House GOP Leadership Gives ObamaCare-Forever Bill a Touch-Up Job

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Responding to conservative protests that the American Health Care Act would immortalize ObamaCare rather than repeal it, the House Republican leadership has announced several amendments. (See my initial analysis of the bill here, and my analysis of the Congressional Budget Office score).

The amendments do not even come close to fixing the problems with this fatally flawed bill. Indeed, by expanding the AHCA's tax-credit entitlement, it will make the bill resemble ObamaCare even more.

ObamaCare's Medicaid Expansion

Original AHCA provisions:

As introduced, the AHCA includes language that supposedly repeals ObamaCare's expansion of Medicaid to able-bodied, childless adults. In fact, it would expand the Medicaid expansion and make it permanent.

The original bill would have allowed the 19 non-participating states to implement the expansion until 2020, allowed participating states to expand enrollment until 2020, and would have kept paying states the enhanced, 90 percent federal "match" for each expansion enrollee until that enrollee disenrolled. Expansion advocates in those 19 states hailed the bill for *removing* obstacles to those states implementing the expansion.

The bill thus would have repealed the Medicaid expansion in name only. By 2020, there would have been so many more Medicaid expansion states and enrollees, that Congress would rescind the repeal and keep the expansion in perpetuity.

Amendment:

The amendment would prevent the 19 states that have not implemented the expansion from doing so. This is a welcome change—but it is not nearly sufficient.

Even with this change, there would more Medicaid-expansion enrollees *after* "repeal" than before. The 31 expansion states could keep adding new enrollees to the expansion until 2020, and keep receiving the enhanced, 90 percent federal "match" for those enrollees after 2020. The AHCA would still reward state officials who did the wrong thing (expanding Medicaid) and punish state officials who did the right thing (refused to implement the expansion). The bill would still create increased pressure on Congress to rescind this "repeal" before 2020.

The amendment would allow states to impose work requirements for able-bodied Medicaid enrollees. Again, this is a welcome change, but not nearly sufficient.

Work requirements could reduce dependence on Medicaid, reduce Medicaid spending, and reduce pressure for Congress to preserve the expansion. Yet work requirements are only (politically) feasible for able-bodied adults. And the states where work requirements are most needed—the 31 states that have implemented the Medicaid expansion—are the least likely to impose a work requirement. Why would they? States that use work requirements to help Medicaid-expansion enrollees achieve financial independence would see only 10 percent of the savings. The other 90 percent goes to Washington. The amendment's optional work requirements are a fig-leaf proposal that does little if anything to improve the AHCA.

Medicaid "Reforms"

Original AHCA provisions:

Under current law, the federal government provides unlimited matching grants to states for their Medicaid programs. For every dollar a state spends on its "old" Medicaid program, the federal government gives the state from $1 to $3. For every dollar a state spends on ObamaCare's Medicaid expansion, the federal government generally will give the state $9. These provisions create incentives for states to expand Medicaid to able-bodied adults and to cut care for more vulnerable residents—children, expectant mothers, the aged, blind, and disabled.

As introduced, the AHCA would change how the federal government funds the "old" Medicaid program in a way that likewise encourages states to expand the program to able-bodied adults and to cut care for the disabled and other vulnerable residents.

The AHCA would convert the current unlimited matching-grant system to a system where states can receive unlimited grants so long as they keep expanding eligibility and enrolling more people in Medicaid.

States would continue to receive matching federal dollars for every dollar they spend until federal grants reach a variable "cap." Beyond that cap, states get no more money from the feds. But the cap rises if states expand enrollment.

As a result, when states approach or exceed the cap, they will have two choices. They can expand enrollment (which allows the state to continue receiving federal matching dollars) or they can cut benefits and provider payments. The AHCA thus mimics the Medicaid expansion's

incentives to expand enrollment among able-bodied adults (who cost the state relatively little) and to cut care to vulnerable populations. Under the ACHA, cutting spending for vulnerable patients by $1 saves the state $1, as opposed to an average $0.43 under the current system.

The AHCA would give states the option of a block grant—a fixed federal payment, rather than matching grants. But making block grants an option assures higher federal spending, since each state will take whichever option maximizes the federal contribution to their programs.

Amendments:

The amendments would increase the rate of growth of the "cap" with respect to elderly and disabled enrollees. This change would increase federal spending on those groups, but do nothing to change the perverse incentives noted above.

Tax Provisions

Original AHCA provisions:

As introduced, the AHCA preserves much of ObamaCare's entitlement spending by reshaping its subsidies for private health insurance. ObamaCare offers "refundable" tax credits for health insurance that are based on income. The "refundable" part means that these tax credits are mostly government outlays, not tax reduction. ObamaCare's "tax credits" are 94 percent government spending.

The AHCA would convert those tax credits to smaller credits based on age. Crudely put, the AHCA would shift the benefits from ObamaCare's tax credits from low-income people in the individual market to higher-income people in the individual market. At the same time, the AHCA would allow insurers to reduce premiums for younger enrollees and increase premiums for older enrollees. The combination of these changes means many older and lower-income enrollees will have to pay more out of pocket for less coverage.

The AHCA would have allowed tax-credit recipients who purchased coverage that cost less than the amount of the credit to deposit the balance in a tax-free health savings account (HSA).

ObamaCare increased the threshold above which taxpayers can deduct their medical expenses from 7.5 percent to 10 percent of income. This was literally a tax on the poor and the sick. As introduced, the AHCA would have reduced the threshold back to 7.5 percent.

Amendments:

The amendments provide additional funding for refundable tax credits, but punt to the Senate the task of devising a way to spend the extra money on low-income, near-elderly taxpayers. They would eliminate the "spillover" option of depositing the balance of one's tax credit into an HSA. And they would further reduce the threshold above which taxpayers may deduct medical expenses to 5.8 percent of income.

These changes are cosmetic. They do not alter the fact that the CBO projects the AHCA will cause average premiums to rise by 20 percent. And they do not address the root problem of excessive health care prices.

Expanding the tax credits simply throws even more federal dollars after unaffordable care. Subsidizing third-party payment, as tax credits do, makes health care less affordable, not more. Eliminating the "spillover" option further subsidizes third-party payment by guaranteeing tax-credit recipients will buy coverage than they consider desirable. Reducing the threshold for medical deductions might move in the direction of tax neutrality between direct payment and third-party payment, but only negligibly.

In each case, Congress would do more to make medical care affordable by using those resources to expand tax-free health savings accounts (HSAs).

Conclusion

Indeed, all the changes made by these amendments are cosmetic. When the House GOP leadership unveiled the American Health Care Act, I wrote that it "merely applies a new coat of paint to a building that Republicans themselves have already condemned." All these amendments do is paint the shutters a different color. Even with these amendments, the AHCA would be worse than doing nothing.

Some conservatives will like that the amendments would eliminate ObamaCare's taxes (except the Cadillac tax) one year earlier than the original bill. Yet because the AHCA gets the *policy* wrong, it sets the stage for higher federal spending, which will create pressure for higher taxes in the future. If conservatives want the AHCA's tax cuts to stick, they need to revamp the health care provisions drastically.

To make those tax cuts stick, Republicans need to improve health care. To improve health care, Republicans need to bring premiums down immediately by fulfilling President Trump's promise to repeal ObamaCare in full.