

# Healthcare Reform

## *The Debate Continues*

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*The U.S. seems poised on the brink of healthcare reform. The House of Representatives and Senate have each passed a bill to deliver (in their minds) the most cost-effective way to provide care to the millions who don't have insurance, the even more millions who are underinsured and the tens-of-millions of insured people who worry about how coverage could change if reform moves forward. Congress now begins working to consolidate the bills to deliver the final bill for signature to President Obama.*

While the bargaining continues, however, we can examine some of the history that underlies all the controversy.

### **When and how did health insurance begin?**

The first insurance plans weren't actually designed to provide health insurance. Before 1847, individuals were able to purchase accident plans, which offered compensation for injuries sustained during travel by steamboat or train.

In 1847, Massachusetts Health Insurance of Boston offered the first policy to provide comprehensive benefits. By the 1890s, insurance companies began to market individual health insurance policies to provide coverage for illness and disease, as well as accidents. After World War I, a dialogue opened between healthcare providers and insurance groups, which eventually evolved into establishment of the fee-based contracts that exist today.

### **The struggle for solvency**

During the Great Depression of 1929, a decline in the number of patients led hospitals to offer prepaid care as a strategy to provide a steady stream of income. The American Hospital Association (AHA) became concerned that hospitals would begin to compete with each other for patients, thus reducing revenues for all institutions. In response to these concerns, the AHA created Blue Cross through government legislation that enabled hospitals to avoid carrying the reserves required of "true" insurance companies to insure solvency.

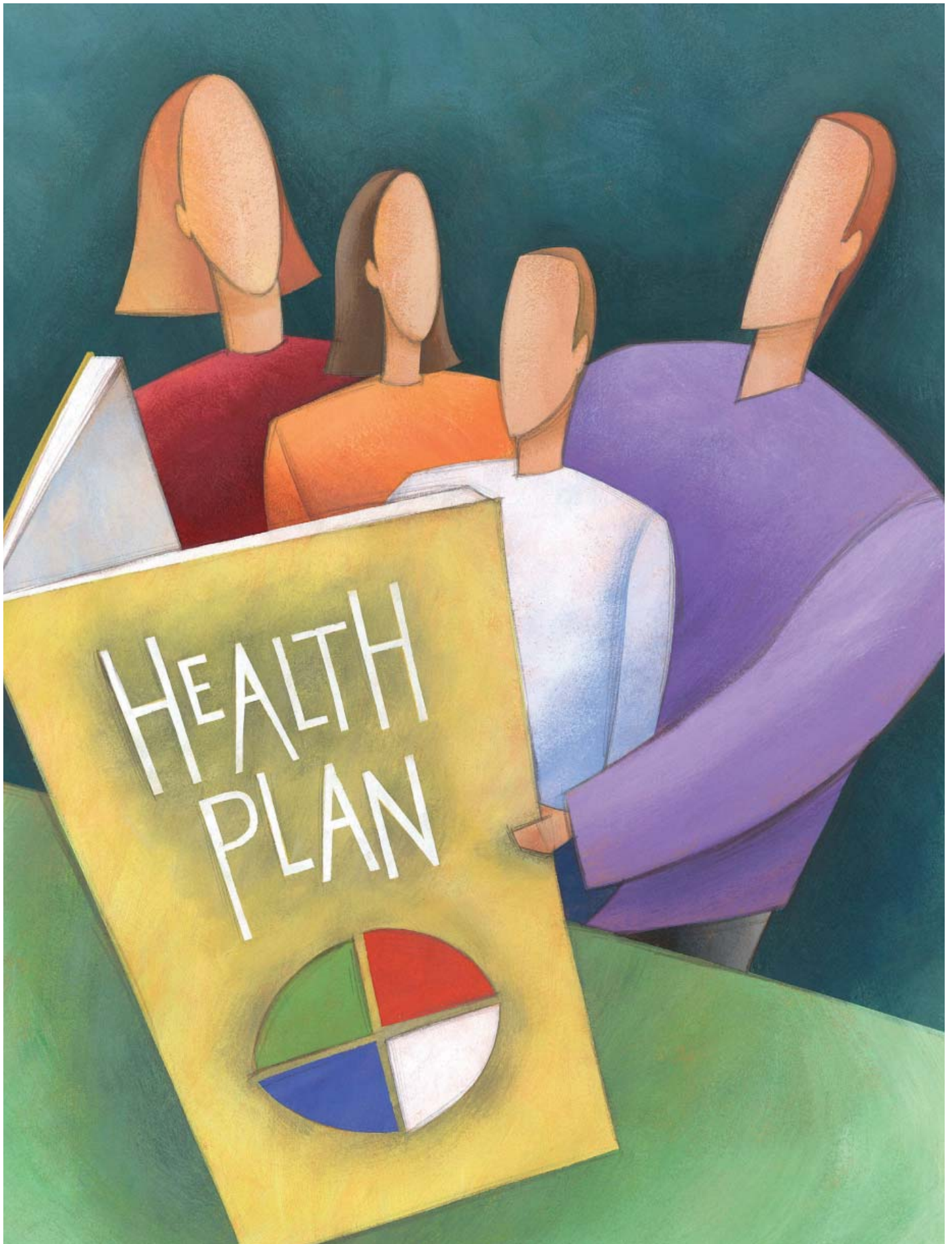
Physicians worried that Blue Cross would lead hospitals to both insure for and provide physician services in direct competition with doctors, thus causing physician fees and income to drop. In response, the American Medical Association created Blue Shield, its own "insurance" plan for physician services.

Both Blue Cross and Blue Shield received an unexpected boost during World War II, with the enactment of the Wage Stabilization Act of 1942, which prevented rapid wage escalation due to the shortage of available labor during wartime. The Act also allowed companies to use other incentives to attract workers and gave favorable tax treatment to employer-paid health insurance. Unions then stepped in and negotiated for improved benefit packages for their members, including employer-sponsored health insurance.

The US government became more involved in health insurance and healthcare during the 1950s and 1960s. In 1954, disability benefits were included in Social Security coverage for the first time, and in 1965 Congress passed Medicare and Medicaid legislation.

### **The Medicare bill changed everything**

When Medicare was signed into law, legislators feared that doctors would refuse to treat patients covered by the plan. To ensure adequate payment, it was agreed that doctors would be reimbursed for services at their "usual, customary and



reasonable rate” and that patients could be billed directly. The result was that physicians often charged patients more than Medicare would pay, thus forcing the patient to pay the difference. At that time, private sources (individuals and companies) paid 75% of total healthcare costs.

In 1983, as Medicare payments spiraled out of control, the reimbursement policy underwent a dramatic change: providers were reimbursed according to a set fee schedule based on diagnosis and were not allowed to charge the patient for additional, “non-covered” amounts. The 1980s and 1990s brought another rapid rise in healthcare costs. By 1995, the responsibility for payout was 50-50, divided between individuals and companies (private sources) and the government.

**First push toward healthcare reform rebuffed**

President Bill Clinton presented a healthcare reform agenda

in 1993, but Congress rejected the plan, saying it was too expensive and too heavily regulated. A series of acts concerning health insurance have followed, including, but not limited to, the Mental Health Parity Act, Health Insurance Portability and Accountability Act (HIPAA), Children’s Health Insurance Program (CHIP) and Genetic Information Nondiscrimination Act (GINA).

The future of healthcare, including any reform, is being written as you read this. We believe that 2010 will bring a new look to the healthcare industry, although the exact nature of the change is impossible to predict.

As your employee benefits partner, SilverStone Group will work with you to navigate the unknown. We will continue to inform you of the most recent developments happening on Capitol Hill via our website and other means of communication.

## PBS - Healthcare Crisis: Healthcare Timeline

1900s	<p>American Medical Association (AMA) becomes a powerful national force.</p> <p>In 1901, AMA reorganizes as the national organization of state and local associations. Membership increases from about 8,000 physicians in 1900 to 70,000 in 1910 - half the physicians in the country. This period is the beginning of “organized medicine.”</p> <p>Surgery is now common, especially for removing tumors, infected tonsils, appendectomies and gynecological operations. Doctors are no longer expected to provide free services to all hospital patients.</p> <p>America lags behind European countries in finding value in insuring against the costs of sickness.</p> <p>Railroads are the leading industry to develop extensive employee medical programs.</p>
1910s	<p>American hospitals are now modern scientific institutions, valuing antiseptic and cleanliness and using medications for the relief of pain.</p> <p>American Association for Labor Legislation (AALL) organizes first national conference on “social insurance.”</p> <p>Progressive reformers argue for health insurance, seems to be gaining support.</p> <p>Opposition from physicians and other interest groups and the entry of the U.S. into the war in 1917 undermine retort effort.</p>
1920s	<p>Consistent with the general mood of political complacency, there is no strong effort to change health insurance.</p> <p>Reformers now emphasize the cost of medical care instead of wages lost to sickness - the relatively higher cost of medical care is a new and dramatic development, especially for the middle class.</p> <p>Growing cultural influence of the medical profession - physicians’ income are higher and prestige is established.</p> <p>Rural health facilities are clearly inadequate.</p> <p>General Motors signs a contract with Metropolitan Life to insure 180,000 workers.</p> <p>Penicillin is discovered, but it will be twenty years before it is used to combat infection and disease.</p>
1930s	<p>The Depression changes priorities, with greater emphasis on unemployment insurance and “old age” benefits.</p> <p>Social Security Act is passed, omitting health insurance.</p> <p>Push for health insurance within the Roosevelt Administration, but politics begins to be influenced by internal government conflicts over priorities.</p> <p>Against the advice of insurance professionals, Blue Cross begins offering private coverage for hospital care in dozens of states.</p>

1940s	<p>Penicillin comes into use and prepaid group healthcare begins, seen as radical.</p> <p>During the 2nd World War, wage and price controls are placed on American employers. To compete for workers, companies begin to offer health benefits, giving rise to the employer-based system in place today.</p>
1950s	<p>At the start of the decade, national healthcare expenditures are 4.5% of the Gross National Product.</p> <p>Attention turns to Korea and away from health reform; America will have a system of private insurance for those who can afford it and welfare services for the poor.</p> <p>Federal responsibility for the sick poor is firmly established.</p> <p>Many legislative proposals are made for different approaches to hospital insurance, but none succeed.</p> <p>More medications are available to treat a range of diseases, including infections, glaucoma and arthritis, and new vaccines become available that prevent childhood diseases, including polio. The first successful organ transplant is performed.</p>
1960s	<p>In the 1950s, the price of hospital care doubled. Now in the early 1960s, those outside the workplace, especially the elderly, have difficulty affording insurance.</p> <p>Over 700 insurance companies selling health insurance. Concern about a “doctor shortage” and the need for more “health manpower” leads to federal measures to expand education in the health professions.</p> <p>Major medical insurance endorses high-cost medicine.</p> <p>President Lyndon Johnson signs Medicare and Medicaid into law.</p> <p>“Compulsory Health Insurance” advocates are no longer optimistic.</p> <p>The number of doctors reporting themselves as full-time specialists grows from 55% in 1960 to 69%.</p>
1970s	<p>President Richard Nixon renames prepaid group healthcare plans as health maintenance organizations (HMOs), with legislation that provides federal endorsement, certification and assistance.</p> <p>Healthcare costs are escalating rapidly, partially due to unexpectedly high Medicare expenditures, rapid inflation in the economy, expansion of hospital expenses and profits and changes in medical care including greater use of technology, medications and conservative approaches to treatment. American medicine is now seen as in crisis.</p> <p>President Nixon’s plan for national health insurance rejected by liberals and labor unions, but his “War on Cancer” centralizes research at the National Institutes of Health (NIH).</p> <p>The number of women entering the medical profession rises dramatically. In 1970, 9% of medical students are women; by the end of the decade, the proportion exceeds 35%.</p>
1980s	<p>Corporations begin to integrate the hospital system (previously a decentralized structure), enter many other healthcare-related businesses and consolidate control. Overall, there is a shift toward privatization and corporatization of healthcare.</p> <p>Under President Reagan, Medicare shifts to payment by diagnosis (DRG) instead of by treatment. Private plans quickly follow suit.</p> <p>Complaints by insurance companies that the traditional fee-for-service method of payment to doctors is being exploited.</p> <p>“Capitation” payments to doctors become more common.</p>
1990s	<p>Healthcare costs rise at double the rate of inflation.</p> <p>Expansion of managed care helps to moderate increases in healthcare costs.</p> <p>Federal healthcare reform legislation again fails to pass in the U.S. Congress.</p> <p>By the end of the decade there are 44 million Americans, 16% of the nation, with no health insurance at all.</p> <p>Human Genome Project to identify all of the more than 100,000 genes in human DNA gets underway.</p> <p>By June 1990, 139,765 people in the U.S. have HIV/AIDS, with a 60% mortality rate.</p>
2000s	<p>Healthcare costs are on the rise again.</p> <p>Medicare is viewed by some as unsustainable under the present structure and must be “rescued.”</p> <p>Changing demographics of the workplace lead many to believe the employer-based system of insurance can’t last.</p> <p>Human Genome Project to identify all of the more than 100,000 genes in human DNA is expected to be completed a full two years ahead of schedule, in 2003.</p> <p>Direct-to-consumer advertising for pharmaceuticals and medical devices is on the rise.</p>

Source: [www.pbs.org/healthcarecrisis/history.htm](http://www.pbs.org/healthcarecrisis/history.htm)

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