

The Origins of CD Health

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Where We've Been

- The Formative Era, 1930 – 1949
- The Growth Era, 1950 - 1964
- The Regulatory Era, 1965– 1980
- The Competitive Era, 1981 – 1999
- 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 – “service benefits”
- 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
- 1939 -- 25 states had enabling laws. Non profit, tax exempt, provider majorities on Boards



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

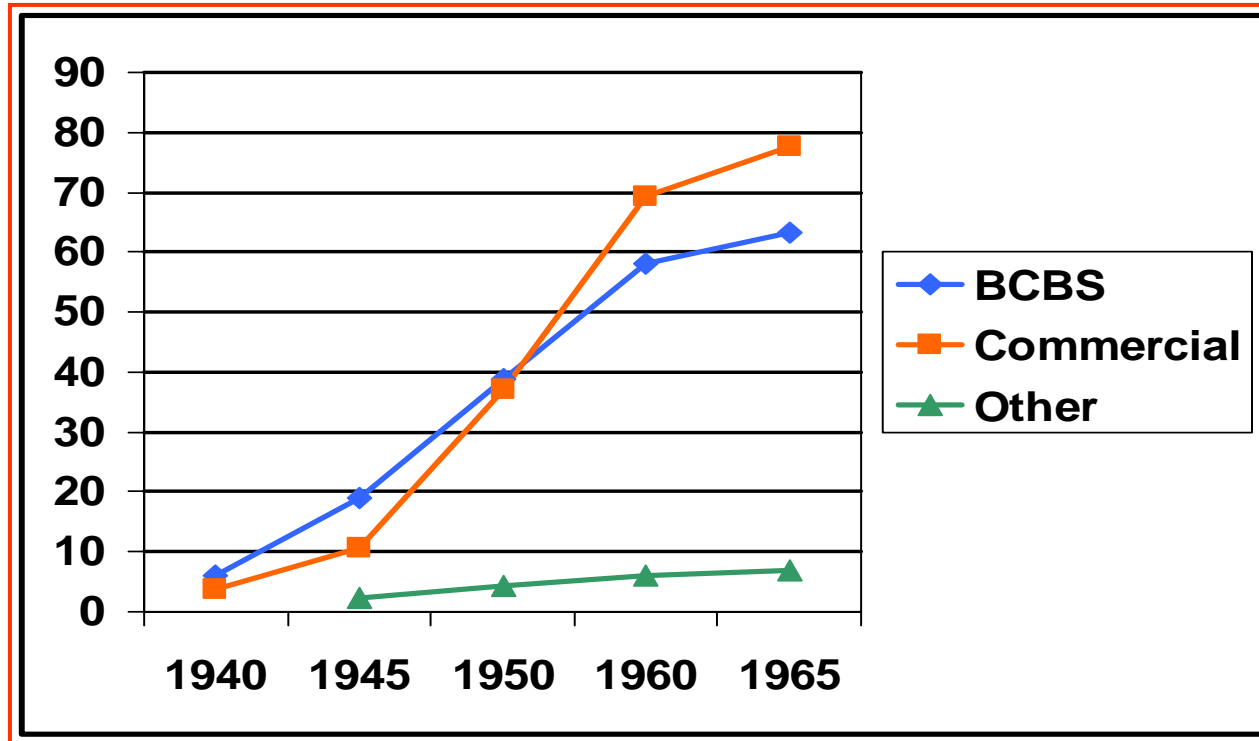
Enrollment Growth

- 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





The Regulatory Era, 1965 - 1980

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 Regulatory Era, 1965 - 1980

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

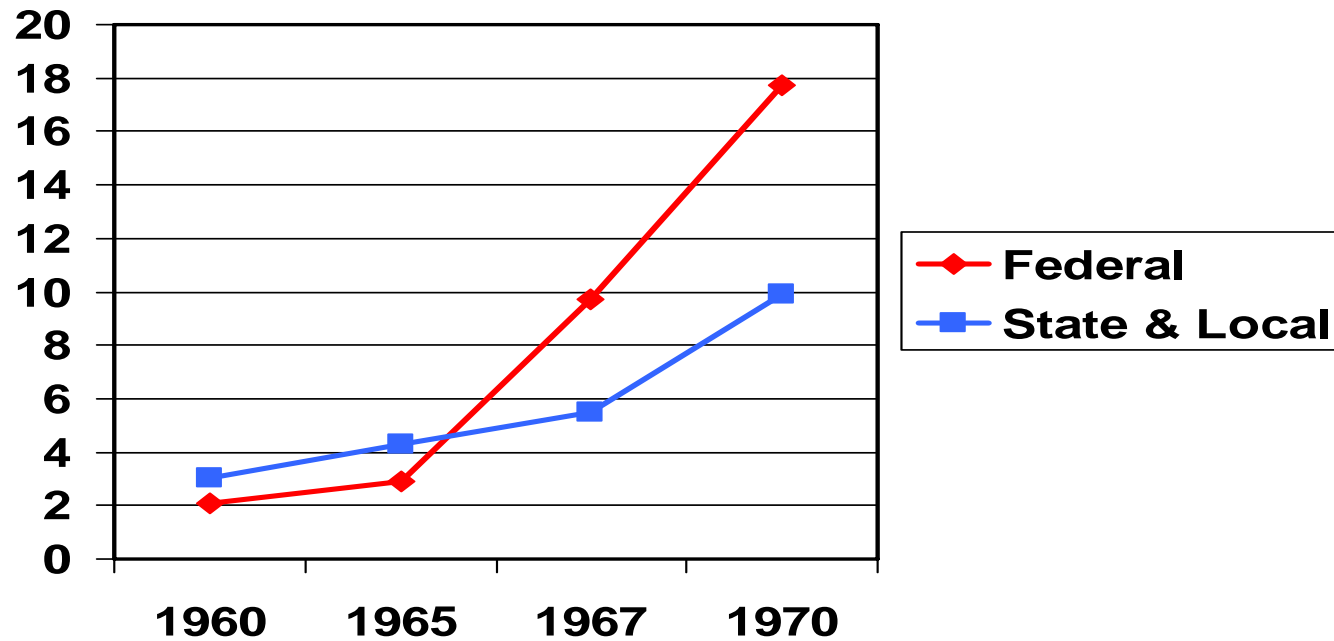
Medicare & Medicaid

- 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

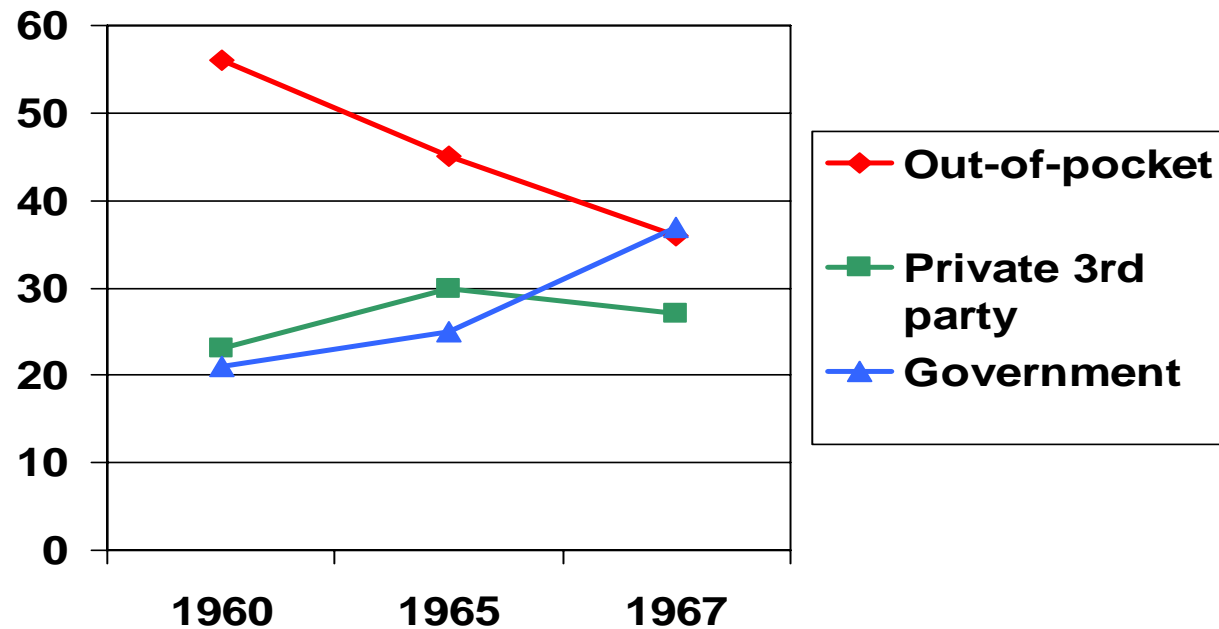
Federal v. State Spending in \$Billions





The Regulatory Era, 1965 - 1980

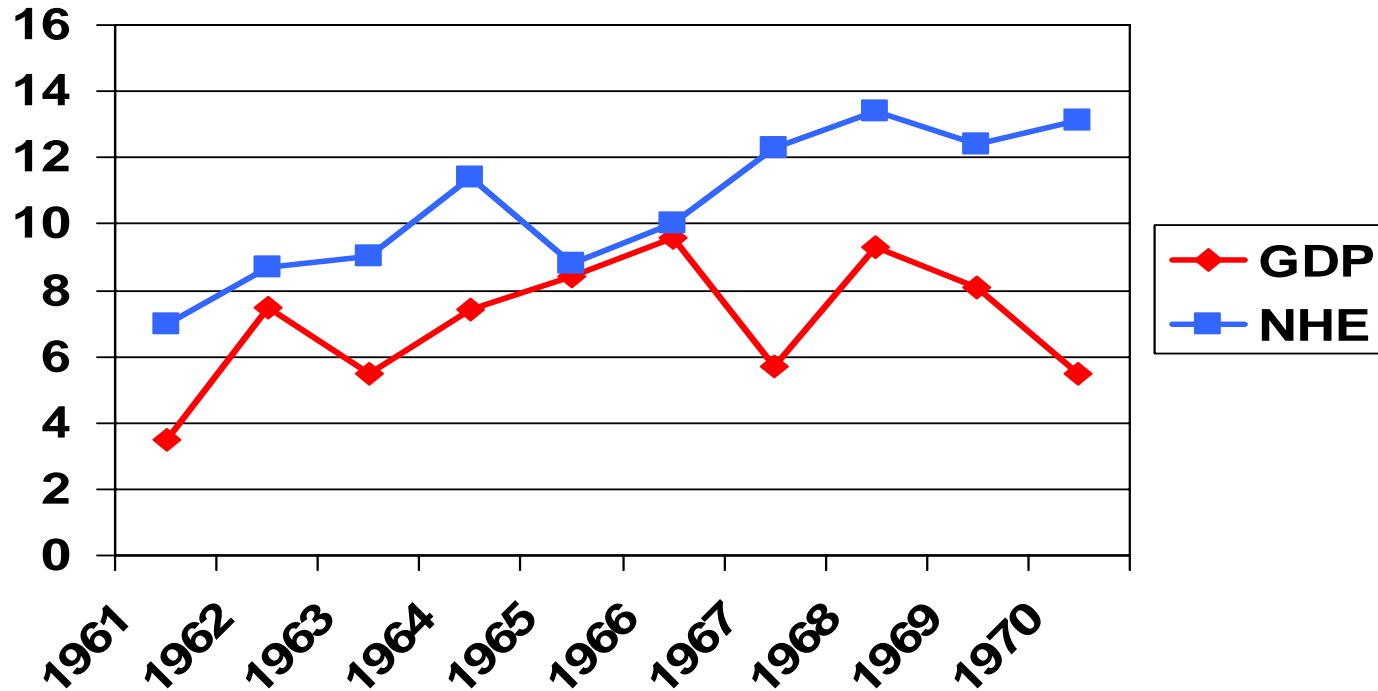
Sources of spending, percent of total





The Regulatory Era, 1965 - 1980

Health Spending v. GDP, 1961-1970





The Regulatory Era, 1965 - 1980

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



The Regulatory Era, 1965 - 1980

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

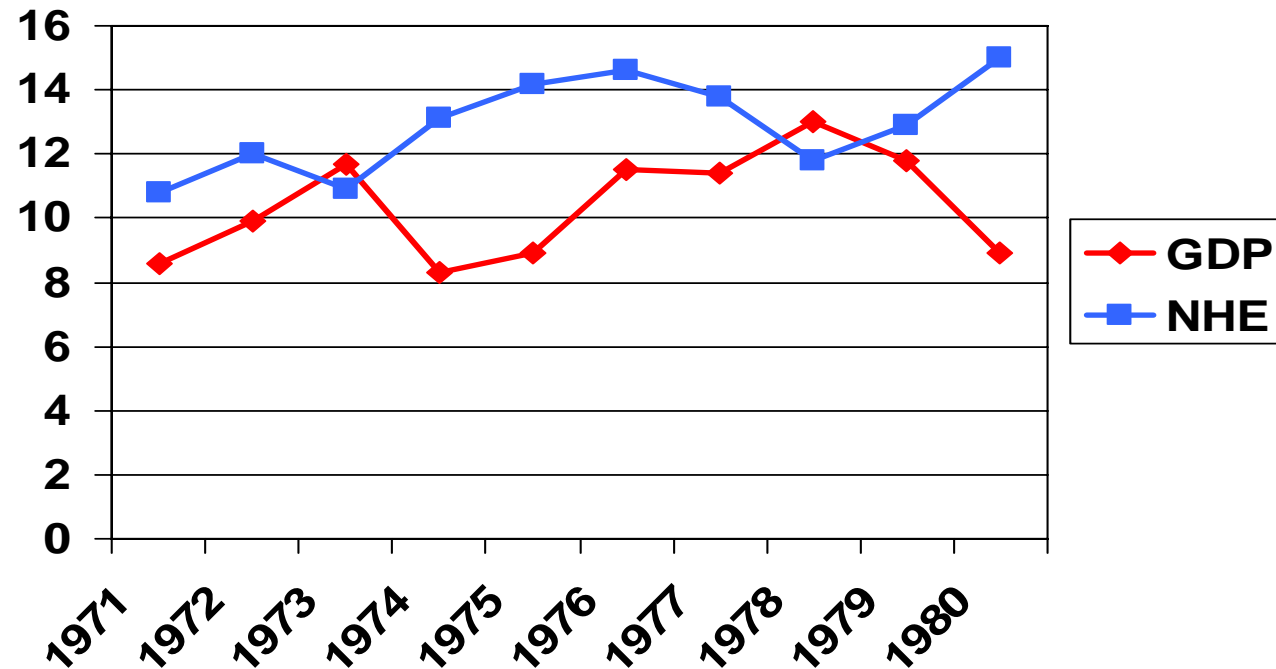
The regulations completely failed to do what they had promised – restrain costs

- Total spending in 1980 = 8.6% of GDP
- 1980 – NHE went up 15%
- 1981 – NHE went up 16%



The Regulatory Era, 1965 - 1980

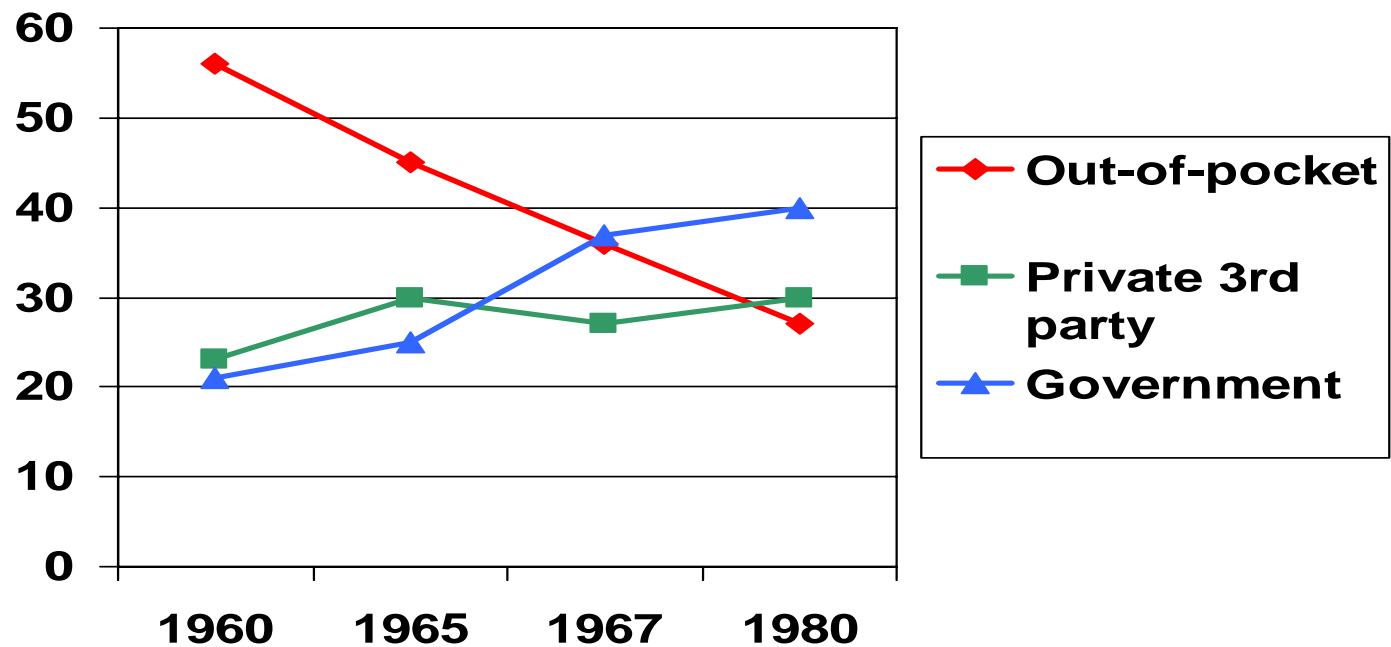
Health Spending v. GDP, 1971-1981





The Regulatory Era, 1965 - 1980

Sources of spending, percent of total





The Competitive Era, 1981 - 1999

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

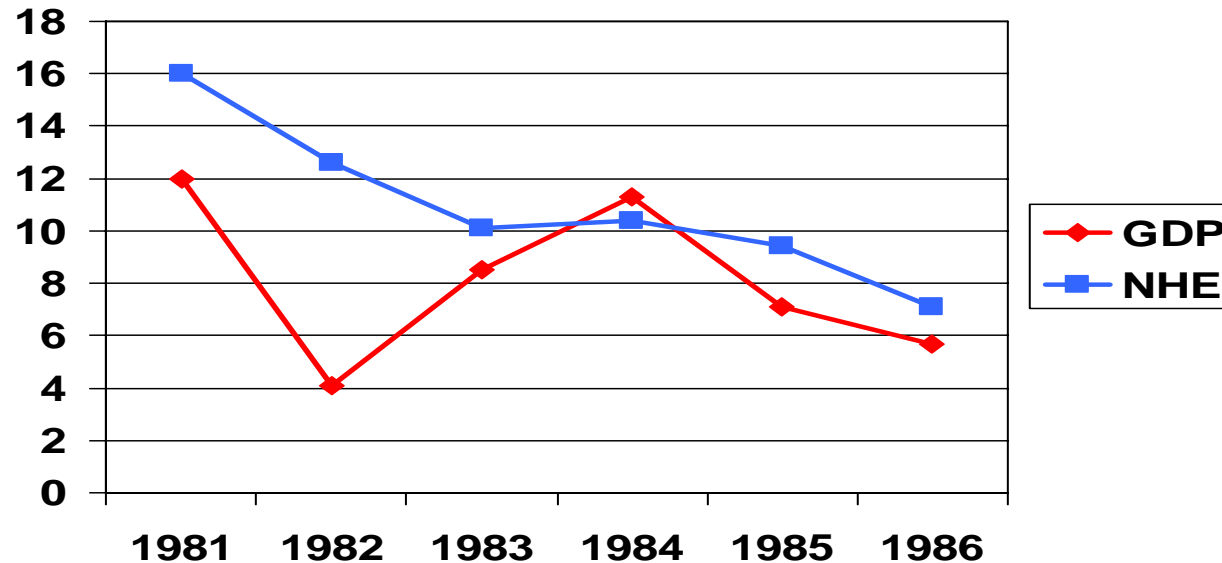


The Competitive Era, 1981 - 1999

Margaret Heckler, 1985:

"We have broken the back of the health care inflation monster."

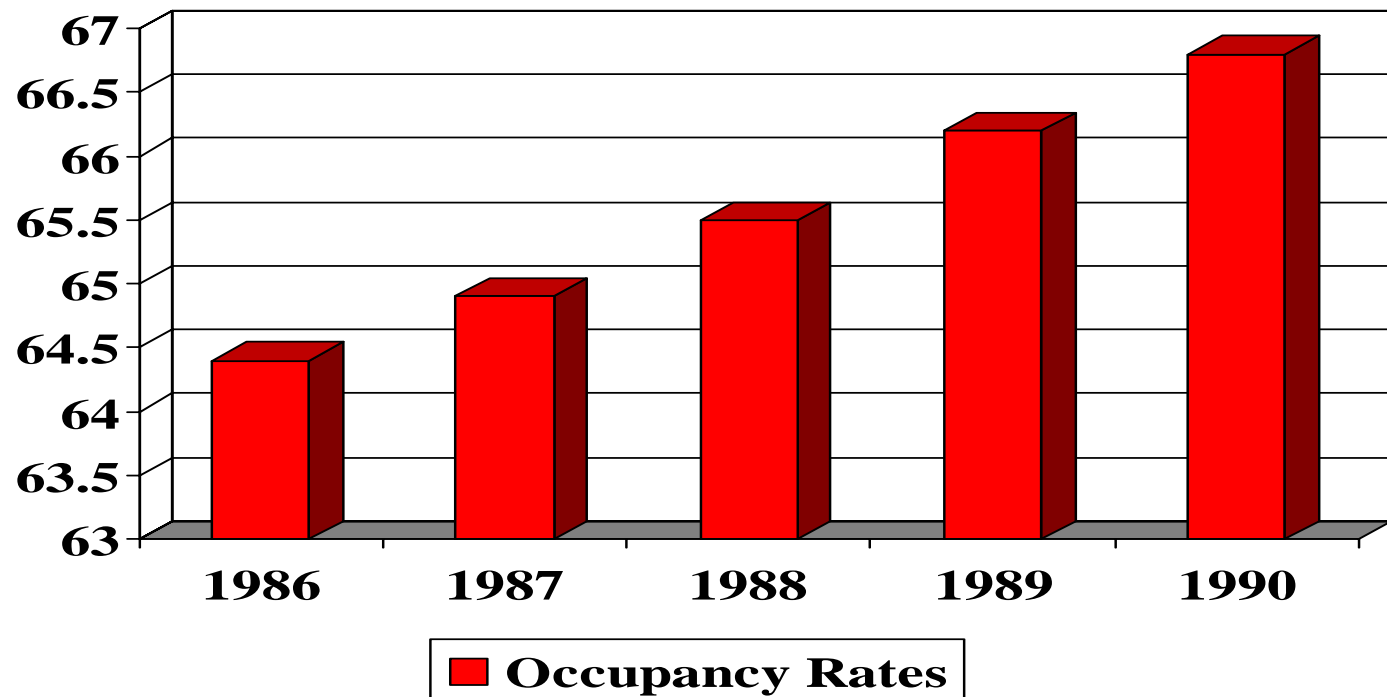
Health Spending v. GDP, 1981-1986





The Competitive Era, 1981 - 1999

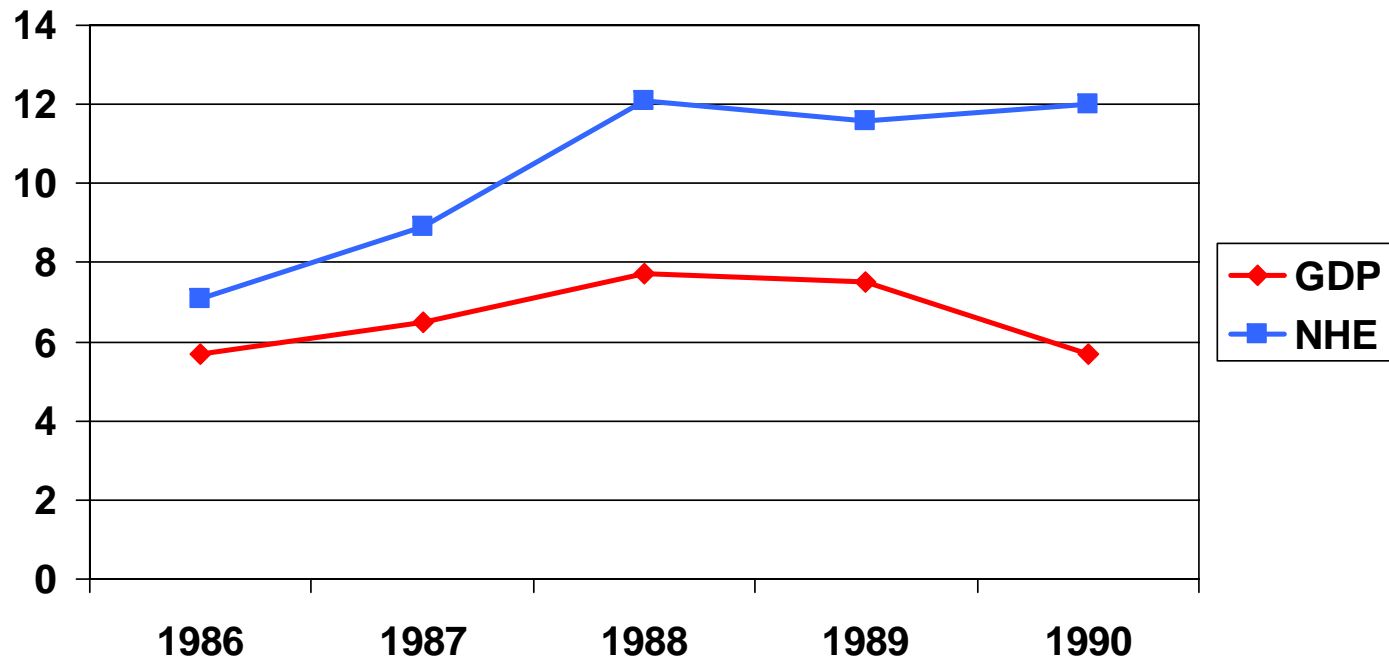
Nothing Lasts Forever





The Competitive Era, 1981 - 1999

Health Spending v. GDP, 1986 - 1990





The Competitive Era, 1981 - 1999

Employers turn to managed care

HMO Growth

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

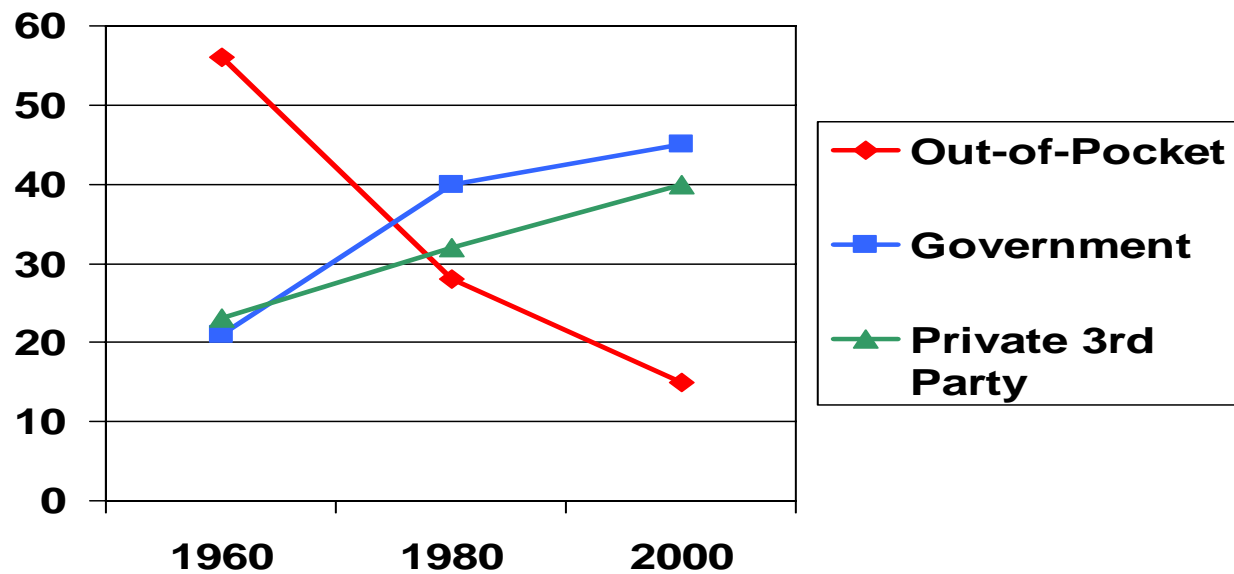
HMO and PPO market share

- 1984 – 7%
- 1990 – 34%
- 1995 – 65%
- 1997 – 85%+



The Competitive Era, 1981 - 1999

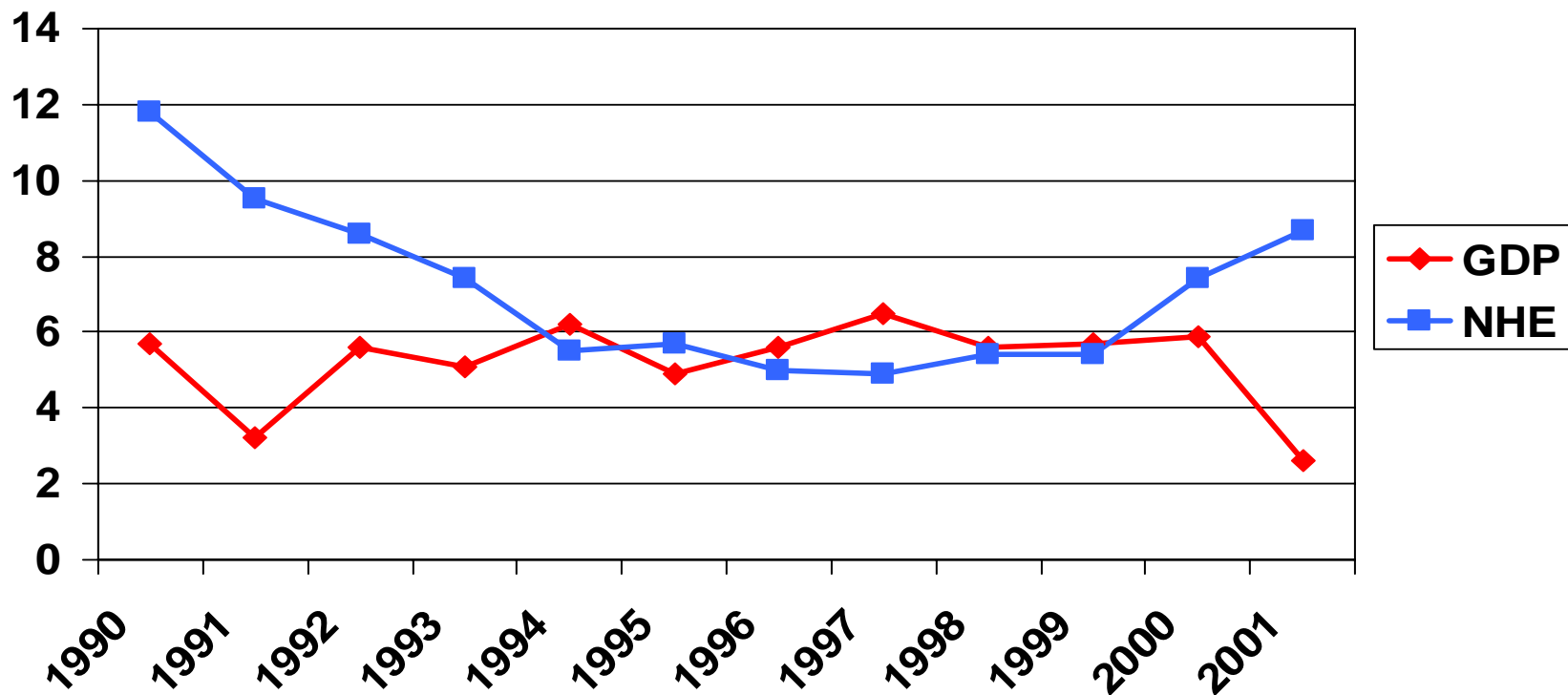
Third-Party payment continues to grow





The Competitive Era, 1981 - 1999

Health Spending v. GDP, 1990 - 2001





The Competitive Era, 1981 - 1999

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



The Consumer Era, 2000 - ???

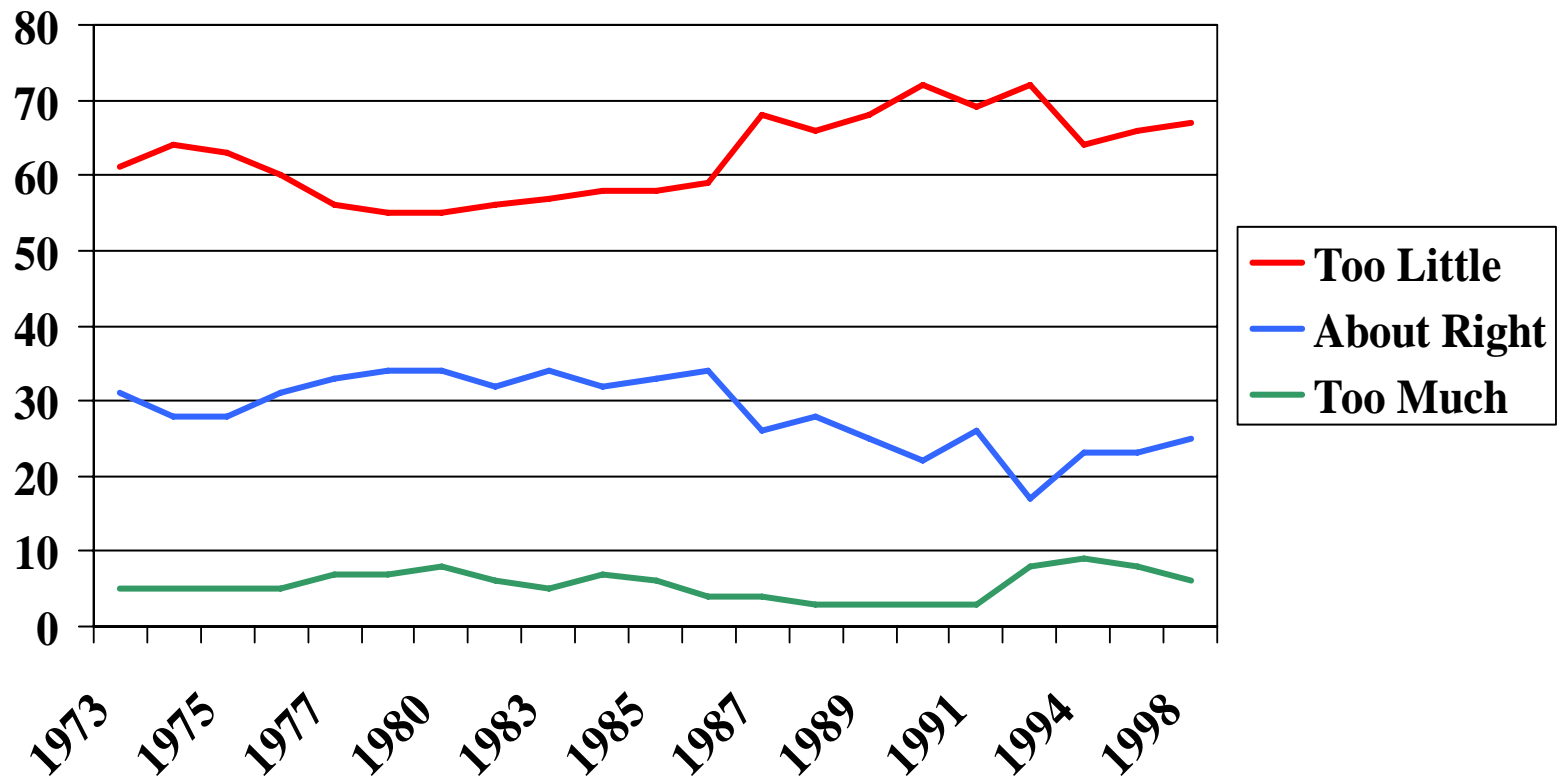
Winston Churchill,

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



The Consumer Era, 2000+

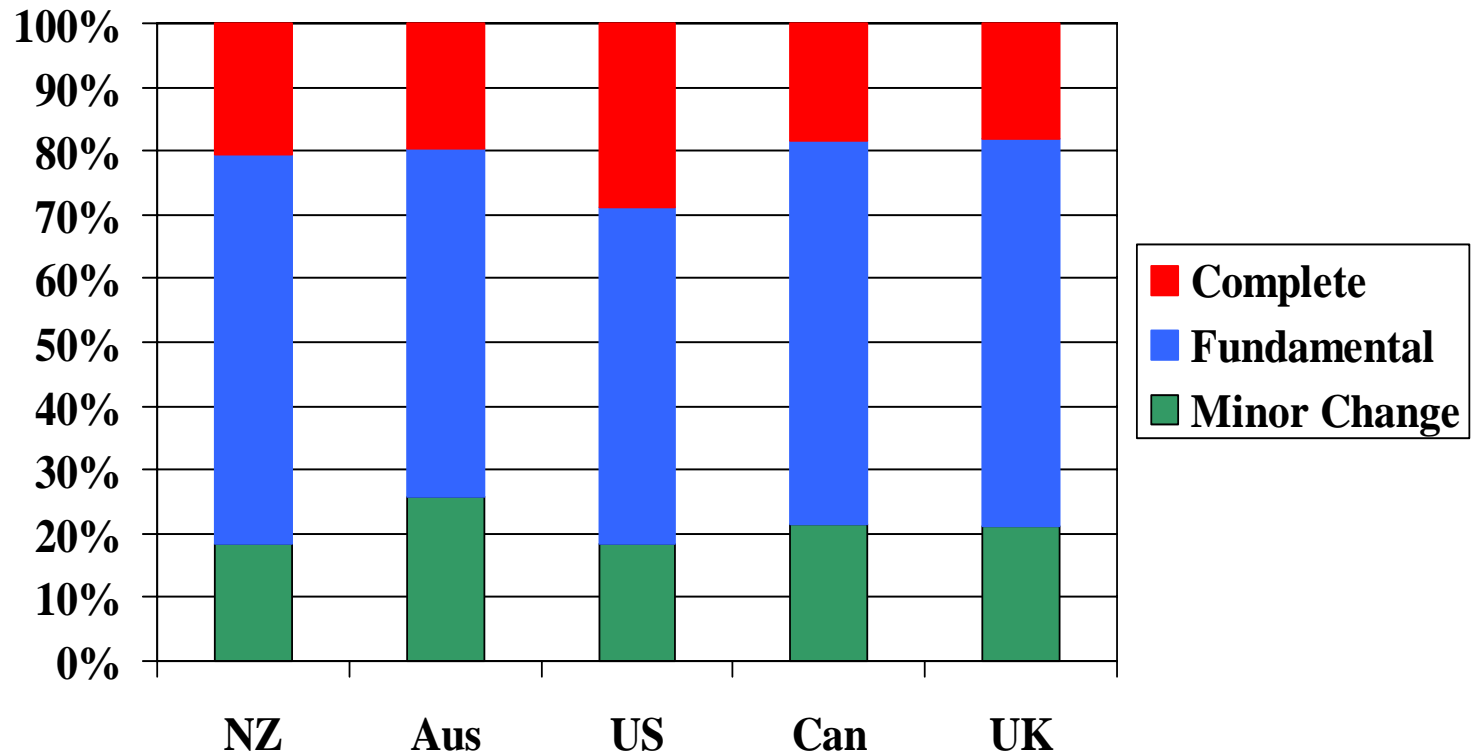
Does the U.S. spend too much or too little on health care?





The Consumer Era, 2000 +

How much change is needed in your health care system?





The Consumer Era, 2000 +

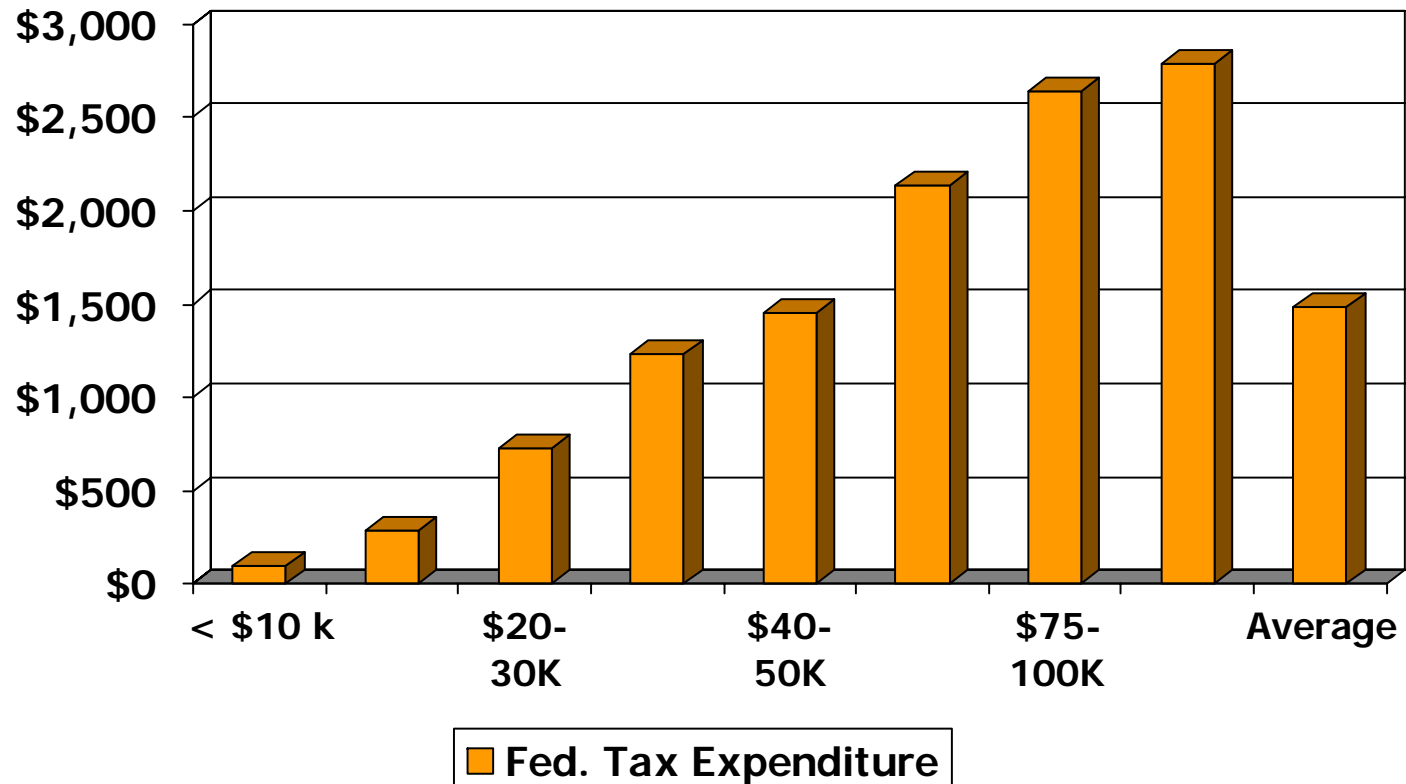
1945 benefits, industrial age model

- 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





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 Done

- Enact Health Savings Accounts
- Enable Health Reimbursement Arrangements
- Partial roll-over of FSAs
- Roll-Back State Regulations
- Modernize Medicaid, Medicare
- Encourage Information Systems



The Consumer Era, 2000 +

Governmental Actions Pending

- Expand FSA Rollovers or Cash-Out
- Employer Rebate for HSA Deposits
- Tax Credits/Deductions – Individual Market
- Continue Rolling Back Regulations
- Association Health Plans/CHOICE Act
- Cap Employer Exclusion
- Malpractice Reform



The Consumer Era, 2000 +

Private Sector Actions

- Implement HSAs, HRAs, FSAs
- Defined Contribution, Individual Choice
- Physician Refuseniks
- Hospital Price Transparency
- Medical Globalization
- Individual Market Improvements
- Information, Patient Support



Results and Expectations

Results so far

- Massive enrollment gains to date
- Encouraging effects on Rx, ER, Preventive care, patient support services
- High level of retention, satisfaction, but some frustration at lack of information
- Premium decrease of 15% over last year
- Widespread availability from insurers, banks, others
- New era of information technology



Results and Expectations

Expectations

- Enrollment to continue growing:
 - Mellon – 7% offer HSAs in 2005, 30%+ in 2006 --
16% offer HRAs in 2005, 36% in 2006
 - PWC – 35% of jumbos offer HDHP, 25% offer HSA
 - Some predict 40% of market by 2010
- Uninsured – could have major impact, esp. with deductibility of premium
- New Players – Banks, Credit Unions, new providers
- Could have significant effects on HC costs
- May help with retiree health



Results and Expectations

Cautions

- Hospitals worried about accounts receivables, bad debts, repricing of PPO claims
- Drug co-pay programs don't work with HSAs
- Education of employees essential
- Need employers to help fund HSA
- Admin costs of HSAs can be high
- Need for local banks to offer
- Labor missing an opportunity



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Consumers
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Choices

the voice of the health care consumer