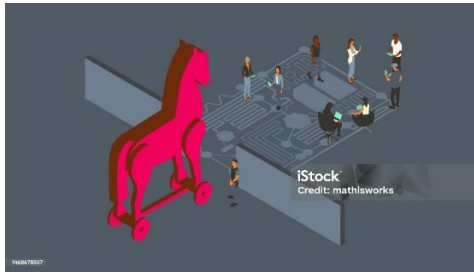


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Beware of Republicans bearing cash!

Substituting Cash for Health Insurance Can Drive Up Costs, Medical Bankruptcy

Karl Polzer – [Center on Capital & Social Equity](#)

This truly must be a season of miracles! Republicans want to send **CASH \$\$\$** to people needing health insurance. Yes, [Republicans and President Trump](#) are proposing to send cash to recipients of Obamacare - either replacing insurance or in ‘savings accounts’ alongside high-deductible coverage.

Congress should exercise extreme caution before sending billions in cash out the door. Giving people money to leave the insurance risk pool and bargain on their own with the health system undermines the basic concept and function of insurance.

As some sponsors of private-sector plans have experienced, providing individuals with a choice between cash and insurance can result in total higher total costs. Insurance risk pools deteriorate with the departure of healthy, low-cost members, which drives up premiums and makes coverage less affordable for the sicker group left behind. And some cash recipients may later face unexpected catastrophic medical costs [they cannot afford](#) to pay.

To avoid costly mistakes, policymakers need to understand how health care deviates from the classic classroom interaction of demand and supply. The intertwined markets for medical care and health insurance are fraught with peculiarities that economists call “market failures.”

One of these deviations is “[adverse selection](#),” which stems from differences in information between buyers and sellers that result in distorted prices. People choosing health insurance plans know more about their own medical problems than insurers selling coverage, which can cause insurers to raise prices to cover that uncertainty and the resulting financial risk. Adverse selection can unravel a health insurance plan.

Another important imbalance is that doctors and hospitals know much more about medical care than patients, putting them in stronger position to influence prices. The medical profession, hospitals, and insurance companies also command financial and legal resources that dwarf the bargaining power of ordinary consumers. How long can a tourist with \$6,000 stay in a poker game against a Vegas or Jersey casino?

In a simple illustration I submitted recently to the [Senate Finance Committee](#), adverse selection results in an 8.2% increase in total costs one year after the program sponsor offers a \$6,000 cash alternative (the average annual cost of ACA coverage) to 100 insured employees. This happens because the cash provided to 10 healthy employees opting out of the insurance pool is greater than a slight savings from their leaving it. The small minority generating most of the medical costs will tend to stay insured.

Unless word gets out that someone opting for cash guessed wrong and developed an expensive illness or was in a catastrophic accident, in the program’s second year more of the healthiest are likely to opt for cash, further compromising the risk pool. The plan sponsor may consider design features to prevent further losses and the prospect an insurance death spiral.

To mitigate the risk of participant bankruptcy, the sponsor might reduce the amount of cash, pairing it with catastrophic or high-deductible insurance. Such a modification could resemble the existing combination of [health savings accounts](#) (HSAs) and high-deductible coverage already offered by many employee health plans.

In the above illustration, a cash/insurance hybrid could stabilize the risk pool -- and still result in higher total program costs than before. It also would make the new program much more complex and need careful management – at a level beyond what a federal government agency might be expected to provide. More public program complexity is certainly not what Republican legislators typically have in mind.

While several Republicans support diverting exchange subsidies into HSAs, committee Democrats released a [report](#) attacking cash accounts as “a giveaway to banks and big insurance.” In May, the left-leaning Center on Budget & Policy Priorities published a report urging Congress to reject expansion of HSAs. Among the reasons: “HSAs crowd out policies that would better help people afford coverage and care.” HSAs mainly benefit high-income

people. They provide little help to people with lower incomes or who have difficulty affording health care, according to CBPP. Recall that ACA exchange coverage is [targeted](#) to help low- and middle-income people.

Doling cash into millions of small accounts opens new opportunities for abuse and fraud needing more government oversight. Instead, Congress should clean up the major amount of fraud [GAO is reporting](#) among brokers selling ACA plans. Though some Democrats might object, requiring small premium contributions could help eliminate “ghost accounts.”

Republican infatuation with sending people cash in HSAs is not a sign of more generosity toward Americans receiving public benefits. The GOP is simply more responsive to HSA lobbyists than Democrats.

No matter how many adjustments the government might make, giving people money to leave the risk pool and bargain on their own with institutional forces in health system undermines the basic concept of insurance – which is pooling risk and resources to make hard-to-predict future expenses more affordable.

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