

Better Solutions for Pre-Existing Conditions

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In my book *Priceless: Curing the Healthcare Crisis*, I argue that we do not need more spending, more regulations, or more bureaucracy to fix the problems of our current system. Unfortunately, the Affordable Care Act prescribes heavy doses of all three. One outcome will be to make the problem of perverse incentives worse.

Here are ten ways to deal with the problem of pre-existing conditions that give people good incentives instead of perverse incentives.[1]

Encourage Portable Insurance. In almost every state, employers are not allowed to buy the kind of insurance employees own and can take with them from job to job and in and out of the labor market.[2] That prohibition needs to be rescinded. Most of the time, the problem of pre-existing conditions arises precisely because health insurance isn't portable.

Allow Special Health Savings Accounts for the Chronically Ill. Cash and Counseling pilot programs in Medicaid are under way in more than half the states.[3] Homebound, disabled patients manage their own budgets and hire and fire those who provide them with services. Satisfaction rates are in the mid-90 percentile (virtually unheard of in any health plan anywhere in the world).

Allow Special Needs Health Insurance. Instead of requiring insurers to be all things to all people, we should allow plans to specialize in treating one or more chronic conditions.[4] Plans could specialize, for example, in diabetic care, heart care, or cancer care, and they would be able to charge a market price (say, to employers, other insurers, and even risk pools), and price and quality competition should be encouraged.

Allow Health Status Insurance. To facilitate the market for chronic illness insurance, we should encourage two kinds of insurance: Standard insurance would cover the health needs of people during the insurance period, while health status insurance would pay future premium increases people face if they have a change in health status and then try to switch to another health plan.[5] You can think of this as a way of insuring against the emergence of a pre-existing condition.

Allow Self-Insurance for Changes in Health Status. The tax law allows employers to pay for current-period medical expenses with untaxed dollars. But there is no similar opportunity for either employers or employees to save for a future change in health status—one that will generate substantial increases in medical costs. Clearly, people need the ability to engage in contingency savings—a Health Savings Account for future, rather than current, medical costs.

Give Individual Buyers the Same Tax Break Employees Get. Most people who have a problem with pre-existing conditions are trying to buy insurance in the individual market. Yet, unless they are self-employed, they get virtually no tax relief, and even the self-employed are penalized vis-à-vis employer-provided insurance. All insurance should get the same tax relief regardless of where it is obtained, and individuals should get the same

tax relief, regardless of how they obtain it. This would encourage people to be continuously insured—and increase the likelihood that they will be insured when a health condition arises.

Allow Providers to Repackage and Reprice Their Services Under Medicare and Medicaid. We should encourage providers to create innovative solutions to the care of diabetes, asthma, cancer, heart disease, and other chronic health issues. Along these lines, providers should be able to offer a different bundle of services and be paid in a different way so long as they reduce the government’s overall cost and provide a higher quality of care.

Allow Access to Mandate-Free Insurance. Studies show that as many as one out of four uninsured Americans—most of them healthy—have been priced out of the market for health insurance by cost-increasing, mandated benefits.[6] At the same time, however, these mandates raise premiums for the chronically ill and divert dollars away from their care. There is no reason a diabetic should have to pay for other peoples’ in vitro fertilization, naturopathy, acupuncture, or marriage counseling, in order to obtain diabetic care.

Create a National Market for Health Insurance. More competition, especially among the special needs insurers, would be a huge benefit for the chronically ill. Being able to buy insurance across state lines would encourage that competition.

Encourage Post-Retirement Health Insurance. If the past is a guide, more than 80 percent of the 78 million baby boomers will retire before they become eligible for Medicare. This group has the greatest potential for denial of health insurance because of pre-existing conditions. Fortunately, one out of every three baby boomers has a promise of post-retirement healthcare. However, two out of three do not, and even for those who have a commitment, almost none of the promises are funded. A solution: give post- retirement health insurance the same tax encouragement as active-worker insurance and allow pre-retirement insurance to be portable.

[1] John C. Goodman, “Ten Small-Scale Reforms For Pre-existing (Chronic) Conditions,” *Health Affairs Blog*, January 27, 2010.

[2] John C. Goodman, “Employer-Sponsored, Personal, and Portable Health Insurance,” *Health Affairs* 25, No. 6 (November 2006): 1556–1566.

[3] Randall Brown et al., “Cash and Counseling Evaluation Changes Policymakers’ Approach to Consumer Directed Care,” *AcademyHealth*, 2009.

[4] John C. Goodman, “Patient Power for Chronic Illness,” *Health Affairs Blog*, February 12, 2009, .

[5] John H. Cochrane, “Health-Status Insurance: How Markets Can Provide Health Security,” *Cato Insitute*, Policy Analysis No. 633, February 19, 2009.

[6] Gail A. Jensen and Michael A. Morrisey, “Employer-Sponsored Health Insurance and Mandated Benefit Laws,” *Milbank Quarterly* 77, No. 4 (1999).