



The Council for Affordable Health Insurance's ISSUES & ANSWERS

Solutions for Today's Health Policy Challenges

No. 142

May 2007

Conventional Wisdom in Health Care Reform *And Why Most of It Is Wrong*

With health care reform all the rage, you will hear a number of people making claims that are repeated so often they morph into conventional wisdom, even undeniable truth. Unfortunately, much of that “wisdom” is misleading or just plain wrong. Here are some of the most widely accepted errors that are driving the health policy reform debate.

(1) 45 million Americans don't have health care. One of the quick and easy ways to know that someone is new to health policy is when that person claims that 45 million Americans don't have access to *health care*. What the person means is that 45 million Americans don't have health insurance. That's a big difference.

According to Mark Litow of the actuarial firm Milliman, the average uninsured person used an estimated \$2,262 in health care expenses in 2006 — some of it paid for out of pocket, some of it provided free or at discounted rates in public clinics. The average insured (non-elderly) person used about \$3,580.

Clearly, the uninsured can be left vulnerable; it would be much better if they had good, affordable coverage — especially considering a recent study pointed out that hospitals tend to charge the uninsured 2.5 times more than the insured. The point here is simply to say that having insurance is not the same as having access to care. The uninsured can and often do get the health care they need.

(2) Getting everyone insured will lower health care spending. Some policymakers, including former Health and Human Services Secretary Tommy Thompson, contend that the uninsured often wait until the last minute and rely on expensive emergency room care rather than seeing a less-expensive primary care physician. Thus, the reasoning goes, if the uninsured had coverage, they would get care in a timely manner and avoid the emergency room, ultimately saving the system money.

There are three problems with that claim.

- An analysis of emergency room patients published in the *Annals of Emergency Medicine* (2004) found that 85 percent had health insurance — which is about

equal to the percentage of Americans with coverage. And 79 percent had incomes above the poverty level. It may be that too many people go to the emergency room, but their insurance demographics compare to the country as a whole.

- People in single-payer countries, where everyone has coverage, also use the emergency rooms wastefully. A recent report on asthma in Great Britain by Asthma UK said, “better guidance to help patients manage their conditions could save the NHS in England £43.7 million a year.” It also said that emergency room admissions for asthma vary across the UK by a factor of six. In addition, the journal *Thorax* recently concluded “that inner city children from poor families are much more likely to seek emergency care for asthma than their more affluent peers,” according to a London news story.
- Finally, getting people covered with insurance won't necessarily reduce spending, and could *increase* it. That's because when people are insulated from the cost of something — including health care — they tend to spend more. True, the majority of the uninsured are younger, healthy people who tend to use little health care, so getting them in the system will help keep premiums lower. But anyone who thinks that “universal coverage” will magically lead to lower premiums is dreaming. Utilization will increase which will likely increase total spending — and premiums.

Fortunately, that upward pressure on spending can be reduced if patients have a reason to be prudent health care shoppers. The increasingly popular consumer driven health care movement, which gives consumers more control over their health care dollars and rewards them financially for making good decisions, does exactly that.

(3) We need to incorporate the “law of large numbers.” This argument goes something like this: If we could only make the health insurance pool big enough — i.e., the “law of large numbers” — premiums would become affordable because both sick and healthy people would be in the pool.

But as a recent paper from the American Academy of Actuaries points out, large numbers won't solve the cost problem. First, large health insurers already have millions of people in their pools. More importantly, what keeps health insurance premiums affordable is a good distribution of healthy and sick people. That distribution is undermined when a disproportionate number of sick people join a pool, encouraged by laws that make it easy for them to wait until they need care to enroll. A bad risk mix will drive up premiums whether the pool has 100 people or 1 million.

In addition, a paper by the California HealthCare Foundation looking at health insurance purchasing pools and why most of them have failed concludes, "Yet merely establishing or designating pools holds no hope of reducing the number of uninsured or the cost of coverage."

While large pools can reduce the impact of a small number of people needing expensive care and make costs more predictable, they don't by themselves reduce costs.

(4) Mandating people have health insurance eliminates the "free-rider" problem. This argument says that many of the uninsured do get care, they just don't pay for it. And those costs ultimately get shifted to the rest of the population who do pay for care, primarily through their insurance coverage.

So if everyone had insurance, i.e., "universal coverage," that would eliminate the free-rider problem, greatly reduce cost shifting and lower health insurance premiums. Many conservatives have been drawn to this argument because proponents claim it promotes personal responsibility — i.e., every individual has to take care of his or her own medical costs.

- First, the free-rider problem is relatively small. The journal *Health Affairs* estimates that uncompensated care is only about 3.5 percent of health care spending. While uncompensated care can impose financial strains on providers, especially on certain hospitals and clinics serving low-income populations, it is not a big portion of the health care system. Ironically, the largest cost shifting comes from government-run programs such as Medicaid and Medicare underfunding providers.
- Second, achieving the goal of universal coverage is a lot harder than it sounds. Massachusetts, which was the first state in the country to pass an "individual mandate" requiring everyone to have coverage, recently exempted 20 percent of the low-income uninsured population. The reason: they don't have sufficient funds to pay for the coverage out of their own pocket.

The better approach is to encourage people to voluntarily insure by providing a high risk pool for those with a medical condition, subsidies for low-income people and a reasonable regulatory environment that attracts a wide range of affordable policies.

(5) Expanding preventive care will save the health care system money. The notion here is that if we could incorporate more preventive care, then we could catch diseases early, saving billions of dollars and, more importantly, lives. But the fact is that preventive care also *costs* money.

Mammograms, for example, are one of the most effective options in the preventive-care arsenal. Millions of dollars are spent on mammograms every year; yet thankfully only a small percentage of them reveal problems. We likely spend far more than we save on mammograms, and that's fine. There are other benefits from using more preventive care, including an improved quality of life. But policy-makers will be greatly disappointed if they think expanding preventive care will necessarily save the system money.

Conclusion. Over the next year or two, the public will be inundated with solutions to the problem of the uninsured. Ironically, single payer health care systems already incorporate many of these principles, and yet people still over-use the emergency room and face rationing due to chronic funding problems. Everyone may have coverage, but they can't always get timely care. And while those countries may spend less on health care, that's because they artificially cap health care spending. They spend less, but they also get less.

The fact is that the only real solution to the problem of the uninsured is to ensure that the free market can operate in health care, as it does in other sectors of the economy.

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