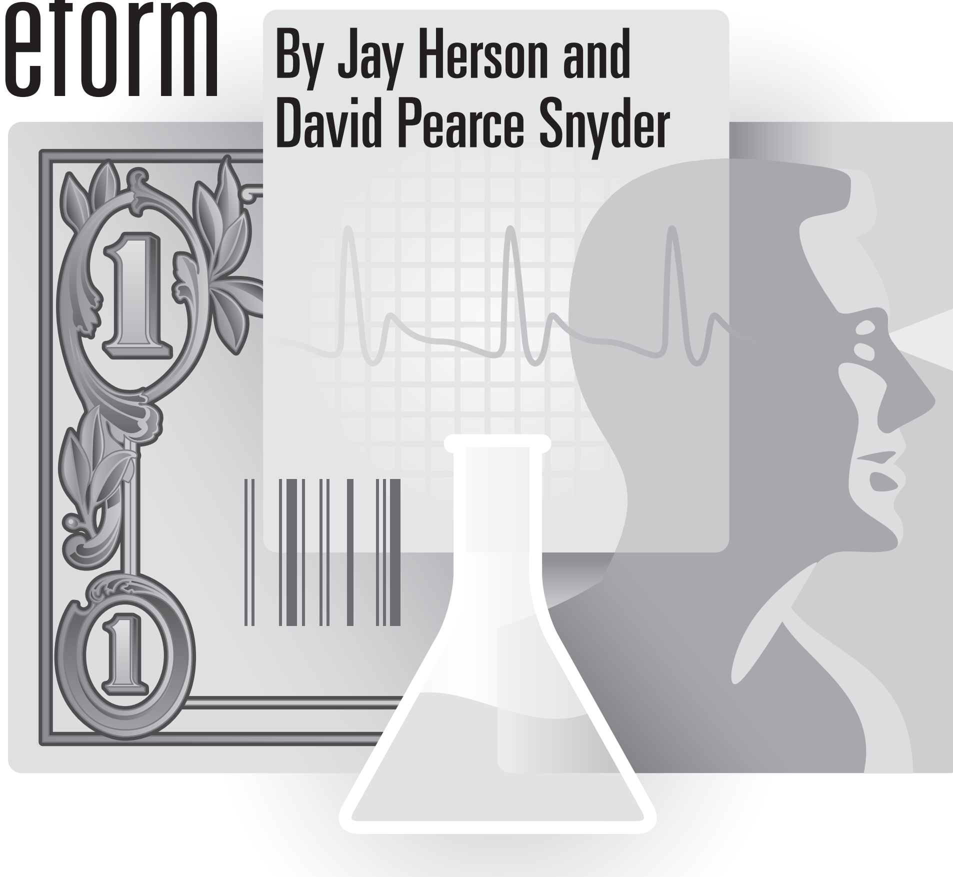
Health Insurance in America *After* the Reform

By Jay Herson and David Pearce Snyder



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If for-profit health insurers find that business is too unprofitable under the new law, where will Americans find affordable coverage? One solution may rise from the nonprofit sector led by credit unions, which have already demonstrated an ability to keep up with for-profit banks.

The primary objective of President Obama's 2009 health care reform initiative was to provide health insurance for an estimated 46 million people who did not have it. The Act requires insurers not to reject coverage on the basis of preexisting health conditions, and it requires all citizens to purchase health insurance or to pay a tax should they decline to purchase.

Omitted from the final version of the Patient Protection and Affordable Care Act (PPACA), passed in March 2010, was the so-called "public option," a government-run health insurance program designed to compete with profit-making companies. Legislation notwithstanding, it has generally been marketplace forces—not government interventions—that have shaped the U.S. future, so we shall examine how these market forces will create a new source of competition for the health-insurance market: nonprofit organizations.

Health Insurance Forecast to 2030

Under the 2010 health care reform legislation, the health-insurance business is expected to become less attractive for investor-owned public insurance companies. This will especially be the case if courts decide that requiring citizens to purchase health insurance is unconstitutional.

More particularly, insurers' inability to reject applicants or to cap the benefits (or even terminate the policies) of patients incurring serious and costly illnesses will make health insurance increasingly unattractive as a profit-making business. As for-profit insurers exit the affordable health insurance market, nonprofit institutions may step up to meet consumer demand.

There are already a number of nonprofit organizations that serve large pools of people, such as credit unions, which may offer their members health insurance. These programs would be administered by large data-processing organizations similar to those that currently have service contracts with Social Security, Medicare, and Medicaid and other state-run programs.

There are now approximately 7,800 credit unions (CUs) in the United States, including federally insured, state insured, and self-insured institutions. These serve tens of millions of members and hold hundreds of billions of dollars in assets, which increased significantly during the recent banking crisis.

Credit unions should have little concern about competing with for-profit insurance companies since they have been competing with the for-profit banks for the past 75 years. Health insurance would be a logical extension of providing low-cost services to members, as well as an extension of their current offerings of health savings accounts.

Interstate cooperatives of CUs—already in existence—could serve a critical mass of insured, taking advantage of their existing institutional infrastructure such as data processing and electronic funds transfer. The CUs would initially offer low-cost health insurance primarily targeted at the uninsured. However, people insured with individual policies or group insurance might also choose CU health insurance as an alternative. In fact, employers could offer CU health insurance as a benefit. As insured pools increase, the number of providers (doctors, hospitals) accepting the insurance would increase and the insurance coverage would become more attractive to the public and employers.

The nonprofit organizations offering health insurance would by no means be limited to CUs. New health insurance companies can be created by all sorts of nonprofits banding together to represent a sufficiently large pool of insured. For example, public radio and TV stations could unite to form insurance

Should the Reform Be Reformed?

Conventional post-election wisdom holds that, in spite of heavy rhetorical assault, the 2010 health insurance reforms will survive the new Congress largely intact. Since conventional political wisdom is right only half the time, this offers little assurance. However, the predictable demographic and economic realities underlying the coming decade will be sufficient, by themselves, to produce the sequence of developments summarized in this article—even if the Patient Protection and Affordable Care Act (PPACA) were to be overturned.

Without PPACA's constraints, for-profit insurers can be expected to increase premiums in line with health-care providers' costs, which are rising at two to four times the rate of the Consumer Price Index. At the same time, the United States will experience a 50% increase in the "high-maintenance" over-65 patient population—plus the retirement of the baby boomers, who represent one-third of the nation's current caregivers—just as the nation passes through five to seven years of projected stagnant income growth, chronic high unemployment, fiscal deleveraging, and shrinking public-sector budgets.

Absent the PPACA reforms, with each passing year a growing percentage of U.S. households will simply be unable to afford the premiums set by for-profit insurers. Nonprofits would emerge naturally to fill the growing unmet marketplace need.

In short, PPACA will largely serve to facilitate and accelerate the adaptive free-market behavior that is almost certain to occur in the austere circumstances that will confront most Americans for the foreseeable future.

—David Pearce Snyder

groups, as could university alumni associations or retirement funds such as the Texas Teachers Retirement System and the California Public Employees' Retirement System (CalPERS).

The 2010 health care reform act provides for subsidies to people who cannot afford to purchase health insurance. Presumably, these subsidies could be used to purchase the nonprofit health insurance described above. Federal subsidies, however, may be insufficient for some families to afford health insurance. Should this be the case, there will be pressure on the states to provide subsidies. Some states may be more progressive than others in helping citizens get the necessary coverage, and those that do not provide a path to health insurance may see a dwindling labor supply as workers and businesses move to more progressive states. Under the health reform act, state health insurance programs will become a tool of economic development policy.

Scenarios for Nonprofit Health Insurance

Much of the foregoing discussion is, admittedly, speculative. The following are four possible scenarios, plus a most-likely scenario, that could emerge if nonprofits began a process of providing health insurance as a consequence of the sweeping, congressionally mandated reform.

1. Business as Usual. Although a nonprofit initiative is widely discussed, actual health insurance policies issued by credit unions and other nonprofits never get off the ground as Congress comes to a stalemate over legislation that would enable it. Perhaps because of intense lobbying by for-profit health insurance companies, Congress eliminates some aspects of the Act. Proposals for state-run, high-risk insurance pools to merge over state lines and provide expanded coverage are also widely discussed, but fail to get the approval of state legislatures due to budget constraints and problems foreseen in governance. Meanwhile, health-care costs continue to rise rapidly, and, as premiums charged by for-profit health insurers soar, more people are forced to abandon their coverage; there are growing lines at public health clinics for minimal care.

2. At Least We Tried. Credit unions launch several health-insurance companies, but they fail to enroll enough people fast enough to sustain the enterprise. Although subsidies from state government and charities do materialize, interest dwindles because of failing CU health insurance initiatives and a declining sense of urgency, in spite of the fact that tens of millions of Americans remain uninsured.

3. Nonprofits Succeed. The demand is so great that credit-union-based health insurance takes off, and 30 states create funds to subsidize premiums for those who qualify. The success of the first CU groups creates the experience base for other groups to be quickly formed. Competition is healthy for all. By 2030, 93% of the U.S. population has some form of health insurance—40% from nonprofits and 53% from public company health insurance and government agencies.

4. Watch What You Wish For. After 10 years of success, CU health insurance becomes commonplace and a workplace standard. However, with the increased visibility that comes with success, fraud among providers and patients is making headlines. This causes a drop in governmental and charity subsidies for premiums. The existing CU insurance companies feel they need to grow more, and mergers begin taking place. This reduces the amount of competition and consumer choice. To compete, some of the remaining CU insurance companies decide that they can reduce costs and attract more members by actually becoming direct health-care providers, ultimately building (or buying) their own medical facilities. This leads some of the CU insurers to go public and, thus, cease to be nonprofit. By 2030, the medical insurance industry has begun to look the way it did in 2010.

5. Most-Likely Scenario. The most-likely scenario for the next 20 years lies somewhere between scenarios 3 and 4 above. By 2030, population demographics will make scenarios 1 and 2 politically unviable. Although scenario 4 is possible, the pendulum never swings completely back. While most Americans are likely to be covered by private and government health insurance in 2030, there will continue to be a need for the nonprofit alternatives described here. Still, barring further legislative intervention, it seems unlikely that more than 93% of the population will have health insurance in 2030.

Amtrak emerged when private railroads did not want to continue providing passenger service. Rural electric cooperatives emerged when it was not profitable for private industry to provide power to rural areas. Similarly, some form of cooperative health insurance is likely to emerge to fill the void created by omission of a public option in the health insurance reform.

It is difficult to forecast beyond the year 2030, but the information, communication, and health-care-management technologies that exist by 2050 should make a single-payer system easy to implement and the only logical way to provide quality health care to the U.S. population. Out of necessity, nonprofit organizations will pave the way to 2050. ❑

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