American Enterprise Institute for Public Policy Research

Summary

New Study Shows that Interstate Health Insurance Competition Can Bring Down Premiums, Reduce the Number of Uninsured

WASHINGTON, AUGUST 5, 2008--Why is the premium for the most basic single coverage health insurance plan purchased on the individual market in New Jersey is four times higher than in neighboring Pennsylvania? Stephen Parente and Roger Feldman, health economists from the University of Minnesota, argue that it has to do with how health insurance is regulated in each state. At an American Enterprise Institute conference on July 31, they revealed results of their research on what would happen if health insurers certified in states with fewer regulations were allowed to provide their plans in other states without meeting the additional regulatory requirements those states would normally impose. Health policy researchers Aparna Mathur of AEI and the University of Alabama's Michael Morrisey commented, and Assemblyman Jay Webber of New Jersey's twenty-sixth legislative district outlined his proposal to bring down the costs of his constituents' health insurance.

Health insurers are restricted to selling insurance within the state in which they are certified. In order to become certified in a given state, a health insurer must meet that state's regulations, such as community rating, which requires an insurer to minimize premium differences among insured individuals; guaranteed issue, which requires health insurers to sell insurance to all potential customers; willing provider laws, which require insurers to include in their networks any provider that agrees to their contractual terms; and mandated coverage requirements. Some states employ more regulatory requirements than other states, and consumers in heavily regulated states pay more.

Parente and Feldman estimated the effects of these regulations on insurance premium costs in the individual market, then used the Adjusted Risk Legislative Assessment model--which they created to simulate the health insurance take-up response as a result of changing insurance premium costs--to see how the regulatory burden, and relief thereof, affects the number of uninsured. They found that the regulatory burden imposed by some states substantially affects the costs of insurance premiums. They also discovered that by allowing insurers certified in states with less regulation to sell their products to residents of other states without first requiring them to meet the additional regulatory requirements of those states, costs to consumers would fall, as would the number of uninsured. Depending on modeling assumptions, interstate competition could reduce the number of uninsured by 70,000 to 17 million, Parente and Feldman said.

Morrisey and Mathur wondered whether the effects of allowing interstate competition among health insurers on the number of uninsured would be as large as Parente and Feldman predicted. They expressed concern about the large variation in empirical estimates of regulations on premium prices derived from the literature, the linear estimation of the effect of coverage mandates on premium prices, and also about the studies' failure to take into account the effect of state taxation policies on insurance premiums. But even with these concerns, Mathur acknowledged that Parente and Feldman's work was important. "This is the first paper with such extensive analysis," she said, adding that "it is a useful model."

Assemblyman Webber said that New Jersey is facing an "affordability crisis." Health insurance premiums have risen as a result of overregulation. The number of uninsured in that state has risen to 15 percent and increased insurance costs have caused the number of small businesses providing insurance for their employees to decline. His bill, the New Jersey Healthcare Choice Act, would allow insurers meeting certification standards of neighboring states to offer their products to residents of New Jersey without meeting additional regulatory requirements. This would create cheaper health insurance options for his constituents and reduce the number of uninsured, he said. AEI's Thomas P. Miller commented that this effort to open up health insurance regulation to regional competition is a good start for harnessing competitive federalism. He described the importance of "more than one, but less than fifty-one" regulatory environments to compete to find the optimal balance of regulation and affordability for health insurance, implying that interstate regulatory competition is a good thing, but that optional federal chartering would be a step in the wrong direction.

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