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Crossing the line

My favorite health reform article this month is "Let Health Insurance Cross State Lines, Some Say" (New York Times 2/13/2010). Indeed, erasing state lines could bring more competition into each state, but it won't bring fundamental change.

Opponents argue that consumers would lose the protection that state regulations give them. However, they would "gain" the protection of the state's regulations that govern the product they buy. So, for example, an individual in Massachusetts or Maine (high cost states) could buy a policy from Minnesota (a low cost state). That buyer now has Minnesota's protections, rather than Massachusetts's or Maine's.

The states with less-restrictive regulations could come to dominate the health insurance market nationally. A state like Alabama, which has only 21 mandated benefits, could host a lower cost plan than Maine, which has 52 mandated benefits or Massachusetts, which has 55. (See the Council for Affordable Health Insurance's "Health Insurance Mandates in the States 2009" for a terrific summary of benefit mandates.) Other kinds of state-level regulation also drive up costs: guaranteed issue is a prime example.

Even the most favorable regulations will only go so far. High cost states have their high costs for many reasons. A small population spread over a large area has different health cost issues than a densely populated state. No matter where the person's health insurance policy comes from, the fundamental health cost structure does not change.

Erasing state lines might bring a lot more competition, which in itself would tamp down profits in the health insurance market. But it won't ever make a high cost state into a low cost one.

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