

# What if the Exchanges Aren't Ready On Time?

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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 [a new GAO report](#) is raising an issue I raised in the [Wall Street Journal](#) last month: What happens if the exchanges aren't ready?

The report itself was full of bureaucratic gobbledygook, but AP reporter [Ricardo Alonzo-Zaldivar](#) translated it nicely:

[M]ost of the specs have been written, but the all wiring hasn't been laid, and what will happen when they flip the switch nobody really knows. And remember, Oct. 1 is less than four months away.

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.

As for individuals acquiring insurance on their own, 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 have entered a partnership that gives the federal government responsibility.

There are five reasons why the supply side of the market may not be ready when the buyers are ready to buy.

**Oh, the movie never ends.  
It goes on and on and on and on.**

**Cost.** One problem is that too little money was budgeted for creating the exchanges. 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.

**Complexity.** A second problem is that 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?

**Incompetency.** A third and much bigger problem is that 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."

**Re-inventing the Wheel.** 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 Aon Hewitt](#) are running private exchanges for large employers. Overall, there are [100 private exchanges](#) in existence today.

**Anti-Private Sector Bias.** 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.

Writing in Forbes, [Rick Ungar](#) sums up the situation this way:

eHealthInsurance.com — along with smaller websites providing similar services — is, in virtually all respects, an existing healthcare exchange and has operated as such for long before the Affordable Care Act introduced the concept of the health insurance exchange into the vernacular of national health care policy...[Yet] while states such as California and Maryland had initially indicated that they would move forward in a relationship with eHealthInsurance.com — the largest privately run health insurance exchange in the nation — these states have recently backed off their commitment to bring the web-based company into the mix right from the start, suggesting instead that they might permit eHealth to participate in "a year or so..."by failing to include companies like eHealthInsurance.com, the state exchanges are dramatically increasing the odds that the first year of ObamaCare may be less successful than it could be were they to open up to the participation of the private sector. Whatever the reason for the reluctance of the state created exchanges to include private business participants, the end result is that taxpayers will spend millions of dollars unnecessarily while fewer people are likely to be enrolled in qualified health insurance programs — and that is just wrong.

