ObamaCare Drives Small Insurers Out of the Market

Anyone who was confused as to why big insurance companies would support such an obviously anti-market piece of legislation as ObamaCare — a law supposedly designed to protect consumers from greedy, heartless insurers — need look no further than a September 30 New York Times report. Reed Abelson writes that the Principal Financial Group, which offers employer-based health insurance to about 840,000 people, “announced on Thursday that it planned to stop selling health insurance, another sign of upheaval emerging among insurers as the new federal health law starts to take effect.”

Principal’s decision, Abelson says, was based primarily on the fact that it’s too small to compete in the insurance market under the new mandates. Abelson quotes Daniel J. Houston, a senior executive at the Des Moines-based company: “Now scale really matters. We don’t have a significant concentration in any one market.” “Because Principal Financial is primarily in the business of asset management,” Abelson adds, “it decided not to make the investments needed to remain competitive as a health insurer, Mr. Houston said.”

Where, then, will Principal’s customers obtain their insurance now that their small insurance company has been driven from the market? Why, from one of the big guns, of course: UnitedHealth Group has “agreed to offer coverage to Principal’s customers,” Abelson reports.

ObamaCare, therefore, has made it that much more difficult for smaller insurers to compete against large corporations, as Abelson explains:

> More insurers are likely to follow Principal’s lead, especially as they try to meet the new rules that require plans to spend at least 80 cents of every dollar they collect in premiums on the welfare of their customers. Many of the big insurers have been lobbying federal officials to forestall or drastically alter those rules.

“It’s just going to drive the little guys out,” said Robert Laszewski, a health policy consultant in Alexandria, Va. Smaller players like Principal in states like Iowa, Missouri and elsewhere will not be able to compete because they do not have the resources and economies of scale of players like UnitedHealth, which is among the nation’s largest health insurers.

Mr. Laszewski is worried that the ensuing concentration is likely to lead to higher prices because large players will no longer face the competition from the smaller plans. “It’s just the UnitedHealthcare full employment act,” he said.

Abelson points to other disruptions in the insurance market brought about by ObamaCare. “For example,” he writes, “in the case of child-only policies, the new rules require insurers to offer coverage to even those children who are seriously ill, leading some insurers to balk at the idea that they will be forced to cover too many sick children. Aetna, Cigna and WellPoint, among others, have said they will stop selling new policies in some states.” McDonald’s Corp just informed the federal government that it may not be able to offer limited-benefit health insurance to its hourly employees because of the new spending requirements. Then there are the significant rate hikes that insurers say the new mandates are causing — those “higher prices” that Laszewski foresaw.

None of this should come as any surprise to observers of the effects of government policies. Laws and regulations allegedly designed to protect the little guys usually result instead in the protection of the big guys by driving out their smaller competitors and erecting barriers to entry. In supporting ObamaCare, then, Big Insurance was just doing what it believed to be in its best interest — though these same companies will likely regret having done so in the years to come. Those of us not employed by Big Insurance are already regretting it.