

Original Paper

Redesigning the Affordable Healthcare Program in the Context of Economic Market

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Abstract

Repealing and replacing the Affordable Healthcare Act 2010 (Obamacare) was one of the most controversial issues during and after the U.S. 2016 presidential campaign. The importance of the issue bears on searching for the generally acceptable healthcare program to the American taxpayers. Before the passage of the Act, the United States was the only advanced nation that did not provide affordable healthcare insurance for its citizens. The recognition of the uninsured millions' healthcare plight, the rising cancellations and premiums of the private insurance policies, and the high healthcare costs led to the Act's passage.

Keywords

Obamacare, underpricing, overconsumption, private-healthcare, private-insurance, rising-premiums, policy-cancellations

1. Introduction

Resource constraints limit how much of a public good a nation can afford to provide its citizens. While some arguments during the 2016 presidential election suggested a preference for a public option in Obamacare to compete against the private insurance, other positions preferred the distribution of the entire healthcare insurance in a competitive market that is driven by profit motives. Notably, the freedom caucus in the U.S. House of Representatives would most probably prefer the latter option.

Some young and healthy people would prefer not to pay for Obamacare because they often underestimate their chances of being sick. Those that prefer the healthcare distribution in the competitive market often argue that the consumers would have more access to the healthcare providers that would eventually enter the market (Ellis & Razavi, 2012). On the other hand, uncertain market dynamics may tend to explain that the extent that those that are economically challenged would access the healthcare insurance in a

competitive market could depend mostly on the ease of controlling the premiums to achieve some predetermined equity. Obama marketplace, therefore, intervenes in the private economy to observe some managed premiums and to expand Medicaid to provide healthcare insurance to those that were uninsured. The intervention targets the enhancement of the equity of the healthiness and wellness to the uninsured. Though the federally mandated and subsidized Obamacare does not include the public option (single-payer account) that would compete against the private insurance, yet the care is still accused of being too prescriptive and does not provide enough free-market solutions. Nevertheless, Obamacare has become increasingly popular among American healthcare insurance consumers, and it provides healthcare coverage for 20 million out of the 40 million uninsured Americans in 2015 (Zakaria, December 25, 2015). A significant challenge remains in the idea that underpricing a public good such as the healthcare insurance could cause consumers of healthcare insurance to oversubscribe to healthcare and remain perpetually on tax-subsidized insurance programs (Hosek et al., 1995). As expected of normal goods and services, many healthcare providers' existence would foster market competition, increase consumer choices, lower healthcare insurance premiums, and ensure optimum subscription to healthcare insurance. When the industry is less concentrated, and the goods and services provided become more standardized, the market price is expected to fall.

Generally, American consumers are skeptical about any government-established market whose price is regulated. Instead, American consumers tend to embrace a market in the competitive tradition. Even after President Obama assured that the care would not adversely affect the demand for private insurance, the aftermath of Obamacare has been increasing cancellations and premium costs of the individual healthcare insurance policies (Levy et al., 2000). Up to 160 percent rise in premiums and high deductibles had been reported (Hannity, December 3, 2016).

As a substitute for private insurance, Obamacare would tend to firmly hold where its benefits on consumers' healthiness and wellness approach those of the private insurance. The effort to repeal and replace Obamacare would be a tough challenge, given American citizens' growing dependence on the program. This paper attempts to provide the economic justifications for redesigning Obamacare in the context of a competitive market. Section II of the paper offers some essential discussion on Obamacare in the private insurance market. Section III shows a focus on the fundamental unresolved issues in the insurance market, while Section IV advocates for market-based affordable healthcare insurance. Conclusion and the directions for related future studies are provided in Section V.

2. Discussion on the Obamacare and the Private Market Insurance

Before the passage of the Affordable Healthcare Act, the United States was the only advanced nation that was yet to provide affordable healthcare insurance for the citizens. America's healthcare is generally not perceived as being highly qualitative to be very expensive (Zakaria, April 2, 2017, O'Neil C, 2003). Since President Teddy Roosevelt advocated for some affordable healthcare insurance, it took several decades before enacting the Affordable Healthcare Act of 2010 (Zakaria, January 2017). The Affordable

Healthcare Act provides for equity of access to healthcare and affordability of quality healthcare services to mostly the American workers with limited insurance coverage from the workplace. Based on income, the categories of the qualified for Obamacare can obtain health insurance by paying some subsidized annual fees and monthly premiums that would not increase.

The Affordable Healthcare Act leans on integrated healthcare. Among other coverages, it provides coverage for preexisting health conditions, for the insured's children until the age of 26, and for equalizing the premiums paid by both men and women (Tapper, December 11, 2016). The economic value of healthcare insurance, including Obamacare, could be evaluated by the respective premiums, the time cost of receiving the services, the quality of medical diagnosis received, and the efficacy of the prescriptions and wellness programs recommended. A common assumption is that private healthcare services would provide higher service value than a public healthcare program, such as Obamacare.

The healthcare industry consists of interdependent firms with overcapitalization, and the individual firms often exert market power due to their differentiated products (Berry, 1973; Goldfarb, Hornbrook, & Rafferty, 1980). The cost differences among firms are driven mostly by the magnitude of the various innovative equipment and technologies, litigations of healthcare deliveries, and the high opportunity cost of using capital.

3. Fundamental Issues and High Costs in the Private Insurance Market

For privacy, healthcare consumers would not voluntarily declare their health status, and this problem leads the insurance firms to be characterized by incomplete or asymmetric information. This one-sided information on the side of the firms would lead to high costs in a situation whereby the firms face the twin problems of adverse selection and moral hazard. An adverse selection describes a situation whereby the unhealthy are most likely to be the first selected for insurance coverage. Moral hazard adds more deception to the adverse selection problem by describing the natural insured persons who would shirk their behaviors (loss of the senses of rights and wrongs) and commit wrong due to the expected benefits. Problems posed by these twin problems of adverse selection and moral hazard would most likely lead to large firms' costs (Samuelson & Nordhaus, 1998, pp. 195-196).

Where there is the proper vetting of those that apply for health insurance, one would expect the unhealthy to pay higher premiums than the healthy. In the absence of adequate vetting of the candidates for the insurance, the insurance firms, for example, would arrive at their average cost situations by assigning equal probabilities to the respective costs of treating the unhealthy and healthy. Summing up the product of the individual probabilities and their related costs of treating the unhealthy and healthy would give rise to the private insurance's weighted average cost. In other words, assigning the equal probabilities ($1/2 = \lambda = \gamma$, for example) to the respective sources of the costs of insuring the unhealthy (π) and the healthy (w) would lead to constructing the weighted average cost as:

$$AC = \lambda(\pi) + \gamma(w) \quad (1)$$

By assigning equal probabilities in equation 1, the healthy subsidize the unhealthy and sicknesses. AC is higher than the average cost of treating the healthy. All the opportunity costs, including the return to both capital and entrepreneurship, are expressed in the AC.

4. Market-Based Affordable Healthcare Insurance

Market reformed Obamacare could lead the Obamacare insured and those uninsured to secure affordable health insurance with dignity from the economic market that could extend beyond the state boundaries. However, markets do behave stochastically, and conservative policy is warranted before sending the would-be insurance-assisted to the market to obtain healthcare insurance. Recall that in any competitive market, there are winners and losers. The health insurance market may not be allowed to have these outcomes. The philosophy that “if you cannot pay for it, you cannot get it” should not determine the healthcare market in which everyone will participate. Therefore, the private healthcare insurance market may as well be guided for the realization of the expected equity for the insurance-assisted insured. Transitioning Obamacare to the market needs to be done gradually and with consumer market awareness. Repealing Obamacare without a functional market-based replacement could cause market distortion that could drive about 18 million people to lose their health insurance, and thousands are projected to die as a result (Harlow, January 22, 2017; Lemons, January 24, 2017). In the context of the guided insurance market, the respective subsidies to the qualified insurance-assisted insured could be paid directly to the deserving healthcare vendors when medical treatments and related services are provided.

The healthcare insurance market-based that is free of firms’ collusion and barriers is expected to foster competition and lower prices. Thus, the insurance-assisted insured would have the opportunity to be introduced to the free enterprise market in which they would be valued participants. They would be appreciative of the subsidies received in the context of the market for the payment of their healthcare consumption. As a result, they would likely be encouraged to have increased labor market participation to obtain employment-based insurance.

With various levels of insurance-assisted incomes, subsidizing healthcare insurance needs could be handled on an individual basis. The amount (relative cost of insurance) that each insurance-assisted pay could be assessed as a ratio of the insured’s annual income (Θ) and the national average yearly income (Ω) multiplied by the private insurance average cost (AC) from equation 1. To avoid the free-rider problem, the insured’s annual income is the insured yearly earned income or the insured’s yearly poverty level income, whichever is higher. The relative cost could be stated as:

$$\text{an individual relative cost of insurance} = (\Theta / \Omega) * AC \quad (2)$$

subject to:

$$\text{minimum relative cost of insurance} > 0.$$

For example, with the 2018 average national annual wage index of \$44,888.16 (Note 1) if the health insurance-assisted person’s earned annual income is zero, and his yearly poverty level income is \$10,830, the expected relative cost of insurance for the respective individual is $(\$10,830/\$44,888) * AC$. Also,

Medicaid should be available and expanded to assist the needy further. Ohio State has expanded the Medicaid program to augment affordable healthcare, alleviate poverty, and address other deserving programs (CNN, April 24, 2017). Assessing the relative cost of insurance with high-frequency monthly incomes would enable the insurance-assisted to receive assistance corresponding to the contemporary incomes. However, the relative cost of the insurance could be assessed with quarterly or annual incomes. The relative cost of insurance exceeds some predetermined amount of the insurance-assisted income, a subsidy could be provided as in Obamacare. By considering the affordability of the assisted-insured healthcare insurance on a relative cost basis, they would be purchasing their private insurance relative to their market incomes. The cost of the affordable insurance payment of the insured-assisted becomes more equitable, with the price decreasing as the respective income of the insurance assisted-insured is decreasing.

On the same line of reasoning, insurance premiums' insurance-assisted payment would tend to increase as the respective income increases. This thought from the context of the market could be employed to address Obamacare. Determination of everyone's cost of insurance in the economic market would motivate the insurance-assisted to refuse entitlements for the preference of relating to the labor market for the expectations of receiving employment-based insurance. By connecting to the healthcare market, the insurance-assisted may want to explore the other economic markets where the price mechanisms and competition allocate the economic resources. The subsidy provided in a market arena may be more appreciated than that provided in a non-competitive marketplace such as Obamacare.

5. Conclusion and Future Study

Insurance distribution and subsidized in the market arena would be more efficient by referencing private healthcare insurance's average cost. Both those with the financial ability to pay for insurance and the insurance-assisted insured would have unlimited opportunities to obtain their private insurance and to keep their healthcare providers. In a nutshell, understanding the market norms could compel the health insurance-assisted to self-select work and market participation and to be more frugal as they consume goods and services, including generic drugs that are not associated with high deductibles.

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Note.

Note 1. The series that has the number is retrieved from: <https://www.ssa.gov/OACT/COLA/AWI.html>.