CP Lecture 11/16, 11 am – noon
HISTORY OF HEALTH INSURANCE
Transcribed by Beth Harre

BACKGROUND

For most of US history, there was no health insurance. Healthcare was provided informally, by the "woman of the house" or a traditional healer, herbalist, midwife, etc. Medicine as a profession was neither regulated nor prestigious. The cost of treatment by a doctor was low, and often people paid by bartering. Only a few, locally-governed hospitals existed. These were started as the healthcare component of the poorhouse and were the 18th and 19th century versions of the homeless shelter. People treated there were indigent, old and disfranchised.

In the early 1900s, two things changed: (1) the profession of medicine emerged as a licensed, prestigious regulated profession and (2) there was a rise in the prevalence and role of hospitals. Pre-1900, there were 200 hospitals in the country, a third of which were psychiatric; by 1930, there were 7,000. The dramatic increase in the number of hospitals was due to (1) the creation of new techniques (e.g. x-rays) that could only be delivered in an institutional setting, (2) the rise of the nursing profession, which improved hygiene and care in hospitals, and (3) an increase in the urban, industrial demography.

There was also an increase in the use of hospitals as a training ground for physicians (previously, medicine was learned via informal apprenticeship).

With the growth of hospitals came an increase in the cost of care. As cost was rising, the country entered the Great Depression. No one could pay, even though more middle and upper-middle class people were utilizing hospitals for the first time.

Proposals by hospitals to solve the problem included: (1) that employers could provide coverage for employees, and (2) that a 3rd party pay premiums (a small amount would be paid to the 3rd party over a long period of health such that the 3rd party would be able to pay if and when illness occurred). In the '20s, hospitals created BLUE CROSS, a 3rd party payor, and got it regulated by the state, so that they could be paid. BCs popped up everywhere, went to employers and wooed them with promises that a healthy workforce would be a productive workforce. Not all employers could afford BC, but many signed on.

POST WWII, the Federal Gov. was at a critical juncture. Policy makers wanted hospitals in every county, encourage growth in research, but who would pay the bill? Either the fed. government could insure people itself OR the government could require employers to provide healthcare. But such a government-sponsored/directed system was contrary to the political culture of the time, which was pro-individual rights and anti-big government. Govt. decided it could encourage employers to sponsor employees by (1) exempting fringe benefits from the general wage freeze of WWII (so employers could offer employees better benefits than their competitors, even if they could not raise wages) and (2) making the cost of health insurance tax deductible. As a result, many employers signed up for BC.

At the same time, for-profit insurance companies began to form and compete effectively with BC because, unlike BC, private companies were not required to charge the same for all people, regardless of risk. They could charge healthy workers less, and so got tons of takers. There was such growth in employer-sponsored health insurance that by the late ‘60s or ‘70s, 63% of folks got insurance through work.

The obvious question was what about the unemployed? What about people outside the system? (good question now, with about 39 million unemployed as of 2001).

FDR/ NEW DEAL. In the ‘30s, there was high unemployment. FDR said the fed. Govt. needs to have a bigger role in the economy. This was blasphemous. Any welfare system in existence was modeled on the British system, which allocated aid only to the “deserving poor,” who were outside of the labor force by no fault of their own. Such systems were all locally-based.

FDR put forth a host of proposals, including a proposal for national health insurance. Southern Democrats wanted no part of this. A compromised was arrived upon, which was SOCIAL SECURITY. The plan: all working Americans contribute to the system and get a pension from the fed. govt., SS, when they retire. FDR also passed the Aid to Dependent Families and Children Act, through which states gave cash assistance to the very poor. That funds were administered by the states appeased Southern Dems, including Strom Thurmond, who is with us still. The ADFC was funded by taxing the middle class.

At the end of his reign, FDR tried again for national health insurance, and, again, failed.

Truman was advocating a FAIR DEAL, so he tried for an incremental program re: insurance. Three plans were proposed: (1) to target the elderly, who no longer worked and were therefore ineligible for private insurance, (2) to have a physician insurance program (became BLUE SHIELD) and (3) to expand SS so that it provided hospitalization insurance for the ages (this became the Democratic platform).

In the early ‘60s, JFK ran on HST’s platform re: hospital insurance for the aged, which was not popular in the senate.

As LBJ came to power, the debate over hospital insurance for the aged continued. Meanwhile, there was a glut of hospitals. Prices were skyrocketing, and there was a shortage (yes, a shortage) of MDs. American Medical Association came up with a plan- that the private sector would continue to provide insurance for most Americans, via employer insurance, and the government would provide a “safety net” for those without access. The plan was modeled on the ADFC in that the needs of the neediest would theoretically be met by the government (via state allocation of federal monies), but the mainstream would have private insurance.

IN ’65, all were enacted:

1. Medicare Part A= hospital insurance for the aged (LBJ’s pet plan) and disabled, modeled after Social Security. Individuals kick in 1.54% of their salary, so does their employer, and the 2.9% goes to a trust fund which is later collected. Current workers pay; benefits are received by all who turn 65, automatically.
2. Medicare Part B= the plan for physician insurance for the aged= voluntary physician and outpatient care. Paid for by beneficiary at age 65. Pay 50$ per month.
3. Medicaid= health insurance for the poor. The Federal Government kicks in between 50-80% of the cost (depending on the state) and it is at the discretion of each state to administer the funds, determine eligibility, coverage, reimbursement, etc. Great interstate variation.

LIMITATIONS TO MEDICARE- no prescription drug coverage outside of hospital bill, no long-term care, not much preventative care coverage and high deductibles. SO, most people on Medicare need supplemental insurance to fill in the gaps. Many buy a private “medigap” policy, etc.

DEBATE OVER PRESCRIPTION DRUG COVERAGE

From ’65-’94, Medicare A trust fund took in more than it paid out, creating a 120 billion $ surplus. In the mid ‘90s, people were aging, and the hospital costs were back on the rise. More was being spent by Medicare than was taken in. The actuaries became alarmed – how to save Medicare from bankruptcy? The ’97 Balanced Budget Act was to save Medicare: (1) encouraged medicare beneficiaries to go to managed care, (2) reduced fraud and abuse, especially in home care and (3) imposed significant reimbursement cuts on hospitals, nursing homes, healthcare providers.

The BBA worked so well that one year later, Medicare was taking in 30-40 billion more than it spent. The question became what to do with the surplus again. Proposals:

1. Spend it on improving what is basically a lousy package
2. Give some $ back to providers, since they were hard hit by reductions in reimbursements
3. Try again for national health insurance – expand Medicare to cover more people, lower the eligibility rate, etc.
4. Give the surplus back to the people – reduce taxes
5. Save the surplus, since the baby boomers are aging (this is the rainy day fund/infamous “Locked Box” idea). Stash the money away and let it accrue interest

In ’99-’00, the only one of these enacted by congress was #2: some money was given back to providers.

-Big issue in the ’00 presidential election, in which Bush was (sort of) elected on a platform of giving the money to the states. Now he is into discount cards for prescription drugs. Hmmmm.