



Free

Market

Brief

FAST FACTS

Why RI should not fast-track Health Insurance Exchanges

RI policymakers are considering legislation that will adopt a “Health Benefit Exchange”, a major provision of President Obama’s federal health care act (PPACA). OSPRI has produced a detailed report comparing this model to other models, which can be found at www.OceanStatePolicy.org.

WHAT IS THE EXCHANGE?

The Exchange is a federally regulated, government-subsidized health insurance market that:

- Attempts to match individuals with health insurance packages, as mandated by bureaucrats in Washington, DC, as offered by insurance providers who are part of the Exchange
- Gives federal officials vast new powers over defining appropriate health care coverage
- Would be operated in RI by a quasi-government agency with an appointed board for the daily facilitation of the Exchange
- Utilize subsidies to expand Medicaid coverage up to 400% of the Federal Poverty Level

WHY RUSH EXCHANGES BASED ON FEDERAL ACT THAT IS IN SUCH A STATE OF FLUX?

An Exchange, or some other federally approved alternative, does not have to be implemented until 2014. Given the serious questions surrounding the federal law, RI should tread slowly on this issue:

- *Constitutional Issue:* currently two Federal courts have ruled that PPACA is unconstitutional. While these rulings are under appeal, there is a high degree of uncertainty as to whether or not PPACA will be allowed to stand. A US Supreme Court decision is expected by June 2012.
- *Political Opposition:* Congress has taken initial steps to repeal certain portions of PPACA and is looking to weaken the law even more if not repeal it entirely
- *Regulatory Uncertainty:* Ever-changing federal mandates will make it impossible for state Exchanges to adequately plan for compliance and reimbursement purposes
- *Funding Volatility:* Congress is also determined to cut funding for PPACA, meaning RI might never see any of the funds it may currently anticipate

Given our state’s serious fiscal status, why risk wasting money & time on an Exchange, when federal law is on such perilous ground ... especially since we have until 2014 before RI has to do anything? Once RI commits to this path, there is no going back, and we will have to live with whatever new mandates Washington imposes!

WHAT WILL THE RI EXCHANGE LOOK LIKE AND DO?

Proposed legislation would create a **new, 11 member state agency with broad powers** to manage the state’s subsidized insurance market. The board would:

- Approve federally mandated insurance policies and make available qualified health plans
- Spend public and private dollars to facilitate the purchase of qualified health plans
- Generate revenue through fees imposed on insurance providers and fines imposed on employers

WHAT ARE THE RISKS WITH EXCHANGES? Although regarded as the most innovative component of the PPACA, exchanges raise a number of concerns, many of which have already been manifested in Massachusetts:

- Income verification is difficult; it has to be constantly re-evaluated by the Exchange and families have to continually provide detailed financial and family composition data
- Regulations and federal mandates will block competition, will further increase the cost of private coverage, and will provide a disincentive for insurance providers to develop innovative, new solutions
- Federal regulations on profit ceilings will run private insurance companies out of the market
- Federal mandates will drive up the cost of insurance for employers, either making the cost of doing business in RI even more prohibitive or will force them to lower wages or drop coverage for their employees - and dump them into the government exchange
- As more people move onto the government-subsidized Medicaid roles, taxes will have to be increased on the rest of us
- As the cycle of more people moving into Medicaid continues, premiums are likely to rise while the quality of care will decrease as cost-cutting measures are implemented
- Over 1100 organizations and entities have been “exempted” from the federal law, because of its oppressive mandates and costs. Why would we think that RI can escape these burdens?

WHAT ARE THE POTENTIAL COSTS THAT TAXPAYERS WILL HAVE TO BEAR?

Exchanges are expensive to operate and may require state funding. Does RI have a plan provide these funds?

- Medicaid Expansion: only “newly eligible” individuals, who are not currently enrolled in Medicaid, will be subsidized by federal funds at 100% for only 3 years. After that our state must fund the cost.
- Individuals currently eligible for, but for whatever reason not currently enrolled in Medicaid, who enroll in Medicaid in the future will not receive federal subsidies and must be funded by our state.
 - This also applies to individuals who, because of future higher insurance costs, will be dumped by their current employers into to the Exchange. The cost for this could be enormous for RI.
- If the Exchange opts to subsidize the purchase of private insurance for individuals above the set Medicaid income eligibility level, the state would incur 100% of the cost of those subsidies.
- Information Technology: RI will have to foot the bill to build integrated risk management and data information systems to support the Exchange’s operations and verification process

ARE THERE ALTERNATIVES? Yes. There are free market health insurance reforms, like Interstate Insurance Compacts, which would actually lessen our state’s dependence on Washington, reduce costs, and provide more affordable care for RI citizens through *open competition*.

- Interstate Compacts would allow RI citizens to purchase custom health insurance products *across state lines* in much the same way that we currently purchase other insurance items such as auto, home, and life.
- Compacts would relieve RI from complying with federal insurance coverage mandates. This would reduce prices for consumers, provide more competition in the insurance market, and open the door for new companies to emerge, resulting in more choices for consumers.
- Compacts would be significantly less expensive for the state to operate and less intrusive to RI families
- Free market alternatives would lower the tax burden: Higher costs and taxes are inevitable with any government health care plan.

Before rubber-stamping and committing to PPACA model health insurance reform, **RI should take advantage of the two years we have to evaluate other options** and study the potential effect PPACA Exchanges may have on businesses. With all the uncertainty about the federal PPACA law itself, RI policymakers should be cautious and prudent in its approach.

To view all OSPRI information on this topic, please go to www.OceanStatePolicy.org or contact our staff at info@oceanstatepolicy.org (emails will be forwarded).

The Ocean State Policy Research Institute is RI’s leading research and outreach organization dedicated to advancing free-market solutions for our state’s many fiscal and educational problems.