



## **Crowd-Out Undermines the Private Insurance Market**

### **The Problem**

Government has attempted to help the uninsured gain access to health care by continually expanding public insurance programs. Yet many people with private insurance are opting to drop it (when they can afford it) to go on public coverage. The term “crowd-out effect” describes this switch individuals, families and businesses make when substituting public insurance for private insurance.

When people drop private insurance and enroll in public insurance, even when they can afford private insurance either through their employer or through the individual market, it causes the following:

- Drives up the cost of public programs
- Lowers the quality of care for those enrolled in the programs
- Causes a rise in future costs of treatment
- Places pressure on the budgets
- Raises overall health care costs for all

### **Our Solution**

While controversial, a significant economic body of research identifies and measures the crowd-out effect and offers a simple solution: Stop expanding public programs and instead identify alternatives that use incentives in order to help those without insurance purchase private insurance. Better options for helping the uninsured include:

- Continued expansion and promotion of Health Savings Accounts (HSA) and

Medicaid Health Accounts, which are proven methods of reining in health spending by putting consumers in charge of their money. HSAs 1) give consumers control over the first dollar spent up to a pre-determined deductible, 2) allow them to keep what they save for retirement or for private insurance when they leave Medicaid, and 3) create incentives to use money more wisely, incentivize healthy living and offer financial rewards.

- Ending the practice of insurance policy mandates and implementation of no-frills and mandate-free policies for the chronically uninsured. Benefit and service mandates can add 20 to 50 percent in premium costs. Less expensive health insurance means more people would purchase it.

- Creating a national market for private insurance. Competition in a national market for individual insurance has the potential to decrease the uninsured by 12 million people per year—or roughly the equivalent of the 5th largest state in the union—Illinois.

### **Why This Works**

Expanding choices and competition in health care, rather than government involvement, will make health insurance more affordable for the uninsured and insured, lessen budgetary pressure, and allow public insurance programs to effectively direct resources at those who truly need them.

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