Compare contrast of public and private insurers

Compare/Contrast of Public and Private Insurers

Private and public insurers share many similarities. Both use actuarial techniques to determine risks and expenditures. Both calibrate this data totheir inputs: Private insurers to insurance payments, public insurers to taxpayer money, charity inputs, etc. Both serve stakeholders and serve to insure against and manage risk. But they do have clear distinctions. Public insurers are accountable to taxpayers, legislators and public stakeholders. They are not designed to generate return on investment: Rather, they are designed only to keep their balance sheets even. They have standards for insurance availability varying from citizenship to certain standards of geographic location or income. Their revenue is disproportionately provided by people who don't use the service or benefit less from it. The public insurer is managed by the government and behaves under its regulations. Public insurers are government-managed, either a direct government agency or a government-backed corporation. Private insurers, meanwhile, are beholden to shareholders or, in the case of charity, contributors and the board of directors. If they are profit-seeking, they make it so that they make profit based on their management of actuarial risk. If they are not profit seeking, they are more like public insurance. They frequently negotiate with NGOs, governments and businesses to provide insurance. Private insurers are usually corporate or NGO. They operate under government regulations but have substantial internal autonomy. Of course, there are many other models for public or private insurance. There can be heavily subsidized private insurance options, for example. And employers subsidize insurance for their workers. There are also government markets. The new health care bill, for example, has a government-provided market that lets people shop for public and private options. “ Beginning in 2014 (that’s right, this is four years away), these people would be able to shop for coverage in new “ health exchanges,” a sort of online bazaar in which insurers would hawk different kinds of plans” (Grier, 2010). Pennsylvania until recently had a subsidized insurance program, AdultBasic, which covered roughly 40, 000 people and had more than 400, 000 people on its waiting list (Sapatkin, 2011). The money was brought in from tobacco taxes and donations from Blue Cross (Sapatkin, 2011). Insurers can insure many different assets, and both public and private insurers can do this. Financial assets like banks, protected in America by the FDIC, and credit default swaps, once insured by AIG before they had to be bailed out, are one type. Property insurance like car and home insurance, or disaster insurance like fire or flood, are other types. The interaction between them is complex. Brown and Finkelstein find, “[T]he even very incomplete public insurance can substantially crowd out private insurance demand. We examine the interaction of the public Medicaid program with the private market for long-term care insurance and estimate that Medicaid could explain the lack of private insurance purchases for about two-thirds of the wealth distribution even if there were no other factors limiting the size of the market. We also estimate that, for most individuals, Medicaid provides a very incomplete mechanism for smoothing consumption. Medicaid’s large crowd out effect stems from the very large implicit tax (on the order of 60 to 75 percent for a median wealth individual) that Medicaid imposes on the benefits paid from private insurance policies” (2006). The requirements of each are different for law. The legal requirements for a private insurer to provide their services are covered under corporate or fraud law, while public insurers have a fiduciary responsibility to the taxpayer. Public and private insurance both serve a role in protecting the people. They are both key in reducing and managing risk in the modern market. The debacle of AIG and of Savings and Loan show how costly failures of each can be. Works Cited Brown, J. and Finkelstein, A. (2006). The Interaction of Public and Private Insurance: Medicaid and the Long-Term Care Insurance Market. Retrieved 2/21/2011 from http://econ-www. mit. edu/files/1429 Grier, P. (2010-3-20). Health care reform bill 101: Who gets subsidized insurance? Christian Science Monitor. Sapatkin, D. (2011-1-12). Pennsylvania subsidized health insurance for low-income people to end. Philadelphia Inquirer.