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The A.P. is missing the real story concerning Obamacare and smoking

By: Paul Mulshine – July 10, 2013

The Associated press has an article on a glitch in Obamacare that will make it impossible to impose a proposed 50 percent hike in premiums on smokers.

The article is fine as far as it goes, but the writer misses a key point: Even without the glitch, most smokers will be exempt from the individual mandate to purchase insurance.

That's because the 50 percent surcharge will likely hike their premiums above 8 percent of their annual income, thus exempting them from Obamacare's individual mandate.

In fact, just about anyone who wants to escape the mandate could simply pretend to be a smoker and their premiums would rise to the point they wouldn't have to buy insurance at all.

I learned that all from Michael Cannon of the free-market Cato Institute back in March and included it in this column:

In September 2009, New York Sen. Chuck Schumer introduced an amendment to the Affordable Care Act that would exempt from the individual mandate anyone whose premiums exceed 8 percent of annual income.

At the time, that looked like a lot of money. But as the bill progressed, Schumer's fellow Democrats larded it up with many other mandates. The cost of a typical policy now hovers around 8 percent for those who don't qualify for subsidies on those insurance exchanges that start up next year. The smoking surcharge would put most people over the limit.

"If you want to avoid the tax, just say, 'I'm a smoker,'" Cannon said. "They will charge you a higher premium and then you will not pay any penalty."

Bad as that is for Obamacare, it gets worse. Cannon directed me to an online calculator of Obamacare premiums and after running some numbers I came to this conclusion:

Let's assume that 30-year-old makes \$50,000 a year. He's exactly the sort of "free rider" the mandate was designed to bring into the system. But the \$4,128-per-year premium he'd be charged is already in excess of 8 percent even if he doesn't lie about smoking.

Let's imagine a family of four headed by a 50-year-old with an annual income of \$250,000. They can certainly afford the \$20,229 premium they would be charged according to the Kaiser Health Insurance Subsidy Calculator. But the premium exceeds 8 percent of their annual income.

When you run the figures through that calculator, you quickly find out that the people who fall below that 8 percent ceiling are almost entirely people who will be getting big subsidies from the government. Theoretically, the cost of those subsidies would be offset by premiums from wealthier people. But thanks to Schumer's little-noticed amendment, those people can opt out of Obamacare — at least until they get sick.

Do the math and it adds up to financial disaster for those insurance exchanges.

That's the real glitch in Obamacare, and it's a fatal one.

As long as that 8 percent ceiling exists, the only people who will be mandated to buy insurance will be those so poor that most of their premiums will be paid by the government.

As for middle-class people, they will be exempt from the mandate. But without their premiums, the system won't be able to cover those who are less affluent.

I fail to understand why my fellow members of the media have not discovered this yet. But that discovery is long overdue.

The AP writer was aware of that online calculator and even used it:

Premiums for a standard "silver" insurance plan would be about \$9,000 a year for a 64-year-old non-smoker, according to the online Kaiser Health Reform Subsidy Calculator. That's before any tax credits, available on a sliding scale based on income.

For a smoker of the same age, the full 50 percent penalty would add more than \$4,500 to the cost of the policy, bringing it to nearly \$13,600. And new tax credits available to help pay premiums cannot be used to offset the penalty.

However, he failed to do his homework on that 8 percent ceiling. If he had, he would have realized that unless that hypothetical smoker had an income of \$170,000 a year, he would be exempt from the mandate.

Imagine that smoker makes a more realistic \$60,000 a year. He's exempt from any premium above \$4,800. Or in other words, he's exempt even if he doesn't smoke. That is the real story here. And everyone covering Obamacare seems to be missing it.

But as of Jan. 1, a whole lot of people will be finding out that the individual mandate to buy health insurance is not really a mandate at all. And when you consider that the individual mandate kicks in next year but the employer mandate doesn't kick in till the following year, this flaw should become apparent quite soon.