choose for themselves.