



America's Healthcare System: Under Strain and Under Scrutiny



THE CENTER FOR *Health Affairs*

Policy Snapshot

It's no secret that the American healthcare system is under strain. The 2008 presidential candidates are talking about it. Polls show the American public thinks the system needs change.¹ The topic has even found itself the subject of a movie that recently opened in theaters. But just what is the scale of the problem? And short of rebuilding the system from the ground up, what can be done about it?

A System Under Strain

The statistics surrounding the uninsured are becoming familiar, but are nevertheless overwhelming. Nationally, more than 46 million people lack health coverage.² That boils down to more than 1.3 million people³ – 11 percent of the population – in Ohio and, at a local level, in Cuyahoga County alone, more than 132,000 people.⁴

These numbers grow every year, and a significant contributing factor is the reliance of our system on employer-sponsored health insurance, which is increasingly declining. Between 2001 and 2005, the number of employees covered by employer-sponsored insurance decreased by almost four percentage points, from 81.2 percent to 77.4 percent.⁵ The share of all businesses offering health benefits declined from 69 percent in 2000 to 60 percent by 2005.⁶

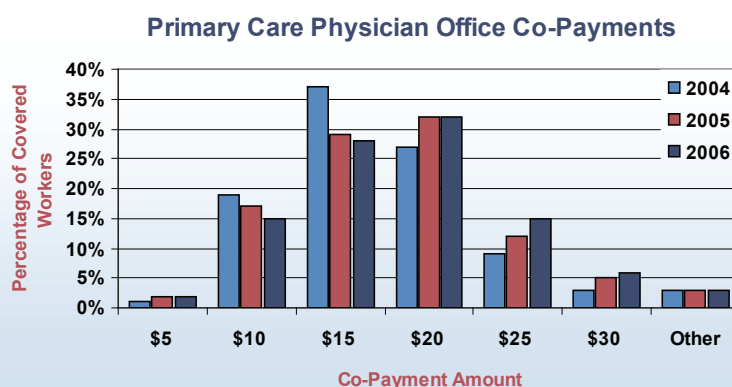
In 2006, the average cost of premiums for single coverage, including both the worker and employer contributions, was \$4,242 per year, and for a family it was \$11,480.¹⁰

Not only do fewer employees have access to insurance through their employer, but those who do find it increasingly expensive. Between 2001 and 2005 employer-sponsored health insurance premiums for a family of four grew by between 9 and almost 14 percent each year, finally slowing slightly in 2006 to a 7.7 percent increase.⁷ At the same time, employees' earnings grew between only 2.2 and 4.0 percent each year.⁸

Employees of small companies bear the heaviest burden. Insurance is more costly for both the employer and employee in small firms compared to large firms. This contributes significantly to the increased likelihood that employees of small firms either do not have access to insurance or cannot afford to purchase the insurance offered by their employer. Between 2001 and 2005, the uninsured rate for employees working for companies with 10 to 24 workers rose from 26 to 30 percent.¹¹

Four out of five uninsured individuals – 81 percent – are in working families.⁹

At the same time insurance premiums are increasing, coverage seems to be shrinking, as covered workers are being asked to pay higher co-payments and deductibles and assume higher out-of-pocket limits. The percentage of covered workers paying a \$15 co-payment for a primary care visit went from 19 percent in 2004 to 15 percent in 2006; while the percentage of those paying a \$25 co-payment went from 9 percent to 12 percent.¹²



Source: Kaiser Family Foundation and Health Research and Educational Trust

Providers Being Pinched

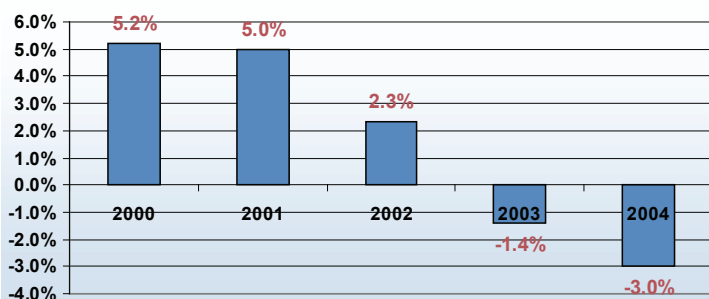
Not only is the insurance system lacking from the perspective of the individual, it also is problematic for providers. As the number of people lacking health insurance grows, so does the amount of charitable care provided by hospitals. From 2003 to 2006, the amount of uncompensated care provided by Northeast Ohio hospitals rose from \$150 million to \$190 million.¹³ This is the equivalent of hospitals spending one out of every three dollars of their net operating income on providing healthcare to those who cannot afford it.

Increasing charity care is compounded by worsening reimbursement by government health programs. At the start of the decade, hospitals generally had a positive margin on Medicare services, but it began to shrink and over the last couple of years, hospitals have lost money taking care of Medicare patients. In 2003, hospitals experienced a -1.4 percent Medicare margin, which reached -3.0 percent in 2004.¹⁴ See graph on reverse side.

The same is true with Medicaid. In 2005, community hospitals nationwide experienced a \$9.8 billion shortfall in Medicaid payments.¹⁵ For hospitals in Ohio, Medicaid pays 95 cents for every \$1 spent providing care,¹⁶ and the gap between the cost to provide Medicaid services and reimbursement widened to \$204.2 million in 2005.¹⁷



Hospital Medicare Margins



Source: Medicare Payment Advisory Commission

Rising charity care and insufficient reimbursement by government health programs, coupled with pressure from health insurance companies, have resulted in skinny operating margins for hospitals. The operating margins of area hospitals average 4.9 percent. By comparison, pharmaceutical companies' margins average more than 14 percent nationally.¹⁸

Hospitals' ability to maintain a margin is important. Without it, they are unable to meet the most basic needs of the community, including providing free care to those in need and operating money-losing services like emergency departments. Beyond basic services, fiscally unhealthy hospitals also are unable to make investments in their facilities, acquire new technologies, respond to rising labor costs or provide the level of community support and resources they currently provide.

Federal Leadership Needed

In the absence of a national strategy for addressing declining access to health insurance and the growing responsibility borne by healthcare providers, a handful of states around the country have been working to develop solutions within their own borders. Massachusetts, Vermont and Maine have all undertaken comprehensive coverage initiatives, and a number of others have developed incremental solutions.¹⁹ However, without leadership at the federal level, solutions will be piecemeal, at best. There are key actions Congress can take to address the rising crisis.

1. Reauthorize the State Children's Health Insurance Program (SCHIP). SCHIP is one of the most successful health assistance programs in the nation's history. It has provided health insurance to more than 140,000 children in Ohio,²⁰ and more than 6 million children nationally,²¹ who would almost certainly otherwise be uninsured.

2. Allow small employers and individuals to buy their health coverage through the federal Medicare program. The reduction in administrative costs alone could result in significant reductions in health insurance premiums.²² Medicare could provide portable, nationwide coverage that is almost universally accepted by healthcare providers.

3. Expand access to primary and preventive care. For people living in the central cities, even those with health insurance are having trouble accessing primary care. There simply are not enough primary care practitioners in these communities. Congress created Federally Qualified Health Centers (FQHCs) as an effort to meet the needs of these underserved communities but the program is drastically underfunded. Cleveland-area community health centers like Care Alliance, NorthEast Ohio Neighborhood Health Center and Neighborhood Family Practice provide essential primary care to thousands every year, but thousands more could be helped if they had the resources to hire more clinicians and develop more clinic settings.



Endnotes

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2. Kaiser Commission on Medicaid and the Uninsured. "The Uninsured and Their Access to Health Care." October 2006.
3. Cover the Uninsured. <http://covertheuninsured.org/states/?StateID=OH>.
4. The Center for Community Solutions. "Cuyahoga County's Uninsured and the Problems They Face." June 2005.
5. Kaiser Commission on Medicaid and the Uninsured. "Changes in Employees' Health Insurance Coverage, 2001-2005." October 2006.
6. Ibid.
7. Ibid.
8. Ibid.
9. Kaiser Commission on Medicaid and the Uninsured. "The Uninsured and Their Access to Health Care." October 2006.
10. Kaiser Family Foundation and Health Research and Educational Trust. "Employer Health Benefits: 2006 Annual Survey."
11. Kaiser Commission on Medicaid and the Uninsured. "Changes in Employees' Health Insurance Coverage, 2001-2005." October 2006.
12. Kaiser Family Foundation and Health Research and Educational Trust. "Employer Health Benefits: 2006 Annual Survey."
13. Based on a survey of Northeast Ohio hospitals, this is a measurement of the amount of charity care provided at cost; not inclusive of government shortfall or bed debt; and net of Hospital Care Assurance Program funding.
14. Medicare Payment Advisory Commission. "A Data Book: Healthcare Spending and the Medicare Program." June 2006.
15. American Hospital Association. "Ensuring Adequate Resources for Patients and Communities: Medicaid." 2007.
16. Ohio Hospital Association. "Medicaid Fact Sheet." Aug. 6, 2006.
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18. Kaiser Family Foundation. "Trends and Indicators in the Changing Health Care Marketplace." April 2004.
19. Robert Wood Johnson Foundation State Coverage Initiatives "State of the States." January 2007.
20. Voices for Ohio's Children, Monthly Medicaid Enrollment Report, December 2006.
21. Cover the Uninsured, SCHIP Fact Sheet, <http://covertheuninsured.org/fact-sheets/schip.pdf>.
22. A recent study (Woolhandler, S., Campbell, T., and Himmelstein, D.U. "Costs of Health Care Administration in the United States and Canada." The New England Journal of Medicine, August 21, 2003) found that overhead expenses of private insurance companies average 11.7 percent, while Medicare comes in much lower at 3.6 percent.



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