

IN BRIEF: ACROSS STATE LINES EXPLAINED

Allowing insurers to sell insurance across state lines would not work as advertised. While it may help the young and healthy, it will have a devastating impact on the insurance market for everyone else (and none of us will be young and healthy forever). Premiums would rise for many people, benefits would be less generous, and more Americans would likely become uninsured over time. This policy approach fails to provide the incentives necessary to transition insurers to a 21st Century business model that prioritizes care coordination and high-value care over underwriting and marketing. Without substantial additional reforms, the proposal to sell health insurance across state lines will not work for many Americans.

Myth: Purchasing insurance across state lines will lead to substantially lower health care premiums for consumers because they will not have to buy insurance plans that include expensive benefit mandates.

Authors' Analysis: Selling health insurance across state lines would lead to higher premiums for Americans seeking comprehensive insurance policies. In addition, allowing the purchase of insurance across state lines would eliminate any guarantee that important benefits like maternity and emergency care will be included in insurance packages in the future. Consumers would get little in exchange – overwhelming evidence shows that benefit mandates per se are not why health insurance costs so much.

Myth: Allowing health insurance to be sold across state lines will make it easier for individuals to find health coverage because they will have access to more products.

Authors' Analysis: The purchase of insurance across state lines would make it harder and more expensive for many Americans to buy quality health coverage by leading to fewer guaranteed issue insurance policies and higher premiums for people with health conditions.

Myth: Allowing insurers to sell health insurance across state lines would let individuals purchase any insurance product from any state and increase competition among insurers. This would lower premiums.

Authors' Analysis: Many insurance products would not be sold to residents of every state under an across state lines proposal. And, it is unlikely that out-of-state insurance products would cost less. Furthermore, a proposal to sell across state lines could undermine the ability of integrated health systems and Blue Cross/Blue Shield plans to be competitive.

What is “Across State Lines?”

Proposals put forth by several Members of Congress and Republican presidential nominee Senator John McCain, include provisions that would allow Americans to buy and insurers to sell health insurance across state lines. Under these proposals, insurers could sell their products to Americans in any state. The insurer would have to follow the rules and regulations in the state where it is based or “domiciled” – not the rules of the state where the consumer or policyholder lives. Allowing the state laws chosen by the insurer, rather than the laws of the state where the consumer lives, to govern health insurance regulation is what makes this policy so controversial.

“In Brief” is a brief summary of the findings from: John M. Bertko, Len M. Nichols & Elizabeth Carpenter, “Across State Lines Explained: Why Selling Health Insurance Across State Lines is Not the Answer,” New America Foundation, October 2008.

Myth: Eliminating the tax preference for employer-provided health insurance while allowing Americans to purchase insurance across state lines will “level the playing field” between group and non-group insurance and substantially increase Americans’ access to coverage.

Authors’ Analysis: Eliminating the employer tax exclusion in conjunction with an across state lines proposal would lead to more uninsured or underinsured Americans over time. Fewer employers would offer coverage and millions of Americans would have to find coverage in the virtually unregulated individual insurance market. Individuals transitioning from the employer-sponsored system to the across state lines marketplace would face higher premiums based on their health history and insurance policies that lack many benefits regularly covered by employer-sponsored insurance.

Myth: Typical high risk pools will ensure that all Americans have access to affordable coverage.

Authors’ Analysis: High risk pools combined with the sale of insurance across state lines would force many Americans to pay very high premiums or forgo insurance. In addition, high risk pools would encourage insurers to raise premiums for people with health conditions or deny coverage. This kind of aggressive underwriting would leave millions of people in high risk pools at a high cost to the government (who would subsidize the policies) and the consumer (who would likely face higher than average premiums).

Myth: It is impossible to make an across state lines marketplace and high risk pools function in a way that makes insurance markets work for all Americans.

Authors’ Analysis: An across state lines proposal and high risk pools could function in a way that benefits all Americans, but only in the context of: 1) guaranteed issue and low-income premium subsidies or adequately funded high risk pools, and 2) federal licensure and regulatory oversight of insurers.

Notes

All of the information in this Brief comes from “Across State Lines Explained,” by John M. Bertko, Len M. Nichols, and Elizabeth Carpenter,* New America Foundation, October 2008.

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