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Not All Insurers Game for State Exchanges: The Consumer Impact

By: Kate Rogers – July 11, 2013

As more insurers decide to pack up and leave certain states as health exchanges start to take form, experts say consumers are going to be left feeling the pain.

Over the last few weeks, several departure announcements have sent a ripple through the health insurance industry, as companies weigh whether or not they want to play ball under Obamacare. So far, California has experienced the biggest migration with Aetna (AET), UnitedHealthcare (UNH) and Cigna (CI) leaving the state's exchange, Covered California.

Aetna also reportedly sent out a note to select customers last week, warning that the Patient Protection and Affordable Care Act is "changing health insurance." Recipients were customers across the country with non-grandfathered health plans, meaning their plan was not in effect on March 23, 2010 and wouldn't carry over under new state and federal exchange regulations under ACA.

"This includes adding preventative care and essential health benefits. The ACA also ends medical underwriting. Due to these and other changes, many people will pay more for their health insurance coverage in 2014 than they do today," the letter stated according to The Weekly Standard.

Aetna did not respond to a call or email seeking confirmation by FOXBusiness.com. Wellmark Blue Cross/Blue Shield also decided not to list on the individual exchange in Iowa for 2014, due to a lack of information available in the state, according to a spokesperson for the Iowa Insurance Division.

Fifteen states and the District of Colombia are in the process of creating their insurance exchanges before the 2014 deadline; when individuals must purchase insurance or face a fine for failing for comply with the individual mandate. The employer mandate has been pushed back to 2015, and some in the GOP including House Majority Leader Eric Cantor, (R-VA), are calling for the individual mandate to be rolled back as well.

More or Less Competition for Consumers?

Some experts say the recent departures hint consumers will have limited health-insurance choices thanks to the regulatory burdens of the law. Basic supply and demand dictates that with fewer insurers to choose from, consumers will have limited options and potentially higher prices, says Michael Cannon, director of Health Policy Studies at the CATO Institute.

A similar “exodus” occurred within the first six months of the implementation of the Affordable Care Act, Cannon says, when child-only care was enacted. Seventeen major insurers dropped child-only coverage, in an attempt to skirt the law’s new regulations and increased costs. The same may begin to take shape in the individual market.

“The program says you can’t charge higher premiums to the sick, so you have a situation where only low-risk consumers would be charged a premium much higher than their regular costs, so only people who buy it would be those who really needed it,” he says.

The employer mandate rollback is also a factor in the situation, says Grace-Marie Turner, founder of the Galen Institute, a health and tax policy research organization, as employers will now be incentivized to drop coverage and push their employees into the exchanges until 2015.

“It’s using employers to push more people into the exchanges,” Turner says.

Fewer insurers in state exchanges mean less competition, bottom line, she adds. “The whole point is we want more players, and more competition.”

Why California Matters

What happens in California is a big deal for the future of the Affordable Care Act, says Taylor Burke, associate professor and program director, MPH in Health Policy, at George Washington University.

“It’s an exit out the individual market, but [the insurers] only represent 8% of the individual market companies in the state,” Burke says. “California has the 7th largest economy on the globe, so whatever happens in California is a big deal for the stand up of the state exchanges.”

He points to two main reasons insurers leave a state: they don’t like the price points being offered in the exchanges nor the coverage they would have to offer under Obamacare’s 10 essential health benefits.

“In California, you can make the argument that there would be less choice, but if they stay in the market, their prices would be off the charts,” he says. “It would be a thing on the shelf, a high-ticket item that you couldn’t afford anyway.”

And if insurers take too long to make the decision, that may impact them negatively as well, he says.

“No one will want to buy their product. There’s a lot of hemming and hawing, but if the price point is too high, no one will buy it.”

But can consumers blame the insurer for higher prices? Turner says no, it’s the nature of the law’s regulations.

“Insurers can’t help the demands on the benefits they will have to cover—it will absolutely be more expensive,” she says. “It’s like going to buy a car with every accessory in the books—heated seats, fancy wheels, satellite radio, and saying you can't charge more for it."

What Insurers are Deciding

Robert Zirkenbach, spokesman for America's Health Insurance Plans (AHIP), says each individual company will have to make their own decisions about which states to participate in as exchange bids come in.

"It will be based on a variety of reasons, but plans are offering coverage on the exchange, some will be outside the exchange—there will be options for consumers," Zirkenbach says. "It will depend on the state and regulatory environment."

He says the AHIP wants competition among insurers to keep consumer prices in check. "Choice and competition is a good thing—when states have been setting up their exchanges, we are trying to encourage this," he says.

The National Association of Insurance Commissioners says insurers who are leaving these markets are likely doing so because they have core businesses in other segments, including the large group market.

"The carriers we have seen exiting the individual market are not major players in that market segment, and therefore we don't anticipate a major disruption of coverage for a large portion of the market," a spokesperson said in an email statement. "Each insurance company is making decisions regarding its participation in exchanges based upon a number of factors. Some are opting to participate in the exchanges, while others are not; however, nearly all of the requirements that apply to policies sold on the exchange also apply to policies sold outside the exchange, so insurers will not be avoiding a lot of requirements by opting out of the exchanges."