

Several years ago my doctor decided it would be wise for me to have a minor surgical procedure. He assured me it was inconsequential and then apologized that it had to be done in a hospital, though it would take only 20 minutes. He told me to choose the hospital. That became a signal event in my education about what we call health insurance.

I asked my secretary to call two hospitals and ask them how much it would cost for the use of their facility for this procedure. She came into my office half an hour later, half laughing, half incredulous. One hospital replied that they had no idea what the cost would be and the other, after some fumbling, asked, "Why does he care? Isn't he insured?" I think of this incident every time I hear of the crisis building in health insurance.

I recently came across another situation that is much more serious than my minor surgery. A young woman I know was diagnosed with a type of cancer that is quite rare in women of her age. She has "health insurance" from her employer. But the employer discovered from the agent who handles the firm's policy that if this woman is out of work due to her treatment for six months, her coverage under the company policy ceases. This enraged me. It tells me that we do not understand the word insurance.

I have often observed that "insurance" is an arrangement whereby a large group of people band together and make a bet that the same bad thing won't happen to all of them at the same time. Perhaps the classic is the bet that they will not die at the same time. That is called life insurance. And I should note that, very commonly, if a group of insured's go into combat their life insurance is apt to be nullified. That is because the odds on the bet are radically changed by a war.

We can also insure our autos and our homes. It is unlikely that an insured population will all have a wreck at the same time or that all their homes will be burglarized simultaneously. Insurers employ actuaries who are effectively the bookies. They painstakingly calculate probabilities of death, auto accidents or burglaries so that each person in the insured pool can be charged a proper premium. And proper means providing the financial resources to pay claims, run the company and produce a profit.

However, something strange happened to what we call "health insurance". I recently read that during the Truman Administration at a time of wage and price controls some companies devised a way to pay employees more. They paid for health care, but unfortunately they used the word insurance.

That idea has grown to be an oxymoron. We have devised a system where we expect our insurer to pay when we visit the doctor for a cold. The odds are that close to 100% of any insured group will catch a cold every year. So, if they are going to be reimbursed for the cost, it is very nice, but it's not insurance. It is a benefit or it is welfare.

And there are other very interesting situations. One is a couple having a baby. How can we provide insurance to people who have chosen to do something? Such a course of action spawns and encourages the situation with which I began. Just as the hospitals with which my secretary checked could have cared less about their cost for my surgery, there is little thought about where a baby will be delivered because it's "insured."

I believe that the out-of-control state of health insurance today stems majorly from the fact that we are trying to insure events that are not insurable. And, as a corollary, we are turning our backs on events that are insurable. I come back to my friend, the woman with cancer that is rare for a woman of her age. Those words, "rare for a woman of her age" describe an insurable event. And they describe what insurance really is. It serves to prevent us from being financially ruined by the occurrence of a random catastrophe. We cannot provide insurance for delivering a baby, but we can provide insurance to cover the cost of bringing a premature baby through the hospitalization needed to get it to the point of normal development. And we can provide the insurance to pay the cost of treating my friend's rare cancer.