Fast Facts
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Myths and Facts About the State Health Exchange

By Andrea Sepenzis

The health care "reforms" in the Patient Protection and Affordable Care Act (ACA) are centered around the establishment of state and federal "health exchanges," through which government-approved insurance policies will be sold and subsidized for consumers. State policymakers seem convinced that so long as a health exchange is technically run by the state rather than the federal government, they'll be able to design a "free-market" version of this government-controlled program. The idea of a "free-market health exchange" is, unfortunately, a contradiction in terms (as we discussed in a report here). By setting up a state exchange, policymakers will take on all of the regulatory and administrative burdens imposed by the federal law, without getting any of the control or flexibility needed to improve outcomes or lower costs.

Myth: *Setting up a state exchange will give South Carolina officials control over health reform policy in the state.*

Fact: ACA allows states some control over the administrative structure of their exchanges, but no freedom to reject the law's market reform policies, designed to push people onto state exchanges and government-designed health insurance plans.

State legislators are not free to decide what state health insurance plans must cover: minimum guidelines will be decided by the US Department of Health and Human Services. State legislators can only *add* further prohibitive and cost-increasing mandates, not take any away.

Myth: *State health exchanges can be designed to be "free-market" or "minimalistic."*

Fact: The very concept of a government-run exchange or market – one in which the government chooses which companies participate and which don't – *directly contradicts* the concept of a free market. In a free market, producers (in this case, insurance companies) must be:

1. Free to respond to changes in cost (made impossible by rate review requirements)
2. Cost-competitive with one another (impossible in an environment in which plans for the majority of the population are directly subsidized)
3. Perhaps most importantly, **free to enter or exit the market as they choose**

None of these qualifications are met by a state or federal health exchange under ACA.

Myth: *Health insurance exchanges won't interfere with the health insurance you have.*

Fact: The fines employers face under ACA for failing to provide their employees with health care insurance coverage will be considerably less than the cost of providing it. This incentivizes employers to drop their employee health insurance plan and encourage their employees to purchase subsidized plans on the exchanges instead. The result? A smaller private health care market, and more consumer health insurance decisions in the hands of the government.

Myth: *Health insurance exchanges will help control the spiraling costs of health care.*

Fact: The Congressional Budget Office (CBO) predicts that, under ACA, "the average premium per person covered (including dependents) for new non-group policies would be about 10 percent to 13 percent higher in 2016 than the average premium for non-group coverage in that same year under current law." This prediction is consistent with what we've learned from the Massachusetts Health Connector Model. The Beacon Hill Institute found that the enactment of an individual mandate to purchase health insurance combined with a state health exchange caused premiums to rise considerably higher than they would have without such policies.

Not only will the cost to you as a *consumer* increase under ACA – your obligations as a *taxpayer* will increase as well. The Director of the CBO writes that "health legislation will increase the federal budgetary commitment to health care . . . by nearly $400 billion during the 2010-2019 period." He goes on to say that "the rising costs of health care will put tremendous pressure on the federal budget during the next few decades and beyond . . . [and] the health legislation enacted earlier this year does not substantially diminish that pressure."

The bottom line? Next time you hear about a "free market" health exchange, remember: There's nothing "free" about a government-run "market."