

The Economic Realities of Health Insurance Coverage

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The General Policy Question

- How, Whether, When to Cover Americans currently without insurance or with private (mostly employment-based) insurance.
- The Great Ideological Gulf: Should new or existing coverage be produced/managed by the public or private sector?
- Markets work best (vs. govt.) when preferences differ.

Target Group 1: Mostly lower middle-income uninsured

- The largest single group: 40% of uninsured have incomes between 125% and 300% of POV.
- Most people in this group now have private insurance.
- Why don't all? Affordability (45%); “something else” (55%).
- The something else could be misinformation, misperception, crowdout, or mispricing of insurance. All matter.

Realties for Target Group 1

- “Pushing the last holdouts with a string”:
Meaningful subsidies for voluntary coverage will have a high government budgetary cost, enough to climb over the tax exclusion: eventually up to \$50 billion per year +.
- But covering the uninsured will have a real cost of only 4% of NHE, since the uninsured already consume most of what they would consume if they were insured.

Reasons for the Realities

- Need to track and transfer the displaced funds—or make an act of faith.
- Very hard to “target” subsidies in a fair and non-distortive way. Inequities and excess burden.
- My ideal: incorporate more neutral incentives into a lower middle income tax cut.
- Policy decisions: how perfect how soon? How obsessed with risk (a red herring)? How voluntary can it be, really, in a Samaritan’s dilemma?

Target Group 2: Mostly upper-middle income insured

- This group is experiencing “cost explosion.” Again. And it’s technology, stupid! Well, Duh!
- Employers and some employees are reacting in nonsensical ways—increasing employee premiums, causing some workers to drop coverage and take a (usually foolish) chance.

Realities for target group 2

- In the feasible set, we don't know that the increase in spending is bad: benefits vs. costs.
- Employees pay for their coverage, regardless.
- So increasing employee premium only does harm to workers; it does not advantage the employer.

Reasons for the realities

- Expenses being driven by much beneficial new technology and higher wages for scarce medical labor: these are not evil and aren't necessarily permanent.
- But the unfair, open-ended tax subsidy both causes high cost and confuses us about it.
- The most important public policy decision: do nothing about rising cost and trust Stein's law. If you must move, try to limit (not expand) tax breaks. (Limit exclusion to value of cat. policy).

Dear Santa: Here are the research results on my list.

- Incidence within firm of employer-paid premiums.
- Models of uninsured workers that deal with self selection.
- Better understanding of why employers want to charge for insurance they want workers to take.
- Designing decent individual coverage for voucherees.
- Good evidence on the harm done by absence of insurance to the non-poor.

The Open Political Questions

- Political will to deal with the budgetary cost of the uninsured.
- Or political will to mandate coverage for afforders.
- And the nerve to limit the tax exclusion or convert it into more general tax cuts with predetermined distribution: trade FSAs for tax free dividends?