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Let Health Insurance Cross State Lines, Some Say

Written by David M. Herszenhorn

As Republicans and Democrats claim to be searching for common ground in the health care debate, one idea that lawmakers on both sides seem to agree on is that health insurance should be sold across state lines.

Republicans like Representative John Shadegg of Arizona have long called for this change, saying it would increase competition among health insurers and provide consumers with a greater array of choices.

The Democrats' health care bills, adopted late last year by the House and Senate, each contain provisions aimed at a similar goal. The bills allow states to form "compacts" among themselves by which insurance policies issued in one could be sold in the others.

But Republicans and Democrats fiercely disagree over how to go about allowing such sales, and some independent health care experts warn that the idea may be more appealing in theory than in practice, and that it might even raise rather than lower costs.

The appeal is easy to understand.

Because health insurance is regulated in each state, insurers must be licensed in the state where they sell policies, a hurdle that critics say limits the number of insurance companies competing in a given state.

Experts agree that lack of competition is one reason premiums can be so expensive.

Proponents of the idea say that the tangle of state regulation drives up costs, particularly in states with heavy mandates, and that a quick and easy way to reduce prices would be to allow people in states where insurance is expensive, like New York or Massachusetts, to buy policies in low-cost states like Minnesota.

Mr. Shadegg, who sponsored legislation to allow insurance sales across state lines in 2005 and has championed the idea ever since, likes to illustrate the lack of competition by pointing to how different the market is for automobile insurance.

"If you turn on the television station at night," he said, "you see Allstate and Geico and Progressive and State Farm pounding each other's heads in. 'Drop your policy and come get a policy from us, and we'll do two things — we'll save you money and give you better service.' You never see that kind of advertisement for you and I to go out and buy health insurance."

But Mr. Shadegg adamantly opposes the Democrats' take on the idea. He dislikes their requirement that states pass laws to create health care "compacts," and he rejects the Democrats' efforts to impose tight new federal regulations on insurers. Replacing many knots of state rules with a big knot of federal rules would defeat the purpose, he said.

President Obama and leading Democrats, however, warn that without new regulations, private insurance companies would race to set up shop in states with lax regulation, minimal benefits requirements and the fewest consumer protections.

"If you go to full interstate shopping, you are going to need some consumer protection," said Senator Ron Wyden, Democrat of Oregon, a supporter of the idea. Still, Mr. Wyden said he believed that compromise with Republicans is possible. "There is a lot to work with here," he said.

Some experts are not convinced.

According to an analysis of one of Mr. Shadegg's proposals by the Congressional Budget Office, in states where insurance is expensive because laws require more comprehensive coverage, prices would likely increase for less-healthy people who continued to buy insurance from in-state insurers.

Why? Healthier adults would buy cheaper policies out of state, the budget office said, while less-healthy adults would stick to in-state insurance because it covers the services they need. Premiums would rise for the latter group as the risk pool became less healthy and more costly.

"From a consumer protection point of view, the result of allowing sales across state lines would be that the state with the least restrictive regulatory scheme would have an advantage and could undercut all the others, and you would have a race to the bottom," said John Rother, executive vice president of policy and strategy for AARP, the lobby for older Americans, which supports the Democrats' legislation and markets insurance itself.

Mr. Rother said there were other problems, like limiting the ability of health insurance companies to adequately monitor quality of medical care with providers spread across many states. The companies, he said, would be "back to just paying the bill whenever it comes in" rather than asking crucial questions like "How do we get the best value for the dollar?" or "How do we improve performance?"

Other experts, like Stephen T. Parente, academic director of the Medical Industry Leadership Institute at the University of Minnesota's Carlson School of Management, note that many insurers already operate across state lines in administering policies for large employers, and could easily do the same in the individual market.

Mr. Parente said his research had found that millions of uninsured people who now find coverage unaffordable in their home state might buy cheaper policies if they were available from other states. The competition would force insurers to provide better, cheaper service and might force low-performing companies out of business, while states with the most efficient regulatory framework could become regional "powerhouses" where insurers prefer to operate.

But he said there were political obstacles to ending state regulation of insurance. Powerful officials like the secretary of health and human services, Kathleen Sebelius, and Senator Ben Nelson, Democrat of Nebraska, both served as state insurance commissioners as a stepping stone to becoming governors of their states.

“We’re basically talking about deregulating that position out of existence,” Mr. Parente said.

Devon M. Herrick, a senior fellow at the National Center for Policy Analysis, a nonprofit group that works to develop private alternatives to government regulation, said allowing insurance to be sold across state lines could drive down costs.

“The competition that you want to spur is not just among the companies, but also among the state regulators and the state legislatures and the insurance commissioners,” Mr. Herrick said.

“What you really have right now are 50 different protected markets.”

Even as Democrats and Republicans head toward Mr. Obama’s bipartisan summit on Feb. 25, it may be harder than it seems to reach a deal.

“When a Republican like John Shadegg says, ‘We need to allow sales of insurance across state lines,’ ” Mr. Herrick said, “he’s not really saying the same thing as a Democrat who says, ‘We support the concept.’ ”