



The Apothecary, With Avik Roy

INSIGHTS INTO HEALTH CARE AND ENTITLEMENT REFORM.

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Obama Officials In 2010: 93 Million Americans Will Be Unable To Keep Their Health Plans Under Obamacare

 **Avik Roy**, Contributor

On Wednesday, Secretary of Health and Human Services Kathleen Sebelius testified before Congress about the continuing issues with the rollout of Obamacare's health insurance exchanges. "Hold me accountable for the debacle," said Sebelius. "I'm responsible." I attended the hearing, and I was struck by the scope, scale, and depth of the health law's problems, problems that far exceed any one political appointee. But Obamacare's disruption of the existing health insurance market—a disruption codified in law, and known to the administration—is only just beginning. And it's far broader than recent media coverage has implied.



On October 30, 2013, Health and Human Services Secretary Kathleen Sebelius testified before the House Energy and Commerce Committee on the continuing problems with the Affordable Care Act's insurance exchanges. (Photo credit: Avik Roy/Forbes)

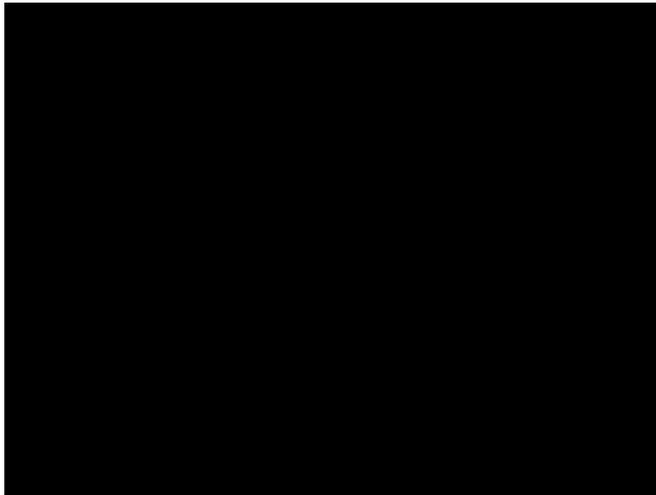
Obama administration knew that Obamacare would disrupt private plans

If you read the Affordable Care Act when it was passed, you knew that it was dishonest for President Obama to claim that “if you like your plan, you can keep your plan,” as he did—and continues to do—on countless occasions. And we now know that the administration knew this all along. It turns out that in an obscure report buried in a June 2010 edition of the *Federal Register*, administration officials predicted massive disruption of the private insurance market.

On Tuesday, White House spokesman Jay Carney attempted to minimize the disruption issue, arguing that it only affected people who buy insurance on their own. “That’s the universe we’re talking about, 5 percent of the population,” said Carney. “In some of the coverage of this issue in the last several days, you would think that you were talking about 75 percent or 80 percent or 60 percent of the American population.” (5 percent of the population happens to be 15 million people, no small number, but let’s leave that aside.)

By “coverage of this issue,” Carney was referring to two articles. The first, by Chad Terhune of the *Los Angeles Times*, [described](#) a number of Californians who are seeing their existing plans terminated and replaced with much more expensive ones. “I was all for Obamacare until I found out I was paying for it,” said one.

The [second article](#), by Lisa Myers and Hanna Rapplepe of NBC News, unearthed the aforementioned commentary in the *Federal Register*, and cited “four sources deeply involved in the Affordable Care Act” as saying that “50 to 75 percent” of people who buy coverage on their own are likely to receive cancellation notices due to Obamacare.



Mid-range estimate: 51% of employer-sponsored plans will get canceled

But Carney’s dismissal of the media’s concerns was wrong, on several fronts. Contrary to the reporting of NBC, the [administration’s commentary](#) in the *Federal Register* did not only refer to the individual market, but also the market for employer-sponsored health insurance.

Section 1251 of the Affordable Care Act contains what’s called a “grandfather” provision that, in theory, allows people to keep their existing plans if they like

them. But subsequent regulations from the Obama administration interpreted that provision so narrowly as to prevent most plans from gaining this protection.

“The Departments’ mid-range estimate is that 66 percent of small employer plans and 45 percent of large employer plans will relinquish their grandfather status by the end of 2013,” wrote the administration on page 34,552 of the *Register*. All in all, more than half of employer-sponsored plans will lose their “grandfather status” and become illegal. According to the Congressional Budget Office, 156 million Americans—more than half the population—was covered by employer-sponsored insurance in 2013.

Another 25 million people, according to the CBO, have “nongroup and other” forms of insurance; that is to say, they participate in the market for individually-purchased insurance. In this market, the administration projected that “40 to 67 percent” of individually-purchased plans would lose their Obamacare-sanctioned “grandfather status” and become illegal, solely due to the fact that there is a high turnover of participants and insurance arrangements in this market. (Plans purchased after March 23, 2010 do not benefit from the “grandfather” clause.) The real turnover rate would be higher, because plans can lose their grandfather status for a number of other reasons.

How many people are exposed to these problems? 60 percent of Americans have private-sector health insurance—precisely the number that Jay Carney dismissed. As to the number of people facing cancellations, 51 percent of the employer-based market plus 53.5 percent of the non-group market (the middle of the administration’s range) amounts to 93 million Americans.

Will these canceled plans be replaced with better coverage?

President Obama’s famous promise that “you could keep your plan” was not some naïve error or accident. He, and his allies, knew that previous Democratic attempts at health reform had failed because Americans were happy with the coverage they had, and opposed efforts to change the existing system.

Now, supporters of the law are offering a different argument. “We didn’t really mean it when we said you could keep your plan,” they say, “but it doesn’t matter, because the coverage you’re going to get under Obamacare will be better than the coverage you had before.”

But that’s not true. Obamacare forces insurers to offer services that most Americans don’t need, don’t want, and won’t use, for a higher price. Bob Laszewski, in a [revealing blog post](#), wrote about the cancellation of his own health coverage. “Right now,” he wrote, “I have ‘Cadillac’ health insurance. I can access every provider in the national Blue Cross network—about every doc and hospital in America—without a referral and without higher deductibles and co-pays.”

But his plan is being canceled. His new, Obamacare-compatible plan has a \$500 higher deductible, and a narrower physician and hospital network that restricts out-of-town providers. And yet it costs 66 percent more than his current plan. “Mr. President,” he writes, “I really like my health plan and I would like to keep it. Can you help me out here?”



Congress proposes a straightforward solution

Senator Ron Johnson (R., Wisc.) and Rep. Fred Upton (R., Mich.) have proposed the “If You Like Your Health Care Plan You Can Keep It Act,” with dozens of co-sponsors. The [two-page bill](#) simply states that “nothing in [the Affordable Care Act] shall be construed to require that an individual terminate coverage under a group health plan or health insurance coverage in which such individual was enrolled during any part of the period beginning on the date of enactment of this Act and ending on December 31, 2013.”

Some Senate Democrats are jumping on the grandfathering bandwagon. Mary Landrieu (D., La.), locked in a [competitive reelection race](#) against Rep. Bill Cassidy (R., La.), now claims that she was unaware that Obamacare would disrupt existing insurance arrangements. “It was our understanding when we voted for that bill that people when they have insurance could keep with what they had. So I’m going to be working on that fix,” she [said](#) on Wednesday.

But that’s not accurate. It was well known, as [far back as 2009](#), that millions of Americans would lose their existing coverage under the Obamacare bill. Landrieu still voted for it. In September of 2010, Sen. Mike Enzi (R., Wyo.) [introduced legislation](#) that would protect small businesses from losing their health plans’ grandfathered status under Obamacare. Landrieu [voted against the bill](#), on a party-line vote.

But Landrieu’s flip-flop illustrates the potency of this issue. If Americans were truly being forced off of their existing insurance plans—that they like—and into better and more affordable ones, the outcry would be minimal. But that isn’t what’s happening. People are being forced into inferior and costlier plans. And they’re making their displeasure felt in Washington.

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INVESTORS’ NOTE: The biggest publicly-traded players in Obamacare’s health insurance exchanges are Aetna (NYSE:[AET](#)), Humana (NYSE:[HUM](#)), Cigna (NYSE:[CI](#)), Molina (NYSE:[MOH](#)), WellPoint (NYSE:[WLP](#)), and Centene (NYSE:[CNC](#)), in order of the number of uninsured exchange-eligible Americans for whom their plans are available.

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