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Op-Ed Columnist

California Death Spiral

By PAUL KRUGMAN

Health insurance premiums are surging — and conservatives fear that the spectacle will reinvigorate the push for reform. On the Fox Business Network, a host chided a vice president of WellPoint, which has told California customers to expect huge rate increases: "You handed the politicians red meat at a time when health care is being discussed. You gave it to them!"

Indeed. Sky-high rate increases make a powerful case for action. And they show, in particular, that we need comprehensive, guaranteed coverage — which is exactly what Democrats are trying to accomplish.

Here's the story: About 800,000 people in California who buy insurance on the individual market — as opposed to getting it through their employers — are covered by Anthem Blue Cross, a WellPoint subsidiary. These are the people who were recently told to expect dramatic rate increases, in some cases as high as 39 percent.

Why the huge increase? It's not profiteering, says WellPoint, which claims instead (without using the term) that it's facing a classic insurance death spiral.

Bear in mind that private health insurance only works if insurers can sell policies to both sick and healthy customers. If too many healthy people decide that they'd rather take their chances and remain uninsured, the risk pool deteriorates, forcing insurers to raise premiums. This, in turn, leads more healthy people to drop coverage, worsening the risk pool even further, and so on.

Now, what WellPoint claims is that it has been forced to raise premiums because of “challenging economic times”: cash-strapped Californians have been dropping their policies or shifting into less-comprehensive plans. Those retaining coverage tend to be people with high current medical expenses. And the result, says the company, is a drastically worsening risk pool: in effect, a death spiral.

So the rate increases, WellPoint insists, aren’t its fault: “Other individual market insurers are facing the same dynamics and are being forced to take similar actions.” Indeed, a report released Thursday by the department of Health and Human Services shows that there have been steep actual or proposed increases in rates by a number of insurers.

But here’s the thing: suppose that we posit, provisionally, that the insurers aren’t the main villains in this story. Even so, California’s death spiral makes nonsense of all the main arguments against comprehensive health reform.

For example, some claim that health costs would fall dramatically if only insurance companies were allowed to sell policies across state lines. But California is already a huge market, with much more insurance competition than in other states; unfortunately, insurers compete mainly by trying to excel in the art of denying coverage to those who need it most. And competition hasn’t averted a death spiral. So why would creating a national market make things better?

More broadly, conservatives would have you believe that health insurance suffers from too much government interference. In fact, the real point of the push to allow interstate sales is that it would set off a race to the bottom, effectively eliminating state regulation. But California's individual insurance market is already notable for its lack of regulation, certainly as compared with states like New York — yet the market is collapsing anyway.

Finally, there have been calls for minimalist health reform that would ban discrimination on the basis of pre-existing conditions and stop there. It's a popular idea, but as every health economist knows, it's also nonsense. For a ban on medical discrimination would lead to higher premiums for the healthy, and would, therefore, cause more and bigger death spirals.

So California's woes show that conservative prescriptions for health reform just won't work.

What would work? By all means, let's ban discrimination on the basis of medical history — but we also have to keep healthy people in the risk pool, which means requiring that people purchase insurance. This, in turn, requires substantial aid to lower-income Americans so that they can afford coverage.

And if you put all of that together, you end up with something very much like the health reform bills that have already passed both the House and the Senate.

What about claims that these bills would force Americans into the clutches of greedy insurance companies? Well, the main answer is stronger regulation; but it would also be a very good idea, politically as well as substantively, for the Senate to use reconciliation to put the public option back into its bill.

But the main point is this: California's death spiral is a reminder that our health care system is unraveling, and that inaction isn't an option. Congress and the president need to make reform happen — now.