

State-Based Exchanges Cause More Pain, Than Help

Some lawmakers are considering state-based health exchanges (SBE) as “insurance protection.” An upcoming U.S. Supreme Court ruling in *King vs. Burwell* could strike down the ACA insurance subsidies in states that have not established a state exchange. State lawmakers should be cautious as this “solution” has a well-established track record of costly failure.

Furthermore, taking action now could not only subject state taxpayers to many future costs, it could also slam the door shut on a Congressional fix. The three most-important considerations for state lawmakers today are:

#1. A state is responsible for all future spending on its state-based exchange.

While the lure of federal money to establish a SBE has been tempting to leaders in some states, the reality is that *state* taxpayers will be on the hook for most of these costs going forward.

A SBE would necessitate a new state government bureaucracy. State taxpayers would be responsible for all future exchange costs, such as salaries, pensions, IT systems and technology upgrades in perpetuity—without a single dime going to patient care.

#2. State-based exchanges are failing.

Sixteen states and the District of Columbia established state-based exchanges. But more than half of these exchanges are already inoperable or are facing budget shortfalls. See map.

Even after spending \$4 billion in federal grants, the track records of state-based exchanges have been nothing short of calamitous. In fact, at least three state-based exchange efforts—Maryland, Oregon and Massachusetts—are now the subjects of federal investigations.

#3. A state-based exchange opens the door to IRS penalties.

If the Supreme Court rules that the Internal Revenue Service (IRS) should not have authorized subsidies, then the IRS will no longer be able to impose penalties on individuals who don’t have “qualified” and “affordable” coverage and on employers that don’t offer it.

If state lawmakers want to further entrench Obamacare in their state, by setting up a SBE, they should first answer the question: *Are you willing to forgo your taxpayer-subsidized health-insurance coverage and enroll in the exchange?*

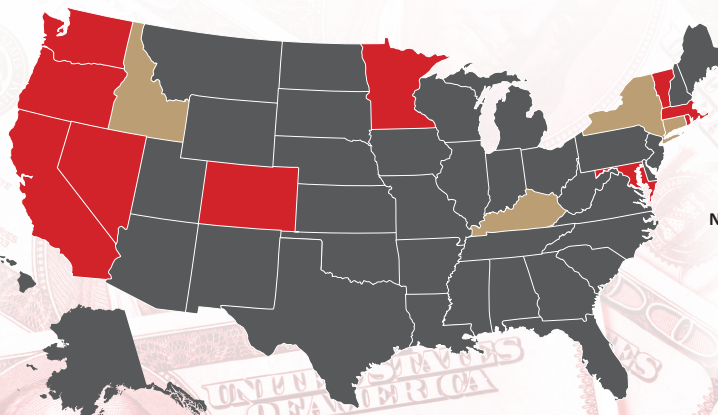
State lawmakers who would impose more of the costs and rules of the ACA on their own taxpayers should be willing to live under the same set of rules as everyone else.

Given the costs of operating a SBE in future years, the calamitous experience of half the states that have already established one, and that establishing a SBE could limit a state’s options for meaningful health care reform, the vast majority of states have, wisely, not embraced this approach. It is the wrong move at the wrong time.

State lawmakers should not double-down on ACA failure. It is up to federal lawmakers to remedy the situation.

Which states have state-based exchanges? And which ones have failed or are financially unstable?

- SBE: failed or financially unstable
- SBE



Notes: New Mexico had received conditional federal approval to establish a state-based exchange, but has not yet done so.