

Insurance Horror Stories

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“When Steve and Leslie Shaeffer’s daughter, Selah, was diagnosed at age 4 with a potentially fatal tumor in her jaw, they figured their health insurance would cover the bulk of her treatment costs.” But “shortly after Selah’s medical bills hit \$20,000, Blue Cross stopped covering them and eventually canceled her coverage retroactively.”



So begins a recent report in The Los Angeles Times titled “Sick but Insured? Think Again,” which offers a series of similar horror stories, and suggests that these stories represent a growing trend: more and more health insurers are finding ways to yank your insurance when you get sick.

This trend helps explain something that has been puzzling me: why is the health insurance industry growing rapidly, even as it covers fewer Americans?

Between 2000 and 2005, the number of Americans with private health insurance coverage fell by 1 percent. But over the same period, employment at health insurance companies rose a remarkable 32 percent. What are all those extra employees doing?

Now we know at least part of the answer: they’re working harder than ever at identifying people who really need medical care, and ensuring that they don’t get it. In the past, they mainly concentrated on screening out applicants likely to get sick. Now, it seems, they’re also devoting a lot of effort to finding pretexts for revoking insurance after they’ve already granted it. They typically do this by claiming that they weren’t notified about some pre-existing condition, even if the insured wasn’t aware of that condition when he or she bought the policy.

Welcome to the ugly world of American health care economics.

Health care is poised to become America’s largest industry. Employment in manufacturing, which once dominated the economy, has fallen 18 percent since 2000, to 14.2 million. Meanwhile, employment in the private health services industry has risen 16 percent, to 12.6 million. Another 1.3 million people are employed at government hospitals. So we’re quickly approaching the point at which more Americans will be employed delivering health care than are employed producing manufactured goods.

Yet even as health care becomes the core of the American economy, our system of paying for health care remains sick, and is getting sicker.

Because everyone faces some risk of incurring huge medical costs, only the superrich can afford to be without health insurance. Yet private insurers try to refuse coverage to those most likely to need it, and deny payment whenever they can get away with it.

The point isn't that they're evil or greedy (although you do wonder how the people who cut off the Schaeffers can look themselves in the mirror). The fact is that cruelty and injustice are the inevitable result of the current rules of the game. Blue Shield of California is a nonprofit insurance provider, yet as a spokesman put it, if his organization doesn't follow the for-profit practice of selectively covering only the healthiest people, "we will end up with all the high-risk people."

Now, before you panic about the state of your own coverage, you should know that the horror stories in The Los Angeles Times article all involve individual insurance; if your coverage comes via your employer, you're reasonably secure against sudden cancellation.

But employment-based insurance is in rapid decline, as employers balk at the cost and more and more companies adopt Wal-Mart-style minimal-benefit policies. That's why many people are turning to individual insurance — only to find out, in some cases, that they didn't get what they thought they paid for.

And here's the thing: it's all unnecessary.

Every other wealthy nation manages to provide almost all its citizens with guaranteed health insurance, while spending less on health care than we do. And there's no mystery why: we're paying the price for pointless, destructive reliance on private insurers. Medicare, which is a universal health insurance program for older Americans, spends less than 2 cents of every dollar on administrative costs, leaving 98 cents to pay for medical care. By contrast, private insurance companies spend only around 80 cents of each dollar in premiums on medical care; much of the remaining 20 cents is spent denying insurance to those who need it.

If we had a universal system — Medicare for everyone — there would be no more horror stories like those reported by The Los Angeles Times. And we'd almost certainly spend less on health care than we do now.