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Why is Obamacare so expensive? How lawmakers could help lower Arizona premiums

Obamacare premiums are up, big time, because onerous regulation is removing competition. Arizona lawmakers can fix this.

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Obamacare's open enrollment period is underway.

Once again, Arizonans are facing another jump in Obamacare premiums (average: 4.3%). This year's increase means that, since 2016, Obamacare premiums have risen a cumulative 279%.

A new federal study highlights one likely cause: Arizona's health insurance markets are becoming less competitive. State lawmakers can turn the situation around by freeing consumers and employers to buy better, more affordable health plans from Puerto Rico and other U.S. territories.

Fewer Obamacare choices leads to higher prices

Health insurance obeys the same economic laws as other products: barriers to entry lead to insufficient competition, fewer choices and higher prices.

"Insurance premiums … respond strongly to competition, and markets with more insurers have substantially lower premiums," economist Martin Gaynor wrote in 2020. Gaynor cited economic studies showing that eliminating an insurer for an employer to choose from can lead to premium increases of up to 16.6%.

Since Obamacare's burdensome regulations began imposing barriers to entry, insurance choices have been disappearing.

In 2011, the median state had 30 insurers participating in the individual market, where consumers purchase health insurance themselves. That is, half of states had more than 30 insurers in this market.

By 2020, the median state had only 10 insurers in the individual market. The median number of participating insurers likewise fell for small employers (from 13 insurers to five) and large employers (from 12 insurers to eight).

Fewer insurers are available in Arizona

A similar drop in competition is unfolding in Arizona. In the individual market, the number of insurers decreased from 30 to 12 between 2011 and 2020.

The Obamacare exchange accounts for 73% of Arizona's individual market. The number of insurers participating in the exchange has fallen to just eight.

Even that low figure overstates the actual number of choices available to Obamacare enrollees. In 2020, there were 11 insurers in Arizona's individual market. But since participating insurers rarely do business in all parts of a state, Obamacare enrollees had an average of just 3.8 insurers from which to choose.

Regulation also reduces enrollees' choices of health care providers. Obamacare's regulations punish health plans that offer a broad choice of doctors and hospitals. When those regulations took effect in 2014, broad provider networks began to vanish. Only one Arizona insurer currently offers a broad-network option in the exchange.

Arizona employers are also seeing choices disappear. From 2011 to 2020, the number of insurers offering coverage to small employers fell from 14 to six. The number offering coverage to large employers fell from 13 to eight.

The problem stems from regulation

This isn't the result of market competition or market failure. It is the result of government regulation.

Layer upon layer of state and federal regulation create compliance costs that block entry by new insurers and drive small insurers out of business. The U.S. tax code inhibits entry and competition in the individual market by penalizing workers unless they enroll in employer-sponsored coverage.

Some government regulations seem as if their *purpose* is to reduce competition. Arizona, like the other 49 states, outright prohibits residents from purchasing perfectly acceptable health insurance plans available in other states and U.S. territories. A license from another state is not good enough.

Arizona lawmakers can amend the state constitution to increase competition and make better, more affordable, more secure health plans available to consumers and employers by ending the state's ban on health plans from Puerto Rico and other U.S. territories.

Lift the purchasing ban, lower premiums

Obamacare's costliest regulations do not apply in the territories. Lifting the ban would therefore free Arizonans to purchase portable, long-term coverage with broader provider networks than Obamacare plans and at premiums that are as much as 70% less.

Individual consumers and employers could purchase plans from established insurers – like Aetna, UnitedHealthcare, Humana and BlueCross BlueShield, which already do business in at least one territory and have provider networks in Arizona – or others that receive regulatory approval from territories.

Giving Arizonans this freedom would result in better consumer protections. Arizonans could select the consumer protections they prefer by choosing either an Obamacare plan or a plan with fewer unwanted regulatory costs. Arizona lawmakers could allow residents to enforce those consumer protections in Arizona courts by requiring carriers to incorporate the territories' consumer protections in the terms of the insurance contracts.

Arizona lawmakers have a choice. They can let the dwindling number of domestic insurers continue to squeeze Grand Canyon State residents. Or they can free Arizona consumers and employers to purchase better, more affordable and more secure health insurance options.

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