Posted on Thu, Feb. 25, 2010

Health reformers' worst idea

Price controls for insurance - or anything else - simply won't work.

By Michael F. Cannon

His health-care overhaul adrift and increasingly unpopular, President Obama has invited Republicans to a televised summit today to discuss "all the best ideas that are out there." Odds are that Democrats will use the moment to exalt - and berate Republicans for blocking - one of their worst ideas: federal price controls on health insurance.

Both the House and Senate health-care legislation would prohibit insurers from discriminating against people with preexisting medical conditions. Insurers would have to charge everyone in a given age group the same premium - say, $10,000 - whether an enrollee costs $5,000 or $25,000 to insure. That's a price control.

Larry Summers, one of President Obama's top economic advisers, spoke for most economists when he said, "Price and exchange controls inevitably create harmful economic distortions. Both the distortions and the economic damage get worse with time."

Experience shows that, over time, price controls cause health-insurance markets to collapse by driving healthy people from the marketplace. For example, a recent analysis found that a New Jersey program setting insurance prices without regard to health status appears to be collapsing.

Likewise, the president's latest reform proposal would increase premiums for healthy people, create financial incentives of as much as $10,000 for them to drop out of the market, and permit them to buy coverage at standard rates whenever they get sick. Once they drop out, premiums would rise further, causing more healthy people to drop out, and so on in a vicious cycle.

Even if the president could force healthy people to buy coverage, his price controls would hurt the very people he pretends to help. Yes, insurers would technically be required to cover each $25,000 patient for $10,000. But if you think insurers mistreat the sick now, just wait until price controls turn every single sick person into a $15,000 liability. Insurers would go to even greater lengths to avoid and dump the sick; those that didn't would go out of business.

Insurers can be very creative at this. "A good way to avoid enrolling diabetics," suggested Stanford health economist Alain Enthoven, "is to have no endocrinologists on staff in the county." One of Humana's price-controlled Medicare plans allegedly contacted its high-cost patients and encouraged them to enroll in a competitor's plan. Lousy customer service and complicated claims procedures can also help a price-controlled insurer drive away the sick.

Or consider the case of 13-year-old Shelby Rogers of Virginia, whose spinal muscular atrophy leaves her so weak that she has to be turned in bed to avoid pressure sores. Shelby gets help from a private-duty nurse, paid for by the Aetna plan her parents purchase through the price-controlled health-insurance exchange for federal workers. A year ago, however, Aetna said it would stop paying for Shelby's nurse because, as a spokesman explained, covering private-duty nurses tends to attract patients like Shelby.

Following negative media attention, Aetna reinstated the benefit. But it won't last. If an insurer provides high-quality care to the sick, price controls reward it with bankruptcy. Harvard economist David Cutler (another Obama adviser) and his colleagues found that in the price-controlled exchanges at Harvard and the University of California system, the health plans that sick people liked most went belly up.

These insurance-company abuses indicate government failure, not market failure. University of Chicago economist John Cochrane argues that when people buy health insurance free of government price controls, insurers compete to provide more innovative, secure coverage - as well as better, more affordable medical care - to those who develop costly illnesses.

The market is proving Cochrane right. Last year, UnitedHealth introduced a new product that guarantees the right to buy coverage in the future at standard premiums, no matter how sick you get in the meantime. The Democrats' legislation would stop such innovation dead in its tracks.

Price controls will not change the economic reality underlying high insurance premiums - i.e., that some patients file especially expensive claims. They will merely lead people to respond to that reality in even less desirable ways. And they will discourage innovations that actually help sick patients.

Price controls do poll well, though, and in Washington that passes for a good idea. Nevertheless, Summers is right and Obama is wrong: Price controls would heap additional miseries on the sick.

Michael F. Cannon is the director of health policy studies at the Cato Institute and a coauthor of "Healthy Competition: What's Holding Back Health Care and How to Free It." He can be reached at mcannon@cato.org.

Find this article at:
http://www.philly.com/inquirer/opinion/20100225_Health_reformers__worst_idea.html