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Should States Really Regulate Health Insurance?

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I write about the intersections of health and personal finance. **FULL BIO**

Health insurance companies must make money to stay viable. To make money, the insurance company sets premium rates according to risk. If the insurance company covers mostly healthy people, there is good chance money will be left over at the end of the day.

(Photo credit: Wikipedia)

Setting health insurance premiums is a complex science. Factors such as previous illness, occupation, gender, and where you live cause significant variation in how much you will use your insurance. If insurance companies had their ideal situation, they would cover only healthy, young male accountants and bankers. Fortunately, insurance companies are regulated by the states, so there are restrictions in what factors they can use in setting insurance rates. However, states vary widely in how well they protect their constituents in insurance matters.

It is good to remember that many state insurance regulators come from a previous life of being (drum roll here) – insurance industry executives. Or they work in regulation and may move to jobs in (another drum roll) – the insurance industry. This also happens on the federal level - a perfect example is Steve Larsen, the recent head of Center for Consumer Information and Insurance Oversight at CMS. He will be taking a job with for-profit United Health Care. Just as with FINRA's attempt at oversight of independent financial advisors, are state insurance regulators another example of the fox watching the hen house?

I come from the standpoint we are all good people, and most of us want to do positive things. Frequently, we are blinded by the culture of our environment. The majority of people I have worked with in the insurance industry are wonderful souls, but the insurance culture has significant health issues (pun intended.) This causes great people to do not so great things, and as a result consumers get the short end in the insurance market.

Could the fact that insurance regulators are significantly intertwined with the insurance industry explain the lack of protection for consumers in many states? Texas is a great example. Here is an example from the Texas Department of Insurance web site:

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"Insurance companies set their own premiums. TDI does not have the authority to regulate or approve health plan rates… In general, health plan rates are determined by…

- **Number of group plan participants.** Group plans are usually less expensive than individual plans. As group size increases, administrative costs per plan member decline. Also, smaller groups and individuals tend to buy health coverage based on participants' targeted needs, increasing the likelihood of claims. This type of custom tailoring is less likely as claims risk is distributed across a larger population.

- **Claims experience.** You can expect to pay more if you've filed claims in the past.

- **Age.** Older people can reasonably be expected to require more frequent, and more expensive, health care. Your premium will reflect your age or the ages of the members in your group plan.

- **Gender.** Young males typically incur lower medical costs than young females, particularly during childbearing years. This changes with age until medical costs for males begin to exceed those for females in the late 50s and early 60s. Plans with a large number of young females or older males generally have higher rates.

- **Geography.** Health costs vary by region due to differences in cost of living, medical practices, and the amount of medical competition in the area.

- **Industry.** If you are in an employer-sponsored plan, your rates may be affected by the nature of your profession. Industries with more dangerous jobs and a higher number of accidents will have higher medical claims costs than others. High employee turnover in some industries can also result in higher administrative costs for the insurance company."

This sort of "protection" is exactly why Texas has the highest rate of uninsured people in the country. This begs the question - Should insurance be regulated at a state or federal level? The Supreme Court is going to weigh in any day now. I don't know the answer. I do know that unhealthy people, women, the elderly, and those with dangerous jobs should think twice about moving to Texas. If state regulation rules, then I will encourage Kaiser Family Foundation to start a consumer friendly section of their web site that rates state insurance regulators. (By the way, a big shout out to KFF – they are one of the best resources on health care information you can find anywhere. Their statehealthfacts.org site can help you pick apart where your state ranks in health care. I am applying for a job there – kidding!)

The good news – if the Affordable Care Act stands, insurance prices will be based on just four things.

- **Premium rating area** – if you live in a high cost health area such as Boston, New York, or Miami, you will pay more for health insurance.

- **Number of people covered** – if there are three people in your family, your insurance will cost more than if only two people are covered. Duh.

- **Age** – older people will not pay more than three times what younger people pay.

- **Tobacco use** – tobacco users will pay up to 1.5 times the rate of non-tobacco users. This makes absolute sense. I wish they would have included obesity as a lifestyle factor, but that lobby was too large to get the law passed.

This simplification will help consumers, improve transparency in pricing, and allow us to move to Texas without fear. It really is a great state in many ways.

Questions, comments, suggestions? Post here, or reach me on Twitter @CarolynMcC or at Carolyn.mcclanahan@gmail.com.