Obamacare critics misrepresenting 'job killer' claim

DELAWARE VOICE

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The critics of the Affordable Care Act (Obamacare) are at it again. This time, we hear that Obamacare is a "job killer," based on a recent report from the Congressional Budget Office (CBO). But, as is invariably the case, there is a lot less to the story than the critics allege.

Most of the CBO report focuses on the recent rapid decline in the federal deficit, good news that was somehow overlooked by the critics. In an appendix, the CBO also revised an earlier analysis and predicted that Obamacare would result in some workers working fewer hours, others retiring earlier and some possibly dropping out of the labor force. The CBO estimated the net effect at about 2 percent of the workforce in the next decade, a relatively small number, but larger than the 1 percent figure it had previously estimated. As the CBO went to great pains to emphasize, this decline is not because employers will cut back on employment, but rather because some workers will voluntarily choose to work less.

Let's step back and try to understand what is going on. Obamacare changed the health insurance market in two fundamental and related ways. First, insurance companies can no longer deny insurance to anyone because of a pre-existing condition or charge them more on account of their health history, except for a surcharge for smokers and another based on age.

Second, everyone must buy insurance coverage that meets basic conditions or pay a penalty. If individuals could buy insurance whether or not they had a pre-existing condition and weren't required to carry insurance, many would simply wait until they were seriously ill before signing up for insurance. Clearly, that won't work.

Because health care in the US is so expensive, Obamacare has a third important feature. Families who cannot afford to purchase health insurance are given a subsidy so that they don't pay more than 9.5 percent of their income for health insurance. Without that, the individual insurance requirement wouldn't be fair.

It is precisely these three features of Obamacare that lie behind the CBO finding of a decline in employment. Why?

First, prior to Obamacare, some people with serious health issues continued working, because they were eligible for group health insurance through their job. If they left their job before they were eligible for Medicare, they would never be able to obtain health insurance in the private market because of their health status.

The Obamacare ban on denying coverage due to pre-existing conditions eliminates the need for such individuals to remain employed.

Second, others may cut back on their work hours because of how the insurance subsidy works. That subsidy is reduced as family income rises. This is standard practice; it means that the subsidy is directed to those who are most in financial need. Sorry, Donald Trump – no subsidy for you.

As a result, the subsidy operates like an income tax. If your income increased by, say, $2,500 and your subsidy fell by $250, this is equivalent to a 10 percent tax on your earnings, over and above any other taxes you would have to pay. This reduces what you get by working and is, therefore, an incentive to cut back hours of work, where feasible. For example, a parent might work part time instead of full time in order to accommodate school schedules or help an elderly parent or relative in need. Some others might cut back on a second job. That's what the CBO report means when it says that some individuals will choose to work less.

A subsidy that phases out with income is actually a policy that Obamacare critics would support enthusiastically in any other context. Think what the alternative is: we could provide "free" insurance to everyone regardless of income (hello, Donald Trump) and finance it by increasing income tax rates across the board by a few points.

This would minimize work disincentives by spreading them out over a broader population with very minor effects. But it would involve the government in health insurance markets in a way that would dwarf the impact of Obamacare and that the critics certainly would not want.

Moreover, their criticism of the work disincentives of Obamacare is entirely hypocritical. Believe it or not, the recent Republican proposal for individual health insurance includes exactly the same work disincentives as Obamacare. Why? Because they are an inherent feature of any plan that provides health insurance assistance on a sliding scale based on income.

The only health care reform plan guaranteed to have no effects on work is a plan with no benefits at all. Maybe that's what the Obamacare critics actually want.

Obamacare is not perfect. Health care and health insurance markets are sufficiently complicated that reform will undoubtedly take some years and some revisions to get right.

We ought to focus now on ways to improve Obamacare and not get distracted by peripheral and insignificant issues. The recent criticisms of the Affordable Care Act as a "job killer" fall squarely within that category.

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