



Obamacare health-insurance exchanges are set up to fail

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John O'Boyle/The Star-Ledger President Obama: His health-care plan moves us to a single-payer system.

The national health-care plan enacted by President Obama had its second anniversary the other day. Central to the plan are health-insurance exchanges that would be set up by the states to offer care to the uninsured.

Earlier this month the state Senate sent to the governor's desk a bill that would create a health exchange in New Jersey. Chris Christie has not yet said whether he'll sign the bill.

If he's lucky, he won't have to decide. This week the U.S. Supreme Court will hear arguments on a suit opposing the individual mandate to purchase health insurance that's central to the success of Obamacare. If that suit succeeds, Christie will be off the hook. If it fails, though, he will have to decide whether the state should set up one of those exchanges. The alternative is to just let the feds handle it, but backers of the bill say we're better off setting up our own bureaucracy.

You probably haven't read much about this issue for a simple reason: It's incredibly complicated. The exchange in question would have to coordinate buyers with insurers in a system relying on federal tax credits that could vary from month to month based on the insured person's income.

Already insured? You're not off the hook. The exchange would have the power to regulate your current policy and could impose a surcharge to cover the cost of running its operations.

What we'd be likely to see is something similar to what we saw when car insurance was made mandatory four decades ago. Then as now, we were promised great savings under the new, no-fault system. A Star-Ledger article from 1971 offered this assessment: "Insurance spokesmen explained yesterday that no-fault bodily injury premiums could bring down premiums by as much as 45 percent."

Once the mandate kicked in, however, rates skyrocketed. Medical claims soared as trial lawyers gamed the system. Some drivers were priced out of the free-market and had to enter an "assigned risk" pool of companies forced to accept their quota.

Eventually the state had to set up a multi-billion-dollar Unsatisfied Claims and Judgment Fund to cover losses. It took most of the 1990s and a bit of the current century before that system was straightened out. Think of that system and you will have a good idea of where these exchanges could end up – but with one big difference. Americans will accept limits on their cars, but not on their bodies.

I heard an excellent example of that as I driving to Trenton the other day. An ad came on the radio for some new senior-citizen group that bills itself as conservative. The ad stated the group is fighting to repeal Obamacare because it threatens Medicare.

Huh? Medicare is a single-payer system that is just one stop short of socialized medicine. Obamacare, for all its faults, relies on the market to a much greater degree than Medicare. That's why that Romney guy supported it back when he was governor of Massachusetts.

The real threat is not that Obamacare will take over Medicare. It's the other way around, says Mike Cannon, a health-care expert with the free-market Cato Institute in Washington.

"These exchanges are built to fail," said Cannon. "They'll drive private insurance companies out of the market. When they do, the whole thing will collapse."

Once an exchange is set up, it will offer insurance that's much cheaper than private insurance because of those subsidies. Soon businesses will opt just to pay the annual \$2,000 penalty and tell their employees to sign up for subsidized coverage. As for individuals, they can pay a \$900 annual penalty and then wait till they get sick to sign up. This phenomenon, known as "adverse selection," will cause costs to skyrocket. At that point, some sort of single-payer system would be needed to cover the people the private insurers don't want. Those who've been arguing Medicare should be extended to everyone would probably win at the polls.

As for now, Cannon says, there's no advantage for New Jersey residents in setting up that exchange. The only advantage is for the political class. They get to create a whole new bureaucracy loaded with high-paying jobs. But the salaries will be paid by a surcharge on your premiums.

Better to let the feds sort it out, if it comes to that. But let's hope the Supreme Court doesn't let it come to that.

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