

Health Insurance Exchanges

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Health insurance costs are killing small business. Lawmakers and insurers have long relegated small-firm owners and employees to markets where costs are high, pools are small, and shopping is a pain. Insurance exchanges can be a market-based approach for alleviating these problems. To understand why, let's look at airlines and scalpers around 15 years ago.

Pre-Internet, booking flights meant calling multiple airlines, listening to Muzak, asking questions on fares and availability, and repeating the process when the initial itinerary didn't work. Alternatively, a booking agent might find you a less-than-ideal flight at a higher-than-ideal price. Today, go to Orbitz or Travelocity, compare options from multiple airlines, and book the flights. Little pain. Lower fares. Roughly speaking, a model for a health insurance exchange?

Another metaphor: In 1995, Phoenix worried about scalpers selling sports and concert tickets on the streets. They charged high prices, sold counterfeit tickets, menaced passers-by, and (I'll bet) falsely claimed, "These are the last tickets in town." If you wanted a scalper, it wasn't always easy to find one. They were scattered, so comparison shopping was impractical. Some cities banned scalpers, licensed them, limited their prices, or sent police to monitor them. Phoenix, in contrast, took a market approach, setting aside an empty lot near the arena, where scalpers could scalp with no licenses needed. Immediately, customers knew where to find second-hand tickets. Prices plunged. Counterfeit tickets and scuffles vanished. A small bit of government intervention (restricting sales to the parking lot) unleashed market forces and benefited consumers.

Today, small-businesses health insurance markets resemble 1980s airlines or 1990s scalping. The owner calls a broker, and he and his employees fill out lengthy forms. Going to other brokers for comparison means a lot more time and effort. Brokers don't necessarily mention cost-saving products like HSAs because customers may never hear of them from competitors. Shopping around is a paperwork nightmare, so sticking "with the devil you know" might not be cheaper, but requires less time and effort than getting alternative quotes. In recent years, NFIB has supported proposals to boost competition, among them Association Health Plans, Small Business Health Plans, and interstate purchasing options. The insurance lobby and lawmakers friendly to the industry did not support them, so good policy was trampled by bad politics.

Exchanges have the potential to give small-business what the Phoenix parking lot and Orbitz gave ticket-seekers -- markets where private insurers compete fiercely. It is important that exchanges be done right. California's exchange, [Pac Advantage](#), not only acted as a marketplace but also as a purchaser of insurance, a factor that contributed to its failure. (If the Phoenix City Council had bought and sold tickets in the parking lot, they probably would have either failed or wrecked the private market.) Massachusetts established its [Connector](#), whose large cost increases are due, in part, to the exchange's excessive regulatory powers. Utah is establishing an exchange that, at least initially, sounds more market-friendly than the California and Massachusetts exchanges.

All the major bills circulating in Congress include provisions to establish exchanges. It's important to learn from history and design exchanges that can encourage, rather than stifle, the market.