



January 17, 2017

## The high political stakes surrounding U.S. healthcare reform

### Introduction

While the media focuses much of its attention on Trump's policies regarding Russia and trade, one domestic issue in particular has the potential to really define how the administration is viewed by the American public: healthcare reform.

Over the years, Obamacare, officially called the Affordable Care Act, has withstood more than 60 attempts by the Republicans to dismantle it. Funding for Obamacare was also at the centre of the two-week government shutdown in 2013. The difference now is that the Republicans' next vote against Obamacare will no longer be merely a symbolic gesture. For better or for worse, the task of actually governing means that the GOP will politically own any changes made to the healthcare system.

If Republicans are perceived to bungle healthcare reform, it would be much more difficult for them to advance other parts of their agenda. It could also determine their chances in the 2018 midterm congressional elections and even in the next presidential election four years from now.

### The impact of Obamacare

Obamacare was signed into law in 2010 and took effect in late 2013. It expanded insurance coverage by increasing the number of people under Medicaid and created exchanges to sell private insurance plans to Americans who did not have access to employer healthcare benefits.

**An additional 12 million people are now covered by Medicaid and another 11 million are enrolled in plans sold on the exchanges.** Millions more young people are also benefiting from the provision that lets them stay on their parents' healthcare plans until age 26. **The federal government announced last September that the percentage of Americans without insurance fell to an all-time low of 8.6%, down from 16% in 2010.**

Obamacare also put in place reforms that, over the longer term, aimed to make America's healthcare system more efficient. These include shifting from a fee-for-service model to one based on the value of the service provided and placing a greater emphasis on preventive care.

### However, Obamacare is also struggling with many challenges:

- Major insurers are abandoning the exchanges because the high percentage of enrollees with serious health problems is causing them to lose money. Nearly a third of all the counties in the United States now have only one insurer available for people looking to buy insurance from these exchanges, up from 7% in 2016.<sup>1</sup> Companies are prohibited from selling insurance across state lines.
- Insurance premiums on the exchanges soared 22% on average in 2017, though it is important to note that close to 80% of enrollees have been able to find plans for less than \$100 a month thanks to government tax credits.<sup>2</sup>
- There has been a significant rise in deductibles, which represents the amount people must pay out of pocket before their insurance coverage kicks in.

<sup>1</sup> "In Towns That Lost Most Obamacare Insurers, Rate Increases Still Competitive," Kaiser News, January 5, 2017

<sup>2</sup> "Obamacare," Bloomberg Quick Take, January 4, 2017

## Repealing Obamacare is the easy part

For the first time since 2007, Republicans will soon have control of both the executive and the legislative branches of government. They will hold 52 seats in the Senate against 48 for the Democrats. As for the House, the Republicans will have 239 seats against 219 for the Democrats.

Traditionally, the minority party in the Senate has resorted to filibustering in order to obstruct legislation. This is a process whereby the opponents of a measure require the other side to obtain a supermajority of 60 votes to pass a bill in the Senate. However, spending and taxation bills (via a process called reconciliation) cannot be filibustered.

This puts Republicans in a position to eliminate many components of Obamacare related to spending and taxation via a simple majority vote in Congress and Trump’s signature. This includes doing away with mandates requiring everyone to buy insurance or pay a fine (which escalates every year), federal subsidies for insurance policies and the expansion of Medicaid coverage.

## The political consequences of a repeal without an immediate replacement

However, replacing Obamacare is nowhere near as easy as repealing it. Given that a replacement would include elements not related to spending/taxation, it would require 60 votes to overcome a filibuster in the Senate. **In other words, the Republicans would need Democrat support to approve a new healthcare system.**

If the Republicans choose to repeal a healthcare system that more than 20 million Americans now depend on without having an immediate replacement available, they risk a major political backlash. For one thing, the press would be full of stories of people with cancer and other serious diseases at risk of losing their insurance. Even more insurers would abandon the Obamacare exchanges, and hospitals would face a wave of newly uninsured patients.

At least a half-dozen Republican senators have expressed doubts about the wisdom of dismantling Obamacare without having an immediate replacement ready. This group would be more than large enough to tip the balance in the Senate and block the repeal of Obamacare.

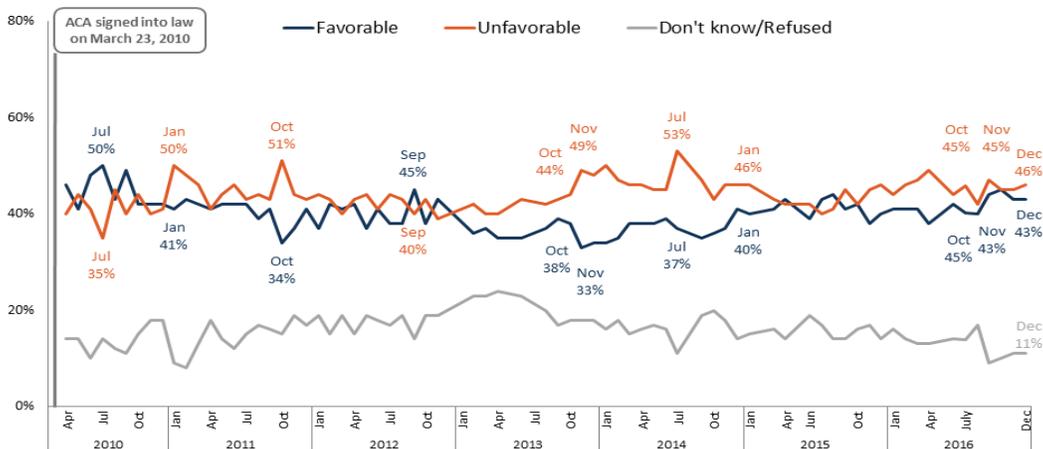
## The components of Obamacare are more popular than Obamacare itself

As the following chart illustrates, Americans are almost evenly split when it comes to where they stand on Obamacare.

Figure 6

### Public Divided on View of the Health Care Law

As you may know, a health reform bill was signed into law in 2010. Given what you know about the health reform law, do you have a generally favorable or generally unfavorable opinion of it?

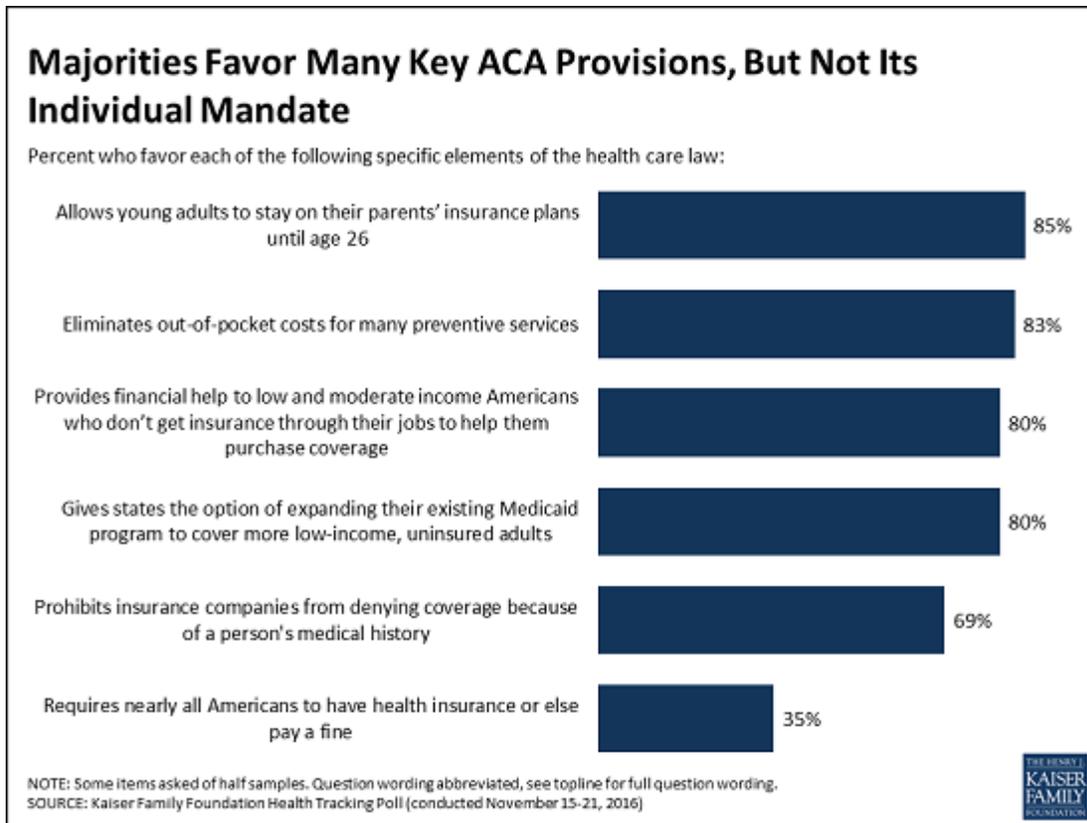


NOTE: Data not collected for Dec 2012, Jan 2013, May 2013, Jul 2013, Aug 2014, Feb 2015, May 2015, Jul 2015, and May 2016.  
SOURCE: Kaiser Family Foundation Health Tracking Polls



Source: “Kaiser Health Tracking Poll: Health Care Priorities for 2017,” Kaiser Family Foundation, January 6, 2017

Ironically, many people who oppose Obamacare actually support many of its components. These include provisions allowing children to remain on their parents' healthcare plans up to the age of 26 and prohibiting insurers from discriminating against patients with pre-existing medical conditions. **This means that any new Republican healthcare proposal will likely retain many of Obamacare's most popular provisions in order to avoid a political backlash.**



“After the Election, the Public Remains Sharply Divided on Future of the Affordable Care Act,” Kaiser Family Foundation, December 1, 2016

According to a December Kaiser Health Tracking Poll, 47% of Americans opposed the repeal of Obamacare altogether, 28% wanted to delay repeal until a replacement was found, and only 20% supported a repeal without an immediate replacement.

**Complicating matters even further for the Republicans, Trump won 12 of the 14 states with the largest percentage of non-elderly people with pre-existing health conditions.<sup>3</sup> Reducing their coverage would invite a major backlash from Trump's electoral base.**

Finally, it should be noted that harsh criticism of new social programs is an American tradition. In 1961, Ronald Reagan warned that if Medicare was passed into law (which occurred in 1965), Americans would lose their economic freedom. Needless to say, when Reagan became President in 1980, he did not abolish Medicare. This speaks to a central truth: Once a social benefit is granted, completely revoking it becomes very politically difficult.

## What are the Republicans' healthcare policies?

To date, Trump has not presented a comprehensive replacement plan. Some of his ideas include tax-free healthcare savings accounts, high-risk insurance pools for people with severe illnesses, permitting insurers to sell coverage across state lines, and allowing people to deduct their insurance premiums from their taxes.

The leader of the Congressional Republicans has made proposals of his own. Paul Ryan would like to institute tax credits that increase with age to help people buy insurance, and has proposed transferring control of Medicaid to the states. In theory, this would force states to cut costs because only a fixed amount of funding would be provided by the federal government.

<sup>3</sup> “Republicans Want to Kill Obamacare Without the Blame,” Bloomberg, January 4, 2017

Tom Price, Trump's nominee for Secretary of Health and Human Services, has also come out in favour of age-adjusted insurance tax credits for people without access to employer or government healthcare coverage. This six-term member of Congress and former orthopedic surgeon also supports giving people the choice to opt out of government programs such as Medicare and Medicaid in exchange for tax credits applicable towards the purchase of private coverage - an idea that Paul Ryan also support. Critics consider this proposal little more than a ploy to privatize Medicare and Medicaid - a policy position with very little public support.

**Recently, Trump and several Congressional Republicans promised to retain provisions of Obamacare guaranteeing affordable coverage for people with pre-existing medical conditions and allowing children to remain on family healthcare plans until age 26.** Thus essentially agreeing to the long held Democratic view that access to healthcare is a right.

However, they also pledged to eliminate the requirement that all individuals purchase health coverage or pay a fine. If this requirement is eliminated, many healthy people will likely forgo the expense of insurance. Not having these healthier individuals in the insurance pools to offset the higher costs of sicker enrollees would translate into significantly higher premiums and destabilize insurance markets.

## Conclusion

**Not surprisingly, President-Elect Trump has forcefully come out against repealing Obamacare without an immediate replacement.** He is well aware that this would trigger a political backlash from people fearful of losing their healthcare coverage, including from within his electoral base of working-class voters that in many cases have benefited from certain provisions of Obamacare. A reduction in insurance coverage would also hurt the disposable incomes of many Americans who have just undergone a long period of wage stagnation.

Given that Congressional Republicans and Trump are not close to agreeing on a comprehensive replacement plan for Obamacare and bungling healthcare reform would hurt their chances to advance other parts of their agenda, we believe the most likely scenario is that they will decide to put off dealing with Obamacare for a few months to concentrate on other legislation.

**Although the Republicans' replacement will no doubt involve major changes in the end, many elements of Obamacare will likely be retained, albeit under a different name (Trumpcare?).**

This means fears that hospitals would see a spike in newly uninsured patients unable to pay their bills are probably overblown. The pharmaceutical industry is not so lucky however. Indeed, in a recent press conference, Trump stated that the industry was "getting away with murder" by overcharging for drugs. This is why he supports allowing the federal government to negotiate the price it pays for medication on behalf of retirees under Medicare (as is the case in most other countries).<sup>4</sup> Even if no new legislation is passed, growing public anger in this regard could motivate the Trump administration to push for increased regulatory scrutiny of rising drug prices.

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<sup>4</sup> "Drug Stocks Tumble as Trump Singles Out Pharma Companies," The Financial Times, January 11, 2017

# Geopolitical Briefing

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