



April 21, 2009

## INSURING ALL AMERICANS IS A CRITICAL COMPONENT OF AN EFFICIENT, HIGH QUALITY HEALTH CARE SYSTEM

By January Angeles

Health care reform should have two key goals — containing health care costs while improving its quality, and extending coverage to the 46 million Americans who are uninsured. These two goals fit together, because extending coverage is a necessary, but not sufficient, condition to containing costs. Stated another way, an efficient, high quality health care system is contingent upon universal coverage. As experts from the Commonwealth Fund have noted, “coverage for all [should] be pursued simultaneously with the initiation of reforms aimed at improving the quality of care and efficiency of the health system.”<sup>1</sup>

### **A Health Care System That Leaves People Without Coverage Fosters Inefficiency**

Universal coverage that provides meaningful access to essential care is critical to efforts to improve quality and make care more cost-effective. Individuals who have health insurance are more likely to have a regular source of care, which facilitates the continuity of care and the use of appropriate services. In contrast, people who lack health insurance are more likely to delay or forgo necessary care, which can be costly over the long term. They often do not receive the primary care they need, including important preventive services, medications to control chronic conditions, and physician guidance on how to manage their health.

Research has shown that the uninsured more often:

- Go without routine screening services, including mammograms for women age 40 and older and colorectal cancer screening for men over age 50.
- Do not receive recommended care, such as timely eye and foot exams for people with diabetes.
- Lack access to medications to manage conditions such as hypertension.<sup>2</sup>

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<sup>1</sup> Commission on a High Performance Health System, “A High Performance Health System for the United States: An Ambitious Agenda for the Next President,” The Commonwealth Fund, November 2007.

<sup>2</sup> Committee on the Consequences of Uninsurance, Institute of Medicine, “Care Without Coverage: Too Little, Too

The health consequences of going without care can be serious. Conditions are likely to be diagnosed at a later stage, at which point the disease may be more severe and require more drastic treatments. This can lead to worse health outcomes, including premature death. For example, uninsured women with breast cancer are three times more likely to be diagnosed with stage III or IV — i.e., late stage — cancer than privately insured women.<sup>3</sup> Consequently, they have a 30 to 50 percent higher risk of dying than women with private health insurance.<sup>4</sup>

Lack of insurance also contributes to higher health care costs as people end up seeking care in more expensive settings, such as emergency rooms and hospitals, when their conditions go untreated and worsen. In 2004, potentially preventable hospitalizations accounted for \$29 billion in hospital costs.<sup>5</sup> By increasing access to primary care, universal coverage can significantly reduce these costs.

### **The Cost of Lack of Insurance Is Borne by All Americans**

When the uninsured cannot pay for the care they receive in emergency rooms, hospitals make up for the resulting “uncompensated care” losses by charging higher prices to other payers, including insurance companies, employer plans, and individuals. That, in turn, drives up insurance premiums. Researchers estimate that uncompensated care costs totaled \$43 billion in 2005, with one-third of this amount being paid by Medicare and other government programs. The other two-thirds were paid through higher premiums for people with private health insurance.<sup>6</sup> These higher costs likely were a factor in the decisions of some employers to drop or not to offer coverage. For employers who do offer a plan, both employer and employee premium payments are higher as a result of the spreading of uncompensated care costs.

### **Universal Coverage Can Promote a Well Functioning, Competitive Health Insurance Market**

The presence of tens of millions of people without health coverage also contributes to the poorly functioning health insurance marketplace we now have. Because obtaining health coverage can be very expensive, individuals may hold off on purchasing insurance until they are more likely to need it, such as when a family member gets sick or a woman plans on becoming pregnant. To guard against this, insurers vary premiums based on health status and other risk factors, a practice known as underwriting. Premiums for those with pre-existing conditions can become prohibitively expensive, and many individuals end up getting priced out of the market, essentially perpetuating the cycle of uninsurance.

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Late,” 2002.

<sup>3</sup> Michael Halpern et al., “Association of Insurance Status and Ethnicity with Cancer Stage at Diagnosis for 12 Cancer Sites: A Retrospective Analysis,” *The Lancet Oncology*, June 2008.

<sup>4</sup> Committee on the Consequences of Uninsurance, Institute of Medicine, *op cit*.

<sup>5</sup> Allison Russo, Joanna Jiang and Marguerite Barrett, “Trends in Potentially Preventable Hospitalizations Among Adults and Children 1997-2004,” HCUP Statistical Brief #36, Agency for Healthcare Research and Quality, August 2007.

<sup>6</sup> Families USA, “Paying a Premium: The Increased Cost of Care for the Uninsured,” June 2005.

In states that have prohibited or limited underwriting, insurers have found other ways to avoid insuring high-risk individuals. For example, they create insurance products with benefit packages that are particularly attractive to healthy individuals and less attractive to sicker people. Some insurers will target small businesses that tend to employ healthy individuals, such as law firms, and avoid those that employ less healthy workers.

These practices of underwriting, selling policies with differentiated benefit packages, and selective marketing carry significant costs. A McKinsey study estimated that nearly two-thirds of the administrative costs that private insurers incur is attributable to underwriting, sales, and marketing.<sup>7</sup>

Underwriting also makes it harder for individuals to evaluate an insurance product on the basis of price and quality. Extending coverage to everyone as part of a reformed health system can reduce the need for insurers to engage in underwriting and can help promote a more competitive health insurance marketplace.

## **Conclusion**

Extending coverage to all Americans is a necessary (but not a sufficient) condition to improving the quality and efficiency of our health care system. Universal coverage would decrease the likelihood that individuals delay seeking care, make early detection and treatment of problems more feasible, reduce reliance on costly emergency room care, and also reduce underwriting if the system is designed well.

Without universal coverage, it will be far more difficult to contain health care costs. Effective cost containment hinges on extracting efficiencies from the health care system. If millions of Americans continue to lack access to affordable coverage, the system will continue to have large inefficiencies built into it. Debates about health reform should focus on the intertwined goals of coverage, cost, and quality.

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<sup>7</sup> Carlos Angrisano et al, "Accounting for the Costs of Health Care in the United States," McKinsey Global Institute, January 2007.