The Daily Dish

The Public Option in Obamacare

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | SEPTEMBER 20, 2016

According to a new study released by the Peterson Institute, Donald Trump's trade plan could push the United States into a recession and cost 5 million jobs. The Peterson Institute ran multiple computer simulations which showed what the impact of Trump's proposed tariffs on Mexico and China would be, and in each case they found Trump's policies would cause a trade war. The study also took a look at Hillary Clinton's trade position and found that her policies would also be economically harmful to the United States.

On Monday, House Speaker Paul Ryan stated that even if the government remains divided after the November election, he believes Republicans and Democrats could find common ground on poverty and tax reform legislation. Speaker Ryan told reporters that Republicans and Democrats came together earlier in 2016 and were able to make significant progress on infrastructure by passing the highway bill. Ryan said that in addition to poverty and tax reform legislation, he hopes to keep moving towards passing criminal justice reform.

Eakinomics: The Public Option in Obamacare

The Affordable Care Act, aka Obamacare, exchanges are melting down. Premiums are rising sharply. Compared to 2015-16, when the median change in the lowest-cost "silver plan" was an increase of 10.8 percent, the 2016-17 requests averaged an increase of 27 percent. In one of the worst cases, Tennessee will have 3 insurers on the exchange with premiums increasing between 44 and 62 percent, while Arizona will see average premium increases of 51 percent. At the same time, deductibles and out-of-pocket costs are increasing as well. Forty percent of individuals are now in high-deductible health plans; up from just 25 percent when the ACA was signed into law. The average deductible for individual coverage among silver plans in 2016 is $3,117, up 6 percent from 2015 and the the average out-of-pocket maximum is $6,110. Despite the price tag rising, exchange insurance is buying less access to providers. Three quarters of exchange plans will have narrow networks next year; up from 64 percent in 2016 and 55 percent in 2015.

It's hardly a pretty picture for participants. Unfortunately, its equally bad for insurers, so they are heading for the exits. In one of the most high-profile cases, United is leaving all but 3 of the 34 states that they offered coverage in this year and Aetna is exiting all but 4 states. The Kaiser Family Foundation estimates that 19 percent of enrollees (2.3 million people) next year will have only a single insurer to purchase coverage from (up from only 2 percent this year); 31 percent of counties will have a single insurer; and 60 percent of counties will likely have 2 or fewer insurers. Indeed, five entire states are likely to have a single insurer on the exchange: Alabama, Alaska, Oklahoma, South Carolina, and Wyoming.

Enter Hillary Clinton, who pledges to "Defend and expand the Affordable Care Act, which covers 20 million people. Hillary will stand up to Republican-led attacks on this landmark law—and build on its success to bring the promise of affordable health care to more people and make a 'public option' possible." What is the "public option" and how will it help?

The public option is simply a government-run insurance program. It would compete with the private insurers, but would not have a profit motive (presumably) and would have the backing of taxpayer money. If the goal is simply to have another insurance plan, the public option generates one by government fiat. But beyond that, it is not good news.

We have already seen the beta version of the public option — the ACA's Consumer Operated and Oriented Plans (COOPs). These were non-profit plans provided start-up funds by the taxpayer. And they have been a disaster. Of the 23 COOPs 17 have collapsed; 1 of the remaining co-ops is scaling back its operations. The desire to provide low premiums was in conflict with the medical costs of their customer base. The only difference with the public option is that it would have ongoing taxpayer funding. Large losses could be covered by the Treasury, at least for a while. But eventually, there would be pressure to cut back the benefits to stem the red ink and the coverage would become more and more substandard.

The public option would simply embody the worst combination of the financial performance of COOPs with the health care failures of Medicaid. It will not help.