

OBAMACARE'S LATEST CHALLENGE 1-7
FEDERAL VS. STATE-RUN
HEALTH CARE EXCHANGES3

**INTEREST RATES AND
ECONOMIC INDICATORS8**

**COBANK ANNOUNCES RENEWAL
OF "SHARING SUCCESS" FOR 2015.....9**

ABOUT COBANK9

Obamacare's Latest Challenge

Businesses across the United States have had to scramble over the past couple of years to keep up with changes in health care legislation. The Affordable Care Act of 2010 – a.k.a. “Obamacare” – imposed stringent new requirements on employers, requiring that companies with 50 or more full-time employees provide a minimal level of coverage to their workers. The law also required all Americans to have insurance, extended subsidies to lower-income people in order to make health insurance more affordable, and established a network of state and federal “exchanges” where people can purchase insurance and obtain the subsidies.

Obamacare survived a challenge in the U.S. Supreme Court in 2012, and today, millions of Americans receive coverage through government-run exchanges. But now it is before the Court again – this time over the legality of subsidies that the law depends on to be economically viable. A ruling from the Court should come in June.

For a detailed perspective on the latest case, *OUTLOOK* turned to health care policy expert Robert Graboyes, a scholar at the Mercatus Center at George Mason University in Arlington, Virginia. An outspoken critic of the health care law, and of the various conservative counterproposals, Graboyes says a ruling by the Court against Obamacare will likely cripple the law and cause significant turmoil for the government, businesses and citizens alike.

OUTLOOK: Remind us of the key components of the Affordable Care Act.

Robert Graboyes: The ACA was designed to reduce the number of uninsured people in the U.S. by roughly half. Of the newly insured, around half would get coverage through Medicaid; the other half would purchase private policies – some through the new exchanges.

The ACA has three primary pieces: 1) a requirement that everyone have insurance – called an *individual mandate* – or pay a tax in lieu of insurance, 2) government subsidies for people whose income is below a certain threshold, and 3) a requirement that employers with 50 or more full-time employees (or full-time equivalents) pay penalties for any of their employees that receive subsidies, which is called the *employer mandate*.

About this article

Robert Graboyes is a senior research fellow at the Mercatus Center at George Mason University. Author of “Fortress

and Frontier in American Health Care,” (published by Mercatus), his work revolves around depoliticizing the health care debate by shifting its focus toward technological innovation. His work can be summarized as, “How can we make health care as innovative in the next 25 years as information technology was in the past 25 years?”

He teaches health economics in master’s and doctoral programs at Virginia Commonwealth University and the University of Virginia. Previously, Graboyes was Senior Health Care Advisor for National Federation of Independent Business (NFIB), sub-Saharan Africa economist at Chase Manhattan Bank, and regional economist at the Federal Reserve Bank of Richmond.

Graboyes has a doctorate in economics from Columbia University; master’s degrees from Virginia Commonwealth University, Columbia University, and the College of William and Mary; and a bachelor’s degree from the University of Virginia.

Dr. Graboyes is a prolific writer and appears regularly on radio and television. In November, his writings on health care earned him the Reason Foundation’s 2014 Bastiat Prize in Journalism, an international competition for “writers who educate readers through simple, eloquent and witty explanations of complex economic ideas.”

He is on Twitter at: @Robert_Graboyes.

There are other key provisions of the law as well. *Guaranteed issue* means that insurance companies cannot refuse to insure anyone because of a pre-existing condition. *Modified community rating* means insurance companies can’t charge higher premiums just because someone is already sick or deemed to be high-risk.

OUTLOOK: In your opinion, how is the law faring now?

RG: Other than “more people with insurance,” the law’s goals were never clearly stated, so there are few objective metrics on which to judge it. More are insured, but there’s no increase in supply of health care to meet any new demand. The subsidies, the exchanges, the tax aspects are all in disarray. Some people get better coverage and others worse. It makes some people better off financially and others worse off. It likely improves health for some and worsens it for others. By none of these criteria do the winners clearly outnumber the losers. In sum, the law redistributes wealth and health at enormous cost.

OUTLOOK: What have been some of the big problems with implementation?

RG: A big chunk of the ACA was intended to operate through a series of state-run online insurance exchanges, which would serve as marketplaces where people could compare and purchase policies from different health care providers. Residents of states that chose not to establish a state exchange could review and purchase policies from federal exchanges (i.e., Healthcare.gov).

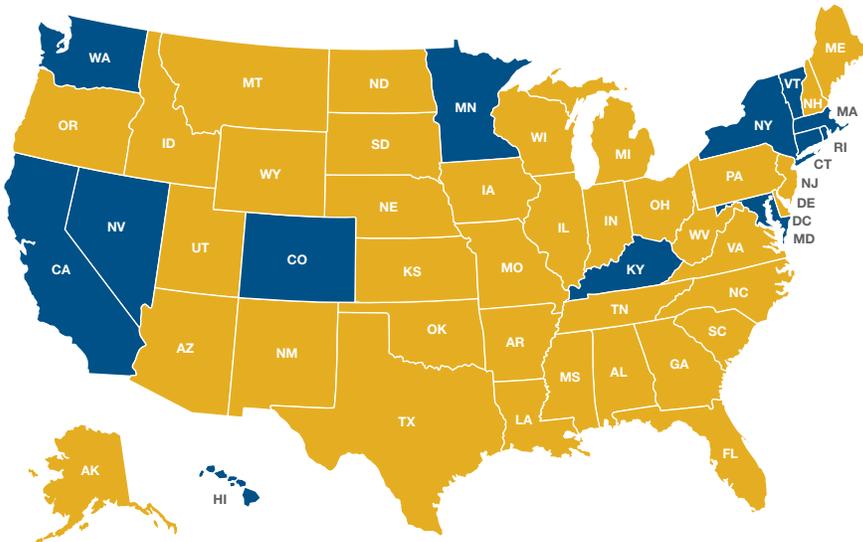
The law’s authors anticipated that most states would build their own exchanges. However, 36 declined from the start. Oregon – which spent \$300 million on its exchange and never managed to enroll a single person – has now flipped to make it 37 states in the federal program.

Clearly, the authors of the law were surprised to find that most states did not establish their own exchanges.

OUTLOOK: Is the federal exchange operating effectively?

RG: Parts of Healthcare.gov are running, but important parts aren’t. The first-year rollout was an historic disaster. Ultimately the front end was fixed, but the back end is still dysfunctional. It’s very difficult for a consumer to conduct a transaction as you would with, say, Amazon.com, that results in verifiable coverage. Pen, paper, and processing time are still required, which isn’t how the system was intended to operate. These unanticipated manual steps also introduce errors and risks of non-coverage.

FEDERAL VS. STATE-RUN HEALTH CARE EXCHANGES



■ States that use Healthcare.gov, the federal health insurance marketplace. People in these states are at risk of losing the subsidies they receive through the ACA. (37 states)

■ States where the state runs the health insurance marketplace. (13 states)

Source: *Business Insider*

There have been other malfunctions, too. This year, 800,000 Americans were told right at the start of tax season to not file their taxes yet because the federal government was getting the subsidy numbers wrong. These users weren't able to figure out how much they actually owed or would get back.

But the biggest issue right now for the federal exchange is the issue of subsidies and the *King v. Burwell* case now before the U.S. Supreme Court.

OUTLOOK: How significant is King v. Burwell?

RG: This case could be the biggest domestic policy story of the year.

It's different from the previous legal challenges to the ACA. It's not like the *National Federation of Independent Businesses (NFIB) v. Sebelius* (former U.S. Secretary of Health and Human Services Kathleen Sebelius) case of 2012,

which was a constitutional case. That case essentially asked if the ACA was compatible with the U.S. Constitution. In other words, could the government force people to buy insurance under the individual mandate? Ultimately, the Court upheld individual mandate via a tortuous legal workaround.

King v. Burwell (Sylvia Burwell is the current U.S. Secretary of Health and Human Services) is not a constitutional law case. This is simply a case of interpreting the wording and intent of the Obamacare law – should it be administered as written or did Congress mean something other than what they actually wrote?

The argument can be spun to either side. While a decision for the government – *Burwell* – would continue the status quo, a decision for *King* would largely demolish the ACA. The implications of that are huge.

OUTLOOK: What is the key question the case is trying to determine?

RG: The key question in this case revolves around the subsidies and who is able to receive them, based on the language in the law. The law very specifically states that subsidies are payable only in exchanges “established by the state.” In fact, subsidies are being paid to people who qualify for them in all states – including the 37 states that do not have health care exchanges.

The Supreme Court is essentially sorting out what Congress meant by “established by the state.”

Mr. King argues that he is being forced to buy something, or to be taxed for not buying it, when the language of the law exempts him.

OUTLOOK: Who is the plaintiff – King – and what is his key argument?

RG: David King is an ordinary citizen. He is a limo driver in Virginia, which doesn't have a state-run health care exchange. Mr. King earns about \$40,000 a year and under the current interpretation of the law, he either has to buy health insurance or he has to pay that tax. He is currently eligible to receive a subsidy, which is what the entire case revolves around.

Mr. King argues that he is being forced to buy something, or to be taxed for not buying it, when the language of the law exempts him. If the federal government were going by the letter of the law, he would not be eligible for a subsidy – because Virginia does not have an exchange – and then insurance would be so expensive for him that he would be exempt from the individual mandate (the requirement to either buy insurance or pay a tax).

OUTLOOK: What is the government's argument?

RG: The sum of their argument is that Congress meant to have subsidies in every state. Some supporters of the law – not the government, but some supporters – are saying it was simply an oversight, a mistake made in the drafting process.

The federal government essentially says that the word “state” is a “term of art” – that “state” means either a U.S. state or the federal government acting on behalf of a state. The plaintiffs say that's a stretch. American law does, indeed, have a “term of art” concept but whether it applies in this case is exactly where the plaintiffs and defendants disagree.

The defendants argue that it would have been irrational for Congress to establish an individual mandate without having subsidies. That argument is somewhat problematic because there are a number of states that did exactly that in the 1990s, after President Clinton's health care plan failed.

Secondly, the ACA itself does that in the case of U.S. territories. In the five big U.S. territories – Puerto Rico, Virgin Islands, American Samoa, Guam and Northern Marianas – there is an individual mandate, but there are no subsidies. So mandates-without-subsidies is not an alien concept.

OUTLOOK: A ruling for the government means the status quo. What will happen in a ruling for King?

RG: In terms of effect, subsidies in those 37 states will be gone and employers will no longer be on the hook for penalties. The individual mandate will also effectively be gone because the ACA includes provisions that exempt people if insurance is too expensive, and without subsidies, that will be the case for many or most. I expect some states will experience an insurance death spiral – costs rising rapidly, more high-risk people coming in and low-risk people changing coverage or dropping it altogether.

That's what happens in markets when you don't allow insurers to price for risk. The people who are most at risk, or most expensive, flood in and people who can afford not to have insurance tend to drop it. The only question is to what extent that happens.

Then it's up to Congress or the states to find a fix. That's where the complexities really come to bear. Every fix looks politically undoable. Something will happen, but it's going to be a game of chicken.

OUTLOOK: What do you think are some possible outcomes in a ruling for King?

RG: I see four potential scenarios.

First, Congress could vote to expand the subsidies to include the federal exchange, which means that Republicans would save the law that they have sworn to end.

Second, Congress could vote to eliminate *guaranteed issue* and/or *modified community rating*. Then, as was the case before the ACA, insurers could charge higher premiums to expensive patients or refuse to sell to them altogether. That would eliminate the conditions for a death spiral, but it would require the President to sign legislation that eviscerates his signature achievement.

The third option is that states with federal exchanges could establish state-run exchanges – thus reinstating the subsidies, *employer mandate*, and *individual mandate* in those states. However, you have to ask which governor and legislature is going to want to try that, given that the federal government and multiple state governments had four years to set up exchanges and failed disastrously.

Fourth, the administration could try to find another workaround – an administrative fix. The question is whether they can find a fix that won't end up back in court again.

I think it is shaping up to be a very difficult situation.

Both sides ought to focus not on “coverage,” but rather on how we provide better health for more people at lower cost year after year.

OUTLOOK: How do you think this is going to be decided, and which of the justices are up in the air?

RG: I really don't know. Even seasoned Court-watchers don't know how to guess. And you can't really discern from the questions the justices posed in the oral arguments before the Supreme Court, which took place on March 4th.

For example, Justice Anthony Kennedy asked a few questions that some people interpret as leaning toward allowing the law to stand as currently interpreted. On the other hand, justices sometimes do that so that they can say afterward, “I was aware of that argument. I asked about it, and I dismissed it.”

Chief Justice John Roberts – generally known to be more conservative – voted with more liberal members of the Court to uphold the ACA in *NFIB v. Sebelius* in 2012. Court observers reported that he was leaning toward striking down the individual mandate but changed his vote, perhaps because of his philosophy of judicial restraint. My understanding is that he is uncomfortable with using the Court's authority to fix legislation.

My non-lawyerly interpretation is that you could see him saying the same thing in this case, which is, “No, the law says you only get subsidies in the state exchanges; it's not the Court's job to fix a bad piece of legislation.”

Still, I have no idea how they'll decide it. Nor do I think anyone else outside the Supreme Court building knows either.

OUTLOOK: What are going to be the political ramifications of a decision either way – for King or Burwell?

RG: I focus on policy, not politics. I'll just say that no matter which way the ruling goes, neither party should sleep soundly afterward. Whatever the ruling, I hope there will be ample numbers of people on both sides who realize that this law does not fix what ails American health care – and neither do the proposals that ACA opponents have offered. Both sides ought to focus not on “coverage,” but rather on how we provide better health care for more people at lower cost year after year. That goal has not been present in the discussion.

 I don't think this law will ever stabilize. In its current form, it will be in perpetual turmoil.

OUTLOOK: What should employers be doing now in the face of this policy uncertainty?

RG: They should talk often to their attorneys and financial advisors, as the rules change over and over and over. They should ask questions and keep up with the news. Most of all, they should just wait and see. No matter how the Court rules in *King v. Burwell*, uncertainty will remain. It's baked into the cake.

OUTLOOK: You were a critic of the ACA before it was enacted and you've seen it working. Have your views stayed the same or have they changed?

RG: I'll start by adding that I'm also a critic of the alternative proposals that conservatives have put forth. My views on the ACA are generally the same as before. If anything, I feel more strongly that this is not going to play out well. I don't think this law will ever stabilize. In its current form, it will be in perpetual turmoil.

The problem really is that for last 70 years both parties have focused on insurance while virtually ignoring health care itself. We've had a long, bitter and ugly partisan debate over insurance coverage, but that discussion has barely touched on the care we are actually getting and how effective it is.

The shape of medicine is going to change radically in the next five to 10 years because of emerging technologies: wearable telemetry, big data, nanotechnology, 3D printing, health care apps, genomics, imaging, social media. There are many other questions – hospital monopolies, broader powers for nurse practitioners and others, the rights of dying people to try experimental drugs, the rights of Americans to know the contents of their own DNA – that are much more central to health care than how we tweak insurance markets.

I'll note in particular that the new technologies can radically improve care in rural areas. The ACA, I'm afraid, will in some ways push care out of smaller towns and into bigger cities.

But the most important thing is that when we're arguing only about insurance schemes, we are focusing on peripheral issues and ignoring what is most important. ■

Commentary in Outlook is for general information only and does not necessarily reflect the opinion of CoBank. The information was obtained from sources that CoBank believes to be reliable but is not intended to provide specific advice.

Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 3/31/15. They are intended to provide rate or cost indications only and are for notional amounts in excess of \$5 million except for forward fixed rates.

KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

FORWARD FIXED RATES

Cost of Forward Funds

Forward Period (Days)	Average Life of Loan			
	2-yr	3-yr	5-yr	10-yr
30	7	7	6	5
90	17	18	14	11
180	30	32	26	19
365	65	67	53	38

Costs are stated in basis points per year.

ECONOMIC AND INTEREST RATE PROJECTIONS

Source: Insight Economics, LLC and Blue Chip Economic Indicators

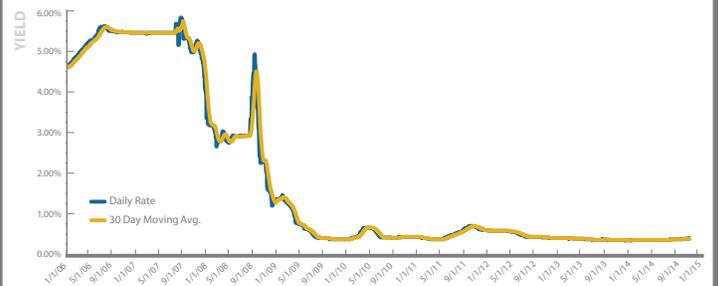
US Treasury Securities

2015	GDP	CPI	Funds	2-year	10-year
Q1	2.40%	-2.50%	0.12%	0.56%	1.92%
Q2	3.10%	2.10%	0.14%	0.88%	2.19%
Q3	3.00%	2.10%	0.23%	1.11%	2.40%
Q4	2.90%	2.10%	0.38%	1.38%	2.59%
2016	GDP	CPI	Funds	2-year	10-year
Q1	2.80%	2.20%	0.54%	1.61%	2.76%

SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

3-MONTH LIBOR



PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

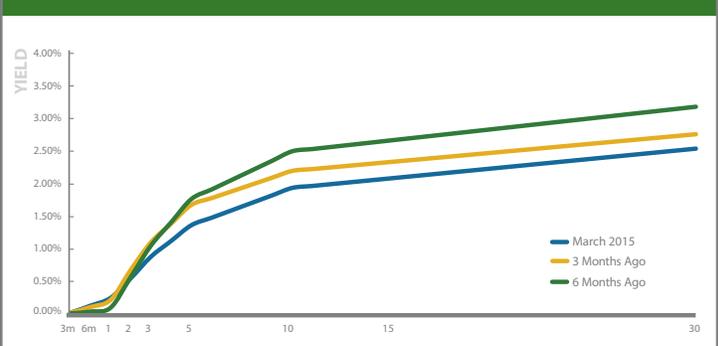
IMPLIED FORWARD SWAP RATES

Years Forward	3-month LIBOR	1-year Swap	3-year Swap	5-year Swap	7-year Swap	10-year Swap
Today	0.27%	0.46%	1.09%	1.49%	1.74%	1.96%
0.25	0.36%	0.60%	1.21%	1.57%	1.80%	2.00%
0.50	0.52%	0.77%	1.36%	1.67%	1.88%	2.06%
0.75	0.68%	0.95%	1.49%	1.78%	1.97%	2.14%
1.00	0.85%	1.12%	1.61%	1.85%	2.04%	2.17%
1.50	1.23%	1.45%	1.80%	2.02%	2.15%	2.28%
2.00	1.50%	1.67%	1.95%	2.11%	2.22%	2.32%
2.50	1.69%	1.83%	2.06%	2.20%	2.29%	2.37%
3.00	1.89%	2.00%	2.17%	2.28%	2.36%	2.43%
4.00	2.08%	2.19%	2.32%	2.39%	2.44%	2.49%
5.00	2.25%	2.34%	2.41%	2.49%	2.50%	2.53%

RELATION OF INTEREST RATE TO MATURITY

The yield curve is the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity, and for potential default risk.

TREASURY YIELD CURVE





About CoBank

CoBank is a \$107 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation’s rural economy.

Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank’s web site at www.cobank.com.

CoBank Announces Renewal of “Sharing Success” For 2015

CoBank recently announced the renewal of its “Sharing Success” charitable contribution program for 2015.

The bank’s board of directors has approved a commitment of \$3 million for the program, which will be used to match donations by cooperative and other eligible customers to nonprofit organizations in their communities. The bank will match donations on a dollar-for-dollar basis, from a minimum of \$1,000 up to a maximum of \$5,000 per customer.

Since its launch in 2012, CoBank’s Sharing Success program has generated nearly \$14 million for non-profit organizations throughout the country, predominantly in rural areas.



Robert B. Engel

“Sharing Success has become one of the cornerstones of CoBank’s multifaceted corporate giving program,” said Robert B. Engel, CoBank’s chief executive officer. “It leverages the passion, expertise and local knowledge of our customers to identify and support the causes and programs that best address the unique needs of rural communities.

We’re delighted our board has generously re-authorized this program and look forward to partnering with our customers to support people and communities in need around the country.”

CoBank began formally accepting applications for funding from customers on April 1. The program will run through October 31, 2015 or the point when the fund is exhausted, whichever comes first. Cooperatives and other eligible customers interested in participating should contact their CoBank relationship manager or visit www.cobank.com/about-cobank/sharing-success for an application and detailed program requirements. ■