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Obama health care reforms encourage short-term buyers

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“Consumers hurt small businesses” is not your typical headline. However, in Massachusetts, this has become the unthinkable reality.

The latest report from the Massachusetts Division of Insurance shows the number of purchasers of short-term health insurance – those who buy insurance to avoid fines or pay for health care then drop it shortly thereafter – quadrupled between 2006 and 2008.

The problem is that individuals (the majority of short-term buyers) are lumped in with small groups (mostly small businesses) for insurance rates. The assumption in Massachusetts, and in ObamaCare, was that pairing individual and small group plans would bring rates for individuals down while only marginally increasing the rates for small groups. Thus insurance pricing would be “fair”.

Why is this occurrence somewhat unique to Massachusetts? Massachusetts' government run health care system, instituted in 2006 under then-Gov. Mitt Romney, prevents exclusion for pre-existing conditions. The core idea behind having ObamaCare ban pre-existing conditions was to prohibit an insurance company from denying coverage to consumers who had lifelong conditions that were beyond their control.

While this measure had noble motives, the unintended consequences are devastating. People began to wait until a health problem arose and then bought insurance just long enough to treat it. As a result, premiums skyrocketed for everyone in the group.

BCBS of Massachusetts released a report showing that short-term insurance buyers paid $400 a month but were paid out $2200 a month. In order to stay profitable, the insurance companies must make this up elsewhere. Small businesses are where they have raised rates.

Since the enactment of RomneyCare, small business premium increases have far outpaced the national average. To counteract these short-term buyers, Massachusetts enacted an individual requirement with fines attached. However, this is only further incentive for people to buy insurance and then drop it once the verification is complete.

However, rising costs are not the end of the story. As premiums soar, small businesses have had to make increasingly severe adjustments to their business models.

As Kay Lazar wrote in the Boston Globe, “In New Bedford, the Early Learning Child Care center is now paying $1,500 quarterly in fines to the state, instead of the $30,000 it contributed quarterly toward 13 workers' health insurance premiums.” The increase in premiums has put undue strain on Massachusetts's employers, and they are responding by dropping health benefits.

The new federal health care law used Massachusetts as the model for its formulation. Massachusetts, like the proponents of ObamaCare, promised that its new health care law would deliver coverage to all people while lowering costs. Both promised to protect small business owners, the backbone of the American economy. Instead, small group insurance rates in Massachusetts rose 14 percent more than the rest of the country.

In response to this rise in short-term buyers, the Massachusetts Division of Insurance recommends increasing the penalties for not having insurance. While this seems like an obvious solution, it does not address the systemic problem at hand – that government regulations encourage consumers to game the system.

ObamaCare contains the same regulations that are leading Massachusetts towards an increasingly inefficient and expensive health care system. Under these regulations, every state and their citizens will suffer from the same inefficiencies and inadequacies that Massachusetts has.

The pre-existing conditions, individual mandates, and employer fines might sound like reasonable complements to each other. In fact, they are the ingredients of a recipe for disaster. As Texas and the U.S. begin to implement these health laws, short-term buyers are but one issue on a burgeoning list of unintended consequences.

For now, Massachusetts – and soon America – will have to adjust to rising costs on their health insurance plans. But eventually, the core problem must be acknowledged. Government control does not bring the lower costs that competition in the marketplace has proven to deliver. Consumers may hurt small business in this instance, but government intervention in health care inevitably hurts all of us.

The Honorable Arlene Wohlgemuth is the Executive Director and Director of the Center for Health Care Policy at the Texas Public Policy Foundation, a non-profit, free-market research institute based in Austin. She served 10 years in the Texas House of Representatives, specializing in health care issues.

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