North Dakota
INSURANCE
DEPARTMENT
PROTECTING THE PUBLIC GOOD
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Interstate Health Insurance Sales: Myth vs. Reality

Some have suggested that allowing interstate sales of health insurance policies will make coverage more affordable and available. In reality, interstate sales of insurance will allow insurers to choose their regulator, the very dynamic that led to the financial collapse that has left millions of Americans without jobs. It would also make insurance less available, greatly increase out of network charges which results in a practice known as "surprise billing," make insurers less accountable and prevent regulators from assisting consumers in their states.

If a North Dakotan purchased a health insurance policy issued in New York or Florida and later had issues with the policy, that North Dakotan would not be able to obtain assistance from the North Dakota Insurance Department as North Dakota does not have regulatory authority over such plans. Instead, that North Dakotan would have to contact New York or Florida to obtain assistance.

The inability for the North Dakota Insurance Department to assist a consumer on a health insurance policy issued in another state becomes particularly important considering the practice known as "surprise billing" will greatly increase if health insurance plans are commonly sold across state lines. Out of state insurance companies will likely not have network contracts with North Dakota health care providers. This is important because the network contracts dictate the payments that must be made to the health care provider on behalf of the consumer by the insurance company. If no agreement between the health care provider and insurance company exists, the insurance company will bill the consumer for out-of-network charges (i.e., "surprise billing"), which are often substantially higher than in-network charges. In contrast, North Dakota health insurance companies have provider agreements with essentially all of the health care providers in North Dakota.

The North Dakota Insurance Department also would not have authority over the provisions used in the health insurance policy or the rates charged for the policy. This is particularly important because the North Dakota Insurance Commissioner has prior approval authority whereas most other states do not have this authority.

MYTH: ***Allowing individuals to purchase insurance across state lines will give them access to coverage at lower premiums.***
REALITY: <u>Interstate sales will start a "race to the bottom" by allowing companies to choose their regulator.</u>

- Allowing banks to choose their own regulator was a major cause of the recent financial crisis.
- Insurers will seek the regulations that allow them to most aggressively select the healthiest risk.
- While those individuals in pristine health may be able to find cheaper policies, everyone else would face steep premium hikes if they can find coverage at all.
- Interstate sales would create a "race to the bottom" by allowing an insurance company to choose a single state in which to license its individual health insurance product and then sell it in any other state. Under such a system, insurers would be greatly rewarded for licensing their individual products in states with less regulation and fewer personnel to oversee what could be a large influx of new products.

MYTH: ***Mandated benefits are the reason insurance is more expensive in some states than others, and interstate sales would lower premiums by allowing people to forgo benefits they don't want.***
REALITY: **This isn't about the mandates. Mandated benefits add, at most, 5% to the cost of a policy.**

- Interstate sales would allow some insurers to cherry-pick the best customers by avoiding consumer protections that require them to cover individuals with preexisting conditions and limit their ability to charge higher prices for older, sicker customers.
- In states with robust consumer protections, insurers could reap huge profits by skirting these rules.

MYTH: ***Interstate sales will simply provide people with more options. People who don't want interstate policies can keep the coverage they currently have.***
REALITY: **Interstate sales would actually reduce the options available to consumers.**

- Out-of-state insurers would be able to lure healthy enrollees away from existing risk pools, which would become progressively sicker and more expensive until they ultimately fail.
- Insurers that currently comply with state consumer protections would be forced by out-of-state competitors to evade them as well.
- Mandating insurance companies to sell across state lines would disrupt the fragile individual health insurance market, as properly licensed insurance companies would be forced to compete on an unlevel playing field. Small and regional insurers would be disadvantaged by large national companies entering states with inferior products and unregulated rates.
- Insurance policies would cover less and less, as insurers try to design polices that discourage the sickest customers from applying.
- Mandating companies to sell across state lines would undermine important state consumer protections, such as: limits on preexisting condition exclusions, which allow people in need of ongoing care (such as diabetes or heart disease) to switch insurance; limits on rate increase and rate disparity; reinsurance mechanisms that make insurance more affordable; and access to specialist and emergency care.

MYTH: ***Policies sold across state lines would be governed "cooperatively" by the states with no loss of consumer protection.***
REALITY: **Mandating insurance to be sold across state lines would eliminate the ability of insurance regulators to assist consumers.**

- Interstate policies would for the first time allow insurers unlicensed in the purchaser's state to sell health insurance, which would otherwise be a criminal offense.
- Licensure is the key that allows state regulators to take action to protect consumers.
- Interstate policies would undercut the authority of your Governor, State Legislators and Insurance Commissioner.
- Mandating companies to sell across state lines would restrict the ability of your Insurance Commissioner to assist their own constituents, leaving consumers to seek assistance from a distant state. In the world of tight state budgets, it will be virtually impossible to assist a nonresident consumer in another state.

Conclusion:
States continue to experiment with other strategies for making health insurance more affordable for individuals, including: high-risk pools, reinsurance, tax credits, subsidies, basic health plans, and programs to promote healthier lifestyles and manage diseases.

As always, states are the laboratories for innovative ideas. It is critical that the federal government and the states work closely with healthcare providers, insurers and consumers to implement true reforms that will curb spending and make insurance more affordable.