**Small businesses and individuals should be able to purchase insurance across state lines. This would allow small businesses to form broader, interstate risk pools – an option already available to big businesses, labor unions, and governments. A nationwide market would augment competition among insurers, providers, and regulators. Regional markets would help to a lesser extent.**

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# Healthcare Solutions: Interstate Insurance Markets

**Risk-pool limits raise small business costs.**

## Current laws artificially restrict small business risk pools.

Limiting risk pools to individual businesses within the confines of a single state helps make insurance costs the single biggest problem for small business. These limits do not typically apply to big businesses, labor unions, or governments, most of which self-insure.

**Pooling limits put small business at a disadvantage.**

The stability of an insurance pool depends in part on its number of covered lives. With larger pools, the "Law of Large Numbers" makes overall costs of an insurance plan highly predictable. With smaller pools, costs vary more and, hence, businesses have less ability to predict their employees' healthcare costs.

**Fully-insured vs. self-insured is the key.**

To understand why current risk-pool limits hurt small business, it is important to understand the distinction between the fully-insured market and self-insured plans.

**Fully-insured employers hire outside insurers.**

In the fully-insured market, a business purchases a policy from an insurance carrier (e.g., Blue Cross, Aetna, Cigna). The employer pays a fixed premium and the insurer assumes the financial risk (after deductibles and co-pays are met). In general, if some employee suffers, say, a $15,000 illness, the insurer, not the employer, experiences a $15,000 financial loss.

**Fully-insured risk pools are limited.**

Most small businesses are fully-insured, as are buyers in the individual market. Fully-insured markets are regulated by state officials. Employers and individuals can only purchase insurance within their state of residence and are largely banned from joining together to form larger risk pools.

**A self-insured employer acts as its own insurer.**

With a self-insured plan, the employer is effectively its own insurance company. The employer sets aside a pool of funds and bears a substantial portion of the financial risk of employees' healthcare. If some employee suffers, say, a $15,000 illness, the employer loses $15,000. (Typically, a self-insured employer will also buy an additional stop-loss insurance plan to limit losses from any individual employee or from all employees in the aggregate. Read the 5/31/12 entry here to learn more.)

**ERISA gives self-insured plans artificial advantages.**

## Risk-pool limits disadvantage small business.

Most big businesses, labor unions, and governments are self-insured. Their health insurance plans are federally regulated under the Employee Retirement Income Security Act (ERISA). Self-insured plans are free to pool risks across state lines and are also exempt from almost all benefit mandates that small businesses must pay for.

**Pooling limits give insurers excessive leeway.**

The smaller pools and single-state limits also discourage competition among insurers in the fully-insured market. Some states have only one or two significant insurers. This lack of competition leads to higher costs and fewer choices for employers, employees, and individuals.

**Pooling limits give regulators excessive leeway.**

Overzealous regulation contributes to high health insurance costs. Some states require all fully-insured policies to cover extensive lists of benefits and provider types. Some estimate that these mandates add 30% to 50% to the cost of an insurance policy. Even the lowest-end estimates suggest a 5% layer of extra costs.

**Interstate markets would help small business.**

## Interstate markets would help level the playing field.

Allowing groups and individuals to purchase health insurance across state lines would help level the playing field between small business and big business. This would mean lower costs and a greater range of insurance options for small-business purchasers.

**Insurers and regulators would face out-of-state competitors.**

Interstate purchasing would inject an element of competition into those states with few competing health insurance carriers. Employers dissatisfied with in-state insurers would have out-of-state options. Perhaps more importantly, even the possibility of entry by out-of-state competitors would spur in-state insurers to better serve their markets. Interstate markets would also restrain states from piling on excessive regulatory burdens and costs.



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**Healthcare providers would have to seek greater efficiency.**

Most of the increase in healthcare costs comes from rising payments for healthcare services. Interstate competition would give insurers stronger motives to bargain aggressively with healthcare providers – to bring costs down and to improve quality.

**Nationwide purchasing would be ideal.**

Ideally, laws could allow groups and individuals to purchase insurance from sellers in any state – creating a national market for health insurance. Regulation could largely remain a state function, but a nationwide market would effectively create competition among those state regulators.

**Regional compacts would help somewhat.**

A less expansive option would be to create regional markets. This has always been a legal possibility under the Compact Clause of the U.S. Constitution, but this option was never exercised by states. Very recently, Georgia initiated a highly limited experiment in regional insurance purchases. The Patient Protection and Affordable Care Act (PPACA) reinforces the availability of regional compacts.

**Interstate markets are not a panacea.**

**Interstate markets should be part of a larger package of reforms.** Interstate purchasing can help to moderate costs and expand purchasers' choices, but the effects are likely to be moderate. Entering a state market is a major undertaking for an insurer. A new competitor has to develop networks of healthcare providers – not an easy task. The development of interstate markets would likely be a long, slow process, with border regions being the first to see effects. However, the threat of future competition would have beneficial effects.

**Interstate markets are not a "race to the bottom."**

Opponents of interstate purchasing warn of a "race to the bottom" – the notion that consumers would instinctively flock to states with cheap insurance and ominously lax regulations. There is little reason to buy this argument. Thousands of other products are sold across state lines, with no observable ill effects. Consumers care about quality as well price.

**Multiemployer plans offer a complementary way to broaden risk pools.**

**Multi-employer pools would complement interstate purchases.** Employers should also be allowed to voluntarily join with other employers to form larger risk pools and purchasing arrangements. Properly crafted, such legislation would enable groups of employers to band together to form larger, more stable risk pools. Combined with interstate purchasing, multi-employer pools would move small business toward a more level playing field with larger entities.