

# Understanding Health Care Financing and Reform

Irene Aguilar, MD

President

Health Care for All Colorado

# History of Health Insurance

Insurance is a social vehicle for spreading the risk of financial loss among a large group of people, thus making a loss manageable for any one person of that group.

Ancient Babylonians

# History of Health Insurance

- **1883 – 1913** Europe enacts compulsory health insurance, or risk sharing
- **1916 – 1920:** U.S. 15 states attempt compulsory health insurance
- **1916** Congress held hearings on a federal plan
  - The AMA and large corporations blocked these efforts
- WW I diverted attention elsewhere

# History of Health Insurance

- **1929** Baylor Hospital & Teachers
- **1934** Blue Cross – Employer Based
  - **Community rating**: every subscriber paid same monthly amount
  - **Guaranteed issue**: anyone willing to pay this uniform fee was given insurance
- **WW II**
  - Tight labor markets with wage freezes
  - Employers allowed to expand benefits

# History of Health Insurance

- Popularity of employer based coverage led to for-profit insurers entering the marketplace after WW II

**The legal duty of a for-profit company is to make a profit for their shareholders**

# Health Industry Profits, 2006

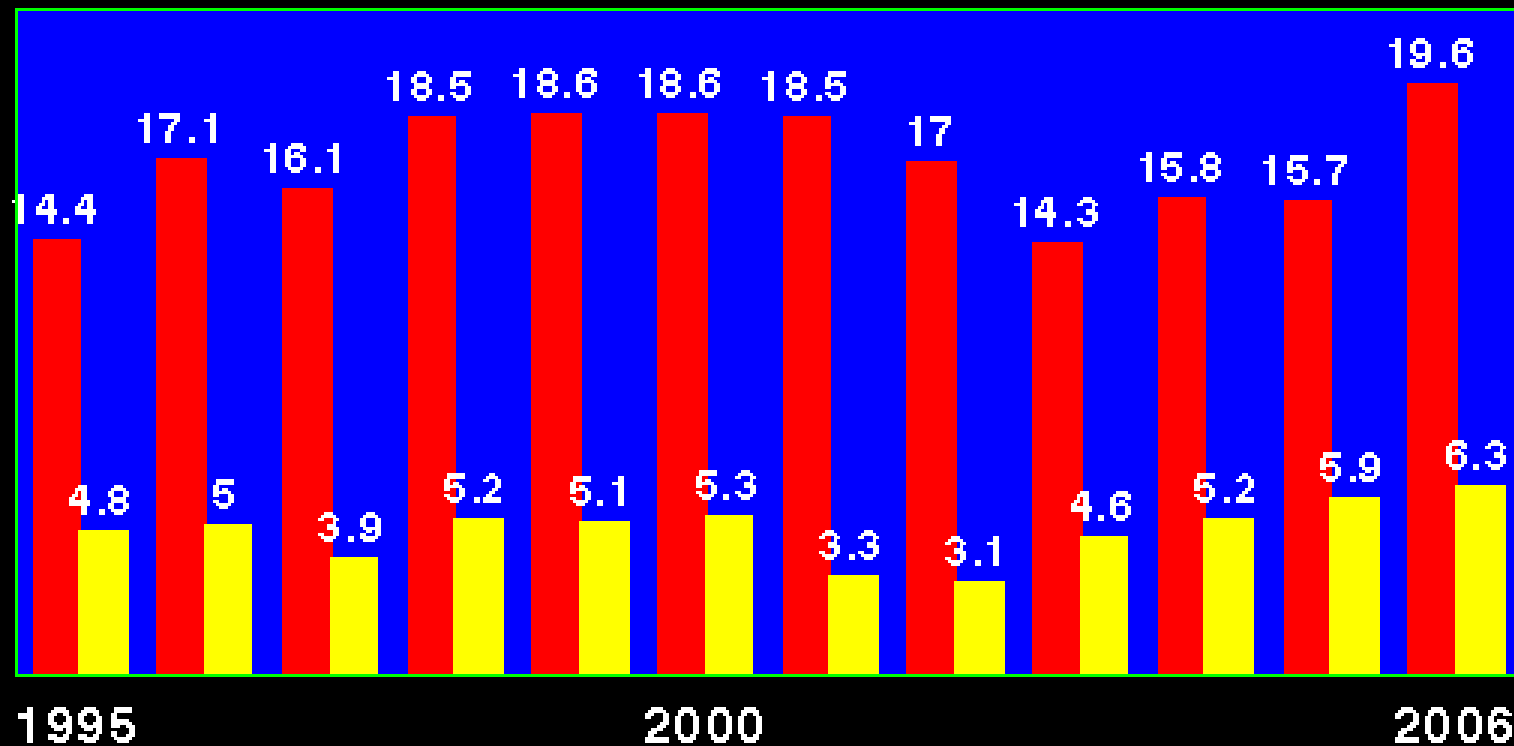
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<b>Pharmaceuticals</b>	<b>\$49.0 billion</b>
<b>Insurers/HMOs</b>	<b>\$12.0 billion</b>
<b>Equipment/Supplies</b>	<b>\$5.2 billion</b>
<b>Hospitals/Nursing Homes</b>	<b>\$1.4 billion</b>
<b>Distributors/Wholesalers</b>	<b>\$2.7 billion</b>

Source: Fortune Magazine April 30, 2007

# Drug Company Profits, 1995-2006

## Return on Revenues (%)



■ Drug Companies ■ Fortune 500 Median

Source: Fortune 500 rankings for 1995-2006

Total drug company profits, 2006 = \$49.0 billion

# Wall Street Journal 9.6.09

- Dow Jones Industrial Average 6%
- Health Care Industrial Average 7%
- Health Insurance Providers 19%
- Medical Equipment Providers 21%
- Pharmaceuticals 1%
- Biotechnology 3%



# History of Health Insurance

- To control costs and maintain profits, commercial health insurers began the shift from spreading risk to avoiding risk
  - “Cherry Picking” and “Lemon Dropping”
- Onset of Experience Rating:
  - Insurers increase premiums based upon the claims made by enrollees
- These practices led to populations who could not find insurance

# History of Health Insurance

- **Medicare** 1965 Federal program.  
Funded by payroll taxes.
  - 65 and older
  - Disabled citizens
- **Medicaid** 1965 - State and Federal Partnership. Feds match 1:1 contribution by state.
  - Scope determined by individual states
  - Colorado ranks 49<sup>th</sup> in US

# History of Health Insurance

- **1954** Congress made employer contributions to health plans tax-deductible without making the resulting benefits taxable to employees
- **1974 ERISA: Employee Retirement Income Security Act** allowed large companies to self insure (less costly)
  - By 1980 most (>70%) full time workers at large companies had health insurance through their employers
  - FEDERAL and not STATE Regulated



**2008: 46 Million Uninsured**

**47 Million  
Uninsured**

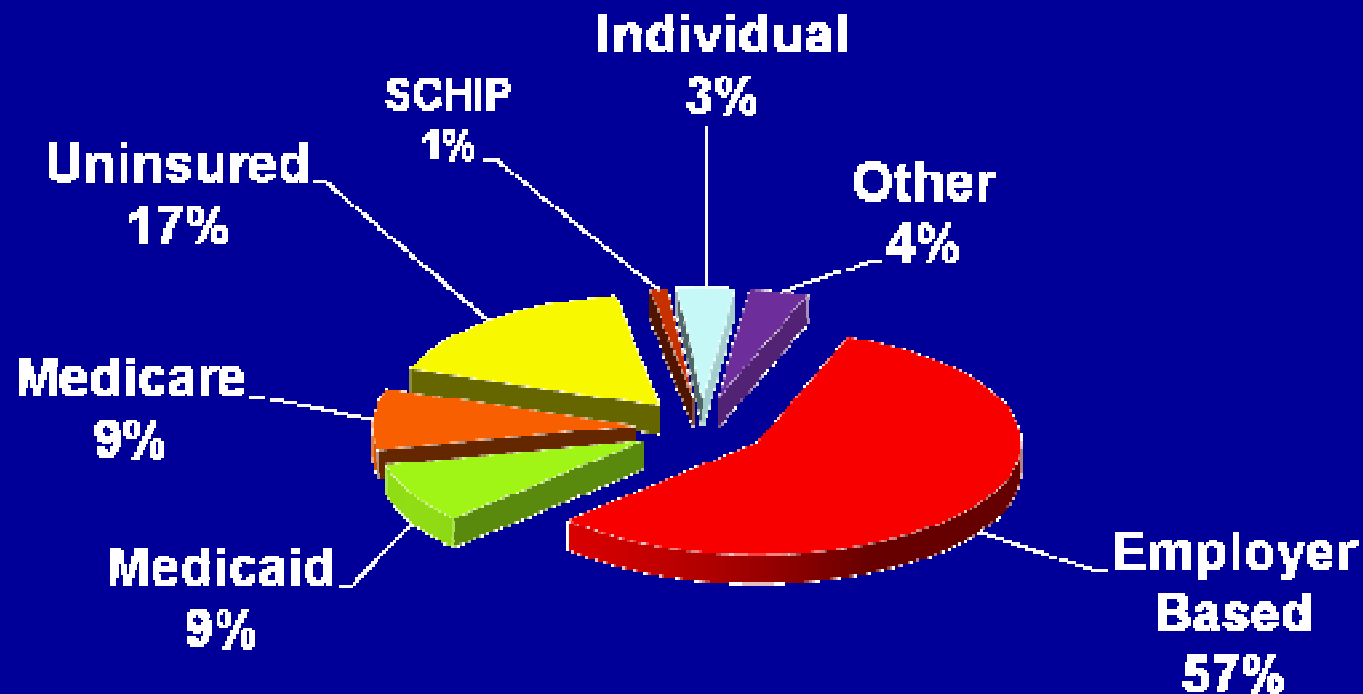
**2009 Colorado:  
880,000 uninsured  
17.2% of population**

**Government  
Insurance**

**↑4 Million**

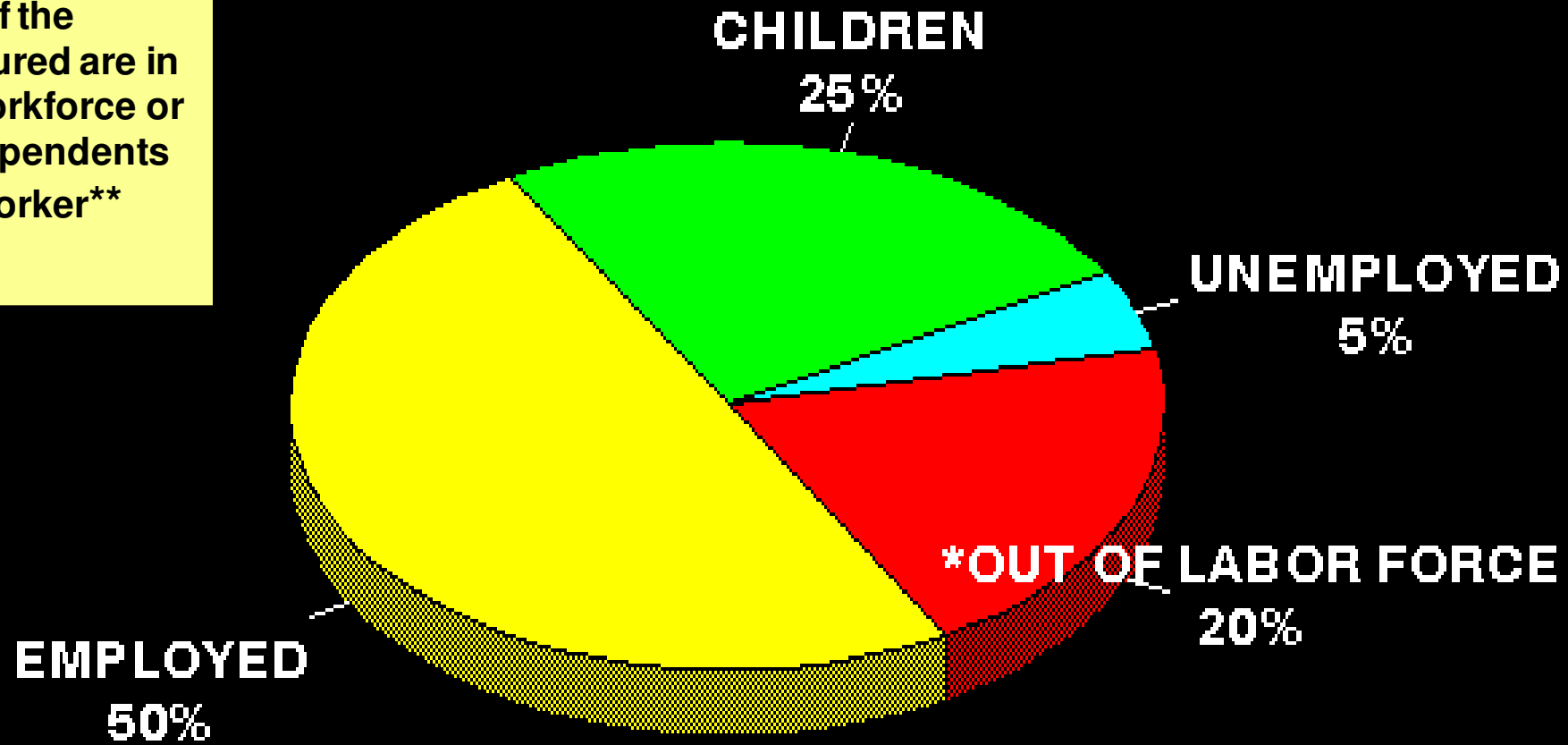
**CO Medicaid  
500,000**

# Colorado Insurance Status



# Who Are The Uninsured?

In Colorado  
70% of the  
uninsured are in  
the workforce or  
are dependents  
of a worker\*\*



\* STUDENTS > 18, HOMEMAKERS,  
DISABLED, EARLY RETIREES

SOURCE: Himmelstein & Woolhandler - Tabulation from 1999 CPS

# What is the cost of health insurance?

- Over \$10,000 for employer sponsored family policy\*
- Individual policy (if it can be purchased) more than \$10,000 in after tax dollars

Median income was \$52,275 in 2006\*\*  
\$ 50,303 in 2008

*Can the average worker afford health insurance?*

*\*The Lewin Group: Health Spending in Colorado June 2007*

*\*\*Denver Business Journal August 2007*

# 2009 Denver CSA Monthly Premiums

Plan	Coverage	ANNUAL TOTAL	City Monthly Cost	Employee Monthly Cost
Aetna HMO	Employee	<b>\$ 6,859</b>	\$ 486.71	\$ 85.89
	Family	<b>\$21,988</b>	\$1374.27	\$ 458.09
Aetna POS	Employee	<b>\$ 4,575</b>	\$ 324.05	\$ 57.19
	Family	<b>\$14,640</b>	\$ 914.96	\$ 304.99
Kaiser	Employee	<b>\$ 4,854</b>	\$ 343.79	\$ 60.67
	Family	<b>\$15,531</b>	\$ 970.70	\$ 323.57



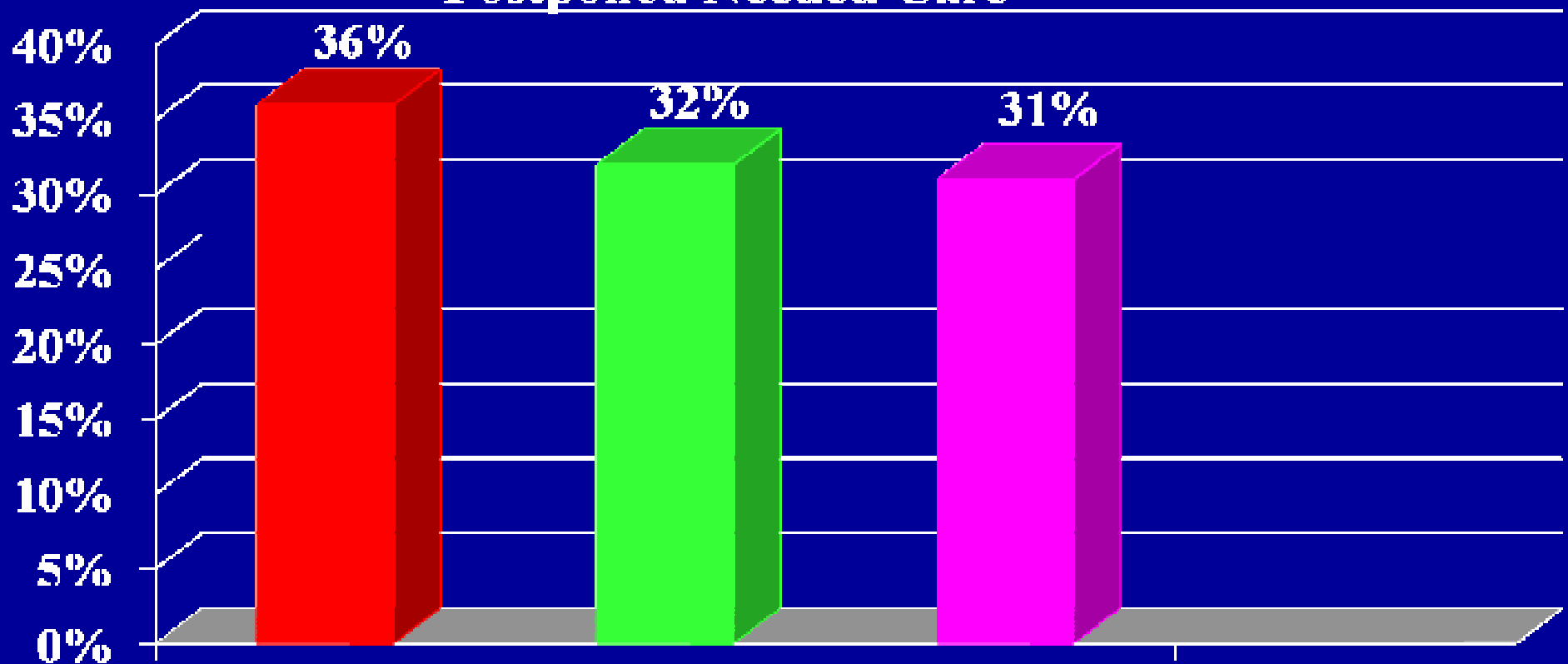
# Underinsurance

- Delay or omission of recommended care because of inability to afford it.
- 2008 data from the University of Colorado Denver found 36.3% of Colorado Residents under - insured.

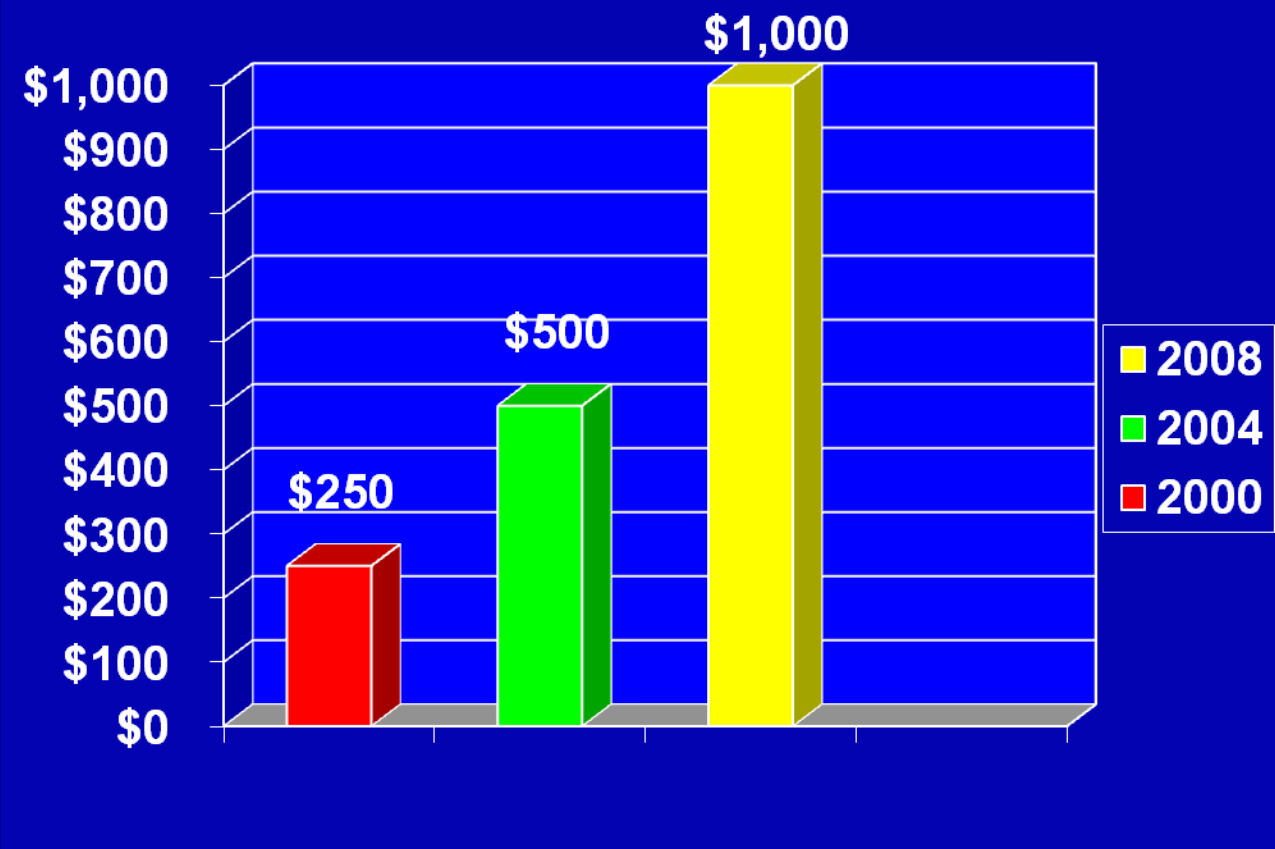
*J Am Board Fam Med. 2008 Jul-Aug;21(4):309-16.*

# Access Problems for Middle Class Families

- Skipped Recommended Treatment
- Problem Paying Bills
- Postponed Needed Care



# Median Deductibles Among PPO Sponsors Requiring a Deductible



*Mercer Health & Benefits Consultant, Denver Post, November 20, 2008*

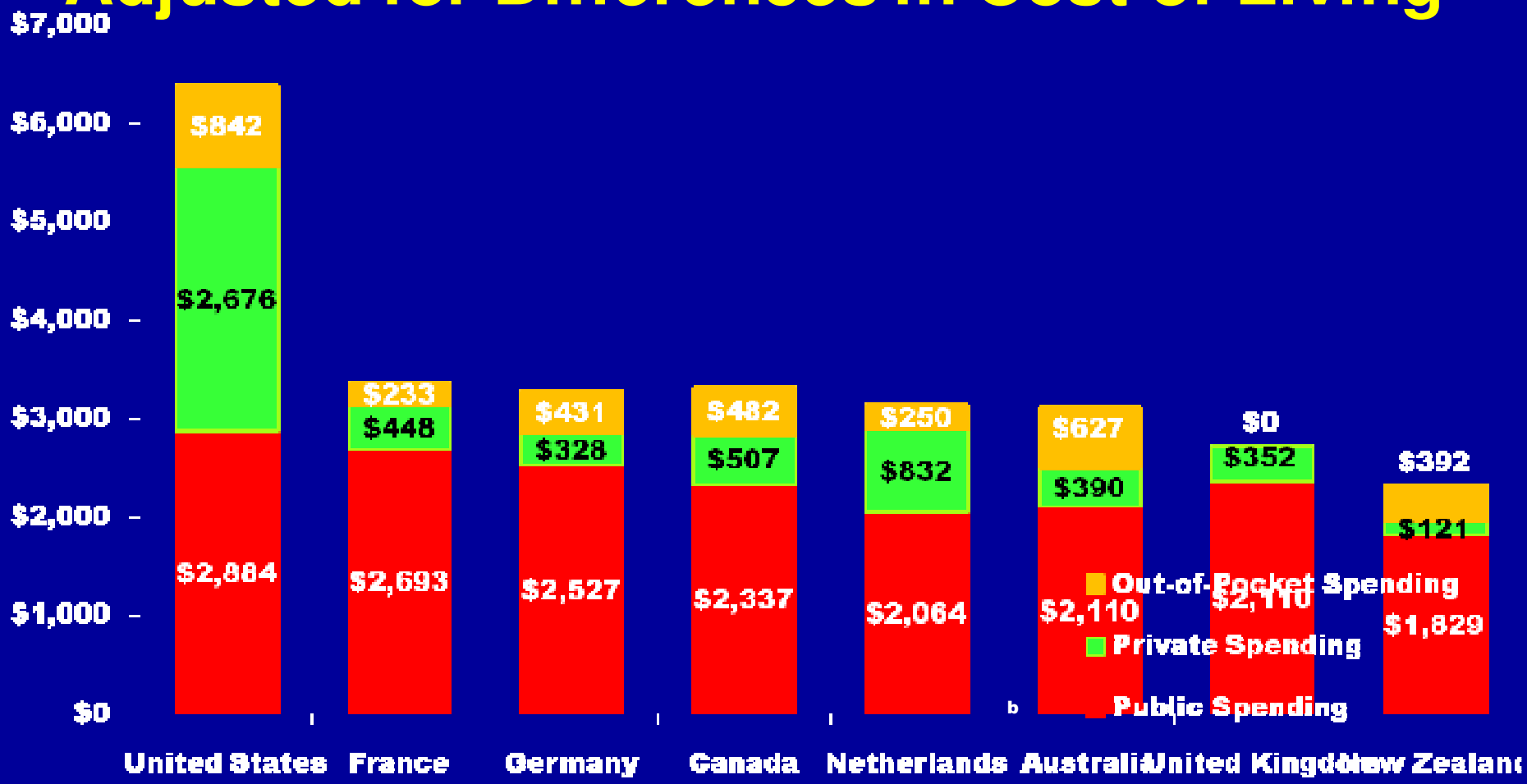
# Medical Bankruptcy

- 62.1% of all bankruptcies have a medical cause
- Most medical debtors were well educated and middle class
- 75% had health insurance

*American Journal of Medicine 2009*

# Health Care Expenditure per Capita by Source of Funding in 2005

## Adjusted for Differences in Cost of Living

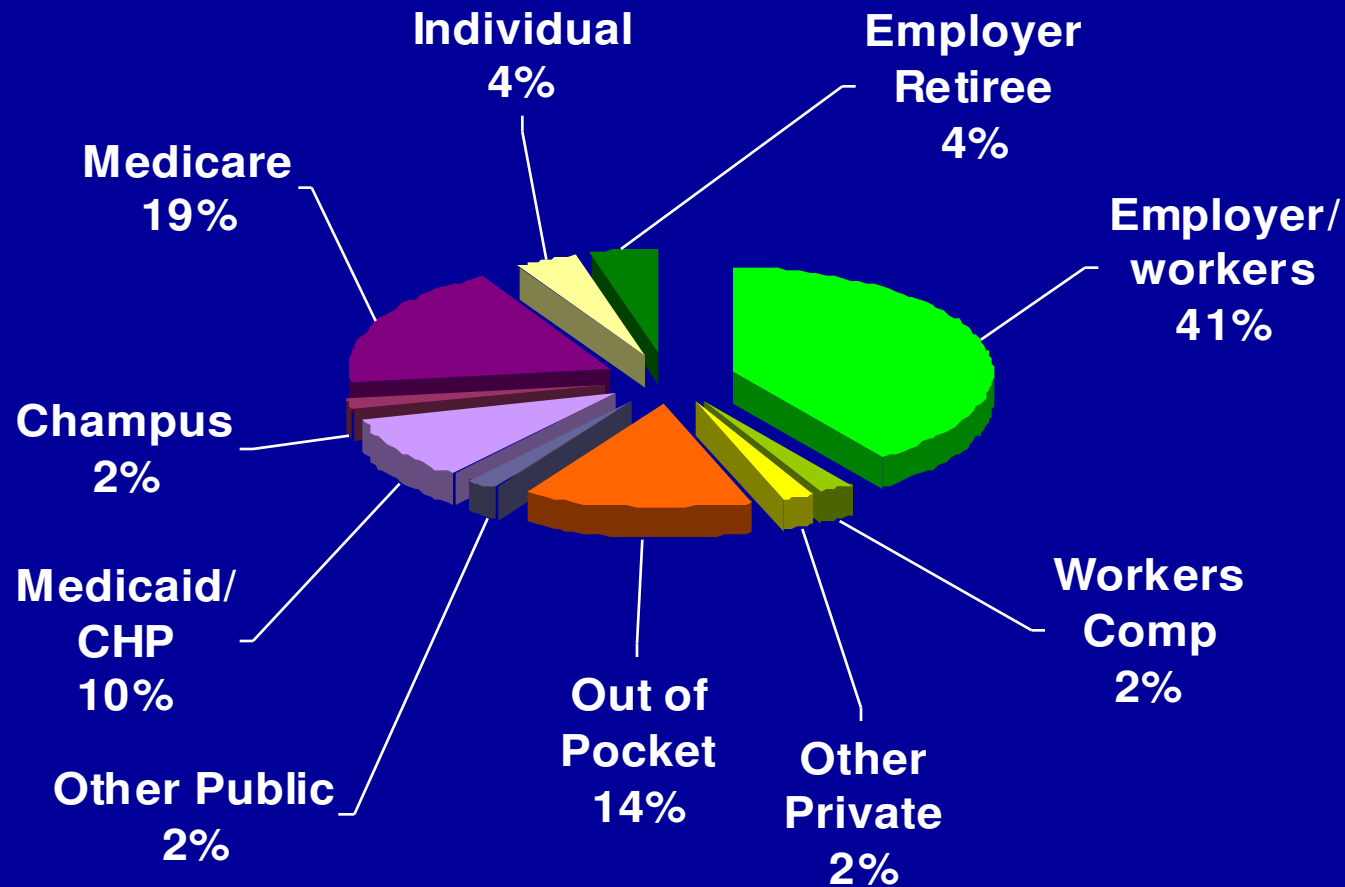


<sup>a</sup>2004  
<sup>b</sup>2002

# Health Care Spending

- 2009: \$2.5 Trillion  
\$8,160 per US Resident  
17.6% of GDP
- 1970: \$ 75 BILLION  
\$ 356 per US Resident  
7.2 % of GDP
- 2018: \$ 4.3 Trillion  
\$13,100 per US Resident  
20.3% of GDP

# 2007 Colorado Health Spending: \$30.1 Billion



# Costs and Health Care

- 1913: Few received medical care
- 2009: Everyone receives medical care
  - Preconception, Prenatal, Perinatal
  - Childhood & Adolescence
  - Adulthood & Senior Care
  - Chronic Disease Management
  - Catastrophic illness
  - Disability
  - Death



# Costs and Health Care

- Prescriptions Drugs
  - 50% of all Americans take at least one
  - 40% of seniors take 4 or more
- Chronic Disease accounts for > 70% of the nation's healthcare expenditures
  - 5 % of population spends almost 60% of \$\$\$
  - 10% spend nearly 70% \$\$\$
  - 50% of population spend only 3% of \$\$\$

# Costs and Health Care

- Chronic Disease: The Big 5
  - Diabetes
  - Congestive Heart Failure
  - Coronary Artery Disease
  - Asthma
  - Depression
- Evidence Based Care delivery- approx 50%
  - Cut diabetes complications up to 90%
  - Decrease 2<sup>nd</sup> MI 40%
  - Decrease lost productivity RAD 90%

# Costs and Health Care: Too Little

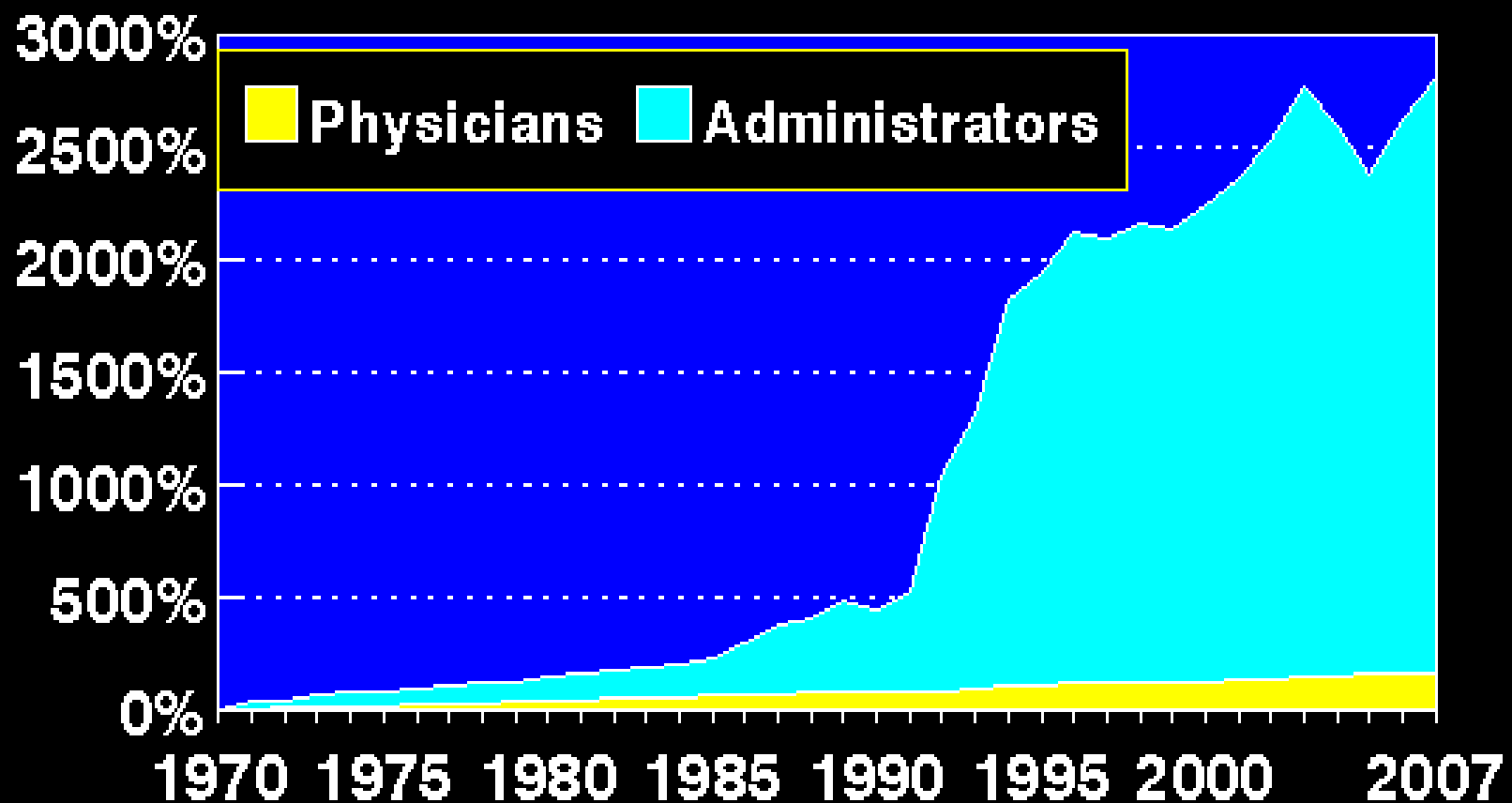
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# Costs and Health Care

- The market and tax benefits of employer sponsored health insurance has made it the most affordable option for financing any type of health care
- Health insurance has become the primary payment mechanism for nearly all of health care
- Insurance is the most complex, costly and distorted method of financing health care

# GROWTH OF PHYSICIANS & ADMINISTRATORS 1970-2007

## GROWTH SINCE 1970



# Costs and Health Care: Too Much

- Moral Hazard: the tendency we have to change our behavior when someone else is covering the costs
- If demand for healthcare were purely medical money would not be spent on advertising:
  - “You can benefit from this product and pass the bill on to someone else”
- Insured consumers do not know the prices for medical services – no transparency

# Costs and Health Care

- Physicians are paid “fee for service” – paid more for doing more, not for outcomes
  - The most expensive piece of medical equipment is a physician’s pen
- Physician supply often begets patient demand – without improved outcomes!
- Providers benefit from more spending and patients are sheltered from this cost

# Costs and Health Care

- Demand for health care has no natural limit – “’til death do us part...”
- We have the illusion that someone else is paying for our care
- We focus on our direct share of costs rather than total cost to ourselves and to society
  - Our employer’s share of insurance comes out of our potential wage increases
  - Government’s share of health care costs come from our taxes

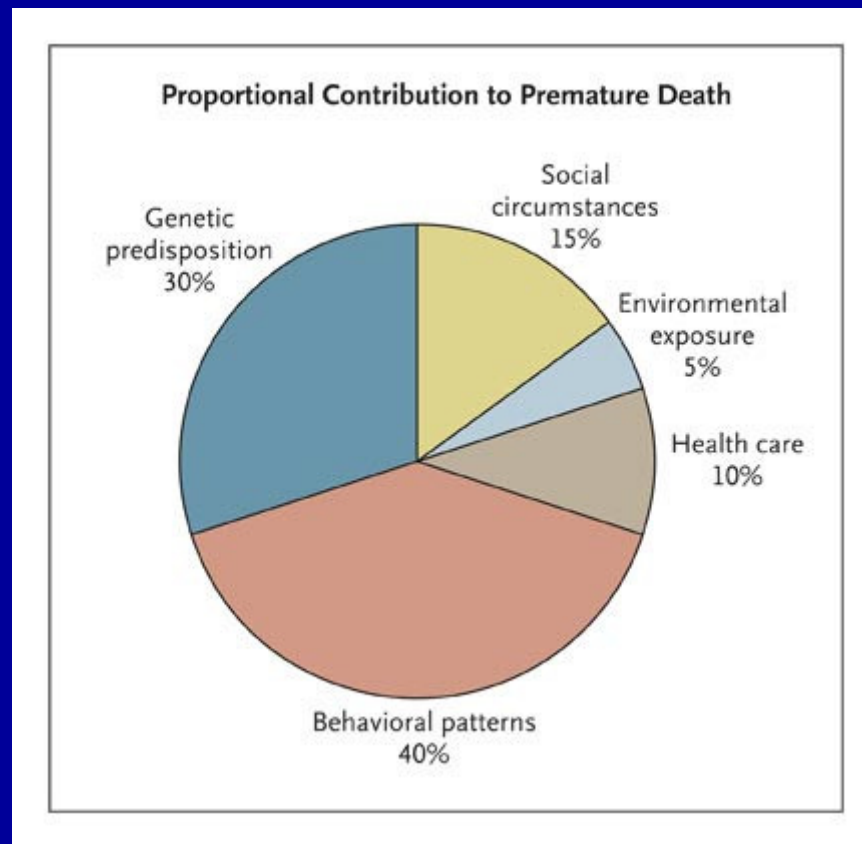


# Costs and Health Care

- The Medicare tax and premiums that today's beneficiaries have paid into the system don't come close to fully funding their care: A high risk pool
- There is no price transparency in medicine
- There is inadequate data for consumers to use in choosing health care providers

# Health Care System?

## Determinants of Health and Proportional Contribution to Premature Death

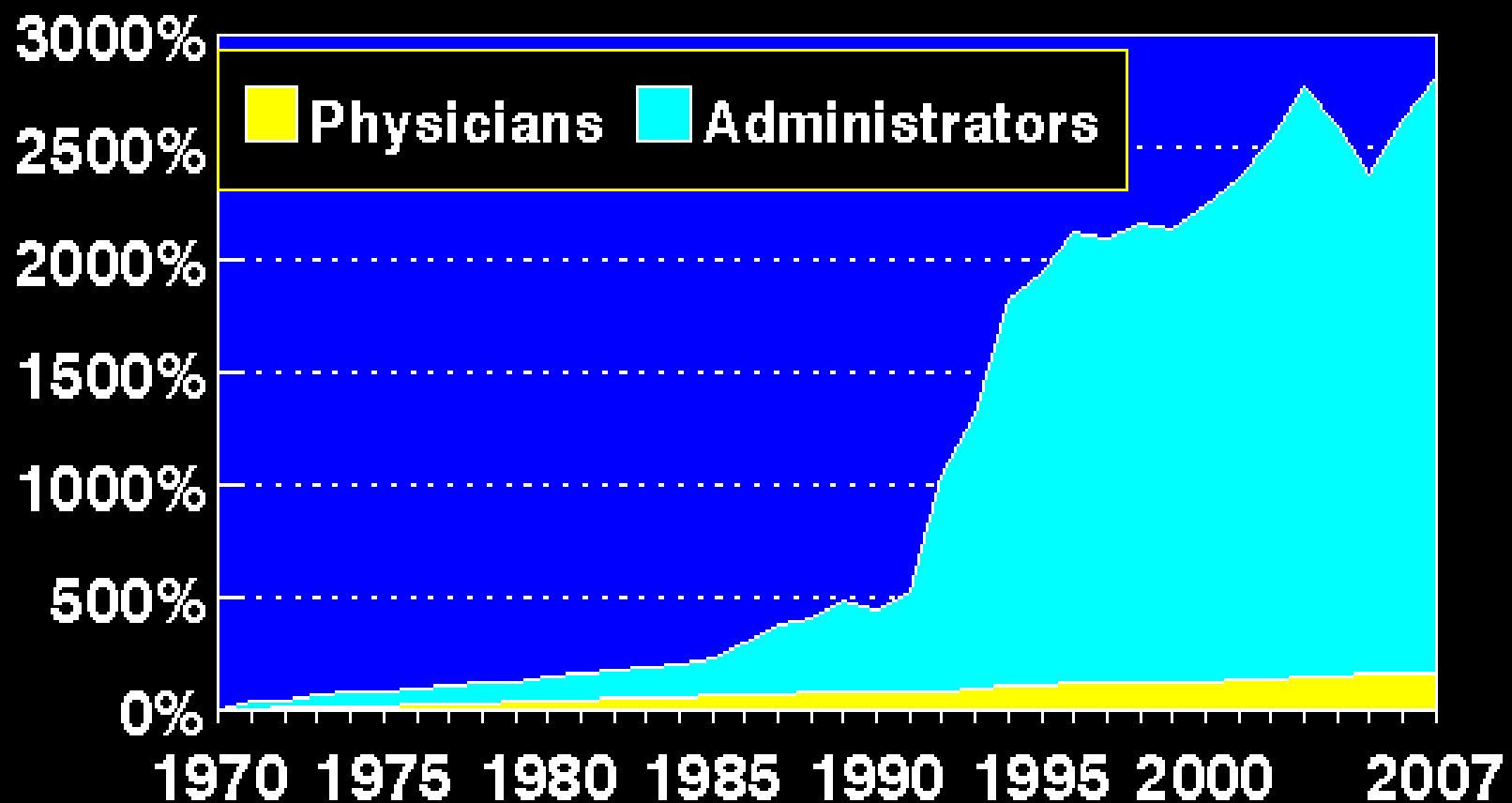


# Health Care System?

- Care Linkage Deficiencies
- No Comprehensive Data System
  - Caregiver Support
  - Outcomes Measurement
  - Cost Tracking
  - Performance Measurement
  - Process Thinking
- Over 30 major health insurers each offering a multitude of plans in different locations

# GROWTH OF PHYSICIANS & ADMINISTRATORS 1970-2007

## GROWTH SINCE 1970



## PRESIDENT OBAMA: July 22, 2009

I want to cover everybody.

*Now, the truth is that unless you have a -- what's called a single-payer system, in which everybody's automatically covered, then you're probably not going to reach every single individual,* because there's always going to be somebody out there who thinks they're indestructible and doesn't want to get health care, doesn't bother getting health care, and then, unfortunately, when they get hit by a bus, end up in the emergency room and the rest of us have to pay for it.

# ***Lewin Group Analysis of Colorado Proposals\****

## **COLORADO HEALTH SERVICES SINGLE PAYER PROGRAM**

- ✓ Everyone insured with comprehensive benefits – No one without coverage
- ✓ \$1.4 billion savings annually

\*Colorado Blue Ribbon Commission on Health Care Reform  
1/31/2008

# Single Payer Health Care: How do we know it can be done?

- Every other industrialized nation has a healthcare system that assures medical care for all
- All spend less than we do; many spend less than half
- Most have lower death rates, more accountability and higher satisfaction

# Single Payer Health Care Opponents

- Insurance companies - lose business and lose profit
- Pharmaceutical companies - lose profit
- Many providers - fear change
- Some small businesses - forced to pay a share
- The insured – fear less coverage and more costs



# Single Payer Health Care Supporters

- The uninsured - all would be covered
- The elderly & middle class - ends underinsurance and risk of bankruptcy
- Medicaid & Medicare recipients - assures equal choice in care
- Big business - contains costs
- Health Care Providers - helps patients, curtails bureaucracy
- Employees – bargain for salary increases instead of health benefits

# National Reform 2009

- **House Bill: HR 3200: Tri Committee Bill.**

## *America's Affordable Health Choices Act*

- Energy & Commerce (Weiner/DeGette)

*Speaker Pelosi agreed to floor debate of HR 676*

*Rep Conyers National Single Payer Bill*

- Ways & Means

- Education & Labor (Kucinich)

*Amendment to allow states an ERISA exemption to pilot innovation, including single payer health care*

# National Reform 2009

- **Senate:**

- Finance Committee: Baucus  
(Snowe/Grassley)

*America's Healthy Future Act of 2009*

- Health, Education, Labor and Pensions  
(HELP) Kennedy/Dodd

*Affordable Health Choices Act*

# Framework for National Reform

- Public and Private Combination – “remodel”
- Required participation for individuals
  - Individual Mandate
  - Subsidies for purchase of coverage for those earning up to 400% FPL
- Expand and improve public programs

# Framework

- Changes to Private Insurance
  - Guarantee issue: no exclusions for pre-existing conditions
  - Portability/Renewability
  - Limit Rate Variation
  - No annual or lifetime limits on coverage
  - No rescission
  - Standardized Benefit Design Tiers

# Key Features

	Senate Finance	Senate HELP	HR 3200
Out of Pocket Cost Limits	2% < 100% 12% < 400%	1% < 150% 12.5% < 400%	1.5-3% < 150% 11% < 400%
Employer Subsidies	<25 and < \$40,000	< 50 and < \$50,000	< 25 and < \$40,000
Remaining Uninsured	25 m		17 m
# uninsured undocument	1/3		1/2
10 year cost	\$774 b	\$615 b	\$1042 b

# Key Features

	Senate Finance	Senate HELP	HR 3200
Medicaid Expansion	133% FPL CHIP 250%	150% FPL	133% FPL
Cost Containment	Medicare, Simplify & reduce payment for preventable readmissions	Simplify Administration	Medicare & Simplify Administration
Financing	MC/MC Savings & Tax on high cost insurance	? Per Senate Finance	MC/MC Savings & Surcharge on Wealthy
Insurance Exchange	State Based	State Based	National

# Public Option

	House Ways & Means/ Education & Labor	House Energy & Commerce Amendments	Senate HELP	Senate Finance Committee
National Public Plan	Yes	Yes	Maybe	No
Medicare Providers Participants	Yes	Yes	No	No
Modified Medicare Rates	Yes Medicare +5%	No	No	No
Opt In: Large Employers	Yes	Yes	Yes, not uniform	No
Drug Price Bargaining	No	Yes	No	No



# Winston Churchill



“The Americans will always do the right thing... after they've exhausted all the alternatives.”