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Insurance-Premium Regulation in Health Care Bill Rewards Bad Behavior, Penalizes Good

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By Matt Cover

(CNSNews.com) – Provisions in both the House and Senate versions of Democrats' health care proposals bar insurance companies from tying health insurance premiums to unhealthy behavior, and that could drive up health care costs and reward unhealthy behavior such as smoking and drug abuse.

Bills in both the House and Senate limit insurance companies’ ability to adjust their premiums based on three criteria: age, geographic location, and family structure.

“The premium rate charged…shall not vary except as follows: (1) By age…(2) By area…(3) By family enrollment (such as variations within categories and compositions of families),” the House version states.

The Senate version, as passed by the Health, Education, Labor and Pensions Committee, includes all of the House’s conditions and adds one extra: the actual value of the services each plan provides.

“With respect to the premium rate charged by a health insurance issuer…(1) such rate shall vary only by – (A) family structure; (B) community rating area [geographic location]; (C) the actuarial value of the [health] benefit; (D) age,” the Senate bill says.

The Senate version goes on to specify which criteria insurance companies cannot use to adjust their premiums, including “health status-related factors” and “claims history,” meaning insurance companies cannot adjust premiums based on health-related behavior such as smoking or eating habits, or a person’s past claims – for things like drug rehabilitation or sexually transmitted diseases.

“(2) such rates shall not vary by health status-related factors such as gender, class of business, claims experience, or any other factor not described in paragraph (1).”

Both the House and Senate provisions mean that insurance companies cannot take any health-related factors into account when setting premium rates, meaning that someone in excellent health would pay the same rate as a life-long smoker or drug user for the same health coverage.

High-cost diseases such as obesity, heart disease, and diabetes cannot be used to determine premiums, if Congress passes either version of health reform. This means that the costs of treating these diseases would be born largely by healthy American taxpayers, because the government will be subsidizing health insurance for those who cannot afford it.

Obesity, which accounted for 9.1 percent of all health care spending in 1998, according to the latest data from the Centers for Disease Control and Prevention (CDC) – costing nearly $92.6 billion – affected nearly 72 million people in 2006.

Diabetes, another costly disease directly related to lifestyle choices and health behavior, affected 24 million in 2008, according to the CDC. That's an increase of nearly 3 million people since 2006, the CDC said, the same year the disease killed approximately 72,000 people.

Heart disease, which killed over 800,000 people in 2006, according to the CDC, affects about 80 million Americans and is primarily caused by poor diet and lack of exercise over a lifetime.

The fact that insurers cannot base premiums on the costs of treating these and other behavior-related diseases amounts to government price controls, said Michael Cannon, director of health policy at the libertarian Cato Institute.

"It allows you to shift the costs of your bad behaviors onto other people," Cannon told CNSNews.com. "Those restrictions are a price control and like all price controls they do not change the economic reality that underlies market prices. All they do is hide that underlying reality from producers and consumers."

These provisions will cause people to respond in potentially harmful ways, Cannon said, because they will continue acting in ways that increase health costs rather than reduce them, causing insurance companies to try everything they can to avoid providing coverage.

"People will still respond to that underlying reality, but they will do so in harmful ways," he said. "If you have two or three chronic conditions, what are you going to do? You're going to go get the most generous plan you can get because you're going to want to get as big a subsidy as you can."

"What's an insurance company going to do?" said Cannon. "They're going to do whatever they can to avoid you. They're going to avoid you like the plague, and if they can't avoid you, they're going to do whatever they can to get you off their rolls."

Cannon said that if this provision survives congressional negotiations, it will mean even worse treatment for the sick, not better, because insurance companies will be unable to cover the costs of treating unhealthy people.

"If you think insurance [companies] try to avoid the sick now, and provide lousy service to the sick now, just wait until they can't charge an actuarially fair premium," he said. "Then they're really going to start avoiding the sick."

Cannon said that thousands of years of history show that such price controls do not work, arguing that there is no way Obama can get around that.

"Four thousand years of human history shows that price controls fail," said Cannon. "Four thousand years of human history show that price controls are a disaster. What does President Obama know that four thousand years of human history do not?"