



POLICY BRIEF

Building the Federal Obamacare Exchange: Should Alaska Do It?

By Jeremy Thompson

The Affordable Care Act (ACA) is unpopular, unwieldy, expensive, likely unconstitutional, and will shortly be a prime target for repeal. The dilemma for Governor Parnell is that the law is written with the assumption that the state will be burdened with the execution of many of its worst ideas. ACA requires states to establish “exchanges” to limit the health-insurance choices of many of their residents. This idea will not work in Alaska.

The exoteric message of the ACA says that states will have “flexibility” in structuring exchanges, but whatever constructs the federal government may try to impose on Alaska’s health insurance economy are insufficient to overcome the fact that there is no free-market incentive to join an

The federal health care legislation mandates insurance exchanges, an idea that was piloted in Massachusetts.

exchange, other than the motive to obtain subsidies. Two states, Massachusetts and Utah, already have exchanges.

The Massachusetts model is very expensive to operate because of its top-down strategy. It uses regulation and enforcement to achieve what it wants. But, if one of the problems in the insurance industry is too much overhead and not enough paid claims, this model doesn’t fix that. Massachusetts’ exchange spent more than \$26.6 million on vendors and contractors in 2009, and \$3.4 million on dozens of new employees. This comprises fully 3.5 percent of the money that businesses and enrollees paid into the

exchange – *on top of* already bloated insurance bureaucracies.

Some believe that it is possible to design an exchange that *increases* consumer choice, and the Utah Health Exchange is often presented as evidence for this argument. Utah’s health exchange, supporters say, is a consumer-friendly model that can blunt the most harmful consequences of the federal health care legislation.

What does the Utah Health Exchange do? Here’s an example: the Utah Health Exchange allows spouses to aggregate defined contributions from different employers. For example, suppose a husband’s employer contributes \$300 per month to the exchange for health insurance. His wife works for another employer which does the same. The household has \$600 to spend on a family policy that they, not their employers, choose. The husband and wife can then decide to which of their employers they wish to affiliate, satisfying federal regulations for group coverage. If this is a good deal for the consumer, then there should be no problem letting the market set up their own exchanges. Consumers don’t need a government bureaucracy to funnel money from point A to point B. So far, the results show that businesses in Utah have not stampeded to their exchange. Reports from only a few months ago describe the exchange as a disappointment¹. Twenty businesses enrolled

While the Utah Exchange isn’t as bureaucratic as the Massachusetts Exchange, federal laws will force rules on the exchanges that will drive costs up, not down.

on the first day of operations in August 2009, and 136 businesses in total signed up. But, only 13 remained enrolled as of last December.

Even if Utah’s Health Exchange model has figured out a way to increase consumers’ choices, it is unlikely that such choices will survive the other rules determined by the federal health care law. In 2014, federal rules mandate that insurance products sold in all state exchanges be “community rated” and “guaranteed issue,” two rules which

have always led to higher insurance premiums wherever they have been implemented. Even if the U.S. Supreme Court says it is acceptable for the federal government to force everyone to buy health insurance, there is no evidence to suggest that these two rules alone would not lead to skyrocketing costs within the exchanges.

With the Utah model, there will be an adverse incentive for businesses to drop coverage for their employees and dump them into the exchange. There is a tipping point at which a business will find it is cheaper to pay the fine and dump the employee in the exchange rather than provide health benefits. Some analysts have estimated that anyone who earns less than \$80,000 annually will be dumped into an exchange.

But the real question is whether exchanges

will be able to push back against bad federal insurance policy that will come with the funding attached to it. Exchanges are meant to be faucets for federal subsidies. Official sources estimate that about half a trillion federal dollars will flow into state exchanges between 2014 and 2019, but the Congressional Budget Office is already adjusting its message, saying that the costs of these exchanges are much higher than originally portrayed^[i].

If the feds write a check to the Alaska Exchange to expand Medicaid to include someone making an income at 500% of the federal poverty level, do you think state government will be able to resist taking it? Alaska has already lost a great deal of its flexibility to shape a sensible, effective Medicaid program because of the federal stimulus funds it accepted in 2009.

The real risk in setting up any exchange, whether small or large, is that it can always be used as a tool by unelected bureaucrats to bludgeon Alaska's already thin health care

insurance market. Even those in the legislature who advocate for an exchange see it as a tool to usher in a form of single payer. While Alaska needs to continue to debate that within our state, an exchange would outsource the discussion to the federal government. There is nothing stopping a future Health and Human Services secretary from imposing more regulations and costs on the exchange.

Governor Parnell has made some good moves by pushing back against the Affordable Care Act with a lawsuit and by refusing some of the funding made available for exchanges. If Alaska wants more flexibility, taking up the shackles of the federal exchange is not the way to achieve it. Instead, Alaska should be looking into loosening up the mandates on health insurance in its own laws to allow consumers to choose products that better fit their needs.

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ⁱ <http://www.deseretnews.com/article/705351583/Insurance-exchange-not-faring-well.html>

^[ii] <http://cbo.gov/ftpdocs/121xx/doc12103/2011-03-18-APB-PreliminaryReport.pdf> p.13