

## Eenie, Meeny, Miney Mandate: Compulsory Private Health Insurance is Not Universal Choice

By John R. Graham

### Key Points:

- Mandatory health insurance is an ineffective solution to the perverse incentives that cause America's hospitals to give uncompensated care.
- Although Switzerland has lower health costs and better health outcomes than the U.S., characteristics other than mandatory health insurance better explain its relative success.
- The notion that ever-increasing legions of middle-class uninsured drive health spending by crowding into hospital emergency rooms, has no evidence behind it.
- High earners who forgo health insurance *voluntarily* pay more taxes than they must, indicating that health insurance today does not offer value.
- America's should provide universal choice in health insurance to all its residents, rather than order them into a system with severely perverse incentives.

### America in a Parallel Universe: The Food Safety Net

The governor hears the pleas of the restaurants, who claim that they are suffering a financial crisis caused by uninsured guests who, every year, take up more and more of the tables in the finest dining establishments in the state — and leave when the checks arrive.

Insured guests are a mixed blessing: paying, on average, only about 1/8 of their bill as “co-payments,” they are extremely receptive to the waiters’ suggestions to buy more expensive bottles of wine, order the filet mignon instead of the flank steak, and always have dessert and coffee. Of course, this leads to a lot of time and paperwork wasted with the insurance plans, who continuously demand justification for such extravagance.

This bureaucracy has resulted in much higher prices since the bad old days when people were expected to pay for their own meals. However, the food insurers manage to keep raising their premiums, helped out by the fact that people who receive food plans from their

employers get them tax-free. So, while most Americans know that food spending is going up “unsustainably,” they’re pretty happy as long as they’re “covered,” and the restaurants still get paid.

However, the uninsured are becoming a problem. Faced with the prospect of starving millions of food uninsured, the government passed a law ordering restaurants to seat anyone who walks in the door and serve them a meal — whether or not they can pay for it.

People have come to believe that these folks, many of whom could afford to pay for a meal, (especially if they bought groceries at the supermarket for lower prices, rather than waiting until they got too hungry to cook and went to the nearest restaurant), are creating a crisis.

Egged on by the restaurants and the food insurers, the governor and legislators of both parties hit upon a plan: *compulsory* food insurance! Surely, a citizen who has the means to buy food, but chooses to get it for “free,” is acting irresponsibly.

Crazy? Of course, but if you substitute “health care” for “food,” you see that this is what has led many to advocate mandatory health insurance, which Hawaii instituted for medium and large employers over a decade ago, and Massachusetts is currently instituting for almost everyone. The Pacific Research Institute will soon publish a briefing paper challenging Massachusetts’ health insurance mandate. This *Health Policy Prescription* questions the policy of mandatory health insurance generally.

### Swiss Seduction

Among conservative circles, support for mandatory private health insurance has grown, apparently because of Switzerland’s experience. Last month, Oregon’s Cascadia Policy Institute published a paper by the economist Randall J. Pozdena recommending

the compulsory purchase of lightly regulated health insurance, and Harvard Professor Regina Herzlinger has described the Massachusetts reform plans favorably in the light of Switzerland's experience.<sup>1</sup> Neither author unequivocally supports mandates, but they think it makes sense as a step in the right direction for American health care. This policy proposal is now respectable enough that the Blue Cross and Blue Shield Associations of at least two states, Minnesota and Illinois, are recommending it.<sup>2</sup>

Switzerland is attractive because, though it mandates the purchase of health insurance, the state does not provide health insurance directly. Rather, it is supplied by competing private plans, with state support for low-income residents. Therefore, conservatives rightly prefer this to a tax-funded government monopoly where competing private insurance is forbidden (as in Canada) or a tax-funded government service which high-income people can buy their way around (as in Britain).

Professor Herzlinger notes that health care in Switzerland costs much less than in the U.S. and that people's health status is at least as good, even when comparing "apples with apples" (by taking account of confounding factors such as ethnicity, household income, population density, and education, which many other studies have failed to do).<sup>3</sup> Fair enough, but Americans enamored of the Swiss system should be aware that it has characteristics other than compulsion that likely better explain its relative value for money:

1. The Swiss tax-code does not punish employees for buying health insurance directly, like the U.S. does, so the Swiss are free to buy health insurance in a robust and competitive individual market. This means the Swiss are able to keep one health insurance policy, if not literally from "cradle to grave," at least from "graduation to grave," rather than switching insurers when they switch jobs. As a result, Swiss insurers have superior incentives and ability to price the risk in their plans than American insurers do.
2. The Swiss government does not order its residents out of private insurance and into a government program when they turn 65, like the American government does. This reinforces the superior incentives discussed above.
3. Swiss insurers have long had the freedom to levy higher deductibles and co-payments than has been practical in the U.S. American laws and regulations have, until recently, inhibited the availability of such plans to most people. Our traditionally low deductibles and co-payments have led to "over insurance" and massive over-consumption of health care resources.<sup>4</sup>

However, Switzerland also suffers over regulation, leading to a similar public dialogue as in the U.S. Some people think that costs have increased too much and are now too high (11.1 percent of Gross Domestic Product in 2002). This has resulted in two competing popular propositions (a similar process to that in California and some other American states): one for a government agency to take over as single payer and eliminate private insurers, and one to lower insurance premiums and deregulate the contracts between the insurers and providers (e.g. hospitals) to make that market more competitive.<sup>4</sup> Apparently, compulsion has a cost.

### The Tax Maze

The notion that relatively high-earning individuals not only choose to be uninsured, but impose costs on taxpayers by showing up at hospital ER's, rests on weak evidence. In Massachusetts, only 6 percent of uncompensated health care went to families with reported incomes greater than 200 percent of the Federal Poverty Line last year, whereas 42 percent of care went to individuals reporting no income.<sup>6</sup>

So, ordering well-off folks to become insured would not achieve much. Further, a high-income person without health insurance voluntarily pays more taxes than necessary. If his combined (federal and state) marginal tax bracket is, say, 40 percent, and his health insurance would cost \$5,000, he chooses to pay an extra \$2,400 in taxes by forgoing the insurance. By ordering him to take insurance, the government loses this tax revenue.

Of course, the government already has far too much of our money. However, because it is low income people who really use uncompensated care, it will still have to be paid for somehow. Furthermore, those who really do not want to be insured, whatever their income, will find a way around the mandate. Although automobile insurance is mandatory in all but three states, one in seven drivers on our roads remain uninsured.<sup>7</sup>

A person who chooses to take \$2,600 in take-home pay instead of \$5,000 in health insurance is giving up quite a lot. If more Americans are making this choice, it means that health insurance, as currently regulated, serves them poorly.

While the federal government, along with some states, has taken small steps to allow us greater choice in health insurance, we are still unacceptably limited in those choices. Far better to deregulate health insurance and hospitals, allowing Americans universal choice in health care, than to force us into a system that is obviously not serving our needs.

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- <sup>1</sup> Randall J. Pozdena, *Achieving Universal Health Insurance While Improving the Economy: A Reform Proposal for Oregon* (Portland, OR: Cascade Policy Institute, October 2006); and Regina E. Herzlinger, *Health Policy in Maryland and Massachusetts: A Study in Contrasts*, WebMemo #1037 (Washington, DC: The Heritage Foundation, April 13, 2006).
  - <sup>2</sup> Blue Cross and Blue Shield of Minnesota, *Unfinished Business: A discussion paper on the need for universal health coverage in Minnesota* (Eagan, MN: Blue Cross and Blue Shield of Minnesota, August 2006); and Francine Knowles, "Blue Cross seeks mandatory insurance for small business workers," *Chicago Sun-Times*, October 19, 2006.
  - <sup>3</sup> Regina E. Herzlinger, "Consumer-driven health care: lessons from Switzerland," *Journal of the American Medical Association*, Vol. 292, No. 10, pp. 1213-1220 (September 8, 2004).
  - <sup>4</sup> The latest evidence for this longstanding and already well supported claim comes from Amy Finkelstein, *The Aggregate effects of health insurance: evidence from the introduction of Medicare*, NBER Working Paper No. 11619 (Cambridge, MA: National Bureau of Economic Research, September 2005).
  - <sup>5</sup> Regina E. Herzlinger, "Consumer-driven health care: lessons from Switzerland," *Journal of the American Medical Association*, Vol. 292, No. 10, pp. 1213-1220 (September 8, 2004); Università de la Svizzera Italiana, Lugano, "Popular initiative for lower premiums," *Health Policy Monitor*, No. 5 (Brussels, Belgium: European Observatory on Health Care Systems, 2005); and Università de la Svizzera Italiana, Lugano, "Popular initiative for a single health insurer," *Health Policy Monitor*, No. 5 (Brussels, Belgium: European Observatory on Health Care Systems, 2005).
  - <sup>6</sup> Massachusetts Division of Health Care Finance and Policy, *Uncompensated Care Pool PFY05 Utilization Report*, (Boston, MA: Massachusetts Division of Health Care Finance and Policy, December 6, 2005).
  - <sup>7</sup> Greg Scandlen, *Will Mandatory Health Insurance Work?*, Brief Analysis No. 569 (Dallas, TX: National Center for Policy Analysis, September 6, 2006).
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