The leaked Republican plan to replace Obamacare, explained

Politico has obtained a leaked draft of a Republican replacement plan for Obamacare. The plan may be somewhat outdated already — it is two weeks old, per its time stamp, and Republicans have been working hard on their proposal in the meantime — but it almost certainly reveals an important shift from earlier GOP plans.

In broad strokes, the draft bill hews closely to ideas outlined by House Speaker Paul Ryan and Health and Human Services Secretary Tom Price. Compared with the Affordable Care Act, this proposal would generally be worse for people who are poorer and sicker — but better for those who are higher-income and healthy. Democrats will near certainly blast this proposal as bad for the 21 million Americans who rely on Obamacare for coverage.

But buried in the details of the 106-page document is actually a bit of an evolution on the part of the Republican Party. I've spent a lot of time reading Republican replacement plans for Obamacare, and this is definitely a more consumer-friendly version of their ideas than those introduced in the past.

This bill — and we don't know right now which committee it came from or which legislators back it — has more generous financial support for those who buy their own plans, for example, and lower penalties for Americans who do not maintain continuous insurance coverage.

Republicans seem pretty wedded to the reform concepts they outlined years ago. This includes things like age-based tax credits, a continuous coverage provision instead of an individual mandate, and a significant scaling back of the Medicaid expansion.

But Republicans seem open to changing the details of *how* those provisions are implemented. What this means for patients will, in a lot of ways, come down to the smaller decisions: how big those age-based tax credits are, for example, or how much an individual who doesn't maintain continuous coverage could be penalized. On that front, there really is a notable shift on the part of Republicans toward a plan that would be more financially generous.

The leaked Republican plan restricts — but doesn't ban — discriminating against people with preexisting conditions

The leaked Republican draft, like Obamacare, requires insurance plans to offer coverage to all patients regardless of how sick they are. But the leaked plan, unlike Obamacare, would let insurers charge sick people more if they did not maintain "continuous coverage."

This continuous coverage policy has shown up a lot in Republican replacement plans. It was part of Speaker Ryan's A Better Way proposal and Rep. Price's Empowering Patients First Act.

Here's how it works: If a cancer patient goes straight from insurance at work to her own policy, her insurer has to charge her a standard rate — it can't take the cost of her condition into account.

But if she had a lapse in coverage — perhaps she couldn't afford a new plan between jobs — and went to the individual market later, insurers could charge her up to 130 percent of the standard rate for her first year of coverage. She would have to pay that higher rate for a full year before getting access to the normal rate.

This is a notably less harsh penalty than the one that Price suggested in his 2015 Empowering Patients First Act. In that bill, he would have allowed insurers to charge people like this 150 percent of the standard premium for 18 months.

The leaked draft does have a safety net for people who can't afford to buy this more expensive coverage. It would invest $100 billion over 10 years into funding state efforts to cover "high-risk individuals" or to "help stabilize premiums for health insurance coverage in the individual market."

States could presumably put this money toward high-risk pools, an idea that shows up in many other conservative proposals, although in the leaked draft they wouldn't necessary have to.

This is significantly more generous than other Republican proposals for how much to spend on the especially high-cost patients. Ryan's plan, for example, would put $25 billion toward the high-risk pools over a decade ($2.5 billion per year) and keep them running indefinitely. The Price plan envisions only $3 billion for high risk pools over three years.

The leaked bill would generally be worse for people who are poorer and sicker, but better for attracting enrollees who are young and healthy. Perhaps most notably, however, the bill is generally *more* generous and consumer-friendly to all enrollees than previous policy proposals.

Still, it's unclear whether this would actually meet the needs of Americans with especially costly conditions. I've had some conservative health policy experts suggest to me that it would take about $25 billion per year to make high-risk pools function properly. And again, the funds in this leaked bill are not earmarked just for high-risk pools, and could be spent in other ways — meaning the funding could be much lower than the numbers outlined here.

The leaked draft makes insurance better for people who are young and healthy. It makes insurance worse for people who are old and sick.

One constant Obamacare gripe from Republicans is that the health care law mandates too big of a benefit package. This drives up premiums, they argue, and scares off some healthy and young enrollees who want to buy a skimpier plan.

There is some truth to this argument. Obamacare's marketplaces have struggled to attract young adults at the level the White House had initially hoped. (The Obama administration originally said it wanted one-third of the marketplace to be people between the ages of 18 and 34, but right now it's only about a quarter.)

The leaked draft makes the individual market more advantageous for healthier people. It eliminates the essential health benefits package, which mandated that all insurers cover a set of 10 different types of care, including maternity services and pediatric care. The leaked draft would allow states to decide which benefits are "essential."

Some states might choose skimpier benefit packages that would allow insurers to cut certain benefits they no longer want to cover — they could stop covering maternity benefits, for example, to make their plans less attractive to women who plan to become pregnant. This would likely benefit healthy people, who generally want less robust coverage at a cheaper price. But it'll send the cost of more comprehensive plans — the plans sicker people need — skyrocketing. And it could leave someone who wants, say, health insurance to cover her maternity costs completely out of luck.

There are other ways the leaked draft makes insurance better for young people too: by letting insurance plans charge them lower rates.

It does this by allowing insurers to charge their oldest enrollees as much as they want. Right now insurers can only charge the oldest enrollees three times as much as the youngest — that constrains prices for patients in their 50s and 60s.

Eliminating this regulation "increases the overall number of people with coverage, but older people end up falling out of the market as premiums rise," says Christine Eibner, an economist with the RAND Corporation who has modeled similar changes to Obamacare's age-rating provisions.

And while young people might have cheaper premiums and an easier ability to enroll, older Americans could struggle to purchase coverage in this market, where their costs would rise. These are people who tend to have more urgent health care needs and could be in a worse position without health care than a young adult might be.

This worries some Obamacare supporters, who say the goal of insurance reform isn't just to expand coverage — it's to expand coverage for people who really need health care.

"If you replace a 60-year-old with a 20-year-old, that doesn't change the number of people covered, but it changes the value of the coverage and of the program," says Jonathan Gruber, the MIT economist who helped the White House model the economic effects of Obamacare.

The leaked draft would provide tax credits, but they would help older (and likely richer) people more

The leaked draft, like Obamacare, envisions that Americans will use tax credits to purchase individual health insurance, but the structure of the tax credits is very different.

Obamacare's tax credits are based on income, with those who earn less getting more help. The leaked draft's tax credits would only be based on age, giving more help to those who are older (and who will presumably be charged higher premiums). The tax credits outlined in the bill are as follows:

- $2,000 for those under 30
- $2,500 for those between 30 and 40
- $3,000 for those between 40 and 50
- $3,500 for those between 50 and 60
- $4,000 for those over 60

This means that Bill Gates would qualify for the largest tax credit simply because he is 61 years old. Under the Empowering Patients bill, Gates's net worth of $83 billion — presumably enough to purchase health coverage — would do nothing to disqualify him. Under Obamacare, he gets no help.

Conversely, a 23-year-old with little income who has health problems gets minimal help under Price's plan — despite the fact that she needs support much more than Gates does.

But what was especially notable to me about these credits is that they're significantly more generous than the ones that Price proposed in his 2015 Empowering Patients First Act. He suggested the following tax credits:

- $900 for children under 18
- $1,200 for those between 18 and 35
- $2,100 for those between 36 and 50
- $3,000 for those 51 and older

The plans under the leaked proposal would almost certainly be cheaper because they wouldn't have to cover so many benefits. A 55-year-old under this health care system, for example, might find lower premiums for plans that cover fewer benefits. But it's also true that the plans that do offer comprehensive benefits would likely prove financially out of reach for many.

The leaked draft repeals Medicaid expansion without any replacement

Under this proposal, states could continue to cover the Medicaid expansion population — but they would get significantly less federal funding, which could push some states to drop out of the program entirely.

Separate from the Affordable Care Act, the leaked draft suggests dramatically cutting funding for the Medicaid program entirely. Right now states and the federal government split Medicare patients' bills. Each pays a certain percentage of the costs. The commitment to paying those medical bills is essentially unlimited: The two governments will pay whatever bills rack up.

The leaked draft, however, would change that entirely. It suggests a "per capita cap" model, where each state would get a set amount for the number of people it was expected to enroll. If states were able to keep costs low, they might even be able to keep some of that money. But states could get into trouble if they found that they were spending *more* per person than their federal funding expected. They might need to cut back on the benefits the program offers, for example, or cover fewer people to make the numbers work.

You can read more about how a proposal like this works in a longer explainer here.

It's very easy to see the ideas in this draft changing a lot in the coming weeks and months. Republican governors like Ohio's John Kasich and Michigan's Rick Snyder have begun to advocate for keeping Medicaid expansion, which covers thousands in their home states. Kasich is meeting with President Trump today and will certainly press the issue, and dozens of governors will be in Washington this weekend for the National Governors Association conference. You can bet this is a section they care about *a lot* — and will try to change significantly.

The leaked draft has a new tax on high-cost health insurance plans that employers offer

Most of the changes in the leaked draft have to do with people who get insurance through Medicaid or on the marketplaces. But there is one important change the plan would make to employer-sponsored insurance: It would cap the tax exclusion for employer-sponsored coverage.

The health insurance tax break is the biggest in the federal budget; the government loses out on **$260 billion** annually by not taxing health benefits. And economists across the political spectrum agree that we should eliminate or at least reduce this tax break, which currently gives those with jobs a huge discount on their coverage — and an incentive to buy more coverage than they actually need.

The leaked draft proposes taxing any employer-sponsored coverage above the 90th percentile of current premiums. If this sounds familiar, it's because Obamacare had something awfully similar: the "Cadillac tax," which was a 40 percent excise tax on especially high-cost health care plans.

As popular as this provision will be with economists, you can bet that the public will hate it, as it would make some health plans significantly more expensive. There is already a lobbying campaign to kill this provision — even before Republicans have officially proposed the idea.

"During meetings on Capitol Hill last week, there were acknowledgements of the role of the group market and a commitment to not disrupting that," says Ed Fensholt, a senior vice president at the health brokerage firm Lockton. "I think there was, however, a lack of understanding that certain things they do might have a disruptive effect."