THE WALL STREET JOURNAL.

Reform Needs Healthy Life Incentives

By Scott E. Harrington
710 words
29 June 2009
The Wall Street Journal
J
A13
English

Much of the debate over health-care reform has focused on whether there should be a government insurance plan to compete with private plans. This focus is understandable given the stakes. Because equal competition between a public insurer and private plans is impossible, public coverage would crowd out private coverage and make a public, single-payer system inevitable.

Another important issue is the scope of regulation that will likely apply to private health plans regardless of whether a public plan is created.

Given budgetary and affordability concerns, the insurance market proposals by House Democrats and Sens. Edward Kennedy and Chris Dodd would permit some variation among plan benefits and cost-sharing provisions, such as deductibles and coinsurance percentages. The proposals otherwise would impose a regulatory straightjacket that would put upward pressure on health costs, thus undermining a major reform objective and creating additional pressure for government-mandated cost controls. Whether legislation being developed by Senate Finance Chairman Max Baucus will go as far isn't clear.

The House Democrat and Kennedy-Dodd proposals do all they can to prevent health-insurance premium rates and coverage terms from reflecting the health status -- and thus health-related behavior -- of any insured person. Health status would not be permitted to affect coverage decisions, terms or pricing. Age-related variation in premium rates would also be significantly constrained in relation to risk.

Benefit design and marketing of coverage would be regulated in an attempt to keep insurers from rewarding healthier people. Retrospective "risk adjustment" would be employed to reallocate funds from insurers that experience lower medical costs to those with higher costs. If an insurer were to attract relatively more healthy people -- or keep more people healthy -- it would run the risk of paying some or all of the gains to competitors.

The proposals' strong aversion to having insurance rates or coverage terms related to health status reflects the view that either the need for health care is immune from individual control, or that a person should not be financially responsible for behavior that contributes to poor health, or both. These views are difficult to reconcile with the consensus that unhealthy behavior contributes significantly to obesity, diabetes, heart disease and cancer, and thus accounts for a substantial proportion of health-care costs.

Regulation that seeks to divorce insurance rates and coverage terms from health status would deter potential innovation that might provide meaningful financial incentives for healthy behavior and lower costs.

Incentives for healthy behavior have traditionally been weak under employer-sponsored health insurance, in part due to federal and state regulation that constrains the ability to reward healthy behavior. Turnover among employees and policy holders also reduces incentives to make long-term investments to promote healthy behavior.

Health-care reform should seek to encourage rather than discourage private innovation to provide incentives for healthy behavior. Safeway's program offering employee premium discounts related to tobacco use, weight control, blood pressure and cholesterol levels is a good example.

The Democratic proposals would retard or even strangle such innovation. Rather than strengthening incentives to invest in the long-term health of policy holders, they would make it more difficult to earn a reasonable return on such investment. They also send a message that a healthy lifestyle earns no financial reward for reducing medical expenses.

Financial incentives for healthy behavior have the potential to significantly reduce costs without reducing quality. A failure of health-care reform to permit or incorporate such incentives would make coercive government measures to control costs more likely. These controls might include limits on provider reimbursement, comparative-effectiveness or cost-benefit criteria that must be met for care to be reimbursed, or budget caps. The results would be less health -- more obesity, diabetes, heart disease, and cancer -- and eventually less health care.

An aversion to having health-insurance rates and coverage linked to individual behavior may be on the verge of becoming national policy. If that happens, the unintended consequences could be very costly.

Mr. Harrington is professor of health-care management and insurance and risk management at the Wharton School of the University of Pennsylvania and an adjunct scholar at the American Enterprise Institute.

Document J000000020090629e56t0000f

