

"They write politics, we write government"

POOP CRUZ: THE LATEST IN TRUMPCARE

You all remember "[The Poop Cruise](#)," right? A Carnival ship gets stranded in the Gulf of Mexico for a week after an engine fire. Mostly dead in the water, the ship is unable to provide basic services to its passengers. After a day or two, sewage begins to back up in the passenger compartments and hallways, leading the press to give the event the obvious, if gross, name.

As traumatic as the event must have been for those on board, the physical safety of those on board was not really at risk. Were I could say the same about the most recent version of Senate Trumpcare. The bill released yesterday includes an amendment proposed by a man hated by virtually everybody who has ever met him, Texas Senator Ted Cruz. Imagine the unpleasantness of the aforementioned Carnival mishap, but with the added ability to bankrupt or even kill you. I can only call such a thing the Poop Cruz Amendment.

[Disclosure: I'm not the first to use the Poop Cruise/Poop Cruz formulation. It was in a joke told by Minnesota Senator Amy Klobuchar, as workshopped with Minnesota Senator Al Franken, told in his recent book "Giant of the Senate," which I have just finished an recommend.]

The Poop Cruz Amendment sounds simple, but its effects on the market are complicated. I'm going to go math-free here; you can find others online using math, but given that such a thing has never been tried before, everybody is really just guessing.

The goal of Poop Cruz is to keep Obamacare's protections (essential health benefits, pre-existing conditions, no lifetime caps, etc.) while allowing people to purchase lower-priced policies. So, Poop

Cruz says that if, in a state, an insurer sells an ACA compliant plan, it can also sell other plans that do not comply with the protections of the ACA. Of course, it's more complex in how its written, but that's the gist. Let's try to tease out what will happen.

By definition, health insurance markets will bifurcate – one group of ACA-compliant plans, one group of Poop Cruz Plans. The Poop Cruz Plans would be permitted to waive most of the ACA's protections – this is important, so I'll list the things Poop Plans can waive:

- Minimum Actuarial Value – in other words, you can sell health plans with much higher deductibles and copays.
- Essential Health Benefits – no need to include things like doctors' visits, hospital stays or prescription drugs.
- Limits on out of pocket costs.
- Ban on charging more to women, sick people or older people.
- Ban on rejecting applicants due to health status.
- Ban on covering pre-existing conditions.
- Ban on discriminating against sick or disabled people.
- Ban on excessive waiting periods for coverage.
- Free preventative care.
- Limit on insurer profits and admin costs.

I'm not quite sure what is left – certainly no insurance that has much value to me. But because the Poop Plans won't cover sick people, or even cover much for healthy people, some Republicans

will claim that premiums have been lowered. Great job!

Now, those same Republicans will say that this is all about choice – there will be plans that offer different benefits and people will choose the plan that works best for them. But we’ve talked about this before – remember the Fundamental Theorem of Health Insurance:

If it's not required for everybody, it will not be available for everybody. If everybody has the choice, then nobody will have a choice.

In any health insurance market, the existence of choice will cause plans to move towards the skimpiest plan permitted by law. To give an example, maybe Plan X has good coverage for cancer. But it is expensive, so if you don’t have cancer, you probably won’t buy it. On the other hand, somebody who has cancer will be rejected for coverage thereof – which is permissible for the Poop Cruz Plans. If an insurance company decides to offer cancer coverage to people with cancer, then it will have to charge a fortune – thousands of dollars per month at least – because every single person signing up will have cancer. So, it won’t make sense for people with or without cancer to buy this plan, and it will go away. Same with maternity, Crohn’s, diabetes, you name it.

What happens to the people who can’t buy Poop Cruz Plans? Well, according to the GOP, they are still protected – they can buy the ACA-compliant plans. But, this pool is by definition very expensive to cover, so we can expect the premiums to go way up. This should drive away the less expensive members of this already bad risk pool, causing premiums to go higher. But, this is where it gets weird – Senate Trumpcare still has subsidies for buyers in the private market. These subsidies are linked to a person’s income and the price of a benchmark plan. Because that benchmark plan will be really expensive, the government subsidy will be huge. This begins to look a lot like the pre-ACA high-risk pools.

A stable system of Poop Plans and private high-risk pools is theoretically possible. But our experience with them pre-ACA was not good. They were chronically underfunded, leading to huge wait lists and lead times. And while theoretically stable, it is also unclear exactly what high-risk pools would accomplish. Splitting the risk pool into healthy and sick sub-pools doesn’t lower the total cost – it just makes sick people pay more. To the extent that the government is subsidizing the sick pool, government spending doesn’t go down either – and it might actually go higher. And government spending comes (ultimately) from taxes. So, those in the healthy pool aren’t thrilled either. They traded a comprehensive (if expensive, before subsidies) plan for a probably junk plan, with the savings going to increased out-of-pocket costs. And there will either be taxes to pay for the subsidized private high-risk pools – or the pools won’t be there when you get old or sick and need them. Which we all will.

Let’s look a bit more at those subsidies. In the ACA, subsidies were available for households between 100% and 400% of the Federal Poverty Level (FPL). In Senate Trumpcare, it will be 350%. Within that range, the amount of premium you pay is capped. At the upper end, the cap is pretty high (16% of income in Trumpcare), but given that the compliant plans will probably be greater than the total income of many, this is still a pretty decent protection. But – imagine a household at 351% of FPL, around \$80,000 for a family of three. If a member of their family can’t buy a Poop Cruz Plan (due to health problems), they will be forced into this pool, with no subsidies. These plans could easily cost \$30,000, \$50,000 or much more per year – they will only sign up if they have major, major health problems. This will create a selection bias even in the worse risk pool – you could easily see additional spiraling in these plans.

Going back to Blue Cross – they said the plan is “unworkable” – what did they mean? Imagine you are an actuary, trying to price your plan for the ACA-compliant plan. Your price is equal to the

average expected claims of the people who signed up (plus overhead). Given that you know that health people are generally going to buy the Poop Cruz Plans, how well are you able to predict your pool? I, for one, have no idea what it will look like. Actuaries hate risk – none of them will want to be in this market. The people running the business at these insurance companies will agree; the number of people in this pool in any single jurisdiction will be small and sick. Oh, and this is coming in right away, so they need to figure it all out in a few weeks (Obamacare has a four-year implementation period; that isn't possible here because insurers would flee during a Trumpcare transition). Given the overhead to set up these plans is high, there is no way they can be profitable. So insurers will leave.

But, recall that in order to offer a Poop Cruz Plan in a state, you need to offer a compliant plan. I have not read this section of the bill, but perhaps insurers will stay in the market, offering a compliant plan for, say \$10,000,000 per year, just to be able to participate in the Poop market. In other words, if you think the exchanges are a mess today (some are, some aren't), the Cruz Amendment is guaranteed to make them much worse. So, we might end up in an individual market of cheap, skimpy Poop plans with medical underwriting along with plans similar to current ACA plans for prices an order of magnitude or three greater. Or maybe not! We've never seen any system remotely like this so it is all guesswork what it will look like.

At least the Senate has held numerous hearings on the Poop Cruz, listening to experts, industry groups and other stakeholders. Oh, wait, no – zero hearings, roundtables, or markups. The main [Health Insurance](#) industry group says it will “Further Destabilize the Individual Markets,” [Blue Cross/Blue Shield](#) says it is “unworkable.” In [a letter to Cruz](#), a group of stakeholders said “The combination of premium subsidies for lower-income Americans and the state stabilization fund envisioned in BCRA would be radically insufficient.” But hey, that letter is only from AARP, the ALS Association, the

American Cancer Society, American Diabetes Association, American Heart Association, American Lunch Association – among stakeholders starting with “A.” Further, because the GOP Senate apparently “[forgot](#)” to send Poop Cruz to the CBO, we won't have any official, impartial picture on how it will affect markets before a vote happens in coming days.

I always like to say that any health insurance system (or change thereto) has winners and losers. In the Affordable Care Act, those earning over \$250,000 per year were losers because they had tax increases (some others had small ones too). Young and healthy people were now forced to pay more, but for a better plan, and the certainty that they would be protected if they got old or sick in the future. Some of them consider themselves “losers” in the ACA, but that depends on your personal situation. All of the rest of us: old people, sick people, poor people, those with children up to age 26 – or anybody who might one day find themselves in such a category – were winners. I'm OK with that trade-off.

Which is a long way to say – congrats to the GOP. I look at this proposal and I literally can not see a single person who is better off. People on Poop Plans will have huge deductibles and/or few benefits. People on ACA plans will need to ensure they don't ever reach 350% of the poverty level, or else they lose their care. In earlier versions, at least the people getting the tax cuts were happy – but most of the ACA's taxes are now left in. As a country, we might find we've moved people from good Medicaid plans costing a few thousand per year to private plans requiring huge taxpayer subsidies.

I guess we can hope this bill won't involve wading through fecal matter. But I do understand there will be more amendments in coming days, so we can't be sure.