Citizens League

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Public Finance Explained

MIND-OPENER #4:

The 800-Pound Gorilla in Minnesota: Health Care

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What is a Health Care System?

The World Health Organization defines a health care system as *all activities whose primary purpose is to promote, restore, or maintain health.*

The Purpose of Health Care

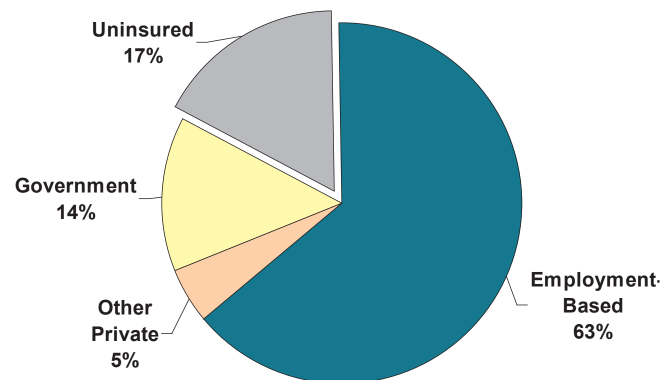
The purpose of health care may vary depending on one's point of view. From a public health perspective, the goal is to maximize the population's health status. This requires comprehensive coverage—not only treatment, but also disease prevention and health promotion.

From an economic perspective, the purpose of health care is to protect against financial loss brought on by major medical problems. Catastrophic health insurance accomplishes this goal, and many people say that we could afford to provide catastrophic coverage to everyone in the country with the money we are spending on care today.

Current System

The United States has an employer-based heath care system. In 2002, 63 percent of non-elderly Americans received health insurance through their employer, 14 percent were covered in a government program, and 5 percent purchased health insurance privately. Another 17 percent of Americans were uninsured (see Figure 1). Of those who have private insurance, 91 percent receive it through their employers.

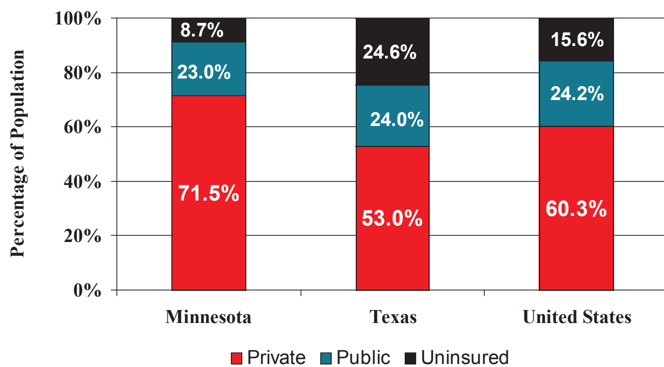
Figure 1: U.S. non-elderly health insurance coverage, 2002



SOURCE: Kaiser Commission on Medicaid and the Uninsured (KCMU) and Urban Institute analysis of the March 2003 Current Population Survey.

Minnesota has more employer-based coverage and fewer uninsured than the national average. Minnesota's low rate of uninsured is not the result of generous government programs; rather, it is because Minnesota's economy has been strong—anchored by larger, civic-minded employers who are willing and able to provide health insurance to most employees. In 2002, non-elderly Minnesotans with private insurance made up 71.5 percent of the population; 23 percent were in government programs, and 8.7 percent were uninsured (see Figure 2).

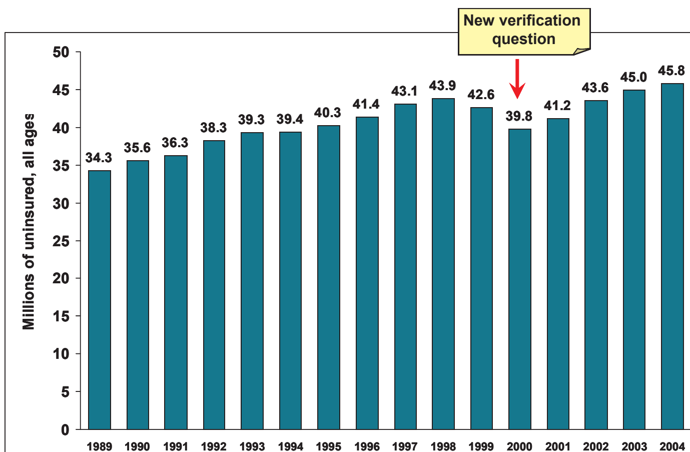
Figure 2: Minnesota has more employer-based coverage and fewer uninsured



Source: CPS, Non-elderly coverage 2002-2003

However, recent years have seen a decrease in employer-sponsored coverage—and a corresponding increase in the number of uninsured—in Minnesota and nationwide (see Figure 3). According to the Minnesota Health Care Access Survey, employer-sponsored coverage in Minnesota has quickly fallen from 78.3 percent of the population in 2001 to 72.2 percent in 2004. Moreover, those employers that still offer health insurance are increasingly shifting costs to employees by offering Medical Savings Accounts rather than traditional insurance, and through higher premiums, deductibles, and copays.

Figure 3: National trends in the number of uninsured



Source: U.S. Census Bureau, Current Population Surveys (March), 1989-2004

When people do not have health insurance, they do not forgo medical treatment; they delay it. This leads to greater dependence on the health care safety net. The "safety net" of providers organizes and delivers a significant level of health care and other related services to uninsured, Medicaid, and other vulnerable populations. This safety net includes public hospitals (like Hennepin County Medical Center), teaching hospitals, community health centers, and community hospital uncompensated care.

Government Roles

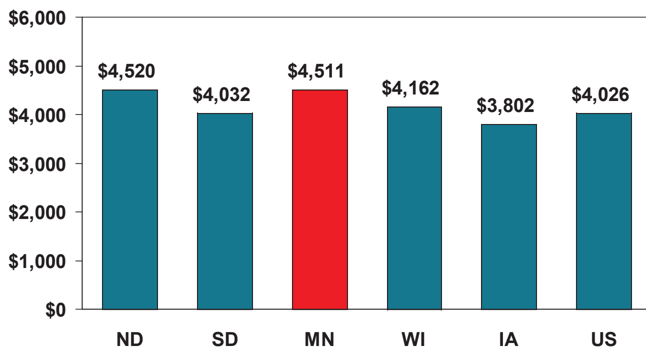
Government has many roles in the US health care system:

- *Purchaser:* Government purchases care as an employer and as an operator of public programs such as Medicare. The state of Minnesota spends $400 million per year to insure employees and their families.
- *Provider:* Services are provided at state-operated hospitals and clinics.
- *Regulator:* The US and state governments regulate hospitals, insurers, and workers' compensation care.
- *Information Source:* The government collects data and provides information regarding health services and providers.
- *Leader:* Because of its large role in the system, government can provide leadership in many aspects of health care.

The Cost of Health Care

The United States spends 50 percent more per capita on health care than does any other country. In 2002, health care costs in the United States totaled almost $1.6 trillion, and this figure is growing. Minnesotans spend about $27 billion on health care each year—higher than the U.S. average and most of our neighbors (see Figure 4).

Figure 4: Per Capita Health Care Spending



Source: State Health Access Data Assistance Center

Uncompensated care contributes to increasing health care costs. As the number of uninsured and underinsured Americans grows, the role of the safety net also increases. In 2003, Minnesota hospitals spent $125 million on uncompensated care; that added up to 1.6 percent of hospital operating expenses. To make up the cost of unpaid bills, providers increase their rates. These rate increases are passed on to insurance purchasers in the form of higher insurance premiums, making quality insurance harder for many people to afford and contributing to the cycle.

How Good is the U.S. Health Care System?

Despite our high spending, the United States ranks 37th in overall health care in a World Health Organization analysis, and this ranking is falling. The only category in which the US ranks first is life expectancy at age 80. As a country, we are spending more and getting less.

One factor contributing to low health outcomes in this country is the high number of uninsured and underinsured who do not have access to regular preventive care. By the time many of these patients receive care, their conditions have worsened, making treatment more expensive and less effective.

How Do We Spend our Health Care Dollars?

Health spending in the United States is concentrated in a small portion of the population. One percent of the population generates 30 percent of the cost, and 80 percent of the total health budget goes toward care for chronic conditions.

Health care spending is also concentrated on treatment rather than disease prevention and control. Ninety percent of health care spending goes toward medical treatment for individuals (see Figure 5) – which makes up only 10 percent of the factors that determine health outcomes (see Figure 6), according to a Centers for Disease control estimate.

Figure 5: Health Expenditures

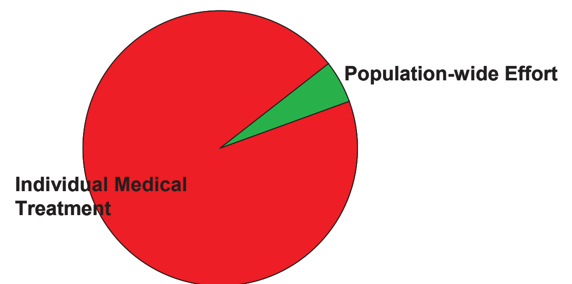
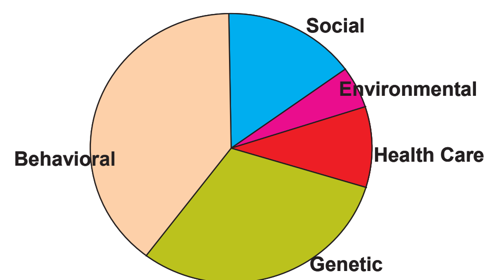


Figure 6: Health Determinants



How Should We Spend our Health Care Dollars?

Investing money to improve social, economic, and environmental factors and to provide preventive care could greatly reduce chronic conditions, fostering better health and saving money in the long run. Putting a priority on carefully planned housing, transportation, education,

and economic policies in a comprehensive strategy could both cut costs and improve the health of our communities, accomplishing the purpose of health care from both the economic and public health perspectives.

We could also be getting more from the money we are spending on clinical treatment. For example, efforts are underway in Minnesota today to gather and make available information about what works in terms of treatments: which providers and which methods have the best results. With this information, we could purchase smarter and reward good outcomes.

Challenges for Policymakers

- The U.S. employer-based system is under strain.
- Prevention savings for the most part won't help immediate budget challenges.
- Prevention never competes well for budget dollars even in times of surplus.
- Metrics on effectiveness of care need much more work.
- Beyond limited resources, there are clear ideological differences about the role of government in prevention.
- Solutions need public/private discussions and partnerships.

Imperatives for Policymakers

- There must be a better way to spend $1.5 trillion ($27 billion in Minnesota).

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