How Do We Preserve *Real* Medical Insurance?

One of the reasons that American health care costs are skyrocketing while the population is not getting healthier is that we have largely abandoned real health insurance in this country. “Insurance” in the normal sense involves groups of people who face the risk of catastrophic losses pooling those risks by each of them making a small regular contribution so that when such losses strike, the minority who experienced the losses can be reimbursed for much of that loss.

However, as private health insurance companies have collected more and more data on people and the patterns of their medical claims, the insurance companies have gotten better and better at distinguishing those citizens most likely to have high medical costs in the future from those likely to have low medical costs. Of course it is in the insurance companies' interest to try to keep the low risk folks and shed the high risk folks. With the advent of genetic testing for susceptibility to a broad range of diseases, it has gotten easier and easier to discriminate between the potentially healthy and the potentially unhealthy. The result is that insurance is very low cost for some and costs so much for others that it simply is not affordable. Hence the growing segment of the population with no health insurance at all. That will only get worse over time.

What is going on here is that real insurance is being abandoned. Insurance companies increasingly can determine what your future medical costs are likely to be. The “insurance” you buy, if you can afford it, increasingly is simply prepayment of your future medical bills. There is little or no risk-sharing or real insurance.
One way out of this is to adopt a public, universal, basic health insurance program that pools the health risks of all citizens. Although this is usually described as “socialized medicine” by those opposed to it, it has nothing to do with socializing medicine. It focuses on socializing the risks of catastrophic health crises. The provision of the needed health care continues to come from private healthcare professionals of various sorts. Our Medicare for seniors and Medicaid for low income children funds private health care, not care at government facilities.

More and more private health care providers are moving towards endorsing such universal, basic, health care insurance as a necessary element for controlling health care costs while also improving the health of the overall population. A single-payer, universal, basic health insurance program has a lot of straightforward economic advantages.

First, it keeps the risk pool large and prevents discrimination based on health risk. That makes the insurance affordable because it actually is real, risk-sharing insurance.

Second, every citizen gains access to basic health care. The scandal of children and low income families going without health care would be eliminated.

Third, based on a comparison of the administrative costs of private insurance companies and those of Medicare or Social Security, the administrative costs of a public insurance program would be much lower. Less has to be spent on advertising, competition, and the weeding out of those most likely to need to make use of the health insurance they have purchased.

Fourth, that public insurance program could gather statistics on the safety, effectiveness, and medical necessity of different types of treatments. That information
could help guide both patients, doctors, and panels charged with determining the medical necessity of different types of treatment.

Fifth, the government could negotiate hard bargains with pharmaceutical companies and other medical service providers to bring the cost of basic medical care down. The federal government already does that with Medicaid drug costs but, amazingly, Medicare is forbidden by Congress to do the same to protect seniors’ access to prescription drugs.

Note that I have repeatedly used the word “basic” in describing what would be covered by such a universal health insurance program. An increasing share of medical costs is associated with services that can only be described as “discretionary” or “consumption” expenditures: cosmetic surgery, physical enhancement, etc. Medical care that we choose to pursue ultimately has to be distinguished from that which illness or accident imposes on us. We can only insure against the latter. People would continue to have to fund personally the services that are not medically necessary, something our private insurance companies already try to insist on.

As more and more of our hospitals teeter on the edge of bankruptcy and fewer and fewer of us find that we can afford health insurance and more and more medical providers find that they are not assured of payment for the services they have provided to their patients, a new coalition is building that may allow us to return to a real system of health insurance. That would be good for the health of the nation, the survival of our medical institutions, and the diversity of medical service providers our private system would continue to encourage.