High Risk, High Cost
Medicare
Medicaid
Employer-based Groups
Involuntarily Uninsured

Moderate Risk, Moderate Cost
Private Insurance
Employer-based Groups
Voluntarily & Involuntarily Uninsured

Low Risk, Low Cost
Private Insurance
Employer-Based Groups
Voluntarily Uninsured
Private Health Insurance: Sorting on Risk (JSM)

Employer-based Groups
- High Risk
- Moderate Risk
- Low Risk

Private Insurance
- Moderate Risk
- Low Risk

Uninsured

High Risk Pool
Private Health Insurance: Sorting on Risk (JSM)

Employer-based Groups
- High Risk
- Moderate Risk

Private Insurance
- Moderate Risk
- Low Risk

Uninsured
- Moderate Risk

Increased Employer Costs
Decreased Competitiveness in Global Markets
Decreased Profits
Small Business Failures
Private Health Insurance: Sorting on Risk (JSM)

Employer-based Groups
- Moderate Risk

Private Insurance
- Moderate Risk
- Low Risk
- High Risk Sub-Prime Or Under-Insured

Uninsured
- High Risk

Decreased Employer-Based Group HI
- Increased High Risk Uninsured
- Increased High Risk Underinsured
Private Health Insurance: Sorting on Risk (BHO)

Employer-based Groups
- High Risk
- Moderate Risk

Private Insurance
- Moderate Risk
- Low Risk
- High Risk

NHIE/NHP

Uninsured
The Market for Sub-Prime Health Insurance

Uninsured

Voluntarily Uninsured (Young, Healthy)

Uninsured Who Would Like to Be Insured But Can’t Afford A Comprehensive Policy (Pre-existing Conditions, Chronically Ill Children, etc)

Sub-Prime HI Market
Likely Sub-Prime Health Insurance “Choices”

• High Deductible ($1,000+)
  – Inhibits seeking treatment earlier when subsequent costs are likely to be lower

• Low maximum annual benefits
  – $5,000-$25,000
  – Not enough to cover more than simple outpatient surgery

• Little or no preventive screening
Who Is the Payer of Last Resort for Individuals in Private HI Market Who Exceed Their Max Annual Benefits?

Taxpayers

Privately Insured Through Higher Prices & Premiums
Health insurance markets are not competitive because of risk uncertainty, moral hazard, adverse selection, information asymmetry, and agency problems.

It may be nearly impossible to make them competitive because of the financial incentives for insurers to sort on risk.
The current US approach to health insurance helps the private HI market to be profitable by transferring risk and costs to taxpayers.

Taxpayers insure through Medicare, Medicaid, and higher prices most of the high risks not covered by EPHI.
The Obama Plan is likely to reduce the number of uninsured in the US because the publicly financed National Health Plan serves as an insurer of last resort for the high-risk uninsured.

The McCain Plan will stimulate innovation in the sub-prime health insurance market resulting in suboptimal risk management of this high risk population. It is likely to indirectly transfer that risk and its costs to taxpayers who will pick up the health care costs of high risk patients who exceed the annual benefit limits of sub-prime insurance policies.