Chapter 4. Health Insurance, HMOs, and the Managed Care Revolution

Employment-Based Health Insurance

In the time since I submitted the final manuscript for this book, a great deal has happened in regards to our employment-based system of health insurance. As described on pp. 80–83 in the book, we adopted a national system that relies heavily on employment-based health insurance not because we explicitly chose that policy as best, but rather as the unplanned and largely unintended consequence of decisions regarding wage, price, and tax policies that occurred during and soon after World War II. For better or worse, the vast majority of Americans covered by private health insurance get that insurance through their place of work or the place of work of a family member. An article by Thomas Selden and Bradley Gray estimates that, for 2006, the cost of the federal tax subsidy for health insurance obtained as a fringe benefit from work is now well over $200 billion.


However, as health care costs continue to go up, the strain of paying for health insurance for workers is starting to take a toll on American employers—large and small alike. The Kaiser Family Foundation, a nonprofit and nonpartisan health policy research organization, published a report summarizing data for 2006 pertaining to employer-sponsored health insurance. (www.kff.org/insurance/7527/upload/7528.pdf) They point out that, for 2006, health insurance premiums paid by employers rose an average of 7.7 percent. While this is less than the 9.2 percent increase seen in 2005, and substantially less than double-digit increases experienced
every year from 2001–2004, it is nonetheless substantially greater than the overall inflation rate of 3.5 percent and the increase in average workers’ earnings of 3.8 percent.

As a consequence of rising premiums, fewer employers are offering health insurance for their workers. Between 1999 and 2006, the number of midsized firms (50–199 workers) offering health benefits to their workers fell from 97 to 92 percent. During this same time period, the number of small firms (3–9 workers) offering benefits fell from 56 to 48 percent. The Kaiser Family Foundation report includes detailed information on actual premiums paid by employers, and the share of those premiums paid by workers.

A report published in *Health Affairs* suggested that “large and mid-sized employers are ‘between a rock and a hard place’ when it comes to health benefits: They are both unable to manage their health care costs effectively or simply get out of offering these benefits entirely.”


*A Wall Street Journal* article described continuing problems GM and Ford were facing trying to meet the cost of providing health insurance to their workers, despite recent concessions by the United Auto Workers Union. Two articles by Milt Freudenheim in the *New York Times* describe General Motors’ efforts to reduce its health insurance costs by offering current workers early retirement bonuses. Those who take the buyout—as high as $140,000 for some workers—will lose a substantial part of their health coverage. Interestingly enough, consistent with the concept of “moral hazard” described on p. 79 of the book, those workers who have elected to take the buyout are scrambling to get elective surgery and other elective procedures while they still have coverage.


Alain Enthoven and Victor Fuchs, two of the most widely published and well-respected scholars in the field of health policy, wrote an excellent article that summarizes the challenges facing our system of employment-based health insurance. In it they state: “As the inexorable march toward the demise of employer health insurance continues, no one plan has emerged as its likely successor.”