

# Introduction to Financing the U.S. Health Care System



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# Outline

- History of U.S. Health Care Financing.
- Overview of U.S. Health Care Financing
- Health Insurance Terms
- Private Health Insurance
- Medicare
- Medicaid
- SCHIP
- Uninsured
- Example Patient



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# History of U.S. Health Care Financing



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# History

- 1847 Massachusetts Health Insurance Company of Boston  
“Sickness Insurance”
- 1853 French Mutual Aid Society – Prepaid Hospital Care in SF.  
Precursor of HMO
- 1870 Rail Road/Mining Industries Provide Company Doctors  
Funded by Deductions from Workers Wages
- 1910 Montgomery Ward Offers Group Insurance Plan
- 1915-1920 Efforts to Establish Compulsory Insurance Programs Fail  
in 16 states



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# History

- 1935 Social Security Act
- 1943 War Labor Board Freezes Wages – Employers Use Benefits to Lure Workers
- 1956 Disability Insurance Program Added to Social Security
- 1965 ½ of 65 and Older Have Health Insurance. High Rates of Elderly Poverty. Medicare/Medicaid Signed Into Law
- 1974 Employee Retirement Income Security Act (ERISA) Establishes Standards for Benefit Plans to Get Tax Credits



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# History

- 1985 Consolidation Omnibus Budget and Reconciliation Act (COBRA)- Continued Insurance for Laid Off Workers for 18 Months
- 1996 Health Insurance Portability and Accountability Act (HIPAA) Makes It Easier to Change Jobs and Keep Insurance
- 1997 Children's Health Insurance Program Expanded Coverage to 11 Million Uninsured Children
- 2003 Medicare Prescription Drug Improvement and Modernization Act
- 2007 Massachusetts Healthcare Reform Law – Required All to Have Health Insurance or Face Tax Penalties



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# Overview of U.S. Health Care Financing



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# U.S. Health Care Financing

- 2006 National Health Expenditure was \$2.1 Trillion
- 16% of the U.S. Gross Domestic Product (GDP)
- \$7,026 Per Person

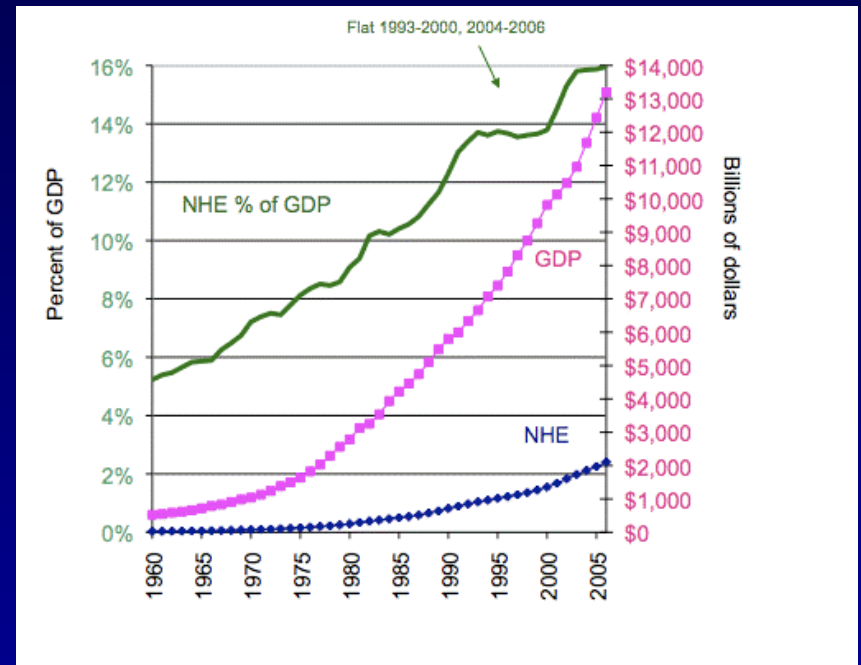


Image from Samuel L. Baker 2007

<http://hadm.sph.sc.edu/COURSES/Econ/Classes/nhe00/>

Data from Centers for Medicare and Medicaid Services



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## HEALTH SYSTEM DATA for selected INDUSTRIAL COUNTRIES

Country ->	Argentina	Australia	Canada	Denmark	France	Germany	Italy	Japan	Norway	Switzer	UK	USA
Year for data	2003	2004	2004	2004	2004	2005	2004	2001	2005	2004	2004	2003
Population (mil)	36.7	20.1	32.3	5.4	60.5	82.7	58.1	128.1	4.6	7.3	59.7	298.1
Gross National Income/capita K\$	5	30.6	32.2	33.6	30.5	29.2	2.5	32.2	40.4	37.1	32.7	41.95
Total Health Expense as % GDP	9.6	9.6	9.8	8.6	10.5	10.6	8.7	7.8	9.7	11.5	8.1	15.4
Govt exp on health as % of tot health exp	9.6	67.5	69.8	82.3	78.4	76.9	75.1	81.3	83.5	58.5	86.3	44.7
Govt exp on health as % of total Govt exp	15.1	18.6	17.1	12.8	15.4	17.3	13.7	17.2	17.8	18.6	15.9	18.9
Total health expense per capita in US\$	383	3123	3038	2708	3040	2709	2414	2293	4080	4011	2900	6096
Life expectancy - male	72	79	78	76	77	76	76	79	77	79	77	75
Life expectancy - female	78	84	83	80	84	82	84	86	82	84	81	80
Infant mortality/1000 birt	14	5	5	4	4	4	4	3	3	4	5	7
Physicians/1000 populat	3.01	2.47	2.14	2.93	3.16	3.37	4.2	1.98	3.13	3.61	2.3	2.56
Nurses /1000 population	8.01	9.1	9.95	10.36	14.33	9.72	5.44	7.79	14.84	10.75	12.12	9.37
Hosp. Beds/10000 pop	41	40	36	38	75	84	40	129	42	57	30	33

### NOTES

All listed countries except USA have Universal Health Insurance for all legal residents.

Data for 2004, except where specified

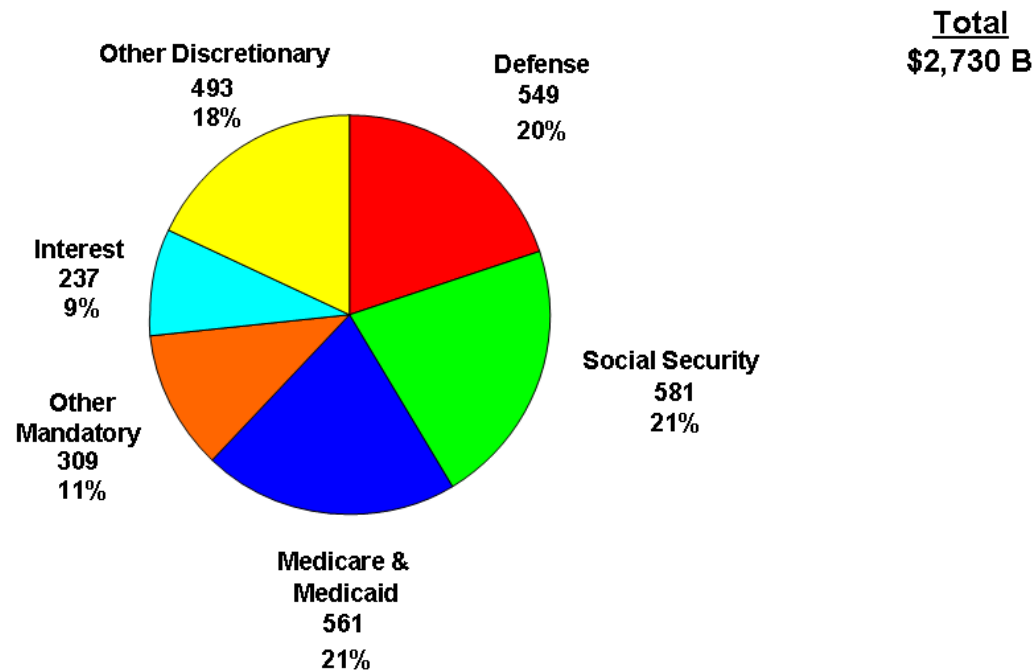
Some auxiliary data is for closest available year

All Data extracted from World Health Organization 2007 Report

<http://www.who.int/whosis/whostat2007/en/index.html>

# Federal Budget

## U.S. Federal Spending – Fiscal Year 2007 (\$ Billion)



Source: Budget of the United States Government FY 2009

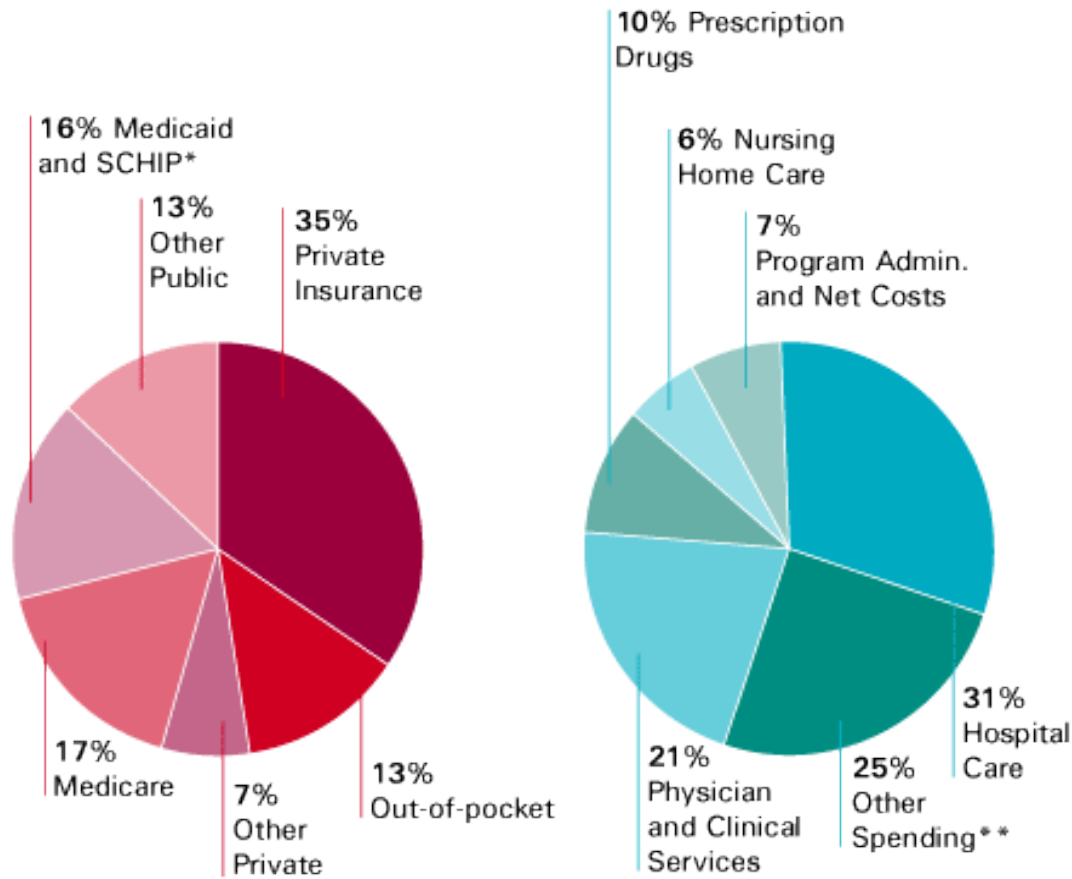


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Where it Came From:

Where it Went:

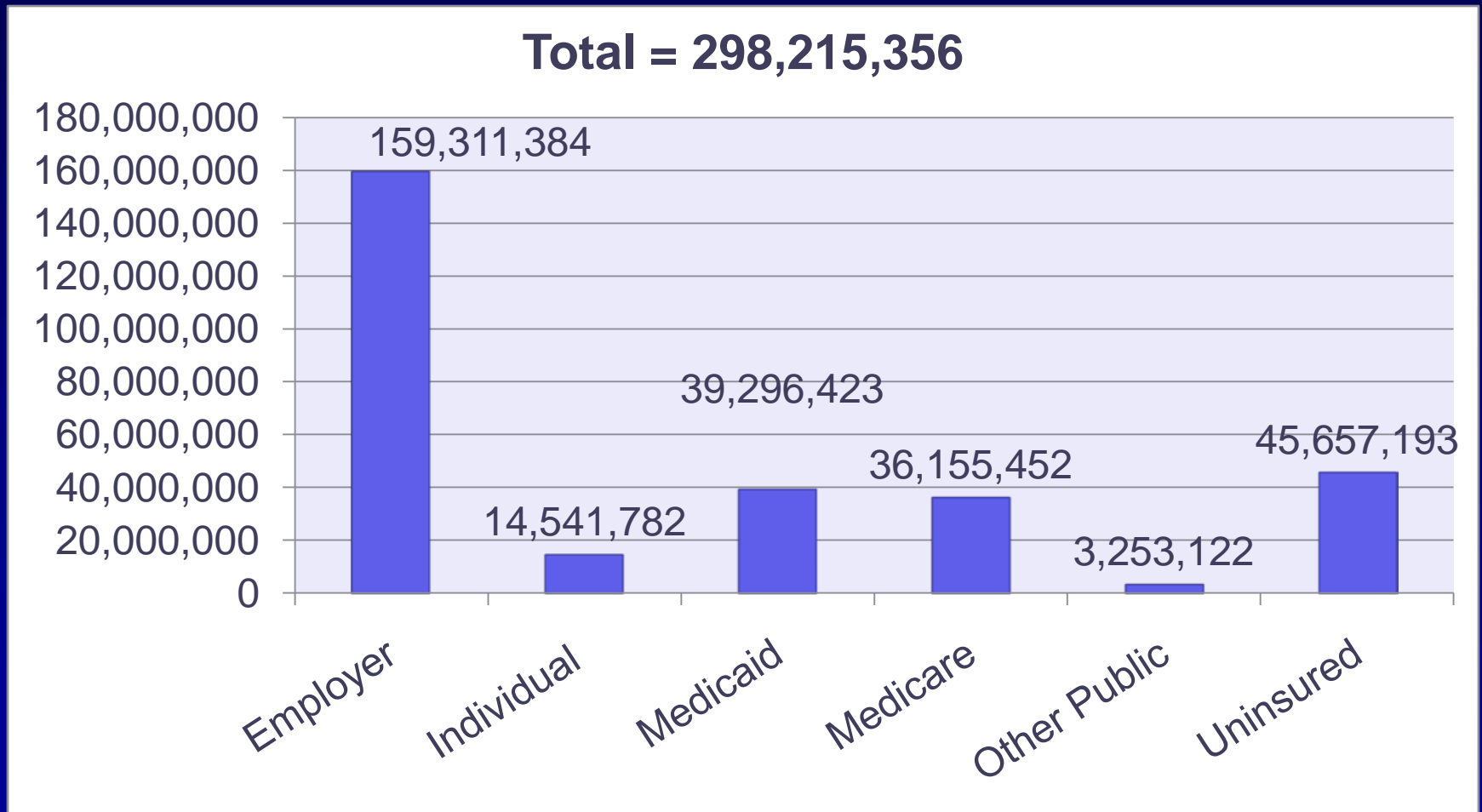


\*SCHIP is State Children's Health Insurance Program.

\*\*Other spending includes dental services, other professional services, home healthcare, durable medical products, over-the-counter medicines and sundries, public health activities, research and construction.

Source: Centers for Medicare and Medicaid Services (2007)

# Coverage of U.S. Population 2006



# Health Insurance Terms



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# Terms

- Premium
  - Monthly Amount You Pay For the Insurance
- Co-Pay
  - Amount the Patient Pays to the Provider for Each Visit
- Deductible
  - Amount of Health Care Costs the Patient Must Pay Before Health Insurance Begins Paying
- Co-Insurance
  - Amount Patient Pays “Per Episode” of Care



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# Private Health Insurance

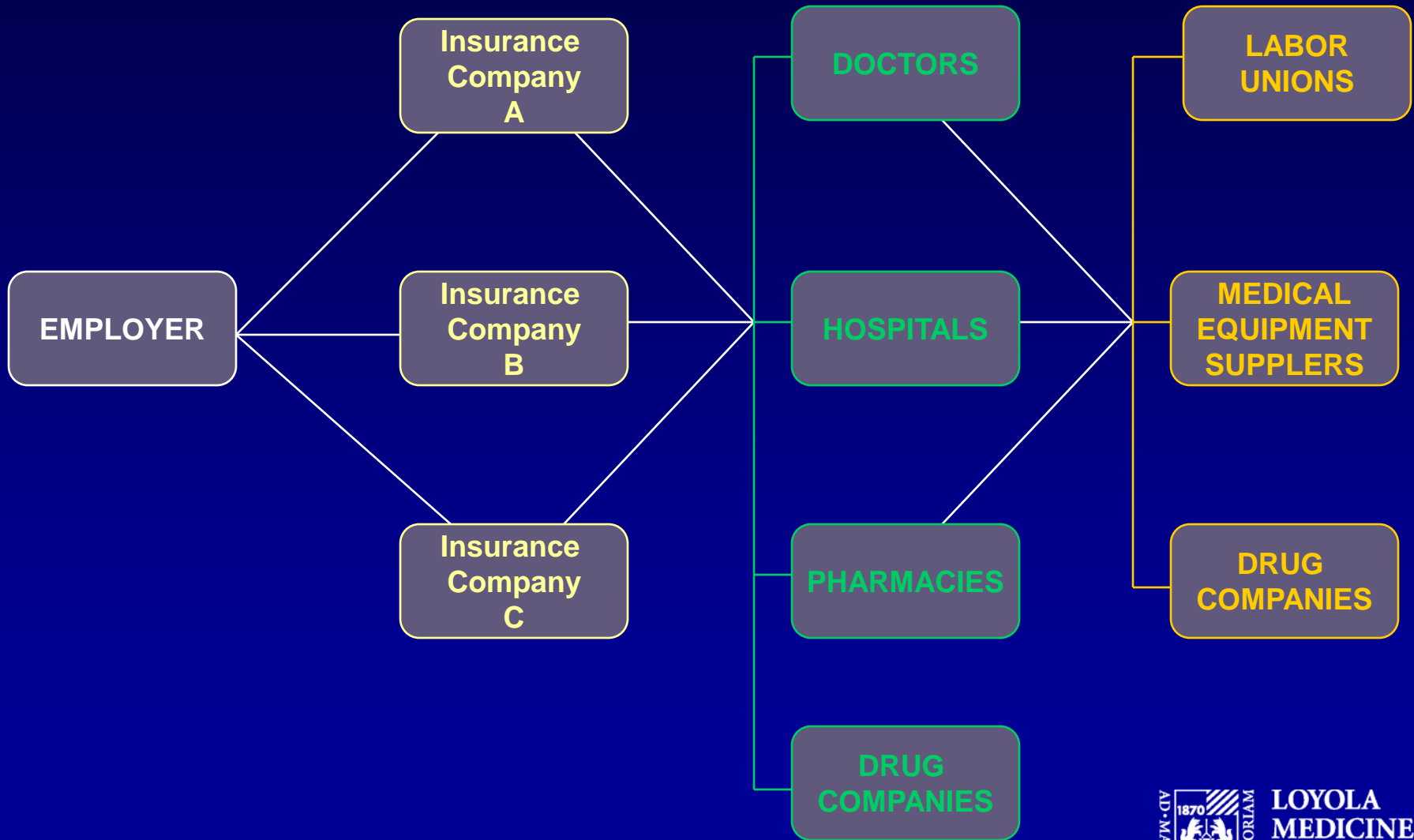


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# Market-Based Health Care System

## Private Health Insurance



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# Health Insurance

- Start With Pool of Money
  - From Employer and Employee
- Give that Pool to an Insurance Company to Manage it, After Bargaining for Covered Services
- Insurance Company Bargains with Doctors, Hospitals, Pharmacies, etc. to Get Best Rates
- If a Group Has Too Many Health Expenses, Insurer will Raise Rates, and then Employer Must Decide to Cut Care or Raise Fees
- Every Group Plan is Different



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# Physicians and Health Insurance

- Physician Groups Set Fees
- Anti-Trust Laws and Physician Fees
- Insurance Companies set “Usual and Customary Fees”
- Insurance Companies “Discount” Physician Fees Around 40%



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# Health Insurance

- Traditional Indemnity Plans
  - Average risk over a population
  - Individuals and employers pay into Pool of Money, Which is Pooled from Others
  - Very Expensive
- Managed Care (HMO, PPO)
  - Average Risk Over a Group
  - Care Provided in a Network
- Catastrophic
  - Will Pay for Expenses After They Reach a Certain Amount
  - Designed to Prevent Bankruptcy for Major Health Related Events



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# Health Insurance

- Managed Care:
  - Preferred Provider Organization (PPO)
    - Indemnity Plan Where Coverage is Provided Through a Network
    - Patient Pays Less if Stays in Network (90% Insurance)
    - Patient has Choice to go Out of Network and to Pay More (50% Insurance)
    - Pays Providers for Services Rendered (Fee-for-Service)



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# Health Insurance

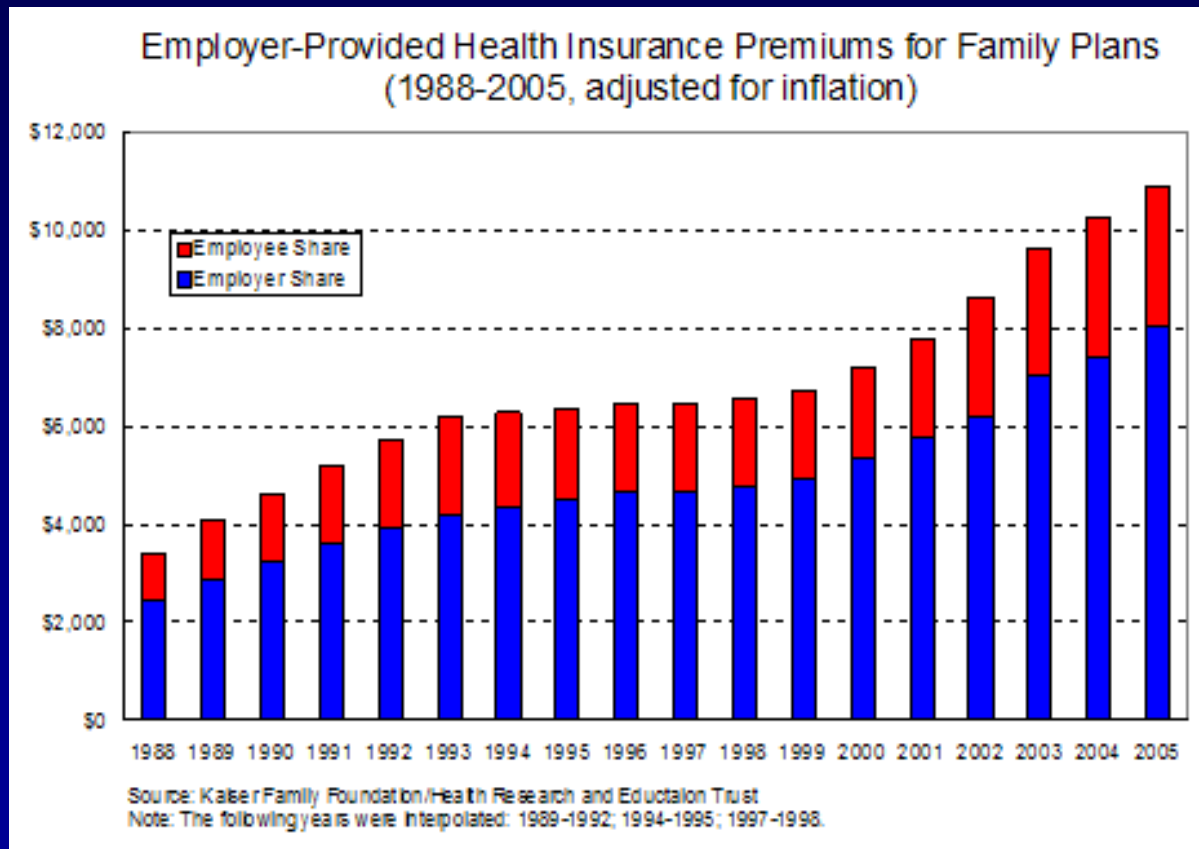
- Managed Care:
  - Health Maintenance Organization (HMO)
    - Care in Network Controlled Through a Medical Home (Primary Care Physician (PCP) Office)
    - Health System is the Network
    - Insurance Pays “Network” Monthly Premium Per Covered Life
    - Principle: Cheaper, Better Outcomes
    - Network Controls Costs
    - Less Autonomy for Patients



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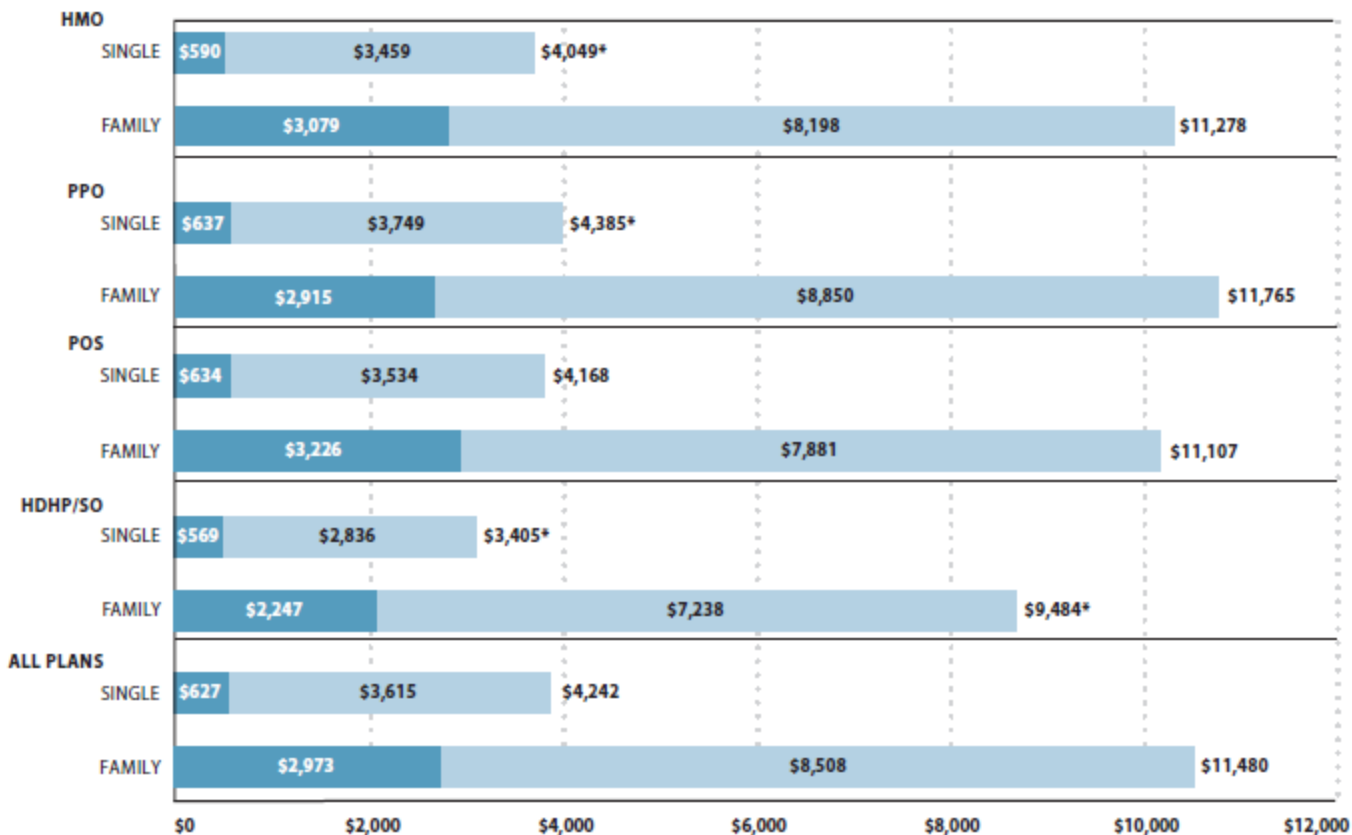
# Cost of Insurance Plans



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### Average Annual Firm and Worker Contribution to Premiums and Total Premiums for Covered Workers for Single and Family Coverage, by Plan Type, 2006



\* Estimate of Total Premium by coverage type is statistically different from All Plans estimate at  $p < .05$ .

Note: Family coverage is defined as health coverage for a family of four.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006.

■ WORKER CONTRIBUTION  
■ FIRM CONTRIBUTION



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# Average Deductibles

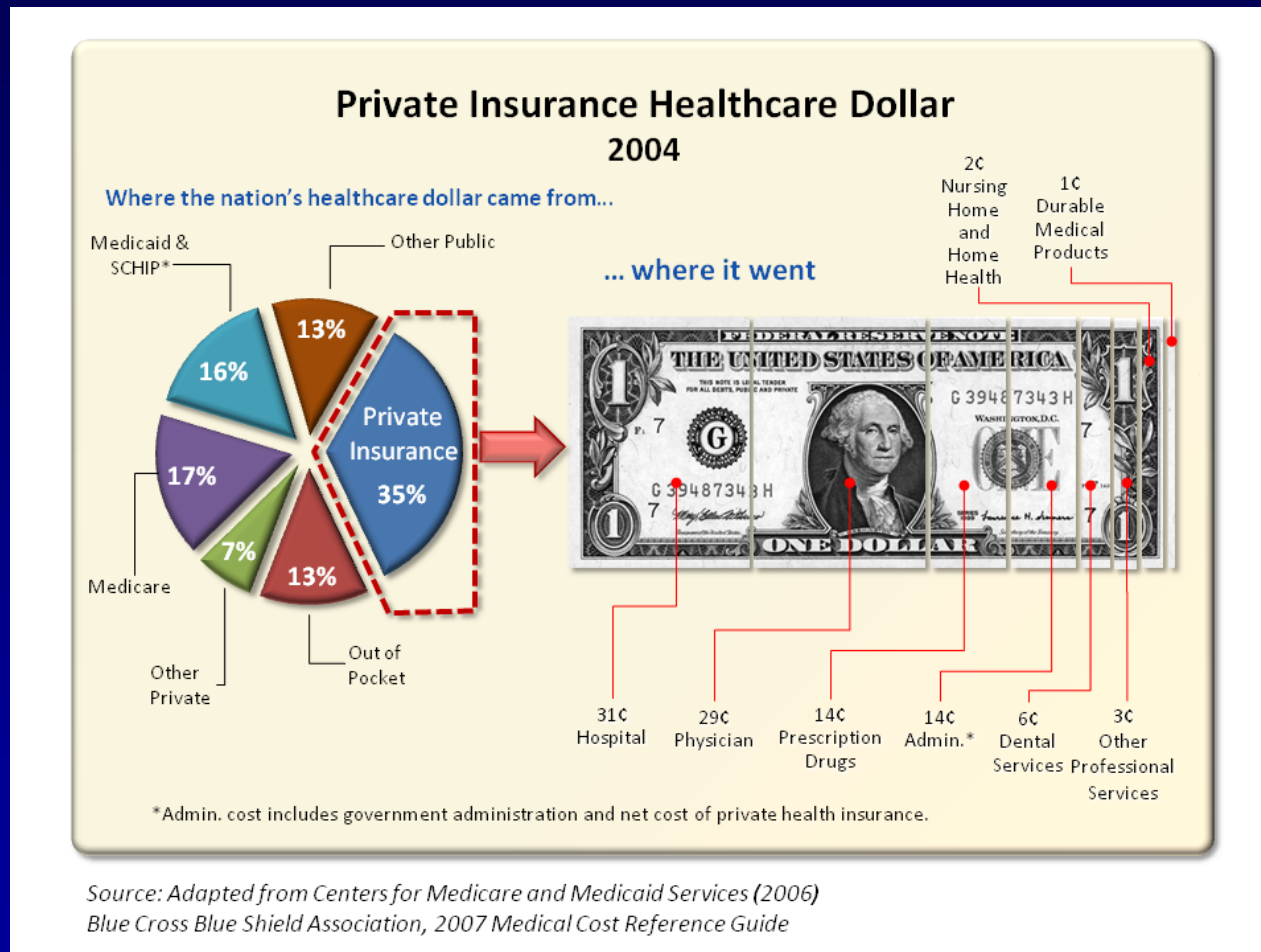
- \$800 for Single Coverage
- \$1500 for Family Coverage



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# Health Insurance Spending



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# Salaries of Insurance CEOs 2003 *Source: Companies Security and Exchange Commission*

	Salary	Bonus	Long-term payout	Value realized on stock options	Other income	Total
<b>John Rowe, MD (Aetna)</b>	\$1,042,146	\$2,200,000	\$7,000,000	\$7,589,430	\$396,077	\$18,227,653
<b>Larry C. Glasscock (Anthem)</b>	\$1,040,000	\$2,311,845	\$21,243,000	\$0	\$374,874	\$24,969,719
<b>H. Edward Hanway (CIGNA)</b>	\$1,030,000	\$2,100,000	\$0	\$0	\$84,600	\$3,214,600
<b>Jay M. Gellert (Health Net)</b>	\$891,731	\$0	\$0	\$10,068,377	\$76,506	\$11,036,614
<b>Michael B. McCallister (Humana)</b>	\$713,923	\$1,070,885	\$0	\$344,063	\$3,979,569	\$6,108,440
<b>William W. McGuire, MD (UnitedHealth)</b>	\$1,999,154	\$5,550,000	\$1,897,000	\$84,176,032	\$558,345	\$94,180,531
<b>Howard G. Phanstiel (PacifiCare)</b>	\$917,309	\$1,690,000	\$0	\$0	\$398,472	\$3,005,781
<b>Leonard D. Schaeffer (WellPoint)</b>	\$1,246,155	\$5,690,916	\$0	\$14,480,737	\$347,724	\$21,765,532

# Medicare

*CMS* / Centers for **Medicare & Medicaid** Services



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# Medicare

- Federally Run Program
  - Centers for Medicare and Medicaid Services (CMS)
  - Funded by Medicare Payroll Tax (1.5%)
- Covers All Seniors Age 65 and Above
- Part A – Covers Hospital Stays
- Part B – Out Patient Physician Visits
- Part D – Prescription Coverage
- Supplemental Insurance Plans



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# Medicare Part A

- Covers Inpatient Care, Skilled Nursing, Some Home Health
- Cost to Patient (2009):
  - Monthly Premium: \$0 if Patient or Spouse has Paid Into Medicare for 40 Quarters (10 Years)
  - A total of \$1,068 (deductible) for a hospital stay of 1-60 days.
  - \$267 per day for days 61-90 of a hospital stay.
  - \$534 per day for days 91-150 of a hospital stay
  - All costs for each day beyond 150 days
  - For Nursing Home Patient Pays \$133 Per Day + 20% (Co-Insurance)



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# Medicare Part B

- Covers Out Patient Physician Services, Outpatient Hospital Services, Certain Home Health Services, Durable Medical Equipment
- Cost to Patient:
  - Monthly Premium: \$96.40
  - Deductible: \$135
  - Co-Insurance: 20%



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# Medicare Part D

- **Prescription Coverage:** Avg # of Drugs for 75 y/o = 8
- Complicated
- Run Through Private Insurance Companies (Regulated by State)
- Monthly Premium: \$28 (avg)
- Deductible: \$250 (avg)
- Co-Insurance: 15% (avg)
- **Donut Hole:** After \$2700, Patient Pays \$295/month + 25% for Next \$2400



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# Medical Supplemental

- Privately Purchased Insurance (Reinsurance)
- Covers Some Services Above Medicare



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# Medicare Payments to Providers

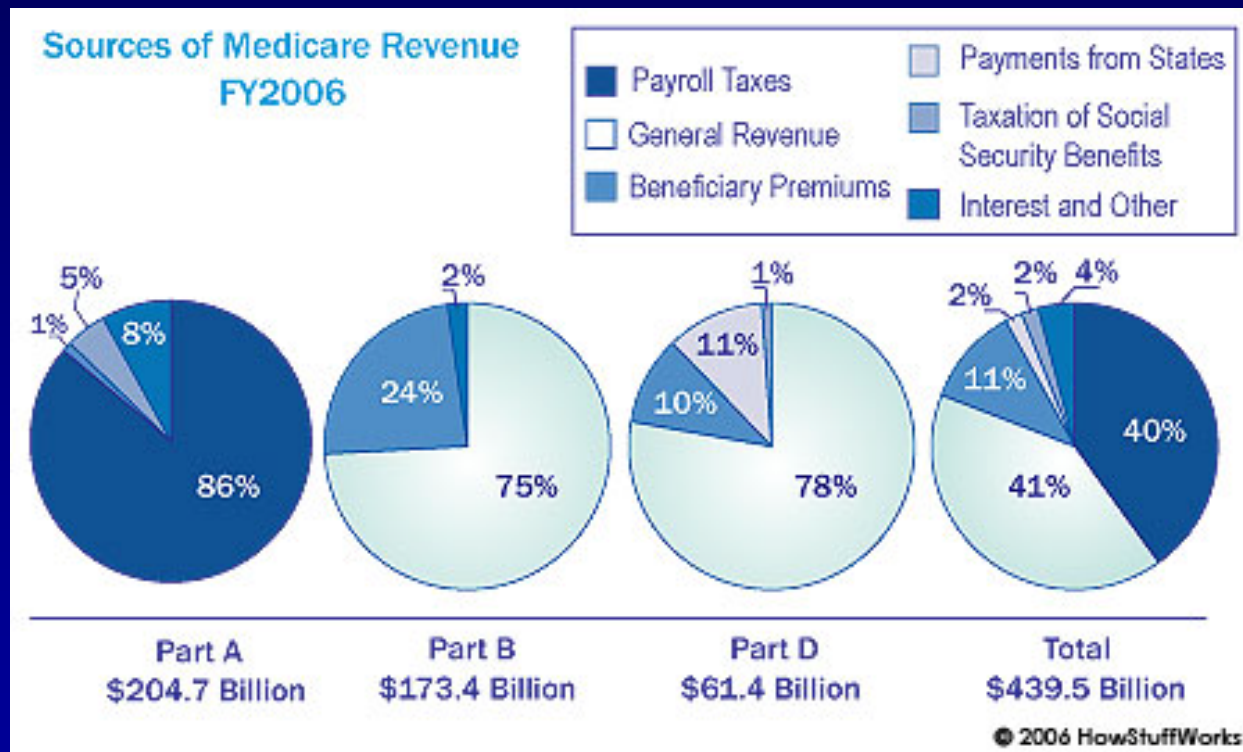
- CMS Assigns a Number Value to All Health Care Work (RVU)
- RVU – Relative Value Unit
- Medicare Pays \$38 per RVU
- Private Insurance Pays \$56 per RVU
- Medicare CANNOT Negotiate for Drug Prices (Not Empowered Through Congress)



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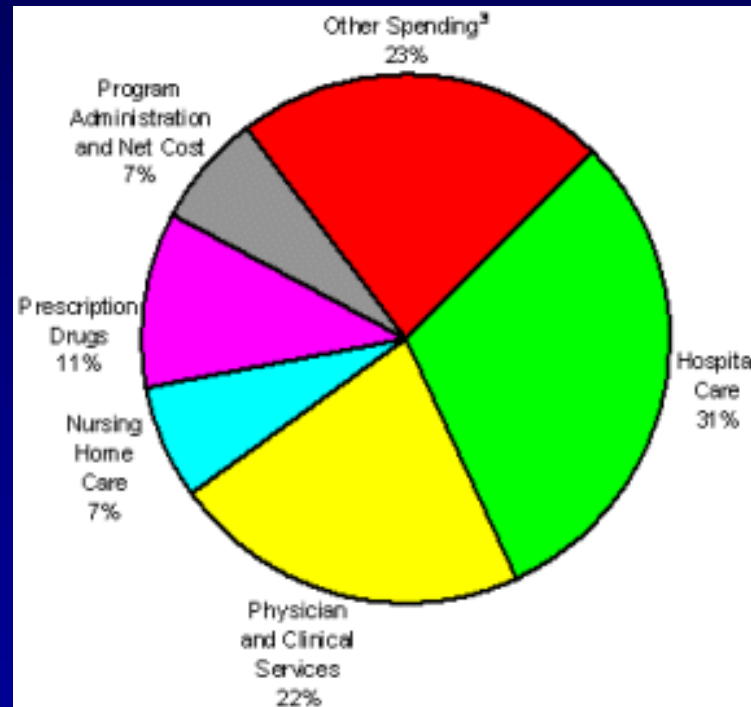
# Medicare Funding



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# Medicare Expenditures



Source: Department of Health and Human Services:  
[aspe.hhs.gov/health/costgrowth/fig3b.gif](https://aspe.hhs.gov/health/costgrowth/fig3b.gif)



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# Medicaid



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# Medicaid

- Federal and State
  - Co-Sponsored
- State Administrated
- Covers the Uninsured Poor
- Illinois:
  - Children 1-19 <133% FPL
  - Pregnant Women <200%
  - Working Parents <140%
  - Medically Needy Individual <40% FPL

Your Federal Poverty Level (FPL) (Based on monthly family income)										
Family Size (Household)	25%	50%	75%	81%	100%	133%	175%	200%	250%	300%
1	\$217	\$433	\$650	\$702	\$867	\$1,153	\$1,517	\$1,733	\$2,167	\$2,600
2	292	583	875	945	1,167	1,552	2,042	2,333	2,917	3,500
3	367	733	1,100	1,188	1,467	1,951	2,567	2,933	3,667	4,400
4	442	883	1,325	1,431	1,767	2,350	3,092	3,533	4,417	5,300
5	517	1,033	1,550	1,674	2,067	2,749	3,617	4,133	5,167	6,200
6	592	1,183	1,775	1,917	2,367	3,148	4,142	4,733	5,917	7,100
7	667	1,333	2,000	2,160	2,667	3,547	4,667	5,333	6,667	8,000
8	742	1,483	2,225	2,403	2,967	3,946	5,192	5,933	7,417	8,900

• A pregnant woman counts as two for the purpose of this chart.  
 • Add \$300/month for each additional family member after eight.  
 • Contact individual programs for deduction allowances on child/dependent care; working parent's work expenses; alimony/child support *received* or court ordered amount *paid*.

Source: Federal Register Vol. 73, No. 15, January 23, 2008, pp. 3791-3792. Monthly percentage data calculated by FHCE and rounded to the nearest dollar.



# Medicaid

- Co-Pay \$2-5 Dollars
- No Deductible
- No Co-Insurance
- Strict Formulary (Reasonable Rx Coverage)
- Transitioning to HMO Models
- Not-For-Profit Must Accept
- State Pays Similar to Medicare



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# Medicaid Funding

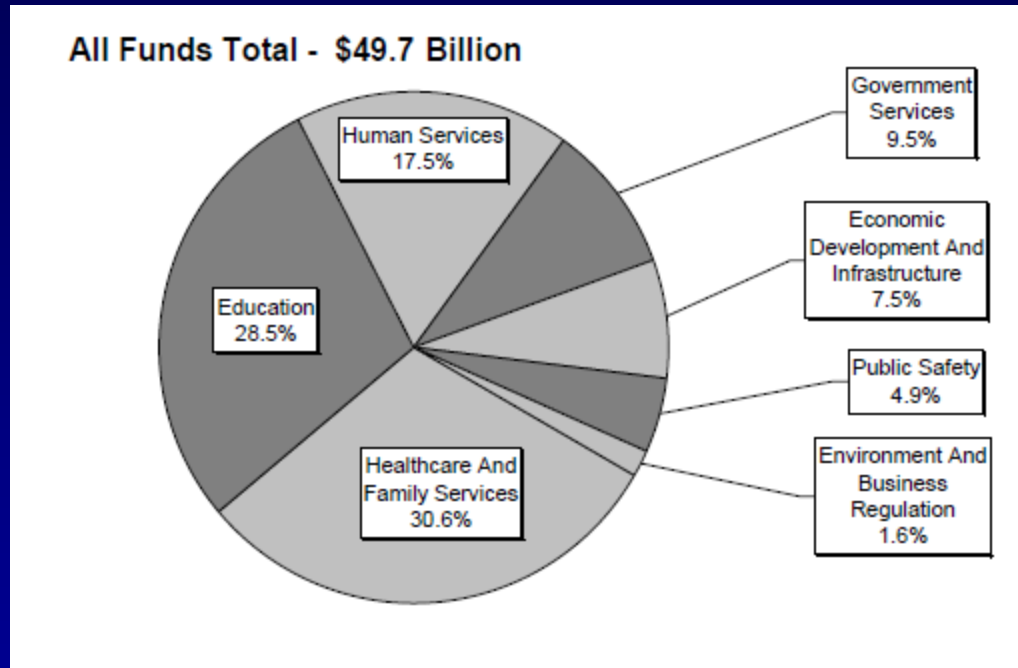
- 2006
  - Federal Spending \$172 Billion
  - State Spending \$131 Billion
  - Total = \$303 Billion
  - Illinois \$10.1 Billion



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# 2009 Illinois Budget



- \$15 Billion for Health Care in Illinois

Source: Illinois Office of Management and Budget <http://www.state.il.us/budget/>



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# State Children's Health Insurance Program (SCHIP)



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# SCHIP

- State Children's Health Insurance Programs (1997)
- Similar to Medicaid
- Cover Uninsured Children Not Qualifying for Medicaid (Covers 11 Million Children)
- \$10 Billion Federal + 10\$ Billion States



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# Illinois

- “All Kids Program”
- <http://www.allkidscovered.com/>
- Children <250% FPL
- Has Monthly Premiums (\$40/Child), Co-Pays (10\$), and Co-Insurance



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# Uninsured



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# Uninsured

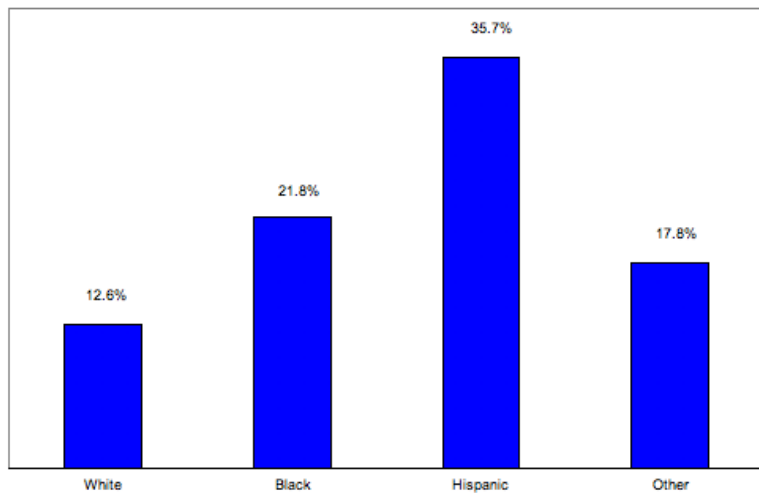
- 2009 > 50 Million (17% of Population)
- 18,000 People Die Each Year Prematurely
- 3.2X More Likely to Die in Hospital
- Women With Breast Cancer 49% Higher Risk of Death
- Many Find Care Emergently Only



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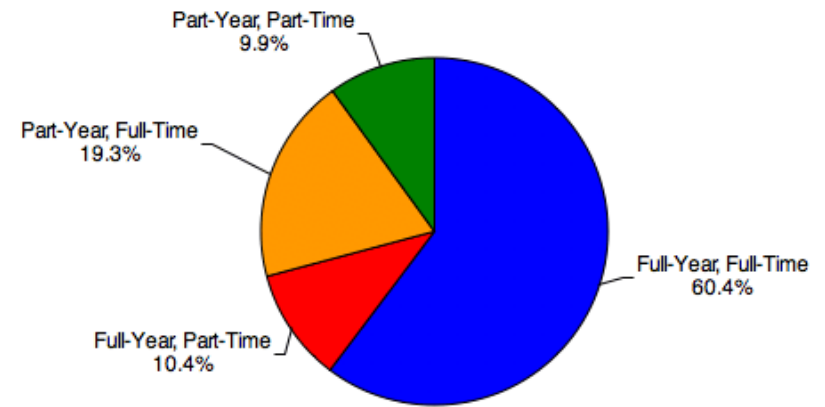
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**Percentage Uninsured Among the Nonelderly Population by Race and Ethnic Origin, 2006**



Source: Employee Benefit Research Institute estimates from the March Current Population Survey, 2007 Supplement.

**Nonelderly Adult Uninsured Workers by Work Status, 2006**



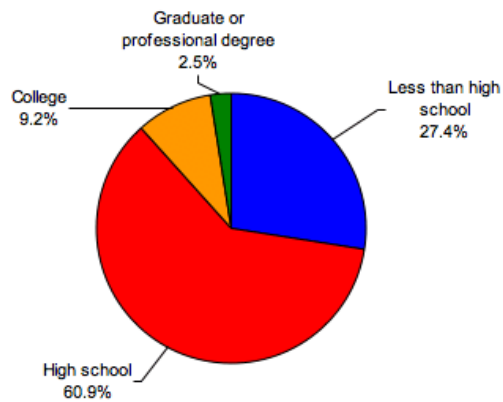
Source: Employee Benefit Research Institute estimates from the March Current Population Survey, 2007 Supplement.



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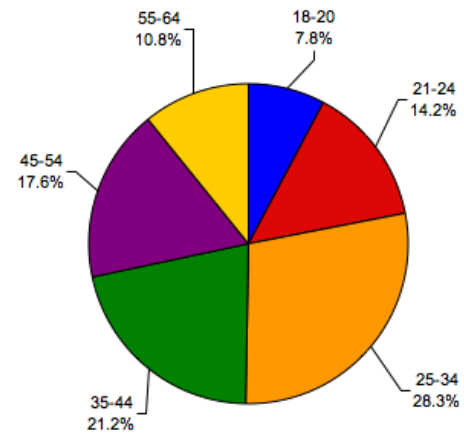
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Uninsured Nonelderly Adults by Education, 2006



Source: Employee Benefit Research Institute estimates from the March Current Population Survey, 2007 Supplement.

Uninsured Nonelderly Adult Population by Age, 2006



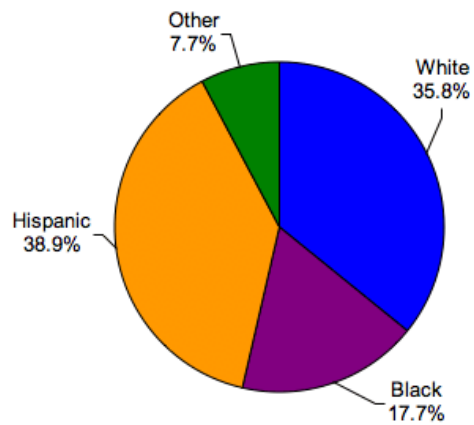
Source: Employee Benefit Research Institute estimates from the March Current Population Survey, 2007 Supplement.



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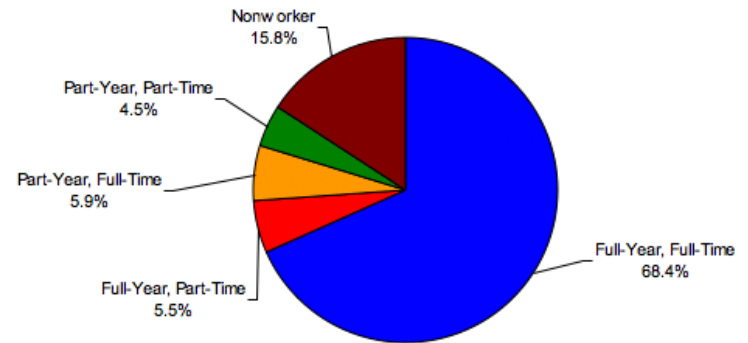
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### Uninsured Children by Race and Ethnic Origin, 2006



Source: Employee Benefit Research Institute estimates from the March Current Population Survey, 2007 Supplement.

### Distribution of Uninsured Children by Work Status of Family Head, 2006



Source: Employee Benefit Research Institute estimates from the March Current Population Survey, 2007 Supplement.



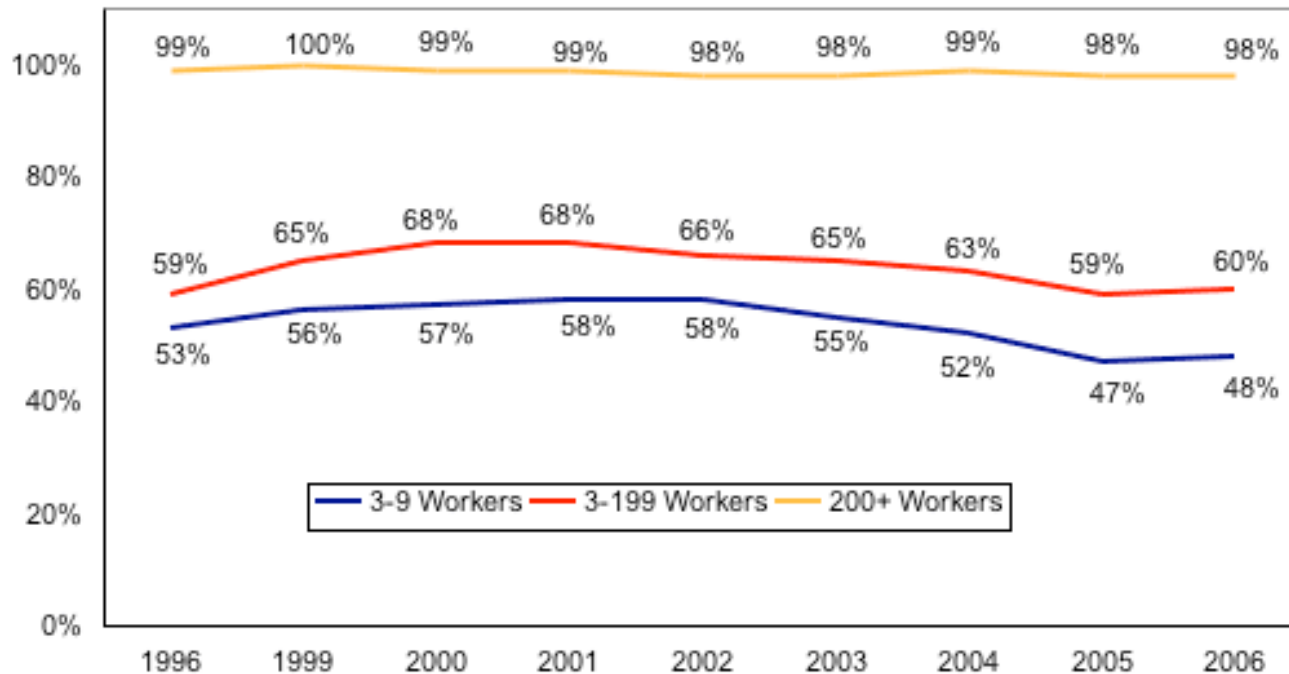
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# Employment-Based Coverage

Almost all employers with more than 200 workers offer health benefits (99 percent in 2007). In contrast, 45 percent of firms with three to nine employees offered health insurance in 2006.<sup>4</sup>

**Percentage of Employers Offering Health Benefits by Firm Size, 1996-2007**

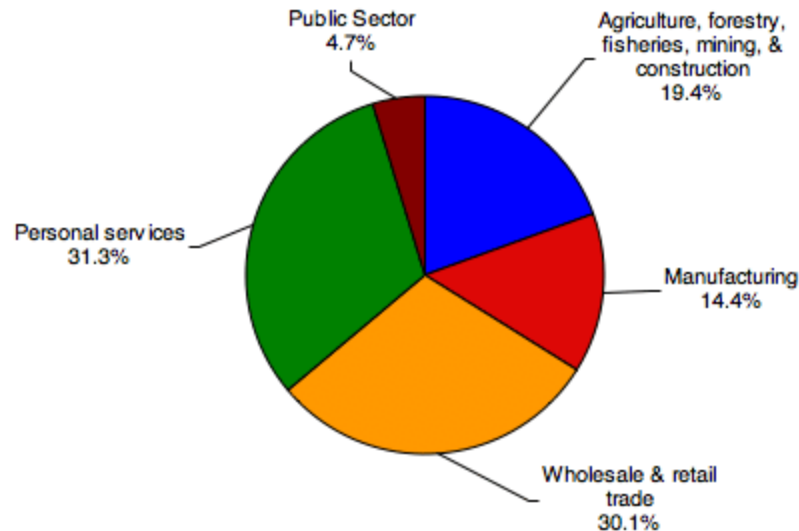


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits.

# Industry and Occupation

More than one-third (36.3 percent) of workers employed in agriculture, forestry, fishing, mining and construction are uninsured, compared to 22.5 percent in personal services, 18 percent in wholesale and retail trade, 15.1 percent in manufacturing and 6.1 percent in the public sector. Workers in wholesale and retail trade and personal services account for 61.4 percent of all uninsured workers.<sup>1</sup>

## *Non-elderly Adult Uninsured Workers by Industry, 2006*



Source: Employee Benefit Research Institute estimates from the March Current Population Survey, 2007 Supplement.

# Uninsured

- Serious Consequences for Society
  - 6 ER's In LA Closed in 2004 Due to High Volumes of Uninsured
  - Many Community Programs Folded
- Serious Consequences for the Individual
  - Life Savings
  - Retirement
  - Bankruptcy



# Example



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# Patient

- Ms. S is a 22 Year Old Female who visits her primary care physician with a sore throat. Her physician examines her, performs a rapid strep test, which is positive and she prescribes Penicillin.
- Physician Bill is \$156
  - \$130 for the office visit
  - \$26 for the Strep Test
- Penicillin at the Pharmacy is \$14



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# PPO

- She Pays \$1500/Year Premiums
- Employer Pays \$3500/Year Premiums
- She has a \$15 Co-pay for Office Visits
- \$800 Yearly Physician/Hospital Deductible
- 10% Co-Insurance in Network, 50% Out
- \$200 Pharmacy Deductible
- \$20 Co-Pay Brand Name Drugs + 20% Co-Insurance
- No Co-pay for Generics, 20% Co-Insurance



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# PPO

- At Your Front Desk, She Paid \$15 Co-Pay at the Time of the Visit
- You submit your bill to PPO
- PPO Discounts About 40% - \$93
  - \$78 for the office visit
  - \$15 for Strep Test



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# PPO – She has a \$500 Deductible – Total bill is \$93

- \$800 Deductible Met
- \$93 – Total Bill
- \$15 – paid by patient
- \$78 left
- \$800 Deductible Not Met
- \$93 – Total Bill
- PPO Denies Payment
- Patient Billed for \$78

\$70.20 PPO Paid  
(90%)

\$7.80 Billed to Patient  
(10%)



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# PPO

- Pharmacy (If Deductible is Met):
- Penicillin is Generic \$14
- No Co-Pay
- PPO Pays \$11.20 (80%)
- Patient Pays \$2.80 (20%) Co-Insurance



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# Questions?



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