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What to Do About Pre-existing Conditions

Most Americans worry about health coverage if they lose their job and get sick. There is a market solution.

By **JOHN H. COCHRANE**

Even if you don't like the massive health-care package being considered in Congress, you have to admit that health insurance and health care in this country are not working well. There are two basic problems:

First, if you get sick and then lose your job or get divorced, you lose your health insurance. With a pre-existing condition, new insurance will be ruinously expensive, if you can get it at all. This, the central defect of American health insurance, explains why most Americans are happy with their current coverage yet also support reform.

Second, health care costs too much. Yes, we get better treatment, but the cost-cutting revolution that has swept through manufacturing, retail, telecommunications and airlines has not touched health care.

The problems are real, but the proposed remedy—even more government intervention—is counterproductive. A market-based, deregulation-focused reform is possible, and it will work.

Health care and insurance are service-oriented, retail businesses. There is only one way to reduce costs in such a business: intense competition for every customer. The idea that the federal government can reduce costs by negotiating harder or telling businesses what to do is a triumph of hope over centuries of experience.

Take the claim that centralized record-keeping can cut costs. In his July 22 press conference, President Barack Obama noted that a new doctor today might run a test again rather than ask for records of a previous result. That seems silly. But maybe it isn't. Maybe the test is cheap, the condition changes, the test can fail, and the cost of setting up an integrated record system between these two doctors isn't worth two tests a year.

The cost-cutting revolutions in other industries didn't settle questions like these with acts of Congress, expert commissions, armies of regulators, or via a "public option"—while leaving in place a system in which consumers have little choice, aren't spending their own money, and suppliers are protected from lower-cost competitors. That approach has never spurred efficiency, and for good reasons. Cost-cutting is painful. Even in Mr. Obama's trivial example, lab technicians and secretaries will lose their jobs to computer programs, and they will complain. Patients might have to get tests at inconvenient times and locations. They will do this when their money is at stake—what people will put up with from airlines for a few dollars is truly amazing—but they will never accept it from the government.

But what about pre-existing conditions?

A truly effective insurance policy would combine coverage for this year's expenses with the right to buy insurance in the future at a set price. Today, employer-based group coverage provides the former but, crucially, not the latter. A "guaranteed renewable" individual insurance contract is the simplest way to deliver both. Once you sign up, you can keep insurance for life, and your premiums do not rise if you get sicker. Term life insurance, for

example, is fully guaranteed renewable. Individual health insurance is mostly so. And insurers are getting more creative. UnitedHealth now lets you buy the right to future insurance—insurance against developing a pre-existing condition.

These market solutions can be refined. Insurance policies could separate current insurance and the right to buy future insurance. Then, if you are temporarily covered by an employer, you could keep the pre-existing-condition protection.

Some insurers avoid their guaranteed-renewable obligations by assigning people to pools and raising rates as healthy people leave the pools. Health insurers, like life insurers, could write contracts that treat all of their customers equally.

The right to future insurance could be transferrable to another company, for example, if you move. You could have the right that your company will pay a lump sum, so that a new insurer will take you, with no change in your premiums. Better, this sum could be occasionally placed in a custodial account. If you got sick but had something like a health-savings account to pay high premiums, you could always get new insurance. Insurers would then compete for sick people too.

Innovations like these would catch on quickly in a vibrant, deregulated individual insurance market.

How do we know insurers will honor such contracts? What about the stories of insurers who drop customers when they get sick? A competitive market is the best consumer protection. A car insurer that doesn't pay claims quickly loses customers and goes out of business. And courts do still enforce contracts.

How do we get to a competitive market? The tax deduction for employer-provided group insurance, which has nearly destroyed the individual insurance market, is a central culprit. If we don't have the will to remove it, the deduction could be structured to enhance competition and the right to future insurance. We could restrict the tax deduction to individual, portable, long-term insurance and to the high-deductible plans that people choose with their own money.

More importantly, health care and insurance are overly protected and regulated businesses. We need to allow the same innovation, entry, and competition that has slashed costs elsewhere in our economy. For example, we need to remove regulations such as the ban on cross-state insurance. Think about it. What else aren't we allowed to purchase in another state?

The bills being considered in Congress address the pre-existing condition problem by forcing insurers to take everybody at the same price. It won't work. Insurers will still avoid sick people and treat them poorly once they come. Regulators will then detail exactly how every disease must be treated. Healthy people will pay too much, so we will need a stern mandate to keep them insured. And this step further reduces competition.

Private, competitive insurance markets are a superior way to solve the pre-existing-conditions problem, and the only hope to lower costs.

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