Why Insurance Is The Wrong Model For Healthcare

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Insurance, in its traditional form, is the wrong model for healthcare financing. It is the wrong commodity to be bought and sold. We don't need health insurance, and I will tell you why. I will also tell you what we do need.

Insurance is something you buy, and then hope you never have to use. It is a hedging of your bets against bad outcomes. Term life insurance is the best model for insurance as a commodity. When you buy term life insurance, you are placing a bet with the insurance company. They are betting that you will not die before the end of the term of the policy. You are betting that you will; or really, that you might. Expressed that way, it is a lousy bet, and you hope you will lose.

However, the real bet you are making is that it would be financially disastrous for your family (or dependents or business or whatever depends on you being alive) if you were to die prematurely. So you buy the policy, and it is a rational decision because the premium is relatively low and the peace of mind that comes with the policy is worth the cost of the premium. Still, you hope you never have to use it.

Auto and home insurance is essentially the same, in that you buy it and you hope you never have to use it. However, these are (generally speaking) more expensive because it is more likely that you will have to make a claim. As with term life, the

peace of mind that comes with the policy is generally perceived to be worth the cost of the premium.

Insurance as a commodity only truly works if the people buying the insurance policies are motivated by their own self-interest to avoid making claims.

Health care is different. I am hardly the first person to have said this, but it is clear from the bogus clamor around Obamacare that this simple fact has not sunk in for a large portion of the American population. Healthcare is different because everyone, at some point, will get sick. It is very unlikely that you will die before the end of the term of your term life insurance, and it is also unlikely (although less so) that your house will burn down or your car will get totaled. There is a reasonable chance that you will never need to use your life or car or home insurance, but there is no chance that you will not have to use healthcare. Everyone needs to go to the doctor, even if they are healthy. Everyone gets sick at some point. And when people get sick, they want to be able to go to the doctor.

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