THE WALL STREET JOURNAL.

REVIEW & OUTLOOK

ObamaCare in Reverse

Maine deregulates the insurance market. Premiums fall.

May 30, 2012

One tragedy of the Affordable Care Act is that we already know what its regulations will do to insurance markets, because the states have been conducting policy experiments since the 1990s. But we also know from the states that the damage is reversible, as shown by Maine's emerging insurance turnaround.

In 1993, Augusta passed coverage laws that resemble those that ObamaCare is about to impose nationwide: Insurers could only vary premiums within narrow bands regardless of age or health status, a regulation known as community rating. Four of Maine's five insurers in the individual market stopped offering coverage and fled, and the state entered an insurance "death spiral" in which premiums don't cover underlying medical costs. That leads to higher premiums, consumers dropping coverage as a result, and still higher premiums in turn.

Then the 2010 electoral wave carried in Republican Governor Paul LePage and a GOP legislature, and they took modest steps to deregulate the insurance market. Insurers are now allowed to sell policies for premiums that range from 3 to 1 on the basis of age, rather than the prior 1.5 to 1, and to offer incentives or discounts for consumers to choose high-value providers.

The state also created a reinsurance fund that taxes all health plans by $4 a month. If someone ends up requiring extremely expensive care, the fund picks up some of the costs, which means insurers can better manage their future liabilities and pass the savings on to individuals.

The returns are now rolling in for the new coverage that can be offered starting on July 1, and premiums are falling by as much as 69% for Maine's dominant insurer, Anthem.

According to the Maine Bureau of Insurance, a married couple age 40 to 44 with one child will pay $1,919 a month for a policy with a $2,250 deductible in 2013 if they choose to re-up their current policy. If the same family switches to the new health plan, or buys the plan for the first time, their premium will fall to $920, a 52% decrease. A couple over 60 could buy the same policy for $1,290, down from $2,466 under the old system. Or a young adult 25 to 29 could buy a high $10,000 deductible plan for catastrophic expenses for $232, previously $665.

The old and new products are not identical, so the comparison isn't perfect. On top of the rule changes, the benefits are slightly different, such as separate deductibles for in- and out-of-network services. And many of the year-over-year reductions are less dramatic, in the range of 10% to 20%, while a few older consumers will see rate increases.

Still, any premium decrease is remarkable on the U.S. health cost escalator, which is being accelerated by ObamaCare. Maine consumers who choose to stay with their current policy (same benefits, old rules) will see an average premium rate increase of just 1.7% from 2012 to 2013—compared to an historical trend of about 10%. Some 46% of the existing book of business will see a rate decrease.

The major irony is that Maine's reform merely brings its community rating rules into compliance with ObamaCare, which is actually less restrictive than the rules the state passed in 1993. The new national health law will block a further Maine liberalization that is due for 2016.

Maine learned the hard way that the most heavily regulated insurance markets are the most expensive. But the more ominous lesson out of Vacationland is for the 33 states that had the wit never to make the Maine-ObamaCare mistake. They're the ones that are about to see premiums spike under the Affordable Care Act—perhaps by as much as 69%, and likely by far more.