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Stossel: Why Obama's Health Plan gets it Wrong

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President Barack Obama says insurance companies make you pay too much for health care. He wants the government to "limit how much you can be charged for out-of-pocket expenses."

Sounds great -- just make the insurance companies pay more, and then health care will become affordable. After all, that's what insurance is for, right?

No. When insurance companies pay the tab for everything -- down to flu shots and sprained ankles -- it makes health care more expensive for everyone. Why? Because when someone else pays for your health care, you aren't likely to ask, or even care, how much it costs.

When I blogged about how insurance makes health care costs explode, Mark Horn, a father of four from North Carolina, told me that insurance makes it impossible for him to shop around for the best prices.

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Horn cares about costs because has a high-deductible health plan. Before his insurance company will pay, he must spend $5,000 out of pocket. So, if his son has a fever, he has an incentive to find out which doctor will charge the least for an office visit.

But Mark says "the physician himself never knows" the cost of anything. "So, they may refer me to the front desk, but they usually don't know the cost either. Every other service that I use, they tell me what it costs. But, with health care, it's not like that. It's just a crapshoot, and the reason is because somebody else is paying for it."

Dr. Melvin Gerald, also from North Carolina, knows firsthand how patients stop caring about costs when someone else pays. "The patients who have insurance ... some of them tell you, 'Do this, do that,' and some of the things they don't need to have done," he says. But because insurance pays, they don't care.

There is plenty of research to support the idea that when patients pay less out of pocket, they overuse health care. In fact, the RAND Corporation conducted a 15-year study that showed "that modest cost sharing reduces use of services with negligible effects on health for the average person." But all we hear from Washington is that insurance should cover more.

With insurance companies so tied to American expectations of how to pay for health care, it's no surprise that costs keep going up. America spent $2.2 trillion on healthcare in 2007, more than triple the $714 billion spent in 1990, according to the Kaiser Family Foundation.

But there is one area of health care where costs are going down. Laser vision correction surgery, or LASIK, is almost never covered by insurance, and keeps getting cheaper.

Insurance: The Whole Foods Experiment

"In every other field of medicine, the price is going up faster than consumer prices in general," says John Goodman of the National Center for Policy Analysis. "But the price of LASIK surgery, on average, has gone down by 30 percent."

Prices dropped because without insurance payments, patients shop around to get the best deal. New York City LASIK provider Dr. Brian Bonanni sees patients comparison shopping every day. He says, "I can't get away with not telling the patient how much exactly it's going to cost. No one would put up with it. And the difference of a hundred dollars sometimes makes their decision for them."

Of course, it is important to have insurance cover the big things, like cancer, heart disease and accidents. But that's not the way most Americans think about insurance.

Think about what would happen to the cost of food if you had an insurance policy that paid for your groceries. You wouldn't care what things cost. Why buy hamburger? Just buy filet mignon. Why look for sales? Why shop at the store across the street? If the insurance company's paying, who cares?

I asked Whole Foods founder John Mackey what would happen if his customers bought groceries the same way most of them buy health care. "We'd make a lot more money. Instead of buying a bottle of wine for $7.99, they might buy a $300 bottle of wine."

Yet this is how we pay for health care? "I know, it's ridiculous."

Mackey knows that when people shop around, costs go down. So seven years ago, faced with skyrocketing health insurance costs, Whole Foods decided to offer its employees high-deductible insurance -- the kind Mark Horn has. If workers get cancer or heart disease, insurance pays, but for things like physicals and flu shots, employees pay. Whole Foods even helps employees meet those costs by contributing to a special "health savings account." Because the savings accounts belong to the employees, they shop around before spending the money.

And what happened to the company's bottom line after implementing the new insurance plan? "Our costs went way down," Mackey says, because "people started asking what things cost."

Whole Foods employees liked the system so much, they voted overwhelmingly to keep it.

When Whole Foods marketing director Mary Ann Buttros went to the doctor, she never used to ask, "'How much will this cost?' Because it didn't matter," she says. "And now it matters to me because it's my money."

The Whole Foods experiment works because it makes people care about costs. But because most Americans with health insurance expect someone else to pay, shopping around is harder than it should be.

I told insurance industry spokesman Michael Tuffin about how hard it is for people like Mark Horn to shop around for the best price. "Mark can't even find out what things cost," I said. "Right, that's a big part of the problem. There's no question there needs to

be some personal responsibility," Tuffin said.

But when insurance is involved, there's less personal responsibility, and that makes costs go up. That's something to think about the next time you hear a politician say they will make your health care cheaper by making insurance pay more.