How the government ruined health care for those who need it most

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If you develop an expensive chronic illness, you might think the Affordable Care Act (ACA) will protect you. Instead, you're likely to end up with subpar coverage or no coverage at all for your condition — a major problem the ACA was supposed to solve.

This problem has arisen, however, as an unintended consequence of the ACA — in particular, the way the law tries, misguidedly, to address a prior problem: that when people with employer-provided health insurance get sick and stay sick long enough to lose their jobs, they lose the health insurance that goes with those jobs.

As I described in a previous post ("How this screwy IRS policy kickstarted the American health care crisis"), people lose their health insurance when they lose their jobs because of the 1943 IRS decision to exempt employer-paid health insurance premiums from taxation. The Affordable Care Act addresses that problem not by eliminating that distortion in the tax code, but by intervening further. It addresses not the cause of the problem, but its symptoms. It imposes new mandates and restrictions that distort people's incentives in new ways. The result is that now many sick people are losing their insurance – or at least, adequate insurance – for a new reason.

Available and affordable health insurance for the sick

To (try to) make sure sick people can always get affordable insurance, the ACA forces insurers to accept all who apply, even if they are sick or have a preexisting condition. This is called "guaranteed issue." To make sure this insurance is affordable, the act forbids insurers to charge sick people more than those who are not sick. This is called "community rating." Sounds great, right?

These two policies together give people an incentive to buy health "insurance" only when they get sick. After all, why buy it now when you are healthy if you can always buy it later if you get sick? But having only sick people buy health insurance would defeat its whole purpose, which is to spread the risk of illness across many people who can't know, when they first buy the insurance, who will get sick and who won't. In a free market for health insurance, most people

would naturally buy a guaranteed renewable policy when they are young and healthy; the low premiums paid by all would be sufficient to cover the costs of the relatively few who get sick, thereby spreading the risk over most of the population. (This is how term life insurance works.)

Those who drafted the ACA knew they had to counter this incentive to sign up only after getting sick; they had to force healthy people to sign up. They did so through "employer mandates," which require the employers of (most) workers to offer health insurance, and through the "individual mandate," which requires individuals lacking employer-provided health insurance to buy insurance themselves. The act imposed financial penalties for not complying with these mandates.

In addition, recognizing that low-income people who don't get insurance from their employers might not be able to comply with the individual mandate, the ACA provides premium subsidies for (some) lower-income people. And recognizing that the total premiums insurance companies receive might not be sufficient to cover their costs of insuring a lot of sick people, the ACA provides a number of subsidies to insurance companies.

Do these mandates and subsidies make sure people can get the insurance they need?

No. At least not for people with certain diseases.

Why mandates and subsidies are failing the sick

Even with the mandates and with the subsidies added to premiums, health insurance companies simply do not collect enough to cover the costs incurred by people with certain chronic diseases that are expensive to treat. The Cato Institute's Michael Cannon explains the problem, drawing from a study by researchers at Harvard and the University of Texas at Austin. The researchers find that patients with multiple sclerosis, for example, typically file claims for about $61,000 worth of treatments, while the premiums they pay plus the subsidies insurers receive total about $47,000. That means insurers lose about $14,000 on every MS patient who enrolls in their plans.

Insurers that offer the best MS coverage will predictably attract more and more MS patients, but that will mean they suffer more and more losses. What incentive does that give insurers?

It gives them an incentive to discourage MS patients from signing up with them by *reducing* the quality and comprehensiveness of the coverage they offer, or by not offering any coverage at all. In Cannon's words, "Insurers that offer high-quality coverage either leave the market, as many have, or slash their coverage.… The result is lower-quality coverage — for MS, rheumatoid arthritis, infertility and other expensive conditions."

In short, while Obamacare was initially hailed as a godsend to people with chronic illnesses who couldn't get coverage at all, sick people are now losing the insurance they need, because insurers cannot afford to offer it.

That sick people lose their health insurance is tragic. It is also avoidable. We need to ditch the Rube Goldberg systems of interventions that politicians have imposed — special tax treatment, guaranteed issue, community rating, employer mandates, individual mandates, and subsidies of various kinds — and let free enterprise work. That's the goal toward which we should strive. That's the prescription for affordable health insurance.