

Exchange

From the Medical Industry Leadership Institute

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Nowhere but here.

CARLSON
SCHOOL OF MANAGEMENT
UNIVERSITY OF MINNESOTA

National health insurance competition

Will it lower the cost of individual health insurance?

Background

A number of lawmakers in the United States are working to amend the current law to allow for interstate competition in health insurance plans while still preserving each state's primary responsibility for the regulation of health insurance. The object of our study is to simulate the impact of a national market for individual coverage that crosses state boundaries, and to provide advice to policymakers regarding the strengths and weaknesses of such a proposal. One of our goals of the simulation is to frame a health care policy debate around the question of "does this make sense or not?" Our research on the topic of a national market for individual health insurance began over six years ago, and has been supported through funding from The Robert Wood Johnson Foundation, the Agency for Healthcare Research & Quality, and HSI Network, LLC.

Methods

We completed the analysis in three steps. First, we cataloged and reviewed the literature to identify parameters for the simulation. Second, we identified and analyzed empirical data to develop premium estimates for the simulation that reflect case-mix as well as state-specific differences. Third, we

used a revised version of the 2005 Medical Expenditure Panel Survey (MEPS) to complete a set of simulations which identify the impact of three different scenarios for national market development.

Simulation

The simulation began by depicting the regulatory environment of the individual insurance market in each state. Research then identified the marginal cost of state regulations by looking at the state's:

- mandates,
- guaranteed issue laws which require insurers to sell insurance to all potential customers regardless of health,
- community rating which requires insurers to limit premium differences across individuals,
- any willing provider (AWP) laws that restrict insurer's ability to exclude providers from their networks.

After characterizing these state-specific individual insurance markets in this manner, we calculated the premiums, adjusting for the effects of state regulations. These adjusted premiums were used in the simulation model to describe the effect of a national market on take-up of individual health insurance.

The object of our study is to simulate the impact of a national market for individual coverage that crosses state boundaries, and to provide advice to policymakers regarding the strengths and weaknesses of such a proposal.

We developed three scenarios for policy simulation, each run on a set of minimum, moderate, and maximum impacts of state-specific regulations as derived from the literature. In each scenario, if the consumer faces a lower premium because of the proposed policy change, the consumer will choose the better price. If the new premium is not a better deal than that in the consumer's home state, the consumer will stick with his or her home state in the simulation.

- **Scenario 1:** Competition among the five largest states. In this scenario, only the five largest states (CA, TX, NY, FL, IL) are permitted to sell to the national market as well as the consumer's own state.
- **Scenario 2:** Competition among all 50 states. Alabama was identified as

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From the Director

This is the second issue of *Exchange*, a new publication featuring dialogue on medical industry research and application. The content is a summary of research from both academia and the medical industry, followed by commentary on the importance of the research and its application for the industry. Topics highlighted in *Exchange* will span all sectors of the medical industry and include commentary from leaders in the field as well as researchers from the University of Minnesota and other academic institutions.

This issue highlights research on individual insurance market reform options by my University of Minnesota colleagues, Professors

Roger Feldman and Jean Abraham of the School of Public Health, and graduate student Yi Xu and I. This research was spotlighted in the *Wall Street Journal* in August 2008 and used in congressional testimony later in the fall. Assemblyman Jay Webber of New Jersey provides commentary. Assemblyman Webber is passionate about the issue and finds this research valuable in his efforts to improve the "affordability crisis" in his home state.

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Commentary

by Assemblyman Jay Webber of New Jersey

A legislative initiative that would greatly advance the goal of insuring the uninsured yet cost the taxpayer nothing at all seems too good to be true. But thanks to the work summarized in this *Exchange*, we now have the proof: simply allowing the purchase of health insurance across state lines would give millions of people new access to affordable insurance.



No state would benefit more from such an idea than my state of New Jersey, where a family pays an average annual premium of \$10,398—nearly twice the national average. New Jerseyans have, for years, been trapped in unwise overregulation by state legislators, who in 1992 imposed upon the individual market guaranteed issue, community rating, and multiple benefit mandates. The result: the individual market now covers 40% fewer people, producing a slight *increase* in the state's uninsured population to 15%.

In other states, even just across the Delaware River in Pennsylvania, better regulations have prevailed and allowed for far more affordable premiums. Allowing New Jersey families to access those policies, and others, would open the door to lower prices and better options that always accompany competition. In fact, according to this study, an interstate market would reduce the number of uninsured in New Jersey by as much as 50%. That's about 700,000 people, a number too large for any serious policymaker to ignore.

This spring, I introduced the New Jersey Healthcare Choice Act, which would allow New Jerseyans to purchase the regulated policies of other states. The bill has been well received as a common-sense and much-needed reform, but the research summarized in this *Exchange* makes the most convincing case for the bill yet. I use the results of this study to highlight the importance of the legislation constantly—I cannot overstate the contribution the study's authors have made to the public policy debate in New Jersey, and, I am sure, across the country.

National health insurance, cont.

the state with the fewest number of regulations. Therefore, if consumers are able to switch policies, we assume it will be to Alabama.

- Scenario 3: Competition within regions. This scenario divides the United States' health insurance market into four regions. Residents are able to purchase insurance from a state within their region.

Findings

Our study found evidence of a significant opportunity to reduce the number of uninsured under a proposal that allows the purchase of health insurance across state lines. In fact, all three

scenarios that were simulated provide significant opportunity to reduce the number of uninsured.

Research modeling and analysis showed that interstate competition could reduce the number of uninsured by 70,000 to 17 million people. The best scenario to reduce the uninsured, numerically, is competition among all 50 states with one clear state "winner"—Alabama. The most practical, politically acceptable plan, with good impact, is one state "winner" in each regional market. As expected, states with the highest regulatory burden, such as New Jersey, Massachusetts, and West Virginia, will have the greatest consumer movement to a less regulated

state. Consumers from New Jersey, the most expensive state in the country for individual insurance, could purchase insurance from Texas for a cost of 55% less and from Alabama for 77% less.

A national market would lead to substantially more health care access, which should lead to health improvements among the vulnerable populations who currently find health insurance unaffordable. In addition, development of a national market requires no additional federal resources other than support for legislation to permit the development of such a change to the U.S. health insurance market.