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By Marc Stier **January 19, 2017**

Devastation, Death, and Deficits:

The Impact of ACA Repeal on Pennsylvania

Executive Summary

The Affordable Care Act of 2010 (ACA or Obamacare) is one of the most important pieces of domestic legislation enacted since the 1960s. It has had a dramatic impact in reshaping the provision of health care in the United States at a time when health care amounts to 18% of the United States economy.

This report aims to quantify the benefits of the ACA to Pennsylvanians, in part by showing just how costly will be the repeal of it.

Our main conclusions are that:

- Repeal of two key parts of the ACA—the Medicaid expansion and the tax credit subsidies for insurance on the health care exchanges—would cause more than 1.1 million Pennsylvanian to lose the health insurance they receive through these programs. An additional 3525 premature deaths will occur each year as a result.
- Hospitals statewide will see their revenues decline by almost $1.6 billion. Doctors will se a drop of $500 million in revenue. Some hospitals and physician practices, especially in urban centers and rural areas, may not survive.
- Repeal of the ACA will cost over 137,000 Pennsylvanians their jobs, reduce the state's gross domestic product (GDP) by over $75 billion, and cut state and local tax revenues by $2.4 billion, both over five years.
- Repeal of the ACA will add over $1.4 billion to the state's structural deficit.

We do not make any projections based on any replacement of the ACA by another proposal because we now little or nothing about what such a proposal would look like.

Introduction: You're Going to Miss Me (If and) When I'm Gone

The Affordable Care Act of 2010 (ACA or Obamacare) is one of the most important pieces of domestic legislation enacted since the 1960s. It has had a dramatic impact in reshaping the provision of health care in the United States at a time when health care amounts to 18% of the United States economy. Despite organized, well-funded opposition since its enactment, the major provisions of the ACA command broad support.[1] And for good reason.

The ACA has done an enormous amount of good for large numbers of Americans. **This report aims to quantify the benefits of the ACA to Pennsylvanians, in part by showing just how costly its repeal will be.** The ACA has, we will see, gone far in keeping the promise of extending quality, affordable health care to everyone.

The importance of meeting that goal is as important now than in March 2010 when the law was enacted. While advances in health care have given doctors and hospitals the capacity to work wonders in preventing and curing disease, these advances are costly. That they are costly is the main reason health care has come to play such a large role in our economy. It is also the reason that access to quality, affordable health care is impossible if one is uninsured and that the costs of insurance has risen to such an extent that working people and middle-class Americans cannot afford to purchase health care without some government subsidy.

Make no mistake, almost no one has health insurance without government support in America. The half of Americans who receive health insurance through their employer often fail to realize that they receive a huge tax break for the cost of that insurance because it is not counted as income. Indeed, the cost of that tax break every year, $250 billion, is twice the cost of the ACA itself.[2] Looked at in that context, the role of the ACA has been to help millions of Americans who do not work for employers that provide federally-subsidized health insurance to receive similar benefits. The ACA has been effective in providing secure access to quality, affordable health care to millions of Americans who have not received federal help in the past and have not been able to afford health insurance without it.

Republicans in the United States Congress have continually sought to repeal the ACA. With control of both the legislative and executive branches in 2017, they will finally have a chance to do so. The ACA is a complicated piece of legislation with many parts. It appears that the Republican leadership of Congress

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[1] While support for the ACA has hovered around 50% of the population since its enactment, strong majorities support most of the major provisions of the law. According to a March 2013 poll: 88% support tax credits for small businesses to buy insurance; 81% support closing the Medicare drug benefit doughnut hole; 78% support the health care exchanges; 76% support tax credits on the exchanges to make insurance affordable for those with lower incomes. 76% support the extension of dependent coverage to offspring up to age 26; 71% support expanding Medicaid expansion; 66% support the ban on exclusions for preexisting conditions. 60% support the Medicare tax on those with upper incomes; 57% support the employer mandate. The only major provision not supported by a majority is the individual mandate which is supported by only 40% of the population. See http://kff.org/health-reform/poll-finding/march-2013-tracking-poll/ for details. Much opposition to the law results because people assume that problems in the health care system, including the continuing increase in health care costs and premiums, albeit at a slower rate, is the result of the ACA. And, of course, the rocky roll-out of the health care exchanges did not help, either.

[2] Matthew Rae, Gary Claxton, Nirmita Panchal, and Larry Levitt, Tax Subsidies for Private Health Insurance, Kaiser Family Foundation, Oct 27, 2014. http://kff.org/private-insurance/issue-brief/tax-subsidies-for-private-health-insurance/, accessed January 18, 2017.

does not seek to—and cannot—repeal the Affordable Care Act in one stroke. Repeal, if it takes place, will come in a number of steps. The first step will be to repeal those parts of the law that have federal budgetary and tax implications through the Congressional reconciliation process. Other provisions of the law may be repealed later, perhaps when Congress enacts the replacement for the law promised by the Republicans. We describe the details of what can and cannot be changed through the reconciliation process in Appendix 1.

Republicans have been promising a replacement for the ACA for over six years. They have not yet agreed on such a plan or established clear goals for what such a plan should accomplish. Some ideas presented by some Republicans—such as replacing the ACA with health savings accounts or tax credits to purchase private health insurance—clearly would not meet the goal recently set forth by President-elect Trump, that no one who has received insurance under the ACA lose it and that the costs of insurance under the replacement plan be less than it is under the ACA.

Given the complications involved in repealing, let alone replacing, the ACA, any report on the consequences of repeal must examine various possible futures for health care in the United States and Pennsylvania. We have tried to account for these possibilities by dividing the report into five parts.

- Part I of the report examines the impact of repealing the two elements of the ACA that have led to the greatest decline in the number of uninsured people in Pennsylvania—the expansion of Medicaid benefits to individuals and families up to 138% of the federal poverty line and the tax credits/cost sharing provisions that reduce the cost of individual or family health insurance purchased by those with incomes between 138% and 400%t of the federal poverty line in the health care exchanges or marketplace (terms we will use interchangeably). **We estimate that repealing the ACA will cause over 1.1 million Pennsylvanians to lose health insurance. An additional 3250 deaths will occur each year as a result.**

- Part II of the report looks at how the elements of the ACA that cannot be repeated through the reconciliation process have benefited Pennsylvanians, including those who receive health insurance through Medicare.

- Part III of the report examines the impact on our health care providers, especially hospitals, of the growth in the uninsured population in Pennsylvania that would result from repeal of provisions of the ACA through reconciliation. **We show that hospitals will see their revenues decline and some, especially in urban centers and rural areas, may not survive**.

- Part IV of the report examines the impact of repeal provisions of the ACA through reconciliation on the economy and job market in Pennsylvania. **We estimate that over 137,000 Pennsylvanians will lose their jobs and that the state gross domestic product (GDP) will decline by over $75 million. Tax revenues for both the state and local governments will fall as well**.

- Finally, Part V of the report examines the impact of ACA repeal on the state budget. **The state is likely to lose $300 million annually in tax revenue as a result of repeal**. The impact on state spending will be far greater. The ACA has provided the state with additional money for existing federal/state programs; it has saved the state money by moving Pennsylvanians from traditional Medicaid to expanded Medicaid, which is reimbursed by the federal government at a higher rate; and it has reduced state spending for health care programs created by the Commonwealth. **Repeal of the ACA would thus increase state expenditures by roughly $1130 million.** Together with the

reduction in tax revenues, **repeal of the ACA will add over $1.4 billion to the state's structural deficit.**

We do not make any projections based on any replacement of the ACA by another proposal because we do not know what such a proposal would look like.

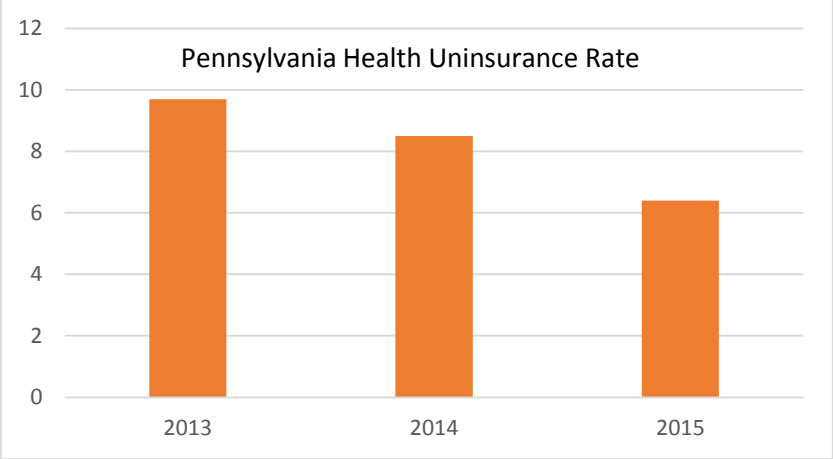
Part I: Impact of Repeal on the Number of Insured Pennsylvanians

The first, and most important, aim of the Affordable Care Act was to reduce the number of uninsured Americans by means of two different policies. Americans with incomes too high to receive Medicaid but at or below 138% of the federal poverty line ($16,242 for a single individual and $33,465 for a family of four) can receive health insurance if their state expands Medicaid. Americans with incomes above 138% of the federal poverty line can purchase health insurance on a state or federally-run health care exchange, also known as a health care marketplace. Individuals and families with incomes up to 400% of the federal poverty line ($47,520 for a single individual and $97,200 for a family of four) are eligible to receive tax credits that reduce the costs of insurance purchased on the exchange. Those with lower incomes in this range are also eligible to receive cost-sharing reductions that limit their out of pocket health care costs.

Reduction in the Uninsured Rate in 2015

One indication of the success of the Affordable Care Act is the decline in the rate of uninsured Pennsylvanians. As chart 1, which relies on Census Bureau data shows, in 2011, 11.1% of Pennsylvanians were uninsured. The rate declined to 9.7% in 2013, 8.5% in 2014 and then fell to 6.4% by 2015.[3] The rate dropped slowly in part because the state was slow to embrace the expansion of Medicaid, and our examination below of the details of who received health insurance through the ACA in Pennsylvania suggests that it continued to drop through 2016 (although full-year data to confirm this are not yet available).

Chart 1



Repeal of the ACA is likely to reverse this decline in the uninsured rate entirely. To understand why, we have to look at the details of who receives health insurance under the ACA and how they do so.

[3] United States Census Bureau, 2015 American Community Survey, 1-Year Estimates. https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_15_1YR_CP03&prodType=table, accessed January 17, 2017.

Medicaid Expansion

The Pennsylvania Department of Human Services estimates that roughly 685,000 Pennsylvanians receive health insurance as a result of Medicaid expansion.[4] Table 1 breaks the numbers down by Congressional districts and shows that Pennsylvanians in every corner of the state and in both urban and rural districts benefit from this program.

Table 1

Individuals Newly Eligible for Medicaid Due to Medicaid Expansion By Congressional District		
District	Member of Congress	Number
1	Brady	72,218
2	Evans	70,463
3	Kelly	37,965
4	Perry	31,678
5	Thompson	32,214
6	Costello	21,001
7	Meehan	31,712
8	Fitzpatrick	21,676
9	Shuster	40,333
10	Marino	34,016
11	Barletta	35,432
12	Rothfus	34,904
13	Boyle	42,738
14	Doyle	38,137
15	Dent	34,775
16	Smucker	29,948
17	Cartwright	39,701
18	Murphy	23,816
Total		672,727
Source: Pennsylvania Department of Human Services, November 2016		

[4] The disparity between the estimate that 685,000 people statewide receive health insurance under expanded Medicaid and the total for 18 Congressional districts of 672,000 is due to the difficulty in determining in which Congressional district a small number of Medicaid recipients live.

As we explain in more detail in Part VI, some of the Pennsylvanians who receive health insurance under Medicaid expansion would still receive insurance under programs that existed in Pennsylvania prior to enactment of the Affordable Care Act, albeit at far greater cost to the state. We estimate that after repeal, roughly 80,000 people of those who have health insurance under the Medicaid expansion would be insured through the General Assistance program, 10,000 would be insured under the Medical Assistance for Workers with Disabilities program, and roughly 10,000 would be insured under the Medically Needy Only program.

Thus the net increase in uninsured Pennsylvanians due to repeal of the Medicaid Expansion would be about 585,000 people.

Health Care Exchange / Marketplace

The second largest group of Pennsylvanians who receive health insurance under the Affordable Care Act are those who purchase health insurance in the exchange/marketplace.

In the first quarter of 2016, 412,347 Pennsylvanians received health insurance in the ACA marketplace. Of those people, 321,345 received a tax credit that averaged $248 a month. Of those receiving tax credits, 227,304 also received cost-sharing reductions that limited their out-of-pocket costs.

We believe it is likely that all of the 321,000 people who receive support from the federal government to purchase health insurance will lose their insurance if the ACA is repealed. Without subsidies through tax credits and cost-sharing reductions, almost all of these people will be unable to purchase insurance. A small number may be able to secure more expensive, yet affordable, insurance through their workplace or that of their spouse.

What about the 91,000 Pennsylvanians who do not receive any federal support for purchasing health insurance in the ACA marketplace? Changes in the non-group insurance market brought about by the partial repeal of the ACA might make it difficult for them to receive coverage.

The Non-group Health Insurance Market

In addition to the 91,000 people who do not receive any government support to purchase health insurance in the ACA marketplace. Another 427,172 Pennsylvanians purchase non-group insurance with no subsidy outside the ACA marketplace. For reasons we explain in Appendix 2, we expect that the non-group health insurance market will largely collapse in Pennsylvania and that 75% of these 518,000 people will lose their insurance if the ACA is repealed.

How Many Pennsylvanians Will Lose Health Insurance if the ACA is Repealed?

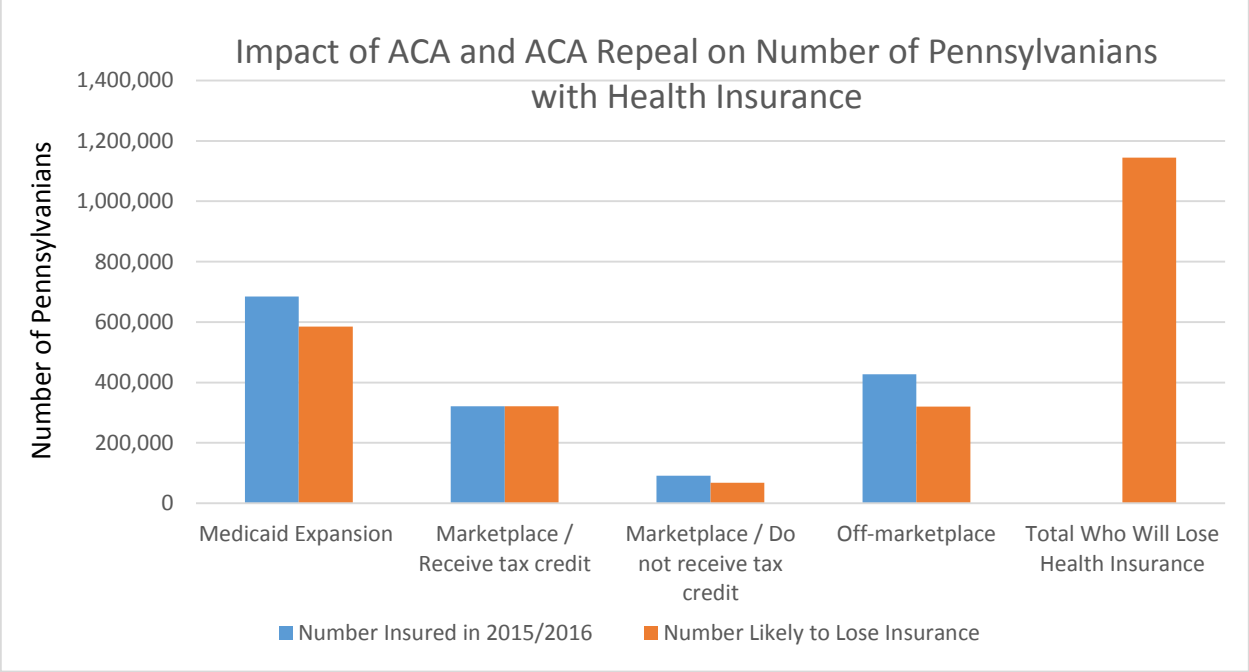
Chart 2 and Table 2 summarize our analysis of the number of people we expect to lose their health insurance if major parts of the ACA are repealed through the reconciliation process.

As explained above, we expect 585,000 of the 685,000 who receive health insurance under Medicaid expansion to lose their insurance as a result of repeal. We expect all 321,000 of those who secure health insurance through the marketplace with tax credits (and in some cases cost sharing reductions) to lose their insurance. We expect 75% of both the 91,000 who are insured through the marketplace without tax credits and the 472,000 who purchase insurance through the non-group market to lose their insurance. This gives us a sub-total of 1,294,500 Pennsylvanians who would lose insurance. We expect that a small portion of these losses will be offset by a number of people returning to employer-provided insurance either because they or their spouse were already eligible for such insurance at their job or secured a new job that included insurance. Our estimate of 150,000 is based on the two observation that between 2013 and 2015, the

number of Pennsylvanians securing insurance through their employer declined by roughly 300,000. Looking at the previous rate of decline in employer based insurance, we attribute half of that decline to a reduction in the number of businesses offering insurance and the other half to employees who purchased cheaper insurance in the marketplace. Thus we assume that half of those people might return to employer-based insurance.[5]

Adding our estimate of the number of Pennsylvanians who return to employer-based insurance, we project that that over 1.1 million Pennsylvanians will lose health insurance as a result of partial repeal of the ACA.[6]

Chart 2



[5] The Urban Institute estimates that in the wake of repeal of the ACA the percentage of Americans securing insurance through their employer would increase by 1%. Our estimate doubles that percentage partly on the grounds that Pennsylvania has a higher percentage (58% vs 54%) than the nation as a whole of people who receive insurance through their employer We also adopt a more conservative approach in order to give the reader more confidence in our approach. The Urban Institute projection can be found in Linda J. Blumberg, Matthew Buettgens, and John Holahan, *Implication of the Partial Repeal of the ACA Through Reconciliation*, Urban Institute, December 2016. http://www.urban.org/research/publication/implications-partial-repeal-aca-through-reconciliation, accessed January 14, 2017.

[6] While there are many elements in our projection that are uncertain, we note that we are in the same ballpark as the Urban Institute, which estimates that 956,000 Pennsylvanians would lose health insurance as a result of repeal of the ACA. We believe that our more fine-grained and Pennsylvania-specific approach, which relies largely on administrative information about actual enrollments in Medicaid and the health insurance marketplace, gives us more a more accurate tally of who received health insurance as a result of the ACA than the Urban Institute's numbers, which rely on their micro-simulation health care model which that generates estimates for all 50 states. That our results are still quite close to those the Urban Institute does increase our confidence in them.

Table 2

Loss of Health Insurance Among Pennsylvanians if the ACA is Repealed		
Source of health insurance under the ACA	Number insured in 2015/2016	Number likely to lose insurance
Medicaid Expansion	685,000	585,000
Marketplace / Receive tax credit	321,000	321,000
Marketplace / Do not receive tax credit	91,000	68,250
Off-marketplace	427,000	320,250
Sub-total	1,524,000	1,294,500
Likely to return to employer based insurance		-150,000
Total		1,144,500
Source: PBPC estimates based on US Census and Urban Institute (see footnotes for details)		

The Impact on Children

The data available from government agencies does not allow us to replicate our approach to estimating the impact of ACA repeal on health insurance for children. We can, instead, rely on the simulation conducted by the Urban Institute. I found that repeal of the Medicaid expansion and tax credits and subsidies for marketplace insurance will lead to a more than doubling of the number of children who are uninsured in Pennsylvania from 95,000 to 202,000. The uninsurance rate would climb from 3.4% to 7.2%. These results presume that Pennsylvania would make no changes in its Medicaid and CHIP coverage for children. If repeal of the ACA includes repeal of the provision requiring states to maintain their effort providing health care to children, and the state reduced its commitment to children to the minimum level, 546,000 children would be uninsured and the uninsurance rate for children would rise to 19.4%.

Maintaining insurance for children is crucial to the future of our Commonwealth. A substantial body of research shows that there are long-term benefits of providing health insurance for children. Not only do they have better health, but they do better in school and complete more education, and have higher life-time earnings. Those benefits ultimately flow to all of us.[7]

[7] For summaries of this research see: "Medicaid at 50: Covering Children Has Long-term Educational Benefits," Center on Budget and Policy Priorities, July 7, 2015, http://www.cbpp.org/blog/medicaid-at-50- covering-children-has-long-term-educational-benefits, "Medicaid at 50: Cuts Poverty, Boosts Financial Health," Center on Budget and Policy Priorities, July 27,

The Impact on Health

We do not have space to discuss in detail the impact on the health of the previously uninsured who have secured health insurance under the ACA. But it is important to recognize that health insurance matters, and enables people to live healthier and financially more stable lives. A study of the Medicaid expansion in Oregon showed that those who had secured health insurance self-reported that their health and mental status improved.[8] A study of Massachusetts health care reform showed that the new insurance led not only to self-reported improvements in physical and mental health but a decline in mortality.[9] Other research has shown that the proportion of non-elderly adults who say that they are in fair or poor health, or say that their activities are limited by health problems, drops as coverage is expanded.[10] Studies of other state Medicaid expansion that took place before the ACA all lead to the same conclusion.[11] Research on the impact of CHIP has shown that access to health insurance in childhood reduces later life risk of hospitalization and death.[12]

All these studies, and others as well, provide us with evidence that expanding health insurance coverage improves health, well-being, and longevity. Other provisions of the ACA besides expansion of insurance coverage have led to improvements in health. The provision that allows young adults to stay on their parent's health care plan has been shown to lead to improvements in self-reported health status.[13]

How Many Will Die Prematurely?

The impact of lack of health insurance on premature death has been a subject of great controversy over the last few years, with early studies that claimed a substantial impact coming under scrutiny for their methodological flaws.[14] That some states have embraced Medicaid expansion and others have not has

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2015, http://www.cbpp.org/blog/medicaid-at-50-cuts- poverty-boosts-financial-health, and "Medicaid's Long-Term Earnings and Health Benefits," Center on Budget and Policy Priorities, May 12, 2015, http://www.cbpp.org/blog/medicaids-long-term-earnings-and-health- benefits. These summaries include direct links to the original research papers for more detailed information.

[8] Finkelstein, Amy, et al. 2012. "The Oregon Health Insurance Experiment: Evidence from the First Year." *The Quarterly Journal of Economics* 127(3): 1057-106, 2012 and Baicker, Katherine, et al. "The Oregon Experiment – Effects of Medicaid on Clinical Outcomes." *New England Journal of Medicine* 368(18): 1713-22, 2013.

[9] Van der Wees, Philip J., Alan M. Zaslavsky, and John Z. Ayanian. "Improvements in Health Status after Massachusetts Health Care Reform." *The Milbank Quarterly* 91(4): 663-89, 2013 and Sommers, Benjamin D., Sharon K. Long, and Katherine Baicker. "Changes in Mortality After Massachusetts Health Care Reform: A Quasi-Experimental Study." *Annals of Internal Medicin*e 160(9): 585-93, 2014.

[10] Sommers, Benjamin D., et al. 2015. "Changes in Self-Reported Insurance Coverage, Access to Care, and Health Under the Affordable Care Act." *The Journal of the American Medical Association* 314(4): 366-74.

[11] Sommers, Benjamin D., Katherine Baicker, and Arnold M. Epstein. "Mortality and Access to Care Among Adults After State Medicaid Expansions." *The New England Journal of Medicine* 367(11): 1025-34, 2012. http://www.nejm.org/doi/full/10.1056/NEJMsa1202099#t=article, accessed January 18, 2017.

[12] Wherry, Laura R., et al. "Childhood Medicaid Coverage and Later Life Health Care Utilization." NBER Working Paper 20929. Cambridge, MA: National Bureau of Economic Research, 2015; Brown, David W., Amanda E. Kowalski, and Ithai Z. Lurie. "Medicaid as an Investment in Children: What Is the Long-Term Impact on Tax Receipts?" NBER Working Paper 20835. Cambridge, MA: National Bureau of Economic Research, 2015; and Wherry, Laura R., and Bruce Meyer. "Saving Teens: Using a Policy Discontinuity to Estimate the Effects of Medicaid Eligibility." *Journal of Human Resources* 51(3): 556-88, 2016.

[13] Barbaresco, Silvia, Charles J. Courtemanche, Yanling Qi. "Impacts of the Affordable Care Act Dependent Coverage Provision on Health-Related Outcomes of Young Adults." *Journal of Health Economics* 40(C): 54-68, 2015.

[14] Richard Kronick, Health Insurance Coverage and Mortality Revisited, Health Serv Res. 2009 Aug; 44(4): 1211–1231. http://onlinelibrary.wiley.com/store/10.1111/j.1475-6773.2009.00973.x/asset/j.1475-

created a natural experiment that has allowed researchers to look at the impact of health insurance on mortality by comparing the experience of states that expanded Medicaid with those that did not.[15] This study found that mortality rates in states that did not expand Medicaid were higher by 19.6 deaths per 100,000 people. Applied to Pennsylvania, that means expanding Medicaid in the Commonwealth reduces the number of deaths in the state by 2,350 people. About half as many people received health insurance in Pennsylvania by receiving a tax credit in the marketplace as through Medicaid expansion. Thus, it is reasonable to suppose that another 1,175 premature deaths are prevented each year by that part of the ACA. And note that this study looks at the impact of providing insurance to people in only one year. It does not take into account the long-term effect of people being insured consistently on treatment for chronic diseases that get worse when not treated.

Repeal of the ACA without a replacement as good is likely to lead to at least an additional 3,525 deaths per year in the Commonwealth.

Part II: Impact of Repeal on the Quality and Cost and Health Insurance in Pennsylvania

The ACA also makes improvements in the quality and cost of health care even to those who already had insurance, including the 7,502,000 people, 58% of Pennsylvanians, covered through their employer's health insurance coverage or that of their spouse or partner.[16] Most of these provisions in the law cannot be repealed through the Budget Reconciliation Process.

Improved Health Benefits

The ACA prohibits insurance companies from imposing annual or lifetime limits on coverage. Prior to the ACA, 4,582,00 Pennsylvanians had insurance policies with such limits.

The ACA requires that all health insurance policies offer free preventative care. This has benefitted 6,127,383 Pennsylvanians whose policies did not offer this benefit before the ACA.

Health Insurance Premiums

While health insurance costs, and thus health insurance premiums, continue to increase, they have done so at a slower rate since the ACA was enacted. Between 2010 and 2015, the average annual premium for Pennsylvania families with employer coverage grew 5.1% per year, compared with 7.3% per year in the previous decade. Had Pennsylvania premiums grown at the same pre-ACA level, they would, on average, be $2,700 higher than they are today.

The ACA requires that health insurance companies use 80% of premiums to pay for health care or health care improvements, rather than CEO salaries, marketing, or administration. This requirement is known as the minimum or medical loss ratio (MLR). The ACA requires that health insurers issue a premium refund

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6773.2009.00973.x.pdf;jsessionid=3D3D2B5F029AD090F8F4173E548AF45E.f01t02?v=1&t=iy2tyx03&s=3543d1e540e14c30b89a2a03a8685f684bef21d4, accessed January 18, 2017.

[15] Benjamin D. Sommers, M.D., Ph.D., Katherine Baicker, Ph.D., and Arnold M. Epstein, M.D. *Mortality and Access to Care among Adults after State Medicaid Expansion.*

[16] Most of the information in this section was compiled by Anne Torregrossa. Unless otherwise noted, the source of data is the Department of Health and Human Services, Compilation of State Data on the Affordable Care Act, https://aspe.hhs.gov/compilation-state-data-affordable-care-act. The original sources for the data are listed in the note that accompanies this spreadsheet.

when the MLR drops below 80%. Pennsylvanians with employer coverage have received $1,869,220 in insurance refunds since 2012.

Fairness in Health Insurance

In three ways, the ACA changed the way the 412,347 Pennsylvanians who have non-group health care coverage are charged for premiums.

Under the ACA, women pay the same rate as men. Before the ACA, women were charged significantly more for coverage than men.

Before the ACA older enrollees were charged much more than younger enrollees, often making coverage unaffordable for older Pennsylvanians, especially in the decade before they were eligible for Medicare. Under the ACA, premiums for the oldest enrollees cannot more than 3 times the rate for the youngest ones.

Medical underwriting has been banned. Before the ACA, people with chronic health care needs could be denied health care coverage by insurers or an insurer could agree to insure a person but not for any expenses related to a pre-existing condition. People with pre-existing medical conditions could also be charged significantly more. Under the ACA, medical underwriting is prohibited. No one can be denied insurance or charged more based on a pre-existing condition. Insurance coverage cannot exclude pre-existing conditions. In Pennsylvania, 5,489,162 people who have pre-existing medical conditions benefit from this provision.

Prescription Drug Benefits for Seniors

As detailed in Part IV, the ACA gradually closes the prescription drug donut hole for Pennsylvania Medicare consumers and eliminates it by 2020.

In addition to gradually closing the donut hold, the ACA required pharmaceutical manufacturers to offer discounts for generic and brand name drugs until 2020 and for brand name drugs thereafter. In 2016, In 2015, 297,606 seniors on Medicare saved $313 million on drugs, an average of $1,053 per person due to these provisions of the ACA.[17]

Improvements in Health Care Delivery

When people are released from the hospital too soon, or with inadequate follow–up they are sometimes quickly readmitted. The result is increased costs, increased discomfort, and a greater risk of hospital acquired infection. Incentives in the ACA have led to 4,995 fewer hospital readmissions between 2010 and 2015, an 8% drop.

Drug and Alcohol Treatment

Opioid addiction has, once again, become an issue of intense public concern. This time, however, there has been far more public focus on treating addiction as an issue for the public health system not the criminal justice system. Governor Wolf has sought $30 million in new spending to treat addiction from the General Assembly, which has met part of his request. What has been rarely noted, however, is that the Commonwealth's belated embrace of the Medicaid expansion enabled nearly 63,000 people to access drug and alcohol treatment, most of those within the first two months of expansion. This was the largest increase in treatment in one year ever in Pennsylvania. This will save both lives and money.

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[17] Data is available at https://www.cms.gov/Medicare/Medicare-Advantage/Plan-Payment/CGDP.html.

Part III: Impact of Repeal on Pennsylvania Healthcare Providers

Much of the benefit of expanding the number of people who have health insurance goes to the insured. But the benefits do not stop there. As we will see in Part V, the whole community benefits economically from health care spending in that it creates jobs and tax revenues. Here we want to point out that when more people secure health insurance they increase the income of health care providers and that this helps guarantee that those providers are available to others.

This may not seem to be a serious problem if you live in a well-off suburb or neighborhood with many competing hospitals and medical practices. But if you live in a low-income urban neighborhood or rural community, access to health care is often a challenge. Hospitals in those communities are more likely to be ill-equipped or missing altogether. They are more likely to face financial pressures. And there are far fewer doctors per capita as well.[18]

When more people in a low-income community have health insurance, there are likely to be more hospital and healthcare providers because there is effective demand for their services. But when large numbers of people in low-income communities do not have health insurance, health care providers suffer in two ways. First, many people do not seek health care because they cannot pay for, so there is less demand for their services. Second, and as importantly, when people do seek health care in emergencies, hospitals are morally and, in Pennsylvania, legally required to treat them. And, without health insurance, the cost of this often-expensive treatment is never covered by payments of any kind.

There is evidence that the expansion of health insurance under the Affordable Care Act has already begun to relieve the financial pressure on Pennsylvania hospitals. Statewide operating income for Pennsylvania hospitals increased 34.7% from $1.7 billion in FY 2014 to $2.3 billion in FY 2015. And during that same period uncompensated hospital care—care provided by hospitals that is not paid for by insurance or patients—declined by 8.6% or $92 million, from 2.78% of net patient revenue to 2.42%, the first time it had dropped so low since before the Great Recession.

The Urban Institute has projected that if the Medicaid Expansion and tax credits on the Marketplaces are eliminated in 2019, spending by insurers and the non-elderly for hospital care will decline by almost $1.6 billion and for doctors' services by $500 million.[19]

Federal aid to hospitals that take on a disproportionate share of uncompensated care under the Medicare and Medicaid Disproportionate Share Hospital (DSH) program was supposed to be reduced as a result of the ACA. So far, that reduction has mostly not taken place. But, while this gives hospitals some protection, the impact of the ACA on bringing more people into regular contact with the health care system is likely to

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[18] An excellent and accessible introduction to the problem access to health care in urban areas an excellent Pittsburg Post-Gazette / Milwaukee Sentinel series, "Poor Health: Poverty and scare resources in U.S. ities," http://newsinteractive.post-gazette.com/longform/stories/poorhealth/1/, accessed January 17, 2017. On the same problem in rural areas, see Stanford School of Medicine Fact Sheet, Healthcare Disparities & Barriers to Health Care, http://ruralhealth.stanford.edu/health-pros/factsheets/downloads/rural_fact_sheet_5.pdf, accessed January 17, 2017.

[19] Matthew Buettgens, Linda J. Blumberg, and John Holahan The The Impact on Health Care Providers of Partial ACA Repeal through Reconciliation, January 2017. http://www.urban.org/research/publication/impact-health-care-providers-partial-aca-repeal-through-reconciliation, accessed January 15, 2017.

lead to much more uncompensated care if the ACA is repealed. Such funding does not increase automatically when the amount of uncompensated care increases however, except under in the Medicare DSH program which would see small increases to no higher than 2013 levels—if the number of uninsured people increased a great deal.

The consequence of ACA repeal, then, is that hospitals and physicians' practices, especially in low-income urban and rural areas, will be stressed again. Many will have to limit their services. Some may close.

Part IV: Impact of ACA Repeal on the Pennsylvania Economy, Jobs and Tax Revenues

Health care is projected to be 18.5% of the United States economy by 2019. Thus, any major change in the health care sector will have important effects on the economy as a whole. The Affordable Care Act provided substantial new funds to provide health care insurance to individuals and spending on health care rose substantially in Pennsylvania. This new spending had a large positive impact on the state's gross domestic product while creating new jobs in the health care industry and beyond. Repeal of the Affordable Care Act will necessarily have the opposite effect. In this section, we draw on work done by The Commonwealth Fund to estimate the impact of ACA repeal on the Pennsylvania economy and jobs in the state.

To begin with, it is important to understand that the ACA boosted the economy and created jobs in three different ways.

The direct economic effects of the ACA were the impact of new insurance payments to health care providers: hospitals, clinics, medical practices, and pharmacies. While some of the health care paid for by those with expanded Medicaid or marketplace insurance would have been provided before the ACA, and some fraction of that would have been paid for by federal support for uncompensated care, the vast majority of health care spending created by the ACA was new spending.

Second, the direct economic effects of the ACA create what economists call indirect economic effects. Health care providers that receive direct benefits from the ACA purchase goods and services from a wide range of vendors. These vendors, in turn, pay *their* employees and their vendors.

Finally, the ACA creates what economists call induced effects when worker at health care providers and their vendors spend their wages (and profits). The impact of health care spending, in other words, spreads out through the whole economy, boosting spending on everything from groceries and restaurants to rents and mortgages to travel and vacations.

The Milken Institute School of Public Health estimated that, nationwide, repeal of the ACA would lead to a reduction in federal spending of $807 billion over the five-year period form 2019-2023. (Because repeal of the ACA would also rollback the taxes raised to pay for that spending, the federal budget deficit would *increase* rather than decrease.) Milken estimated this reduction in spending would lead to a loss of 2.6 million jobs nationally in 2019 alone. Gross state product would decline by $1.4 trillion over the five-year period across all 50 states, while business output would fall by $2.6 trillion. State and local tax revenues would decline by $48 billion between 2019-2023, again across all 50 states.

Milken's estimate of the impact in Pennsylvania of ACA repeal can be seen in chart 3 and table 3. The normal rule of thumb is that Pennsylvania is about 4% of the national economy. Pennsylvania, however, accounts for slightly more than 5% of the national jobs impact of ACA expansion, and ACA repeal, because it was a state that expanded Medicaid.

Chart 3

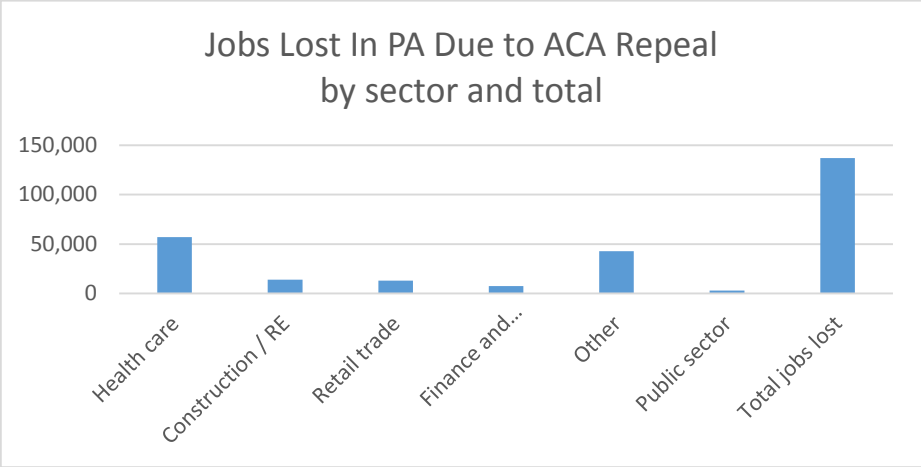


Table 3

JOBS LOST (209)		
Jobs lost by sector in 2019	Number	Percent of all jobs lost
Health care	57,000	42%
Construction and real estate	13,800	10%
Retail trade	13,100	10%
Finance and insurance	7,400	5%
Other	42,900	31%
Public sector	3,000	2%
Total jobs lost	137,000	100%
REVENUE AND TAXES LOST (2019-2023)		
Gross State Product	$76.5 billion lost	
Business Output	$128.9 billion lost	
State and local taxes	$2.4 billion	
State general fund revenues	$1.5 billion	
Source: The Commonwealth Fund and the Milken Institute School of Public Health, "The Economic and Employment Consequences of Repealing Federal Health Reform: A 50 State Analysis" at: https://publichealth.gwu.edu/sites/default/files/downloads/HPM/Repealing_Federal_Health_Reform.pdf. State general fund revenue estimate by the Pennsylvania Budget and Policy Center		

Repeal of the ACA would, we estimate, lead to the loss of 137,000 jobs in Pennsylvania in 2019. Job losses would not be limited to the health care sector, and 97% would be in the private sector.

Over five years, **ACA repeal would reduce the gross state product by $76.5 billion**. This, in turn, **would lead to a reduction in state and local taxes of $2.4 billion**. And, at a time when the state budget is facing serious long-term deficits, **ACA repeal would reduce state general fund revenues by $1.5 billion during the five-year period**.

Part V: Impact of ACA Repeal on the Pennsylvania Budget

Pennsylvania faces substantial long-term deficits that approach $2 billion a year—deficits that have largely been created by reductions in corporate taxes and a Pennsylvania tax system that taxes the highest earners at very low rates. At the same time, the General Assembly has not found the political will to generate new recurring revenues to either reduce the deficit or provide new funds for education, environmental protection or human services. Thus, it can ill afford any dramatic reduction in revenues from the federal government or new state expenditures for health care.

But repeal of the Affordable Care Act will have both consequences. As we just saw, the dramatic reduction in federal funds for health care in Pennsylvania will reduce tax revenues by roughly $300 million a year or $1.5 billion over five years. That is a substantial amount. **But it pales in comparison to the additional expenditures that the state will be required to make if the ACA is repealed, which we estimate will be at least $1.1 billion per year**.

Let's be clear about how this will happen. Before the ACA was adopted, the Commonwealth of Pennsylvania either with the federal government or by itself had put in place a number of policies to help people secure health care.

The creation of the Affordable Care Act reduced the costs for these programs in three ways. First, it provided either new funding or new mechanisms to save money in existing federal / state programs. Second, it moved many Pennsylvanians from traditional Medicaid to expanded Medicaid, thus reducing the state's cost of providing health care for these people. Third, it reduced state spending for some existing health care programs created by the Commonwealth. Individuals and families who had previously received health insurance through one or another state program were now able to receive insurance, mostly but not entirely, through the expansion of Medicaid.

Immediate repeal of the Affordable Care Act (ACA) would devastate our state budget, driving up annual state costs by more than $1.3 billion as itemized below.

Funding or Savings Lost: Medicaid Drug Rebate Program

The Medicaid Drug Rebate Program, which was enacted in 1990, requires drug manufacturers to sign a national rebate agreement with the Secretary of the Department of Health and Human Services in order for states to receive Medicaid coverage of their products. These agreements have saved the states billions of dollars. However, until the passage of the ACA, the program only applied to fee-for-service care under traditional Medicaid. As states, including Pennsylvania, shifted more of their Medicaid population from fee-for-service into managed care programs in order to reduce the growth in health care costs, the Medicaid Drug Rebate Program provided less and less benefit to states. The Affordable Care Act allowed the Medicaid Managed Care Program in Pennsylvania and other states to take part in the Medicaid Federal Drug Rebate Program. This dramatically reduced the cost of prescription drugs under traditional Medicaid

in Pennsylvania, saving the state $500 million per year. Repeal of the ACA in total would prevent Pennsylvania from taking advantage of the Rebate Program in its Medicaid Managed Care program, costing the state at least $500 million per year.

Funding or Savings Lost: CHIP

The Children's Health Insurance Program (CHIP) is funded jointly by the federal government and states through a formula based on the Medicaid Federal Medical Assistance Percentage (FMAP). The basic FMAP rate for the part of the Medicaid program in place before it was expanded ("traditional Medicaid") was 51.78% in Pennsylvania. As an incentive for states to expand their coverage programs for children, Congress created an "enhanced" federal matching rate for CHIP that is generally about 15 percentage points higher than the Medicaid rate. It is 66.25% in our state.

The ACA increased the federal match for CHIP and for some other Medicaid services for children by another 23 percentage points, bringing the Pennsylvania match rate to 89.25%.

The higher federal matching rate saved the state $55 million in 2015-16 and is saving CHIP about $90 million in the 2016-17 fiscal year. Repeal of the ACA would require the state to pay that amount.

Reversion to State Programs: PACE and PACENET

Pennsylvania created the Pharmaceutical Assistance Contract for the Elderly (PACE) prescription drug program for low-income seniors in 1984. PACENET, which helps seniors whose income falls above PACE limits but who still need help paying for pharmaceutical, was added in 1996. Funding for the program comes from the state Lottery Fund. The expenses of PACE and PACNET were reduced when the federal government created the Medicare Part D Prescription Drug Benefit program in 2006. But Medicare Part D has a notorious coverage gap, colloquially called the "donut hole." As originally constructed, after an individual paid a relatively small deductible ($310 in 2010), Medicare Part D paid 75% of prescription drug costs until the threshold to enter the donut hole ($2,800 in 2010) was reached. At that point, individuals were required to pay the full cost of their drugs. After the threshold to leave the donut hole was reached ($4,550 in 2010), Medicare Part D paid for most (usually 95%) of the cost of drugs.

After the introduction of Medicare Part D, PACE and PACENET still helped low-income seniors who fell in the donut hole. But the Affordable Care Act has a number of provisions that close the donut hole. Under the ACA, discounts on prescriptions are gradually phased until the donut hole is eliminated by 2020. In addition, the ACA eliminated copayments for many seniors eligible for both Medicaid and Medicare who received home- and community- based services and allowed widows and widowers to more easily retain their low-income eligibility.

By closing the donut hole, the ACA saved the PACE and PACENET program about $70 million annually. The $70 million in Lottery Funds no longer needed has been used for other senior programs in the state budget, including nursing home care and community-based services in the Department of Human Services. By freeing up these Lottery Funds, the ACA reduces spending in the General Fund budget.

Reversion to State Programs: General Assistance

We saw in Part I that Medicaid expansion provides insurance for 670,000 adult Pennsylvanians. If Medicaid expansion were to be repealed, most of them would lose health insurance entirely. But some of them would receive health care under programs that were displaced by the ACA, but were not repealed.

Prior to the expansion of Medicaid, an estimated 80,000 adults were eligible for health insurance under the General Assistance program. It provides health care to low-income adults who meet any of the following criteria:

- They have a documented physical or mental disability which precludes employment;
- they are caring for a child under age 13 or another person with an illness or disability;
- they are undergoing drug and alcohol treatment;
- they are a victim of domestic violence;
- and they qualify for coverage through "spend down" (i.e, high medical bills) and are working at least 100 hours per month earning the minimum wage.

The annual cost to the state of providing health care for these 80,000 adults would be roughly $600 million annually.

Reversion to Traditional Medicaid: Medically Need Only

Two categories of Pennsylvanians who were eligible for traditional Medicaid under special categories had the costs of their care covered by the Medicaid expansion. If Medicaid expansion is repealed, they will again be eligible for traditional Medicaid. But their costs will be reimbursed at the traditional Medicaid FMAP rate of 51.78% rather than the Medical Expansion FMAP rate of 95%.

The first group of Pennsylvanians who would receive insurance under traditional Medicaid are those who receive assistance under the "Medically Needy Only" category. If enrollment under this category returns to pre-Medicaid Expansion levels, this would cost the state roughly $65 million annually.

Reversion to Traditional Medicaid: Medical Assistance for Workers with Disabilities

The second group of Pennsylvanians who would again receive insurance under traditional Medicaid are those who receive health care under the Medical Assistance for Workers with Disabilities (MAWD) program. Enrollment has decreased 24% (or 9,640 enrollees) from 38,600 in December 2014 (the month before expansion) to 29,154 in December 2016. If enrollment under this category returns to pre-Medicaid Expansion levels, this would cost the state roughly $35 million annually.

Reductions in State Expenditures Due to ACA Repeal

We have been examining various ways in which state expenditures will rise if the ACA is repealed. But there is one way in which expenditures fall due to repeal. Starting in the 2017-18 budget year the state will be responsible for paying 5% of the cost of the cost of health insurance under the Medicaid expansion and in the 2019-2020 year the state will pick up 10% of the cost.

Administrative Costs

The transition to providing health care under the Affordable Care Act required the state to switch from Pennsylvania-specific eligibility standards to the Modified Adjusted Gross Income (MAGI) standards established by the ACA. The Department of Human Services spent a total of $151 million in 2013-14 to update its computer systems for determining Medicaid eligibility. The Federal Government reimbursed the state for 90% of the cost of doing this. Repeal of the ACA might require the state to switch back to its pre-ACA eligibility standard and re-determine eligibility for hundreds of thousands of cases, which would be both costly and time-consuming. And even if the Federal Government picks up some of the cost, it is likely

to do so at the traditional 50% rate. Because this is a one-time cost, rather than an recurring annual cost, we have not included it in the estimate of annual costs to the state.

Uncompensated Care

We showed in Part II of this report that repeal of the Affordable Care Act would create a substantial increase in uncompensated care in Pennsylvania and that, as a result, hospital revenues would decline a great deal, threatening the survival of some hospitals, especially in low-income rural and urban areas.

The increase in uncompensated care and the threat to hospital revenues is likely to lead to a demand from hospital networks and the communities in which they operate to increase state spending for hospitals that carry a disproportionate share of the burden of uncompensated care.

To the extent that this demand is met, state expenditures and (if taxes are not raised to pay for this spending) the structural deficit will increase as well.

It is quite possible, however, that given the existing structural deficit, and the additional burden on the state budget created by repeal of the ACA, the state may not meet this demand, even if that means that hospitals in low-income rural and urban areas begin to close.

Thus we do not include an estimate of additional state expenditures on uncompensated care in our analysis of the impact of ACA repeal on the state budget. Instead we do note that this might provide another source of increased state expenditures as a result of repeal of the ACA and that, therefore, our estimate of overall state budget impacts is conservative.

Totals

The total impact of ACA repeal on annual state expenditures is summarized in Table 4. Note that these numbers are estimates based on repeal being implemented in fiscal year 2017-18. If repeal takes place that year, the state will also save the 5% cost it would bear for the Medicaid expansion, roughly $230 million.

If, as seems likely, repeal of the Medicaid expansion and the tax credits for Marketplace health insurance, is delayed for a few years, the additional costs to the state will be higher by about 3%-4% per year, based on inflation in the costs of health care. And if repeal of the Medicaid expansion is delayed until the 2019-20 fiscal year, the state will not have to pay 10% of the cost of the Medicaid expansion which means that savings will be $460 million per year plus the same 3-4% per year increase in costs because of health care inflation.

Table 4

Additional State Expenditure Required If the Affordable Care Act is Repealed annually in millions of dollars	
Reduced Federal Funding or Savings	
Medicaid Drug Rebate Program	500
CHIP Funding	90
Sub-total	590

Reversion to state programs:	
PACE and PACENET	70
General Assistance	600
Sub-total	670
Reversion to Traditional Medicaid	
Medically Needy Only	65
Workers with Disabilities	35
Sub-total	100
Additional State Expenditures if ACA is Repealed	1360
Reduction in State Expenditures for 5% of Medicaid Expansion	-230
Net Additional State Expenditures if ACA is Repealed	1130
Source: Pennsylvania Budget and Policy Center based on PA budget documents and information from Elizabeth Balaban of the House Appropriations Committee Democratic Staff.	

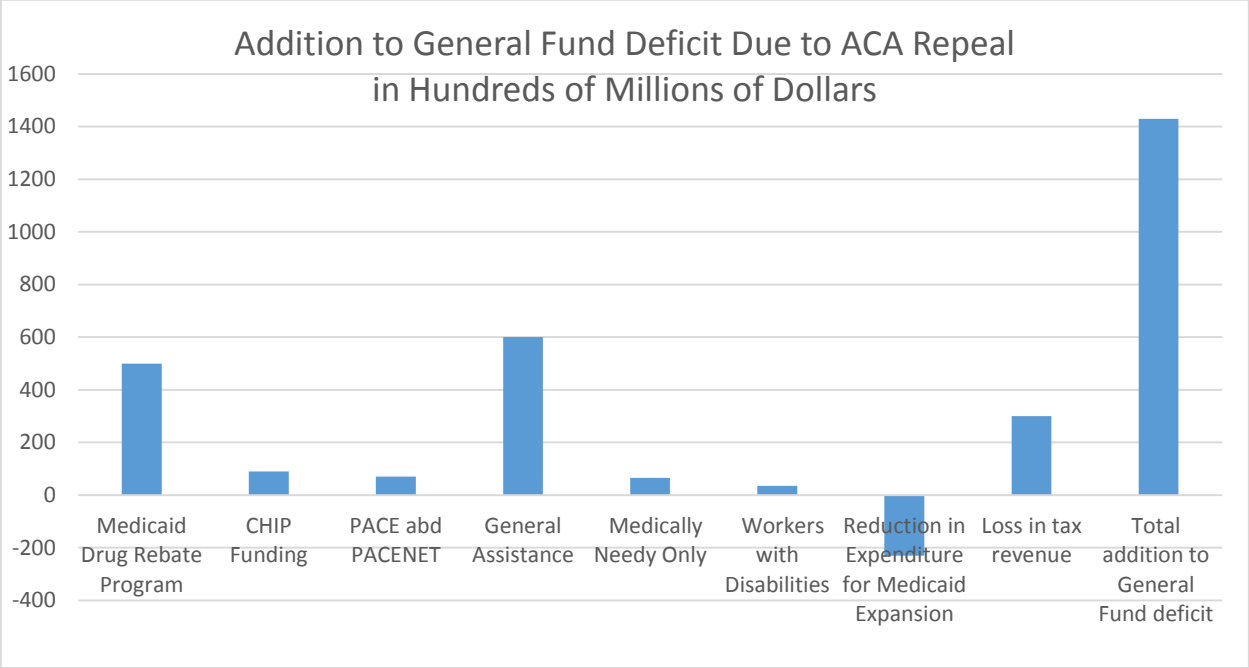
The total annual impact on the state General Fund of ACA Repeal is summarized in Table 5. The deeply problematic structural deficit, which is already embedded in current budget projections, will **nearly double as a result of repeal of the ACA.** At a time when the General Assembly is reluctant to raise revenues to support on-going operations, repeal of the ACA dramatically threatens the fiscal future of the Commonwealth. But the state cannot, under its Constitution, run a deficit. Either substantial new revenues will need to be found to close the deficit, or unprecedented reductions in the only areas where spending is not mandated by contract or federal requirement—education and human services, including health care beyond the reduction that already results from repeal of the ACA—will be needed.

Table 5

Impact of ACA Repeal on PA General Fund If ACA is repealed in 2017-18 annually in $million	
Net Expenditure increase	1130
Revenue reduction	300
Increase in deficit	1430

The information in Tables 4 and 5 is summarized in Chart 4.

Chart 4



Conclusion

The ACA has been controversial. That it has provided enormous benefits to Pennsylvanians, however, should not be, both as a matter of fact and as a matter of fundamental morality.

The facts of the matter could not be clearer. The ACA has extended health insurance to over 1.1 million Pennsylvanians who would lose their insurance if the law is repealed. It has improved the quality and reduced the cost of insurance to those who already had it. It has generated substantial new jobs and economic activity in the state. And it has both increased revenues and reduced expenditures in the state budget at a time when that budget is significantly stressed.

The morality of the matter could also not be clearer. At a time when health care can accomplish so much, it is a fundamental injustice if it is not available and affordable to all. Health care is a right of all human beings. The injustice is magnified when the half of the population that receives health insurance through an employer—a group that, on average, has relatively high incomes—receives a tax subsidy for insurance that is two-and-a-half times greater than the cost of the ACA, which provides insurance to a group that, on average, has relatively low incomes.

A law may be passed in 2017 that repeals key parts of the ACA. But when that law ultimately goes into effect, the loss of benefits to so many individuals and communities and the Commonwealth as a whole will be severe. And that is why it makes no sense to repeal the ACA before some replacement is put in place that accomplishes at least as much as the current law does.

And since no one has put forward any plan for health care that accomplishes what the ACA does and completely replaces the framework of the ACA, it actually makes little sense to repeal it in 2017. Instead members of Congress should be focused on improving and strengthening the law.

Appendix I: The Process of Repeal

As noted in the introduction, Republicans in Congress aim to repeal parts of the ACA through the budget reconciliation process. Congressional action taken through reconciliation process is not subject to a filibuster in the Senate, thus allowing the Senate to act with a majority of 51 votes out of 100 Senators instead of a supermajority of 60.

It is likely that ACA repeal legislation that is enacted through the budget reconciliation process will look a great deal like the legislation passed by Congress under the reconciliation process, but vetoed by President Obama in late 2016. That legislation repealed the Medicaid expansion and the tax credits for purchasing insurance in the marketplace enacted under the reconciliation process in 2010. It also repealed the individual mandate, which requires everyone to purchase insurance or pay a tax penalty, and the employer mandate, which requires all employers with 50 or more employees to provides insurance or pay a tax penalty.

Repeal legislation is likely to delay the end of Medicaid expansion and tax credits for purchasing health care on the marketplace for two to three years, in order to give the Republican majority a chance to devise and enact a replacement for the ACA. But the repeal of individual and employer mandates, which have generated enormous consternation on the part of Republican members of Congress, are likely to go into effect almost immediately.

The reconciliation process cannot be used to repeal parts of the ACA that do not have federal budgetary and tax consequences. Important parts of the ACA, including the guaranteed issue provision, which prohibits insurance companies from denying health insurance to those who have pre-existing conditions, and the community rating provision, which prohibits insurance companies from charging more to those with preexisting conditions or on the basis of gender and that limits the additional amount that insurance companies can charge on the basis of age, cannot be repealed through the reconciliation process. Nor can the minimum loss ratio provision of the ACA, which limits the amount of money from premiums that insurance companies can spend on expenses other than healthcare—such as administrative and marketing costs—be repealed through the reconciliation process. Nor can the requirements that all health insurance plans cover essential health benefits and that health insurance provide preventive care for free be repealed through the reconciliation process. Repealing these provisions will likely require a super-majority of 60 votes in the Senate, as well as a majority in the House of Representatives.

So, too, will any Trump-Republican replacement of the ACA have to be passed with a super-majority in the Senate and a majority in the House.

Appendix 2 Impact of ACA Repeal on the Non-group Health Care Market

In Part 1, we argue that much of the non-group health insurance market will not survive a partial repeal of the ACA and that 75% of those currently insurance in that market, both on the health care exchange and outside it, will lose their insurance. In this appendix we explain why that result is likely.

As Appendix 1 explains, many provisions of the ACA cannot be repealed under the reconciliation process and are thus likely to remain in place even as the Medicaid expansion and tax credits for purchasing insurance in the marketplace are repealed. In particular, the parts of the ACA that prohibit insurance companies from denying coverage (guaranteed issue) or charging more to those who have pre-existing conditions (community rating) are likely to remain in place after the repeal through reconciliation has taken place. Democrats, and many Republicans as well, will not vote to repeal these very popular provisions.

The combination of the repeal of the individual and employer mandate, on the one hand, and the retention of guaranteed issue and community rating on the other, is likely to lead to a massive breakdown in the non-group health insurance market, both inside and outside the ACA marketplace / exchange.

The basic problem is that if people can purchase health insurance at any time and at an affordable rate no matter their medical circumstances—which is the situation created by the guaranteed issue and community rating provisions—young and healthy people have a strong incentive not to purchase insurance at all. They can wait until they develop a serious illness to do so. That incentive is even larger if the government does not help them purchase insurance at a time when their income is likely to be low. But if young and healthy individuals do not purchase health insurance, the average cost to health insurance companies of providing health care to those who do purchase insurance will increase dramatically. To cover their costs, health insurance companies will need to increase their insurance rates. But as rates go up, the number of people who purchase insurance will again drop, both because the incentive to wait to purchase increases and because some people can no longer afford insurance. Further reduction in the number of people who purchase insurance and further increases in the price of insurance ensue. The entire non-group health insurance market thus enters a death spiral that ultimately leads to near-collapse as the only people who purchase insurance are those with high incomes and/or serious illnesses.[20]

This is not a theoretical problem. When New York implemented guaranteed issue and community rating in the 1990s, the non-group insurance market collapsed.[21]

The basic design of the ACA's health insurance marketplace is meant to avoid the problem of a death spiral. Guaranteed issue and community rating make it possible for those with pre-existing conditions to purchase insurance at reasonable rates. Tax credits and cost sharing provisions reduce the cost of insurance for those with low incomes. And the individual mandate prevents people from waiting until they are sick to purchase insurance.

Partial repeal of the ACA dismantles this carefully designed structure. And thus it is likely to lead to a substantial collapse in the non-group health insurance market.

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[20] Because health insurance is a part of compensation for a large number of people in the group health insurance market for businesses and other organizations, even those who are young and healthy are likely to purchase insurance. This is why the death spiral is seen in the non-group but not the group market.

[21]

How far will this collapse go? No one knows for certain. The Urban Institute estimates that the death spiral will result in the non-group insurance market shrinking by 75%. We think that this is a reasonable estimate. Thus, we assume that 320,000 of those who purchase non-group insurance outside the marketplace will lose their insurance as a result of repeal of the ACA. And, while it is likely that the decline in the percentage of those who purchase insurance on the marketplace—but without any subsidy—will be somewhat higher because those people take advantage of the lower on-marketplace rates, we have adopted the same estimate of losses for this category of people insured under the ACA, concluding that 68,000 of the 91,000 people who purchase insurance on the marketplace without any tax credit will lose their insurance if the ACA is repealed.