The Daily Dish

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Yesterday, the Senate advanced legislation that would renew the Export-Import Bank's charter. Congress did not renew the bank's charter before July 1, 2015, at which point it lapsed. The lapse of the Export-Import Bank's charter, however, does not terminate the bank's activities. In fact, the Bank is required by law to continue to exercise other functions. Click here for everything you need to know about what happens now for Ex-Im.

RSVP NOW: Interested in the new gig economy and what it holds for the future? Then don't forget to sign up for AAF's event on Thursday on "The Modern Independent Workforce: A Look at its Growth and the Role of Technology."

Over the weekend, the president offered a pre-emptive veto threat against any legislation that would change Dodd-Frank. You may remember Dodd-Frank as the legislation that will reduce economic activity by $895 billion or the cause behind $24 billion in new regulatory costs. For more on Dodd-Frank, you can find AAF's research by clicking here.

Eakinomics: Health Insurance Merger Mania

Health insurance mergers have hit the headlines recently. Aetna and Humana led off by announcing their merger, followed by the agreement by Cigna to be purchased by Anthem. To some, the most notable outcome of these mergers is that they yield two very large insurers, and leave the U.S. with three large health insurers with annual revenues in the $150 billion range. In this populist, "big is bad" era there are already calls for the Justice Department to step in and prevent the mergers. Let's think this through step by step.

1. Businesses should be free to arrange themselves as they see fit. The fluidity with with U.S. companies and capital markets start-up, merge, spin-off, downsize, reorganize, and liquidate firms is a fundamental of market-based prosperity. It is fair to be concerned about the quality of competition, but that means monitor the behavior of the competitors, not their size. If there is inappropriate market conduct, regulators should step in and discipline firms. But it is an abuse of government power to presume misconduct on the basis of a business organization decision.

2. These appear to be sensible business deals. In the old days, health insurance providers delivered care and got reimbursed an amount that covered their costs and more. Health insurers charged premiums and bore the financial risk that their reimbursements for care exceeded the premium revenue. The post-Affordable Care Act (ACA) world includes many more hybrid entities that both deliver care and bear financial risk. That is the goal, for example, of Accountable Care Organizations under the ACA.

Aetna, an old and traditional insurer, and Humana, which started as a nursing home company, started at opposite ends of the spectrum. The merger accelerates their movement toward providing high-value care and financial risk-managment services. Similarly, Anthem has a substantial footprint in government programs — especially the exchanges — while Cigna has a greater preponderance of employer insurance. They complement one another in the need to cover all markets with services. I'm not an investment analyst, but one can see why the firms were interested in mergers.

3. The size of the largest three insurers tells one nothing about the state of competition. There are 835 health insurers in the U.S., each of which is regulated by states and may compete in state and sub-state markets (especially for Medicaid and Medicare Advantage). All competition is regional and a national merger doesn't tell one much about the competitive impacts.

4. Existing regulation doesn't leave insurers much opportunity to exploit consumers. Each company faces state and federal regulation of its premiums, which have to be based on actuarial analysis — not market power. The Medical Loss Ratio imposed by the ACA is de facto profit regulation. It requires insurers to spend 80 to 85 percent of their premiums on medical expenses. In its presence, the only way to make more profits is to get bigger. It is hardly surprising that this is exactly what is happening.

5. Finally, the bottom line will be whether consumers benefit. One of the key features of the health sector leading up to the ACA, and accelerated by it, has been the consolidation of providers. Hospitals have been merging, and buying up provider groups. Using the same logic as those who oppose the insurers' mergers, one could presume that this has led to market power and inappropriately high prices for health care services. If so, the ability of insurers to negotiate more effectively would benefit consumers.

The truth is that there will be a mixture of impacts that will differ in regions across the country. That suggests a strategy of minimal pre-emptive judicial or regulatory action and monitoring of the resulting insurance playing field.

From the Forum

Week in Regulation by Sam Batkins, AAF Director of Regulatory Policy

Fact of the Day

There are still more than $700 million and 8.3 million paperwork hours on the regulatory cost horizon for the ACA.