

# Memorandum

**From:** Jan R van Lohuizen  
**Date:** 5/16/2013  
**Re:** Health care reform

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While the Affordable Care Act (ACA, a.k.a. Obamacare) has been getting more attention in the press lately, with quite a bit of coverage devoted to various 'train wreck' predictions, our tracking of voter attitudes towards the ACA suggests that the public has not focused on it since it was adopted in 2010. Two things will probably change this situation in the coming year. First, the provisions of the ACA will start taking effect in ways that directly impact big segments of the public. Second, the political world is returning to this issue, as evidenced by the turmoil over Congress exempting itself from the ACA, implementation delays, fights over implementation funding and the 'train wreck' predictions.

This memo addresses the first point; it is an attempt to list the major provisions that are about to go into effect which directly affect the public and to speculate about the nature of the public's reaction. In anticipating the public's reaction a parallel might be found in Medicare Part D. At the time of its adoption attitudes towards Part D were deeply polarized along partisan lines. After its adoption younger people by and large lost track of Part D, while seniors reacted to Part D based on their interaction with the program. During the initial signup period there was resistance to the complexity of the signup process. After signing up, however seniors satisfaction with the program has been very high. However, there is no evidence whatsoever that seniors rewarded the authors of Part D in any way.

In other words, after it was adopted a) most voters forgot about Part D, b) the people affected by it started thinking about it in terms of Part D's impact on them as consumers, c) politics moved into the background and d) satisfaction was high.

Moving on to the ACA, for starters very few provisions of the ACA have been implemented so far that directly impact the public, but there are a few:

- ✓ Last year insurers were required to refund fees to consumers if claim payments did not reach 80% of total revenues; polling we did shows that only 9% of consumers recalled getting a notice of this refund. This 9% was substantially more likely to approve of the ACA than the sample as a whole.
- ✓ Last year insurers were required to cover the children up to age 26. Fourteen percent of the public reports having taken advantage of this. This 14% was no more (or less) likely to approve of the ACA than the sample as a whole.

Here are the major implementation steps that will -- or rather are scheduled -- to take place in 2013 and 2014<sup>1</sup>, and our guess is to what the impact will be on the 2104 and subsequent elections<sup>2</sup>:

- ✓ The donut hole in Part D will begin to disappear. Starts this year with a gradual phase-in through 2020. **Our guess:** seniors will benefit, but the phase-in is pretty slow, so unlikely to have an impact in 2014; like Part D, probably no impact in later elections either.
- ✓ The federal government will start providing funding for free preventive health care to Medicaid participants. Starts this year. **Our guess:** no impact. The beneficiaries won't know who to thank, and probably wouldn't even if they did know<sup>3</sup>.
- ✓ The threshold for claiming itemized deductions for unreimbursed medical expenses increases from 7.5% to 10.0%. Starts this year. Seniors get a pass on this until 2016. **Our guess:** no impact or tiny impact. This will increase taxes for some people, but we guess the numbers are pretty small.
- ✓ The amount that can be contributed to flexible spending accounts will be capped at \$2,500 a year, adjusted for inflation afterwards. Starts this year. **Our guess:** no impact or tiny impact. We don't know how many people contribute more than \$2,500 right now, but we guess that the numbers are not big.
- ✓ Medicare withholding increases from 0.9% to 1.4% for incomes over 200K for individuals and 250K for joint filers, as well as a 3.8% tax on 'unearned' income for higher income taxpayers. Starts this year. **Our guess:** This will be a nasty surprise for people filing in the first quarter of next year, including high income seniors; phones will ring on Capitol Hill.
- ✓ Expanded access to Medicaid for individuals up to 133% of the federal poverty level. Starts next year. **Our guess:** no impact. The beneficiaries won't know who to thank, and probably wouldn't even if they did know.
- ✓ Individual requirement to have insurance coverage and a tax penalty for those who have no coverage. The requirement starts next year, but most people affected may not notice until they file their taxes in the first quarter of 2015 or 2016. **Our guess:** this will make affected people quite angry, but they tend to be younger and may not participate in politics all that much. The size of the affected population is huge: 18 to 20 million 25 to 30-somethings, of which an estimated 6 million will pay the penalty. Potentially large impact, but it may not occur until 2016.
- ✓ Health insurance exchanges come on-line. The target date is January 1, but many states, as well as the federal government which runs the exchanges in the states that do not participate are behind schedule. **Our guess:** potentially a positive reaction, although a lot depends on insurance rates<sup>4</sup>. We're guessing the exchanges won't be cheap because of the lavish benefits being mandated. However, any individual or small business who has tried to purchase health coverage in the last 5 years is used to very high prices, if they can get coverage at all; we guess that some will react positively. However, there are 19 million people who purchase individual policies; of these an estimated 6 million will pay higher rates. And, a substantial number of small businesses who do not self-insure will pay higher rates, particularly if they employ younger and healthier workers. **Also:** people between 133% and 400% FPL will get taxpayer funded premium support for policies purchased through the exchanges. Much depends on the amount of the subsidy and the hassle of qualifying. What's more, since it is only a partial subsidy, many people in this

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<sup>1</sup> First, no claim to completeness here: the statute is 2,500 pages long, with an additional 70,000 pages of 'guidance', implementation, etc. so far. This memo almost certainly misses a couple of big ones. Second, this memo reflects the official implementation schedule and ignores reports that major pieces of the law are behind schedule.

<sup>2</sup> To clarify, the political impact, not the consumer or health impact.

<sup>3</sup> The cynical view, but probably the correct view. Not many Medicaid participants vote: only 5% of telephone samples of voters report participating in Medicaid.

<sup>4</sup> The Massachusetts experience is not good as far as controlling medical costs and insurance rates are concerned.

bracket will have to dig into their own pockets which they may be unwilling to do; some will pay more even with the subsidies. We anticipate a strong negative reaction.

- ✓ Guaranteed coverage regardless of pre-existing conditions and limits on the ability to base rates on age. Starts next year. **Our guess:** a mixed bag, seniors' rates will decline while rates for younger folks will increase. The question is will affected folks know who to thank and who to blame? We're guessing they might look at the insurance industry rather than the authors of the ACA.
- ✓ The employer mandate kicks in on employers with over 50 employees, with a \$2K fine for each employee not covered. Starts January 1. **Our guess:** This one is potentially huge.
  - Some employers will expand coverage, making for happy employees. Questions: how many will gain coverage, and who will get the credit?
  - Some employers will shrink to get below the 50 threshold, making for unhappy unemployed people. Question: who will they blame?
  - Some employers will manage the number of hours part-timers work to not exceed 30 hours, making for unhappy employees who earn less and / or will have to find a second job to make ends meet. The potential audience is huge, there are 10 million people who work 30 to 34 hours a week. Question: who will they blame?
  - Some employers will shrink their coverage, and push people into the exchanges; after all, the fine for not providing coverage is lower than the cost of covering an employee. The numbers are huge: an estimated 8 million people could lose their employer coverage and have to go shop in the exchanges. We're also guessing that employers will make it clear to employees why they're doing this. This potentially has a huge negative impact, bigger than any we have speculated about so far. We're also guessing that this will happen gradually and will not all take place next year, so an impact may not be seen until 2016.

Adding up all these guesses, by our count a lot more people will be unhappy than will be happy. One estimate suggests that between 30 and 40 million people will be negatively affected by the ACA. As far as possible positive reactions are concerned, you have to assume that implementation stays on schedule, that people understand how they might benefit, that the process of enrolling in exchanges is comprehensible, etc., etc. Finally, you have to assume that a positive reaction will generate political rewards, which is not what happened with Part D.

To sum this up: a lot of unhappy people, but it may not all occur in 2014. This one may stay with us quite a bit longer.