National Center for Policy Analysis

BRIEF ANALYSIS
No. 224
For immediate release:
Friday, February 21, 1997

An Easy Way to Make Health Insurance More Expensive

Congress can easily make health insurance either less expensive — or more expensive. If health insurance is less expensive, more employers will provide it and more people will be covered. If it is more expensive, some employers and individuals will cancel their coverage, adding to the more than 40 million Americans already without coverage.

So what does Congress appear ready to do? Last September Congress passed the first-ever federal mandates, forcing insurers and employers to cover a minimum maternity stay of 48 hours and to cover mental health care to the same limit as physical health care.

What Is a Mandate? A mandate is a requirement that an insurance company or an insuring entity such as a self-insured employer offer specified benefits in an insurance plan. Thus a legislature may require insurers to cover mammograms, as 46 states have already done. By contrast, legislatures may require insurers to cover only specified benefits or providers. In that case, employers may accept or decline the service or provider.

Do Mandates Affect All Health Insurance? That depends on who issues the mandate. Before September of 1996, state legislatures had created all health insurance mandates, and they covered only traditional health insurance within the respective state. [See the figure.] Most state mandates affected small employers and individual policy holders, usually the self-employed. Larger companies and organizations such as trade unions avoided the mandates through the Employee Retirement Income Security Act (ERISA). ERISA was intended to permit companies with, say, 1,000 or more employees, especially those operating in a number of states, to self-insure. When employees incur health care expenses under a self-insured employer, the employer rather than an insurance company pays the bill.

How Much Difference Does 20 Years Make?

State Mandates

	1976	1996
Maryland	6	39
Minnesota	9	37
Florida	2	36
California	6	34
Connecticut	10	28
New York	8	28
Virginia	2	27
Arkansas	4	23

Federal Mandates

	1996	2016
U.S. Congress	2	?

Source: Blue Cross Blue Shield Association, "State Legislative Health Care and Insurance Issues," December 1996.

Because companies operating under ERISA have almost complete freedom to provide the type and amount of insurance they choose, smaller companies also seek ways to self-insure, avoid state health insurance restrictions such as mandates and thus create plans that meet their financial and personnel needs.

ERISA's preemption of state mandates may become irrelevant if Congress continues to pass federal mandates because ERISA companies must comply with the federal rules.

How Many Mandates are There? In 1965 there were only seven state-mandated benefits; today there are nearly 1,000. Many of them cover basic providers such as podiatrists and treatments such as drug and alcohol abuse, but some cover nonmedical expenses such as hairpieces and marriage counseling.

How Much Do Mandates Increase the Cost of Health Insurance? The increase depends on the nature of the legislation, the geographic location and the usage patterns of a particular population. For example, utilization of mandated coverage for drug abuse treatment would likely be higher in states with large inner-city populations such as California and New York than in, say, Utah.

Although they are usually sold to the legislators as cost cutters, mandates nearly always cause the cost of health insurance to rise. For example, chiropractors usually charge less for an office visit than medical doctors. If both providers cured a patient in one visit, the chiropractor would cost the patient, and therefore the insurer and the health care system, less money. But many people go to chiropractors even when their insurance does not pay for it. If insurance is required to pay, those patients get subsidized care, and many others begin chiropractic care. While an individual procedure may save money, most mandates increase utilization of the health care system, increase the total amount of money spent and force insurance rates higher.

Dallas Headquarters: 12655 N. Central Expy., Suite 720 • Dallas, TX 75243-1739 • 972-386-6272 • Fax: 972-386-0924 • E-Mail: ncpa@public-policy.org
Washington Office: 727 15th St. N.W., 5th Floor • Washington DC 20005 • 202-628-6671 • Fax 202-628-6474

For more information: Curt Erickson in Dallas at 972/386-6272 or Joan Kirby in Washington at 202/628-6671

Are All Mandates Equal? No. Some have a marginal and others a significant impact on the cost of insurance. For example, the proposed mandate to permit women to stay in the hospital a minimum of 48 hours after a mastectomy will have little impact, since relatively few mastectomies are performed. By contrast, the mental health care provision that has already passed could increase the cost of insurance significantly because many people see mental health professionals.

Some services actually do reduce total costs. However, a study by the Office of Technology Assessment found savings from only three types of preventive care: prenatal care, childhood immunizations and tests in newborns for certain congenital disorders.

Have Mandates Changed? Yes. Until recently, most mandates required that insurers offer a wider range of benefits. By contrast, many of the newer and proposed mandates attempt to keep insurers from restricting coverage. The difference is important. Legislators originally supported mandates to help patients; now they seek to shield them from harm. To the extent that mandates expanded patient choice, they received strong legislative support. To the extent that they are perceived to protect patients from the results of managed care practices, they will receive even more.

What Are the Problems Created by Mandates?

(1) They increase health insurance utilization. A mandate may encourage people to use their insurance for therapies not covered before — insulating people from the cost of that care. When people perceive they are getting care for little or nothing, they have an incentive to use more. That increased demand supports high health care prices and minimizes competition.

(2) They create health insurance dependency. Since the advent of employer-based health insurance during World War II, employees and labor unions have increasingly called for "first-dollar" health insurance coverage. As a result, most working Americans look to insurance to pay for procedures they could easily afford anyway. People no longer shop for medical care in order to get the best value for their money. They turn to the insurer to pay the bill, ignoring the cost.

Indeed, the average American is so pleased when someone else pays his or her medical bills that Congress is considering a plethora of new mandated benefits so as to please voters even more.

(3) They raise the cost of insurance. Because most workers are insulated from the cost of health insurance, they spend freely. This drives up total health care costs, and premiums rise to meet the costs. But in most cases, only the employer feels that increase.

(4) Employers and individuals cancel their policies. As employers and people with individual policies face increased premiums, they begin to cancel their coverage. The more healthy people conclude that the risk they bear is less than the premium they pay, the more they decide to take their chances.

In addition, the growing number of federal and state mandates requiring insurers to accept applicants regardless of their health status encourage people to go without health insurance while they are healthy by making it easy for them to insure when they are sick.

(5) More Americans become uninsured. As a result of these perverse government policies, the number of uninsured keeps growing — even as Congress decries the growing number of uninsured.

What Impact Do Mandates Have? Studies in six states have found that mandated coverage accounts for between 7 and 21 percent of all insurance claims. One study found that mandated coverage increases insurance premiums by 6 to 8 percent for substance abuse, 10 to 13 percent for outpatient mental health care and 21 percent for psychiatric hospital care for employee dependents.

These premium increases drive up costs and the number of uninsured. By one estimate, one out of every four uninsured people was priced out of the market by state mandates.

How Can Health Insurance Be Made Less Expensive? About 85 percent of the uninsured are in families with at least one employed worker. However, these workers are often employed by very small firms, for whom the cost of health insurance is high. Giving small employers access to lower- cost, mandate-free insurance by permitting them to form associations, small business alliances or purchasing cooperatives would help a lot.

Conclusion. The issue is not whether mandates are benefiting some people. Obviously they are. The issue is whether the federal government is right to raise the cost of health insurance and the number of uninsured. Obviously it is not.

This Brief Analysis was prepared by NCPA Vice President of Domestic Policy Merrill Matthews Jr.