

# 🇺🇸 THE WORST KEPT SECRET? – THAT WOULD BE OBAMACARE’S TRUE COST! – How Can it be Fixed?



Stephen L. Bakke 🇺🇸 August 6, 2012

*Making the simple complicated is commonplace; making the complicated simple, awesomely simple, that's creativity.* – Charles Mingus, American jazz bassist and composer.

*ObamaCare is the most complicated, convoluted, conflicted, and inherently counter-intuitive legislation I can imagine. But people shouldn't assume there's only one way to skin a cat! All of the credible and desirable goals of ObamaCare can be achieved in a simpler, cheaper, more consumer friendly, and business friendly manner.* – Stephano Bakkovich, obscure (but very wise) economics and political scholar – and (pretend) pundit.

## First, Recall the Accounting Gimmicks! They're Coming Back to Haunt!

DILBERT by Scott Adams



The Congressional Budget Office was given the job of “scoring” ObamaCare – a job they did faithfully, as required. But remember some of the finer points of the department – i.e. CBO is required to take written legislation at face value and not second-guess the plausibility of what it is asked to “score.”

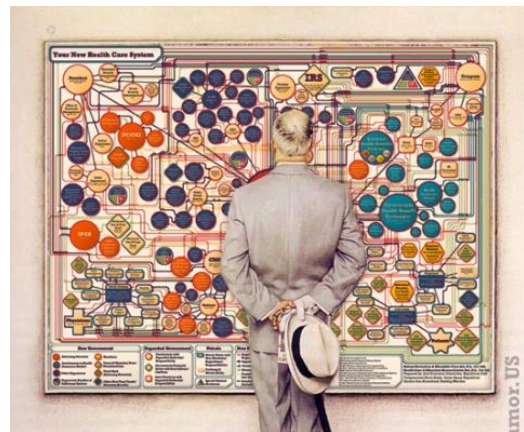
CBO cranks out numbers having been given assumptions which it does not control or evaluate. It has no duty to evaluate the viability or probability of the assumptions. In fact, it is required to simply accept the assumptions it is given. The majority party is able to get an advance “glimpse” of the final report and then it can “tweak” the assumptions and instructions given to CBO to generate the desired result. CBO is a large calculator/number cruncher; and just like any mechanical or electronic data processing system, garbage in/garbage out. **CBO’s reports must not be interpreted to imply credibility of assumptions or viability of predictions included in any legislation!**

Actual facts and subjective assumptions began to lose their individual identities as they were spun and woven, and re-spun, over and over until ObamaCare supporters got the answer they wanted. Only when they had cut and pasted together a set of assumptions for the CBO to score “in their favor,” did they bring it to the floor for the final vote. It was a “Frankenstein Monster” when they got done with it. Please recall the following:

- **The “Doc Fix”** - This is a legislative measure whereby substantial proposed reductions in doctors’ reimbursement rates for Medicare and Medicaid are necessarily perpetually delayed. With the CBO scoring results persistently showing marginal or significantly unattractive results, it was necessary to get creative. The higher costs for “Doc Fix”, which were inevitable, were written out of Obamacare because including them made the results unattractive. “Doc Fix” costs were separated from the reform legislation, **but they WERE separately approved in different legislation and did not count against the CBO score for the reform legislation.** Impact? Merely a couple hundred billion dollars!
- **Front-loading Revenue While Back-loading Costs** – A basic rule in any accounting or budget system is the “matching concept.” That means, in order to be meaningful, revenues and costs MUST relate to the same time period. In public companies, a material violation of this concept would result in fraud charges with the possibility of prosecution. But not in Congress where different rules apply! The final legislation laid claim to being budget neutral, or even better, over the decade beginning in 2010. But here’s the “rub”: substantially all costs of the reform occurred during the period 2014 through 2019, whereas the revenue (increased taxes and reductions to expenditures for Medicare and Medicaid, etc.) started immediately in 2010. **VOILA** – out came the desired deficit neutrality. Impact? In the hundreds of billions of dollars.
- **Double Counting** – While claiming to be strengthening Medicare by taking out “waste, fraud, and abuse,” they used the savings to fund the new law. That’s just not right. If you accept the premise of strengthening Medicare’s viability in this manner, the funds ARE NOT available to be reused in this way. **Furthermore, many experts feel these savings will not be possible unless services are actually cut for Medicare recipients.** Nevertheless, CBO had to score it as if it would happen. CBO had no right to evaluate the viability or probability of the assumption. Impact? About \$500 billion. *(Since their original report, CBO issued a memo pointing out that Congress can’t have it both ways. CBO referred to this as “double counting.” If costs are saved in Medicare, that program is strengthened only if those savings are not spent on something else – i.e. paying for ObamaCare. The Democrats in Congress were making both claims simultaneously! AND THEY STILL ARE!)*
- **Costs Ignored Entirely** – It appears that to operate the new programs, even in the first 10 years, future Congresses would need to vote for billions in additional annual spending. These are referred to as “discretionary spending”, but many believe future Congresses will have little choice. These costs were left out of the CBO cost estimates. Impact? About \$114 billion, according to the NY Times.
- **THE “CLASS Act”!** – The first back loading scam worked well so they tried it again. When more “budget balancing assumptions” were needed, the Democrats created a long-term care program (CLASS Act) which would charge premiums immediately, but the assumption was that those signing up would be younger and require very few benefits during the decade being measured starting in 2010. Once again, revenues early with expenses coming later. Estimated impact? A mere \$70 billion. AND NOW, Secretary Sebelius has admitted she must dispense with this flawed program as “unworkable.”

- **Student Loan Legislation** – A federal takeover of the student loan program was slipped into the final legislation through some thin thread of logic. This takeover was a separate agenda item, but when they saw they could rationalize predicting some cost savings compared with the current student loan program, it was attached to the health care legislation. Impact? \$19 million dollars.
- **The State of the States?** – Ever hear of unfunded state mandates? That means that, as a result of this reform, costs for Medicaid were increase for each individual state, without funding from the federal government. **CBO estimates did not include this in their original cost predictions.** And now, with the Supreme Court declaring that the feds could not mandate the states to bear an increased burden of Medicaid, many states may not participate in the program. **So now the federal budget must assume these costs. The impact will be significant.** They can't avoid accounting for these costs any longer!
- The Heritage Foundation reported early on that **former CBO Director Doug Holtz-Eakin** pointed out that businesses, particularly those with low-income employees, could drop their health plans, raise wages to make up for the lost benefit, pay the very cheap Obamacare employer penalty for not offering insurance, and still come out ahead. These predictions appear to be coming true and the cost of the subsidy program could greatly exceed initial projections.

One final note - in spite of the original prediction of a 10 year cost savings, at one point **CBO Director Doug Elmendorf** boldly wrote: **“CBO’s cost estimate noted that the legislation maintains and puts into effect a number of policies that might be difficult to sustain over a long period of time.”** He also once again reminded all that a number of specific Obamacare policies, such as arbitrary reductions in the growth rate for Medicare spending, would be difficult or impossible to implement.



And you think you're confused?!

### Is There Anything New from the CBO?



There sure is! The original ten year estimated cost was scored at about \$940 billion. If I read the CBO estimates correctly, it will now cost \$1.76 trillion – a conservative estimate. Would the legislation have passed if these more realistic numbers had been submitted for consideration? **No way!** And the estimates can reasonably be expected to go up, and up, and up!

*We now have the government assuming a huge role in our lives! Nothing like it has ever happened before! Our government should assume the role of a “regulator and facilitator,” thereby creating an environment compatible with creativity and improving health care. INSTEAD OF THAT approach, our government insists on directing and controlling over 20% of our economy because “they know best.” On what other issue could you see more clearly the difference between a liberal/progressive program and a conservative one? – That “pretend pundit” again.*

## **How We Can Save Costs Compared with ObamaCare’s Crushing Spending Plans!**

The last section listed some of the false and misleading gimmicks that were employed to hide the true costs of ObamaCare while it was being debated and sold to the American public. Next we need to consider actual differences of approach that will differentiate a conservative approach from the ill-conceived ObamaCare.

**First** I will list some of the unhidden elements of ObamaCare that [need to change](#):

- [Health Savings Accounts will be severely limited](#). These are noted for their efficiency and cost-saving aspects, and they keep the government out of the process by getting the patients directly involved with making decisions and writing the checks.
- [If you want less of something, just tax on it to make it even more expensive. That’s what ObamaCare does to medical technology development](#). For those purchasing medical devices, a 2.3% excise tax will be applied. It’s estimated by Washington accountants that this will cost the industry approximately \$3 billion per year – and to what real advantage other than making the original legislation artificially look more economical relative to increasing the budget? You can easily find many reports of medical device manufacturers cutting back plans for hiring and expansion – all because of this tax and the resulting lower returns. **It makes no sense!**
- The employee portion of [Medicare payroll taxes to families earning over \\$250,00 will increase](#) from 1.45% to 2.35%. The important feature here is that it isn’t indexed for inflation so more citizens will be affected each year.
- The [payroll tax increase will also be applied to high earners’ investment income](#) including capital gains, dividends, rents and royalties. There will even be a [tax added to home sales](#).
- And on and on – believe me!

And here are elements of a new system that would have significant savings:

- [Insurance transactions should be transparent and consumer driven](#). Ideally, individuals should own their own policies. Once they actually control the treatments and costs, through ownership of their portable insurance policies, consumers collectively will apply pressure to get more value for their dollars. Individuals should be able to choose their coverage and not have to purchase benefits they don’t want and will never need. Individuals should have periodic opportunities to change coverage, which would introduce more competition between insurance carriers.
- [Moving away from “first dollar coverage” would save insurance costs overall](#). That coverage is not “insurance” at all – merely a payment system with hefty “fees” being tacked on by the insurance carrier. Under an ideal plan, the consumer would be

paying for these services directly, and the costs would be neutralized by the introduction of generous deductibility and tax credits for medical expenses. Those tax policy parameters would be left up to the legislators. Health savings accounts (HSAs) would be the vehicle used to accomplish this. Overall, costs would be saved.

- There should be much more competition introduced by erasing the artificial state boundaries. Consumers could then choose from dozens, even hundreds, more insurance carriers than are now available to them. That's great for competition.
- Implementing tort reform could save costs. There are estimates that 10% of our health care costs are directly or indirectly related to this problem. Victims should be "made whole" to the extent possible given their situation, but extreme punitive damages should be reasonably "capped." The result would be a reduction in defensive medicine and redundancy of testing and treatment, in addition to savings in malpractice insurance litigation and settlements.
- If we can increase the numbers of people entering health care professions, the increased supply will at least have the effect of slowing the increase of costs. Getting the government "out of the way" is the answer.
- Using the IRS, an existing bureaucracy, to handle the "social" aspects of the system such as tax deductions, tax credits, and refundable tax credits, my suggestions would forgo the enormous new bureaucratic costs implicit in Obamacare's establishment of "30 or 40 or 50" new bureaucracies and tens (perhaps even hundreds) of thousands of added government employees.

### **The Republicans Have a Responsibility!**

**This does not absolve the Republicans from producing a health care replacement. They will and should be judged by how well their alternative addresses the needs of the uninsured and the anxieties of the currently insured.** – Charles Krauthammer.

In summary, a successful "repeal" effort will introduce another step which is necessary for making progress and fulfilling a new responsibility for the Republicans. That process is to "replace" what has been repealed, and it should introduce important and popular elements of any new reform of health care: deal with the oppressive pre-existing conditions and lifetime coverage limitations; create the ability to shop for coverage "across state lines"; create a "shopping-basket" approach for buying health coverage; enforce cost transparency for the consumer; legislate meaningful tort reform; and more.

### **A Reminder as to the Advantages and Costs of True Quality**

While saving costs is important, we should also remember that sometimes high costs are the result of high quality and innovation rather than just excess volume and inefficiency. Demonstrably higher quality does cost more than mediocre or inferior care. As we try to reform our health care system in the right way, we must remember to **THROW OUT THE BATHWATER, BUT KEEP THE BABY!**

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*In my next report on health care reform, I will expand on how I think ObamaCare should be replaced.*