ObamaCare Exchanges Less Competitive than Pre-ObamaCare Market, Report Finds

In a 2009 speech to Congress, President Barack Obama said that his "guiding principle" in healthcare reform "is, and always has been, that consumers do better when there is choice and competition." ObamaCare's insurance exchanges were supposed to promote competition among health insurers, but according to a new Heritage Foundation analysis, competition on the exchanges remains significantly below what it was in the pre-Affordable Care Act (ACA) individual market.

"While insurer participation in the exchanges is greater in 2015 than in 2014, it is still significantly less than the level of choice and competition that existed in the individual market prior to the ACA's implementation," wrote Heritage research associate Alyene Senger. "Many consumers purchasing health coverage in the exchanges face an extremely limited choice of insurers, and in some counties they have no choice at all."

Senger compared the number of insurance carriers in each state's exchange (regardless of whether the exchange was operated by the state or the federal government) to the number of carriers in the state's individual market in 2013, the year before the exchanges opened. She found that "the exchanges remain considerably less competitive at the state level in 2015 than the 2013 individual market."

According to Senger, across all 50 states and the District of Columbia, the exchange market is 21.5 percent less competitive than the 2013 individual market — an improvement from last year's Heritage finding that the exchanges were 36 percent less competitive than the pre-ACA individual market but still a far cry from the status quo ante. In 11 states, competitiveness was down 50 percent or more, and in two it had fallen by 75 percent: North Carolina went from 12 carriers in the 2013 market to three in the 2015 exchange, and West Virginia went from four to just one. (Eight states saw no change in the number of carriers, while nine experienced increases.)

Moreover, noted Senger, if one uses the Government Accountability Office's methodology for counting insurers, which includes only those carriers offering full individual coverage nationwide, one finds that the exchanges are actually 75 percent less competitive than the pre-ObamaCare market (310 insurers in 2015 versus 1,232 in 2013).

While state-level analysis is useful, Senger explained, it is important to review the data at the county level "because plans are offered (and priced) on a local basis and not all insurance carriers offer coverage statewide." Doing so, however, does not help the case for ObamaCare.

"Consumers in one-third of the 3,134 counties in the United States face an exchange market that is either an insurer monopoly or duopoly in 2015," Senger wrote. "This means that residents in these counties have only one or two insurers from which to choose. When compared with 2014, county-level competition has improved in some instances for 2015, but competition is still very limited for a significant share of the country."

Eighty-nine percent of U.S. counties will have five or fewer carriers offering exchange coverage next year, down from 94 percent in 2014. Also, 57 percent of exchange markets will have three or fewer carriers in 2015, a drop from 78 percent the prior year.

"In Texas, 62 percent of the state's counties have only one or two insurers offering coverage in the exchange in 2015," Senger found. "There are 14 different insurers selling policies on the Texas exchange, but no Texas county has more than nine carriers offering coverage."

A critic of the Heritage report might counter that there are other measures of competitiveness besides the number of insurance carriers; the number of plans available to consumers also matters. However, as Georgetown University research professor Sabrina Corlette told PolitiFact, "If you only have one insurance company offering 50 different plans in an exchange, that might offer choice, but it ain't competition." That one carrier in West Virginia, for example, has little incentive to keep rates low, especially since its customers' subsidies will increase as their premiums rise.

Why is there so little competition on many of the exchanges? Partly it's because insurers have been wary of diving into those marketplaces for fear of being saddled with large numbers of beneficiaries with expensive pre-existing conditions. In addition, the ACA's mandates and regulations "largely standardize insurance plans, consequently limiting consumers' coverage choices, regardless of the number of participating insurers in the exchanges," observed Senger. Those same stipulations also drive up premiums and deductibles on the exchanges.

"The long-term success of the exchanges and other ACA provisions governing market rules will be measured in part by how well they facilitate market competition," a March Kaiser Family Foundation brief declared. Assuming current trends continue, it will be several years before the exchanges' competitiveness even reaches parity with the pre-ACA individual market's competitiveness, let alone surpasses it. And should the exchanges falter — a distinct possibility given the general public's relative lack of interest in them and the Supreme Court's potential to rule out subsidies on the federal exchange — insurers will likely pull out of them, making them even less competitive than they already are.

ObamaCare's long-term success, therefore, is uncertain at best. In fact, given what we know about history, economics, and human nature, it is almost guaranteed to fail to achieve its stated objectives — though it may achieve even worse unstated ones.

The courts may, if the stars align correctly, chip away at the unconstitutional ACA. But the ultimate solution lies in repeal and nullification, followed by much more government downsizing.