

## **Health Insurance and Adverse Selection**

I have health insurance. Perhaps you do too. So what's in the Obama Health Insurance Reform package for us?

There are three reasons universal health insurance will benefit people who are already insured. First, if everyone becomes insured – a goal this legislation will mostly, but not quite totally, attain – our insurance premiums will no longer be covering the health care of the uninsured. People without insurance do get some health care, often as emergency treatment, much of which they can't pay for. Those losses their doctors and hospitals pass onto our insurance companies, in higher prices for our health care, and in turn onto us, in higher premiums and copays. If everyone were insured, the prices we'd be charged would fall, since we'd no longer need to cover those other peoples' costs in our payments.

Secondly, universal coverage would solve the problem of adverse selection, substantially reducing individual and small group insurance premiums. I currently get my health insurance as a member of a large group – the University of Wisconsin System. My insurance company knows that this large pool of people will have fairly predictable rates of diabetes, heart disease, cancer, etc. It can therefore charge us insurance premiums that reflect the costs of treating these predictable illness patterns.

Individuals who must buy their insurance individually – for example, my son Padraic, who is self employed – also belong to a large, predictable pool. But unlike we UW System employees, not all those individuals buy insurance. Some, knowing that certain illnesses run in their families, buy all the insurance they can afford. Others, believing themselves less likely to become ill, choose not to pay the high cost for insurance, gambling that they will stay healthy.

This pattern, called adverse selection, implies that the people who actually buy individual insurance will be more likely to get sick than the general population. The cost of insuring these people will be higher, so insurance companies have to charge them higher rates – which drives away even more of the healthier customers. Adverse selection is mostly why individual coverage is so much more expensive than large group coverage.

Requiring nearly everyone to be insured will mostly eliminate adverse selection, and should result in substantially lower individual insurance premiums. It will also let government force insurance companies to cover anyone who applies for coverage – the third benefit we'll get from this legislation.

Currently, to protect themselves from adverse selection, insurance companies refuse coverage to anyone they suspect has an existing health condition. They rightfully don't want to cover the health costs of those gamblers who weren't paying premiums before they got sick – although there are also many stories of them wrongfully removing coverage from people who'd been paying into their coffers before becoming ill. But if everyone has to have insurance, and individuals can no longer game the system, then we can also prohibit insurance companies from countergaming the system, be it dropping coverage, or dramatically increasing the insurance rates of those who become ill.

Yes, we'll need to provide subsidies to the low income, to achieve near-universal coverage. But my insurance is subsidized through the tax code, as income I'm not taxed on, and your insurance is undoubtedly subsidized too, either as untaxed income or as taxpayer financed Medicare. So subsidizing those less fortunate than us shouldn't be an issue. And bringing them into the insurance system will make that system a lot more reasonable, for all of us. This time, let's do it.