INTRODUCTION

This dissertation studies the health reform introduced in the United States by the Affordable Care Act, commonly known as Obamacare, and tries to figure out why recently there has been a flight of big health insurance companies from some of the State Exchanges created by the reform.

Obamacare aims at extending health coverage in the US and at the same time avoid the development of a death spiral. In order to achieve these goals, Obamacare is based on three pillars: insurance market regulations (open enrolment and community rating requirement), the individual mandate and subsidies.

The death spiral and how insurers avoid it

The three keys of Obamacare

METHODOLOGY

Obamacare restricts the variables that can affect premiums for the same level of coverage to four: household size, location, age and tobacco use.

- This research undertakes a comparison between the costs of health care for four different groups of individuals (Billy, William, Danny and Daniel), divided according to their age and tobacco use.
- The household size is always fixed to only one member
- The location is set in two different States: one where Aetna is still part of the Exchange (Delaware), and another where Aetna is not into the Exchange (Massachusetts).

The individual mandate

The penalty for a single individual with an annual income of $30,000 is $57.92 per month. The US average bronze premium is $229, which is far higher than the penalty for not getting coverage at all.

Therefore, there is little real influence of the individual mandate, at least for one-member households.

The range of menus available

When considering the silver plans, any individual eventually pays the same price, provided that they have the same income and the same family size. Consequently, the elder are far more subsidised than the younger. There is also a compensation between States, as the ones with higher premiums receive more subsidies. When considering bronze plans, the elder end up paying less than the younger.

RESULTS

The subsidies

CONCLUSIONS

Advantages
- Subsidies
- Cross-subsidisation
- Compensations for ages and States

Disadvantages
- Inefficiency of the Individual Mandate
- Strict price regulations
- Unattractive for the younger and healthier

Propositions
- Raise the penalty of the individual mandate
- More subsidies for the younger
- Higher premium rate according to age