In Health Care, We Are Flying Blind

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Commentary

In the movie "Paddington," a bear moves in with a London family. The father of the house is an insurance actuary. As the bear is bathing, he

places a panicked call to his home insurer to add a provision in his policy for the presence of a bear.

The movie has fun with the trope that actuaries are boring, nerdy, and maniacally focused on discerning and pricing risk in multivariate settings. We laugh but they are essential to our lives.

Let's explore this as it pertains to health.

For years now, there has been a huge question on the part of many. Should you get the mRNA shots and boosters? How many? Or do their risks outweigh their potential benefits?

The answer, if there is any chance that they accomplish the good that the CDC promises, obviously depends on demographics. But where is the cutoff and what are the relative risks?

To answer the question, we go to experts, presumably not those who have failed us so miserably for years now. We find others, but even here we discover debate, studies, uncertainties of data, and various interpretations of that data. Everyone is shouting at each other.

What precisely are the costs of being wrong in the decision? For the individual, they are high. For everyone else, the answer doesn't matter much. The pharmaceutical companies don't pay a price. They are indemnified against liability, an egregious privilege that has ruined all incentives to produce working products. Nor do the insurers. They are going to get their beloved premiums regardless of the risks that individuals take.

That means, essentially, people are flying blind on this crucially important topic. And it is hardly the only one.

What is the best diet for health? Some people push the Mediterranean diet and others the Blue Zone. Some people say we should eat vastly more meat and others say vastly less or none. Some people say down with seed oils and others say the risks are exaggerated.

Then there are the fad diets: carrots, blueberries, pumpernickel bread, or whatever. And treatments: some people swear by allopathic regulars and others insist that traditional Chinese, chiropractic, or homeopathic medicine has a lot to offer. Who's to say?

Or what about the costs of obesity? Some people say it is devastating and is the underlying issue in the huge increase in heart disease while others say this is just aesthetic discrimination. What are the risks vs benefits of the new weight-loss drugs originally developed for diabetes? Everyone argues about this problem but we lack actionable data that could make itself known in insurance premiums.

Even issues like vaping and drinking wine are affected here, with some people saying these are harmless and others swearing that they are far more dangerous than is usually admitted.

These debates affect truly everything from birthing strategies to vaccines themselves. Multitudes have lost trust in experts from on high but hardly anyone knows where to turn to otherwise. And this becomes massively important with crucial decisions like cancer. If you get the diagnosis, you find yourself in an epistemic void.

Or take a simple example: masks. Fauci said we should not wear masks. Then he said we should wear them. Then he said we should wear two masks. He said that this reduces risk. Other people said that this was ridiculous. There is simply no science behind the claim.

Well, who was right? It was some experts over other experts and the rest of us were left to do internet searches.

This is ridiculous. There is an active industry wholly dedicated to risk assessment. It has professional credentialing, a dedication to facts, a broadness of mind to include as many relevant factors as possible. They could have told us the answer had they been assigned to the case. Tragically, they were not assigned to the case so we ended up having millions and billions of people easily manipulated by a quack doctor in the pay of the panic industry.

In truth, we know far less than we ought to know about any of these issues. Why? Here is the fundamental reason. The actuaries have been disempowered in the health care industry as it directly affects consumers. They were silenced in 1996 with HIPAA legislation that said actuarial tables could no longer impact premiums in group insurance plans. Then in 2010, Obamacare got rid of them completely from individual plans.

No longer was the science of risk part of premium assessment so far as individual premiums are concerned. Actuaries are still active within the industry; the premiums come from somewhere. But their data is not permitted to affect the pricing of plans based on particular risks of individuals and their health decisions.

This whole disaster was promoted in the name of getting rid of discrimination against pre-existing conditions. But this was just the rhetoric. What this did in fact was drive out the science of risk from the entire business of consumer pricing of health care insurance. That's why we are at such a loss even to discover known facts.

Actuaries specialize in assessing the probabilities of outcomes given an existing set of facts. The risk of those outcomes are priced and weighed against premiums. There are many beautiful features of the profession but one of them is the role of causation, the most difficult problem in all sciences: they are far less concerned about that conundrum than the raw facts. As a consequence, the resulting formulas are constantly changing in light of new data and then the new reality is conveyed to consumers in terms of risk.

Let's say there is a high incidence of cancer near a lithium mine and that starts to impact on health care costs. In an actuarially informed market, this reality might be reflected in risk premiums.

But let's say another provider doubts there is any real causal connection and declines to price that risk. Consumers are in a position to decide, and the course of events reveals who made the better guess. They don't have to wait for randomized controlled trials or otherwise infer causality based on data. They compete to see who has the best theory based on a given set of facts.

There is no longer an industry publicly active in health care that examines such questions and prices plans based on what they know. They are still active in auto, home, fire, and life. There are at least 50,000 certified actuaries who examine facts and adjust premiums based on behavior or demographics. That's why we have smoke alarms in our houses and why white cars are more popular than black cars. The insurers tell us, through the price system, and not through force, that which increases and reduces risk.

We know for sure, for example, that driving safely lowers accident risk. That's why a bad driving record will increase your premiums. And therefore you also have a strong financial incentive for driving safely and getting fewer tickets. It's right there in the pricing structure. You don't need anyone hectoring you constantly to drive safely. The incentive to do so is built into the price system.

The actuaries also know for sure that young men are at greater risk for accidents than older women. This is not invidious "discrimination." It's just what the facts say and everyone recognizes it. It is merely the exercise of economic rationality. It's what the risk premiums adjusted for markets make clear.

Here's one: premiums for electric vehicle insurance are typically 25 percent higher than for internal combustion cars. The reason is the higher price for the car, higher repair bills, the extreme risk of battery replacements, and the low resale value. This discourages buyers and rightly so.

If someone says that EVs are safer and more affordable than gas cars, we have the facts on the ground to prove otherwise. If that were true, the insurance would be lower. You might buy an EV if only to save on insurance costs.

Imagine if car insurance were governed by HIPAA or Obamacare. There is simply no way we would know this. People would argue back and forth about it, with some experts shouting down others. With a real market for car insurance, no one needs to shout. We only need to read the price tags.

This is not true in personal health management. There is so much we as consumers do not know. What are the risks of vaccines vs. actually acquiring natural immunity for, for example, chicken pox? There are debates and arguments but no clear way to discern the answer in concrete terms.

Or consider another controversy: breastfeeding vs. bottle feeding and the risk of breast cancer? Or what about birth control and depression? Is there a link?

People tear each other apart over such debates but we have no agreement on facts on the ground to make a clear assessment. If the actuaries were part of the mix, and their data could affect what we pay and therefore what we do, we would have greater clarity.

What about weight-reduction surgeries? Or let's get really dicey: what about gender-based reconstruction surgery and the risks thereof? Some people say that not granting "gender-affirming care" leads to suicide while others say that cutting a person up when he or she is young leads to a lifetime of regret.

These are the kinds of questions that scientific risk assessment could answer as the data unfolds in real time. If gender surgery leads to vastly higher insurance premiums—and do you really doubt it?—you would have your answer. That way the costs would obtain a rational assessment. Otherwise we are just guessing.

People say we should be taking more vitamin D and eating less surgery desserts and that's probably right. But how much? There is surely real-time data we could obtain outside randomized controlled trials. We are in fact surrounded by cases that could be closely examined based on experience with premiums adjusted as facts come in. But because of huge interventions, such an industry that informs market pricing based on individual choice doesn't exist.

I was speaking to some professional actuaries about this whole issue and raised the problem of lying. For example, people are notorious for lying about how much they drink. What does the industry do about this? His answer came quickly: if accurate reporting impacts the profitability of the risk, the policyholder would have every incentive to submit to regular proof tests of various sorts. If he or she didn't want to do that, he or she would pay for the difference.

See how this works? With a developed enough industry, we would come to know the price of everything. We would know how much a trip to the gym saves us, how much that extra cocktail costs us, how much we are really paying for that double chocolate cake, and how much that bong hit will affect our premiums.

We'll know how many miles we should be walking, how much tennis to play, and how much weight we need to lose. We'll even know arcane

things like: is boxing or fencing good for health enough to lower our premiums or so dangerous that they raise our premiums? Right now, we do not know. With an actual functioning market, we would know, or at least we would have a window into what real-world experience suggests.

The power is absolutely not to sanction another group of experts. The point is to gather information so that we can make more rational judgments with the best-possible understanding of risks.

Guess who doesn't want such a market? The pharmaceutical industry. They want us to take a maximum amount of drugs and then more drugs to counteract the ill effects of those drugs and so on. The last thing this industry wants is a signaling system that says: stop taking these products because they are increasing the risk of ill health! They would fight tooth and nail against such a truth-telling system.

Without any pricing information for any of these questions, we are all merely groping around in the dark for answers, like Soviet central planners trying to maximize production but having no rational understanding for how best to do so. We are trying to gain health but still failing and this is for a very obvious reason.

After all, obesity in America went from 23 percent to 45 percent after we lost the ability to rationally price risk. ***This should not be a surprise!*** This is exactly what you would expect.

It's not just that "non-discrimination" reduces the will to health, which it certainly does. It also denies us reliable information for figuring out how best to obtain health. This is why every single subject listed above leads to wild arguments and unhinged speculations and gives rise to ridiculous gurus telling us this theory or myth or that theory or lie. Because of legislation, we have actively denied ourselves access to valuable information on how to get healthy and obtain any reward for doing so.

This is especially true in a pandemic. What is the real risk of Disease X? To whom does it pertain? How best to reduce the damage? What kinds of mitigation strategies get the results to minimize the costs to insurers? We knew NONE of this for certain during the last go-round because we have no industry dedicated to discovering this information

in any reliable way. We had “the science” but vast amounts of that turned out to be fake. Actuaries have a strong stake in cranking out and pricing true information, even if that involves doing lab tests themselves.

What about “pre-existing” conditions? These should be handled initially through regular welfare programs or, better, through philanthropic interests. The American Cancer Society can provide for patients and so too with other special-interest philanthropies. In addition, catastrophic risk can be priced into insurance too, same as any other risk, and policies offered for that as well. The premium would be adjusted based on behavior and demographics.

There will never be serious healthcare reform in this country until legislators take on this crucially important topic. And until they do, we will continue to have a completely irrational system that lies to us, disincentivizes healthy living, and fails to reward people for health or even explains the fact on how best to obtain it.

Emancipating the actuarial scientists and letting them speak to the issue of health care insurance premiums might sound like a technical fix to what is a system-wide problem. It’s certainly not a panacea. In healthcare today, corruption is rampant. The journals, the universities, the regulators, the distributors, and the media are all captured and part of a racket that is deeply embedded in all operations. Even this suggestion is highly contingent on other reforms, at the minimum disconnecting individual plans from employer control. And that’s just the start.

Still, it is undeniable that the real catastrophe has been the leveling out of premiums and the elimination of risk assessment associated with them. That system is a proven failure and it has led to disaster. It needs to be ended immediately and replaced by a system that gathers and deploys factual information toward a rational and more truth-telling system in the interest of everyone.

There is an additional benefit of putting the actuaries to work on pricing individual plans. No longer could the FDA/CDC machine lie to the public. Or if they chose to, we could explose those lies immediately.

The point is not to disable one machine only to put another machine in its place. The purpose here is to make operational the information we have so that we can obtain and act on more of it—verifiable information supplied by industrial players in a competitive environment so that health care can begin to operate like a normal market player.

This simply cannot happen without viable actuarial data that can inform pricing systems that account for real-world risk.

The observations above are hardly novel. They are rooted in three core insights about the signaling function of market institutions and pricing in particular.

The economic calculation problem was identified by Ludwig von Mises in 1920 with his famed article on the issue. In it, he presciently predicted that any attempt by a state to abolish or otherwise collectivize capital would render accounting meaningless and thus lead to a tremendous overutilization of resources. That is precisely what has happened to American healthcare, in which trillions and trillions are thrown at a problem that keeps getting worse.

The knowledge problem was singled out by F.A. Hayek in his famed article from 1945. The collectivization of resources, he argued, would blind all producers and consumers to information they need to navigate a constantly changing economic terrain, knowledge that can only be revealed through a process of ongoing discovery. The use of knowledge in health care is of extreme importance, given that the best plan of action is "not given to anyone in its totality." It can only be revealed in the course of real-world choice.

The third problem is the incentive problem, explained by countless observers for centuries. If there is no financial penalty at all for ill health—indeed if the reward runs entirely in the opposite direction especially for suppliers—we can expect more of it and less of what it is we are seeking to obtain. Subsidize something and get more of it: this is a fact of the way the world works. And the opposite is true: all else equal, a higher price reduces the quantity demanded.

Ill health has not only been subsidized. The truth about its cause and its solution has been suppressed because of legislation that mandates that everyone be treated the same regardless of risk. This is not a real

market but a fake one, even if most of the main players are nominally working in the private sector. Otherwise there is no real functioning market at all. This is a sector dominated by corporatists and not market structures.

There are myriad issues in healthcare that are crying out for reform. The large and mandated benefits packages serve no purpose for most people. The whole system of employer-provided plans increases the costs of switching jobs and embroils enterprises in a system that should not involve them. The regulations of the industry are extreme with the regulatory agencies captured by the biggest industrial players. The indemnification of pharma against liability for harm is contrary to all justice.

All of this is true. But it is also true that health insurance needs a new pricing structure that is not based on a one-size-fits-all model that it is now. Health and therefore healthcare expenses are highly tuned to individual choice. We need more information about the best choices, and that information can only come to us once the specialists who know the data are allowed to impact pricing structures in ways they currently cannot.

Is it too much to ask that health insurance take a cue from automotive insurance, rewarding people for better behavior and charging more for great risk? It would not seem so. Such a reform would at least be a step in the right direction.

To return to our opening example of Paddington bear, having that guy in your house surely does increase the risk of accidents. We might love that bear so much that we are happy to pay the differential but it is good to know how much the decision is going to cost us. Otherwise we are just flying blind.

From the Brownstone Institute

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