The History of Health Reform

Greg Scandlen
Five Big Movements

- The Formative Era, 1930 – 1949
- The Growth Era, 1950 - 1964
- The Consumer Era, 2000 +
The Formative Era, 1930 - 1949

Depression

- Total HC spending –
  - $3.6 billion in 1929 -- $2.8 billion in 1935.
- Physician income (California) –
  - $6,700 in 1929 -- $3,600 in 1933
- Hospital receipts per person –
  - $236 in 1929 -- $59 in 1930
- Hospital occupancy rates –
  - 62% private -- 89% government
The Formative Era, 1930 - 1949

Formation of Blue Cross

- 1929 -- Baylor University Hospital – prototype provided 21 days/year – Third-Party Payment
- 1932 – AHA endorses plans in St. Paul, Cleveland, and Washington
- 1933 -- Blue Cross logo developed & owned by AHA
- 1934 -- First state enabling act in New York
The Formative Era, 1930 - 1949

**Blue Cross**
- Not-for-profit
- Tax exempt
- Hospitalization only
- “Subscriber”
- “Service benefits”
- First dollar coverage
- Community rating
- Providers at risk
- Single state

**Commercial Carriers**
- Mutual or investor-owned
- Tax-paying
- Major Medical in 1948
- “Insured”
- Indemnity, with assignment
- Deductibles, coinsurance
- Risk-based rating
- Reserve requirements
- Multi-state
The Formative Era, 1930 - 1949

Federal Encouragement

- WWII -- Wage & Price Freeze, but benefits exempt
- 1943 -- Benefits not taxable income
- 1946 -- Hill-Burton, hospital construction funds
- 1947 -- McCarran-Ferguson, state regulation
- 1947 -- Taft-Hartley, labor/management agreements
- 1949 – Benefits subject to collective bargaining
The Growth Era, 1950 -- 1964

Enrollment Growth

- 1950 –
  - 50% Hospitalization
  - 31% Surgical
  - 14% Medical
  - HC - 4.6% of GNP

- 1965
  - 72% Hospitalization
  - 50% Major Medical
  - HC - 5.9% of GNP
The Growth Era, 1950 - 1964

Enrollment in Millions

- BCBS
- Commercial
- Other
The Growth Era, 1950 - 1964

Market Distortions:
- Subsidies favor hi-tech institutional care
- Tax code favors employer-sponsored insurance
- Tax code favors spending on benefits over wages
- Anti-trust exemptions favor insurance over other financial arrangements
- State enabling laws favor third-party arrangements over two-party indemnity contracts
The Growth Era, 1950 - 1964

Results of market distortions

- Costs rise as money pours into the system
- Demand for services rise as more people are subsidized
- Supply is increasingly high-tech and expensive
- Third-party payment divorces patients from costs
- People not associated with employer are disadvantaged
  - Have to pay inflated costs
  - Have to go to higher-tech providers
  - Have no subsidy, either employer or government
The Regulatory Era, 1965 - 1980

**Medicare & Medicaid**

- Aimed at the elderly and the poor, two populations not associated with employers
- Based on a Blue Cross Blue Shield model from 1965
- Half of elderly already had coverage
- Seen as a foot-in-the-door for NHI
- Massive infusion of new money
The Regulatory Era, 1965 - 1980

Federal v. State Spending in $Billions

Federal

State & Local

- Federal
- State & Local

The Regulatory Era, 1965 - 1980

Sources of spending, percent of total

- Out-of-pocket
- Private 3rd party
- Government
The Regulatory Era, 1965 - 1980

Health Spending v. GDP, 1961-1970

- GDP
- NHE
Near Hysteria Over Health Care Costs

- **Sylvia Law, 1974** -- “The crisis in medical has arrived. The nation now spends more than any other country in the world – 7% of GNP.”

- **Friedman & Rakoff, 1977** – “The thrust towards greater regulation arises from astronomical increases in costs. Expenditures have tripled since 1965, from 5.9% to 8.3% of GNP.”

- **Stuart Altman, 2001** -- “When I was 32 years old, I became the chief regulator in this country for health care. At that point, we were spending about 7.5% of our GDP on health care. The prevailing wisdom was that we were spending too much, and that if we hit 8 percent, our system would collapse.”
The Regulatory Era, 1965 - 1980

Regulate with a vengeance:

- Nixon wage and price controls, 1971 – 1974
- PSROs for Medicare Docs, 1972
- Federal HMO Act, 1973
- National Health Planning Act, 1974
  - HSAs, SHPDAs, SHCCs
- ERISA, 1974
- State actions
  - Hospital rate setting system – 30 states
  - Mandated benefits – All states
  - CON, and other controls – 38 states
All of these provisions are designed to reduce costs by limiting the supply and controlling the price of services – precisely the wrong remedy at a time of artificially inflated demand.
The Regulatory Era, 1965 - 1980

The regulations completely failed to do what they had promised – restrain costs

- Total spending in 1980 = 8.6% of GDP
- 1980 – NHE went up 15%
- 1981 – NHE went up 16%
The Regulatory Era, 1965 - 1980

Health Spending v. GDP, 1971-1981
The Regulatory Era, 1965 - 1980

Sources of spending, percent of total

- Out-of-pocket
- Private 3rd party
- Government
Employers pay the bills for 2/3 of the population, but had not been considered important players.

- **Ginzberg, 1977** – Four power centers of health policy -- medicine, insurers, hospitals, and “profit makers” (i.e., pharmacies and nursing homes).
- **Friedman & Rakoff, 1977** – Three important players – government, providers, and academics.
- **Starr, 1982** – No mention of ERISA in 600 pages in “The Social Transformation of American Medicine.”
- **Johnson, 1992** – Five power centers – medicine, legal, insurance, pharmaceutical, and consumers.
The Competitive Era, 1981 - 1999

- **Joe Califano (HEW – Chrysler):** "The key to cost containment is an aroused private sector .. Frustration of trying to get government to deal with the problem.. Chrysler cut its health bill by $58 million in 1984."

- **Richard Egdahl:** "(Employers) can do a more efficient and effective job of managing health benefits (than insurers)

- **Richard Stefan (Acme Steel):** "When we were insured, the insurer got paid a percentage of claims – they had no interest in holding down costs."
The Competitive Era, 1981 - 1999

- **Self-fund benefits to lower utilization:**
  - Control data and reserves
  - Improve home health, substance abuse
  - Beef up outpatient, downplay inpatient
  - Install second opinions, pre-admission certification

- **Astonishing Results:**
  - IP days down from 278 million in 1981 to 220 million in 1990
  - OP visits up from 203 million in 1981 to 300 million in 1990
  - Admissions per 1000, down from 162 in 1980 to 129 in 1988
  - Hosp Occupancy down from 76% in 1980 to 64% in 1985
Margaret Heckler, 1985: "We have broken the back of the health care inflation monster."

Health Spending v. GDP, 1981-1986

GDP
NHE
The Competitive Era, 1981 - 1999

Nothing Lasts Forever

Occupancy Rates

The Competitive Era, 1981 - 1999

Health Spending v. GDP, 1986 - 1990

- GDP
- NHE
The Competitive Era, 1981 - 1999

Employers turn to managed care

HMO Growth
- 1960 – 6 million
- 1970 – 8.1 million
- 1980 – 33.1 million

HMO and PPO market share
- 1984 – 7%
- 1990 – 34%
- 1995 – 65%
- 1997 – 85%+
Third-Party payment continues to grow
The Competitive Era, 1981 - 1999

Health Spending v. GDP, 1990 - 2001

GDP
NHE
Consequences

- Managed care based on a false premise – that fee-for-service is inflationary
- It is not. It is third-party payment that is inflationary
- Managed care increased the role of third-party payers
- Managed care worked by external rationing, not by changing behaviors
- Rationing causes discontent and demands for governmental intervention
Winston Churchill,

“Americans can always be counted upon to do the right thing, after all other possibilities have been exhausted”
The Consumer Era, 2000+

Does the U.S. spend too much or too little on health care?

- Too Little
- About Right
- Too Much

The Consumer Era, 2000 +

How much change is needed in your health care system?

- Complete
- Fundamental
- Minor Change

NZ | Aus | US | Can | UK
---|-----|----|-----|-----
10%|     |    |     |     |
20%|   10%|10% |     |     |
30%|     |    |     |     |
40%|     |    |     |     |
50%|   30%|20% |     |     |
60%|     |    |     |     |
70%|     |    |     |     |
80%|   80%|50% |     |     |
90%|     |    |     |     |
100%|100%|100%|100%|100%
The Consumer Era, 2000 +

1945 benefits, industrial age model

- Sole breadwinner
- Lifelong employment
- Employer as Agent
- Employer as Risk Pool
- Unlimited, Regressive Tax Subsidy
The Consumer Era, 2000 +

Employer-Based Tax Subsidy, by Income, 2004

- < $10k
- $20-30K
- $40-50K
- $75-100K
- Average

Fed. Tax Expenditure
The Consumer Era, 2000 +

The New Paradigm

- Empower the Patient
- Balance insurance and direct pay
- Restore Patient/Physician relationship
- Personal and portable
- Web-enabled information
- Agency – accountable to consumer
- Ability to merge resources
The Consumer Era, 2000 +

Governmental Actions

- Enact Health Savings Accounts
- Enable Health Reimbursement Arrangements
- Partial roll-over of FSAs
- Roll-Back State Regulations
- Modernize Medicaid, Medicare
- Encourage Information Systems
- Price Transparency
- Tax Credits (?)
- Interstate Purchase (?)
The Consumer Era, 2000 +

Private Sector Actions

- Implement HSAs, HRAs, FSAs
- Rejection of Managed Care
- Defined Contribution, Individual Choice
- Innovative Medical Practice – concierge, cash-only
- Retail Clinics
- Low-Cost, Generic Drugs
- Hospital Price Transparency
- Specialty Hospitals
- Medical Globalization, Medical Tourism
- Huge Investment in Information, Patient Support
- Bank Financing of Health Care
Results and Expectations

Results so far

- Massive enrollment gains to date -- 11 million at 1/1/08, 15 million by 1/1/09.
- Encouraging effects on Rx, ER, Preventive care, treatment compliance, patient support services
- High level of retention, satisfaction, but some frustration at lack of information
- Premium rising at one-third of PPOs, HMOs
- New demand for information, patient support.
What’s Next?

Three Possible Directions

- Continue Consumer Direction
- Grow Government Programs
- Hybrid Approach
What’s Next?

Continue Consumer Direction

- More personal responsibility, choice
- Promising, but still new
- Positive effects on efficiency, innovation, cost, and convenience
- However, not “universal” and not appropriate for all populations
- Implementation issues remain
What’s Next?

Grow Government Programs

- More Third-Party Payment, Regulation, Mandates
- Experience not encouraging
  - Kentucky, Tennessee repealed
  - Maine and Massachusetts rocky
  - SCHIP -- 74% of uninsured children already eligible and one-third had been enrolled within the past year.
  - Medicare -- $34 trillion in unfunded liability, yet covers only half of elderly expenses
- Substantial unintended consequences.
What’s Next?

Hybrid Approach?

- McCain/Obama -- Surprising amount of agreement
  - Individual ownership, portability
  - Transparency, Information technology
  - State flexibility, Guaranteed access
- Resolving Points of difference
  - Obama’s Insurance Exchange = McCain’s Interstate Purchase?
  - McCain’s Tax Credit = Obama’s Low Income Subsidy?
  - Obama’s Comprehensive = McCain’s HSA?
  - McCain’s High Deductible = Obama’s Universal?
Contact:

Consumers for Health Care Choices
www.chcchoices.org
301-606-7364
greg@chcchoices.org