

SHOULD STATES CREATE EXCHANGES TO IMPLEMENT OBAMACARE?

by David K. Jones, University of Michigan

ObamaCare – the Patient Protection and Affordable Care Act of 2010 – includes new rules for insurance companies and expansions of health insurance coverage to include most Americans. State-level “health insurance exchanges” are crucial to making health reform work.

Health insurance exchanges are online marketplaces through which small businesses and people who do not get insurance through their employers can shop for affordable coverage. Often compared to websites like Travelocity, exchanges will allow consumers to compare the benefits and costs of different plans that meet minimum standards. People will also learn about the credits and subsidies they can receive to help them purchase a plan. Some 23 million Americans are slated to receive coverage through the exchanges by 2018.

All U.S. states are supposed to have their exchanges ready for open enrollment by October 2013. States have the option of creating their own health insurance exchange, setting one up in partnership with the federal government, or leaving it to the federal government to step in and do the job. The federal government has already given the states more than \$2 billion in grants to plan and set up their exchanges. Deadlines have been pushed back, but all states will have to make final choices by the middle of February 2013.

Should each state create its own health insurance exchange? There are important reasons why the answer should be yes, but there are also policy issues that make governors and legislatures cautious. Of course, politics is also involved. Many conservatives still do not accept that ObamaCare is here to stay – and such opposition can create incentives for officeholders to refuse to set up exchanges in their states.

Good Reasons for States to Create Exchanges

- **Control over the regulatory structure.** Any state that launches its own exchange makes key decisions – including the rules that will apply to insurance companies offering plans on the exchange, and whether the exchange is run by a government agency or set up as a non-profit organization. A state can also decide to include representatives of economic and consumer interests on the exchange board.
- **Fitting local economic conditions.** Insurers, businesses, and health care providers often prefer to deal with local regulators who understand the unique market conditions. For example, some states are dominated by a single insurance company, while others have competition. Some states already regulate insurance, while others do little – for example, to limit the ability of insurers to exclude patients with pre-existing health problems.

- **Smoother integration with Medicaid.** ObamaCare extends coverage to previously uninsured people, in part by helping people buy plans on the exchanges, and also by expanding existing programs for the poor. It will be a challenge to coordinate eligibility for new kinds of coverage – especially since some people earning low-wages will fluctuate back and forth across the dividing lines between eligibility for Medicaid and eligibility for subsidies on the exchanges. States can do the best job of preventing gaps in coverage.

Issues that Make State Officials Cautious

Despite the advantages of acting now, state officials also have reasons to worry:

- Creating an insurance exchange is an enormous technological and administrative task requiring the integration of multiple government databases, including state-level information and federal data from the Internal Revenue Service and the Treasury. Because political disputes left many states uncertain whether ObamaCare would survive the Supreme Court and the 2012 elections, some delayed – and now wonder if they can act in time.
- The Department of Health and Human Services has been slow about finalizing and releasing regulations for the exchanges – and that, too, has many some states wary of proceeding.
- State-level officials also worry that the exchanges will turn out to be more expensive to run than expected, and some do not like the national standards. Thus conservative GOP governor Scott Walker of Wisconsin denounces the exchanges as “SINO” or “state in name only.”

Political Divisions Still Matter

Public opinion is not an obstacle to setting up exchanges. Although still divided about ObamaCare overall, Americans mostly like the key components – including state exchanges. In a recent survey, more than three-fifths preferred state to federal control, including four out of five Republicans. Moving forward with ObamaCare creates dilemmas for many GOP officeholders. Some may be wary of offending conservative activists. Others are likely to respond to political realities in their states:

- Republicans will be defending governors’ seats in 21 states in 2014, including in seven states – Florida, Maine, Michigan, Nevada, Ohio, Pennsylvania, and Wisconsin – whose voters supported President Obama in both 2008 and 2012. In these states, governors who do not face conservative primary challengers have incentives to set up their own exchanges or cooperate in some measure with the federal government.
- Republicans in red states may not want to end up with a federally run exchange with strong regulations on business. But grassroots conservatives may be pushing them, and by dragging their feet they may hope to blame Democrats if the exchanges do not work smoothly.

Finally, Democrats who want the law to succeed but are in Republican-dominated states may be tempted to let the federal government step in to establish stronger consumer protections than they might persuade their own legislatures to accept.

Many states will move forward in 2013 to establish their own health insurance exchange. But for one reason or another, other states will let the federal government set up this vital part of health reform. Time will tell which approaches work best.