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Congress must stabilize exchange premiums now - then overhaul the bloated, cruel US health financing 'system'

Karl Polzer – Center on Capital & Social Equity

Congress should quickly extend enhanced ACA health exchange subsidies for low- and middle-income people. Exchanges fill one of the most vulnerable gaps in the inequitable, bloated US health care financing system and absorb a small sliver of federal health spending.

The main issue prolonging the government shutdown is how much to prop up a residual marketplace serving 24 million Americans who cannot get coverage elsewhere. Tired of the political standoff, the health insurance industry last week slammed the US government and millions of Americans needing health insurance with the prospect of billions of dollars of additional costs. Pointing to great uncertainty over how much Congress will help people pay premiums next year — and how many healthy enrollees will then forego coverage — health insurers informed CMS that exchange premiums will rise by an average of 30% on Jan. 1.

If Congress gets back to work quickly and removes that uncertainty, there is still time to negotiate lower prices. But the clock is ticking.

Republican rhetoric countering Democrats' demand to continue expanded ACA exchange subsidies might lead one to think that taxpayers have been pampering people enrolled in them. Why should they get special treatment when health care costs are out of control across the board?

There is a case that the Covid-era premium support is too generous to high-income people. Slashing it for middle- and low-income people, however, can easily undermine the financial and health care security of millions of Americans, all while resulting in a relatively small dent in the national deficit and debt. A 30-percent price shock could trigger an insurance "death spiral" leaving exchanges as high-risk pools covering far few people.

Set to expire this year, subsidies added during the Covid epidemic have allowed low-income enrollees to get health coverage with no premiums and higher earners to pay no more than 8.5% of their income. CBO has estimated that 3.8 million more Americans, on average, will be uninsured in each year over 10 years (2026-2034) if Congress allows the enhanced subsidies to expire.

Since the extra funding began, exchange enrollment more than doubled from about 11 million to more than 24 million people with the "vast majority" receiving an enhanced premium tax credit, according to the Kaiser Family Foundation. Without it, many will continue to qualify for a smaller tax credit. Others, KKF says, "would be hit by a 'double whammy' of losing their entire tax credit and being on the hook for rising premiums."

ACA exchanges are designed to help roughly 40-50 million people in what Harvard professor Mark Shepard calls the "missing middle" of the health insurance market. They earn too much to qualify for Medicaid and are too young for Medicare, but don't have a job offering health insurance. As markets of last resort, exchange plans are likely to have higher administrative costs and pick up customers with high health care costs.

In the bigger picture, exchange spending is a small fraction of federal health care costs. Virtually ALL public and private health insurance in the United States is paid for, or heavily subsidized, by the federal government. Ubiquitous subsidies – along with *a lack of effective cost-control mechanisms* -- are major reasons that US medical care and insurance are far more expensive than in any other country on the planet.

Subsidies for ACA exchange plans comprise only *four percent* of the federal health coverage tab. A full extension of the enhanced exchange subsidies would cost about $35 billion a year. Total federal spending for health coverage will grow from about $1.8 trillion, or 7.0 percent of GDP, in 2023 to $3.3 trillion, or 8.3 percent of GDP, in 2033, totaling $25.0 trillion over the 10-year period. Of that total, CBO figures that 47 percent will go toward Medicare, 25 percent to Medicaid and Children's Health Insurance Programs, and 21 percent for employment-based coverage.

Policymakers face a conundrum. Cutting subsidies too much and for people too low in the income distribution will result in healthy people dropping out of exchange plans. That, in turn, will leave a sicker group with higher average medical costs and higher premiums in the insured group. At the same time, those dropping coverage are more likely to need government-subsidized care at hospital emergency rooms and through Medicaid.

Republican leaders say that the Covid-era premium support is far too high at the top of the income scale. The 2021 American Rescue Plan Act temporarily expanded exchange subsidies beyond the ACA's original threshold of 400% of the federal poverty (about $62,600 in earnings for an individual or $128,600 for a family of four). There is now no upper income limit.

Paragon Health Institute scholar Brian Blase points out that a family of five with a 60-year-old household head in Prescott, Arizona can make $500,000 per year but still qualify for an

$8,423 subsidy. Similarly, a married couple in West Virginia making $580,000 and a single individual in Vermont making $180,000 could both qualify for subsidies.

The US has already created national health coverage for the elderly and some people with disabilities through Medicare. Medicaid, which covers low-income people, is the nation's largest health insurance program. Medicaid costs are split between the federal and state governments.

Most Americans don't realize that the health plans they get through work – which cover about half the population – are heavily subsidized through tax exemptions and deductions going to employees and employers. CBO has estimated that federal tax subsidies for employer-provided health coverage will rise from $414 billion in 2025 to $714 billion in 2034.

Unlike exchange subsidies, tax breaks for employer coverage flow disproportionately to higher-income people, according to the Tax Policy Center. As a result of the tax exclusion, low-income workers in the 12 percent income-tax bracket -- who also shoulder a payroll tax of 15.3 percent (half paid by their employer) -- end up saving $254 for each $1,000 of employer-paid premium, according to the TPC. Tax exclusion helps higher-paid workers more. Workers in the 22-percent bracket save $347 per $1,000 of their benefit costs. State and local income tax breaks typically lower the after-tax cost of job-based health insurance even more.

In spite of the ACA's coverage improvements, 26 million Americans are still uninsured. Broader reforms, such as creating a system with strong government purchasing power or expanding Medicare into a universal system ("Medicare for All"), could lower insurance costs for people now using the exchanges. Such possibilities, however, fall far outside the bandwidth of current policy debates.

Meanwhile, health care and insurance costs across the US health-coverage checkerboard continue to rise. The average cost of employer-provided family coverage – now about $27,000 -- might still work in compensation packages for professional households with six-figure incomes. But it is increasingly out of proportion with typical salaries in a country with median household income of $84,000. Next to the $30,000 that a worker making $14/hour pulls down, the cost of health benefits can look cruelly ridiculous.

The way things stand, Rep. Marjorie Taylor Greene (R-GA), whose adult children depend on exchange coverage, is on the right track. Until Congress can overhaul the gargantuan health financing system, Republican leaders should work with Democrats to keep exchange coverage affordable. Marketplaces of last resort will be particularly helpful should the fragile US economy experience a downturn.

Karl Polzer is founder of the Center on Capital & Social Equity, which explores economic inequality and advocates for 'the bottom 50%.'