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What Characterizes the Marketplaces with One or Two Insurers?

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Timely Analysis of Immediate Health Policy Issues

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In-Brief

In 2017, the Affordable Care Act's nongroup marketplaces saw premium increases averaging 21 percent, with substantially higher increases in some states.[1] For the 2017 plan year, several insurers left the individual marketplaces (and, in some cases, individual markets as a whole), creating many more rating regions with only one or two insurers. These rating regions, as a result, have little insurer competition. Often these rating regions also have considerable provider consolidation—too few providers for meaningful competition. In this brief, we look at the characteristics of rating regions with one or two insurers in 2017. Our main findings are as follows:

- As the population of the rating region increases, so does the number of insurers;
- As the number of insurers in a rating region falls, average and median premiums are higher, as was the 2016-2017 the change in the region's benchmark (second-lowest-cost silver) premium.
- Rating regions with only one or two insurers are very heavily concentrated in southern states.
- Rating regions with fewer insurers are more likely to permit the sale of noncompliant "grandmothered" plans.
- Rating regions with the largest numbers of insurers are more likely to be in states running their own nongroup marketplaces.
- In the vast majority of rating regions with only one insurer, that insurer is an affiliate of Blue Cross Blue Shield.

The results below are for 2017. The 2018 experience could be quite different, given the uncertainty created by potential repeal-and-replace efforts and the potential effects of the *House v. Price* lawsuit.

Data and Methods

In this brief, we analyze premium and insurer participation data taken from Healthcare.gov public use files and relevant state-based marketplace websites. Our premium analyses focus on the benchmark (second-lowest-cost silver) premium for a 40-year-old nonsmoker in each of the 498 premium rating regions of the United States. Insurers can charge different premiums in different rating regions but cannot vary premiums within a rating region. Average premiums and percent changes in premiums are unweighted in this analysis. States are categorized into geographic regions using the US Census Bureau definitions.[2] We sort insurers into the following categories: formerly Medicaid-only insurers (hereafter called Medicaid insurers), national insurers, regional or local insurers, provider-sponsored insurers, and Blue Cross Blue Shield-affiliated insurers (including Anthem and Blue Cross Blue Shield subsidiaries such as BridgeSpan). Population size data comes from the US Census Bureau's county-level population estimates for 2014.[3]

Results

Marketplace Insurer Participation and Population Size

Table 1 shows that of the 498 rating regions in the United States, 146 had only one insurer selling nongroup coverage

Table 1. Number of Marketplace Insurers Located in a Rating Region by Population, 2017

Number of insurers participating in rating region	Number of rating regions	Share of US population	Median rating region population[1]	Average rating region population[1]
1	146	12.6%	148,000	274,000
2	125	21.2%	258,000	539,000
3	90	20.1%	356,000	709,000
4	68	13.9%	380,000	648,000
5	32	12.1%	713,000	1,204,000
6+	37	19.9%	1,107,000	1,710,000

Source: Number of insurers participating in a rating region is taken from Healthcare.gov public use files and relevant state marketplace websites. Population data is taken from the U.S. Bureau of the Census, American Fact finder.

Notes: Rounded to nearest thousand

through its state marketplace in 2017; 125 had just two insurers. In contrast, 32 rating regions had five insurers selling marketplace nongroup coverage and 37 had six or more in the same year. Markets with one insurer include the entire states of Alaska, Alabama, North Carolina, Oklahoma, most of Arizona, and rural areas of several states. Markets with six or more insurers include New York City, Long Island, Cincinnati, Cleveland, Detroit, Denver, Los Angeles, San Diego, Richmond, the northern Virginia suburbs of the District of Columbia, and the entirety of Massachusetts.

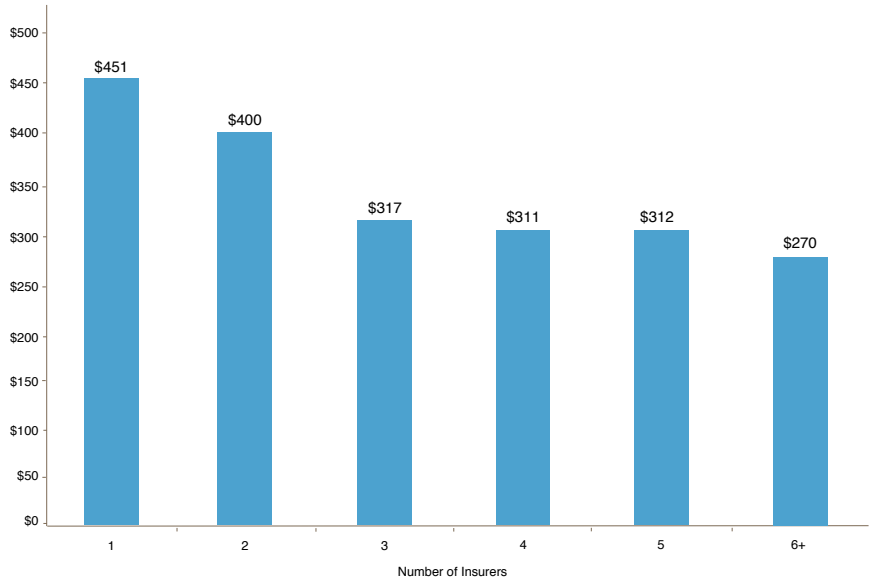
The rating regions with the fewest insurers also tend to be the smallest in population. About 34 percent of the population lives in rating regions with one or two marketplace insurers, but almost an equivalent share of the population (32 percent) lives in areas with five or more insurers. The median population in rating regions with one insurer is about 148,000, and the median population in rating regions with two insurers is 258,000. In sharp contrast, the median population is over 700,000 in rating regions with five insurers and 1.1 million in regions with six or more insurers. Population averages show the same pattern: smaller numbers of residents correlate very strongly with smaller numbers of insurers. Rating regions with one or two insurers tend to be thinly populated areas that are not attractive to insurers because they have too few potential covered lives. Often such areas have a dominant insurer-typically Blue Cross Blue Shield–affiliated—with favorable provider contracts that make it difficult for competitors to enter the market.

Marketplace Insurer Participation and Premiums

Figure 1 shows that 2017 premium levels are directly related to the number of insurers. The median benchmark monthly premium is $451 in rating regions with one insurer and $400 in rating regions with two insurers. Median benchmark premiums decrease markedly as the number of insurers increases. The median benchmark premium is just over $300 ($311 to $317 monthly) for markets with three to five insurers and $270 for markets with six or more insurers. A similar pattern holds for average benchmark premiums (not shown). The larger and more competitive the rating region, the lower the premiums tend to be, and vice versa.

Figure 2 shows percentage increases in premiums between 2016 and 2017. The median premium increase in markets with one or two insurers was 29.8 percent and 26.2 percent, respectively. In contrast, the median premium increase in regions with six or more insurers was 5.0 percent. Thus, not only do premium levels tend to decrease dramatically with more competing insurers, so too do premium growth rates. The findings in figures 1 and 2 were consistent with our previous analysis using multivariate regression.[4]

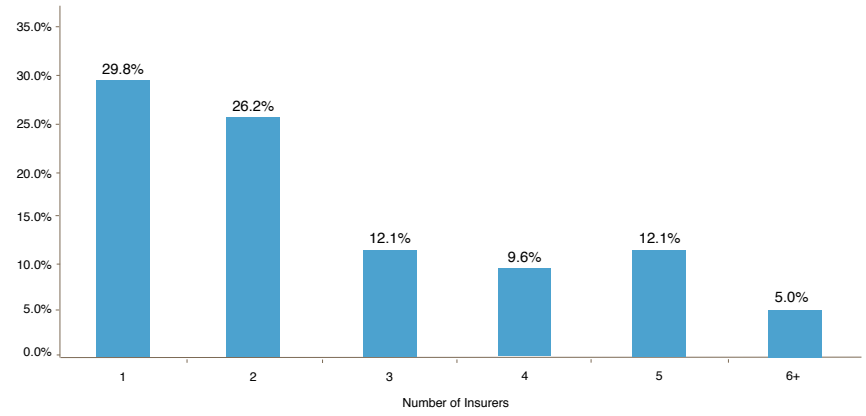
Figure 1. 2017 Median Benchmark Monthly Premium Levels by Rating Region Insurer Participation



Note: The benchmark premium is the second-lowest-cost silver premium in the rating region's marketplace.

Source: Urban Institute analysis of premium and insurer participation data taken from Healthcare.gov public use files and relevant state marketplace websites

Figure 2. Median Percent Change in Benchmark Premium by Number of Insurers Participating in Rating Region, 2016–2017



Note: The benchmark premium is the second-lowest-cost silver premium in the rating region's marketplace.

Source: Urban Institute analysis of premium and insurer participation data taken from Healthcare.gov public use files and relevant state marketplace websites.

Table 2. Number of Insurers by Geographic Region

Number of insurers participating in rating region	Number of rating regions	South	Northeast	West	Midwest	State-based marketplace	Allow grandmothered plans
Share of total rating regions	**499**	**51.1%**	**8.0%**	**15.2%**	**25.7%**	**17.4%**	**81.4%**
1	146	81.5%	0.0%	8.9%	9.6%	6.2%	94.5%
2	125	58.7%	11.9%	6.3%	23.0%	14.3%	87.3%
3	90	38.9%	11.1%	10.0%	40.0%	8.9%	85.6%
4	68	23.5%	5.9%	30.9%	39.7%	29.4%	61.8%
5	32	18.8%	0.0%	59.4%	21.9%	46.9%	59.4%
6+	37	13.5%	29.7%	16.2%	40.5%	45.9%	54.1%

Sources: Number of insurers participating in a rating region is taken from Healthcare.gov public use files and relevant state marketplace websites. Population data is taken from the U.S. State geographic region taken from the U.S. census bureau. The grandmothered plan information is taken from Lucia K, Corlette S, and Williams A. "The extended "fix" for Canceled Health Insurance Policies: Latest State Actions. November 2014. The Commonwealth Fund. http://www.commonwealthfund.org/publications/blog/2014/jun/adoption-of-the-presidents-extended-fix.

Table 2 shows that rating regions with only one marketplace insurer are disproportionately concentrated in the South: Approximately 82 percent of these regions are located in the South, even though only 51 percent of all rating regions are in Southern states. Other rating regions with one insurer are divided roughly evenly between the Midwest and West; the Northeast has none. Of the rating regions with two insurers, about 59 percent are in the South and 23 percent are in the Midwest. In contrast, only 13.5 percent of the most competitive markets—rating regions with six or more insurers—are in Southern states. Both the Northeast and Midwest are highly overrepresented among the most competitive markets: Almost 30 percent of rating regions with six or more insurers are in the Northeast, though the Northeast accounts for only 8 percent of rating regions overall. About 40 percent of the most competitive markets are in the Midwest, which accounts for only 25.7 percent of all rating regions. Of rating regions with five insurers, only 18.8 percent are in the South, 59.4 percent are in the West, and 21.9 percent are in the Midwest.

State-based marketplaces (SBMs) also tend to have more insurers. The states running their own marketplaces in 2017 are California, Connecticut, Colorado, Idaho, Kentucky, Massachusetts, Maryland, Minnesota, New York, Rhode Island, Washington, and the District of Columbia. These states account for 17.4 percent of all rating regions. Of marketplaces with five insurers, 47 percent are in SBM states. Similarly, 46 percent of rating regions with six or more insurers are in SBM states. Rating regions in SBM states are underrepresented among regions with three or fewer insurers and overrepresented among those with four or more insurers.

"Grandmothered" plans are nongroup policies sold between the enactment of the ACA (March 21, 2010) and implementation of its major coverage provisions (January 1, 2014). These policies are not compliant with the ACA's nongroup insurance market standards and are not part of the law's uniform risk pool for the nongroup market. The plans tend to maintain a healthier-than-average group of enrollees because the plans' premiums are medically underwritten and are not subject to the ACA's guaranteed issue requirements. As a transitional policy, the Obama administration permitted the continuation of these plans for people already enrolled before January 1, 2014. The policies were set to expire by January 1, 2018.[5] Some states chose to permit grandmothered policies to be sold, while others did not. The Trump administration recently extended the continuation of grandmothered plans for an additional year. Maintenance of grandmothered plans reduces the incentive for insurers to participate in the marketplaces because it allows insurers previously selling coverage in that state to stay out of the modified community-rated insurance pool and retain their healthier-than-average group of enrollees.

The final column of Table 2 shows that rating regions with one or two insurers are more likely to be in states that permit grandmothered plans. Just over 81 percent of all rating regions are in states that permit grandmothered plans. These rating regions are overrepresented among areas with three or fewer marketplace-participating insurers and significantly underrepresented among areas with more competitive markets. Roughly 95 percent of rating regions with only one marketplace insurer are in states that allow grandmothered plans. In contrast, only 54 percent of rating regions with six or more marketplace insurers are in states that allow grandmothered plans.

Table 3. Insurer Types in Rating Regions With Only One or Two Insurers, 2017

	One insurer	Two insurers
Number of rating regions	146	125
Insurer type		
Blue Cross Blue Shield	143	104
Medicaid	2	25
National	1	22
Provider-sponsored	0	33
Regional	0	29

Source: Urban Institute analysis of insurer types based on Healthcare.gov public use files, state based marketplace websites, and data from associated insurers.

Types of Marketplace Insurers Providing Coverage in Less Competitive Areas

Table 3 shows the types of insurers participating in rating regions with either one or two marketplace insurers. Of the 146 rating regions that have only one insurer, 143 have a Blue Cross Blue Shield-affiliated insurer. This is consistent with Blue Cross Blue Shield's pre-ACA domination of many insurance markets.[6] In two rating regions, a Medicaid insurer is the only marketplace participant, and in one rating region a national insurer (Humana) is the only participant. In the 125 rating regions with only two insurers, 104 have at least one Blue Cross Blue Shield affiliate.

Conclusion

Markets with only one or two marketplace insurers tend to be much less populated than areas with more competing insurers. Attracting insurers is more difficult in these rating areas because they offer fewer potential covered lives and, thus, less business to compete over. The ongoing presence of grandmothered plans is also associated with fewer marketplace insurers. The recent decision to extend grandmothered plans for an additional year is likely to keep marketplace competition lower than it otherwise would have been, unless states decline to take up that option.[7] Though some individuals may benefit from lower premiums in non-ACA-compliant grandmothered plans, the presence of these policies reduces insurers' incentive to participate in the marketplace, and fewer insurers are associated with higher marketplace premiums. In addition, many of the smaller rating regions have few competing providers, and the combination of low insurer and provider competition tends to increase premiums further.[8] "Must-have" providers eliminate any leverage that a dominant insurer might have in negotiating payment rates.

The ACA nongroup marketplaces are a mix of different types of markets. Fewer than half of the rating regions (228 of 499) have three or more participating insurers, yet two-thirds of the US population lives in these more competitive areas. In these regions, greater competition is associated with lower premiums and lower premium growth. In 271 rating regions, only one or two insurers participate in the nongroup marketplace; these areas tend to have much smaller populations. Lack of competition is strongly associated with higher premiums. Also, rating regions in states that permit the sale of grandmothered plans are overrepresented among the less competitive markets. These plans are not required to provide the ACA's essential health benefits, nor are they required to abide by guaranteed issue requirements, modified community rating rules, actuarial value standards, or a number of other consumer protections. Their continued presence significantly reduces the incentive for insurers selling them to participate in the marketplaces.

Although, in general, the ACA's managed competition model is working effectively in areas with larger populations, the same is not true in areas with small populations. Increased marketplace enrollment through better outreach and enrollment efforts, improved financial assistance, and easier access to marketplace subsidies for working families could help to some degree, but given the population size of these areas, even significant enrollment efforts are unlikely to be sufficient. Capping provider payment rates for ACA-compliant nongroup insurers (e.g., at Medicare levels plus some percentage) would allow more insurers to compete in these markets and would address monopoly provider pricing problems.[9] Alternatively, the federal government could develop a public insurance plan.

Though these strategies could lead to increased competition and lower premiums in struggling ACA marketplaces, it is unclear how markets will change in 2018 as a result of administrative changes already put in place[10], other changes still to come, and widespread uncertainty surrounding the payment of cost sharing reductions. All of these factors could have substantial effects on premiums and on insurer decisions to offer coverage through the marketplaces. For example, stopping payments of cost-sharing reductions alone could lead most or even all insurers to exit the marketplaces, even in populous areas that currently have robust competition. The substantial shortening of open enrollment periods—part of the recently finalized Department of Health and Human Services rules[11]—could decrease enrollment significantly, particularly among younger adults, shrinking the insured population and worsening the risk pool. These effects could lead more insurers to abandon the marketplaces.

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