



**TIME FOR CHANGE:
THE HIDDEN COST OF A FRAGMENTED HEALTH INSURANCE SYSTEM**

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Executive Summary

We have entered the 21st century encumbered by a health system that is not up to the challenge of ensuring a healthy and productive nation. Set in motion over 50 years ago, the system is costly, complex, and confusing. Most important, it is failing to achieve the twin objectives of health insurance: to ensure that people have access to needed medical care and to protect them from the financial burdens of costly medical bills.

There are five types of costs inflicted by our fragmented health insurance system:

- Costs of a growing number of uninsured
 - 41 million Americans in 2001 fell through the cracks of the American health care system because they were not lucky enough to be covered by employer-based coverage, Medicare, Medicaid, or the Children’s Health Insurance Plan
- Health and economic consequences of gaps in health insurance coverage
 - 18,000 deaths of adults ages 25 to 64 occur each year as a result of the absence of health insurance coverage—making it the sixth-leading cause of death in this age group, ahead of HIV/AIDS or diabetes
- Cost-shifting that occurs in a fragmented financing system, especially as health care costs accelerate
 - 70 million American workers are covered by their own employer; 20 million by a family member’s or previous employer; 30 million are not covered by an employer
 - Our “pass the buck” system of health insurance perpetually shifts costs from one employer to another, employers to workers, federal government to state governments and back, and to safety-net hospitals serving the uninsured
 - Far more energy goes into shifting costs than enhancing efficiency or quality of health care; insurance companies are profitable by attracting favorable risks, not through innovative incentives to improve quality and efficiency
- Costs of churning in health insurance coverage, as people’s economic and personal circumstances change
 - Churning results in frequent gaps in insurance. Sixty-two million—one of four—were uninsured during 2000; 75 million were uninsured in 2000 and 2001. These people were at high risk of not getting care when needed and facing unaffordable medical bills when care could not be postponed.

- The U.S. spent \$111 billion in 2002 on private insurance and government administrative costs—not including administrative costs incurred by hospitals and other health care providers or by individuals as they enroll, disenroll, and re-enroll and change insurance coverage and plans.
- Costs of complexity from a pluralistic system of health insurance without an integrating framework and consensus on basic principles
 - Cost of large numbers of individuals eligible for but not enrolled in public programs
 - Cost of lost productivity, health, anxiety, sick days, and valuable time of uninsured patients spent seeking care
 - Cost of resources wasted on administration—jobs underwriting, screening, and verifying eligibility; new administrative apparatuses to cover narrow target groups of eligible individuals; costs of enrolling and disenrolling for public and private insurers and for individuals
 - Costs of inefficient and low-quality care—high costs in emergency rooms for preventable conditions and hospitalizations; costs of differing standards of care depending on insurance status
 - The U.S. spends twice as much per capita on health care as other industrialized OECD nations and is the only one to fail to cover everyone

There has to be a better way:

- Automatic and affordable coverage for all
- Balance between choice, flexibility, and innovation; and between simplicity, efficient administration, and standardization that facilitates informed choice
- Shared responsibility for financing coverage—employers, insured and uninsured, health care providers, federal, state, and local government
- Commitment to quality improvement and greater efficiency in care and insurance administration, using modern information technology
- Setting a goal of high-quality health care for all as a top national policy priority, essential to a strong, healthy, and productive nation