

American Medical Association
Physicians dedicated to the health of America



Choosing Health Insurance That Best Meets Your Needs

A Proposal from the AMA

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American Medical Association

Introduction

Does Your Employer Offer You A Choice Between Health Insurance Plans?

Eighty-three percent of US companies that provide health insurance benefits cannot or do not offer their employees a choice between two or more plans.

Does Your Employer Frequently Change Health Plans?

In a 1994 study, nearly half of the respondents reported changing health plans in the past three years, with 73% of those who changed doing so involuntarily. Either they changed jobs or their employers changed plans. Of the respondents who switched insurance plans, 31% had to find a new physician.

Do You Think You Might Have Difficulty Obtaining Health Insurance In The Future?

Despite a sustained period of economic prosperity and substantial job creation, a growing number of Americans under the age of 65—43 million or 18%—are currently uninsured. Most of those—approximately 85%—live in families headed by workers.

Clearly, the current US health insurance system is failing many Americans. This booklet provides a brief explanation of this system and a proposal by the American Medical Association that would give Americans the freedom to choose the health insurance that best meets their needs.

The Current US Health Insurance System

Since the end of World War II, the United States has relied primarily on the workplace to provide nonelderly Americans with health insurance. This system puts employers in the unnatural position of negotiating the type, benefits, and premiums of health plans on behalf of a diverse group of individuals, often with widely varying needs and preferences. Under this system, employees obtain health insurance through their employer rather than receiving higher wages. Employers contribute a percentage of the cost of an employee's health insurance premium and withhold a portion of a worker's paycheck to cover the remaining cost of this premium. However, the government does not consider either the employer or the employee's contribution to employee health insurance as taxable income.

Most employees must accept whatever plan their employer offers, even if this plan does not meet their health care needs.

Lack of Choice

Only 17% of US companies that offer health insurance can or do provide their employees with a choice between insurance plans. For most workers, their only choice is “take-it-or-leave-it” and even this does not represent a real choice since “leaving it” and obtaining individual health insurance can be prohibitively expensive. Consequently, most employees must accept whatever plan their employer offers, even if this plan does not meet their health care needs.

Disruptions in Continuity of Care

Because of the reliance on employers for health insurance, many Americans are forced to frequently change health plans. In a 1994 study, nearly half of the respondents reported changing health plans in the past three years, with 73% of those who changed doing so involuntarily—either they changed jobs or their employers changed plans. Of the respondents who switched insurance plans, 31% had to find a new physician. In addition to the hassle of locating a new doctor, such disruptions in the continuity of care may compromise the quality of medical treatment patients receive.

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Inequitable Tax Treatment

The current tax treatment of health benefits is not equitable because the government provides significant tax benefits only to those who obtain health insurance through their employer. While the amount an employer contributes to an employee's health insurance, as well as a worker's own contribution, are not subject to income taxes, those who must purchase health insurance on their own enjoy no such tax breaks. (Self-employed workers can take a partial tax deduction if they purchase their own health insurance.) Consequently, the growing number of people who do not receive health insurance through their employer are much less likely to obtain health insurance on their own because the lack of tax incentives alone makes it costlier for them to do so.

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The current tax treatment of health benefits is also unfair because those with the highest incomes receive the greatest benefit from the tax break for employer-based health insurance. Specifically, those individuals in higher tax brackets avoid paying more taxes for each dollar they spend on health insurance. In addition, higher income people tend to purchase more expensive insurance.

The Rise in the Number of Uninsured

From 1987 to 1995, the percentage of people who obtained health insurance through their employer dropped from 69% to 64%. A number of factors may have contributed to this decline: decreasing real wages, displacement of manufacturing jobs with service-sector jobs, declining union membership, and increased use of part-time workers throughout the economy.

The number of workers accepting employers' offers of insurance has also fallen. This decline in acceptance rates coincides with an emerging trend of employers shifting more of the cost of health benefits, such as health insurance premiums, to workers. Consequently, the increase in the share of health insurance costs employers expect their employees to pay has been cited as an additional reason for the decline in employer-based health insurance coverage.

The result has been the rise in the number of the uninsured. Forty-three million Americans, or 18% of the population under the age of 65, are currently without health insurance. Most of them — approximately 85% — live in families headed by workers. Those without health coverage are much less likely to receive adequate health care and the costs of providing medical treatment to the uninsured are passed on to everyone in the form of higher insurance premiums and other health-related costs.

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A Proposal by the American Medical Association

The American Medical Association (AMA) believes that now is the ideal time to fix the current US health insurance system. Frustrations expressed not only by patients, but also by physicians and those who pay for health care provide a window of opportunity to improve the system. The AMA's proposal has three main features: (1) individually selected and owned health insurance, (2) a tax credit for health insurance expenses, and (3) new health insurance purchasing groups.

Individually Selected and Owned Health Insurance

Americans want freedom of choice in most areas of their life, from the clothes they wear to the cars they drive. Health care is no exception. However, most employees are given only two choices—"take-it-or-leave-it"—when it comes to health care because employers cannot or do not offer employees more than one coverage option. The AMA's proposal seeks to expand the choice of health plans currently available through individually selected and owned health insurance.

The AMA proposal allows for the continuation of employment-based insurance, while providing new sources of health insurance for employees, their families, and the uninsured. As another option to purchasing insurance for employees, the AMA encourages employers to provide workers with the same health insurance money and allow employees to choose a health plan that best

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meets their needs. For example, an employer would give each of its workers a \$3,000 voucher to purchase any health plan they wanted. An employee could select a plan that is completely covered by the company's contribution or choose a plan with additional features. The choice would be entirely up to the employee.

In addition to expanding the choice of health plan options, individually selected and owned health insurance would force plans to truly compete on the basis of quality to a greater extent than is currently the case. Health plans would lose enrollment more quickly if they were not responsive to patients' quality concerns, thereby reducing or eliminating the need for states to require coverage of certain types of health care services. Meanwhile, by providing employees with a health insurance voucher, employers would be better able to accurately budget for employee benefits, and would not have to worry about choosing the right health plan options for all of their employees.

A Tax Credit for Health Insurance Expenses

The AMA proposes replacing the current tax break for health insurance obtained through an employer with a tax credit for health insurance, whether that insurance is obtained through an employer or elsewhere. Employer contributions to employee health insurance would be reported as income and a portion of the amount an individual spends on health insurance, including an employer's contribution, would be given as a tax credit by being subtracted directly from the individual's tax bill.

In contrast to the current system, everyone would be eligible to receive a tax credit for purchasing health insurance, thereby increasing coverage for the self-employed, for those workers whose employers do not offer health insurance, and for those individuals who are disadvantaged economically or by health risk. Reducing the number of the uninsured would also decrease the inflated health care costs currently necessary to pay for the uncompensated care provided to those without health coverage. In addition, our proposal improves the continuity of care because the tax credit applies whether an individual obtains insurance through their employer or elsewhere. Consequently, workers would not have to change health plans every time they changed jobs or their employer changed insurance plans.

The amount of the tax credit would decrease with higher incomes to give lower income persons greater access to health insurance. In addition to being more equitable, an income-related tax credit provides a safety net not only for those with low incomes, but also for middle and upper income persons who experience catastrophic health or financial events.

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New Health Insurance Purchasing Groups

Voluntary Choice Cooperatives would ensure the savings inherent in group coverage, significantly expand an individual's choice of health plan options, and would secure an individual's health plan selection regardless of where the individual is employed and whether that individual changes jobs.

The third major component of the AMA's proposal would be to create opportunities for individuals to obtain group insurance through new health insurance purchasing groups. Currently, individual policies tend to be much more expensive than group insurance because individual policyholders are, for the most part, not eligible for tax breaks and because they lack group purchasing power. Consequently, health coverage through an employer is effectively the only choice that most Americans have.

To further foster access to health insurance and choice between health plans the AMA supports the formation of what could be called "Voluntary Choice Cooperatives," such as groups of small employers, unions, trade associations, and religious groups. Similar to the current health insurance program for members of Congress, Voluntary Choice Cooperatives would operate like shopping malls where individuals would select from a wide variety of health plan options. Voluntary Choice Cooperatives could also assist individuals in selecting the health insurance that best meets their needs.

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Conclusion

The AMA believes its proposal provides the right approach to fixing the current US health insurance system. It gives Americans greater freedom and flexibility in their health care options. It reduces insurance-related decisions and administrative costs for employers. And it makes health care coverage affordable for more Americans—reaching out to those who fall outside the current health insurance system.

The AMA recognizes that some employers do an admirable job of offering employees good health care options. Employees who are satisfied with the health insurance they receive through work could continue with that type of coverage. The only change we propose is that the costs of providing health insurance would be reported as income and some or all of this income would be returned to the individual through an income-related tax credit. This approach would allow for a fairer distribution of the current tax benefit for health insurance.

The AMA believes, therefore, that the key to health insurance reform lies in shifting—not severing—the link between health insurance and employment. Making this shift can be accomplished with modest adjustments to the current system. In the long run, these corrections will be well worth it. Giving employees the freedom to choose their own health care coverage is in the best interests of employees, employers, and America.

The AMA believes its proposal provides the right approach to fixing the current US health insurance system by giving Americans greater freedom and flexibility in their health care options, reducing insurance-related decisions and administrative costs for employers, and making health care coverage affordable for more Americans—reaching out to those who fall outside the current health insurance system.

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For More Information

For more detailed information about the AMA proposal to reform the US health insurance system, write to:

American Medical Association
Rethinking Health Insurance
515 North State Street
Chicago, Illinois, 60610

Or visit the AMA Health Policy Web site at
<http://www.ama-assn.org/advocacy/healthpolicy/reform/reform.htm>.

