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BOOK REVIEW

Reinsuring Health: Why More Middle Class People Are Uninsured and What the Government Can Do, by Katherine Swartz, 2006, Russell Sage Foundation, New York, pp. 203. ISBN: 0-87154-787-2

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In 2008, the number of nonelderly Americans without health insurance approached 47 million people, with millions of others concerned that a faltering economy may increase their chances of losing their own health care coverage. As the United States considers a variety of alternatives to decrease the ranks of the uninsured, Katherine Swartz offers a timely book on how the face of the uninsured has dramatically changed over the past quarter century and provides a thoughtful proposal for improving how health insurers can better address this crisis in coverage. In *Reinsuring Health*, Swartz examines whether a public-private health care reinsurance model can be implemented on a national level, designed as a program in which the federal government assumes the role of the reinsurer of catastrophically high health care risks.

Reinsuring Health is divided into three broad sections: a comparison of how the face of the uninsured have changed from 1979 to 2004, a description of how the individual and small-group health insurance markets currently operate, and final proposal for a new public-private structure that may make private health insurance more affordable. Swartz, a professor of health policy and management at Harvard's School of Public Health, has thus written a scholarly book that covers a lot of ground, but in an accessible style that a nonacademic audience can fully appreciate.

One of the clear strengths of *Reinsuring Health* is its description of how the population of Americans without health care in 1979 is radically different from the uninsured population today. In 1979, nearly 40 percent of the uninsured in the United States were children living in low-income families, a statistic that prompted the creation of a variety of public programs (e.g., the State Children's Health Insurance Programs, changes in Medicaid) that were designed to reduce this percentage. By 2004, these programs, combined with shifts in demographics and birthrates, had reduced the percentage of the uninsured population consisting of children by half. In their place, the profile of Americans without health insurance today is much more diverse, and often from families earning middle-class incomes. To explain how these differences

occurred, Swartz provides a thorough summary of an extensive literature that documents how a variety of recent employment trends—e.g., outsourcing, the declining influence of labor unions, the growing ranks of the self-employed, replacing employees with independent contractors and contract employees, and an evolving job market that consists of fewer employees from large manufacturers and more employees from smaller service firms—have resulted in a larger fraction of the workforce holding jobs without employer-sponsored health care. As a result of these changes in the workforce, 40 percent of the uninsured today are between the ages of 25 and 44, and 30 percent come from a family with income above the national median. Thus, unlike 1979, the factors that have resulted in a significant number of uninsured people today are not tied as closely to unemployment and poverty but are increasingly attributable to conscious decisions by employers to pare down the portion of their workforce that is eligible for expensive benefits like group health insurance.

In the second section of *Reinsuring Health*, Swartz describes how the individual and small-group health insurance markets operate. Chapter 3 explains why health insurance provided through an employer group generally costs less per person than health insurance through individual policies. Next, drawing heavily from the work of Klein (2003), the chapter chronicles the events that have led to U.S. employers becoming the first-line providers and financiers of health insurance. The remainder of the chapter explains why large employers are able to offer health insurance to their workers at a lower cost than small employers, focusing on large-firm economies of scale and their ability to spread the costs of adverse selection across a large group of employees. Swartz extends her description of these health insurance markets in Chapter 4, focusing heavily on the methods used by insurers in the individual and small-group markets to control adverse selection, such as experience rating, bundled products, policy exclusions, preexisting conditions, cautious underwriting, and specialization in niche markets with minimal risk of adverse selection. Swartz describes these markets in a nontechnical style that is free of much of the confusing jargon that is typically found in health insurance. However, unlike the other chapters in this book, this section does not draw from an extensive literature of previous research, suggesting that this corner of the health insurance market is greatly deserving of further academic study.

In the third portion of her book, Swartz presents a proposal in which the federal government serves as the reinsurer of high-risk health insurance, similar to the way in which federal programs reinsure terrorism or natural disasters. The foundation for this proposal is research by Berk and Monheit (2001), updated for this book by Swartz, that provides the cumulative distribution of insured health care losses tallied across all Americans. These results indicate that 70 percent of the population account for only 10 percent of the national health care costs. Conversely, on the other “high-risk” end of the spectrum, the most costly 1 percent of the population consumes 28 percent of these costs. Based on these results, Swartz proposes that if they were not responsible for paying these catastrophic losses, insurers would have less incentive to engage in risk selection to control adverse selection, and in turn, they would insure a larger portion of the remaining high and low risks. To demonstrate her point, Swartz describes in Chapter 5 a variety of high-risk pools that have been established in over 30 states to specifically insure the catastrophic tail of the health insurance loss

distribution. In Chapter 6, the author provides a detailed description of an excess of loss reinsurance arrangement in which the federal government reinsures the top 1 percent of the health insurance loss distribution, drawing a comparison between the high-risk health reinsurance plan and comparable public-private plans for terrorism, natural disasters, and the aforementioned high-risk state programs.

Swartz notes that the high-risk reinsurance arrangement is not a new idea, and the concept has been periodically discussed over the past 50 years. The role for such a program may be changing, however, as the 2009 debate regarding a national health insurance program has increased the odds that most Americans will be required to purchase health insurance. If such an individual mandate is enacted and appropriately implemented, it would greatly lessen the problem of adverse selection in the individual and small-group health insurance markets by expanding the pool of insureds. This prospect does not render *Reinsuring Health* irrelevant to the health care debate, however, as Swartz's estimate of the cost of such a reinsurance program, conservatively estimated between \$5 and \$20 billion dollars per year, may be much less than the projected cost of a national health care program. In this respect, Swartz's reinsurance proposal offers an interesting health insurance alternative during a time in which expanding the federal budget deficit to pay for a national health insurance program is a contentious national issue.

Some readers of the *Journal of Risk and Insurance* will undoubtedly take issue with portions of *Reinsuring Health*. For example, Swartz builds her research around the premise that all people should have health insurance coverage and provides little discussion on whether certain portions of the population have chosen to be uninsured. Others may question whether health insurance losses are comparable to the lower probability risks of terrorism or natural disasters that are federally reinsured. And while Swartz provides a thorough discussion of the techniques insurers use to limit their exposure to adverse selection, it only briefly discusses the equally important role of rising health care costs in exacerbating the problems of the uninsured. On balance, however, these issues do not diminish the ability of *Reinsuring Health* to provide an exceptional summary about how the population of Americans without health insurance has dramatically changed over 25 years, and to offer a well-researched alternative for addressing the shortcomings that currently plague the individual and small-group health insurance markets.

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