HealthAffairs Blog

Interstate Insurance Sales: Questioning The 'Race To The Bottom'

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 by John Goodman

The House Republican "Pledge to America" calls for opening up the health insurance marketplace by allowing people to purchase insurance across state lines. Families USA director Ron Pollack objects that this would cause a "race to the bottom," with consumers buying insurance in states with the fewest consumer protections (read: regulations) and, therefore, the lowest premiums. Matt Yglesias says much the same thing. President Obama and many Democrats have echoed these worries.

This raises three obvious questions:

1. Since most products are sold across state lines, why isn't there a "race to the bottom" in every market?
2. Since consumers often buy warranties — paying extra for reduced risk, why would they be indifferent to consumer protections in health insurance?
3. What states actually are near the bottom?

Let's take the last question first. The state with the fewest regulations for which we have data on premiums.….is……drumroll…..Idaho!

Perhaps you didn't realize that Idahoans are so unprotected? I bet Ron Pollack didn't either. Or Matt Yglesias. Or any of the others using the "race to the bottom" rhetoric. Chalk this up to an uninquisitive health media — which has repeated the charge many times without ever asking which state the speaker had in mind.

According to the Council for Affordable Health Insurance (which represents companies selling individual insurance), Idaho has only 13 benefits that must be included in insurance sold within the state. This compares to an average of 42 mandated benefits for all states, and 70 mandates in the state of Rhode Island.

Another low-mandate state (with 26) is Chuck Grassley's home state of Iowa. Like Idaho, Iowa has a below-average uninsurance rate and health insurance premiums that are well below the

national average. According to America's Health Insurance Plans (AHIP), a health insurance company trade group, the average premium in Iowa for 2008/2009 was $2,606 for individuals and $5,609 for families — less than half the premium charged in such states as Massachusetts and New York.

Missouri, Ohio and South Carolina, each with 29 mandates, also have premiums well below average. In fact, of the 26 states with below-average mandates, AHIP has price data on 23 of them and the average premium in all but one is below the national average. All of this is consistent with a Commonwealth Fund study which found that regulations consistently cause premiums to be higher.

Mandates: Special Interest Protections, Not Consumer Protections

So why haven't we been reading about abuses of consumers in Idaho and other low-mandate states? Answer: because these regulations aren't really consumer protections. The regulations require insurers to cover services ranging from acupuncture to in vitro fertilization and providers ranging from naturopaths to marriage counselors. They are almost always the result of special interest lobbying, rather than patient lobbying. They prevent consumers from buying less expensive coverage, tailored to individual and family needs.

Buying insurance across state lines would help eliminate two problems in one fell swoop. First, the market is not nearly as competitive as it could be. An earlier National Center for Policy Analysis report showed that most local markets are dominated by only one or two insurers. A national market for health insurance would make it easier for carriers to enter local markets. Second, the ability to avoid cost-increasing regulations would make health insurance more affordable and lower the rate of uninsurance. Several studies (here, here and here) have found that as many as one in four uninsured people have been priced out of the market by mandated health insurance benefits.

Objections and responses. To anticipate objections from the critics, no one has ever denied that there are obstacles to be overcome in creating a national market. For example, here are three:

1. In states with community rating (same premium for all) and guaranteed issue (no pre-existing condition exclusions), all the healthy people would quickly discover that out-of-state insurance not subject to such regulations is always cheaper. These states would have to be exempted from the national market or they would have to find other ways of subsidizing premiums for high-cost consumers.
2. Federal law makes the states responsible for implementing the HIPAA requirement that people with continuous coverage be able to obtain insurance if they lose insurance, say, as a result of a job change. Buying across state lines would have to be integrated with this delegation of regulatory responsibility.
3. Mechanisms would need to be in place to resolve disputes when a consumer in one state buys from an insurer in another state.

All these problems are solvable, and the cost of solving them is minor compared to the benefits of doing so.