ObamaCare Exchanges Are Set to Create a Host of New Problems and Exacerbate Old Ones

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WASHINGTON, Nov. 13 -- The National Center for Public Policy Research issued the following news release:

While a repeat of last year's disaster is unlikely when ObamaCare exchanges re-open this Saturday, they will still be plagued with problems.

"Consumers who enrolled last year are likely to see their premiums spike, especially if they received a subsidy," said Dr. David Hogberg, (http://www.nationalcenter.org/bios/hogberg.html) health care policy analyst at the National Center for Public Policy Research. "Further, if enrollment is anything like it was last year, then the exchanges are headed for big problems down the road."

About 83 percent of exchange enrollees have received a premiums subsidy. Many of them may see their subsidy amount drop because of the way the subsidy is calculated. It is based on the second-lowest cost silver plan, and that plan will likely be cheaper on most exchanges this year. That could mean hefty premium hikes for people who don't change their plans.

Enrollees shouldn't expect the "skinny networks" in most exchange plans to gain any weight. Most indications are that insurers are sticking with provider networks that offer limited choice of physicians and hospitals in order to keep costs down.

Expect the risk pools on the exchanges to deteriorate. The enrollees on the exchange are already older and sicker than is optimal for an insurance risk pool. Under such conditions, a death spiral will eventually occur, causing premiums to skyrocket, prompting younger and healthier enrollees to drop out. This leaves the risk pools even sicker and older, and the process repeats. The Obama Administration was counting on the new enrollees to balance out the risk pools, but recently the Administration admitted that only 2 to 3 million new people will likely sign up, far short of the 6 million projected by the Congressional Budget Office.

Finally, as the risk pools worsen, expect the insurance company bailout--i.e., the "risk corridors"-- to cost the taxpayers even more next year. If the pools are even older and sicker than they were before, the bailout will be even greater than the $1 billion that the risk corridors are expected to cost for 2014.

"Last year, the problems with the exchanges were readily apparent," said Dr. Hogberg. "This year the problems might be less apparent, but they are just as serious."

Facts and Figures

An analysis by the Colorado state government found that lower-cost silver plans could reduce subsidies to the point that exchange consumers could see their premiums rise by an average of 77 percent if they keep their current plans.

The regulations governing ObamaCare exchanges have worsened the quality of insurance plans. To cover the cost of the regulations and keep premiums even remotely reasonable, insurers had to increase out-of-pocket costs and reduce provider networks. A National Center for Public Policy Research study found there was an average of 33 policies for a 27-year-old on the individual market in 2013 that had both lower premiums and lower or equal out-of-pocket costs than the cheapest policy on the exchange. There were ten such policies for a 57-year-old couple. It also found that network quality declined. The average number of preferred provider organization plans on the exchange declined when compared to the individual market while the number of plans with more restrictive health maintenance organizations (HMO) increased considerably.

In California, insurers on the exchange plan to keep the skinny provider networks despite substantial consumer criticism. Los Angeles Times analysis of company data shows that some networks will continue to shrink. Insurer HealthNet, the Times says, is dumping one of its Preferred Provider Network plans and "switching to a plan with 54 percent fewer doctors and no out-of-network coverage, state data show." Adding insult to injury, the premiums are increasing nine percent. The Times reports the company said "its cutbacks were necessary to avoid even steeper rate hikes."

The exchanges have reduced competition. A recent Government Accountability Office (GAO) report found that consumers had access to an average of 36 insurers in their states in 2012. That dropped to an average of three on the ObamaCare exchanges. Large insurers were the most likely to participate on the exchanges, while "most smaller issuers with less than 5 percent of the 2012 market did not participate in the 2014 exchanges," according to the GAO report.4 It's not clear why the small companies didn't participate, but Senator Tom Coburn (R-OK) identified perhaps the likeliest reason when he said, "the GAO report provides evidence that the health care law's burdensome requirements may be giving an unfair advantage to big insurers over smaller ones."

Only 28 percent of exchange enrollees are between the ages of 18-34, far short of the 38 to 40 percent the Obama Administration said would be needed to keep the risk pools stable.

A good indicator of a person's health is his or her self-reported health status. A Gallup poll found that newly-insured people who obtained policies on the exchanges self-reported being less healthy, on average. About 37 percent said they were in excellent or very good health while 22 percent said they were in fair or poor health. Among the entire adult population, the corresponding numbers are 50 percent and 18 percent, respectively.

Research from Express Scripts shows that about 1.3 percent of prescriptions filled for exchange enrollees were specialty drugs. The comparable number in other private plans is about 0.8 percent. That may not seem like a big difference, but specialty drugs are usually quite expensive.

As the Express Scripts' study notes, "despite comprising less than 1% of all U.S. prescriptions, specialty medications now account for more than 25% of total pharmacy" spending.

Most of the 15 health insurance companies and 23 health co-ops that cover nearly 80 percent of exchange enrollees expect to receive money from ObamaCare's risk corridor. The total amount they will receive is estimated at $725 million. If extrapolated over all companies and co-ops on the exchange, the bailout could come to $1 billion for 2014.

What the National Center for Public Policy Research's Dr. David Hogberg Says About the ObamaCare Exchanges:

"Many supporters of ObamaCare insisted that the health insurance exchanges created by the law would result in consumers having a greater choice among insurance policies and lower prices. This study tests those claims by examining policies on the exchanges in metropolitan areas across 45 states for a single 27-year-old and a 57-year-old couple. It then compares those with the policies available in those same areas on eHealthInsurance.com (eHealth) and Finder.healthcare.gov (Finder) in 2013. The results show that the claims that the ObamaCare exchanges would offer greater choice and lower prices did not hold up. A 27-year-old male had, on average, ten more policies to choose from on eHealth versus the exchange and 31 more on Finder. A 27-year-old female had an average of ten more insurance options on eHealth and 38 on Finder. There were an average of nine more policies on eHealth and 19 more on Finder for a 57-year-old couple. Consumers also previously had more lower-cost options than they now have on the exchanges. A 27-year-old male had, on average, access to 32 policies on eHealth that cost less than the cheapest policy on the exchanges and 38 policies that cost less on Finder. There were an average of 18 cheaper policies on eHealth and 20 on Finder for a 27-year-old female. A 57-year-old couple had access to an average of 29 cheaper polices on eHealth compared to the lowest-cost policy on the exchange and 28 on Finder."

"When millions of people in the individual health insurance market lost their health plans in late 2013, ObamaCare supporters claimed those lost plans were 'substandard' or 'crappy.' However, they failed to support that contention. [The fact is] there were many policies on the individual market that had lower premiums and lower or equal deductibles and out-of-pocket maximums than the cheapest plans now available on the exchanges. It also finds that the individual market prior to the exchanges offered a greater choice of hospitals and physicians since it contained far more PPO policies than HMO policies, whereas the exchanges offer more HMO policies."

"If the exchanges do not attract a sufficient number of people in the 18-34 age demographic, they will eventually enter an insurance 'death spiral.' This occurs when the young and healthy drop out of the 'insurance pool.' This leads to 'adverse selection' in which insurance is only attractive to those who are generally older and sicker. If the insurance pool is comprised largely of people who are older and sicker, then insurance prices will rise to cover their costs. That rate increase causes even more young and healthy people to drop their insurance, leaving the pools even older and sicker than before, and so on. Eventually, all but a few insurers will be forced to discontinue their business on the exchanges because they can no longer make a profit. Fewer insurers means less competition, resulting in even higher insurance premiums."

What Others Are Saying About the ObamaCare Exchanges:

Michael Tanner, senior fellow at the Cato Institute: "A bigger question is how many enrollees were previously insured and were just changing plans. Overall, the best estimates suggest that roughly 8 million people gained insurance under ObamaCare, but roughly half of those were enrolled in Medicaid (outside of the exchanges), which isn't really health-care reform so much as adding people to government welfare. And it still leaves 41 million American adults uninsured. We spent billions to move the needle a tick."

Writing in Forbes, Manhattan Institute Senior Fellow Avik Roy said, "Obamacare forces insurers to offer more benefits, requires them to spend more money on health expenses, and subsidizes the consumption of richer insurance packages. The laws of economics dictate that these costs will get passed down to consumers.... Obamacare [also] forces insurers to charge their eldest beneficiaries no more than 3 times what they charge their youngest ones: a policy known as 'community rating.' This, despite the fact that these older beneficiaries typically have six times the health expenditures that younger people face. The net effect of this 'community rating' provision is the redistribution of insurance costs from the old to the young."

"Mark V. Pauly, a health economist with the Wharton School at the University of Pennsylvania, said that while the president and officials in his administration claimed they wanted more competition among insurers, Obamacare has put in place regulations that limit it [on the exchanges]. 'It's part of the schizophrenia that the administration wanted lots of competition, but, on the other hand, they wanted to put a lid on profits that would attract competition,' Pauly said. 'You can't have it both ways.'"

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