



Written by on April 28, 2010

ObamaCare's Health Insurance Reform

Americans, by and large, want some type of "healthcare reform," even if they are not for Obama's version of reform. They are tired of getting the run-around from insurance companies that seem to dispute or deny every claim; they want insurance costs to go down; they want everyone — even those with pre-existing conditions — to have access to affordable health insurance; they don't believe it's fair for insurance companies to jack up their rates or drop coverage when an insured makes a costly claim.



And their concerns are understandable, and in many ways they are correct — we do need reforms. But the question that arises is: "Is government control of insurance premiums and coverage an answer to the problems of cost and access to care?"

The answer to that question is "no."

In explaining why the answer is "no," one must first understand why insurance is beneficial and why rates increase.

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Insurance is basically a form of legalized gambling — the reason why some religions object to it — though it is an upside down form of gambling in which people who put forward their money hope to lose to the "house." For instance, a subscriber bets that he'll have a heart attack or accident and that the insurer will have to pay — hoping he's wrong.

The "house," the insurer, bets that the subscriber won't have a heart attack or accident, hoping it will continue to collect premiums and investment returns. As in other forms of gambling, the house always wins — or else goes out of business. The business of insurance reaps legitimate rewards from accurate actuarial estimates, efficiency, and wise investing.

Insurance makes a lot of ventures possible that otherwise never would be undertaken because they are too risky. For their money, the insured get peace of mind and the ability to expand their businesses and protect their families against catastrophic financial loss. With property or casualty insurance, premiums are generally reasonable, and people are happy to pay them as a cost of doing business. Higher premiums for higher risk or higher benefit level are understood as necessary and reasonable. It costs more to insure luxury cars, young male drivers, or houses in a flood plain. And you set your own value on your life, or at least the amount of money needed to pay off your liabilities and provide for your family.

As in any gambling situation, there is an inherent moral hazard — incentive to cheat — that affects both sides, and some entity is needed to combat fraud. In the case of insurance, courts enforce contract law, as do state departments of insurance. Though dealing with insurance companies can be a headache, the system does work to ensure people get what they are owed. It is already illegal for insurance companies



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to drop people when they get sick. If companies violate their contract by doing this, they can be successfully sued.

Many of the problems with “health insurance” are problems with our third-party payment system, which is *not* really insurance. With true insurance, actual claims are rare because insurance is appropriate only for rare events like shipwrecks, car crashes, and fires. Under present “health insurance,” insurers act as more of a payment service than an actual insurance company — paying the bills not only for catastrophic injury claims, but for every visit to the doctor.

That being said, health insurance just doesn’t work as well as property and casualty insurance.

For one thing, the cost of treating an illness can be extraordinarily high. And it’s hard to set payment and coverage limits, as one does in deciding to send a wrecked car to the junkyard. And while it may be judged by most people as fair to charge insureds more as a penalty for not buying and maintaining insurance when young and healthy, or for higher risk and pre-existing conditions resulting from lifestyle choice, it just doesn’t seem fair that some people should pay more because they are inclined to get sick or have pre-existing conditions present since birth.

However, under the private insurance model, there are ways of addressing these problems, such as high-risk pools for high-risk individuals. Insurance made available to very large groups requires less rigorous underwriting. In a free market — which has not existed in America for about 60 years — almost everyone would be able to get a suitable insurance policy at a fair price, or other types of help with medical expenses. Perhaps most importantly, in a true free market in which most bills were paid directly at the time of service, costs would be much lower — just as they were some 40 to 50 years ago when a hospital stay for an uncomplicated appendectomy cost about 10 days’ wages for a construction laborer.

The fact is that some things are simply not insurable risks, and cannot be handled through the mechanism of insurance. Property and casualty insurance, for example, excludes coverage for acts of war. This does not mean that victims of such circumstances cannot or should not be helped. Americans give generously to charities that help the unfortunate (burned children, hemophiliacs, cancer victims, etc.), and they would certainly help those needing exceptionally expensive medical treatment. It will always be possible to cite examples where insurance fails. This does not mean that the whole concept of insurance should be destroyed; instead, we need to tailor a response for the extraordinary circumstance.

But the ruling regime — Democrats now and Republicans who previously held power — failed to undertake reforms to correct the distortions introduced by previous government malfeasance, such as giving tax breaks to companies that offered insurance to employees but not offering the same tax breaks to individuals that bought insurance, leading to a situation where insurance came with a job, instead of traveling between jobs with an employee. Instead, our politicians chose to impose on us compulsory social insurance for medical needs, which only pretends to solve the great perceived cosmic injustice of unequal distribution of health and wealth but will not lead to more and better care for all. Rather, it achieves the real pragmatic political objective of making everyone dependent on government for treatments to prolong life or relieve pain and disability (see "[ObamaCare: Embattled Doctors and Patients](#)").

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