

Mandatory, Affordable Health Insurance

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America's health care system is broken and cannot be repaired with timid half-measures. We need both universal coverage *and* a more efficient delivery system. These are not competing objectives; achieving each of these goals is necessary to make the other possible. If we do not make health care more affordable and our delivery system more efficient and sustainable, a majority of Americans will be uninsured by 2020. At the same time, the growing number of uninsured impedes the efficiency gains we must achieve to make health care and health insurance affordable for all. Thus, contrary to conventional wisdom, both universal coverage and delivery system reform must be pursued simultaneously.

Health care costs continue to grow faster than incomes, and more and more working families and employers are finding health insurance unaffordable. Four million Americans have lost private coverage since 2000—bringing the total number of uninsured above 46 million—mostly because they cannot afford the higher contributions their employers' require each year for ever less generous offerings. We may be near the breaking point of our mid-20th-century employer-based system. Forward-thinking labor leaders like Andy Stern, president of the Service Employees International Union, are

voicing the compelling reality: the employer-based health insurance system as we have known it is unsustainable in a 21st-century economy. Understanding their impotence to reverse these trends, many employers agree. Corporate leaders like Lee Scott, CEO of Wal-Mart, are searching for ways to jump-start a national conversation about feasible alternatives.

There are only three credible universal financing arrangements: (1) a tax-financed single payer system, such as Medicare for all; (2) employer-plus-individual mandates for the purchase of private health insurance; and (3) individual mandates alone. (The last two would require subsidies for low-income households.) "Medicare for all" is technically feasible but would require a level of trust toward government decision making that simply does not exist at present, nor is likely to be seen in the near future. In addition, most of the administrative efficiencies of a single payer system could be obtained with any program of mandatory coverage that eliminated the profit from refusing coverage to high-risk patients.

The most promising and politically feasible path to universal coverage is to make an adequate level of insurance mandatory and affordable for all individuals. Without purchase mandates, no insurance system can approach the level

of efficiency we need because insurers and providers will continue to use up scarce resources trying to avoid high-risk patients, as they do today. Thus, beyond the moral case—the Institute of Medicine estimates that 20,000 uninsured Americans die each year because the lack of health insurance prevents them from obtaining timely routine care—there is a strong economic case for universal coverage.

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Among the private insurance alternatives, the “individual mandate alone” option is by far the most congruent with the 21st-century U.S. economy, which must remain flexible and reward mobile workers. Therefore, tying insurance to citizen-workers rather than firms makes perfect sense. The U.S. economy will continue to generate many jobs with productivity levels that simply cannot support

compensation that includes both employer-provided health benefits and a market wage. For this reason, mandated employer-provided coverage would be counterproductive to efficient and shared economic growth, for many low-wage jobs would be lost. Finally, the individual mandate is consistent with individual responsibility, a central—but by no means the only—element of a new social contract that could promote opportunity and well-being through redefined social responsibilities.

Universal Coverage Is Not Enough

While mandating universal coverage is an ambitious goal, it is not enough. Our health care system is so inefficient and prone to unsustainable cost growth that to pursue universal coverage without simultaneously seeking to contain costs would very soon add to our mounting fiscal problems.

We spend at least twice as much per capita on health care as our major trading partners, and we finance far more of it through employers, which

puts us at a significant competitive disadvantage in the global economy. This is why health care system reform has become a “C-suite” issue: CEOs, COOs, and CFOs are focused on it as never before. Moreover, the health gains from our spending are mediocre compared to the rest of the world. The United States ranks an embarrassing 37th in the World Health Organization’s evaluation of health systems worldwide, next to Slovenia and Costa Rica.

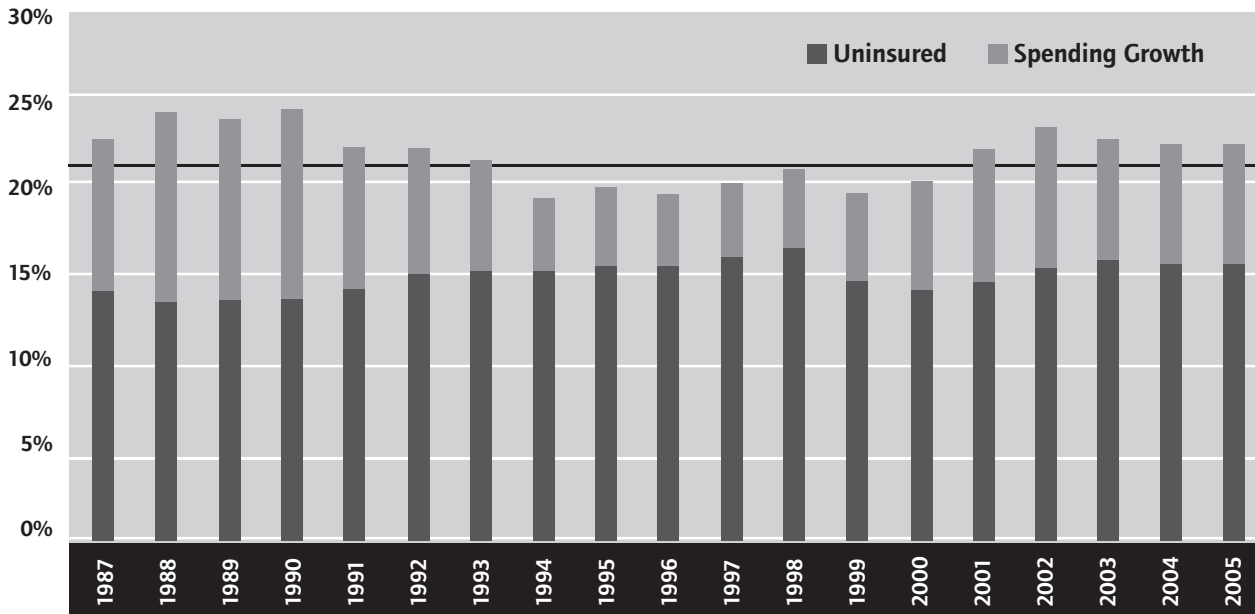
We compare poorly because our three linked problems—high costs, mediocre quality, and unequal access—do not yield to the incremental reforms we have tried to date. Despite our high spending, Americans get appropriate care only about 55 percent of the time. Individuals at the higher income levels get appropriate care only 2 percent more often, while individuals at the lowest income level get appropriate care 2 percent less often. Thus money actually buys very little quality per se. Geographic variation in the quality of care is stunning: an individual living in Utah has a one-third higher chance of surviving cancer than a person living in North Carolina. Ineffective care adds unnecessarily to costs, which reduces coverage and stifles access.

We also suffer over 150,000 unnecessary deaths each year from avoidable errors and substandard care. The average person in Canada, Australia, or France is healthier and will live longer than the average American, and far more equitable access to high-quality primary care is a big part of the explanation. The total economic costs of the uninsured—due to belated care and shifted medical costs, lost productivity from extra absenteeism, and premature death—have been credibly estimated to be roughly equal to the cost of low-income subsidies necessary to finance universal coverage. It is time we made a smarter health economic bargain.

A Changing Political Climate

The first step is to recognize that comprehensive health care reform—achieving universal coverage *and* cost growth containment—is not only necessary, it is possible. We can provide better

HEALTH STRESS INDEX



Source: New America Foundation tabulation of U.S. Census Bureau data and the National Health Expenditure Data from the Center for Medicare and Medicaid Services, Office of the Actuary.

Note: Intensity increases once the Health System Stress Index rises above 21.

care for more people, we can afford the necessary subsidies for our low-income population, and we can bridge the divides in our polarized national debate and politics. It will take leadership, compromise, and hard work, but political leaders in Massachusetts have shown us that it is indeed doable. There, a Republican governor and presidential aspirant was willing to use the word “all,” and the Democratic legislature accepted the word “limit,” and together they are taking a giant step toward universal coverage by making it mandatory and affordable.

Politically, the possibilities for national reform are greater today than ever before, not least because the barometers of system stress are worse than they were when Bill Clinton became president and health reform was on the agenda. In 1992, there were 33 million uninsured Americans; more than 13 million people have been added to the rolls of the uninsured since then. The average

family health insurance premium today claims 19 percent of median family income, compared to 10 percent then.

Three qualitative differences may matter even more.

First, employers are increasingly determined to force politicians to address the question of reform because high health costs make it harder for them to compete in international markets.

Second, as cost growth forces companies to reduce benefits and shift costs to workers, more and more workers worry about losing coverage altogether, even in a strong economy. This is a sea change from the early nineties, when the fear of coverage loss was recession-based. Now it is based on cost growth outstripping income growth, with no end in sight. As presidential aspirants in both parties are learning—in their home districts, in Iowa, and in New Hampshire—voters are deeply worried about unaffordable health care.

Third, and most importantly, growing public awareness of the linkages between cost growth, quality gaps, and losing coverage makes the reform discussion different this time around. The Clinton-era debate was mostly about covering the uninsured and the income redistribution that would have been required to accomplish this. That argument was largely zero-sum: some would gain coverage, and others would have to pay higher taxes to finance it. But if none of us are assured of getting quality care, and if all of us—including employers—are vulnerable to rising costs, then there is a positive-sum or win-win dimension to comprehensive reform now that makes it far more likely.

A Win-Win Formula for Reform

Positive-sum reform provides something for everyone and demands shared responsibility as well. Essentially, it entails building a universal coverage financing system on the backbone of a sustainable delivery system. Therefore it has numerous elements.

- **It must be bipartisan.** Effective reform will require features that moderates in both the Democratic and Republican parties can embrace, a program that preserves enough of the core values of each party's base to permit each side to recognize its own narrative in the outcome. To achieve this, there must be individual responsibility as well as shared responsibility, cost-containment as well as universal coverage.
- **It must create an effective health insurance market or purchasing pool.** Individuals and groups without good options today will benefit from administrative economies of scale and risk pooling. Market rules must be fair to individuals and reasonable for insurers, like those that govern very large employers, employer coalitions, and federal or state worker purchasing pools today.
- **Individuals must be required to purchase health insurance.** Even with subsidies and a functioning marketplace, some individuals will be unlikely to buy health insurance on their own, thereby shifting costs onto others in the event of their need for expensive care. To avoid such “free riding,” individuals must be required to pay their fair share toward health access for all. Purchase mandates are therefore essential under any formula for achieving universal coverage. Individuals could purchase insurance through their employers or efficient purchasing pools.
- **There must be substantial subsidies for low-income individuals and families.** Insurance must be required, but in exchange it must also be affordable. This is essential for reasons of equity and efficiency alike. We cannot force people to buy policies they cannot afford. Even if this were politically feasible, it would force them to forgo other necessities, which could have bad health consequences. If we try to mandate insurance without subsidies, some will remain uninsured, and we will continue to pay for their late, inefficient care as we do now.
- **Household subsidies should be financed by a dedicated and limited new tax.** These subsidies can be partially financed, especially over time, with savings from the reform program, but there will need to be additional revenues dedicated to them, at least in the short run. It would be best to fill the gap with a dedicated stream from a new tax (e.g., a progressive consumption tax), that would also serve as a budget constraint. Budget constraints and tax rates can and should be revisited over time as circumstances warrant, but annual budget limits on subsidies may be necessary to construct a majority coalition for comprehensive reform.
- **The new system should be citizen-based, phasing out the employers' role.** There are a number of options here, but it is important that employers should be seen as only one among many possible financing sources for health insurance coverage, with the understanding that they are not likely to be able to continue indefinitely in that role.

The goal ought to be to keep current employer “money” in the game while relieving employers of the burden of negotiating health premium increases every year. A new insurance market pool and subsidy structure could aid such a transition. For example, firms might enroll their workers in a plan through a purchasing pool in year one, while maintaining their historical premium contribution levels. In year two, they could give their workers a raise at least equal to the previous year’s premium contribution, plus some agreed-upon inflation factor, and from that higher base the worker would be expected to purchase insurance on his own unless eligible for a subsidy. (Tax preferences could also be converted at that point, perhaps from today’s open-ended income and payroll tax exemption for employers and employees, to a fixed tax credit that might vary by income and/or risk class.) This transition would keep the “right” amount of money flowing to health insurance in year two; thereafter cost growth and affordability would be worked out in the political arena between citizens, the government, health care providers, and insurers, with the employer out of the picture.

Delivery System Reform

This brings us to delivery system reform, which is central to the success and sustainability of the entire reform enterprise. In short, we urgently need to reorganize our delivery system to yield far more health “value” per dollar spent. There are three critical elements to a delivery system “culture of value.”

- **An electronic health information system.** This would give any clinician anywhere instant access to a patient’s medical history, plus diagnosis and treatment options. The system would include Web-based electronic health records, as well as medical decision support tools so that best practices could be applied to every clinician-patient encounter. Today, a Las Vegas casino can determine the precise details of an individual’s credit worthiness in real time, but no emergency room doctor in that city (or anywhere else in the

United States) can find out what medications an unconscious person is on (unless that individual is being treated in the Veterans Administration system). An electronic information system will help us monitor care, protect patients, and improve the overall quality of health care in the United States.

- **Turbo-charged incentives for evidence-based decision making.** We need new payment incentives for both patients and providers. Today, we pay providers for conducting tests and carrying out procedures that may or may not be necessary or effective. And patients are often required to pay no more for expensive tests and procedures than for less expensive but equally effective treatment. This system encourages unnecessary treatments and results in low-value care. Smarter incentives would encourage patients and clinicians to use resources prudently while promoting high-quality, cost-effective care. Incentives for patients and providers should be mutually reinforcing, and they can be if they incorporate the same performance targets. For example, clinicians should be paid more if diabetics under their care obtain all appropriate tests each year, and the patient’s co-payment for such cost-effective, evidence-based tests should be zero. We will also need to reform our dysfunctional malpractice legal system. Evidence-based medicine—statistically supported best practices—must be a safe harbor against spurious malpractice claims. Guidelines can be developed and disseminated by private specialty societies and public research agencies to ensure their effectiveness and a smooth transition to evidence-based safe harbors.

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■ **Comparative technology assessment.** Advances in medical technology have saved lives and improved the quality of life for many, and future advancements are likely to be nothing short of breathtaking in their possibilities. However, the overuse of new technology has been the main culprit in driving up costs. Future advancements are likely to push health system costs even higher, to a level that could be catastrophic for the health of the U.S. economy. We need to establish processes for assessing the clinical value-added of new technologies compared to existing treatment or diagnostic options prior to their widespread adoption and use. The Food and Drug Administration's drug approval process is a case in point. Today, to get a drug approved for a specific use, a manufacturer must simply prove that the proposed new drug did not manifest serious side effects and is more effective than a placebo. We should require a higher standard for approval: new and more expensive drugs should be shown to be better than the best existing treatment for any given patient subpopulation. To compensate for the longer and more expensive trials this would require, we would probably need to lengthen the life of drug patents. We should apply the same logic to medical devices and new diagnostic or surgical techniques. Then we can become far smarter purchasers of costly new technologies.

The Political Groundwork Is Being Laid

The good news is that a critical mass of stakeholders, opinion leaders, CEOs, union officials, and politicians agree that our health care system is on an unsustainable trajectory and must be reformed. Massachusetts has shown that comprehensive and bipartisan compromise is possible, and the American Medical Association's recent call for an individual mandate approach to universal coverage is

proof that former adversaries of wholesale reform now see its necessity.

The incoming Congress and forthcoming presidential campaign provide opportunities to renew the debate over larger visions for transforming America's broken health care system. A large majority of voters are willing to pay to ensure that all Americans have access to at least basic health insurance. Announced and potential presidential candidates have heard the rumblings of discontent and fear among the electorate. Our political system can find a bipartisan way for those fears to be addressed and the public's preferences to be translated into affordable and effective health care for all Americans. The leaders who facilitate this transformation will be highly regarded indeed.❖

How to Fix Our Broken Health Care System

- Create a Health Insurance Market
- Require Everyone to Buy Health Insurance
- Subsidize Low-Income Americans
- Define a Transitional Role for Employers
- Improve Outcomes Using an Electronic Information System
- Offer Turbo-Charged Payment Incentives to Lower Costs
- Provide High-Quality Care Based on Comparative Technology Assessment