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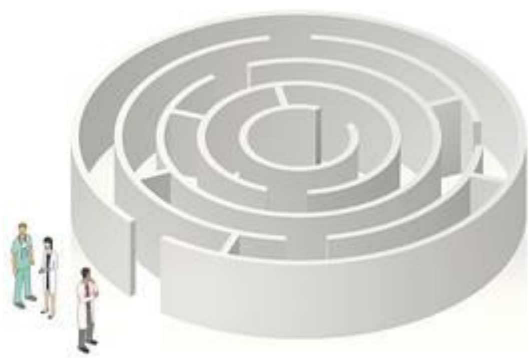
Navigating the ObamaCare Maze

The government is the worst vendor possible for managing health-insurance exchanges

By JOHN C. GOODMAN May 20, 2013

On Oct. 1, millions of Americans are supposed to be able to go online and acquire health insurance on electronic exchanges in the states where they live. But here is a question that is being increasingly asked by people in the insurance industry: What happens if the exchanges aren't ready on time?

Already, the Department of Health and Human Services has thrown in the towel on small-business exchanges that were supposed to allow employees to choose among competing health plans. The opportunity to make those choices has been put off for at least a year, leaving small-business employees with only their employer's plans as options. Prospects for the individuals acquiring insurance on their own aren't much better.



The only states that have functioning exchanges at the moment are Massachusetts and Utah. Both developed their exchanges independently of the Affordable Care Act, and they may not be able to do everything the federal government requires. Fifteen other states are trying to develop their own exchanges with varying degrees of success. The other 33 states have either completely ceded responsibility to the federal government or a have entered a partnership that gives the federal government responsibility.

One problem is that too little money was budgeted for creating the exchanges, which are the online markets where people can choose among competing health plans and prices. It also where those with income below a set ceiling—for example, up to $94,200 for a family of four—will be entitled to buy insurance at subsidized prices.

The Congressional Budget Office originally estimated that setting up the exchanges would cost between $5 billion and $10 billion. California alone is spending more than $900 million, yet the health-reform law allocated only $1 billion for the country as a whole. The Obama administration has been cannibalizing other federal health budgets in a mad rush to find more for the exchanges.

A second problem is complexity. The Obama administration wants something the federal government has never done: a computer system that connects HHS, the Internal Revenue Service, the Social Security Administration, Homeland Security and perhaps other departments. This is a herculean task with unclear benefits.

For perspective, consider that the Veterans Administration converted to electronic medical records in 1998 and the VA and the Defense Department tried without success to share records until February, when then-Secretary of Defense Leon Panetta announced that the plan would be abandoned.

Meanwhile, has anyone asked why we need to link all these agencies in order to operate an exchange? We allow people to self-report their incomes on income-tax returns without checking all the databases the government has at its disposal. Why should health-insurance applications be different?

A third and much bigger problem is competency. The federal government is probably the worst entity possible to design an exchange.

In July 2011, Fortune magazine reported that the government is spending $80 billion a year on buying and operating information technology, and much of it is simply wasted. The government has accumulated 24,000 websites and more than 10,000 separate IT systems. Servers in some agencies are idle 93% of the time. Uncle Sam's first chief information officer, Vivek Kundra, who was appointed by President Obama in 2009, told Fortune: "We found that billions of dollars in information technology projects were years behind schedule. . . . and after the money was spent weren't even working."

One of the worst mistakes the federal government makes is the tendency to try to reinvent systems the private sector has already invented. The government has been true to form under the health-reform law, completely ignoring private exchanges that are up and running.

EHealth, for example, operates an online site that has allowed three million people to acquire health insurance, 40% of whom were previously uninsured. BenefitMall has been operating a private health-insurance exchange in Maryland since 2000 and it currently competes against two other private exchanges in the state. Nationally, Mercer and AonAON +0.11% Hewitt are running private exchanges for large employers. Overall, there are 100 private exchanges in existence today.

For reasons that are hard for an ordinary mortal to understand, individuals and families who earn too much (more than 400% of the poverty level) to qualify for a subsidy will be allowed to go through private exchanges to purchase insurance. Health and Human Services has explicitly given the federal-allied exchanges the option to use private website companies as portals, but so far no state exchange has allowed a private company to serve as an entry point for anyone who is entitled to a subsidy.

Meanwhile, the Obama administration is going to spend millions of dollars on "navigators." These will be people trained to locate those who are eligible for subsidized health insurance and help them get into a health plan—although in most cases the task of actually signing up for a plan will fall to enrollees.

Since the application form for insurance sold in the exchanges is long, terribly complicated and asks for information most people don't usually have in their pockets, the navigators have their task cut out for them. So do the rest of us.

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