FOCUS on Health Reform

THE HENRY J. KAISER FAMILY FOUNDATION

OCTOBER 2011

How Competitive are State Insurance Markets?

The Affordable Care Act (ACA) requires private insurers to deliver coverage to individuals and small businesses in more open and transparent insurance markets. Beginning in 2014, insurers will offer products with more comparable benefits and cost-sharing, and they will be required to provide coverage to anyone regardless of pre-existing health conditions, allowing consumers to more easily shop around for coverage. In addition, new health insurance exchanges will facilitate insurance purchasing, with the hope that enhanced competition among insurers will help to moderate premiums for individuals and small groups, as well as for the federal government, which will subsidize the cost of coverage for low- and moderate-income individuals buying through the exchanges.

States must make many important policy decisions as they implement new insurance market rules and decide whether and how to operate exchanges. A number of these decisions may be influenced by how competitive a state's insurance market is perceived to be, and the policy judgments states make can in turn affect how insurance markets operate and the cost of coverage. For example, states establishing exchanges must decide whether their exchanges should be active purchasers (i.e., able to exclude plans that provide lower value to consumers) or be more passive, accepting all qualified plans. States will be faced with a variety of competing considerations. On the one hand, states with fewer insurers and less competition may lean towards a more active purchaser approach, using the purchasing power of an exchange to counteract the market power of one or a few large insurers. On the other hand, in a state with just one dominant insurer, it could be difficult for an exchange – both economically and politically – to threaten excluding that insurer from participating in the exchange.

State decisions regarding review of insurer rate increases also may be influenced by the degree of insurance market competition. Beginning September 1, 2011, states are required to review proposed premium increases by insurers and determine whether they are justified.[1] In states that do not have effective rate review mechanisms, the federal government will perform the reviews. Some states go further, giving the government the authority to disapprove unjustified rate increases in advance. States faced with uncompetitive markets may want more authority to establish a "prior approval" rate review process, while in states where markets are less concentrated, policymakers may be more comfortable with a less regulatory approach. Some states may also consider creating publicly-sponsored health plans to compete with private insurers and take steps to control underlying health care costs. The idea of a "public option" insurance plan was a particularly contentious issue during the congressional debate over the ACA, and federal lawmakers ultimately rejected an approach that would have required the presence of a public plan.

Since the cost of health care is the primary driver of health insurance premium increases over time, any effort to address health insurance expenses should also consider the competitiveness

[1] For background on rate review, see: "Rate Review: Spotlight on State Efforts to Make Health Insurance More Affordable." Kaiser Family Foundation, Dec. 2010. http://www.kff.org/healthreform/upload/8122.pdf.

of provider markets (though it is beyond the scope of this analysis). While a dominant insurer in a state may face little competition and may be able to command higher premiums and profits, it may also be in a better position to negotiate lower rates with doctors and hospitals.

This brief assesses the competitiveness of state health insurance markets for individuals and small businesses to provide context for the policy decisions states will be considering, and also to establish a baseline as implementation of the ACA proceeds.

Measuring Insurance Market Competition

Insurance market competition can be measured in a variety of ways, illustrating different dimensions of how the market functions. One simple and intuitive measure is the percentage of the market (i.e., measured in terms of the number of people enrolled) represented by the largest insurer in the state. If a large portion of the market is controlled by one insurer, that carrier may be able to exert significant influence over the premiums charged in the market and the rates paid to health care providers. Moreover, a state exchange may have limited ability to selectively contract if a single insurer cannot practically be excluded from the exchange without substantial disruption.

Another way to assess the degree of competition is to look at the number of insurance carriers that each make up a threshold portion of the market, quantifying the extent of choice available to consumers among plans with material enrollment. We measure this by looking at the number of plans with a market share of at least 5%. While there are substantial barriers to entry in the insurance market – including the ability to form provider networks and achieve brand awareness among consumers – these plans potentially control sufficient market share to grow in the future.

One common measure of competition is the Herfindahl–Hirschman Index, or HHI.[2] The HHI measures how evenly market share is spread across a large number of insurers. HHI values range from 0 to 10,000, with a value closer to zero indicating a more competitive market and values closer to 10,000 indicating a less competitive market. As a rule of thumb, an HHI index below 1,000 indicates a highly competitive market, and a value between 1,000 and 1,500 indicates an unconcentrated market. Values between 1,500 and 2,500 suggest moderate concentration, and markets with results above 2,500 are generally considered highly concentrated.

We used each of these measures of competition to examine how state insurance marketplaces vary across the U.S. Using data from insurer filings to the National Association of Insurance Commissioners (NAIC) and the California Department of Managed Health Care (CA DMHC) – compiled by Mark Farrah Associates – we analyzed the state-by-state differences in

[2] The HHI is calculated as the sum of squares of market share of the 50 largest companies. For example, if a state had five insurance carriers, and one carrier has 60% market share while the others each have 10%, the HHI would be 4,000 (because $60^2 + 10^2 + 10^2 + 10^2 + 10^2 = 4,000$).

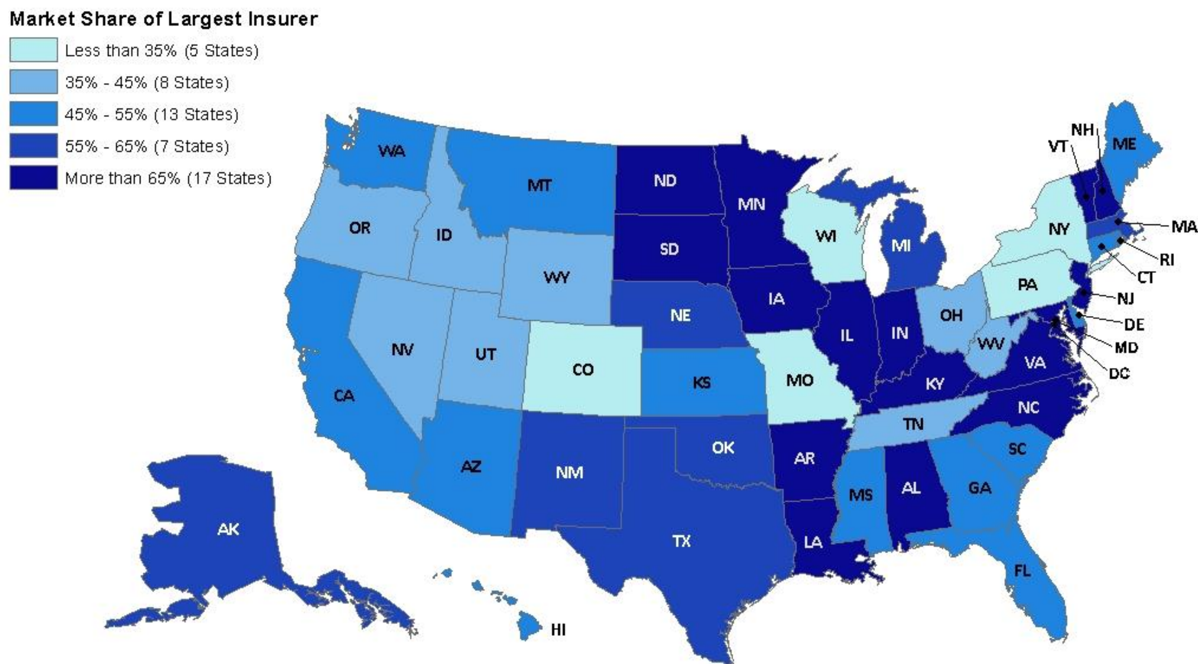
competitiveness of both the individual and small group markets. (See the appendix for additional methodological detail.)

Individual Market

The individual (non-group) insurance market – including coverage purchased inside and outside of exchanges – will play a key role in the implementation of the ACA. The Congressional Budget Office estimates that 22 million people will buy individual coverage through the exchanges by 2016 as a result of the ACA, including 18 million who will receive federal premium subsidies.[3]

The current market for individual insurance is highly concentrated in many states. The majority of states (30, plus the District of Columbia) had individual insurance markets with at least half of the market dominated by a single insurance company in 2010. The median market share held by the largest insurance carrier in each state was 54% (meaning that in half the states the largest plan had a market share greater than 54% and half had a market share lower).

Figure 1: Market Share of Largest Insurance Carrier in the Individual Insurance Market, 2010



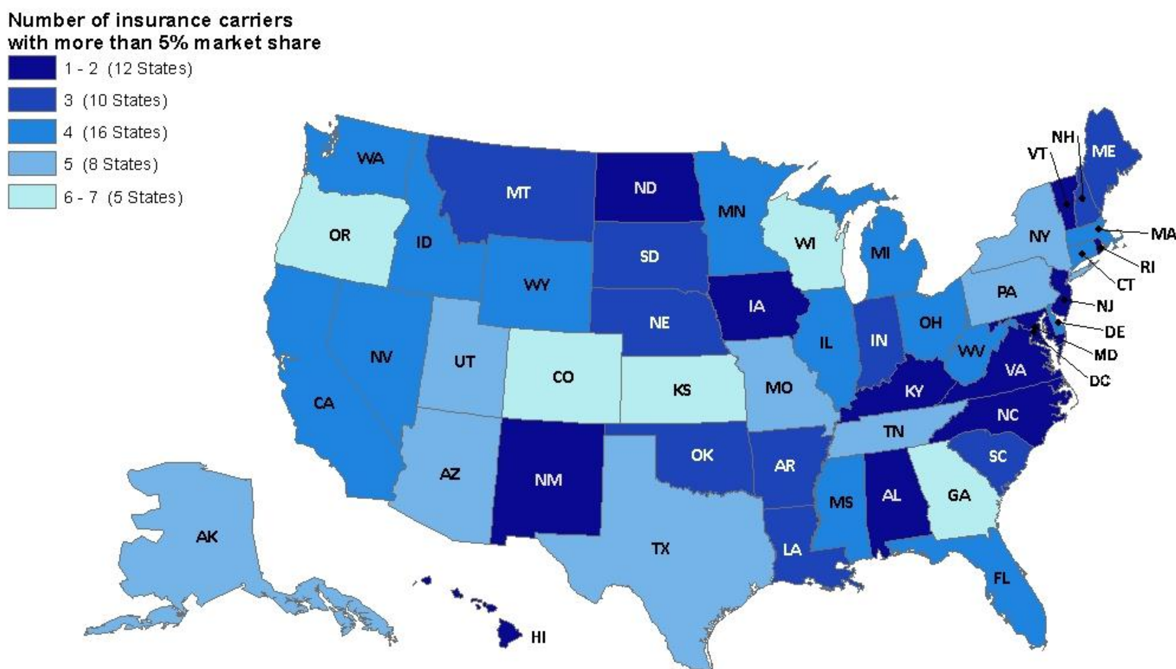
Source: Kaiser Family Foundation analysis of 2010 insurer filings to the National Association of Insurance Commissioners and the California Department of Managed Health Care using the Mark Farrah Associates Health Coverage Portal TM. Market share was calculated as the percent of the state's individual insurance market enrollment accounted for by each parent company (measured in member months).

[3] *CBO's March 2011 Baseline: Health Insurance Exchanges*. Congressional Budget Office, Mar. 2011. http://www.cbo.gov/budget/factsheets/2011b/HealthInsuranceExchanges.pdf.

The map in Figure 1 shows the market share of the largest insurer in each state. By this measure, states in the West generally have more competitive markets while more rural states in the upper Midwest and parts of the South and Mid-Atlantic are less competitive, although there are numerous exceptions to this pattern. States where the largest insurer is least dominant include Wisconsin, Colorado, Missouri, Pennsylvania, and New York. The largest insurers in these states' individual markets accounted for 21% to 34% of total enrollment. At the other end of the spectrum, the largest insurer in Alabama and Indiana represented 86% and 84% of each state's individual market enrollment, respectively.

The HHI paints a similar picture, and HHI levels are highly correlated to the market share of the largest plan. Only one state (Wisconsin) had an HHI index less than 1,500, indicating an unconcentrated (or competitive) market. The HHI in 45 states exceeded 2,500, indicating very little competition in those states. The median HHI in the individual market was 3,761.

Figure 2: Insurance Carriers with Greater than 5% Market Share in the Individual Insurance Market, 2010



Source: Kaiser Family Foundation analysis of 2010 insurer filings to the National Association of Insurance Commissioners and the California Department of Managed Health Care using the Mark Farrah Associates Health Coverage Portal TM. Market share was calculated as the percent of the state's individual insurance market enrollment accounted for by each parent company (measured in member months).

Figure 2 shows the competitiveness of each state's individual insurance market as measured by the number of insurance carriers with at least 5% market share, with the ranking among states similar to the other measures. Colorado, Georgia, and Oregon each had 7 insurers with at least 5% market share in 2010. In North Carolina, only one insurer had a market share greater than

5%, and in 11 states, just two insurers exceeded the 5% threshold. A few states with a single dominant insurer also had a number of carriers with at least 5% market share, indicating at least the potential for greater competition in the future. For example, the largest carriers control a substantial share of the market in Maryland (72%) and Texas (56%), yet there are five insurers with a market share of at least 5% in each state.

Table 1 in the appendix of this brief show all three measures for the individual market in each state, and interactive tables are available at www.statehealthfacts.org.

Small Group Market

The small group market is generally characterized by a similar level of competition as the individual market (see table 1 in the appendix for full results):

- The median market share held by the largest insurer in each state was 51% (compared to 54% in the individual market). The market share of the largest plan ranged from less than 30% in Oregon, Pennsylvania, and Arizona to 80% or more in Mississippi, North Dakota, Louisiana, and Alabama. Twenty-six states and the District of Columbia had small group insurance markets with a single insurer accounting for more than half of the market.

- The median HHI for the small group market was 3595 (compared to 0.38 for the individual market), with rankings closely mirroring the market share of the largest plan. The HHI in 39 states exceeded 2,500, an indicator of little competition.

- As was the case in the individual market, the median number of plans with a market share of greater than 5% was four.

In general, the level of competition in a state is similar in the individual and small group markets, with a few exceptions. For example, the largest insurer in Vermont's individual market controlled 75% of the market, while the state's largest insurer for small groups only controlled 38% of that market. In Virginia the largest plan similarly had a market share of 74% for individuals, compared to 47% for small groups. The opposite was the case in Tennessee, where the largest plan in the individual market had a market share of 36% vs. 70% for small groups. This suggests some potential for changes over time in these states as insurance becomes more accessible in both of these markets, and exchanges make choices more transparent for individuals and small businesses.

Implications

This analysis suggests substantial variation in insurance market competition from state to state, in both the individual and small group markets. Possible explanations include differences in population density, as well variation in state regulatory standards. For example, Blue Cross Blue Shield plans have historically operated under different rules from other insurers in some

cases. While substantial variation exists, however, the current insurance markets in many states are highly concentrated with only modest competition.

As state policymakers consider their options as implementation of the ACA proceeds, they may want to examine the level of competitiveness in their insurance markets as a factor in the choices they make with respect to insurance market rules, exchanges, and rate review.

Changes to the insurance market under the ACA may serve both to diminish and enhance competition. There have been some reports of insurers dropping out of the market, citing concerns over meeting the new standards in the ACA. Principal Financial, for example, made headlines in October 2010 when it announced that it would be exiting the health insurance market.[4] More recently, Wellmark, Iowa's dominant health insurance carrier, publicly expressed reluctance to participate in the exchange due to uncertainties over regulatory requirements.[5]

At the same time, the ACA includes many new regulatory standards for private insurers – such as requirements that insurers offer standardized benefit packages and rules preventing insurers from denying coverage to people with pre-existing conditions or imposing lifetime caps on coverage. These new rules, as well as the creation of state-based exchanges, should make it easier for consumers and small businesses to compare plans and switch from one insurer to another, potentially enhancing competition. The ACA also includes a requirement that the U.S. Office of Personnel Management facilitate the creation of at least two multi-state plans (including one non-profit plan), and the resources to foster the development of non-profit "CO-OP" plans governed by their members. These new insurance options could expand the choices available to consumers.

How markets change will ultimately depend on a confluence of factors, including decisions by state policymakers, local geography, and business decisions by insurers. And the effect on health insurance premiums will likely depend not only on the structure of insurance markets and decisions states make regarding exchanges and rate review, but also on the underlying cost of health care and the degree of competition among health care providers.

This brief was prepared by Cynthia Cox and Larry Levitt of the Kaiser Family Foundation as part of the Kaiser Initiative on Health Reform and Private Insurance, which examines the implications of changes in the private insurance market under the ACA and informs federal and state policymakers as they implement provisions of the law.

---

[4] "Insurer Cuts Health Plans as New Law Takes Hold." New York Times, 30 Sept. 2010. http://www.nytimes.com/2010/10/01/health/policy/01insure.html?scp=1&sq=Principle Financial&st=cse.

[5] "Wellmark Undecided on Insurance Exchange." *Des Moines Register*. 31 Aug. 2011. http://www.desmoinesregister.com/article/20110831/NEWS/308310048/Wellmark-undecided-on-insurance-exchange?odyssey=tab|topnews|text|News.

Table 1: Individual Insurance Market Competition 2010

State	Number of Insurers with more than 5% Market Share	Market Share of Largest Insurer (based on enrollment)	Herfindahl-Hirschman Index (HHI)
Alabama	2	86%	7426
Alaska	5	59%	3770
Arizona	5	49%	2958
Arkansas	3	77%	5954
California	4	48%	3025
Colorado	7	31%	1552
Connecticut	4	52%	3375
Delaware	4	50%	3293
District of Columbia	4	73%	5570
Florida	4	49%	2821
Georgia	7	47%	2597
Hawaii	2	52%	4914
Idaho	4	38%	2827
Illinois	4	66%	4483
Indiana	3	65%	4480
Iowa	2	84%	7045
Kansas	6	46%	2695
Kentucky	2	83%	6968
Louisiana	3	73%	5463
Maine	3	49%	3812
Maryland	2	72%	5366
Massachusetts	4	57%	3872
Michigan	4	59%	3761
Minnesota	4	67%	4788
Mississippi	4	54%	3299
Missouri	5	32%	1824
Montana	3	51%	3459
Nebraska	3	64%	4458
Nevada	4	39%	2928
New Hampshire	3	67%	4865
New Jersey	2	73%	5717
New Mexico	2	59%	4379
New York	5	34%	2049
North Carolina	1	81%	6548
North Dakota	2	81%	6682
Ohio	4	43%	2519
Oklahoma	3	59%	3784
Oregon	7	39%	2076
Pennsylvania	5	32%	1949
Rhode Island	2	52%	4972
South Carolina	3	54%	3296
South Dakota	3	75%	5779
Tennessee	5	36%	2506
Texas	5	56%	3337
Utah	5	44%	2751
Vermont	2	75%	6165
Virginia	2	74%	5636
Washington	4	45%	3205
West Virginia	4	41%	2538
Wisconsin	6	21%	1434
Wyoming	4	42%	2454
	Median: 4	Median: 54%	Median: 3761

Source: Kaiser Family Foundation analysis of 2010 insurer filings to the National Association of Insurance Commissioners and the California Department of Managed Health Care using the Mark Farrah Associates Health Coverage Portal TM.

Table 2: Small Group Insurance Market Competition 2010			
State	Number of Insurers with more than 5% Market Share	Market Share of Largest Insurer (based on enrollment)	Herfindahl-Hirschman Index (HHI)
Alabama	1	96%	9175
Alaska	4	71%	5301
Arizona	5	26%	1971
Arkansas	3	51%	3518
California	N/A	N/A	N/A
Colorado	5	32%	2209
Connecticut	5	31%	2429
Delaware	4	57%	3932
District of Columbia	3	63%	4576
Florida	4	40%	2908
Georgia	5	32%	1798
Hawaii	4	67%	4963
Idaho	3	45%	3882
Illinois	4	52%	3262
Indiana	4	54%	3313
Iowa	2	63%	4549
Kansas	5	62%	4107
Kentucky	3	63%	4807
Louisiana	3	80%	6532
Maine	3	46%	3849
Maryland	3	70%	5185
Massachusetts	4	46%	2854
Michigan	3	63%	4056
Minnesota	4	53%	3879
Mississippi	3	80%	6498
Missouri	5	42%	2386
Montana	5	71%	5271
Nebraska	3	46%	2991
Nevada	4	47%	2826
New Hampshire	3	60%	4312
New Jersey	4	47%	3325
New Mexico	4	34%	2512
New York	5	41%	2244
North Carolina	3	64%	4620
North Dakota	2	88%	7793
Ohio	4	35%	2153
Oklahoma	5	46%	2672
Oregon	7	24%	1606
Pennsylvania	5	24%	1579
Rhode Island	2	70%	5645
South Carolina	3	67%	4783
South Dakota	3	67%	4961
Tennessee	3	70%	5299
Texas	4	40%	2429
Utah	4	40%	2634
Vermont	4	38%	3048
Virginia	5	47%	2762
Washington	6	50%	3067
West Virginia	3	50%	3671
Wisconsin	4	36%	1716
Wyoming	5	55%	3696
	Median: 4	Median: 51%	Median: 3595

Source: Kaiser Family Foundation analysis of 2010 insurer filings to the National Association of Insurance Commissioners and the California Department of Managed Health Care using the Mark Farrah Associates Health Coverage Portal TM.

Appendix: Methodology

Market share was calculated as the percent of a given state's individual or small group insurance market accounted for by a given insurer (plans that shared a parent company within a given state were collapsed into one insurer for the purposes of this analysis). Small group plans include businesses with up to 100 employees, except in states exercising an option under the Affordable Care Act to define small group plans as groups up to 50 employees until 2016. The Herfindahl–Hirschman Index (HHI) was calculated by taking the sum of squares of market share by state. All figures in this analysis are based on data from 2010. The source of the data was the Health Coverage Portal™, a market database maintained by Mark Farrah Associates, which includes information from the National Association of Insurance Commissioners and California's Department of Managed Health Care. However, as California group enrollment data are not available for the small group market, California was omitted from the small group market analysis in this report. The data download from the Mark Farrah Associates Health Coverage Portal™ was executed on September 1, 2011.

This publication (#8242) is available on the Kaiser Family Foundation's website at www.kff.org.

THE HENRY J. KAISER FAMILY FOUNDATION www.kff.org

Headquarters: 2400 Sand Hill Road Menlo Park, CA 94025 650.854.9400 Fax: 650.854.4800

Washington Offices and Barbara Jordan Conference Center: 1330 G Street, NW Washington, DC 20005 202.347.5270 Fax: 202.347.5274

The Kaiser Family Foundation, a leader in health policy analysis, health journalism and biggest health issues facing our nation and its people. The Foundation is a non-profit private operating foundation, based in Menlo Park, California.