States Struggle To Fund Exchanges

Tom Gantert

December 23, 2014

When the Affordable Care Act was first rolled out, the federal government awarded grants totaling $1.2 billion to assist the 14 states and Washington, DC to help them set up state-based health insurance exchanges.

With much of the federal money for these programs having dried up and state exchanges required to be self-sufficient under the law, states are experiencing difficulty in paying the ongoing costs of the exchanges, especially small states. In Rhode Island the state has yet to even propose a plan to pay the costs of operating an exchange.

"This is one of things that had states asking, 'Why would we do this? The feds are asking us to do their jobs for them. We get saddled with the operating costs,'" said Edmund Haislmaier, senior research fellow for health care policy studies at The Heritage Foundation.

Low Enrollment Threatens Viability

States are taking different approaches to funding exchanges. Maryland, for example, has imposed a 2 percent tax on insurance companies, which gets passed along to consumers in the form of higher premiums.

Hawaii has opted to impose a similar 2 percent tax, but only on plans sold through the exchange. In 2014 this meant the exchange brought in only $121,000 in revenue instead of the $1 million anticipated, as enrollment fell well short of expectations. Hawaii's exchange enrolled about 10,000 people instead of the anticipated 100,000 to 200,000.

This led to the exchange needing a special $1.5 million appropriation from the legislature to operate, despite receiving close to $200 million in startup funds.

The new executive director of Hawaii's exchange, Jeffrey Kissell, projects a $20 million deficit over the next several years for the exchange before breaking even in 2019. But that projection

assumes the exchange adds about 30,000 enrollees each year, reaching 130,000 enrollees by 2018.

That seems overly optimistic, says state Sen. Sam Slom (R- Oahu). “Unless they have some new strategy for signups, what is it that they're going to dangle in front of people to sign up?” Slom asked in a November 15 Associated Press article.

Per-Enrollee Fees Rising

Other states place per-month, per-enrollee fees on exchange enrollments in order to fund their operations, and those fees are going up in some states in response to low enrollment. In Nevada the levy will be $13 per month per enrollee, which translates to more than $500 per year for a family of four buying coverage through the exchange.

In 2014 Nevada’s monthly assessment was only $4.95 per enrollee, but low enrollment forced the exchange to raise the fee.

Michael Tanner, a health care expert at the Cato Institute, noted the federal help for state exchanges was only for the first two years, and now it will be a “state-by-state battle” to figure out how to pay for those state exchanges.

“That money is essentially gone,” Tanner said. “That was always one of the arguments about why states should not take this route. They ended up having to pay for the costs.”

No Rhode Island Plan

Rhode Island started its own state-based exchange, called HealthSourceRI, but did not identify a source for funding it once federal money ran out. Estimates of the cost to run the state exchange have ranged from $17 million to $24 million.

A fee on insurance policies sold through the exchange would have to be nearly $50 per month per enrollee, based on current enrollment, amounting to $2,400 per year for a family of four purchasing insurance on the exchange.

In light of these high costs, in March Rhode Island state Rep. Patricia Morgan (R-West Warwick) introduced legislation that would prohibit any state funding for the exchange, which garnered bipartisan support.

“HealthSourceRI built a system that it couldn't afford to run,” Morgan told *Health Care News*. “We should not be adding another $24 million annual liability to our state's budget; it would be fiscal malpractice.”

Instead, Morgan suggests Rhode Island should default to the federally run exchange.

“It is less expensive than HealthsourceRI,” Morgan said. “Using it avoids duplication, and it doesn't add another burden to our business climate.”