Introduction

Although most Americans receive or purchase health insurance through employer-sponsored group plans, 17 million people currently purchase insurance for themselves directly. Because each state imposes different mandates for benefits, costs vary widely. A policy in New Jersey may have a premium of over $4000 per year, while the average cost in Pennsylvania is only $1500 per year for a comparable policy (Figure 1). Because each state regulates its own health insurance industry, no national market for individual health insurance exists, and competition occurs only on the state and local level.

Intent of the Bills

The Health Care Choice Act of 2005 / S.1015 / H.R.2355 would allow an individual living in one state to purchase health insurance from an insurer in another state. Coverage provided by the policy would be subject to mandates of the state where the insurer is based, rather than from the one state in which they live. The bills would make only limited provisions for any federal standards for coverage and company solvency, and instead place this duty on the insurance company’s home state.

History and Background

State insurance bureaus have moved from merely guaranteeing solvency to becoming consumer advocates and protectors. Additionally, various mandates have arisen as a result of local politicians responding to a particular constituency in a particular state. As a result, there are 51 different sets of insurance regulations, each applying to a policy sold in a particular state or the District of Columbia, which address what conditions health insurance must cover, who may receive coverage, how rates are set, and how company solvency is determined.

1,843 coverage mandates are in effect at the state level. The number of mandates ranges from 13 in Idaho to 62 in Minnesota. 45 states require treatment for alcoholism, length of maternity stay, and diabetic supplies, but rarer mandates exist, such coverage for as kidney disease and Wilms’ tumor, each required by only one state. 6 Provider mandates are also common and varied. Many states require coverage for chiropractic care, but some states also mandate coverage for pastoral counseling, massage therapy and dentures. All states mandate that newborns be covered, while some states mandate coverage for dependent students and domestic partners.

Furthermore, some states mandate anyone applying for insurance must receive coverage, regardless of preexisting conditions or overall health status. Finally, some guarantee states also mandate that rates be set based on the community risk where the purchaser resides, rather than on the purchaser’s individual health status.

In many states the insurance market is not competitive. In many localities, only one insurance product is available or one carrier overwhelmingly dominates the market. Blue Cross/Blue Shield has 60 percent of the individual health insurance market in New Jersey and 70 percent in Massachusetts. 5

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Stakeholders

These groups feel the best way to increase access to health insurance while decreasing unnecessary costs is to regulate the insurance industry to nationwide, free-market competition:

- National Association for the Self-Employed
- National Federation of Independent Business
- US Chamber of Commerce
- Center for Freedom and Prosperity Foundation
- The Heritage Foundation
- Cato Institute
- G.W. Bush Administration

These groups oppose S. 1015 / H.R. 2355 because they believe insurers will choose to select states with the most lenient mandates for coverage and solvency rules and will circumvent consumer protections:

- Public Citizen
- Consumers Union
- National Mental Health Association
- National Hemophilia Foundation
- National Multiple Sclerosis Society
- Anxiety Disorders Association of America
- American College of Nurses Midwives
- American Chiropractic Association
- American Counseling Association
- Blue Cross/Blue Shield

Recommendations

The Health Care Choice Act of 2005 / S.1015 should become law. Covered issues should be allowed to take advantage of a national free market to choose from a wide variety of policies that provide the best coverage for their needs at the lowest cost.

Health insurance regulation is discriminatory to individuals and small businesses. Employees of larger businesses can participate in more affordable group health plans immune to state regulatory variances. Only the individual purchaser is subject to sometimes politically motivated state mandates for which the majority of consumers have no use.

Opponents fear a “race to the bottom”, as insurers may locate in states with the lowest regulations and mandates. No evidence exists to suggest any state so poorly regulates insurers that it puts consumers at risk.

Opponents also fear state risk pools might be decreased, as healthy patients will likely purchase policies without expensive coverage they may not need. A weakening of the risk pool has already occurred in guaranteed issue states, as many healthy consumers put off buying insurance until they become ill since they know the issue will be decided and the rate will not be based on their health. This leads to a reduction of healthy people in that state’s risk pool and also significantly increases the cost of coverage.

References

6. Minnesota: $1,843
7. Massachusetts: $4,103
8. New Jersey: 5,880
9. California: 93
10. Florida: 64
11. Washington: $2,664
12. Massachusetts: $4,103
13. Kentucky: $960
14. Iowa: $1,892
15. Washington: $2,664
16. Massachusetts: $4,103
17. New Jersey: 5,880

People who receive insurance through their employer suffer from “job lock” as they are reluctant to change jobs since they cannot afford to purchase individual coverage. In states mandating guaranteed issue and community based risk rating, healthy individuals often do not purchase insurance until they become ill as they know coverage must be issued and the rate will not be based on their illness. This leads to a reduction of healthy people in that state’s risk pool and also significantly increases the cost of coverage.

Figure 2: States with many mandates tend to have somewhat higher rates of uninsured than states with fewer mandates.

A tremendous variation in the cost of insurance for individuals and limited choice of available insurers in a particular state exists. For a healthy, 25 year-old male, the cost of a basic policy ($900 deductible) varies according to where he lives:

- Kentucky: $960
- Iowa: $1,892
- Washington: $2,664
- Massachusetts: $4,102
- New Jersey: 5,880

According to the State Health Reform Task Force, the average cost for a basic insurance policy for a young non-smoker in a family of four in 2006 in New York was $14,100. In Massachusetts, the cost was $9,600.

Figure 1: Annual Cost of Individual Health Insurance (At age 35)