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# Selling Health Insurance Across State Lines Won't Save Money

An idea that sounds easy is too complicated to work.

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Local charges may vary. *Photographer: Andrew Harrer/Bloomberg*

The effort to replace Obamacare faces increasing challenges, the more it is subjected to the harsh light of scrutiny. A good example is the proposal, apparently central to the Republican replacement plans, to allow people to buy health insurance across state lines.

This idea has been put forward as an elixir to all sorts of health sector problems. In his [joint address](https://www.whitehouse.gov/the-press-office/2017/02/28/remarks-president-trump-joint-address-congress) [to Congress,](https://www.whitehouse.gov/the-press-office/2017/02/28/remarks-president-trump-joint-address-congress)

President Donald Trump argued that allowing people to buy health insurance in other states would “create a truly competitive national marketplace that will bring costs way down and provide far better care. So important.”

The American Academy of Actuaries is less optimistic <http://www.actuary.org/content/selling-insurance-across-state-lines-0>: “The ability to lower premiums by allowing cross-state sales of insurance is limited,” the organization says, “because a key driver of health insurance premiums is local costs of health care.” When the idea was floated last year at an industry conference, the “audience literally laughed,” one health care consultant noted. <http://healthpolicyandmarket.blogspot.com/2017/03/the-cockroach-proposalselling-insurance.html>

Why do careful students of health care view cross-state sales of insurance skeptically?

One reason is that it is already allowed -- and yet basically doesn't happen. States possess [http://www.rwjf.org/content/dam/farm/reports/issue\\_briefs/2012/rwjf401409](http://www.rwjf.org/content/dam/farm/reports/issue_briefs/2012/rwjf401409) the authority to sanction sales across their borders, and to define the conditions for such sales. In addition to this generic state authority, Section 1333 <http://www.ncsl.org/research/health/out-of-state-health-insurance-purchases.aspx> of Obamacare authorizes “health care choice compacts” across states. As of last month, five states <http://nashp.org/wp-content/uploads/2017/02/Insurance-Across-State-Lines.pdf> had passed legislation allowing insurance plans that cross state lines: Rhode Island, Wyoming, Georgia, Kentucky and Maine. Georgia's law has been in effect since 2011 <http://money.cnn.com/2016/12/13/news/economy/georgia-state-insurance-gop/>, yet no insurer has yet offered an out-of-state policy there -- or in any of the other four states. If this is the key to bringing costs down, why doesn't anyone want to do it?

Proponents of cross-state sales argue that the Obamacare provision is too limited, and that other authorities aren't broad enough for the idea to succeed.

As things stand, the federal government does not force state A to allow sales of insurance products from an insurer in state B, even if the consumer protection laws and health insurance regulations in state B are much different. State regulations govern items as varied as the generosity of coverage to appeal processes for denied services. A federal law that forced state A to accept state B's less restrictive regulations could engender a race to the bottom in such standards across states, and also create an adverse selection problem for insurers in state A -- which presumably would still have to meet A's regulations, and therefore would attract mainly the less healthy beneficiaries in that state.

If an insurer from state B would instead have to meet state A's regulations, then it's not clear what the federal law would accomplish.

The bigger challenge for this idea, though, is that almost all health care is delivered locally. To succeed, insurance companies need a significant toe-hold with hospitals and other providers in their local market; an out-of-state insurer would lack that and thus struggle in its negotiations to form a delivery network. This is why many new entrants to the health insurance market haven't succeeded.

As the American Academy of Actuaries emphasizes <http://www.actuary.org/content/selling-insurance-across-state-lines-0>, “For insurers to sell across state lines, they must develop provider networks by establishing reimbursement agreements with hospitals and physicians, or by purchasing access to an existing network. Any cost savings resulting from differences in benefit coverage requirements among states can be small compared to cost savings that can be accomplished through negotiating strong provider contracts.”

That view is not limited to actuaries. A scholar at the [Institute for Policy Innovation](http://www.ipi.org/) <http://www.ipi.org/>, which is devoted to promoting free markets and limited government, agreed [https://www.nytimes.com/2015/09/01/upshot/the-problem-with-gop-plans-to-sell-health-insurance-across-state-lines.html?\\_r=2](https://www.nytimes.com/2015/09/01/upshot/the-problem-with-gop-plans-to-sell-health-insurance-across-state-lines.html?_r=2) that “it is a big problem”: “Just because a good affordable policy is available in another state doesn't mean that I would be able to get the network of physicians and the good prices that are available in that other state.”

For similar reasons, a senior research fellow at the conservative Heritage Foundation has [argued](http://www.businessinsider.com/donald-trump-health-insurance-across-state-lines-2016-12?amp;utm_medium=referral) [http://www.businessinsider.com/donald-trump-health-insurance-across-state-lines-2016-12?amp;utm\\_medium=referral](http://www.businessinsider.com/donald-trump-health-insurance-across-state-lines-2016-12?amp;utm_medium=referral) that “No one should be under the illusion you can dramatically lower the cost of insurance in Los Angeles if you buy an Arkansas policy.”

And therein is the core problem for the effort to replace Obamacare. Campaigns succeed by generating easy-to-understand solutions to problems, but there are no easy answers on improving health care quality and reducing its cost.

*This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners.*

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