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5 on 45:
On Trump's ACA replacement challenges

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PITA: You're listening to 5 on 45 from the Brookings Podcast Network: analysis and commentary by Brookings experts on today's news regarding the Trump administration.

AARON: I'm Henry Aaron, Bruce and Virginia MacLaury Senior Fellow in the Economic Studies program at the Brookings Institution. A month into his presidency, Donald Trump has discovered that healthcare policy is complicated. That he is surprised is stunning. For six years, Republicans have pledged to repeal and replace the Affordable Care Act, better known as Obamacare, without coming up with a replacement they can agree on. They've also pledged to scrap the current Medicaid program, but haven't gotten specific about replacement for it either. What's going on?

Well, part of the problem is that the Republican Party, just like the Democratic Party, is a coalition of people who disagree on a lot of things. Health insurance policy happens to be one of them. Republicans agree that they don't like Obamacare, but they agree on almost no other aspect of healthcare policy. If that weren't bad enough, Donald Trump, first as a candidate and now as president, has laid down conditions for a "satisfactory" replacement that cannot be met. He promises to replace Obamacare with a plan that covers as many people as the ACA does, that imposes fewer costs on those who are insured, and that costs taxpayers less than the ACA does. Now those are great goals, but there's a problem. Achieving all three at the same time isn't just hard, it's impossible. Saving federal money means shifting costs to patients or cutting benefits. Maintaining coverage requires keeping the subsidies that make health insurance affordable. Yes, it's true eventually growth of healthcare costs may be slowed by

improving efficiency, but doing that's going to take many, many years. Meanwhile, the Trump program goals are fantasy.

Let's be clear: most people covered by Obamacare are happy with their plans, but some are not. The major reasons for unhappiness are high premiums or high deductibles and cost-sharing. And here's the rub. The alternatives the Republican members of Congress have put forward so far all would make the current shortcomings worse. That's the reason Republicans got hammered during their recent spring-break meetings with constituents, and it is why no repeal and replace plan is likely, in the end, to pass both houses of Congress. Republicans, like Democrats, will not want to be held responsible for taking away coverage from tens of millions of fellow citizens who enjoy coverage because of Obamacare, and they won't want to be charged with making costs higher for those who still have coverage.

The other element of the Republican health platform, block-granting Medicaid, has gotten less attention so far, but perhaps not for long. We're going to have to step a bit into the weeds here. Under Medicaid, the federal government gives states from \$1 to \$2.90 for each dollar that states spend out of their own money on Medicaid. High-income states get less, low-income states get more. Those grants help pay for healthcare for more than 70 million low-income people – children and their caregivers, people with disabilities, and the elderly. Under current rules, federal support goes up automatically when enrollments grow during recessions or epidemics, and they go up when per-person healthcare costs rise. But the program is expensive. It's projected to cost an estimated \$5 trillion over the next decade. Republicans want to cut the program. A lot. 40%, under the budget resolution passed last year by the Republican-controlled

House of Representatives. Besides cutting the program, the Republican plan would cap per-person spending so that the federal outlays wouldn't go up even when per-person healthcare costs rise.

Now, there are a couple of reasons why the prospects for passage of the block grant are really not much better than those for repealing and replacing Obamacare. Medicaid is big: the largest or second-largest program in virtually every state. Cutting federal aid by 40% would force governors and state legislatures to do one thing or another they hate doing: savage benefits for their most vulnerable constituents, vastly raise state taxes, or slash other state spending. And most of those governors and state legislatures right now are Republicans. Even worse, huge state-to-state variations in current Medicaid spending mean that members of Congress can't avoid a nasty formula fight. That's where each member tries to defend his or her state's interests. But with a shrunken pool of funds, virtually every member of Congress would have to defend a plan that hurts his or her state, and that means that the campaign to convert Medicaid into a block grant is likely to be no more successful than the effort to repeal and replace Obamacare.

Bottom line? Both of the two planks in the Republican health policy platform are likely to fail. Now that may be bad news for Republican credibility, but it will be good news for tens of millions of people who depend on Obamacare and on Medicaid for their health benefits.

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