

Galatians 6:2 Explains Exactly How Believers Should Approach the Health Care Debate

Different kinds of insurance operate very differently. Auto, homeowners, health, life, Workers' Compensation and medical malpractice all operate in different markets under different rules and different organizational structures. But one thing they all have in common is "risk pooling."

"Risk pooling" certainly figures into recent discussions about repealing, replacing for "fixing" government health care. And it is almost universally misunderstood by policy-makers. It is a pool of money, yes, but it is also a pool of risks. From the customer's perspective, they pay money into a pool of funds that is available to pay their claims according to the terms of the contract they have with the insurance company. Because of that contract, the "pool" is not just a big vat of money that can be allocated any way they want. Every penny is already contractually obligated to be paid out in the future.

From the insurance company's perspective, this is a pool, not of money, but of risks. Each member of the pool is a risk—some higher, others lower. The company works very hard to determine how much risk it is assuming when it insures any given population. It is required to pay claims regardless of how much money is in the pool, so it needs a very reliable estimate of how many claims will be filed by this group of people in order to know how much to charge in premiums. This is the core function of every insurance company.

This is not easy. The company must set premiums well in advance of the claims being filed—sometimes many years in

advance, such as with life insurance. With life insurance, people may pay premiums for decades before ever filing a claim. Consumers need to know that the money paid in will not be squandered or depleted by the time they have a claim. That is why insurers tend to use words like “fidelity” or “trust” when naming their companies. They are trying to reassure consumers that they are dealing with a responsible organization.

Verbal assurances such as these are nice, but may not be worth much to the consumer. So, the primary responsibility of insurance regulators is to oversee the companies to make sure the premiums are adequate, the pools are responsibly invested and claims are paid out in full and on time.

Life insurance is an extreme example. Most insurance does not have that much of a lead time between premiums paid and claims filed, although with some other lines of coverage, such as homeowners or auto insurance, consumers pay the premiums in the hope they will never have to file a claim. No matter how much they might pay in premiums, it is a good thing to avoid the expenses associated with house fires and traffic accidents. Consumers are still willing to pay the premiums, “just in case.”

In all these scenarios, the great challenge for the insurance company is to set premiums high enough to cover costs, but not so high that they scare off customers. This requires the unique work of actuaries. They look at the covered population and estimate how likely this population is to incur conditions that will require filing a claim sometime in the future.

Actuaries will analyze historical trends and scrutinize factors that could arise in the future to determine the “risk” of the people enrolled. They will factor in such variables as age, sex, health status, income, geographic location, occupation, medical history or driving record, and so on.

These variables will affect different lines of insurance differently. Older people are likely to have more health problems but drive safer than younger people. Men drive more recklessly than women but typically have fewer encounters with health professionals. Some occupations are far riskier than others.

Based on all this information, actuaries can estimate what the “pure premium” needs to be. The pure premium is what the company must collect to cover expected claims. On top of that are administrative expenses, taxes, compliance costs and in some cases, strategic pricing. Strategic pricing is how a company might vary the premiums to attract a market segment it hopes to build.

All this money is collected and put into a pool of funds with which to pay claims. This pool is especially needed because actuarial estimates are not always accurate. There might be a surge of claims due to economic or environmental surprises. There could be a sudden new strain of influenza, or ice storms may result in a flurry of fender-bender accidents or problems in the economy might lead to a large number of lay-offs (people tend to hurry to get medical services when they know they could lose their jobs).

In most states, the regulators require a certain minimum amount of money to be held in the pool; three months’ worth of claims is typical, but some companies hold more than that—six months or more. On a large scale, this can result in a large amount of money, sometimes billions of dollars.

The company invests this money and collects revenues from it. That provides considerable clout in the financial markets, but it also can provide leverage to the company, as some of its investments are made in companies it is doing other business with.

Health Care Sharing Ministries are nothing like what has been

described thus far. They have no actuaries. There is usually no pool of funds, but even when there is, there is no contract for future benefits and no assessment of risk. In fact, every member of a Health Care Sharing Ministry is responsible for paying his or her own medical bills. The purpose of the ministry is simply to organize other people who voluntarily choose to help fellow members pay their medical bills in keeping with Biblical commands to “share one another’s burdens.”

The ministry notifies its members when there is a medical need, and the members share the expenses of a member in need. If the needs are higher than normal, members may be asked to spread contributions over a period of months. If the needs are very low for a month or two, the amount members are asked to contribute will be reduced.

Insurance executives would think this is crazy—how can you rely on the goodwill of other people for paying bills? Exactly. It makes no sense at all in the world of business. It only makes sense in the Kingdom of God and the world of faithful believers. All others should stick with the insurance model. {eoa}

Joel Noble is director of Public Policy at Samaritan Ministries International, where he directs the ministry’s legislative program. He also serves as vice president of the Alliance of Health Care Sharing Ministries. **Greg Scandlen** is the founder of Consumers for Health Care Choices, a non-partisan, nonprofit membership organization aimed at empowering consumers in the health care system. He also has served as a fellow in health policy at the Cato Institute and as President of the Health Benefits Group consulting firm.