Reform's Three Essential Elements

To Be Effective, Insurance Coverage Must Be Adequate, Affordable, and Available

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Health reform is back on the political agenda. And it's about time. All over the nation, families, businesses, and governments are struggling with the ever-increasing costs of health care. Every year about a million people are added to the rolls of the uninsured, which now number almost 47 million. People who still have insurance are seeing their benefits dwindle and health costs beginning to eat into their wages. Because they are unable to pay medical bills, even the insured find themselves going without needed care. Increasingly, our health insurance system fails to protect us when we get sick. The following snapshot of the precarious state of our employer-sponsored health insurance system tells us why.[1]

- *Most people without health insurance are working.* Four out of five people without health insurance are in families of workers, most of them working full time, primarily in jobs that do not offer health insurance.
- *Fewer firms offer health benefits.* Between 2000 and 2006, the proportion of firms offering health benefits fell from 69 percent to 61 percent.
- *Growing health costs stymie growth in earnings.* For those fortunate enough to have health insurance, the cost of it grew 87 percent between 2000 and 2006. In the same period, workers' earnings increased only 20 percent, barely more than the rate of inflation (18 percent).
- *Even insured families face substantial financial burdens.* In 2003, nearly one in five families with employer-sponsored coverage spent more than 10 percent of their incomes on health insurance premiums and health services. In other words, they were underinsured.
- *Underinsurance places the greatest burdens on people who get sick.* In 2003, one in six adults with private health insurance (almost 18 million people) reported having problems in paying their medical bills. People with serious health conditions experienced payment problems at almost twice the rate of other privately insured people. Overall, more than 25 percent of people with payment problems reported that costs led them to skip medical tests, leave prescriptions unfilled, or postpone care.

Three Critical Elements

Given these conditions, it is not surprising that calls for health reform—indeed, calls to secure meaningful health insurance for all Americans—can be heard in statehouses from Massachusetts to California, in business board rooms as well as consumer caucuses, and in the halls of Congress. Even President Bush has joined the conversation. Health reform proposals abound.

As we consider these proposals and move forward—as we must—it is important to remember that not all of them would give our nation a fairer, more affordable health care system. If we are to be successful, we must know the difference between proposals that will achieve our goals and proposals that will not.

There are three critical elements to effective reform that will actually guarantee all people coverage that gets them access to needed health care. A proposal that has these three elements—*adequacy, affordability,* and *availability of benefits*—will get a "triple A" rating because of the concrete ways it expands coverage that works.

Adequacy of Coverage An effective proposal would define a set of benefits that protect people when they're sick. It would cover the full range of medical services; limit cost-sharing to levels that are reasonable in relation to people's incomes; and cap out-of-pocket spending to what people can realistically afford.

An adequate benefit can't be a donut—with a hole like the Medicare drug benefit. Nor can it be

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Swiss cheese—with all kinds of limits that expose people to unexpected costs. In assessing adequacy, we must beware of at least two other types of proposal: those that don't specify benefits, but rather leave it to insurers to define what's covered; and those that require deductibles so high they impede access to care.

In short, a proposal with adequate benefits differs from proposals based on the premise that any insurance, being better than none, is good enough. That's simply not true if the goal is meaningful access to care.

Affordability of Coverage An effective proposal would create the subsidies that make adequate insurance affordable. We have abundant evidence that, without subsidies, low- and modest-income people will not buy insurance voluntarily. This makes intuitive sense. Two-thirds of the uninsured have family incomes below twice the federal poverty level ($40,000 for a family of four). Do we really think it reasonable for families with these incomes to spend upwards of $11,000 on health insurance (the average cost of reasonably comprehensive coverage in 2006)?

In assessing affordability, we must beware of proposals that require people with low or modest incomes to buy insurance without a subsidy. Personal responsibility is important; and everyone should pay a fair share. But a mandate without a subsidy is either punitive or pretense; it either shouldn't happen or it won't happen. In contrast to such misguided mandates, proposals that provide significant subsidies (ensuring coverage at no cost for people with very low incomes and requiring partial contributions that increase with income) establish a reasonable mandate—at a price people can afford.

Availability of Coverage An effective proposal would ensure what might be called a "place to buy"—a source of adequate, affordable health insurance that is available to everyone without regard to health status. This source could offer a variety of health plans, like the range of choices offered to members of Congress. It could be—or look like—Medicare. Or, if the rules were changed, the source could be existing private insurance plans.

In assessing availability, we must beware of proposals that send people shopping for insurance in a market where insurers deny coverage to people when they need care (like the current nongroup health insurance market) or charge more based on age or health status, or otherwise cherry-pick customers when they are healthy and avoid them when they are sick. The proposal has to work for people when they're sick.

The Time for Action Is Now

An effective health reform proposal can only deliver this "triple A" protection if it has sufficient financing behind it—whether from individual, employer, or taxpayer contributions or some combination thereof. And it can only sustain that protection over time if it includes a way to slow health care cost growth—not just for people who are now uninsured but for everybody, including those of us who depend on Medicare and Medicaid. We can all be better off—and more willing to commit to universal coverage—if we invest in research to determine which medical services work and which don't, and in information and payment systems that help providers deliver the former and avoid the latter.

As everyone now knows, debating the merits of alternative health reform proposals is a daunting task. Our history is filled with debates that generate far more heat than light. For decades, opponents of reform have tried to make those of us who have health insurance (even when it costs too much or covers too little) fear that political action will make us worse, not better, off. This tactic has worked to remove health reform from the political agenda. But it may be that the worse cost and coverage get, the harder it will be to scare us away.

Whether that happens will depend on whether we can trump fear with confidence that we can do better. And we *can* do better. Thirteen years ago, Harry and Louise—the fictional characters in the health insurance industry's ad campaign—misleadingly but effectively picked apart the Clinton administration's health reform proposal, asserting over and over, "There's got to be a better way."

We don't need fictional characters today to tell us the system is broken. Our moms and dads, brothers and sisters, friends and co-workers fill that role every day. The time for debate and discussion was a decade ago. The time for action is now.

NOTE

1. The data cited here is from Diane Rowland, "Health Care: Squeezing the Middle Class with More Costs and Less Coverage," testimony she gave to the House Ways and Means Committee, Washington, DC, January 31, 2007. Rowland is executive vice president, Henry J. Kaiser Family Foundation.