DAILY BEAST

Are Young, Single Adults Expecting Obamacare to Cost So Much?

Obamacare will raise insurance costs, not lower them, for a lot of young, childless adults. What will happen when they find out?

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There's been some pretty fierce back and forth in the preceding week over the question of "rate shock": the hefty increase in insurance premiums that people--particularly young and healthy people--can expect to pay for health insurance come 2014. I don't really want to recap here, so if you want to follow the blow-by-blow--and the blows got pretty fierce--Will Wilkinson has a pretty good summary over at *The Economist*.

I don't really want to play referee, either, but I'll try. I think a fair summary would be that some older and/or sicker people will find health insurance cheaper and easier to obtain, while some young people will find it a lot more expensive than they were expecting. People who supported Obamacare think that the former is important and the latter is relatively trivial, while people who opposed Obamacare believe the reverse. People who supported Obamacare are very angry at people who opposed it for emphasizing the rate shock, rather than pointing out all the benefits to other people, which would obviously present Obamacare in a much more favorable light. People who opposed Obamacare think since Obamacare was sold on the grounds that it would make insurance cheaper for everyone except rich people, the fact that a lot of non-rich people will apparently pay more deserves some individual focus. And since the supporters do not regularly caveat their articles extolling the benefits of Obamacare with a note about all the bad possible side effects, it's hard to argue that the opponents are obligated to do the opposite.

Who's right? At some level, this is a theological debate, not a technical analysis. I am going to argue that rate shock does matter, for a number of reasons. Then you can decide for yourself which aspect matters more.

The most basic reason that rate shock matters is that I don't think young single people were expecting it. It's true that during health care reform, the reformers acknowledged that some people would end up with a big health insurance bill they hadn't had before. But I wouldn't say that they exactly emphasized this aspect. The implication that I, for one, took away from their

analyses was that the subsidies would substantially reduce the cost for even quite middle class people. Maybe a successful young IT contractor living in a nice condo would have to pay a few thousand dollars for the insurance he hadn't been buying, but I was under the impression that your average scraping-by clerical worker would pretty much have their bill covered, or reduced to some negligble sum.

So I got a sort of a shock today when I started playing with the Kaiser Family Foundation's subsidy calculator. I had it at the back of my mind that a single young freelance writer living in California, Washington, or New York, and making $32,000 a year, would qualify for insurance at a basically nominal cost. (The profession doesn't matter so much, but for obvious reasons, this is a type that I'm particularly familiar with.) It turns out that this person will qualify for a subsidy of about $213 a year, based on an expected "Silver Plan" (the medium coverage package) cost of $3,018, or about $235 a month.

Of course, if you make less than that, you get a bigger subsidy; at $25,000 a year your annual subsidy would be about $1400. However, if you make even a few thousand more, you get no subsidy at all.

But don't panic just yet, Young People: you don't have to pay $2805 if you buy cheaper insurance. Luckily California just released their 2014 rates, so we can see what options at least a few of you will have.

It looks to me like a 25- or 30-year-old freelancer in the great state of California can probably get the Silver Plan for somewhere between $200 to $250 a month. And if they're willing to take less coverage--a high deductible "catastrophic" plan (available only to those under 30), or the Bronze plan, which has more cost sharing, they can pay as little as $185 a month in San Francisco, or $117 a month in Los Angeles. Though I'm not sure I trust that last number; looking at all the other plans; $150 a month seems more likely.

The good news for those turning 30 is that regular "Bronze" plans aren't actually all that much more expensive than catastrophic plans. The bad news is that that probably means that purchasers of either sort of plan can expect to spend the full limit--about $5,500 a year, I believe--before they get much in the way of free health services.

But I digress. Back to the monthly cost for our just-getting-by freelancer in California; if we add in the monthly subsidy of $17.75, their monthly insurance bill for will come out to somewhere between $135 and $170 a month if they choose the options with the most cost-sharing; $185 to $235 if they want something that will pay a substantial chunk of their ordinary doctor's bills.

On the one hand, it's great that young single folks can insure themselves for about $1600-2000 a year, even if they don't qualify for a subsidy. On the other hand, as Will points out, lots of young single people can insure themselves for a lot less than that right now. I don't think this is what they've been expecting.

Anecdotally, they seem to be expecting the kind of generous package that Mom and Dad have, at around the cost of their monthly cell phone bill. I don't think it's sunk in that Obamacare will

force them to pay $150 a month for insurance similar to bare bones plans that are available right now in many states for $100 a month--which they've declined to buy. And I'd be willing to bet that the average childless adult making $32,000 a year is expecting the government to kick in a lot more than $18 a month towards the cost of this suddenly-more-expensive insurance.

Why were they (and I) expecting more generous benefits? Because discussions of cost, and subsidies, tended to be focused around the hypothetical family of four. Families of four qualify for subsidies at quite high incomes--up to almost $95,000. That made it sound rather broad based. But for childless singles, the income range that qualified for help is much smaller. Effectively, a childless adult with a college diploma, or for that matter, a trucking license, is unlikely to qualify for more than nominal assistance in paying for health insurance.

But how many young, single people are there? Is it really enough to worry about what they're expecting?

Well, according to a 2009 brief from Kaiser, childless adults compose almost 60% of the population of uninsured.

Of course, not all of those people are young; some of them are in their 40s and 50s. Those people would be quite happy to pay $150 or $235 a month for insurance. (Unfortunately they won't get to, since the plans are lightly age-rated; for a 40 year old San Franciscan, the Silver plan will cost at least $300. But that's still a pretty good deal for them.)

But the other thing we know about the uninsured is that they skew quite young. 41% of them are adults between the ages of 18 and 35. Another 18% are children.

Childless adults are about 65% of the total population of uninsured adults, which means that they are probably a majority of the young adults as well, so some back of the envelope math with fairly conservative assumption indicates that at least one in four of the uninsured are young childless adults. Of course, some of them will be poor enough to qualify for big subsidies, or Medicaid. Still, we're talking about millions of people who are in for a bit of a shock.

To which you might fairly say you can't please everyone, after all. They'll be grateful later, when younger people are subsidizing their insurance.

To which I would offer two rejoinders. First is that these people may have supported Obamacare precisely because they didn't understand what it meant for them. That doesn't seem quite fair. It probably should have been made clearer to Obama's large youth fanbase that what Obamacare will probably mean for them is a fairly substantial bill, not a lot of government assistance.

But here's the bigger issue: these people aren't buying insurance now, even though, as Avik Roy has pointed out, there are catastrophic plans available that cost a lot less than $150.

Yes, I understand that some people get rejected because they have pre-existing conditions; for those people the price insurance is now infinite, and it is about to come down a lot. But the insurers are not merely advertising insurance policies because Marketing wanted something for

the interns to do. They do actually sell insurance to people. Will notes that he has purchased catastrophic coverage for about $100 a month, even though he is . . . not 21. Ten years ago I bought a catastrophic policy for even less than that, despite an autoimmune disease and raging asthma. (I had to give it up when I moved to New York, where such policies are illegal).

Most young childless adults in most states could purchase catastrophic insurance right now for about the cost of a cell phone data plan. They have not done so. Maybe this is because they don't realize how cheaply they can acquire bare-bones coverage. Or maybe they have a hard time fitting even $100 a month into a tight budget. The monthly take-home for someone making $32,000 a year and living in a major city is probably something under $2,000. As I well recall, carving an extra $100 out of that is not easy.

Leave aside the hardship we may be imposing on them by requiring them to purchase insurance (or pay a penalty that will eventually sum to hundreds of dollars). What are they going to do when they find out that they have the option of paying a fairly large sum for very modest coverage, or a really difficult amount for the kind of insurance that they thought they were going to get for practically free? Keep in mind that California's exchange has actually been more aggressive about trying to keep rates down than most states will be.

Will implies that they probably won't buy. I am agnostic. The individual mandate is now the law of the land, and Americans are pretty law abiding. Also, people clearly like having health insurance; they opt for more generous coverage even when it's not cost effective, and unions will give up almost anything else to protect health benefits. This may be enough to get the healthy youngsters joining the exchange.

But then again, it may not. And if they don't, that's going to be a really big problem. Without the subsidies from "young invincibles" paying $150 a month for almost nothing, the older, sicker part of the insurance pool will have to pay more. The healthier ones may eventually decide that they simply can't afford it; better to pay the fine, tolerate the tiny risk of a huge ER bill, and count on the fact that you can always sign up for insurance if you get sick. Rinse and repeat until the only people in the market are incredibly expensive to cover. This is what has happened to the current individual market in the State of New York, where everyone is theoretically able to buy insurance in the individual market, except that no one could possibly afford it.

The best evidence against this possibility is simply that it didn't happen in Massachusetts. Still, I don't think we can entirely rule it out. Massachusetts started out with a relatively small population of uninsured, and a growing economy where employers are actually adding salaried positions with good benefits. That's not the situation in most states in 2013.

Which is why, as I say, you'll have to judge for yourself how much this matters; there's still too much up in the air. The one thing we can say for sure is that come October, we should probably prepare for some complaining.