This is What an Obamacare Death Spiral Looks like

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The Obama administration has announced that premium prices under the Affordable Care Act will spike 22% in 2017.

This news comes just days before open enrollment begins on November 1st. The Obama administration has predicted a 9% uptick in enrollees this season, which would amount to a total of 13.8 million new people on the exchanges.

Critics of the law have been predicting its demise ever since it was signed in 2010. But as the nation's largest insurers including UnitedHealth (**UNH**), Humana (**HUM**) and Aetna (**AET**) pull out of the exchanges one-by-one to stem their financial blood loss, Americans are beginning to wonder whether the detractors have been right all along.

Condemnations of Obamacare are often saddled with talk of the illusive death spiral; the final demise of the Affordable Care Act. But how can Americans know whether it is actually occurring?

Here is what happens to a healthcare insurance market if it begins a death spiral.

Step 1: An Insurance Cost Structure is Implemented That Disregards Patient Risk

"A regulation is imposed that requires the charging of premiums for an insurance plan that is uniform regardless of risk, meaning someone's health status can't be taken into account," James Capretta, American Enterprise Institute resident fellow and former White House Office of Management and Budget director, tells FOXBusiness.com.

That step has occurred through the passage of the Affordable Care Act, which stipulates that insurers take all patients regardless of pre-existing conditions.

Step 2: Elevated Risk Patients Buy Plans in Disproportionate Numbers

"That [cost structure] creates an incentive for those who have self-knowledge of their own elevated risk to buy the product in heavier numbers than those who have a self-identified lower risk, who think the premiums are excessive relative to the risks they face," Capretta says.

Indeed, herein lies the problem with the Affordable Care Act; low-risk patients believe the program's costs outweigh the benefits.

Step 3: Healthy Patients Withdraw & Premiums Rise

"[The healthier patients] withdraw from the market and you go through a continual, annual process of that where the premium becomes increasingly less attractive to people because their perception of their own health risk falls well below the premium they're being asked to pay," notes Capretta.

This year premiums are expected to rise by amounts that vary state-to-state, from 1.3% in Rhode Island to 116% in Arizona. While the national average increase for the benchmark plan premium is 22%, the spike will be closer to 25% for those on the federal exchanges.

Step 4: The Spiral

"If you just pull a segment of the population out of the marketplace each year who self-identifies [as healthy], obviously the premium just keeps going up and up and up and up, and the people that are left in the market really become the highest risks," explains Capretta.

In this scenario, premiums will continually rise; healthy people continually drop out until all that is left in the market is a pool of the highest risk patients.

So is the current market in a death spiral?

According to Michael Tanner, Cato Institute senior fellow, that answer is yes.

"Enrollment is down, premiums are up, and companies are leaving the market," Tanner tells FOXBusiness.com. "Certainly, we don't know what the endgame is, but the symptoms of the death spiral are beginning to show themselves."

Capretta on the other hand repudiates talk of a death spiral; he thinks the government is providing enough subsidies to incentivize customers to continue to join the exchanges.

"I don't think we are in a death spiral. I do think the exchanges are financially distressed and there's some adverse selection going on, but I don't think it's likely to result in a full unwinding of the market because in this particular insurance market, there's such a large subsidization going on of a segment of the enrollees," he says.

Capretta believes stability in the marketplace depends on building up the subsidy and risk-protection structures, and of course, putting a larger emphasis on enrollment.

Tanner, who predicts enrollment will miss the administration's 13.8 million target, says the legislation is "unfixable."

"I think things are only going to get worse in the next couple of years…I think Obamacare is unfixable in its basic concept. We've got to move away from the proposals they're talking about…like the public option or more subsidies. They are just chasing their tail. They really need to deal with the fundamental problem which is a lack of transparency and cost control."

The Affordable Care Act has served as a pivotal talking point throughout this electoral season. Donald Trump has become quite fond of the mantra "repeal and replace," while Hillary Clinton has solidified her commitment to reforming the law, and perhaps even adding a public option. With palpable dissension among the leadership across party lines, it is clear that the future of the Affordable Care Act depends largely on the outcome on November 8th.