

BACKGROUND

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How Obamacare Undermines American Values: Penalizing Work, Marriage, Citizenship, and the Disabled

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Abstract

Contrary to claims that Obamacare is compassionate, the new health care law further entrenches a superstructure that penalizes work and encourages dependence for a wide swathe of Americans. Obamacare also penalizes marriage, places citizens at a disadvantage compared with non-citizens, and prioritizes coverage for able-bodied adults over services and supports for the disabled. To restore the values of hard work that Americans have held dear for centuries, Congress should stop and repeal all of Obamacare.

“We are a compassionate nation,” President Barack Obama recently stated in his weekly radio address, talking about the health care law—implying that critics of Obamacare are not.¹ Nothing could be further from the truth. Obamacare itself is an uncompassionate law.

While President Obama and his fellow liberals may have held the best of intentions while ramming Obamacare through Congress, the law’s policies are far from compassionate toward the uninsured and Americans with low and modest incomes. Obamacare discourages work, penalizes marriage, places citizens at a disadvantage compared with non-citizens, and prioritizes coverage for able-bodied adults over services and supports for the disabled.

To restore the values of hard work that Americans have held dear for centuries, Congress should repeal all of Obamacare. Further, Congress should reexamine other tax and welfare policies with an eye toward encouraging work and marriage.

KEY POINTS

- While Obamacare’s supporters believe the health care law is a compassionate measure, in reality it puts in place a series of perverse incentives.
- Obamacare’s subsidy regime contains disincentives for individuals to marry and for Americans of low and modest incomes to work. Discouraging work and marriage will only perpetuate poverty and income inequality, not alleviate them.
- Obamacare also prioritizes able-bodied citizens over the disabled and non-citizens over citizens.
- Policymakers should repeal Obamacare and focus on creating incentives that promote traditional American values of hard work and initiative, rather than undermine them.

This paper, in its entirety, can be found at <http://report.heritage.org/bg2862>

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Obamacare Creates Inequities

Many of Obamacare's flaws are well known.² According to the Congressional Budget Office (CBO), the law will spend nearly \$1.8 trillion over the next 10 years on new insurance subsidies and an expanded Medicaid program.³ However, inherent design flaws in that subsidy regime will create winners and losers in a way that penalizes both work and marriage and that prioritizes the able-bodied over the disabled and citizens over non-citizens.

Rather than "spreading the wealth around" as then-Senator Obama famously discussed during his 2008 campaign, Obamacare will actually concentrate wealth.⁴ By penalizing work, the law fundamentally acts as a brake on low-income and middle-income families' desire to prosper. Instead of improving their prospects to succeed, Obamacare focuses solely on making their current status less bleak. The American people deserve better than Obamacare's dystopian vision.

Inequity #1: Discouraging Work

Many of the inequities present in Obamacare stem from Section 1401 of the law, which establishes eligibility for subsidized insurance in government-run exchanges.⁵ Obamacare's formulae for allocating federal premium and cost-sharing subsidies include several "cliffs." At these cliffs, individuals and families will actually benefit *more* by working *less* because additional earnings could cause them to lose thousands of dollars in taxpayer-funded subsidies.

For example, Obamacare subsidizes insurance premiums for individuals with incomes of up to 400 percent of the federal poverty level (FPL), which is

just over \$62,000 for a couple in 2013.⁶ According to the Kaiser Family Foundation's subsidy calculator, a married couple, each 50 years old, making a combined \$60,000 per year would receive a taxpayer-funded insurance subsidy of up to \$5,081.⁷ The couple would qualify for this subsidy because their combined income would be just below 400 percent of the FPL. However, if the couple earned an additional \$2,500—raising their income just above 400 percent of the FPL—they would receive no subsidy at all. Even though they receive \$2,500 more in cash compensation, the couple would actually be *worse* off financially because they would lose more than \$5,000 in federal insurance subsidies.

By penalizing work, the law fundamentally acts as a brake on low-income and middle-income families' desire to prosper.

Similar cliffs occur elsewhere in Obamacare's subsidy structure. As income approaches 400 percent of the FPL, the percentage of income that households are expected to devote to insurance premiums rises, and the premium subsidies under Section 1401 fall. Individuals with rising income also face the loss of federal cost-sharing subsidies established under Section 1402 of the law, which reduce out-of-pocket expenses including co-payments and deductibles. These effects are particularly acute at certain cliffs established in the statute—for instance, 150 percent, 200 percent, and 250 percent of the FPL—but they

1. Barack Obama, "Congress Must Act Now to Pass a Budget and Raise the Debt Ceiling," The White House, September 21, 2013, <http://www.whitehouse.gov/the-press-office/2013/09/21/weekly-address-congress-must-act-now-pass-budget-and-raise-debt-ceiling> (accessed October 21, 2013).
2. The Heritage Foundation, "The Case Against Obamacare: Health Care Policy Series for the 112th Congress," <http://www.heritage.org/research/projects/the-case-against-obamacare>.
3. Congressional Budget Office, "Effects on Health Insurance and the Federal Budget for the Insurance Coverage Provisions in the Affordable Care Act—May 2013 Baseline," May 14, 2013, p. 2, Table 2, <https://www.cbo.gov/publication/44190> (accessed October 21, 2013).
4. Fox News, "Obama—Spread the Wealth Around," video file, PopModal, <http://www.youtube.com/watch?v=OoqI5PSRcXM> (accessed October 21, 2013).
5. Patient Protection and Affordable Care Act (PPACA), Public Law 111-148, § 1401, as amended by the Health Care and Education Reconciliation Act (HCERA), Public Law 111-152, <http://housedocs.house.gov/energycommerce/ppacacon.pdf> (accessed October 21, 2013).
6. U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, "2013 Poverty Guidelines," January 24, 2013, <http://aspe.hhs.gov/poverty/13poverty.cfm> (accessed October 21, 2013).
7. Henry J. Kaiser Family Foundation, "Subsidy Calculator," <http://kff.org/interactive/subsidy-calculator/> (accessed October 22, 2013). All figures are in 2014 dollars.

also pervade the entire subsidy structure. Overall, University of Chicago economist Casey Mulligan has concluded that Obamacare will help raise effective marginal tax rates by more than 10 percentage points.⁸

The subsidy formulae in Obamacare and the disincentives to work compound an existing system of tax credits and welfare programs that places families of low and modest incomes in a “poverty trap.” Testifying before two subcommittees of the House Ways and Means Committee in June 2012, Urban Institute fellow Gene Steuerle explained how the phaseouts of various income-linked programs—such as food stamps, housing assistance, and cash welfare benefits under the Temporary Assistance to Needy Families program—create very high effective marginal tax rates. His testimony cited an example of a single-parent, two-child household in Alabama and the effects of work on their net financial compensation:

With no work at all this family generates \$14,000 in benefits. If it earns poverty level income of about \$17,000, its total income would rise to about \$26,700, or close to \$13,000.... However, if the family earns about twice the poverty level, or an additional \$17,000, income would rise by only about \$6,900—an effective average marginal tax rate of about 60 percent, to which must be added any loss of health insurance benefits.⁹

Families facing these kinds of poverty traps may ask the obvious question: If I will lose so much in government benefits by earning additional income, why work?

Obamacare will only worsen the poverty trap created by existing programs. By expanding exchange insurance subsidies to those making up to 400 percent of the FPL, the law effectively raises marginal tax rates for a wide swathe of Americans. The law gives millions of Americans new incentives not to work—or not to raise their income levels—because they may lose federal insurance subsidies. According to the most recent Census data, nearly 64 percent of the non-elderly population lives in households below 400 percent of the FPL. These individuals could face the work disincentives created by Obamacare’s new insurance subsidy structure.¹⁰

The Congressional Budget Office agrees that Obamacare will reduce work incentives by raising marginal tax rates. In a report released shortly after the law’s enactment, the nonpartisan CBO concluded that Obamacare “on net will reduce the amount of labor used in the economy ... primarily by reducing the amount of labor that workers choose to supply.” The CBO found that the Medicaid expansion and exchange insurance subsidies “will encourage some people to work fewer hours or to withdraw from the labor market” to remain eligible for taxpayer-funded insurance subsidies. Furthermore, “the phaseout of the [insurance] subsidies as income rises will effectively increase marginal tax rates, which will also discourage work.”¹¹ CBO Director Doug Elmendorf testified before Congress that Obamacare would reduce the labor supply by about 800,000 workers.¹²

At a time when 5.7 million fewer Americans are looking for work than when the recent economic recession began in December 2007, Obamacare will reduce the size of the labor force even further.¹³ The law’s subsidy formula leads to perverse outcomes:

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8. Casey Mulligan, “How Obamacare Wrecks the Work Ethic,” *The Wall Street Journal*, October 3, 2013, <http://online.wsj.com/news/articles/SB10001424127887323623304579061423122639430> (accessed October 27, 2013).
 9. Gene Steuerle, “Marginal Tax Rates, Work, and the Nation’s Real Tax System,” testimony before the Subcommittee on Human Resources and Subcommittee on Select Revenue Measures, Committee on Ways and Means, U.S. House of Representatives, June 27, 2012, http://waysandmeans.house.gov/UploadedFiles/Eugene_Steuerle_Testimony_HR-SRM_062712.pdf (accessed October 21, 2013).
 10. Of the non-elderly population of 267.4 million, 170.5 million live in households with incomes under 400 percent of poverty. U.S. Census Bureau, “Annual Social and Economic Supplement: 2012 Poverty Table of Contents,” September 2013, Table POV01, http://www.census.gov/hhes/www/cpstables/032013/pov/pov01_400_1.xls (accessed October 21, 2013).
 11. Congressional Budget Office, “The Budget and Economic Outlook: An Update,” August 2010, p. 48, Box 2-1, and p. 66, <http://cbo.gov/sites/default/files/cbofiles/ftpdocs/117xx/doc11705/08-18-update.pdf> (accessed October 21, 2013).
 12. J. Lester Feder and Kate Nocera, “CBO: Health Law to Shrink Workforce by 800,000,” *Politico*, February 10, 2011, <http://www.politico.com/news/stories/0211/49273.html> (accessed October 21, 2013).
 13. James Sherk, “Not Looking for Work: Why Labor Force Participation Has Fallen During the Recession,” Heritage Foundation *Backgrounder* No. 2722, September 5, 2013, <http://www.heritage.org/research/reports/2013/09/not-looking-for-work-why-labor-force-participation-has-fallen-during-the-recession>.

“[A]s an individual makes more money, they are rewarded by losing subsidies.”¹⁴ Rather than encouraging hard work, initiative, and entrepreneurship, Obamacare instead undermines these essential American values.

Inequity #2: Penalizing Marriage

Obamacare contains not one, but two penalties on marriage—one for families with low and moderate incomes and another for families with higher incomes. The first is in its eligibility definitions for insurance subsidies in Section 1401,¹⁵ which sets eligibility based on federal poverty level guidelines. However, because the FPL for a couple is less than twice that for a single person, a married household will remain at an inherent disadvantage compared with two single individuals or an unmarried, cohabiting couple.¹⁶

A hypothetical example illustrates the nature and scope of the marriage penalties in Obamacare.¹⁷ A 50-year-old non-smoker making \$35,000 per year would qualify for a sizable insurance subsidy, according to the Kaiser Family Foundation’s insurance subsidy calculator.¹⁸ The individual’s premium would be capped at 9.5 percent of income, resulting in an insurance subsidy of \$2,065 paid by the federal government. However, if this 50-year-old is married to another 50-year-old who also makes \$35,000 per year, the couple would receive no insurance subsidy at all. This couple would incur a marriage penalty of \$4,130 in one year—equal to the \$2,065 that each individual could have received if they were not married.

Obamacare imposes a second marriage penalty that is related to its “high-income” tax. The law

creates a new 0.9 percent tax on wage income and 3.8 percent tax on unearned income that exceeds preset thresholds.¹⁹ In both cases, the thresholds for the tax are at \$200,000 for a single individual, but \$250,000 for a couple. As with the insurance subsidy formula, this new tax will automatically penalize married couples because the tax threshold for couples is less than twice the threshold for single individuals.

Rather than encouraging hard work, initiative, and entrepreneurship, Obamacare instead undermines these essential American values.

As with these subsidy calculations, the marriage penalties from the high-income tax could also be substantial. Two individuals who are each earning wage incomes of \$195,000 would fall under the \$200,000 threshold for single filers and would therefore not incur any additional liability under Obamacare. However, if these two individuals married, their combined income of \$390,000 would easily exceed the \$250,000 threshold, triggering the high-income tax. This couple would owe an additional \$1,260 in taxes.²⁰ The marriage penalty on this couple would be even higher if some of their income was unearned because Obamacare taxes unearned income above the \$250,000 threshold at a 3.8 percent rate.

Because the high-income tax is not indexed for inflation, more and more couples will pay this marriage penalty in the coming years. The Medicare actuary has estimated that, while this tax increase will affect only 3 percent of workers this year, it will

14. Drew Gonshowski, “The Affordable Care Act Negatively Impacts the Supply of Labor,” Heritage Foundation *Issue Brief* No. 3873, March 11, 2013, <http://www.heritage.org/research/reports/2013/03/impact-of-the-patient-protection-and-affordable-care-act-on-labor-supply>.

15. PPACA, § 1401.

16. In 2013, the federal poverty level for the continental United States (excluding Alaska and Hawaii) is \$11,490 for a single person and \$15,510 for a two-person household. The U.S. Department of Health and Human Services updates the guidelines annually. See U.S. Department of Health and Human Services, “2013 Poverty Guidelines.”

17. For similar analyses from an earlier version of Obamacare, see Robert Rector, “The New Federal Wedding Tax: How Obamacare Would Dramatically Penalize Marriage,” Heritage Foundation *WebMemo* No. 2767, January 20, 2010, <http://www.heritage.org/research/reports/2010/01/the-new-federal-wedding-tax-how-obamacare-would-dramatically-penalize-marriage>.

18. Henry J. Kaiser Family Foundation, “Subsidy Calculator.” All figures are in 2014 dollars.

19. Section 9015 of the PPACA established the 0.9 percent tax on wage income, and Section 1402 of HCERA established the 3.8 percent tax on unearned income.

20. $(\$390,000 - \$250,000) * 0.9 \text{ percent} = \$1,260$.

affect 79 percent by 2080.²¹ As more and more middle-income Americans face this high-income tax over time, the Obamacare provisions will disproportionately affect married couples due to its structural penalty against marriage.

As with the work disincentives noted above, Obamacare's penalties only exacerbate a policy environment that already discourages middle-income couples from marriage. As Steuerle testified:

Means testing and joint filing has resulted in hundreds of billions of dollars in marriage penalties for low- and middle-income households. Essentially, when moderate-income couples marry, their marginal tax rate moves up from, say, 25 percent, to the 50 and 80 percent ranges shown above....

Not getting married is the major tax shelter for low- and moderate-income households with children. In many low-income communities around the nation, marriage is now the exception rather than the rule.

Marriage penalties or subsidies are assessed primarily for taking wedding vows, not for living together with another adult. Those who do not feel morally compelled to swear fidelity in religious or public ceremonies for the most part do not suffer the penalties. Our tax and welfare system thus favors those who consider marriage an option—to be avoided when there are penalties and engaged when there are bonuses. The losers tend to be those who consider marriage to be sacred.²²

While advocates of the law claim its compassion toward those with limited incomes, Obamacare, like much of the existing welfare state, undermines marriage as an institution by penalizing “those who consider marriage to be sacred” and creating a culture in which “marriage is now the exception rather than the rule.”

Even though policy choices like those in Obamacare discourage low-income and middle-income households from participating in the institution, marriage still provides the most stable venue for raising children. Studies have shown that cohabiting couples with children break up with greater frequency than married couples with children.²³ In a front-page article in July 2012, *The New York Times* noted that marriage trends—sparked in part by existing government policy—have exacerbated income inequality:

Estimates vary widely, but scholars have said that changes in marriage patterns—as opposed to changes in individual earnings—may account for as much as 40 percent of the growth in certain measures of inequality. Long a nation of economic extremes, the United States is also becoming a society of family haves and family have-nots, with marriage and its rewards evermore confined to the fortunate classes. “It is the privileged Americans who are marrying, and marrying helps them stay privileged,” said Andrew Cherlin, a sociologist at Johns Hopkins University....

While many children of single mothers flourish ... a large body of research shows that they are more likely than similar children with married parents to experience childhood poverty, act up in class, become teenage parents and drop out of school. Sara McLanahan, a Princeton sociologist, warns that family structure increasingly consigns children to “diverging destinies.” Married couples are having children later than they used to, divorcing less and investing heavily in parenting time. By contrast, a growing share of single mothers have never married, and many have children with more than one man. “The people with more education tend to have stable family structures with committed, involved fathers,” Ms. McLanahan said. “The people with less education are more likely to have complex, unstable

21. Centers for Medicare and Medicaid Services, *2010 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trust Funds*, August 5, 2010, p. 87, <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2010.pdf> (accessed October 21, 2013).

22. Steuerle, “Marginal Tax Rates, Work, and the Real Tax System.”

23. Chuck Donovan, “A Marshall Plan for Marriage: Rebuilding Our Shattered Homes,” Heritage Foundation *Backgrounder* No. 2567, June 7, 2011, <http://www.heritage.org/research/reports/2011/06/a-marshall-plan-for-marriage-rebuilding-our-shattered-homes> (accessed October 21, 2013).

situations involving men who come and go.” She said, “I think this process is creating greater gaps in these children’s life chances.”²⁴

In a recent interview with ABC News touching on income inequality, President Obama claimed that “I think the President can stop it,” but that “you’ve got a portion of Congress who—whose policies don’t just, you know, leave things alone, they actually want to accelerate these trends.”²⁵

The President could not be more incorrect. By continuing failed policies that undermine the institution of marriage, Obamacare will accelerate a root cause of income inequality in the United States.²⁶ Policymakers seeking to restore the institution of marriage and reduce income inequality in the process should work to eliminate the tax and welfare policies that penalize low-income and middle-income households who marry.²⁷ A great place to start would be to repeal Obamacare because its marriage penalties will exacerbate income inequality.

Inequity #3: Placing Citizens at a Disadvantage

Obamacare includes special provisions that allow many legal, non-citizen residents to qualify for federally subsidized insurance and, in so doing, offers these non-citizens more and better coverage options than American citizens. Section 1401, which creates Section 36B of the Internal Revenue Code, includes a “Special Rule for Certain Individuals Lawfully Present in the United States.”²⁸ The rule states that lawfully present aliens with incomes under the federal poverty line who are “not eligible for the Medicaid program under Title XIX of the Social Security Act by reason of such alien status” shall be treated as if they

had incomes above the federal poverty level, thus entitling them to federal insurance subsidies.

This special rule effectively circumvents the restrictions imposed by Congress in its landmark 1996 welfare reform legislation. In enacting welfare reform, Congress intended to prevent individuals from migrating into the United States and becoming public charges. Section 403 of the welfare reform bill included provisions prohibiting most legal aliens from receiving means-tested benefits, including most Medicaid benefits, for a five-year period.²⁹ Obamacare did not explicitly override this five-year waiting period for legal aliens receiving taxpayer-funded benefits. Instead, Obamacare circumvented the prior law by creating a new entitlement—federal insurance subsidies in the new exchanges—with language ensuring legal aliens would qualify for this new program while in the five-year waiting period.

By continuing failed policies that undermine the institution of marriage, Obamacare will accelerate a root cause of income inequality in the United States.

While legal residents who are not citizens will receive federal insurance subsidies under Obamacare, American citizens of modest means will qualify for Medicaid or may not receive health insurance at all. In states that expand their Medicaid programs, all citizens with incomes below 138 percent of the FPL who qualify for Medicaid will be automatically enrolled in the Medicaid program.³⁰ In states

24. Jason DeParle, “Two Classes in America, Divided by ‘I Do,’” *The New York Times*, July 15, 2012, <http://www.nytimes.com/2012/07/15/us/two-classes-in-america-divided-by-i-do.html> (accessed October 21, 2013).

25. ABC News, “Transcript: President Barack Obama,” *This Week*, September 15, 2013, <http://abcnews.go.com/ThisWeek/week-transcript-president-barack-obama/story?id=20253577> (accessed October 21, 2013).

26. For more on the link between marriage and poverty, see Robert Rector, “Marriage: America’s Greatest Weapon Against Child Poverty,” Heritage Foundation *Special Report* No. 117, September 5, 2012, <http://www.heritage.org/research/reports/2012/09/marriage-americas-greatest-weapon-against-child-poverty>.

27. Donovan, “A Marshall Plan for Marriage.”

28. 26 U.S. Code § 36B(c)(1)(B). This specific provision was created by PPACA, § 1401.

29. Personal Responsibility and Work Opportunity Act, Public Law 104-193, § 403.

30. Section 2001(a)(1)(C) of PPACA established the Medicaid eligibility threshold at 133 percent of poverty; however, Section 1004(e)(2) of HCERA amended this requirement by adding an automatic 5 percent income disregard, effectively establishing an eligibility threshold of 138 percent of poverty.

that do not expand their Medicaid programs, citizens with incomes above 100 percent of the FPL will receive subsidies to purchase insurance coverage on the exchange, but citizens with incomes below 100 percent of the FPL may not qualify for subsidized insurance at all.³¹

The special rule ... offers non-citizens more and better coverage options than American citizens, potentially encouraging immigration to the United States.

The law as implemented thus creates two inequities that place citizens at a disadvantage compared with legal aliens. First, in states that expand their Medicaid programs, citizens with incomes under 138 percent FPL will be automatically enrolled into Medicaid, while legal aliens will receive subsidies to purchase coverage in the exchange.³² In addition to denying citizens the option of the exchange granted to similarly situated legal aliens, this inequity also consigns an entire class of American citizens to a Medicaid program plagued by low physician reimbursement levels with a resulting history of poor health outcomes. Several studies show that patients with Medicaid coverage have worse outcomes than the uninsured,³³ and some Medicaid beneficiaries do not consider the program “real insurance.”³⁴ Yet Obamacare dumps millions of American citizens into this troubled program, even as it grants many legal aliens the opportunity to pick health plans of their choosing.

Second, in states that do not expand their Medicaid programs, legal aliens will be able to purchase subsidized health insurance on exchanges, while citizens below 100 percent of the poverty line may not qualify for subsidized coverage at all. The Supreme Court’s ruling on Obamacare found that the law’s Medicaid expansion, which required states to expand Medicaid or lose all their existing Medicaid funds, consisted of unconstitutional “economic dragooning” and made the expansion optional.³⁵ The law as written did not envision such a scenario, assuming that all individuals below 100 percent of the FPL would be placed in the Medicaid program. The one exception was the “special rule” for legal aliens, thus allowing legal aliens, but no other individuals, below 100 percent of the FPL to receive insurance subsidies.

The solution to this problem is not for states to accept Obamacare’s massive Medicaid expansion. Expanding Medicaid would impose additional costs in the short term³⁶ and even larger costs in the long term.³⁷ Moreover, expanding Medicaid would consign millions of Americans to a flawed health program. Instead, the solution lies in repealing the special rule that offers non-citizens more and better coverage options than American citizens, potentially encouraging immigration to the United States by those seeking recourse to taxpayer-funded welfare programs.

Inequity #4: Prioritizing the Able-Bodied over the Disabled

Obamacare encourages states to expand their Medicaid programs to all individuals with incomes below 138 percent FPL by offering an enhanced Federal Medical Assistance Percentage (FMAP)

31. 26 U.S. Code § 36B (c)(1)(A), as amended by PPACA, § 1401.

32. Robert E. Moffit and Edmund F. Haislmaier, “Obamacare’s Insurance Exchanges: ‘Private Coverage’ in Name Only,” Heritage Foundation *Backgrounder* No. 2846, September 26, 2013, <http://www.heritage.org/research/reports/2013/09/obamacares-insurance-exchanges-private-coverage-in-name-only>.

33. Many of these studies are summarized in Scott Gottlieb, “Medicaid Is Worse Than No Coverage at All,” *The Wall Street Journal*, March 10, 2011, <http://online.wsj.com/article/SB10001424052748704758904576188280858303612.html> (accessed October 21, 2013).

34. Vanessa Fuhrmans, “Note to Medicaid Patients: The Doctor Won’t See You,” *The Wall Street Journal*, July 19, 2007, <http://online.wsj.com/article/SB118480165648770935.html> (accessed October 21, 2013).

35. *NFIB v. Sebelius*, 567 U.S. 52 (2012), <http://www.supremecourt.gov/opinions/11pdf/11-393c3a2.pdf> (accessed October 21, 2013).

36. Edmund F. Haislmaier and Brian Blase, “Obamacare: Impact on States,” Heritage Foundation *Backgrounder* No. 2433, July 1, 2010, <http://www.heritage.org/research/reports/2010/07/obamacare-impact-on-states>.

37. Drew Gonshorowski, “Obamacare and the Medicaid Expansion: How Does Your State Fare?” March 5, 2013, <http://blog.heritage.org/2013/03/05/obamacare-medicaid-expansion-state-by-state-charts/> (accessed October 21, 2013).

covering the new expansion populations. The law provides for a 100 percent federal match for 2014 through 2016, phasing down over time to a 90 percent match by 2020.³⁸

The Medicaid expansion will not be cost free to states. Implementing the expansion will cost an estimated \$12 billion in administrative costs,³⁹ and state costs will rise as the federal matching percentage falls after 2016.⁴⁰ However, the enhanced Medicaid match under Obamacare is significantly higher than the traditional FMAP rates covering the rest of the Medicaid program. Under existing law, FMAP rates for state Medicaid programs covering the aged, blind, and disabled populations can range from 50 percent to 83 percent.⁴¹ For fiscal year 2014, FMAP rates will range from 50 percent in 15 states to 73 percent in Mississippi.⁴²

Studies suggest that the vast majority of individuals to be covered under the enhanced Medicaid match are able-bodied adults. According to the Urban Institute, if all states expand Medicaid, over four in five uninsured adults eligible for coverage (82.4 percent) would be those without dependent children.⁴³ Because many states already provide Medicaid coverage for parents with children, the number of additional parents eligible for coverage under the Obamacare expansion would be comparatively small.⁴⁴ Moreover, of those adults eligible for Medicaid if all states expand Medicare, more than half (52.1 percent) would be ages 19–34, and more than five in six (86.6 percent) would be ages 19–54, which are the prime working years for most Americans.⁴⁵

Because most of the individuals gaining eligibility for Medicaid under the Obamacare expansion would be able-bodied adults of prime working age, these individuals should be able to work and therefore would likely earn enough income not to qualify for Medicaid coverage. An able-bodied adult, working full time (40 hours per week for 50 weeks per year) at a job paying \$8 per hour would earn \$16,000 annually, placing that individual above the 138 percent FPL cutoff for Medicaid eligibility. This hypothetical example strongly suggests that the able-bodied adults gaining Medicaid coverage under Obamacare are either unemployed or underemployed. It also suggests that Obamacare will exacerbate the existing poverty trap by providing benefits to adults able to work, but not currently employed.⁴⁶

Even as the federal government provides an enhanced federal match for state Medicaid programs to cover able-bodied adults, many more vulnerable individuals cannot obtain coverage from Medicaid. According to the Kaiser Family Foundation, 511,174 individuals are currently on waiting lists in 37 states for access to home and community-based services under Medicaid waiver programs.⁴⁷ Of these individuals, more than 316,000 seek Medicaid services due to intellectual or developmental disabilities.⁴⁸ Yet in creating an enhanced federal match for states to participate in Obamacare's Medicaid expansion, Congress created a very clear signal that covering able-bodied adults constitutes a greater priority than covering the aged, blind, and disabled populations that Medicaid currently covers.

38. PPACA, § 2001(a)(3), as amended by HCERA, § 1201(1)(B).

39. Haislmaier and Blase, "Obamacare."

40. Gonshorowski, "Obamacare and the Medicaid Expansion."

41. 42 U.S. Code § 1396d(b).

42. *Federal Register*, November 30, 2012, p. 71422, Table 1, <http://www.gpo.gov/fdsys/pkg/FR-2012-11-30/pdf/2012-29035.pdf> (accessed October 21, 2013).

43. Genevieve M. Kenney et al., "Opting in to the Medicaid Expansion Under the ACA: Who Are the Uninsured Adults Who Could Gain Health Insurance Coverage?" Urban Institute, August 2012, p. 9, Appendix Table 2, <http://www.urban.org/UploadedPDF/412630-opting-in-medicaid.pdf> (accessed October 21, 2013).

44. Henry J. Kaiser Family Foundation, "Adult Income Eligibility Limits at Application as a Percent of the Federal Poverty Level (FPL)," January 2013, <http://kff.org/medicaid/state-indicator/income-eligibility-low-income-adults/> (accessed October 21, 2013).

45. Kenney et al., "Opting in to the Medicaid Expansion Under the ACA," Appendix Table 1, p. 8.

46. Edmund F. Haislmaier, "New Medicaid Welfare Trap," The Heritage Foundation, May 29, 2013, <http://www.heritage.org/research/commentary/2013/5/new-medicaid-welfare-trap>. First published in *The Philadelphia Inquirer*.

47. Henry J. Kaiser Family Foundation, "Waiting Lists for Medicaid Section 1915(c) Home and Community-Based Services (HCBS) Waivers," December 2012, <http://kff.org/medicaid/state-indicator/waiting-lists-for-hcbs-waivers-2010/#table> (accessed October 21, 2013).

48. *Ibid.*

A public safety net is necessary for those truly in need. However, by spending more than \$700 billion on its massive Medicaid expansion,⁴⁹ Obamacare places a greater emphasis on covering able-bodied adults than the disabled populations that Medicaid was originally intended to serve. By extending health coverage to those who should be able to work, Obamacare could jeopardize the coverage of disabled populations. Moreover, by subsidizing health coverage for millions of unemployed and underemployed, Obamacare could accelerate the development of a permanent underclass who chooses not to work because there is little financial incentive to work.

What Congress Should Do

Rather than perpetuating a law that includes perverse incentives that discourage work, policymakers should focus on reforming America's tax and welfare system to encourage initiative and hard work. To that end, Congress should:

- **Repeal all of Obamacare.** The penalties and disincentives that the law places on Americans are compelling reasons for Congress to repeal this harmful and misguided legislation.
- **Expand work requirements for able-bodied adults.** Even after the repeal of Obamacare's new entitlements, policymakers should examine and bolster work requirements for other welfare benefits to preserve incentives for the able-bodied to work or prepare for work.⁵⁰
- **Reaffirm the importance of marriage.** While Congress reduced the marriage penalties in the tax code in the past decade, policymakers should examine and revise policies in the tax code and elsewhere to promote committed marital relationships.⁵¹

- **Maintain waiting periods before legal residents can access welfare benefits.** Obamacare undermines one basic premise of the 1996 welfare reform: A legal immigrant should not become a public charge immediately upon arrival in the United States. Particularly given record federal deficits, Congress should restore this principle as a way to curb soaring entitlement spending.
- **Restore Medicaid's focus on the neediest citizens.** Given its poor outcomes for patients,⁵² Medicaid needs significant changes. However, true reform cannot come from adding able-bodied adults to an already overburdened program. Instead, Congress should focus on improving Medicaid's quality of care, while restoring its emphasis on providing a safety net for the truly needy.⁵³

Conclusion

The subsidy formulae and minutiae underpinning Obamacare represent a complex set of choices enacted by Congress more than three years ago. Each of these policy choices is antithetical to traditional American values: the spirit of entrepreneurship and work, the marital bonds that have served as the touchstone of strong families for generations, the spirit of self-reliance that led immigrants to come to these shores to contribute to American society, and a safety net focused on protecting those in greatest need.

Collectively, these policy choices send a clear signal that reliance on government supersedes these traditional American values. While liberals argue that Obamacare is a compassionate law, the facts suggest the exact opposite. The law is not compassionate because it further entrenches a superstructure that penalizes work and encourages dependence for a wide swathe of Americans.

49. Congressional Budget Office, "Effects on Health Insurance and the Federal Budget," Table 2.

50. For instance, see Robert Rector and Jennifer A. Marshall, "The Unfinished Work of Welfare Reform," January 22, 2013, <http://www.heritage.org/research/reports/2013/01/the-unfinished-work-of-welfare-reform> (accessed October 21, 2013).

51. Rector, "Marriage."

52. Kevin Dayaratna, "Studies Show: Medicaid Patients Have Worse Access and Outcomes Than the Privately Insured," Heritage Foundation *Backgrounder* No. 2740, November 7, 2012, <http://www.heritage.org/research/reports/2012/11/studies-show-medicaid-patients-have-worse-access-and-outcomes-than-the-privately-insured>.

53. Nina Owcharenko, "Saving the American Dream: A Blueprint for Putting Patients First," Heritage Foundation *Issue Brief* No. 3628, June 6, 2012, <http://www.heritage.org/research/reports/2012/06/saving-the-american-dream-a-blueprint-for-putting-patients-first>.

In calling for Obamacare’s repeal, opponents have pointed out the law’s economic impacts, its new bureaucracy, and its negative impacts on the American health care system. But conservatives should also make a values-based case against Obamacare. The American people deserve better than a law rooted in the notion that some individuals cannot improve their station in life and therefore should not be encouraged to work or advance their condition.

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