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HEALTH POLICY prescriptions

Over Regulation Reduces Choice in Health Insurance: An Update Health Policy Prescription

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Obamacare Further Politicizes Health Insurance

Earlier this year, the Pacific Research Institute published a study demonstrating one way that Obamacare will dramatically reduce Americans' choice of health insurance. By encouraging states to pass laws giving politicians control of health plans' premiums, Obamacare creates incentives for politicians to impose populist limits that threaten health plans' solvency. Furthermore, common measurements and tools used to determine whether health insurance is "competitive" are deeply flawed, leading even well-intentioned regulators astray as they seek to control the cost of health insurance.[1] This article incorporates new data to test whether the conclusions of the earlier study persist. It finds that they do.

Through federal subsidy, Obamacare encourages states to grant their Insurance Commissioners the power to deny increases in premiums, also known as "prior approval" of rate changes. While politically popular, this does nothing to reduce underlying health costs, which are driven by providers and patients in an environment overly dependent on third-party payment. To put this in perspective, more than half of states already require prior approval of rate increases. Forty-three states have some process for reviewing rates in individual and small-group policies, but many are so called "file and use" states, which means that the health plans must submit their rates to the Insurance Commissioner, but he or she cannot turn them down. Three states don't require any filing information at all.[2]

Key Points:

- Obamacare, signed in March 2010, has not reduced the rate of growth of health-insurance premiums, which increased by 20 percent in the small group market between 2008 and 2010.
- Obamacare subsidizes states to increase political control of health-insurance premiums, although there continues to be no evidence that such interference reduces the rate of growth of premiums.
- When monitoring competition, government regulators use a measurement of market concentration that does poorly when applied to choice in health insurance.
- New evidence continues to support the conclusion that Obamacare will lead to less choice of health insurance.

The Obamacare legislation authorized the Secretary to give $250 million in grants to states to support their own rate review efforts. Fifteen states have reported that they will use this money to lobby for more statutory power from their legislatures. Twenty-one will use the money to expand their activities. All will require insurers to report more information about how they set premiums to their Insurance Departments. Most states also promised to invest in technology to make their operations more transparent to the public.[3] Money and support from the federal government has injected momentum into these initiatives in many states.

Cost of Health Insurance Went Up After Obamacare Was Signed

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Signed in March 2010, Obamacare has certainly had the opposite effect than that promoted by its advocates. Table 1 shows premiums in the small-group market in 2008 and 2010, for 37 states with available data.

Table 1
Premiums and Regulation of Rate Review in Small-Group Market, 2008 and 2010

	Monthly premium, single		Change	Regulation of Rates
	2008	2010		
Alabama	$296	$353	19%	File & Use
Arizona	$305	$405	33%	File & Use
Arkansas	$283	$305	8%	Prior Approval
California	$349	$423	21%	File & Use
Colorado	$368	$429	17%	Prior Approval
Florida	$383	$437	14%	Prior Approval
Georgia	$330	$404	22%	None
Illinois	$393	$447	14%	None
Indiana	$333	$408	23%	File & Use
Iowa	$317	$372	17%	Prior Approval
Kansas	$318	$386	21%	Prior Approval
Kentucky	$301	$332	10%	Prior Approval
Louisiana	$349	$392	12%	Prior Approval
Maine	$360	$386	7%	Prior Approval
Massachusetts	$458	$483	5%	Prior Approval
Michigan	$280	$349	25%	Prior Approval
Minnesota	$353	$415	18%	Prior Approval
Mississippi	$324	$399	23%	File & Use
Missouri	$313	$387	24%	File & Use
Montana	$340	$408	20%	File & Use
Nebraska	$365	$490	34%	File & Use
Nevada	$339	$381	12%	File & Use
New Hampshire	$420	$524	25%	Prior Approval
New York	$407	$554	36%	Prior Approval
North Carolina	$355	$410	15%	Prior Approval
North Dakota	$250	$302	21%	Prior Approval
Ohio	$320	$386	21%	File & Use
Oklahoma	$364	$422	16%	Prior Approval
Pennsylvannia	$337	$383	14%	None
South Carolina	$319	$421	32%	File & Use
Tennessee	$274	$410	50%	File & Use
Texas	$369	$427	16%	File & Use
Utah	$397	$329	-17%	File & Use
Virginia	$313	$399	27%	File & Use
Washington	$198	$332	68%	Prior Approval
West Virginia	$412	$565	37%	Prior Approval
Wisconsin	$388	$424	9%	File & Use

In only one state, Utah, did premiums for single coverage in the small-group market drop – by 17 percent. However, the median increase in premiums was 20 percent – one fifth. And the biggest increase, 68 percent, took place in Washington State – a state which already imposes the "prior approval" of rate increases encouraged by Obamacare!

Premiums in States with Prior Approval of Rates Are Not Lower Than in States without Regulation

There is no evidence that prior approval of premium increases has protected consumers from rate hikes. Examining data on premiums and premium-review laws for small-group premiums in 37 states in 2008 and 2010, 16 states allowed health plans simply to file their new rates and then use them, 18 required prior approvals of rate changes by the Insurance Department, and three were unregulated. As shown in Table 1, there does not appear to be any connection between prior approval and a lower increase in rates from 2008 to 2010.

The median increase over the period was 22 percent for the file-and-use states and a slightly lower 17 percent for states requiring prior approval. The highest increase in the file-and-use states was 50 percent (in Tennessee) but the highest in the states which required prior approval was 68 percent (in Washington). Utah, the only state which experienced a reduction in rates, is a file-and use-state. Furthermore the three completely unregulated states had the lowest median rate increase, 14 percent, and none of the three was a wild outlier like Tennessee or Washington.

Market Concentration Is Not An Indicator of High Health-Insurance Premiums

The previously published study also showed that state markets for health insurance became more concentrated during the years from 2003 through 2008, according to the Herfindahl-Hirschman Index (HHI). The HHI measures market concentration as follows: If there are four competitors in a market, each with 25 percent share, the HHI= (25^2) + (25^2) + (25^2) + (25^2) = 2,500. If the shares are 50 percent, 25 percent, 15 percent, and 10 percent, the HHI = (50^2) + (25^2) + (15^2) + (10^2) = 3,450.

For the weighted average of health plans in the 41 states sampled in the previous study, the HHI increased 28 percent over the period, from 2,282 to 3,184. This conclusion, however, must be tempered by the observation that there is no evidence that concentration of health plans within states is significantly worse than concentration of insurers in other lines of business, generally speaking.[4]

Nevertheless, the HHI is the first place government regulators look when seeking excuses to interfere in markets. A recently released analysis calculates the HHI for 2010, in both individual and small-group markets. For the small-group market, the analysis calculates a national median HHI of 3,595, a slightly higher measure of concentration than estimated in our previous study (which combined the individual, small-group, and large-group markets). The state with the greatest concentration was Alabama, which a score of 9,175; and the least concentrated state was Pennsylvania, with a score of 1,579.[5]

Counter intuitively, the states with the highest degree of concentration do not suffer the highest premiums. On the contrary, the correlation between the states' HHIs reported here and the premiums reported for 2010 in Table 1 is *negative* 0.16! If federal and state regulators look to the HHI as their key measurement of competition in health insurance, it will lead them to do even more harm to people's choices than they already have.

Conclusion and Recommendations

Obamacare creates political incentives for politicians in every state to politicize health insurance. They will be highly likely to use their increasing powers over prior approval of rates to artificially lower premium increases while medical costs continue to increase as providers become more responsive to the needs of government instead of patients. Within a very few years after the implementation of Obamacare, Americans will be faced with dramatically fewer choices of health plans. This will have to be resolved by either allowing plans to levy extraordinary rate hikes, bailouts by taxpayers, or just allowing private health plans to shrivel away until a single-payer, government-monopoly health plan appears to be the only viable alternative.

The best way to avoid this outcome is to embrace the change advocated by the majority of the American people: Repeal Obamacare and replace it with reform that puts the American people, and not our government, in charge of our health care.

Endnotes

1 John R. Graham, Bust or Bailout? The Future of Private Health Plans Under Obamacare: With a Focus on Massachusetts and Colorado (San Francisco, CA: Pacific Research Institute, July 2011).

2 Amanda Cassidy, Unreasonable Insurance Rate Increases, Health Policy Brief, Health Affairs (March 31, 2011), pp. 2-4.

3 Henry J. Kaiser Family Foundation, Rate Review: Spotlight on State Efforts to Make Health Insurance More Affordable, p. 7.

4 John R. Graham, Bust or Bailout? The Future of Private Health Plans Under Obamacare: With a Focus on Massachusetts and Colorado (San Francisco, CA: Pacific Research Institute, July 2011), pp. 24-25.

5 How Competitive Are State Insurance Markets?, publication #8242 (Menlo Park, CA: The Henry J. Kaiser Family Foundation, October 2011).

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