Why Replacing the ACA Has Republicans in a Tizzy

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Recently, President Trump correctly described health care policy making as “unbelievably complex”—although his comment that “nobody knew that” must have been a surprise to the many analysts and lawmakers who for decades have worked on health care reform.

Health care policy making is technically complex, of course. But it is also complex in that the president and Republicans seeking to replace the Affordable Care Act (ACA) face very difficult political and philosophical choices. It was evident from the internal backlash to the recent Republican House committee bills that there is a deep divide among Republicans on these choices.

Consider 3 such tough issues: deciding what coverage means, making hard choices about subsidies, and determining how to cover people with chronic illnesses.

What Does “Coverage” Mean?
A key metric in the ACA replace debate has been the number of people who are “insured” or “covered.” The true purpose of insurance is to protect people from ruinous costs, such as from a terrible accident or a chronic condition. However, most people in the United States think health insurance should also cover routine costs.

Therefore, an ACA exchange plan that costs hundreds of dollars in monthly premiums and has a deductible of perhaps several thousand dollars, may technically be good insurance, but many people think it is not meaningful “coverage” because it leaves them exposed to possibly hefty routine costs. Indeed, polling has shown people in the United States generally view the ACA favorably or unfavorably depending on whether their own premium and out-of-pocket costs have been rising—even if they are not actually in an ACA plan.

Trump responded to this public perception by pledging better coverage with cheaper premiums and lower deductibles for everyone. So Republicans are now struggling to find ways of accomplishing that promise.

One popular Republican proposal is to reduce insurance costs by paring back the “essential health benefits” that ACA exchange plans must provide—so people don’t have to pay for benefits they supposedly do not want. However, the ACA’s required benefits mostly cover what Americans consider basic insurance, such as hospital stays and prescription drugs, so there is little room for paring back. Meanwhile, eliminating more controversial benefits, such as birth control, would have little impact on insurance costs.

Another popular idea is permitting families to buy inexpensive insurance from anywhere in the country. That sounds like an easy cost-cutting measure, but it’s not. Insurance today is typically tied to local networks of physicians and hospitals; thus, an out-of-state plan might be cheaper but essentially inaccessible. Most likely, with reduced regulation, we would see cheap cash indemnity plans aimed at healthy individuals. However, if large numbers of healthy people in a state did buy such out-of-state plans, that would undermine the state’s insurance pool and push up the average cost for remaining enrollees.

Designing Subsidies
Both the supporters and the critics of the ACA accept that some level of subsidy is needed for many families to afford coverage. Here again, Republicans seeking to replace the ACA face some hard choices in how they would construct such subsidies.

Bringing down the general cost of coverage would require a large infusion of new money or retaining some ACA taxes. Without that, many people will have a hollow choice between unaffordable plans. However, the House bills triggered angry resistance from fiscal conservatives opposed to keeping even some ACA taxes.

Even putting that problem aside still leaves hard design choices. Many Republicans favor a broad tax deduction for health coverage. But a deduction is of no value to the nearly half of US individuals who pay no federal income tax, and the greatest benefit goes to higher-income households who least need a subsidy. For that reason, the House Republican leadership opted for an income-related tax credit that is “refundable”—meaning available to households that pay no income tax. Yet even if the proposed refundable income-related credit were reconfigured to be made adequate, many conservatives balk at the idea of refundability, arguing that it would be a new cash entitlement.

An existential problem for Republicans remains, however. If they refuse to subsidize millions of modest- and lower-income individuals to buy private insurance, the only way to honor the President’s pledge would be to provide public coverage.

How Should We Cover Sicker Individuals?
A commitment to adequate and affordable coverage for all also means deciding how to address people who develop chronic illness, especially when young, and then try to buy insurance. In a less-regulated market, these individuals are literally uninsurable at a price that even comparatively well-off people can afford—but somehow, their treatment must be paid for.

There are only 2 broad options to deal with this group. One way, adopted in the ACA, is to spread their high costs across the entire insured population by requiring plans to cover all risks and limiting the
range of premiums and deductibles insurers can charge. The problem with this approach is that premiums for younger, healthier individuals then become “artificially” high, making their purchase of coverage less economically attractive unless they receive generous subsidies. If these healthy people leave the insurance pool, such as by forgoing insurance, that raises the average cost of insuring those remaining in the pool.

The unpopular individual mandate penalty is meant to discourage this pattern (the House legislation explicitly repeals the mandate—but then adds back a penalty on people who wait to buy coverage until they are sick). Opting out is a particular problem in the ACA exchanges because healthier people can still obtain coverage in the less-regulated nonexchange individual market, making the exchange insurance pool more costly (a partial solution to this would be to merge the individual market with the exchange market, as has been done in Vermont and the District of Columbia).

The other way to cover people with high health care costs, embraced by the House legislation, is to fund states and hospitals to provide these individuals with extra services or place them in a separate subsidized insurance risk pool so their premiums are affordable. Subsidizing high-cost individuals in this separate way allows regular premiums to be lower for healthier individuals—making a mandate for coverage less necessary. Conservative analysts argue that carefully designed risk pools are an effective alternative to controlling premiums to cover expensive individuals, and can cover people “invisibly” and at reasonable cost. Some liberal analysts counter that the government cost would be too high for most Republicans to accept. But the bottom line is that a high-risk pool approach can only work if it is adequately funded.

These are just 3 of the many difficult issues Republicans have to deal with in designing an alternative to the ACA that adheres to Trump’s commitment to provide better and less expensive coverage. As my colleagues and I have pointed out, there are certainly ways to craft an alternative to the ACA that might appeal to many—though not all—Republicans. But that task is indeed complex, and requires a constructive consensus among Republicans that is currently lacking and may be unattainable.

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