

# POLICY BRIEF

**RECOMMENDATIONS  
FOR THE NEW  
ADMINISTRATION**

## Making Health Care Affordable Again

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The Affordable Care Act (ACA) is the Democratic Party's attempt to provide health insurance coverage for as many Americans as possible in the face of longstanding, unrelenting increases in health care costs. Some of the ACA provisions were based on correct economic principles:

- Coverage sold by private insurers.
- Purchasing pools to promote insurer competition to lower prices and raise quality.
- Coverage for those with pre-existing conditions, with a mandate to buy coverage to prevent adverse selection.
- Financing of coverage through taxes on insurers, medical device makers, and drug companies; and reduced Medicare rates for doctors and hospitals, who all stand to gain from greater insurance coverage.

But the law simultaneously specified overly generous coverage provisions, which raised costs for both taxpayers and middle-income purchasers of ACA Marketplace coverage. Because each ACA-constructed local insurance market has so few competitors, insurers have no incentive to control costs. I recommend that the next administration repeal the ACA, but maintain the concept of state-based insurance Marketplaces with the following changes:

### **1. Expand the pool of individuals allowed to purchase catastrophic coverage beyond age 30.**

Many healthy adults are choosing to pay the penalty for not purchasing coverage rather than buy a Marketplace plan, because

they are healthy and use almost no health care services. Allowing these people to buy catastrophic coverage will be a more attractive option and will bring needed revenues to the market that will lower overall premium levels.

### **2. Expand the current 3-to-1 age-rating limit to 4-to-1 for those aged 26 and above, or to younger adults without two living parents.**

The ACA specifies that insurers can charge their oldest customers premiums that are no more than three times those of younger customers. Persons aged 45 to 54 are overwhelmingly represented in insurance Marketplaces, because the 3-to-1 age-rating limit requires younger persons to pay too high a premium to subsidize the care of older, sicker patients. Enticing younger persons to enroll will raise the average level of health of the insured pool, which potentially lowers everyone's premiums. The lower premiums cannot be extended to individuals who can be covered under their parents' insurance plan, because doing so would shift substantial private costs to the public sector.

### **3. Eliminate the requirement to cover preventive care in all health insurance policies.**

The public policy priority should be protection against catastrophic circumstances. While providing financial assistance to cover preventive services yields some health benefit, the costs raise health insurance premiums for everyone and add to taxpayer costs.



**Repealing Obamacare and replacing it with market-based coverage that is both compassionate and prudent will make health care affordable again, which will guarantee access to insurance coverage for all Americans.**

**This policy brief is part of a series of recommendations from the Baker Institute for the incoming president's administration.**

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**4. Reform the risk adjustment formula currently used to reimburse insurers.**

Marketplace insurers are compensated for enrolling patients with more documented illnesses, in order to discourage cherry-picking of customers. Full risk adjustment encourages insurers to fully document patient illnesses, but provides no incentive to control costs. Partial risk adjustment, combined with more value-based purchasing, can control costs while avoiding the selective exclusion of the sickest patients.

**5. Foster accountable care organizations (ACO) within state Marketplaces that are analogous to those funded by Medicare.**

ACOs are groups of hospitals and/or physicians who voluntarily organize and receive shared financial compensation to manage the entire continuum of care for patients, from prevention to acute care. New legislation should incentivize these ACOs to lower medical spending through a shared savings program pegged to mean per capita spending in each local region. This approach addresses the shortage of competition by encouraging large health care providers to become direct competitors to insurers.

**6. Reduce the generosity of the ACA's Medicaid expansion.**

Obamacare expanded Medicaid with a blank check. Medicaid per capita spending is much higher than predicted. Adults up to 150% of the federal poverty level should receive Medicaid, but it should be funded at a per capita cost that is predetermined and adjusted annually to the overall (not medical) CPI.

**7. Lift the employer mandate for providing coverage to firms with 100+ workers instead of 50.**

Smaller firms lack the resources to simultaneously build their businesses and navigate complicated insurance markets and federal regulations. The labor market will encourage many of these firms to offer coverage to talented workers. Firms

that rely disproportionately on low-wage workers should be allowed to gain coverage from Medicaid, rather than face federal government penalties.

Health care costs continue to rise because the price of health care services continues to rise uncontrolled. The insurance provisions of the ACA do nothing to restrain this cost growth. Repealing Obamacare and replacing it with market-based coverage that is both compassionate and prudent will make health care affordable again, which will guarantee access to insurance coverage for all Americans.