History of Health Insurance Article 1

In the U.S., healthcare costs have exceeded one trillion dollars a year; an unprecedented, and for many, an unmanageable burden. As a result, insurance is nearly a necessity in our society and is the reason many people choose their place of employment. Few people realize, however, that the invention of health insurance has actually created the <u>need</u> for health insurance.

Health insurance was first introduced in the 1800's to provide coverage for treatment needed as a result of accidental injuries suffered during rail or steamboat travel. It wasn't until 1929 when the first modern health insurance policy was created. Approximately 30 years later, health insurance began to be a widely offered employee benefit.

When people didn't have health insurance and had to pay for healthcare themselves, they used healthcare more sparingly and utilized home remedies more frequently. The advent of health insurance made the use of healthcare services more affordable, so more and more people went to doctors and visited hospitals. Some would argue that health insurance allowed more people to visit doctors and as a result, people had better health. Others would argue that our society has become over treated and our general health is not much better, if not worse, than before healthcare was so widely available.

Weighing in on this argument is not the point of this article. What I want to share is that the availability of nearly free healthcare to the consumer as a result of health insurance, had a significant role in the overwhelming cost of healthcare today.

Imagine if you had insurance that would cover the cost of buying a new car. Because it cost you nearly nothing to buy a car, it would become unnecessary for you to consider the cost of the car in your decision process. As a result you would probably opt to by a car that is of a higher quality than the car you now drive. Auto dealers would also have no real need to bargain for your business. As a result, the price of cars would likely skyrocket.

This same effect has happened in healthcare. Health insurance allowed doctors and hospitals to charge higher fees for services and products, because those fees were not a deterrent to consumers using their services. We have all heard stories of hospitals charging ten dollars for an aspirin. They could do that, because the patient didn't have to pay for it. Many patients didn't even look at their bills.

In the 1980's and 90's these rampant cost increases spurred the development of managed care. Insurance companies realized that if the patient wasn't pulling the reigns on healthcare costs, then the insurance companies had to do it themselves. Next week I will discuss why the first generation of managed care had little effect on curtailing health care costs and how the newest generation known as "evidence based medicine" may be more successful, but with a price.

History of Health Insurance 2

Last week I reviewed how health insurance first developed over one hundred years ago and how it eventually resulted in increased healthcare costs. To slow these rising costs, in the 1990's, insurance companies began to manage healthcare. Their primary method was to contract with doctors and hospitals, requiring them to discount their fees in return for increased patient visits. As a result, preferred provider networks were created.

In theory this approach should have worked. The problem was that doctors and hospitals didn't feel that they should accept reduced income when they were working just as hard as always. In addition, the complexities of managed care required hiring additional staff. Both of these factors resulted in increased doctor and hospital fees.

A new approach to managing healthcare costs is currently being promoted by insurance companies. It is called evidence based care. This approach is long over due. To an increasing degree, evidence based care requires medical procedures to show convincing evidence that they

work before they will be reimbursed by insurance.

Contrary to popular belief, a great deal of health care today does not have valid research to support it. In addition, when these procedures are researched, the studies often show that they do not produce the benefits that they once were believed to bestow.

Requiring medical procedures to prove effectiveness, before they will be reimbursed by insurance, has the benefit of weeding out ineffective procedures. This should reduce healthcare costs and reduce the risk of injury from the procedure.

The problem with evidence based care is that research is expensive and time consuming and it is nearly impossible to adequately study all available procedures. Evidence based care can significantly limit the therapeutic options available to a physician.

To be successful, evidence based care must be balanced between research and physician clinical experience. Research dollars should focus on procedures that are expensive and have higher risks, while procedures that are less expensive and more safe should rely more on physician experience and patient preference.