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WGLT Radio Sound Ideas Interview with Greg Shaw, March 8, 2017

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Greg Shaw: Probably older people and lower income people. Older people because... if the House Republicans have their way, insurers will be able to charge them five times as much as they charge young people, compared to three times as much under the Affordable Care Act. And... that will quickly... subsume the larger tax credit that they can get at up to the 4,000 figure. So older people have quite a bit to lose here. Also younger people who can barely afford these premiums if they indeed feel a need to get covered if they are low income, I should say low income people will probably suffer disproportionately under this.

Charlie Schlenker: The income based phase out of the credit allows the GOP plan to be funded without taxes on employer provided insurance. What's the history of this tax credit idea?

Shaw: It's coming from a couple of strings of thought. One is that Republicans want to build a fence around entitlements and so Medicare, Medicaid, and Social Security are the big entitlements that are with spending is very difficult to control. And so if by... putting a limit around either a tax credit as an entitlement or on the Medicaid side also as a build a fence around that an..and limit the escalating spending then that's a good in itself for fiscal conservatives. ... Also, the idea of a tax credit there's a certain semantic quality to this and that is to say a lot of republicans who like the idea of incentivizing people with a credit call it a carrot if you like rather than a stick such as in the original mandate was. In the end the tax code th...e math looks pretty similar right, whether you're getting a tax credit which is money not in the door for the U.S Treasury or whether it's a fine. I....it it doesn't really...matter.

Schlenker: But the fine would go the insurance companies not to the federal government under the new plan.

Shaw: Well so the insur... that may be a sweetener for to get the insurance companies on board because they're still going to be experiencing some regulation in the form of prohibiting... a refusal to issue based on preexistings and also... prohibition on lifetime limits. The insurance companies should be anxious about this because they're facing some regulation, but they're not getting the steady flow of new customers the way they were under the early years of the Affordable Care Act.

Schlenker: Well the knock on the Affordable Care Act was that it didn't actually result in enough healthy people signing up to make the whole system sustainable-

[Shaw: That's right.]

Schlenker: Does this?

Shaw: Well we're never quite sure. It's very difficult to know for sure who's going to take up what offer. Take up rates can be notoriously difficult to to project. I think it's very likely though that a lot of young people will sit it out. They will say to themselves "I'm young. I'm healthy. I don't have a lot of income. I don't have to buy insurance so I won't." And that will probably

lead to adverse selection for insurers meaning that the sicker people and the older people will...will sign up and although they'll be paying higher prices they'll also be filing a lot of claims so I...I guess I see trouble ahead for the insurance industry under this.

Schlenker: What about thee thee thee penalty itself? You know if there is the GOP proposal has a provision under if you allow your coverage to lapse then when you get into a new insurance plan you just pay a thirty percent surcharge and that's intended to replace the

[Shaw: that's right]

Schlenker: tax penalty.

Shaw: So... think of that maybe as a gentler stick. It's not the harsh...fine that you pay to the government.

Schlenker: Are there unintended consequences though if somebody's coverage lapse because of a sudden change in employment or change in income-

[Shaw: right]

Schlenker: as is not uncommon for lower income people

[Shaw: that's right]

Schlenker: ...Isn't that a disincentive to get back into the market?

Shaw: Well or it's a disincentive also to to move out of a job that you may perceive as dead end. So this...I don't know if you remember back in the early 90's there was a lot of conversation about what was referred to as job lock. The idea is you don't want to leave your job even if it's an underperforming job because you lose your health insurance or you couldn't afford Cobra coverage. And so it could very well... dampen the fluidity of the labor market and that's obviously not a good thing.

Schlenker: What does that do overtime? If...and how you measure that dampening.

Shaw: Yeah I'm guessing it will effect lower skill workers a lot more because they are less mobile... as it is. They would experience more anxiety about what benefits they could expect on their next job. Whereas higher skill workers, higher pay workers probably can expect that transition from job to job to be smoother.

Schlenker: This is sound ideas. We're talking with Greg Shaw. He's an Illinois Wesleyan University political scientist and expert on healthcare policy. Is this going to play well even with conservatives, who've not liked the bureaucratic apparatus needed to verify incomes? They started by preferring age based support only, in this, and now there is an income qualifier.

Shaw: Right. Well, I guess it can depend on which conservative you are talking about. Some will be happy to be able to brand healthcare reform as a republican product and they will move right ahead on that. So Paul Ryan and the house leadership are on board with this and the white house to the extent... that reflects any sort of real thinking about healthcare policy. You know they're on board with this

[Schlenker mumbles]

Shaw: The real fiscal conservatives who want to go after entitlements will not like this. They will look at the subsidy in the form of tax credits and say a subsidy is a subsidy is a subsidy let's not create another entitlement and call it .call it an incentive... call it whatever its jus...just another give away so they won't. So I I... think you'll see a lot of fighting between different stripes of republicans in the house on this.

Schlenker: And democrats are going to be opposed?

Shaw: I assume the democrats will sit this out both because they don't like the Moor Market oriented direction and the lack of generosity of the law, but also they don't want to see their signature legislation of the Obama administration overturned.

Schlenker: How would you handicap it? Do the real fiscal conservatives types are they...are there enough of them to kill this bill?

Shaw: In theory yes, but probably in practice probably not. On the house side it's a simple majoritarian institution and so the margin that the republicans have there they can still afford to lose you know give or take 25 votes and still be able to pass this thing. I think it's probably pretty straight forward on the house side, one the Senate its going to be much more difficult because of the filibuster and so the democrats will be able to filibuster provisions that are not budget related and I presume they will do that vigorously and so that will be difficult to overcome.

Schlenker: Well, that puts Mitch McConnell in a tough spot because the bill is as you noted less generous than the affordable care act in order to appeal to some of those conservatives that... the more more mainstream Republicans would like to peel off from the tea party core. But... the democrats are not going to want anything quite so not generous .So where does McConnell position --

Shaw: That's right.

Schlenker: --the conference bill?

Shaw: Well so... I don't know if he imagines you know reaching out to some you know folks like Joe Manchin of West Virginia to nominally a democrat, but really fairly conservative reach out to build a coalition... to get the sixty in that kind of move although that seems quite difficult. Alternatively, McConnell signals to the house leadership that they need to focus on reform provisions that are all budget related so that they can use the budget reconciliation project to side step the filibuster. That seems like a more, that latter point strategy seems like a more likely way to go.

Schlenker: You mention that the White house was on board with this. Is the White House? I mean President Trump's campaign on the idea of not diluting healthcare for those who now have it.

Shaw: That's right. So... It's difficult to know what Trump as a as a president really wants other than to say that he wants to build a claim of legislative victory. His language during the campaign his website everything that he said was... quite vague. And so I, it's true that he wants to leave entitlements alone and that will dissatisfy people so if we if we start trimming Medicaid Medicare in a significant way, I think he won't be happy about that. But the rest, this is not a detail oriented guy. As we all saw last week you know he told us about his surprise of learning just how complicated healthcare reform can be. And so I, but I think in the end he will take whatever Congress will serve—

Schlenker: So there is rhetorical space for him to—

Shaw: Absolutely

Schlenker: --To get on board

Shaw: and that was very much by design.

Schlenker: This is Sound Ideas. I'm Charlie Schlank. We're talking about the early look at the Republican Proposal to repeal and replace Obama care. Is there a meaningful rhetorical distinction in health policy between guaranteed health care and guaranteed access for health care?

Shaw: I think there is. The idea of telling people that they're free to purchase health care and that they have some kind of government support to do that if the government support is not really very comprehensive or generous for low income folks... you know that's sort of healthcare coverage in theory that's whereas if you give people viable plan that they can use without fear of very steep cost sharing mechanisms like copayments and deductibles and co insurance then they're going to use that more. They're going to seek out preventative services in a timely way. They're going to strike up relationships with primary care providers that will be meaningful over time. Whereas if instead you're afraid to actually to go visit the doctor, go to the hospital because you're afraid of the personal expenses that you're going to incur, people will be less healthy and we know this. So I think there is a distinction between actually user friendly usable health insurance versus token insurance. This raises one other question by the way. Under the Affordable Care Act there is a sort of a 10-point plan if you will, that all health insurance policies that are sold on state exchanges have to meet. You know, it has to meet basic preventative services, it has to meet emergency services, it has to meet maternity and and pediatric services and so forth. There has been discussion about re eliminating that plan and so when President Trump says let's let Americans buy the insurance policies they want to buy rather than the policies that the government tells them to buy what he's getting at is that lets pull the floor out from under the minimum coverage provisions now and let insurers market whatever low end products they want that doesn't seem to be the way how the house Republicans are going right now. Notably yesterday's plan still included the idea that all policies that are subsidized through tax breaks will have to adhere to that earlier minimum provision.

Schlenker: Why do you think Republicans are still adhering to that?--

Shaw: I—

Schlenker: Is that an effort to provide predictability in the market?

Shaw: You know that maybe that can mean a couple of things. It may be th...that that's an opening bargaining position for them and if their willing to jet us in that later. Perhaps they realized instead that there can be significant blow back if people look at these new...new products coming out and their like Swiss cheese you know they have so many gaps of coverage that they're not usable that it will lead to a lot of people having a lot of horror stories to tell. And that is something that can plague them for years to come because after they revise this law and call it whatever their going to call it they will then own it. And we will call it Trump care or we will call it Paul Ryan Care whatever right? So... I...I think maybe they're as an opening move their being cautious.

Schlenker: One of the largest changes made by the ACA is the Medicaid Expansion-

[Shaw: yeah]

Schlenker: Millions gain coverage including what 1.2 million or 960,000 somewhere in there for the State of Illinois alone.

Shaw: Yeah I don't know Illinois's figure, but nationally it's between 10 and 11 million people.

Schlenker: The Republican bill would change Medicaid from an entitlement run federally to a per capita cap on funding to states-

[Shaw: right]

Schlenker: depending on enrollment and in states that expanded Medicaid under the ACA about 31 states the government would keep paying... for nearly all of the expansion until 2020 with the phase out for new Medicaid enrollees after that. Can states bear the burden?

Shaw: Well so this is a point where I think Republicans have struggled mightily because initially (sighs) th...the Medicaid expansion state map looked an awful lot like the blue red electoral map. Demo...Democratic states went forward immediately, Republican states said that you know forget they wouldn't take that because it's cheap to participate and that was to collaborate with the enemy. Through 2014, 2015, 2016 many Republican States began to reconsider they looked for models that looked like a market based model to...to give them political cover that they needed to expand. They also though understand that governors and state legislators understand that Medicaid is a huge program for the average state this year will spend between 19 and 20% of all of its money on Medicaid. It's the most expensive thing they do next to public education and that it is also somewhat unpredictable as people get sick they go to get services Medicaid pays for, it's a difficult to put a stopper in the in the end of the pipe in terms of the dollars flowing. So for them to move to some... some... to move away from an entitlement basis for the funding that is to some sort of fixed grant whether it's by against a reference year like 2016 which is what the Republican proposal says or whether it's a cavitation plan however you do that, it puts states in a difficult position. One analogy to this maybe is to think back to how they handled the welfare reform in 1996. They shifted away from an entitlement basis to a block

grant meaning if the federal dollars ran out before your fiscal year was up that was it, yo...you were then on relying entirely on state dollars going forward.

Schlenker: And there were lifetime limits too

[Shaw: that's rights that there were others to contain that]

Schlenker: for temporarily assistance needed families.

Shaw: Bu... But in exchange for that they got states received a lot of autonomy a lot autonomy so to the point where Welfare dollars don't actually have to be spent on cash grants anymore. So they can do largely whatever they want with those with those dollars in an antipoverty way. I don't hear talk of Medicaid moving that way. That is I don't hear talk of of states taking on a lot more autonomy about how to implement Medicaid.

Schlenker: There is more autonomy for those states that didn't adopt the Medicaid expansion.

Shaw: That's true, but it is also true that they are financially stressed and under pressure from their organized me..medical providers, their interest groups, their hospital associations to go ahead and expand because it's it's very costly. You know medical services, there is a certain pay me now or pay me later quality to this. You can either fund this up front and see that people get appropriate care and appropriate venues or you can pay emergency department bills later on and state legislators even the conservative states get that th..they understand that.

Schlenker: This is Sound Ideas. I'm Charlie Schlenker. We're talking about the GOP proposal to repeal and replace Obama Care with Greg Shaw of Illinois Wesleyan University. We won't know the cost of this proposal for some time. The budget office has yet to work it up and score it. But from the decrease in the federal footprint and the increase in the state administrative responsibility what do you see happening as a trend line for government costs at the federal level.

Shaw: I think you'll probably see initially more people signing up for insurance on the exchanges and perhaps Medicaid and trying to lock in what they...a benefit that they have before the ACA goes away. I also though see some interesting trends on the cost control side part of it due to government efforts and part of it due to innovative practices by medical providers themselves to curtail over utilization. That is people using services that they don't truly need or providers delivering non therapeutic services. So the way this works is ty generally through some sort of bundling effort where Medicare which has been doing this for years for inpatient services will tie a certain dollar reimbursement to a certain diagnosis so that medical providers then have the incentive t...to treat the problem efficiently and effectively and as cheaply as they can getting to take home the rest of the dollars. And that sort of practice moving away from a fee for service and moving towards a more bundled or pay for performance kind of model is taking off both its its long been working on the public side...but it is also taking off on the private side and so I see some cost control happening through those sorts of mechanisms.

Schlenker: Well are Democrats right in their rhetoric that this is a slow poison to the whole Medicaid system?

Shaw: Yes. I don't think Medicaid works as a block grant program. The costs are so huge the needs are literally life and death. Bare in mind also most Medicaid dollars about 70% of Medicaid dollars get spent on nursing homes and long term care situations for the chronically ill and the elderly. They're not being given out to say, single mothers and their kids in the way the welfare funds go. That is to say t...to the great extent that nursing home providers are organized politically their going to speak up on this and state legislators have to know that. So I...I'd be surprised a little bit actually if we get to Medicaid as ah.. as a block grant arrangement.

Schlenker: This is Sound Ideas. I'm Charlie Schlenker. We're talking about the GOP proposal to repeal and replace Obama Care with Greg Shaw of Illinois Wesleyan University. What about prescription drug costs that was not something that the ACA handled very successfully-

[Shaw: that's right]

Schlenker: Is this contemplated in the GOP proposal?

Shaw: So to put this in a little bit of a context so... of all of the dollars we spend on healthcare in this country, prescription drugs make up about 10% of that. So... its its not trivial but it's not like Medicare either right? It's not like for inpatient services which are hugely expensive. But the rate of escalation that you've seen in recent years where companies will buy a patent and ... triple or quadruple or quintuple the prices is as political outrage right....I...I don't know how much of a stomach the republican party has for taking on Pharma the big lobbying group for the pharmaceutical industry....Certainly they have a sweetheart deal right now of getting to...thei...their effectually no cost controls on that to the centers for Medicare and Medicaid services that administers those two programs is...is explicitly forbade to negotiate drug prices based on its purchasing power. However, there are a couple models already in place that might lead to them to ah.... show us the way to doing that. Veterans administration and Department of Defense can negotiate prices but they're not nearly as a big buyer as...as the Medicare program is. So there's certainly a mechanism in place to do that and there is a model in place to do that, but I don't know how much stomach the Republicans have for picking that particularly fight.

Schlenker: You are finishing up a second book on healthcare policy-

[Shaw: uh huh]

Schlenker: Is either major strand of policy proposal out there right now, on the right track in your opinion?

Shaw: ...Well if by one of them we're talking about the re...current republican plan that again is...is not a fully mature plan it only came out yesterday it's gonna be... twisted and turned in all sorts of way. I don't think so. It continues a heavy reliance on the private insurance industry which gets Americans and states over a barrel and governments over a barrel to pay prices that...that are that are quite high and steeply rising....it also privileges that idea that patients can be made like consumers. That is how you buy a sweater, or a car, or a box of macaroni and cheese is akin to how you get your arm your broken arm fixed and that analogy quickly breaks down under evidence and so I don't think that's the right strategy to go t...to try to marketize healthcare which is...is implicitly what the Republican plan envisions so note thee.. the

enhanced use of healthcare savings accounts. That's a tool to put ah...consumers in a position to... have more as advocates like to say it skin in the game. That is to to experience more full cost of services. Evidence says that people are only marginally price sensitive on healthcare purchases and that trying to treat...patients like shoppers is..is a deeply flawed analogy. I think that's the wrong way to go. If by the other track we're meeting with the Affordable Care Act does that is relying again fairly heavily on our private insurance industry it's a trillion dollar a year industry... t...to meet about...about the needs of about half of the population that is the population that's not on Medicare and Medicaid. ...I don't love that idea either you know it's a highly profitable business. Ah... the public sector is in a poor position to limit those expenses and... you know if you made me king for a day that wouldn't be the option either.

[Schlenker laughs]

Schlenker: Okay-

[Shaw: laughs]

Schlenker: Well what do you think both are missing? Where should we be going?

Shaw: Yeah I think we should be going in a direction th...that gets beyond the fetish about a consumerism and imagining th...that ah... patients can be made like shoppers and I think we should instead think about healthcare as a fundamental right. So, that envisions a floor below which people are not allowed to fall so that means enhanced public...health services you know maybe delivered at the county or state level in terms of life style and education an...and preventative care. But it also means ready access to services...as people need them instead of having to fret about whether to you know pay the mortgage or pay th...their doctor bills in a given month and that means a larger public sector ah... a role to play in healthcare delivery.

Schlenker: Greg Shaw's an Illinois Wesleyan University Professor of Political Science. His new book the "Dysfunctional Politics of the Affordable Care Act" is out in May from Praeger Press. Thanks so much for joining us.

Shaw: Thanks Charlie.

Schlenker: I'm Charlie Schlenker.