

For the past year, we've been warning you about the evidence that Obamacare's health insurance exchanges will be larger, and far more costly, than the administration originally claimed. The subsidies within the exchanges are simply too appealing, and it makes all too much mathematical sense for employers to shed coverage and push employees into the taxpayer-funded marketplace. Analyses from McKinsey, Cornell's Richard Burkhauser, and others have suggested a significant number of employers will choose simply to pay the cheaper, more-predictable fine and shift their employees to the exchanges.

Now it appears the White House agrees. The administration's most recent budget proposal includes a massive increase in the estimated costs of exchange subsidies, wiping out a major portion of any claimed savings from the law:

- The White House's fiscal year 2013 budget adds \$111 billion in exchange spending between 2014 and 2021, with even more spending to come in future years.
- For the years in which the two exchange budgets overlap – 2014 through 2021 – the White House states that it expects to spend \$111 billion more in its new budget than it projected a year ago. In 2021 alone, the difference between the two budgets is almost \$20 billion, implying that exchange spending will be up by over \$200 billion in the decade following 2021.
- One potential factor I'd flag is the deterioration of White House economic projections compared with a year ago. Higher than expected unemployment means more people are likely to get their health insurance through a government exchange. As I reported last month, at a hearing before the House Budget Committee, **Rep. John Campbell, R-Calif.**, asked (Congressional Budget Office director Doug Elmendorf) out the cost estimates for Medicaid spending and health insurance exchange subsidies would be effected now that CBO's long-term unemployment forecast has deteriorated.

**Campbell**

noted that at the time of its original estimate, CBO was expecting an unemployment rate of 4.9 percent in 2014, but now that's projected to be 8.7 percent.

“That piece alone would raise the cost of the Affordable Care Act,” Elmendorf said, referring to the formal name for the legislation. “I don't know by how much.”

Already the folks on Capitol Hill are hopping on this, with Ways and Means Chairman Dave Camp (R-MI) announcing a probe of the matter. He writes in a letter to Treasury Secretary Timothy Geithner.

This staggering increase in health insurance exchange subsidy spending cannot be explained by legislative changes or new economic assumptions, and therefore must reflect substantial changes in underlying assumptions regarding the program's utilization and cost.

Minority Leader Nancy Pelosi's office responded to Camp's letter by claiming the increase in the cost of the exchanges will be offset by reductions in the cost of Medicaid. That's a fine thing to claim if you live in a land of make-believe. Any assumptions of decreased costs for Medicaid in a universe where 25 million people are added to the system by 2020, as CBO projects, are simply not based in reality. And either way – whether through increased Medicaid costs or exchange subsidies – these funds will come from the taxpayers.