SUPREME COURT RULING ON THE AFFORDABLE CARE ACT

June 25, 2015

The Affordable Care Act provides guaranteed coverage to everyone regardless of their health status as it eliminates the denial of coverage for consumers with pre-existing conditions. The Act also prohibits insurers from charging differentiating premiums between consumers with health issues and healthy consumers.

King v. Burwell, Sup. Ct. Dkt. No. 14-114 (2015), challenged the validity of a key factor in the Patient Care and Affordable Care Act, also known as Obamacare. The provision in question was whether low-and middle-income consumers are legally eligible for tax subsidies that assist with the cost of insurance premium if they reside in a state that has a federally-operated health insurance exchange.

BACKGROUND

The case originated with four residents of the state of Virginia, which has a Federal Exchange, who did not want to purchase health insurance. They stated that Virginia's Exchange does not qualify as "an Exchange established by the State under [42 U. S. C. 18031]," so they should not receive tax credits. But pursuant to the IRS Rule, the petitioners would receive the tax credits, subjecting them to the Act's coverage requirement, which imposes a penalty for not purchasing coverage.

There are 34 states that participate in the federally-operated health insurance marketplaces, with the remaining states as fully state-operated marketplaces.

In 2014, approximately 87%[i] of the consumers enrolled in federally-operated marketplace plans purchased coverage with tax credits, according to the Court. If the subsidies had been ruled invalid, it could have been financially devastating for many of the over 6 million consumers enrolled in the plans because the increase in premiums would make obtaining coverage unaffordable for them.

The economic fallout could also have been devastating if the subsidies were eliminated because it could have destabilized the insurance markets in the states that have federally-operated marketplaces. It might also have caused many insurers to drop out of individual markets in order to avoid losses.

SUPREME COURT RULING

On June 25, 2015, the United States Supreme Court, in a 6-3 decision, ruled in favor of the government, holding that subsidies are available for everyone that bought insurance through either an exchange established by a state or by the federal government.

The vote of six in favor included Chief Justice John Roberts, and Justices Anthony Kennedy, Ruth Bader Ginsburg, Stephen Breyer, Sonia Sotomayor, and Elena Kagan. The three dissenting justices were Justices Antonin Scalia, Clarence Thomas, and Samuel Alito.
Chief Justice John Roberts wrote the majority opinion, stating that "In this instance, the context and structure of the Act compel us to depart from what would otherwise be the most natural reading of the pertinent statutory phrase."

The Supreme Court's reading the ambiguous language of the law, allows for the subsidies to be nationwide for all consumers, not just for those with state-operated marketplaces. Chief Justice Roberts wrote that the ambiguity should be ruled in favor of the government because "It is implausible that Congress meant the Act to operate in this manner." This would mean that it was not intended that some consumers should receive the subsidy, but not others residing in states with the federally-operated marketplaces, and that the "words must be understood as part of a large statutory plan."

The impact of the affirmative ruling for the government avoided a "death spiral" for the insurance markets; avoided consumers no longer being able to afford the coverage; avoided creating a political backlash against elected officials; and allowed consumers to keep the subsidies to assist with premium costs to make coverage more affordable. Health-care stocks have rallied after the ruling, and medical providers will most likely not have to bear increased costs due to larger numbers of uninsured consumers.

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[i] King v. Burwell, No. 14-114, 2015 WL 2473448, at *12 (U.S. June 25, 2015).