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Plan B for Defunding Obamacare: Cap the Insurance Subsidy

By Mario Loyola

The politics of trying to defund Obamacare, on threat of shutting down the government, may well be bad for Republicans, as [Ramesh](#) and others have argued. But the funding for Obamacare is the right issue to focus on — the central front in the battle to defeat the law. Of all the bad things about this law, by the far the worst is its creation of a new open-ended middle-class entitlement in the form of insurance-premium subsidies for people making between 138 and 400 percent of the federal poverty level — basically the entire middle class. That subsidy is the embryo of the socialized “single payer” system that the Left wanted all along, as my colleague John Davidson [explains](#). The Obama administration is perfectly happy to see major parts of the law collapse — for example, the employer mandate — if at the end of the day what is left is the subsidy and the insurance-product regulations (guaranteed issue, no exclusion for preexisting conditions, mandated coverage of everything, etc.)

If the gambit to defund Obamacare looks like it might not have the votes to work, here’s a great plan B.

First, let’s recall the economics of Obamacare. As we have learned over the years, there is no way to guarantee that everyone can get health insurance without increasing the costs to health insurers, because healthy people start waiting until they get sick to get health insurance. Insurers then have to charge higher premiums, which drives still more healthy people off the insurance rolls, further increasing costs, and premiums. The result is what health-care analysts call the “adverse selection death spiral.”

When you require health insurers to enroll all comers, regardless of preexisting conditions — which is what Obamacare does — there are only two ways to prevent this death spiral from happening: Either *force* everyone to get health insurance, or *pay for* everyone to get health insurance. Obamacare is supposed to do both. But the

individual-mandate penalty is so weak that millions of young people are likely to ignore it.

That's just fine from the administration's point of view. The part of the law they're really interested in is the subsidy — the new middle-class entitlement. And here's the crucial thing to understand about that subsidy. If you qualify for it, along a sliding scale, your insurance premiums are “capped.” The government picks up the rest of the premium increases, subject to certain “soft caps” down the road. The federal deficit is doubly exposed to these insurance premium increases: both through the exchange subsidy and through a separate cost-sharing (deductibles) subsidy. What that means — *and this is perhaps the single most crucial fact about the entire law* — is that the federal deficit is going to absorb most of the increase in insurance costs resulting from adverse selection as healthy people drop insurance in response to the law's incentives.

By now, the plan B should be obvious: allow the continuing resolution to fund Obamacare, but only up to to the levels provided in current law without any adjustment for premium increases. In other words, the CR should tweak the language of the law (particularly sec. 1001, P.L. 111–152) so as to ensure that the federal budget absorbs no increases in health-insurance premiums moving forward. The CR can protect America from exploding deficits through “hard caps” on the insurance subsidy.

The politics of such a proposal would be lovely. If, as President Obama and the Democrats have argued all along, the law actually reduces health-care costs, then Democrats have no reason to fear a hard cap on the insurance subsidies. But if, as conservatives have argued all along, the law significantly increases per-unit costs for health insurers, then this plan B would create the conditions for a rapid death spiral at the very heart of Obamacare. The implosion of Obamacare's core insurance regulations would then be inevitable within just a few years, forcing Congress to go back to the drawing board.

Long story short: If you can't defund Obamacare, cap it. You will kill it just the same.