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# Michael Cannon: Innovation best alternative to Obamacare

By MICHAEL F. CANNON

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### ARTICLE

There is an alternative to the [Obama](#) health plan. It's called innovation.

Economist Glen Whitman and physician Raymond Raad found that, when it comes to basic medical sciences, diagnostics (e.g., MRIs and CT scanners), and therapeutics (e.g., ACE inhibitors and statins), the United States often produces more medical innovations than all other nations combined.



MCT illustration

America's health insurance markets are not following suit, despite the ready availability of innovations that can improve the delivery of care, insure the "young invincibles," and provide secure coverage for the sick. Bringing those innovations to consumers requires tearing down regulatory barriers to competition – the very barriers that the Obama plan would stack higher.

Health researchers have long complained of the need for comparative-effectiveness research, health information technologies, coordinated care, and payment systems that better reward quality care.

Innovations that meet those needs are already at hand. Health plans like [Kaiser Permanente](#) and [Group Health Cooperative](#) are leaders in effectiveness research and health information technologies. Both emphasize cost-effective preventive care, and compete based on the convenience offered by their electronic medical records.

Those successes are the offspring of earlier innovations. Kaiser and Group Health use a payment system called "prepayment," combined with an integrated delivery system, which both enable and reward comparative-effectiveness research, electronic medical records, coordinated care, and prevention.

Yet these innovations lie beyond the reach of most consumers, Stanford health economist Alain Enthoven explains, because our employment-based health insurance system – a creature of the federal tax code – blocks entry by integrated, prepaid health plans.

Reformers also seek to cover millions of "young invincibles" – twentysomethings who decline health insurance because, reformers believe, they think they will never get sick.

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While the Obama plan would force young invincibles to purchase health insurance, markets have developed insurance policies that can achieve the same result without coercion. Such policies pay a deferred dividend to customers who end up not filing any claims. The same miscalculation that causes young



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invincibles to underestimate their need for insurance also causes them to overestimate the probability that they will receive a dividend. Therefore, they insure.

Law professors Tom Baker of the University of Pennsylvania and Peter Siegelman of the University of Connecticut report these innovations are currently available in China, and were quite popular in life-insurance markets in the United States until they were demonized as a form of gambling. Lower barriers to market entry, including clear regulatory guidance about these products' legality, would cover many young invincibles without the need for more government.

Providing secure coverage to patients with high-cost illnesses may be our toughest challenge. The Obama plan tries to address this problem with price controls – i.e., by forcing insurers to charge all applicants of a given age the same premium, regardless of health status.

Markets long ago responded to consumer demand for protection against premium spikes, explains University of Pennsylvania health economist Mark Pauly, with an innovation that guarantees that those who develop a costly illness can renew their policy at the same premium as the rest of the group.

Many believe such renewal guarantees still leave insurers with incentives to mistreat their sick customers. Competition would solve that problem, too, University of Chicago finance economist John Cochrane explains, by pushing insurers to offer a total-satisfaction guarantee: "If at any time you are dissatisfied with your coverage, we will pay for you to switch to another insurance company at no additional cost to you." (Think about it: wouldn't you buy a health plan that offered that guarantee?)

Guaranteed renewability is a large step toward a total-satisfaction guarantee, and the market is busy making additional strides. Last year, UnitedHealth launched a new product that guarantees customers the option to buy coverage in the future at standard rates, no matter how sick they get in the meantime.

Expanding that guarantee so that customers could choose policies sold by another other insurance company, Cochrane explains, requires reducing barriers to competition – in particular, the very price controls that Democrats hope to expand.

Congress could jump-start these innovations with two reforms: letting individual consumers – elderly and nonelderly – control their health care dollars; and letting them purchase a health insurance plan regulated by the state of their choice.

Piling the regulations higher is a sure-fire way to block these innovations, and even more dramatic innovations that we cannot foresee.

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