



Written by [Michael Tennant](#) on April 27, 2015

State ObamaCare Exchanges Drowning in Red Ink

California's ObamaCare exchange, often touted as one of the healthcare law's great success stories, is running deep deficits and has no real plan to become solvent in the future — and many other states are facing the same situation, portending further trouble for an already problem-plagued program.

The Affordable Care Act (ACA) mandates that state exchanges become self-sufficient as of the beginning of this year: no more aid from the Centers for Medicare and Medicaid Services (CMS), which has already dispensed more than \$4 billion to help set up the exchanges, with about a quarter of that going to the Golden State. California law also prohibits the state government from bailing out its exchange, Covered California.

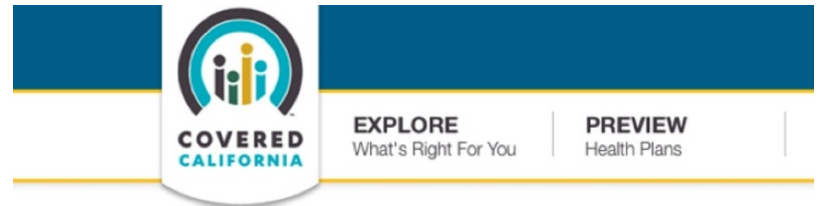
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Unlike some other state exchanges, Covered California hasn't quite spent all its federal aid; \$200 million is being set aside to cover its near-term deficit. But that money isn't going to last long: The exchange is expecting to end up nearly \$80 million in the red this year. According to the [Orange County Register](#), "Covered California Executive Director Peter Lee acknowledged in December that there are questions about the 'long-term sustainability of the organization.'"

Such questions are not new, the paper observed, pointing out that "a 2013 report by the state auditor ... stated that, until the state's health insurance exchange actually started enrolling Californians in health plans, its 'future solvency' was 'uncertain.' Thus, Covered California was listed as a 'high-risk' issue for the state."

The exchange enrolled almost 1.4 million Californians last year, yet this year it has managed to increase that enrollment by only one percent, according to a recent [study](#) by healthcare consulting firm Avalere Health. Only Vermont's and Washington's exchanges — the latter also frequently hailed as an ObamaCare triumph — performed worse, actually enrolling fewer people in 2015 than in 2014.

A significant reason for California's meager enrollment growth is that many of last year's enrollees declined to enroll this year; the state's enrollee-retention rate was just 65.3 percent. This is the product of several factors. For one thing, the state shifted about 200,000 people who attempted to enroll in exchange coverage into Medi-Cal, California's version of Medicaid. In addition, nearly one-fifth of those who signed up for coverage in 2014 failed to pay their first premiums and therefore were not counted as having enrolled, meaning they also can't qualify as having re-enrolled this year. Also, as the [Sacramento Bee](#) reported, "Many people received confusing notices telling them, for instance, to sign up for Covered California even though they already had coverage. The Covered California website was glitchy, and wait times on the phone were long." And more than a few of last year's enrollees were





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probably unhappy with the cost and [quality](#) of their coverage. (One gauge of the exchange's popularity: All seven Democrats on the state assembly's rules committee [voted against](#) a bill that would have required legislators to enroll in Covered California.)

High enrollment is key to making the exchange solvent. Its funding comes from a \$13.95 per-member per-month assessment on exchange plans. (Yes, the ACA makes health insurance "affordable" by piling on hefty user fees.) That fee was supposed to drop below \$10 by the end of fiscal 2016, but lack of participation has kept it at its original level. The state has tried to boost enrollment this year by twice extending the enrollment period after the head count fell 300,000 short of goal following the initial period.

"If [Covered California] continues to run yearly operating deficits," noted the *Register*, "it will not long survive."

California is hardly alone in its ObamaCare woes.

"Many state-based exchanges have a good amount of work to do before they find a sustainable financial model," Avalere Health director Elizabeth Carpenter told [Modern Healthcare](#) in January.

Among the reasons for exchanges' financial troubles, according to the magazine:

State legislators have been reluctant to establish or increase fees on premiums to support exchange operations. Solving unexpectedly severe website technology problems has cost a lot of money. In states with fee assessments on exchange-plan premiums, smaller-than-expected enrollment has yielded inadequate revenue. And the problem is circular: Cutting back exchange activities because of budget shortfalls has hurt outreach and sign-up efforts, further reducing enrollment.

Dan Schuyler, senior director of exchange technology at consultancy Leavitt Partners, told *Modern Healthcare* that "financial sustainability is one of the main impediments holding states back from creating their own exchanges." This, the periodical forecast, "could become a major problem for the Obama administration" if the Supreme Court rules that premium subsidies cannot be offered on the federal exchange, forcing states either to establish their own exchanges or to see their residents lose subsidies.

Of course, the administration could do as it has done so many times before: simply ignore the law and continue to dispense grants to foundering exchanges. *Modern Healthcare* pointed out that already the self-sufficiency "mandate is being ignored across the country," with the administration permitting exchanges to rely on leftover federal funds from previous years. Moreover, when asked point-blank by Representative James Lankford (R-Okla.) in December if states would continue to "get federal dollars, contrary to the law saying they must be self-sufficient," CMS administrator Marilyn Tavenner declined to answer.

Barack Obama, however, will not be president much longer; and his successor, particularly if he is not a Democrat, may be disinclined to keep pouring taxpayer dollars into the exchanges. At that point, the exchanges are likely to drown in red ink.

Few states have good plans for funding their exchanges. Most, like California, rely on user fees, but even those rarely cover costs. "Three states — New Mexico, Rhode Island and Vermont — have yet to establish any means of paying for exchange operations," penned *Modern Healthcare*. Those states that want to keep their exchanges afloat will have little choice but to increase fees, apply them to non-exchange plans (as is already being done in four states plus the District of Columbia), or impose or hike



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other taxes.

Things are looking so bad in some states that they are considering shuttering their exchanges and dumping their residents onto the federal exchange. Oregon, after a [major website crash](#) and subsequent difficulties, has already [done so](#).

In short, the state exchanges, like the rest of ObamaCare, are unsustainable, debt-ridden train wrecks. Clearing the tracks of these and other impediments to a free market in healthcare ought to be a top priority for every elected official in this country. The people's, states', and nation's health depends on it.



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