

Health Insurance - the Basics

This newsletter addresses key health insurance concepts, the goals of health insurance and the strengths and weakness of the US health system in attaining these goals.

Health insurance is an efficient way to pool health risks and share the cost of illness. It is effective because unexpected medical expenses are relatively rare but can be huge. In the United States, about half of our population has virtually no medical expenses, while people 55 years and older and those with significant health needs account for 54% of all medical costs. (1.)

Health insurance, as defined by the Centers for Medicare and Medicaid (CMS), is a legal entitlement to payment or reimbursement for health care costs, generally under a contract with a health insurance company. This health insurance provides protection in case a person has an accident or sickness: it may help to pay for doctor's services, medications, hospital care, and special equipment. This is often in exchange for a monthly premium.

GOALS: The goal of health insurance is improved health. Research shows that people without insurance have a 25% higher risk of premature death compared to people with health insurance. One reason for this is that insured people are much more likely to be screened for cancer which has helped reduce the cancer death rate by 33%.

Preventive care can save money because without coverage many people delay care until conditions worsen leading to expensive treatments and hospitalizations. Health coverage is crucial for keeping hospitals open and medical professionals available.

MECHANISMS: United States health insurance is grouped into two categories: public and private. Public programs provide coverage through Medicare, Medicaid or the Veterans Health Administration, etc. However most Americans have private insurance which they receive through their employers or buy directly from an insurance company. This dual system is different from most other high income countries and is a main source of the weakness of the American health insurance system.

WEAKNESSES: Private insurance companies exist for profit and therefore function to maximize their value on the stock market. This leads to the following failures in providing improved health.

1. **DIVERSION OF FUNDS FROM HEALTH CARE.** Although private health insurance companies are greatly subsidized by public policy and public money they are expensive, inefficient and a structural barrier to a healthy populace.

One reason for the greater expense is found in administrative costs. While public (Medicare) administrative costs are estimated at 5.2 % of total costs (benefit payments plus administrative costs) the administrative costs of private insurance is 8.9% of its total costs. (2.)

2. **LIMITATION OF HEALTH CARE.** Health insurance companies have a financial incentive to deny care, and they often restrict health care by the use of narrow provider networks, cost-sharing, and a growing list of treatments that aren't covered. This has caused health care deserts especially in rural districts where health care is not accessible. Since 2005, 192 hospitals in rural areas have shut down, eight closing in 2023 alone. (3.)

3. MEDICAL BANKRUPTCIES. According to recent studies, health care debts to hospitals and other providers are roughly half of all collections reported by debt collectors. These medical collections affect the credit reports of consumers. Of serious concern, 78% of the people filing for medical bankruptcy had health insurance. High medical bills leading to bankruptcy are especially found in people who develop cancer. Research shows that up to 85% of cancer patients leave the workforce during their initial treatment and more than 50% of cancer patients at some point experience bankruptcy, house repossession, loss of independence, and breakdowns in their relationships. (6.)

Americans owe ourselves a better system. In Colorado one option is a universal healthcare payment system that ensures access to high-quality care for all Coloradans. We eagerly await the results of a study performed by the Colorado School of Public Health to analyze options for implementation. The results should be available in December 2026. Stay tuned. (7.)

1. <https://www.kff.org/health-costs/health-policy-101-health-care-costs-and-affordability/?entry=table-of-contents-how-does-health-care-spending-vary-across-the-population>

2. <https://www.soa.org/globalassets/assets/library/newsletters/health-watch-newsletter/2006/may/hwn-2006-iss52-litow.pdf>

3. <https://about.kaiserpermanente.org/news/our-nations-health-depends-on-coverage>

4. https://files.consumerfinance.gov/f/201412_cfpb_reports_consumer-credit-medical-and-non-medical-collections.pdf

5. https://www.epi.org/publication/when_health_insurance_doesnt_insure.

6. <https://www.advisory.com/daily-briefing/2018/11/01/financial-toxicity>

7. <https://coloradosph.cuanschutz.edu/education/departments/health-systems-management-policy/research/chcpa>