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SPOTLIGHT REPORT

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Trump's Inadvertent Great Society: Healthcare Policy Post-Pandemic

What's Happening: Two important themes run through the history of the United States and how the federal government has dealt with social welfare policy and healthcare in particular. First, the system has almost always been built around the concept that "proper" recipients of assistance from the state had to be blameless victims of bad luck, rather than individuals in distress due to their own poor life choices. Social Security and Medicare are the most prominent examples of this concept, with old age and an inability to secure wage income and affordable health insurance as the primary drivers of this federal support at that time and were also at least part of the reason these benefits were not provided to everyone of all ages. There is additional history in the post-war era showing how this concept has continued, including access to Medicare to cover end-stage renal disease (ESRD) when new lifesaving technology was developed but was unaffordable to nearly all victims of ESRD. Also, the expansion of Medicaid to cover children, but not always their parents via SCHIP (State Children's Health Insurance Program). Second, with a few exceptions, most long-lasting and widespread social safety net expansions have also occurred during or immediately after significant crises, such as the Great Depression, Second World War, or the so-called "War on Poverty" of the 1960s in the aftermath of the Civil Rights Movement and widespread societal turmoil of that era. **As we look to shift into the recovery phase of the pandemic concurrently with ramping up the presidential election campaign, investors should pay close attention to whether or not we are entering another era of crisis induced social legislation.**

Why It Matters: Starting in January 2021, if former Vice President Biden defeats President Trump and Democrats control Congress, we could be starting on yet another crisis-induced spurt of legislating that results in a dramatic safety net expansion, particularly a public option of health insurance that would fully cover any gaps between Medicaid, Affordable Care Act exchange plans, workplace insurance, and Medicare. We do not believe that such an expansion would have been possible only six weeks back, but, depending on how the American middle class reacts to the pandemic and resulting economic damage as well as the electoral outcomes, the political stage is likely to be set for significant legislative and societal change. This uncertainty will cause significant headline risk for health insurance companies in particular, as well as hospitals and other healthcare providers that would be impacted by a change in payment rates and the number of Americans with health insurance. Depending on how such a program is designed, it could also have enormous benefits for the managed care companies that we believe would be the only practical candidates to quickly ramp up their resources and bring such a benefit to millions of Americans in a timely manner before a significant electoral backlash can form and jeopardize the Democratic majority In the 2022 midterm elections.

What's Next: We expect that the Biden campaign will continue to ramp up its messaging in the weeks ahead and emphasize that, compared to President Trump, only his proposal to create a public option would ensure that out-of-work Americans would be able to have access to affordable healthcare that is separate from their employment. **A great deal of the eventual outcome of whether or not there is sufficient support for such a bill is likely to stem in large part from the experiences of millions of middle class and high propensity to vote Americans who are worried about losing their job, or already are unemployed and are searching for work and health insurance amid the pandemic. The longer that the unemployment rate stays elevated, particularly among workers who previously had employer-related healthcare, the more that this issue will become a key focus on voters.** Additionally, the immediate policy responses to Covid-19 have come quickly, compared to Washington's usual glacial pace. This shows that Congress can act quickly to expand worker rights and to grant benefits that were previously thought impossible — all it takes is making it a priority and having electoral control from winning elections. We also expect that the current pandemic will shift voter's expectations even further to the left — the so-called Overton window is likely to once again move towards more federal involvement in providing health insurance. Although Senator Bernie Sanders's (I-VT) campaign on a single-payer system could not beat Biden's more incremental public option during the Democratic primary, more people than ever support Medicare for All and a larger federal role in healthcare than at any time in recent history. **We believe that the pandemic, particularly if it exposes solidly middle class families to the same fears and tribulations that the poor and working class experience on a regular basis, could be the catalyst to break through political fears that moderate Democrats (and possibly some Republicans in a post-Trump world) have about further cementing the federal government's role as an insurance provider.** We think that *Philadelphia Inquirer* columnist Will Bunch put it best when he wrote, "In 2020 [and even more in 2021], a liberal is a conservative who's been exposed to the coronavirus."

Historic Examples Could Foreshadow 2021 Legislative Action

There are many historical precedents to point to regarding how a widespread public crisis has been the catalyst for changes to social welfare. The following is an extremely abbreviated account of a few of the highlights.

The labor movement was able to rise to significant power with increased workers rights after the First World War and the 1918 Spanish Flu pandemic, both of which created severe manpower shortages. These shortages also led to women being recruited into the paid labor force often for the first time, which also set the stage for voting rights and higher wages.

The Great Depression led to the start of the US social safety net with Social Security, the key part of the New Deal, being pushed into law and the public consciousness by then President Franklin Roosevelt. Roosevelt was as establishment as they could come prior to his election as president, but due to the enormous social and economic dislocations of that time, he threw orthodox policy making out the window and through a trial and error process turned to seizing on public concerns as a way to directly connect with voters and then keep experimenting with policies until he found ones that worked.

Another example of a crisis inducing a dramatic change in policy was the provision of universal childcare during World War Two so that women could replace men who were fighting and work in the factories, farms, and previously male dominated industries across the country. This program was disbanded after the war to encourage women to return home as homemakers in order to make jobs available for returning soldiers. It is also one of the only examples of social policy being extended and then retracted once a crisis had abated, but it showed what was possible if elected officials and the voting public had sufficient belief in a policy.

Many labor activists and labor historians believe that the time may be ripe for a return to a more worker-centered movement after this crisis, but we believe that this does not hold a great deal of appeal for large numbers of white collar workers who are also the most regular voters. Instead, what we believe they would prefer even more than a rebalancing of labor and capital, would be certainty and flexibility, and those two elements can come more from severing the link between employment and health insurance for millions of workers. A new labor movement may be coming, but we believe the first area of focus of a Biden administration and Democratic Congress in the post-Trump era would be a public option for health insurance.

Trump Strategy to “Shrink” Federal Health Insurance Footprint

Despite years of the Trump administration attempting to repeal and replace the Affordable Care Act (ACA), to force greater transparency on hospital spending, to restrict the growth of Medicaid by imposing work requirements, and to lower the price of prescription drugs, all of these policies have had little to no impact on the federal role in health insurance. Interestingly, not all of these priorities even reduced the federal role in health policy. The much discussed (but not yet proposed or implemented) prescription drug pricing plans would have actually carved out a much greater role for the federal government, while reducing the price paid by the government is a longstanding goal of progressive activists.

It is true that there was an increase in 2018 and 2019 of the number of people who do not currently have health insurance, which still remains around 8.5 percent. These were the first annual increases in the number of uninsured since the ACA was first passed into law in 2010. Despite those statistics, we are of the view that the healthcare system in the US, prior to the Covid-19 pandemic, for the vast majority of Americans, is relatively unchanged from the Obama era.

The ACA is also the key aspect of healthcare that the Trump administration returns to attacking repeatedly, with varying degrees of success. Ever since the failure of the 2017 repeal and replace effort in Congress, the President and certain members of his inner circle have refused to accept that the law has been on the books for a decade and any replacement would have to cover just as many people with at least the same level of generosity, or risk extreme public backlash as we saw in the midterm elections of 2018.

While legal battles over the ACA continue in the background, the latest White House and Department of Health and Human Services (HHS) attack is their steadfast refusal to open a new special enrollment period for the ACA in response to the pandemic, so that the president can continue to use his anti-ACA rhetoric during his re-election campaign.

Trump Administration and Congressional Covid-19 Response

At the same time as it continues to rhetorically and legally target the ACA, the Trump administration has actually gone far beyond the benefits offered in that law, including taking on a new role as primary payor for uninsured Americans getting treatment for Covid-19 — in essence creating a "skinny Medicare for all who have Covid-19," according to Larry Levitt of the Kaiser Family Foundation.

Additionally, Congress and the Trump administration have agreed to spend enormous amounts of money on the fiscal and public health responses to the pandemic — effectively killing the argument from moderates and conservatives that the country cannot afford a large role for the federal government in healthcare spending with hundreds of billions already appropriated for one year and additional huge amounts likely to come in the months ahead. Deficits will no longer matter in these discussions once Democrats are in charge, particularly because the public will have seen trillions spent on bailing out businesses in two crises in the last 10 years, with a record run of economic growth in between, showing that, in their minds at least, the economy is able to thrive in spite of such high spending. Austerity may instead be viewed as a choice to withhold benefits from voters than a necessity to ensure economic recovery, but only time and the next election will tell if that is true.

One aspect of the Covid-19 response that has not received nearly enough attention is how the Trump administration's choice of the Medicare rate for payment for uninsured Covid-19 patients is likely to be a new anchor in the discussion over federal payment policy. Previously, when we had discussed the chances for a public option, we had always assumed that it would have to follow the state model of Colorado and be "Medicare+" in order to ensure that there would not be a precipitous decline in revenues, particularly at hospitals. Although we are likely months from knowing the full number of uninsured for whom the federal government is compensating providers, we suspect that it could be significant and that this is likely to anchor future proposals in a manner that we do not think the current administration would expect.

Finally, another outcome from the pandemic is the dramatic increase in federal funds for providers—to the tune of $100 billion thus far, with even more likely to come in the weeks and months ahead. Despite the constant drumbeat of heroism from many hospitals around the country, with all of these new funds, we believe that the public and members of Congress will not to listen to any complaints during debate over a public option about how it will hurt the bottom line of hospitals, not after many hundreds of billions were spent and much of the reimbursement for care was at lower Medicare rates.

Will The Middle Class Have Sufficient Fear of Losing Health Insurance During a Crisis?

The key pieces of data for investors to watch are the depth and duration of the current economic crisis. The longer and deeper the economic fallout, particularly the stickiness of unemployment and an inability to once again access employer-provided health insurance, the more that we believe voters may be open to not only voting for former Vice President Biden, but also supporting legislation (should he win) that would sever the link between employment and insurance.

In essence, we believe that the lived experiences of millions of newly unemployed during the pandemic can change the priorities of voters and thus of the candidates. If and when middle class Americans begin to feel the insecurity that is typically only felt by poorer Americans, then this could have such an impact as to change political minds about the policy, if not also about the candidates.

Thus, we expect the Biden campaign will increasingly make an effort to discuss his proposals for a public option as a key way to aid recovery, both economically and personally for voters. We also expect that the campaign will focus on the benefit to employers of not having to support an endless increase in the cost of health insurance, taking that cost off of the plate of many businesses as they seek to rebuild after months of lockdown.

We do not expect that the Trump administration will offer anything to increase the number of insured via the federal government, let alone any all-encompassing repeal and replace plan for the ACA. This will mean that he is ceding healthcare almost exclusively to Biden, with the exception of some potential proposals on prescription drugs, but those would likely only be released if a Covid-19 therapy is settled upon.

Elections Have Consequences

As with many of the social benefits instituted during the Great Depression and Second

World War which were thought to be temporary, such as sick pay and employer-provided health insurance, we expect that the narrative over the federal government's role in providing health insurance that is separate from employment may be about to fundamentally change, particularly if Biden wins the White House and the Senate flips to Democratic control.

Only a few weeks ago, we did not think that a newly inaugurated President Biden would burn his political capital early in his term on his public option plan, or any healthcare policy all because even prescription drug pricing legislation is extremely hard to do via the only likely available option of budget reconciliation. However, today, amid millions of middle class people becoming unemployed due to the pandemic (just when they need health insurance the most), we think there may be a permanent shift in the so-called Overton Window whereby middle class Americans who formerly had employer-provided health insurance now begin to question that longstanding system. This shift in mindset due to personal experience may present a sufficient opening to push through a public option in 2021.

In our view, any such new entitlement would be part of a larger package of spending and tax increases, that would look to reset the economy much like the American Recovery and Reinvestment Act did under the Obama administration. Specifically, we believe a public option it may also be accompanied by a reduction in the age eligibility for Medicare to 55 or 60, especially since so many of the near retirement age individuals often have a hard time finding comparable work after a layoff late in life.

The type of public option we are envisioning could complement ACA plans sold on the exchanges, Medicaid, and traditional Medicare, but it could also subsume one or all of them. We would guess that a public option would replace the ACA exchange plans, but that the coverage levels would be nearly the same, although the generosity of the subsidies would likely increase and be offset with a reduced reimbursement rate for providers. At the start of the debate will be a push to create a whole new bureaucracy of public sector employees to manage the insurance program, but we expect that this will be cast aside relatively quickly in favor of contracting with existing managed care insurers and instituting a Medical Loss Ratio (MLR) to contain profits. There is also a key political incentive to using existing insurers and that is the speed with which they can stand up such a system before widespread backlash can take shape and cause legislative losses that cripple the remainder of a Biden administration.

This rate is the key unknown and will be subject of fierce debate. In Colorado, the state has decided to use a Medicare+ rate, while the Trump administration has anchored expectations lower by using the Medicare rate for the uninsured Covid-19 patients. The outcome is important not just for hospitals and other providers, but also for insurers themselves, because if they can utilize a lower rate and the government maintains current levels of subsidy, or makes them more generous, then there is more incentive to participate in the program.

We also expect that there will be a policy included to mandate that all providers take the public option plan, or they forfeit the right to take any payments from the federal government. This is how Colorado is ensuring that there is not a problem with exceedingly narrow networks and how it can help prevent that problem nationally. It will also tilt the balance away from hospitals who currently have the upper hand in many negotiations with insurers and as such are the largest sources of expense in healthcare. If insurer profits are locked in place with a strict Medical Loss Ratio and hospitals are all required to take a government set rate for the public option, then the cost curve can truly be bent and coverage can be ensured for nearly all Americans, while still keeping the system as a whole a blend of public and private. In the end, if a public option is to pass, we think it will look like a blend between the ACA exchange plans and a Medicare Advantage plan, with a payment rate somewhere in between.

Finally, if Biden wins and the Senate remains in Republican hands, then we do not expect that Senate Majority Leader Mitch McConnell (R-KY) would ever take up this type of legislation, but we still expect it to pass in the Democratic House and be the rallying cry for Democrats in the 2022 midterm elections.

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