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OBAMACARE: AN UNCERTAIN FUTURE

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It took more than two years for the United States Supreme Court (Supreme Court) to give the green light – by a single majority vote – to the introduction of Obamacare, or mandatory health insurance for all citizens. This step, however, only clarified the political and legal aspects of the case, but the social acceptance of the reform remains uncertain and the financial consequences are unpredictable.

As we know, the health reform approved by the American House of Representatives in March 2010 essentially meant that as of 2014, the health insurance obligation would be extended to all citizens capable of paying insurance, i.e. to 95 per cent of the population. According to estimates at the time, this resulted in the inclusion of 32 million (newly insured) citizens, or 36 million according to current figures, in the system.

According to the initial estimates of the Congressional Budget Office, the implementation of the legislative package would cost $938 billion in the first decade of the reform, but Obamacare would result in budgetary savings of $138 billion in the first decade (2014-2024) and $1,200 billion in the second decade (2024-2034).

Obamacare provides the necessary funds through larger cutbacks charged to more affluent citizens, prescribes the conclusion of basic insurance for all citizens and requires businesses to insure their employees. It mainly affects the self-employed who until now could freely decide whether or not to pay for health insurance.

It is important to note that Obamacare still does not impose an insurance obligation on those without an income (5 per cent of the population), but does provide minimal health care to them through the social safety net.

After its approval, Obamacare was brought before the Supreme Court because of challenging the regulation's penalisation of those who could financially afford it (i.e. they have income, or profit from a business) but chose not to take out health insurance.

In its recent decision, the Supreme Court declared that such fine falls into a category equivalent to tax, therefore its imposition is not unconstitutional. This also means that the original concept was given the green light, that is, as of January 2014, 32-36 million people need to take out health insurance from an insurer.

The consequences are unforeseeable. At the present, namely, a person has health insurance (it is, in fact, sickness insurance) in the U.S. if his/her employer can pay the premium. The insurance premium depends on two things: age and the health condition.

The most important task of the insurance company is to preserve its own financial balance, which means that uses all possible means to protect the risk pooling of its insured by not allowing people who are likely to cause damage to join. It does so by charging a so-called risk premium for insuring certain diseases of sick people, or completely excludes related health care from the group of charged services. This screening system can be "avoided" by a sick person if he/she takes out insurance as a member of a group, e.g. as the employee of an employer.

Obviously, the current number of 32-36 million people are excluded from health insurance because they are presumably suffer from an illness and are unable to pay the premium. Clearly, this number also includes those with low income, and every one in need of care can currently receive minimal health services on a welfare basis.

Obama's reform draws the practice of health risk assessment from under the control of insurance companies, that is, in the future they are required to contract with everybody. The sum of $938 billion will be spent by the country on premia and risk premia in the next ten years. Financing is covered by new taxes levied on the rich, on the one hand, and by the requirement of large and medium-sized companies to provide insurance to their employees, which are otherwise subject to a fine.

This solution seems straightforward, but this measure only secures the source of revenues and not the source of expenditures. Obviously, insurance companies will account for a $938 billion surplus in revenues in the first ten years (not surprisingly, they waived the practice of risk assessment), but they are also undertaking new service obligations based on the insurance policies with risk pooling including policy holders with poorer health. This essentially means that the law prohibits insurers from denying services from patients with certain existing health conditions.
Obviously, revenue from insurance premia will not cover the service expenditures of insurance companies in the long term. There are several solutions for resolving this. Insurers will initially attempt to raise premia, which is not a good option in the long term because customers with a good risk rating would be no exception, and the loss of this profit centre is not the aim. The other obvious solution is to secure permanent budgetary support. It would not come as a surprise, however, if a state health insurer would be set up based on the model of Freddie Mac and Fannie Mae, the government supervised mortgage financing institutions. We should have no doubt about attempts to shift the related risks to the global money markets. This in itself constitutes a systemic risk, which in the coming 10-15 years, may lead to problems on the global capital markets of a magnitude similar to the 2008 crisis related to American real estate.

In terms of American competitiveness, the social market economy is taking root overseas by introduction of mandatory health insurance, which may even raise the wage cost of products and services to European levels. This will wipe out the competitive advantage of the U.S., which will result in slowing economic growth in the medium term.

With regard to the political risks, we should take note of the figures of pollsters, which estimate the supporters and opponents of Obamacare within the total population at 50 and 40 per cent, respectively. This 40 per cent figure represents a minority, but it significantly weakens the re-election prospects of president Obama.

It is no coincidence that the presidential election campaign is now focusing on this issue; the Republican candidate, Romney, has already announced that he will repeal the law if elected to office. We, Hungarians, know all too well that this could become reality. The Orbán administration needed less than two months to abolish mandatory membership in private pension funds, which it had opposed from the very beginning.

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