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Obamacare and the Young Invincibles

Will a PR campaign convince healthy twentysomethings to buy insurance if they don't want to?

By John Davidson

Lost in a spirited online debate last week about what young, healthy people — so-called invincibles — will pay for insurance on the Obamacare exchanges is a mundane truth: Some people don't want to buy health insurance and will refuse to buy it no matter what the government says.

That's especially true of the invincibles, whose participation in the Affordable Care Act is crucial. If they don't sign up for insurance on the exchanges, the federal health-care law could implode almost as soon as it goes live on New Year's Day, 2014.

The much-hyped insurance exchanges are a centerpiece of Obamacare. Their purpose is to organize an "individual insurance market" for the self-employed and also for tens of millions of employees who will probably get dropped from their employers' health-insurance rolls as a result of Obamacare's premium sticker shock. Those uninsured are supposed to be able to go "shopping" for health insurance on the exchanges as easily as if they were browsing for books on Amazon.

Well, maybe not quite as easily. It remains to be seen whether the federal government even has the capacity to set up and run exchanges in the 26 states that have refused to create one, as well as in the seven states that have opted for a "partnership exchange." The October 1 deadline, when the exchanges are supposed to begin enrollment, looks increasingly unrealistic.

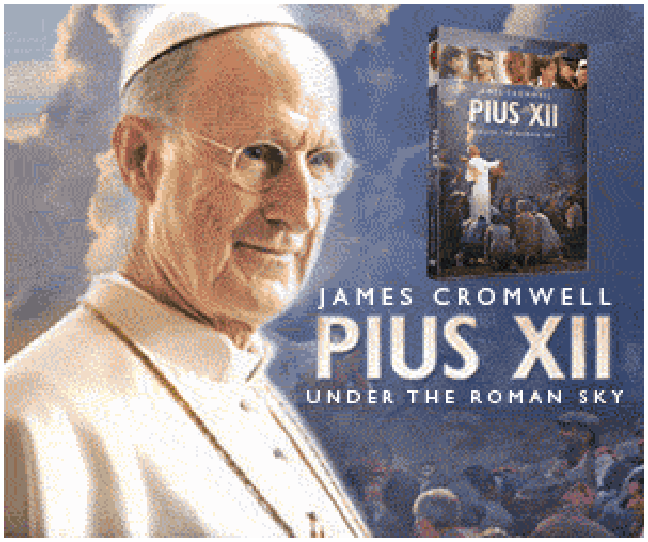
But the technical details of the exchanges, and the amount that young people will have to pay, aren't the real issue. The real question is whether young, healthy twentysomethings will even bother to sign up. If they don't, premium costs will dramatically increase for the comparatively older and sicker people who do enroll on the exchanges — and the administration knows it.

Ezekiel Emanuel, a former Obama health-care adviser and Obamacare architect, admitted recently that "anxiety is increasing" over the exchanges. Jonathan Cohn at *The New Republic* is a little worried that a dearth of young enrollees could lead to what actuaries call adverse selection, or a "death spiral," where rising premiums make healthy people drop out, driving up premiums even more until the only people left on the exchanges are those with costly medical bills. Such a spiral would result in extremely expensive insurance.

This is precisely what happened in a handful of states that in the 1990s adopted health-insurance reforms including guaranteed issue (forcing insurers to offer policies to applicants regardless of their health status) and modified community rating (limiting how much insurers can vary premiums based on factors such as age and health). Eight states adopted guaranteed-issue and community-rating reforms in the individual market in the early Nineties, and they all suffered a rapid death spiral. Premiums skyrocketed, the number of uninsured went up, and the individual market dried up as insurers pulled out.

Obamacare seeks to solve the adverse-selection problem by mandating that everyone buy health insurance, ensuring that all plans on the individual market are guaranteed issue, and providing subsidies to purchase insurance. With an individual mandate, so the thinking goes, younger and healthier people will *have* to stay in the market, and premium costs will remain low. But if the young and healthy ignore the mandate, some form of death spiral is bound to ensue, as it has in the past.

Emanuel and other exchange champions propose to tackle the problem with a savvy marketing campaign targeted at the invincibles. "We need to make clear as a society that buying insurance is part of individual responsibility," he writes. What he really means is that buying insurance is part of the administration's concept of *social* responsibility: The young and healthy should be forced to pay more for insurance they might not want or need so that the old and sick will pay less for insurance they do need.



That's not a glitch in the law, but part of its design. But the penalty for not having government-approved insurance isn't nearly harsh enough to convince young people to buy coverage. According to the Kaiser Family Foundation's subsidy calculator, a 27-year-old making $23,302 a year (200 percent of the federal poverty level) will face an estimated premium of $3,163 in 2016. The federal subsidy on the exchange would cover $1,695, leaving an out-of-pocket difference of $1,468. If our 27-year-old is healthy and has other uses for that money, he'll most likely opt to pay the fine, about $582, which will automatically be deducted from his federal income-tax refund.

California just released its 2014 exchange rates, which have provoked much commentary and hand-wringing in the press. Avik Roy demonstrated convincingly that young men in California — "bros" — will pay much more for health insurance on the exchange than they would have to pay right now. Megan McArdle played around with Kaiser's subsidy calculator and found that a 25- or 30-year-old freelancer in California will pay more than he expected to when the law passed — anywhere from a total of $135 to $235 a month. She's "agnostic" on the question of whether young people will purchase insurance they have heretofore declined to buy, but she notes optimistically that "the individual mandate is now the law of the land, and Americans are pretty law abiding."

True, most Americans are pretty law abiding. But keep in mind that these are twentysomething men we're talking about; they have at best a weak incentive to buy expensive, complicated health insurance, even if it is the law. And anyway, the U.S. Supreme Court interpreted the insurance-mandate penalty as a tax, which means choosing not to buy insurance is really just choosing to pay an extra tax. That's not the same thing as breaking the law, and most young people probably won't think of it that way.

Cohn and others worry that the administration will be doing outreach on "a tiny budget," thanks to congressional Republicans, and the word will not get out to the invincibles the way it needs to, and that lack of information will be the real culprit if the exchanges collapse.

But the truth is that no amount of marketing glitz can make the exchanges seem like a good deal for young people, or force them to buy insurance if they don't want it. To get people to comply with an individual mandate, the penalty for not buying insurance would have to be much more severe — a penalty higher than the cost of a premium, or maybe a stint in prison. But that's a level of coercion the American people are not ready to allow just yet.

At a press conference last week, Nancy Pelosi was asked about the problem of getting invincibles to sign up for health insurance. She reasoned that "the value of what you get for the cost that you pay is a reduction in cost to you," which is why she has, she says, the "strong support" of the invincibles. "For everybody, it is going to be, again, a liberation, a freedom."

What Pelosi really means is that you are going to be liberated from having to make a choice about whether you want to buy health insurance. The government will free you of that burden, like it or not. And don't worry, you're getting a good deal. Trust us.

What Pelosi and the others don't seem to realize is that, while Obamacare might have worked in a dictatorship, it will never work in a democracy. Free men and women, after all, have an annoying tendency to do as they please. This, more than any other factor, will be the law's undoing.

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