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FREE MARKET FOR HEALTH INSURANCE BETTER THAN PROPOSALS ON CAPITOL HILL

A number of so-called insurance reforms are being pushed upon us as a result of the perception that the private insurance market has failed to serve the needs of the public. Among these reforms are community rated health insurance premiums, guaranteed issue or renewal of insurance policies to all comers, prohibition of existing condition exclusions, and involuntary participation in national insurance schemes. But many of the charges against the free market are false. In fact, the free market in health insurance has been so badly distorted by government regulation that it cannot be said to have been tried.

> ***Insurance is based on the assessment of risk. Different people have different risks. These are facts of life that policy makers cannot repeal, and can ignore only at our peril. A free-market approach to health care finance, therefore, would indeed result in premium differentials. But premium differentials are not a bad thing. They make insurance a fairly priced value to all consumers.***

A recent conversation with one of the country's leading actuaries has reinforced our belief that private individual health insurance can be strengthened and would be far more effective than the widely-proposed nationalized or government-regulated health insurance.

In a private individual insurance system, individuals would purchase policies in their own names. The policies would be portable, not tied to their place of employment. (Individuals could still choose to purchase individual policies through group purchases at work, or through religious, social, or professional organizations to cut down on the time spent shopping and to obtain quantity discounts.)

Any tax exclusion for insurance premiums and benefits would be extended to all individuals regardless of where they purchased their policies. (In current law, individuals are not required to include the value of employer-paid health insurance premiums or benefits in taxable income. Those who purchase their own insurance either get no tax break for premiums, or only a partial deduction in the case of the self-employed.)

Individuals would be risk rated for many factors, including age, sex, geography, occupation, and existing conditions. Those with higher risks would be admitted to insurance pools with a differentially higher premium (a "substandard load" in the jargon).

Once an individual entered a pool with an appropriate rate differential, renewal would be guaranteed, and his or her future rate increases would match those of the pool. If individuals are rated correctly as to the probability of illness when joining the pool, the insurance company should be able to accommodate the costs of those who do get sick within the expected costs of the pool. There would be no need for a specific hike in the individual's premium down the road, provided the pools are large enough.

Under a system favoring individual-based policies, individual pools would be far larger than are now possible, because the current tax preference

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for employer-based plans siphons off the bulk of the population. According to the actuary, this would make it possible for private insurers to handle individuals with higher risk factors than at present. The pools would contain a sufficient number of such persons to make their claims conform closely to the national average for people with those risk characteristics, and enable the company to charge an actuarially fair risk premium without fear of exposure to an extraordinary level of claims. Consequently, some of the people currently classified as uninsurable would be insurable in a broader risk pool.

Some customers might prefer to forego coverage of an existing condition in order to avoid a higher premium. Insurance companies currently sell policies that contain a denial of benefits for treatment of an existing condition, permitting a lower premium for benefits for all other conditions. Such choices would be possible because competition would force companies to offer a variety of plans tailored to the needs of the customers. In fact, according to the actuary, plans offering various types of coverage, plans with differential premiums, and plans with exclusions of existing conditions, are available now from one company or another to meet a variety of needs.

Actuarial science can handle risk rating with sufficient accuracy to ensure the stability of large pools, according to the actuary. The chief difficulty in accurately pricing risk today is restrictions laid down by regulators, especially in states that have recently "reformed" health care.

Any system would operate with more certainty and stability if reinsurance mechanisms or state run risk pools existed for very high risk or chronically ill individuals, according to the actuary. State risk pools are appropriate mechanisms for dealing with people whose medical needs are creating financial hardship. Whether individuals or families are in need of help because low income has priced any health insurance beyond their reach, or whether expensive medical conditions have raised their premiums beyond their ability to pay, government should treat the problem as a welfare issue, and provide means-tested financial assistance. State risk pools currently running into trouble are holding premiums below cost for all high risk people, of whatever income, rather than assisting the poor to pay premiums that cover their risk factors.

Insurance is based on the assessment of risk. Different people have different risks. These are facts of life that policy makers cannot repeal, and can ignore only at our peril. A free-market approach to health care finance, therefore, would indeed result in premium differentials. But premium differentials are not a bad thing. They make insurance a fairly priced value to all consumers. By contrast, community rating — one premium fits all — overcharges people with low risk, such as the young, and causes them to prefer to go uncovered. Community rating cannot survive in a voluntary setting, and all plans calling for community rating also impose or would likely lead to mandated coverage, requiring individuals to buy policies whether they wish to or not. The added loads imposed on the relatively healthy by elimination of accurate rating for known conditions may be sufficient to cause many people to prefer to go uninsured. Even modified community rating may fail to work in a voluntary setting. Coercive mandates and price restrictions can in no way be described as "free market."

A real free market in health insurance is possible. With sensible reforms of federal tax law, a free market could provide the vast majority of the population with affordable insurance, vested in the individual, portable from one job to the next, and with acceptable provisions regarding existing conditions.

A real free market in health insurance is possible. With sensible reforms of federal tax law, a free market could provide the vast majority of the population with affordable insurance, vested in the individual, portable from one job to the next, and with acceptable provisions regarding existing conditions. Congress should let the nation try a free market approach rather than rush to enact any of the socialized health care financing schemes currently being offered.

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