An Insurance Primer for Stupid Leftists

The concept of insurance is simple (at least for those who have common sense). You pay a fee (a premium) to insure against the possibility of rare, unexpected events. That premium is far less than what your expenses would be if you were uninsured, suffered the catastrophic loss, and had to pay for it in full out of your own pocket.

For example, you may have a $30,000 car and pay $1,000 per year for car insurance. You hope never to need to use that insurance, because you do not want your car stolen or involved in an accident. But *if* something terrible happens, your insurance company pays to repair or replace your car—minus a deductible that you negotiate when you buy the policy. Car insurance "works" because most people do *not* get in car accidents and their cars do *not* get stolen. Insurance is intended to cover uncommon, unforeseen circumstances. Insurance is "*If*surance"—something that helps you out of a jam *if* something unexpected happens.

Insurance works because the risk is spread among many customers. If an insurer covers 5,000 customers, it does not anticipate 5,000 stolen cars or 5,000 severe car accidents. If every customer were to experience such a catastrophe, that insurance would obviously necessarily cost far more than $1,000 per year. It would obviously cost $30,000 or more per year to insure your $30,000 vehicle—because insurance companies cannot print money.

Your car insurance policy does not cover routine oil changes because they are *not* unforeseen circumstances. You expect to have your car's oil changed several times each year. To insure against oil changes would be ridiculous—because it not a rare event, it is a routine event!

Any *reasonable* person can see the logic in this. You insure your car against *unexpected* events and do not insure it against *routine* expenses. Why? Because you cannot "spread the risk" *when everyone experiences the same risk!* If only one driver in 500 needed routine oil changes, one could possibly make a case for "oil change insurance." But *every* driver needs routine oil changes! Driver A cannot spread his oil change "risk" to Driver B, because Driver B is also spreading his "risk" to Driver C, and so on. *When every customer has the same risk, it is impossible to spread that risk!*

For some reason, many people who can understand the logic of insurance when applied to automobiles seem unable to apply the same logic to health insurance. But the logic is necessarily the same.

Not everyone has a heart attack. Not everyone gets cancer. Not everyone breaks a leg. Many people remain relatively healthy their entire lives, and some never spend a day in the hospital. Like car insurance, therefore, health insurance is designed to spread the risk of the cost of unexpected illnesses and injuries. The point of health insurance is to cover uncommon, unexpected, and expensive health events. But health insurance for routine care is as absurd as car insurance for oil changes, because there is no way to "spread the risk" when every customer experiences those routine expenses.

As an example, assume health insurance Company X has 50,000 customers with individual policies. In any given year, some of those 50,000 customers will be stricken with cancer or a heart attack or a broken leg. The insurance "works" because most customers do *not* experience those tragedies. A few customers may require $1 million or more in health care, but most do not. The fortunate are subsidizing the unfortunate; the thin are subsidizing the fat; the non-smokers are subsidizing the smokers; the genetically superior are subsidizing the genetically inferior. You have health insurance *in case* you get sick or injured; you *do not want* to get sick or injured.

But far too many Americans want health insurance to cover *every* possible health care expense. As an example, millions of Americans expect insurance to cover a routine annual physical. In fact, ObamaCare *requires* that insurers cover routine annual physicals. Let's examine the absurdity of that requirement.

Insurance Company X has 50,000 customers with individual policies. Assume every one of them has a routine annual physical examination. Assume also that the cost of each physical exam is $300. The total cost of those exams is therefore $15,000,000 ($300 multiplied by 50,000). The point of insurance is to "spread the risk" among the customers. But if the insurer spreads that $15 million risk among 50,000 individual customers, the shared cost per customer is obviously $300. The insurance company must *necessarily* add an additional $300 per year cost to the annual premium. It cannot "spread the risk" because everyone experiences the risk.

In fact, the insurer must charge *more* than $300 per customer. Why? Because it must cover the cost of the exams, plus the cost of processing the claims, and tack on an additional amount for profit. Even though the customer could write the doctor a check for $300 to pay for the annual physical exam, the insurer not only has to pay the $300 to the doctor, it *also* has to pay the employees who process those 50,000 claims. Add in another few dollars for profit (without which the insurer would go out of business), and that $300 charge may end up being a $310 increase in one's annual premium.

Demanding that health insurance cover annual physical exams is like demanding that car insurance cover oil changes. Why would anyone want to pay $310 more in annual premiums when one could simply write the doctor a check for $300?

The nonsensical demand that health insurance cover almost every possible health expense explains why premiums have gone sky-high. When no one wants to pay for anything, everyone must necessarily pay for everything.

To make matters worse, ObamaCare eliminates much of the insurance company flexibility in determining rates. In the real world, someone with a Corvette parked on a city street pays far more for car insurance that someone with a sedan in a suburban garage. Why? Because the Corvette on the street has a greater risk of being stolen. Although the general risk of theft is spread among all insured drivers, those with the greater risk pay higher premiums. That is a perfectly logical way to deal with the situation.

But ObamaCare demands that health insurers overcharge young, healthy Americans in order to subsidize older, sicker Americans. That is ridiculous. (Fat, old, sick, diabetic, smokers *should* pay higher premiums than thin, young, healthy, non-smokers.) ObamaCare's efforts to "make everything equal" introduce absurdities that no reasonable person would ever contemplate. It costs more to insure women than men because women have babies. But the architects of ObamaCare, avoiding reality, did not want women paying higher rates than men. Their “solution”? *Overcharge men* to make things “equal.” (Should the owner of a 2012 Ford Focus pay more for his insurance so that the owner of a 2016 Corvette can pay less? Should a female kindergarten teacher pay more for life insurance so a male oil rig worker can pay less?)

ObamaCare also outlaws catastrophic policies, although they make perfect sense and are a good way to keep premiums low. Some people may want a policy that covers only the “big ticket” items, like cancer and heart attack, and not want coverage for things like strep throat tests. Why should someone (especially young people) be prohibited from buying a catastrophic policy, with the understanding that they must pay for routine doctor visits out of their own pocket?

Of course, the response from leftists to such arguments is that “We’re all paying for it anyway” when the uninsured show up at hospital emergency rooms. Thus, they argue, we need ObamaCare to *force* people to buy “comprehensive” policies. But that argument relies on the assumption that hospitals “must” care for anyone who shows up at the emergency room. Why must that be an assumption? Why don’t we repeal the legislation that requires hospitals to provide free care? Those without insurance will therefore have to buy policies (catastrophic or comprehensive as they see fit), pay for care out of their own pocket, or take their chances and rely on private charities. (Forcing hospitals to provide free care is tantamount to forcing a body shop to repair your car even if you have no insurance or money.)

The next rebuttal from the leftists is, “But *everyone* needs health insurance!” In fact, everyone does not. Many Americans have never set foot in a hospital or spent more than a few hundred dollars per year on doctor visits. Millions have paid for limited care out of their own pockets, without insurance. But if one plays the “Everyone needs insurance!” card, why not also play the “Everyone needs to eat!” card. Should supermarkets be forced to provide food for any indigent who shows up hungry?

The solution to these problems is to repeal ObamaCare; allow insurers to sell policies across state lines (to promote competition and encourage lower premiums); expand health savings accounts (where one puts money in a tax-free account that can only be used for health care expenses); allow insurers to sell catastrophic policies; allow insurers to sell whatever policies the consumers may want. In addition, service providers should be allowed to advertise and post their fees. (If you can shop around for Lasik and cosmetic surgery, why can you not shop around for a knee replacement?) Allow more medications to be sold without prescriptions. Allow walk-in strip-mall services and tests that do not require a doctor. (Why do you need to pay a doctor for a strep throat test?) Eliminate the employer tax deduction for employee health insurance. (Instead of your employer paying $15,000 per year for your insurance, have him give you a $15,000 raise and let you shop around for your own policy.) In other words, let health care function in a free market—as it did before the passage of Medicare in 1964 gummed up the works.

Don Fredrick
January 8, 2017