Over five years after the Affordable Care Act (ACA), also known as “Obamacare,” went into effect, it still remains a highly controversial topic and will likely surface as an explosive issue in the 2016 elections. It initiated the most significant changes in the U.S. healthcare system since Medicare and Medicaid were established in 1965 and has changed the fabric of healthcare in America by providing treatment and coverage to millions of the uninsured while transforming the insurance and hospital industries. Changes in these industries to comply with the new regulations have resulted in massive consolidation. Such consolidation has the potential to improve care, but it could also increase the ability of individual healthcare providers and insurers to demand higher prices and leave consumers with fewer options.

What is the ACA?
The goals of U.S. healthcare reform are to increase access, improve quality and reduce costs through a sustainable healthcare system. The concept behind the ACA was to create an individual mandate for Americans to obtain insurance, as well as provide subsidies for private insurance. The ACA doesn’t change the way insurance is obtained, as Americans can still buy private insurance or receive employer-based insurance or insurance through a government program like Medicare or Medicaid. Under the ACA, however, a new way to purchase insurance was established. Now, insurance can be purchased through state or federal Health Insurance Marketplaces where consumers can receive cost assistance and comparisons of the various health plans being offered.

To address the quality and cost issues, the ACA contains numerous provisions that directly target how healthcare is organized, delivered and paid for. These provisions take aim at the well-known shortcomings of the U.S. health system, including the inefficiency and high cost of the predominantly fee-for-service system, as well as the extreme variability in the quality of care patients receive. These provisions include testing new delivery models and...
spreading successful ones, encouraging the shift toward payments based on the value of care provided as opposed to the volume of services and developing resources for system-wide improvement.

The ACA is estimated to cost $1.1 trillion over the next ten years according to an updated Congressional Budget Office (CBO) report. Budget cuts, taxes and government funding are expected to help fund the ACA. This includes a 0.9% Medicare tax and tax on income of over $200,000, cuts to wasteful spending, a tax on insurance companies and a tax on employers with over 50 full-time employees who do not supply their employees with affordable and quality healthcare.

**ACA’s Impact on the U.S. Healthcare System**

While obtaining exact enrollment data on the ACA is difficult, a recent report from the U.S. Department of Health and Human Services (HHS) from March 2015 estimates that 16.4 million Americans gained coverage under the ACA since 2010 with Marketplace, Medicaid expansion, young adults remaining on their parents plan and other coverage provisions.

The current uninsured rate is approximately 12%, down from a pre-ACA level of around 15%. Recently, the CBO projected that 8 million fewer Americans will gain coverage from the health law compared to the original estimates. When the CBO first estimated the ACA’s impact on the uninsured in March 2010, the agency predicted that the law would reduce the number of uninsured Americans by 32 million by 2019 as compared to the current projection of a reduction of 24 million.

Health insurance premiums have risen dramatically under the ACA. The primary cause of the insurance premium rate hikes is the requirement for insurers to cover high risk consumers, along with a few other required benefits, rights and protections, such as the elimination of lifetime caps. For example, insurance companies can no longer deny Americans with pre-existing conditions and can’t charge higher rates based on health status and gender.

While health insurance premiums have risen, the rate of growth in the increase has been less than the CBO initially projected. The lower than expected growth in insurance premiums can be tied to the rise of high deductible plans, as shown in Exhibit 3, where most if not all of the costs are out of pocket. This is largely a result of cost shifting of responsibility for healthcare ex-
expenses to consumers through higher deductibles, higher copayments and higher co-insurance – a practice that has been in place since long before the passage of the ACA. Premiums for policies will certainly continue to rise and fuel the increase in high deductible plans.

The widespread adoption of high-deductible plans does, however, face two major challenges. First, a main premise of these plans is that much of the money saved in premiums be put into health-savings accounts to help pay for routine care that can grow over time. Without that backstop, consumers will be given a false sense of security without coverage for everyday care and dedicated financial resources. Consequently, high-deductible plans can leave patients underinsured and result in necessary medical care being missed or delayed. Recent estimates from the Commonwealth Fund indicate that 23% of 19- to 64-year-old adults (31 million people) were underinsured as measured by the level of the deductibles in their plan relative to their incomes. Second, consumer-directed healthcare works because it encourages competition. Unfortunately, competition in medicine may decrease as hospitals and insurers merge, potentially leading to higher and more opaque prices.

**Small Businesses and the ACA**

Employer plans cover nearly 60% of working-age Americans, or about 150 million people. Yet half of America’s uninsured are small business owners, employees or their dependents. For the ACA to succeed, its health insurance exchanges must enroll small businesses. The ACA is designed to help most small businesses, which have historically had a much harder time providing themselves and their employees with insurance due to rising health insurance costs. This problem has only become more severe in the past decade.

The vast majority of American small business organizations (97%) employ fewer than 50 employees and are thus unaffected by the employer mandate under the ACA that applies to businesses with 50 or more full-time equivalent employees. The ACA, however, provides generous tax credits to smaller businesses with 25 or fewer full-time equivalent employees. Small businesses, starting in the 2014 tax year, can claim a larger tax benefit for providing healthcare to employees. The tax credit is aimed at helping small employers pay for employee health insurance and to encourage more of them to offer it.

The healthcare tax credit, however, is underutilized. In the credit’s first year, only 170,300 employers claimed it, according to a study by the Government Accountability Office. An estimate by the Council of Economic Advisers estimates up to 4 million small businesses could be eligible for the credit if they provided healthcare for their employees. One of the biggest challenges to its uptake is that average wages for the employee group covered must be less than $25,000 in order to receive the maximum tax credit, and it can be difficult to find such groups to qualify. Additionally, the complexity of the rules and commitment required to collect the credit discourage many small business owners.

The Affordable Care Act does not require businesses to provide health benefits to their workers. However, employers with more than 50 employees face penalties if they don’t make affordable coverage available. The tax is $2,000 per worker or $3,000 if the worker buys insurance through the exchange. This system is similar to the current unemployment tax already in effect, which requires American businesses to pay a modest and fair tax to aid the state-run unemployment and workers compensation programs.

With the ACA, the penalty helps pay for workers who will buy insurance through the exchange or need emergency services, both which will drive the cost of healthcare up. The Obama Administration announced “transition relief” under which the penalties will go into effect in 2015 for employers with 100 or more employees and in 2016 for employers with 50 or more workers. Therefore, some of the impact from these regulations has yet to be seen. Exhibit 4 outlines the penalties employers face for not offering affordable healthcare coverage under the ACA.

**Conclusion**

While the jury is still out on the success of the ACA five years after its pas-
sage, it appears that the ACA has made strides in addressing access to care but has potentially exacerbated the issues of cost and quality of care in America. Healthcare reform should address the high levels of waste, fraud and abuse in the Medicaid program, rather than vastly expanding the Medicaid program while leaving its structure largely untouched, as is the case under the ACA. Additionally, Medicaid reforms should provide options for individuals to buy private coverage. With a growing number of Americans on government healthcare that imposes price controls on healthcare providers, significant tradeoffs must be made by patients on these plans with regards to access and quality of care. Continued cost shifting back to private carriers continues to drive up costs to subsidize government plans and uncompensated care for the uninsured, threatening to make private plans unaffordable to all but the affluent.

While there is no silver bullet in addressing the alarming rise in healthcare costs, any meaningful healthcare reform should be rooted in a market-based approach. A market-based payment and delivery system that aligns the interests of all its stakeholders to provide better access and higher quality of care at more affordable pricing is one of the key tenets of a well-functioning healthcare system. A solution will involve clear financial incentives that promote value (pay for performance) over volume (fee for service) and foster consumerism in healthcare that will result from greater competition and transparency and less government intervention. Finally, the healthcare system should preserve the trusted relationship between doctor and patient; human capital is the backbone of the healthcare industry.

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Exhibit 4: Penalties for Employers Not Offering Affordable Coverage under the Affordable Care Act

Source: The Henry Kaiser Family Foundation.
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