



Written by [Thomas Sowell](#) on August 28, 2012

Insurance: Risky Business

Insurance is all about risk. Yet neither insurance companies nor their policy-holders can do anything about one of the biggest risks — namely, interference by politicians, to turn insurance into something other than a device to deal with risk.

By passing laws to force insurance companies to cover things that have nothing to do with risk, politicians force up the cost of insurance.



Annual checkups, for example, are known in advance to take place once a year. Foreseeable events are not a risk. Annual checkups are no cheaper when they are covered by an insurance policy. On the contrary, they are one of many things that are more expensive when they are covered by an insurance policy.

All the paperwork, record-keeping and other things that go with having any medical procedure covered by insurance have to be paid for, in addition to the cost of the medical procedure itself.

If automobile insurance covered the cost of oil changes or the purchase of gasoline, then both oil changes and gasoline would have to cost more, to cover the additional bureaucratic work involved.

In the case of health insurance, however, politicians love to mandate things that insurance must cover, including in some states treatment for baldness, contraceptives and whatever else politicians can think of. Playing Santa Claus costs a politician nothing, but it can cost the policy-holder a bundle — all of which the politician will blame on the “greed” of the insurance company.

Insurance companies are regulated by both states and the federal government. This means that, instead of there being one vast nationwide market, where innumerable insurance companies compete with each other from coast to coast, there are 50 fragmented markets with different rules. That adds to the costs and reduces the competition in a given state.

When there are innumerable insurance companies, it is by no means clear that political regulation of them will produce better results than the regulation provided by competition in the market. In a competitive market, insurance companies would cover only those things that their policy-holders are willing to pay to have covered. Policy-holders would have no reason to pay to have insurance cover things that would be cheaper if paid for directly — or not paid for at all, in the case of things that are not a real concern to many people, such as baldness cures.

One of the factors in the number of the “uninsured,” for whom politicians are willing to turn the whole medical care system upside down, is the high cost of insurance that covers far more things than most people would be willing to pay for, if it was up to them. The uninsured who use hospital emergency rooms and don’t pay are a problem only because politicians passed laws forcing hospitals to let themselves be taken advantage of in this way.

Too many political “solutions” are solutions to problems created by previous political “solutions” — and will be followed by new problems created by their current “solutions.”



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There is no free lunch. In the case of health insurance, there is not even an inexpensive lunch.

Health insurance would be a lot less expensive if it covered only the kinds of risks that can involve heavy costs, such as a major operation or a crippling disability. While such things can be individually very expensive, they don't happen to everybody, and insurance is one way to spread the risks, so that the protection of a given individual is not prohibitively expensive.

The problem of "pre-existing conditions" is a problem largely because of the way that politicians have written the laws — more specifically, by giving a tax break to employer-provided health insurance. If individuals bought their own health insurance, with the same tax advantages, the fact that an illness occurred after they changed employers would not make it a "pre-existing condition."

There is no inherent reason for employers to be involved, in the first place. The fact that some guy manufactures furniture or plumbing fixtures in no way qualifies him to understand insurance for his employees. Including him in the loop adds another unnecessary layer of bureaucratic costs.

Political risks are the biggest risks.

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