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The Truth About Health Insurance

Only nine states have the costly rules that Obama wants to impose nationwide.

The White House is priming the defibrillator paddles to revive ObamaCare, and its new strategy is to talk about "health-insurance reform," rather than "health-*care* reform." The point is to make its proposals seem less radical than they are, while portraying private insurers as villains for supposedly denying coverage to the sick.

Sounds like a good time to explain a few facts about the modern insurance market. Start with the reality that nine out of 10 people under 65 are covered by their employers, most of which cover all employees and charge everyone the same rate. President Obama's horror stories are about the *individual* insurance market, where some 15 million people buy coverage outside of the workplace.

Mr. Obama does have a point about insurance security. If you develop an expensive condition such as cancer or heart disease, and then get fired or divorced or your employer goes out of business—then individual insurance is going to be very expensive if it's available. But what the President and Democrats won't tell you is that these problems are the result mainly of government intervention.

Because the tax code subsidizes private insurance only when it is sponsored by an employer, the individual market is relatively small and its turnover rate is very high. Most policyholders are enrolled for fewer than 24 months as they move between jobs, making it difficult for insurers to maintain large risk pools to spread costs.

Mr. Obama wants to wave away this reality with new regulations that prohibit "discrimination against the sick"—specifically, by forcing insurers to cover anyone at any time and at nearly uniform rates. But if insurers are forced to sell coverage to everyone at any time, many people will buy insurance only when they need medical care. This raises the cost of insurance for everyone else, in particular those who are responsible enough to buy insurance before they need it; they end up paying even higher premiums. And the more expensive the insurance, the less likely people will buy it before they need it.

That's one reason that only five states—Maine, Massachusetts, New Jersey, New York and Vermont—have Mr. Obama's proposal for "guaranteed issue" on the books today. New Hampshire and Kentucky repealed such laws after finding that they soon had an even smaller individual insurance market as companies fled the state.

Another proposed reform known as "community rating" imposes uniform premiums regardless of health condition. This also blows up the individual insurance market, by making it far more expensive for young, healthy or low-risk consumers to join pools—if they join at all. And if the healthy don't join risk pools, then premiums go up for everyone and insurers have little choice but to reduce their risk by refusing to cover those who have a high chance of getting sick, such as people with a history of cancer. This is why 35 states today impose no limits whatsoever on how much insurers can vary premiums and six states allow wide variation among consumers.

New York, New Jersey and Massachusetts have both community rating and guaranteed issue. And, no surprise, they have the three most expensive individual insurance markets among all 50 states, with premiums roughly two to three times higher than the rest of the country. In 2007, the average annual premium in New Jersey was $5,326 for singles and in New York $12,254 for a family, versus the national average of $2,613 and $5,799, respectively. ObamaCare would impose New York-type rates nationwide.

There are better ways to go. Tax credits to individuals to buy insurance would make it more affordable and thus strengthen the individual market. Other tax rule changes could also make it easier for people to join and form their own risk pools beyond their employers, such as through business federations, labor unions or, say, the Kiwanis Club. They would no longer be hostage to one job for insurance.

University of Chicago economist John Cochrane also argues that in a more rational individual insurance market, people could insure not merely against medical expenses but also against changes in health *status*. This kind of insurance would cover the risk of premiums rising as you get older and your health condition changes.

In turn, that would free insurers to compete for the business of all patients, including those with pre-existing conditions, because then they could charge enough to cover the costs—instead of passing them to others. As for those with rare conditions ("orphan diseases") that require a lifetime of special care and are thus uninsurable, this is where government subsidies could be both appropriate and affordable.

ObamaCare would impose on all 50 states rules that have already proven to be failures in numerous states. Because these mandates would raise the cost of insurance, ObamaCare would then turn around and subsidize individuals to buy the insurance that the politicians made more expensive. Only in government could such irrationality be sold as "reform."

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