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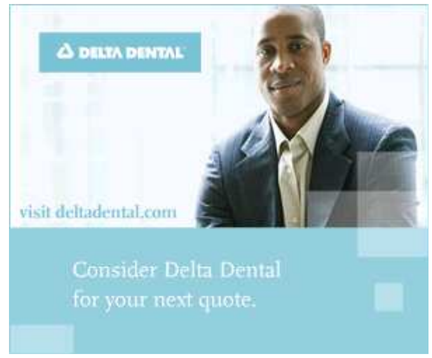

Witnesses Pan Private Option

By ALLISON BELL
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Bureaucracy can be as much a problem at private health insurers as at public health programs, witnesses argued today at a subcommittee hearing organized by Rep. Dennis Kucinich.

But subcommittee members also heard from a witness who warned that well-intended efforts to rein in private health insurers could backfire, by creating artificial barriers and shortages that could limit consumers’ ability to get health care or health coverage.

One myth about reform of the health insurance industry “is that government-run health care is efficient and wasteful, compared to private insurance,” Kucinich, D-Ohio, chairman of the Domestic Policy Subcommittee at the House Oversight and Government Reform Committee, said at the hearing, according to a written version of his opening statement posted on the committee website. “The truth is that government-run health care has lower prices and much lower administrative costs than private insurance.”

Government-run insurance negotiates harder bargains and has no multimillion-dollar executive salaries to pay or corporate jets to buy, Kucinich said.

The committee heard stories from a number of consumers with complaints about their health coverage.

Mark Gendernalik, a teacher from West Hills, Calif., said problems with health coverage slowed the process of diagnosis and treatment when his 3-month-old daughter developed a rare neurological problem.

William Ackley of Red Lodge, Mont., talked about the fight his father went through to get a bone marrow transplant to fight chronic lymphocytic leukemia. Even state insurance regulators ended up running into unresponsiveness when they tried to check up on the claim denial appeal, Ackley said.

Because a relatively few unlucky people account for most health care expenditures, “we buy health insurance to spread risks and protect our access to health care in case we get sick,” said Karen Pollitz, a research professor at a Georgetown University institute. “However, the same distribution creates a powerful financial incentive for insurers to avoid risk. In a competitive market, if an insurer can manage to avoid enrolling or paying claims for even a small share of the sickest patients, it can offer coverage at lower premiums and earn higher profits.”

Even if Congress requires insurers to sell coverage on a guaranteed-issue, modified community rating basis, with a ban on rescissions and preexisting condition exclusions, lawmakers must fight informal efforts to compete based on risk selection by requiring more data reporting to regulators, more disclosures to consumers, and better standardization of health insurance products, Pollitz said.

Recently, Pollitz said, when the House Oversight Committee asked the 50 state insurance departments about moves to rescind health insurance policies, “only 4 states could provide data on the number of rescissions that occurred. Only 10 states could provide the number of individual health insurance policies in force, and more than one-third of states could not supply a complete list of companies that sell health insurance within their jurisdiction."

Michael Cannon, health policy studies director at the Cato Institute, Washington, a think tank that supports use of market forces to solve economic and social problems, said lawmakers must recognize that using price controls, underwriting restrictions and other artificial restrictions to try to help consumers could make the situation worse.

Researchers "have found considerable evidence that unregulated markets provide consumers with reliable long-term protection from the cost of illness," Cannon said.

One team of researchers has reported that actual premiums paid for individual insurance are much less than proportional to risk, and risk levels have a small effect on obtaining coverage, Cannon said.

The increase in premiums as a result of risk represents only about 15% of the increase in risk, Cannon said.

Health insurer efforts to rescind policies as a result of alleged defects in applications have occurred in California, but insurers and their lawyers themselves know that the rescission cases are difficult to take to a jury, Cannon said.

If Congress tries to make insurers hold prices down, the price controls would "punish insurers who provide quality coverage to the sick," Cannon said. "Price controls will eliminate the plans that sick people find most attractive."

If Congress tried to help health insurers hold down underwriting costs and spread risk by requiring individuals to own coverage, costs would go up, Cannon predicted.

In addition, if the government set up a government-run plan, patients might find that getting the government plan to live up to its benefits commitments may be far more difficult than getting private plans to pay benefits, because the government "wields the sole, legal, and unilateral power to breach its commitments without compensating those it harms," Cannon said.

Links to copies of the written versions of the hearing testimony are available here.

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