CA Obamacare Lead Will Hurt

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By JOHN SEILER

The U.S. House of Representatives, now controlled by Republicans, voted to repeal the Patient Protection and Affordable Care Act of 2010, commonly called Obamacare. The U.S Senate, still controlled by Democrats, will not follow suit. And President Obama would veto any attempt to pull the plug on what he considers a major achievement of his administration.

Which for now throws the controversy and implementation of Obamacare back to the states. The number of states challenging the constitutionality of Obamacare has risen to 27.

Meanwhile, California, after the wipeout of even moderate Republicans in the November election, is leading the way toward the implementation of Obamacare. Reported Politico:

California's Health and Human Services secretary, Diana Dooley, had dinner last week with Joel Ario, the Obama administration's lead on health exchanges, and discussed the state's progress on implementing the new law.

Ario complimented Dooley, telling her that the Obama administration saw California as a "pace car" on health reform. Dooley offered a slightly different perspective.

"I told him we don't want to be a pace car state," Dooley told POLITICO in an interview after just one week in office. "We want to be the lead car."

Dooley's confidence is a good indication of California's attitude toward health reform these days. First out of the gate on setting up a health benefits exchange, the Golden State is eager to blaze a trail after its numerous state attempts at health reform have failed.

The enthusiasm is a little overblown. The California actions "are not going to affect Obamacare very much at all," John R. Graham told me; he's director of health care studies at the Pacific Research Institute, CalWatchDog.com's parent institute, and author of The U.S. Index of Health Ownership. "It's just approving a board." He distinguished between two major parts of Obamacare:

1) Health insurance exchanges, in which those not insured could obtain health insurance. The bureaucracy of that is what California is setting up. "There will be some operating costs that the state will bear," Graham said, but almost all of the costs — expected to be $500 billion nationally between 2014 and 2019 — will be borne by the federal government.

2) An expansion of Medicaid, health care for those who can't afford insurance, which in California is called Medi-Cal. It would put about 32 million more Americans on Medicaid.

At least that's the plan.

Early costs

Michael Tanner told me that Obamacare's mandates "already have added 9 to 12 percent to the costs of insurance policies" in America, including California; he's a senior fellow with the Cato Institute and coauthor of Healthy Competition: What's Holding Back Health Care and How to Free It. So the mandates are another drag on the national and state economies as the country tries to pull itself up from the Great Recession.

The added costs to insurance policies also are retarding job growth because new hires for most jobs get medical insurance. In December 2010, the U.S. unemployment rate rose to 9.8 percent. The California rate rose to 12.5 percent in December, second only to Nevada's 14.5 percent; California's rate was above 12 percent all year.

However, Tanner had the same take as Graham on the new state bureaucracy. Tanner said that California's "going it alone" in implementing Obamacare "probably won't reduce competitiveness" with other states that aren't so enthusiastic about the program because the California actions are "paper shuffling." In objecting to Obamacare, he said, "the other states are sending a message, which California is not." The messages aren't policy; at least not yet.

In the meanwhile, three years is a lot of time. In 2012, Republicans could end up winning back the Senate and the White House, while keeping the House, giving them the power to repeal Obamacare outright, or at least to modify it greatly. But Democrats might retain control in the Senate even though they must defend a larger number of seats than Republicans and Obama himself might be re-elected.

Long-term costs

Both Graham and Tanner pointed to a new Cato Institute study out this month, "Estimating ObamaCare's Effect on State Medicaid Expenditure Growth: A Study of Five Most Populous U.S. States," by Jagadeesh Gokhale, a senior fellow at the institute. Before Obamacare is instituted, he found:

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However, for after Obamacare's implementation, he found a difference among these states concerning "old eligibles," people already eligible for Medicaid:

On a post-ObamaCare basis, the projected cost increase is small for California — just 4.5 percentage points in cumulative costs during 2014-23 compared to the pre-ObamaCare ten-year total cost projection. That's because enrollment rates among "old-eligibles" are already high in California on a pre-ObamaCare basis, implying little scope for additional enrollment increases from the introduction of ObamaCare.

Put another way, California's Medicaid system — Medi-Cal — already is so generous that the Obamacare mandates won't increase costs much. The expected increase in "old eligibles" in 2020 from Obamacare is just 1.9 percent in California, compared to 21.2 percent in Illinois and 16.8 percent in New York. For 2030, the increase in "old eligibles" is expected to be 2.7 percent in California, 23.3 percent in Illinois and 23.5 percent in New York.

Worse for those two Rust Belt states, the U.S. Census projects low population growth, meaning the base for supporting the new Medicaid recipients will not increase. By contrast, California's continued population growth of about 10 percent a decade — currently the national average — will help it manage the new costs.

Budget factors

California, of course, has the worst state budget deficit in the country, at $25 billion. Until the 2014 full implementation of Obamacare, as we've seen, the budget won't be much affected. But given that Gov. Jerry Brown has asked for a five-year tax increase to cover future budget problems, it's worth looking ahead. How will the state's budget be affected by Obamacare?

The Cato study projects that, by 2030, general revenue Medicaid costs will increase 4.5 percent in California. But compare that to our Sun Belt competitors, where costs will rise 23.1 percent in Florida and 20.9 percent in Texas. And it's even worse for the Rust Belt states: New York's general revenue costs will rise 35.6 percent and Illinois', 36.9.

According to the Cato study, "This result arises because the potential under Obamacare for additional enrollments – relative to enrollments projected by excluding Obamacare — are exhausted by the mid-2020s for California, Florida, and Texas."

California also has a relatively young population and higher birth rate. Young folks, obviously, are healthier on average than others, and so require less care. Part of the controversy over Obamacare is that it forces everyone into getting health insurance, even young people who currently skip insurance, figuring they're unlikely to get sick. When the young are forced into the system, they effectively will be forced to pay for the care of those older than them.

Projections and paperwork

It's worth remembering that past government projections for medical costs have not been very accurate. The original Medicare program, after being set up in 1965, saw federal expenditures double every four years between 1965 and 1980.

According to this summary, in 1965 the House Ways and Means Committee estimated that, by 1990, Medicare would cost only $9 billion. The real cost in 1990: $67 billion, or 7.4 times as much. Moreover:

In 1987, Congress projected that Medicaid – the joint federal-state health care program for the poor – would make special relief payments to hospitals of less than $1 billion in 1992. Actual cost: $17 billion.

Then there's the paperwork. "The bill itself is 2,409 pages, to which 153 pages were added to iron out kinks in the Senate bill," writes Sally Pipes in The Truth About Obamacare; she is PRI's president and CEO, and Taube Fellow in Health Care Studies. "These 2,562 pages are almost exactly double the length of Vintage Classics' 1,296-page edition of War and Peace. At least Tolstoy offered his readers a plot."

Graham added that, in less than a year since passage, federal bureaucracies implementing Obamacare "already have added more than 6,000 pages" of new regulations. "It just gets worse and worse."

So, nobody really knows how much Obamacare really will cost businesses and citizens in direct costs, or the costs of meeting the demands of the paperwork of a large, sclerotic bureaucracy. If the history of federal welfare programs is any guide, the costs will be multiples of any current estimates.

Business uncertainty

The real problem with Obamacare in California is that it multiplies uncertainty businesses. Already, businesses don't know what their tax levels will be. Gov. Brown is seeking to put a five-year tax increase on a special June election. Nobody knows how voters will respond — if the tax increase even makes it to a vote of the people. President Obama just signed a two-year extension of the Bush tax cuts. But what will tax rates be after that?

And nobody knows to what extent AB32 actually will be implemented by the California Air Resources Board, in particular its new cap-and-trade program.

Although Apple, Google, Facebook and other surging California high-tech companies hardly will be affected by such certainty, the little guys — the small businesses that create most jobs — will be most affected by the multiplying business uncertainties.

John Seiler is a reporter and analyst for CalWatchDog.com. His email: writejohnseiler@gmail.com.