RHODE ISLAND CENTER FOR FREEDOM & PROSPERITY

TO: **House Finance Committee** **May 28, 2014**
FROM: **Mike Stenhouse, CEO, RI Center for Freedom & Prosperity**
SUBJECT: **Prepared Testimony re. H7817**

Mr. Chairman and Committee members. My name is Mike Stenhouse, CEO for the RI Center for Freedom & Prosperity, a nonprofit public policy think tank. Iôm joined by Justin Katz our research director. Since the executive order establishing the exchange in 2011, our Center has conducted significant research on this topic.

The question at hand today is: $38 million or nothing? We can add a new layer onto our already massive structural budget deficits, we can increase taxes on already stressed taxpayers, we can charge fees to companies or individuals participating in the insurance market é or we can pay nothing, charge nothing, tax nothing é and get essentially the same product é by letting the federal government pay for its own mandate and by letting it operate our stateôs health insurance exchange, as is already the case in most other states.

Two years ago our Center warned that the annual cost of operating the exchange would present enormous budget problems for our state once federal funds ran out é and they will run out someday soon. And here we are today facing that very problem. We can choose to kick the can down the road, as Director Ferguson suggests, and worry about how to pay for this next year; or, we can eliminate this burden right now, otherwise knowing that somehow, someone in Rhode Island will eventually have to pay for this.

Two years ago we also warned that the increase in stateôs share of Medicaid would increase by $48 million per year. Once again, we were right, as recent estimates put this added cost in the $50 million range.

No one in government listened to us then about those problems, or when we also warned about a third component of the exchange, which is also included in the bill under review today, and which has received very little attention. The **Unified Health Infrastructure Project** (UHIP), is a $200+ million technology project, related to the exchange, and will add $15 million to the stateôs FY2015 budget, or a total of about $50 million total in future years. Further, the design of this project is to bring more and more Rhode Islanders onto the public assistance rolls by linking information obtained during the healthcare application process to other state assistance programs. If you think the increase in Medicaid costs is a budget problem, wait until you see the increases, across the board, in other state entitlement programs; the administration called this ñone stop shoppingò, we call it promoting dependency. By passing this bill, the state will save tens, if not hundreds of millions of dollars, by also eliminating this UHIP program.

By adding the just the $15m UHIP and $23m exchange operational costs is how we arrive at the $38m figure. $38million. 38-Studios. Same kind of boondoggle?

But now onto the main topic. The Exchange itself.

In the past week our Center published two related reports, supporting the concept of transferring the RI exchange to the federal government. A one-page summary of the bills has been provided to you. In short, these reports stress three main points: first, no current or future policyholder is expected to suffer adversely; second, there are multiple reasons why such a transfer is a good idea; and third, there appear to be no legal, technical, or financial barriers to making such a move.

Most importantly, the findings in these reports directly refute many of the recent claims in the media by HealthSourceRI and administration officials:

State Funding? First it was $23m/yr, then it was $0, then it was $4.6m, and now itôs $0 again. Is this any way to run a business? What will be the reality next month or next year? **These backroom deals with the federal government give us little fiscal comfort moving forward.**

Yet, none of these are accurate. Already in the 2015 budget are $15m in line items for UHIP. And Director Ferguson all but admitted that they have no idea how they are going to pay for the exchange once federal funds run out. After almost three years to plan for this, all they can now offer is beliefs and pledges and a promise to explore options - this is nothing more than ñhappy-talkò é nothing this committee or Rhode Islanders can, or should, bank on.

Further federal funds are prohibited from being used to operate the exchange after 2014 BOTH by federal law and by Governor Chafeeôs executive order. In other words, itôs illegal. If this is ever successfully challenged in court, and our state does not pass this bill, think of how our budget will look then. To this point, ***our Center recommends amending this bill to specifically include mention of "federal funds"*** as part of the prohibition to ñexpend money or funds from any sourceò in section 42-155-3 (a) of the bill (H7817).

Success of the Exchange? We challenge the popular spin that our state Exchange is a huge ñsuccessò. When it comes to enrollees, the recent figures that have been so highly touted are actually nowhere near what officials originally projected years ago: First, private insurance enrollment was expected to be near 100,000 ï weôre only about a third of the way there. A success? Second, Medicaid enrollment was projected to be far less than what has actually occurred, meaning that the state will have to spend $50 million more in Medicaid dollars in its budget. Is this a success?

Also, business sector participation has been abysmal, with one health insurance provider planning to create its own private exchange that will offer insurance products that businesses will actually want to provide for their employees. This, also, is not a definition of success.

Further we have heard little, if anything, about how HealthSourceRI is addressing the costs of healthcare or the supply of services. Want to know what RIôs Medicaid and overall healthcare market might look like in the future? Just take a look at the **Veteran's Administration health care debacle**. Certainly not a success story.

We have also heard from officials that there would be a **loss of benefits and control**. We challenge anyone to provide this committee with such a provision in the law. In fact, the ACA law itself states that states shall maintain full-control over their insurance regulations and laws, and that a federally-run exchange cannot supersede those provisions. As we stated up front, in transferring the exchange, there is no statutory reason to expect that policy holders will face any loss of choice, any loss of policy design features, or any increased costs. There is also no reason to think that some level of local influence cannot be negotiated with the feds as part of the transfer process. This is why action from this committee I required now é to allow ample time to make this transition in the right way.

One administration official over the weekend also floated the idea that the state may have to **repay already spent funds**. We also challenge this concept. In our research, again we found no such provision in the law.

Finally, we challenge the recent discussion of **new federal fees** will be imposed if the exchange is transferred. The repeated statements weôve heard to this effect deliberately ignore the reality that there are even higher costs to maintain

operations here in Rhode Island. To focus on only one side of the coin is disingenuous. Second, we challenge the calculations and the $17.3 million figure stated. As it turns out, it is much more expensive to operate the exchange in Rhode Island. We believe HealthSourceRI officials greatly exaggerated these federal fees.

A description of our calculations has also been provided to you, prepared by Sean Parnell, one of our Centerôs adjunct scholars for healthcare. In short, the $17.3 figure would only be viable if HealthSourceRI met its original goal of enrolling about 100,000 people in private insurance. As we stated earlier, we have fallen about 70% short of that goal, and therefore, the federal fees are about 70% too high. "The major claims made in the past week by administration officials in defending continued state-operation of its health care exchange, are not supported by our analysis of the ACA law," said Parnell, a Washington, DC based healthcare expert.

These repeated mischaracterizations are nothing more than deceptive scare-tactics from a government agency that cannot justify the value of its own existence.

One way or another, someone has to pay for this costly federal mandate. Rhode Island simply does not have a large enough insurance base or tax base to take on this high-priced burden.

Between the operation of the exchange, the exploding Medicaid costs, and the soon to be exploding public assistance costs due to the UHIP project, continued state-operation of the exchange are likely to exceed $100 million per year.

Just a few final, very brief points:

First, despite the deals Director Ferguson has made with the Federal government, there is still $15 million in the proposed budget for this year for UHIP that can be eliminated by passing this bill.

Second, please donôt consider just the high costs of maintaining the exchange in Rhode Island. Also consider what we could do otherwise with those funds: more money for education, for cities and towns, for infrastructure, or to help pay for significant sales tax reform that can greatly boost our economy and provide jobs.

Third, this is not money we have to spend in order to have an exchange for Rhode Islanders. In transferring the exchange, we will still have an exchange, applicants will still be eligible for subsidies, insurance programs will not have to be altered, and some local influence can be maintained. And our analysis shows that, for essentially the same product, it would be much more expensive to run the exchange here in Rhode Island, than if we turned it over to the federal government.

For $38 million or for Zero … we can have the same system. The choice seems obvious.

I thank you for your time. Justin and I are pleased to answer any questions you may have.