

# INSTITUTE OF MEDICINE

*Shaping the Future for Health*

## **INSURING AMERICA'S HEALTH: PRINCIPLES and RECOMMENDATIONS**

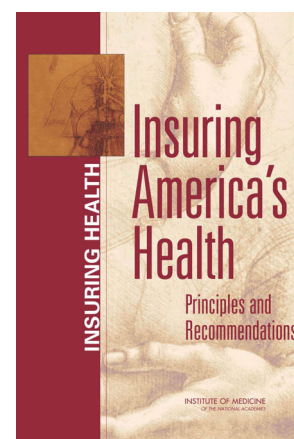
**M**ore than 43 million Americans reported being uninsured throughout 2002 and millions more lack coverage for shorter periods. The lack of insurance negatively affects not only the uninsured, but their families, the communities in which they live, and the country as a whole. *Insuring America's Health: Principles and Recommendations* concludes the series of reports on the consequences of uninsurance by the Institute of Medicine (IOM); the reports present substantial and compelling evidence on the harmful effects of being uninsured. The series was conducted in order to stimulate a more informed public debate about coverage. This report offers a checklist of five principles useful in assessing coverage proposals and their implicit tradeoffs, for example, making coverage more affordable to individuals and families versus further limiting a program's costs.

### **Widespread Effects of Uninsurance**

It is easier to be uninsured than one might expect. Eight out of ten uninsured persons are members of working families. In most of these cases, the worker holds a job that does not offer health insurance. In others, subsidized coverage may be offered, but the employee turns it down because of the cost or because they do not perceive the need for coverage. Individual health policies are quite expensive and may be unavailable for those who have a preexisting health problem. Young adults often lose eligibility under their parent's policy when they turn 19 or graduate from college. Spouses lose coverage under a family policy through separation, divorce, retirement, or upon the death of the policy holder.

Uninsured children and adults suffer worse health and die sooner than those with insurance. For example, because they often delay seeking care and therefore have a later diagnosis, uninsured patients with breast, cervical, colorectal and prostate cancer or melanoma are more likely to die prematurely than are patients with health insurance.

Having even one uninsured person in a family can jeopardize everyone's financial stability and health. People without health insurance pay about 35



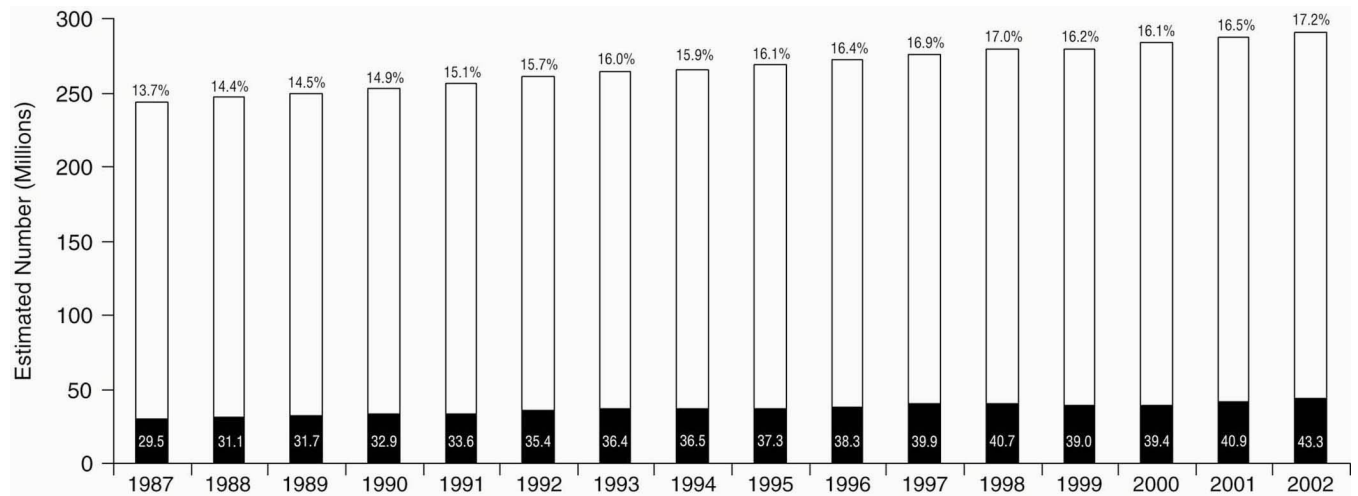
**The number of uninsured, 43 million, is as large as the total populations of 26 states combined.**

**The uninsured have poorer health and shortened lives.**

**One in five American families with children has at least one uninsured member.**

percent of their medical care bills themselves. The remaining costs of uncompensated (charity) care are largely borne by taxpayers, through subsidies to hospitals and clinics. State and local government capacity to finance health care for uninsured persons is most limited during economic downturns – precisely when the need is greatest.

**Number of Uninsured Persons Under Age 65 and Uninsured Rates (est.), 1987-2002**



Source: Fronstin, Paul. 2002. Sources of Health Insurance: Analysis of the March 2002 Current Population Survey. Issue Brief 252. Washington, DC: Employee Benefit Research Institute; Mills, Robert, and Bhandari, Shailesh. 2003. Health Insurance Coverage in the United States: 2002. P60-223. Washington, DC: U.S. Census Bureau.

The persistence of sizable uninsured populations in many communities in the United States has important local effects. These include: (1) significant financial strain on health care providers and institutions that can lead to loss of valuable community resources, such as a trauma center or physician practices, and (2) redirection of funds to the uninsured away from core public health programs that address control of communicable diseases and emergency preparedness.

**Can we afford not to cover the uninsured? The poorer health due to uninsurance is estimated to cost us between \$65 and \$130 billion annually.**

The economic vitality of the nation is limited by the poorer health, premature death, and long-term disability of uninsured workers. The value in healthy years of life gained by providing coverage to everyone would almost certainly be greater than the additional cost of providing health care, at the level of those currently insured, to those who lack coverage.

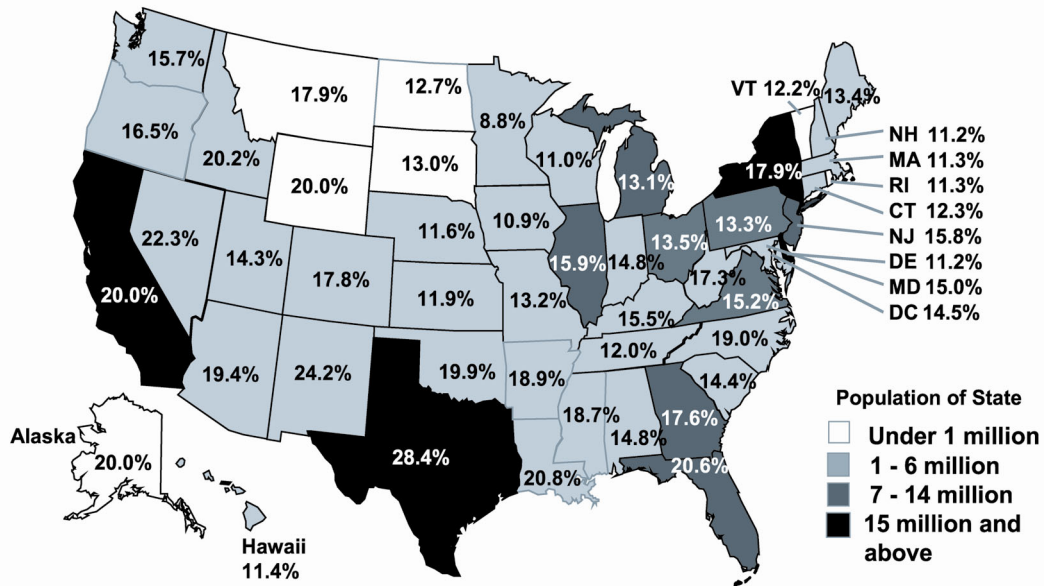
**Incremental Expansions Have Not Closed the Coverage Gap**

Previous campaigns to create universal coverage failed for a lack of broad-based political support. In 1965, enactment of Medicare and Medicaid substantially broadened population coverage to retirees and the poor—two groups unlikely to be able to afford private coverage.

Since the mid-1980s, major federal and state initiatives have improved coverage rates among lower-income children and boosted the numbers of lower-income persons with public coverage. Yet, today, more than half of the remaining uninsured children who are eligible are still not enrolled and the national uninsured rate remains high at over 17 percent of the population under age 65. Some states have worked aggressively to extend coverage, but they have not succeeded in eliminating uninsurance. Others, with inadequate or unstable funding, have erected administrative barriers to enrollment in order to limit the cost of the State Children’s Health Insurance Program (SCHIP) and Medicaid coverage. Federal involvement is needed to solve the problem of uninsurance.

**About 8.5 million children remain uninsured.**

**Probability of Being Uninsured for Population Under Age 65, By State, 2002.**



Source: U.S. Census Bureau. 2003. Current Population Survey. Table HI05. Health Insurance Coverage Status and Type of Coverage by State and Age for All People: 2002. Accessed October 3, 2003. Available at: [http://ferret.bls.census.gov/macro/032003/health/h05\\_000.htm](http://ferret.bls.census.gov/macro/032003/health/h05_000.htm).

## FIVE KEY PRINCIPLES PROVIDE GUIDANCE

The principles presented in *Insuring America’s Health* are supported by clinical, epidemiological and economic research. More detail on the research findings is contained in the Committee’s earlier reports: *Coverage Matters*, *Care Without Coverage*, *Health Insurance Is a Family Matter*, *A Shared Destiny*, and *Hidden Costs, Value Lost*.

The first principle is the most fundamental one. The others are not ranked by priority, but all are important.

**Uninsured adults have a higher risk of dying before age 65 than do insured adults, resulting in roughly 18,000 excess deaths annually.**

**1. *Health care coverage should be universal.***

- Being uninsured can damage the health of individuals and families. Uninsured children and adults use medical and dental services less often than insured people and are less likely to receive high quality care, as well as preventive and chronic care services.
- Uninsured children risk abnormal long-term development if they do not receive routine care; uninsured adults have worse outcomes for chronic conditions such as diabetes, cardiovascular disease, end-stage renal disease and HIV.
- “Universal” means what it says. Everyone living in the United States should have health insurance.

**2. *Health care coverage should be continuous.***

- Continuous coverage is more likely to lead to improved health outcomes; conversely, gaps in coverage can result in diminished health.
- Achieving coverage well before the onset of an illness can lead to a better health outcome, since the chance of detecting disease early in its course is enhanced.
- Interruptions in coverage interfere with ongoing therapeutic relationships, contribute to missed preventive services for children, and result in inadequate chronic illness care.

**3. *Health care coverage should be affordable to individuals and families.***

- The main reason people give for being uninsured is the high cost of coverage. Lower-income families have little leeway in their budget for health expenditures, so financial assistance will be necessary for them to obtain coverage.

**4. *The health insurance strategy should be affordable and sustainable for society.***

- Politics and economics will determine what society can afford. Any major reform proposal will need mechanisms to control inflation and encourage use of efficacious, cost-effective services.

**Almost two-thirds of uninsured people have incomes under 200 percent of the federal poverty level.**

- Everyone should contribute financially—through taxes, premiums, and cost sharing— because all members of society will benefit from universal health insurance coverage.
- The reform strategy should strive for efficiency and simplicity by eliminating complex eligibility rules, underwriting, billing procedures and regulatory requirements.

5. ***Health insurance should enhance health and well-being by promoting access to high-quality care that is effective, efficient, safe, timely, patient-centered, and equitable.***

- Insurance should be designed to enhance the quality of the health care system by meeting the six aims above as recommended by the IOM Committee on Quality of Health Care in America.
- Basic benefit packages should include preventive and screening services, outpatient prescription drugs, and specialty mental health care, as well as outpatient and hospital services.
- Variations in patient cost sharing could be used as an incentive for appropriate service use because this is known to influence patient behavior.

#### **Four Prototype Reform Strategies**

The Committee used its five principles to analyze four simplified prototypes of major, comprehensive health insurance reform based on strategies currently under public discussion. The principles are a useful tool for designing and evaluating new approaches to coverage.

Implementation of comprehensive reform based on any of these four prototypes could more nearly achieve each principle than does the current hodgepodge of insurance mechanisms. Each of the four prototypes would require system change, ranging from least to most.

***Prototype 1: Major public program expansion and new tax credit.*** The current favorable tax treatment for employment-based private insurance would remain. Employers would not be required to offer coverage. Medicaid and SCHIP would be combined; Medicare would be extended to 55 year olds who pay a premium. A tax credit would be provided for moderate income individuals to purchase private insurance; the tax credit would be both refundable if a person owes no taxes and available as a credit when the policy is purchased.

***Prototype 2: Employer mandate, premium subsidy, and individual mandate.*** Employers would be required to offer coverage and contribute to their workers' premiums, although a federal premium subsidy would be available for employers

of low-wage workers. Medicaid and SCHIP would be merged, and Medicare would remain as it is. Individuals would be required to obtain coverage through work, through enrollment in a public program, or through individual purchase.

***Prototype 3: Individual mandate and tax credit.*** It would be the responsibility of individuals to provide health insurance for themselves and their families through the private market. Each person would become eligible for an advance, refundable tax credit. The federal government would administer the tax credit. However, insurance regulation would remain at the state level. Medicaid and SCHIP would be eliminated, but Medicare would remain as is.

***Prototype 4: Single payer.*** Everyone would be enrolled in a single, comprehensive benefit package, but persons could purchase supplemental policies for non-covered services. This approach would be administered and funded federally but would use contractors and private health plans to review claims and process payments, much as Medicare does now. A “global budget” would help control aggregate health care spending. Medicaid and SCHIP would be eliminated; those currently eligible for Medicare could be folded into the single payer model.

### ***Assessing Reform Strategies Using the Principles***

Each prototype meets some principles better than others. For example,

- *Universality.* Universal coverage is more likely to be reached through any model with mandated coverage, compared to the voluntary approach of Prototype 1.
- *Continuity.* Continuity and portability of coverage remain issues for Prototypes 1 and 2, particularly when a person changes jobs or family relationships change. The single payer model, Prototype 4, would most successfully eliminate gaps in coverage.
- *Affordability and Sustainability.* Affordability of any plan to individuals, families, and the country would depend on the size of subsidies or tax credits and cost sharing requirements. Tax credits going to low and moderate income individuals would be more progressive and equitable than current tax exemptions for employment-based coverage. One value of a tax credit is that the federal income tax is a relatively sustainable source of revenue compared to current funding sources.
- *Enhancing Access to High Quality Care.* There would be more federal leverage in designing a comprehensive benefit package in Prototypes 3 and 4. Single payer models, much like Medicare, are generally considered to have substantially lower administrative costs than private insurance plans, since the need for advertising, underwriting, and much eligibility and billing work disappears.



## NEXT STEPS

The many consequences of uninsurance and the growing threat it poses to the very fabric of America's health care system makes this a problem that can no longer be ignored. Federal leadership and federal dollars are necessary to eliminate uninsurance, although not necessarily federal administration.

Our nation already invests in the health of its people by directly providing health insurance for some and by offering tax subsidies to support health insurance for others. Insuring those who remain or become uninsured will require a substantial employer contribution, tax incentive, or a nearly free public coverage program. Until universal coverage takes effect, federal and state governments should continue providing resources for Medicaid and SCHIP to prevent erosion of current coverage and eligibility. They should also continue to support the institutions and providers that form the core of our health care "safety net."

**The Committee calls on the federal government to take action to achieve universal health insurance and to establish an explicit schedule to reach this goal by 2010.**

Imagine what the country would be like if everyone had coverage—people would be financially able to have a health problem checked in a timely manner, to obtain preventive and primary care, and to receive necessary, appropriate and effective health services. Families would have security in knowing that they had some protection against medical bills undermining their financial stability. Key community providers and health care institutions could provide care to those who need it without jeopardizing their financial stability.

This picture can become reality, with the right mix of leadership and political will. Unchecked, the costly consequences of the status quo are too large to sustain. It is time for our nation to extend coverage to everyone.



### For More Information...

Visit the Committee's website at [www.iom.edu/uninsured](http://www.iom.edu/uninsured).

Copies of *Insuring America's Health: Principles and Recommendations* are available for sale from the National Academies Press; call (800) 624-6242 or (202) 334-3313 (in the Washington metropolitan area), or visit the NAP home page at [www.nap.edu](http://www.nap.edu).

This study was funded by The Robert Wood Johnson Foundation.

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