Cite this article as:
J R Gabel
Witness to a thousand stories: a look at insurance data
Health Affairs 11, no.4 (1992):186-190
doi: 10.1377/hlthaff.11.4.186

The online version of this article, along with updated information and services, is available at:
http://content.healthaffairs.org/content/11/4/186.citation

For Reprints, Links & Permissions:  http://content.healthaffairs.org/1340_reprints.php

Email Alertings:  http://content.healthaffairs.org/subscriptions/etoc.dtl

Not for commercial use or unauthorized distribution
Harry Truman once observed that an eyewitness always spoils a good story.¹ The DataWatch by Cynthia Sullivan and her colleagues is witness to the thousands of stories published, televised, and broadcast about the distressing state of private health insurance. What distinguishes the report by Sullivan and her colleagues is that it is based on five years of scientific surveys of the nation’s employers conducted by the Health Insurance Association of America (HIAA), in contrast to the often anecdotal reports of the media. Compelling as anecdotes are, they must be validated by surveys; without this safeguard? the “squeaky wheel” dominates our perceptions.

The HIAA annual surveys convey both good and bad news—but more of the latter. The good news is that premium increases are not in the 20-30 percent range as sometimes reported in the popular press. The bad news is that fewer small firms now offer coverage than before; that despite the movement toward managed care, inflation in health insurance costs is increasing at more than three times the overall rate of inflation; and that the nation is probably spending more on health care than the government’s national health spending statistics indicate.

Here I focus on the implications of the survey data for the course of health policy and politics. To paraphrase Shakespeare, I come here largely to praise, not to bury, Sullivan and her colleagues. Candor requires that I confess my conflict of interest. In 1986 Gregory de Lissovoy, Thomas Rice, and I designed the first HIAA survey of health benefit plans. Until I left HIAA in 1991, the annual survey was my main activity at the association. In my comments here I draw upon findings from the HIAA surveys and from two national surveys of employers I conducted at KPMG Peat Marwick.

Shortcomings Of Insurance Data

If the federal government collected and reported trends in the private insurance market in a timely manner, there would be little need for HIAA’s annual survey. HIAA and benefits consulting firms such as KPMG Peat Marwick fill a void. There remains, nonetheless, the absence of a historical time series on the nature of private health insurance. Hence, when analysts wish to gain a greater understanding of the employer-sponsored health insurance market, how it has changed over time, and how these changes have affected the cost and availability of health care, they are unable to look any farther back than the early 1980s. Surveys from the American Medical Association (AMA) and American Hospital Association (AHA) enable researchers to make a much deeper historical inspection of the market for physician and hospital services.

As sorry as is the state of historical knowledge about employer-sponsored health insurance—the source of coverage for an estimated 150 million Americans—we have virtually no information about the individual insurance market, which covered an es-
estimated thirteen million Americans in 1987. When the Bush administration proposed use of tax credits and deductions as a strategy for reducing the number of uninsured persons, no analyst could step forward and quantify what an inferior purchase the individual insurance market offers in comparison to group health insurance, how severe the problem of medical underwriting in the individual insurance market is, and how the individual insurance market has deteriorated during the past decade.

Decline In Coverage By Small Employers

George Bernard Shaw once commented that “only a truly educated person could be driven to tears by statistics.” There are ample statistics in the HIAA survey to make one weep, but none perhaps more than the decline in the number of small employers offering coverage to their workers. From 1989 to 1991 the percentage of firms employing twenty-five or fewer workers that provided coverage fell from 39 percent to 32 percent; for firms with twenty-five to ninety-nine workers, the decline was even greater—from 93 percent to 81 percent. Data from the Current Population Survey (CPS) indicate that half of the uninsured live in families in which the head of household works for a firm with twenty-five or fewer workers; perhaps even more uninsured people in 1992 live in families where the wage earner works for a small firm.

Sullivan and her colleagues suggest that the decline in the percentage of small firms offering coverage is attributable to the recession. By implication, economic recovery will fix the problem—or at least place us back where we were in 1989—when the situation still was not acceptable. My judgment is that the rising cost of health insurance is equally responsible for pricing small employers out of the market. Since 1988 the cost of employer-sponsored health insurance has increased 75 percent in nominal terms; during these four years medical care prices increased 37 percent, overall inflation increased 19 percent, and average weekly earnings increased 16.7 percent. If these trends continue, the standard of living for American workers will erode still further.

Are National Health Spending Figures Underestimated?

If HIAA statistics on the rate of increase in health insurance premiums are correct, then America’s health care spending is greater than national health care expenditure figures indicate. HIAA data show that premium increases are considerably greater than are increases in employer spending for health benefits, as reported by the Health Care Financing Administration (HCFA) (Exhibit 1). For all years except 1988, increases in premiums (as recorded by HIAA) tend to be about 50 percent higher than increases in employer expenditures for health care services. Moreover, HIAA’s and KPMG Peat Marwick’s figures on premium increases tend to be lower than estimated increases by other employee benefit surveys.

Some of the discrepancy between data from HIAA and KPMG Peat Marwick and data from HCFA may be attributable to the fact that the groups measure different variables. Changes in expenditures are the product of change in price and change in quantity. However, CPS data indicate little change in the number of Americans covered by employer-sponsored health insurance during the years 1986-1990. Therefore, there is little chance that the discrepancy between HCFA and HIAA figures is attributable to a dramatic decline in the number of Americans with employer-based coverage. Katharine Levit of HCFA’s Office of the Actuary suggests that employees may have switched their coverage from family to individual coverage and reduced dual coverage within households? She also notes that since 1988 HCFA statistics are based on the unpublished Employer Cost Index from the Bureau of Labor Statistics, which measures employers’ contributions rather than the total cost of coverage. I believe that these explanations account for some, but not all, of the discrepancy.
Can Managed Care Curb Premium Inflation?

Some within the health insurance industry and many market-oriented analysts have looked to managed care as the last, best hope to fend off direct regulation of the health care industry. In its most extreme position, managed care and little else is necessary to control health care costs.

The HIAA surveys document both the stunning growth of managed care and the relentless inflation in the cost of health insurance. In 1991 managed care broke the 50 percent barrier-for the first time a majority of Americans with employer-sponsored coverage are enrolled in either a health maintenance organization (HMO), a preferred provider organization (PPO), or a point-of-service plan. KPMG Peat Marwick’s 1992 survey also found that a majority of Americans employed in firms with 200 or more workers were enrolled in a managed care plan. In contrast, the first HIAA survey in 1987 found that about one-quarter of Americans were enrolled in managed care plans. On the day that Ronald Reagan took office in 1981, managed care constituted less than 7 percent of health benefit enrollment.

HIAA surveys highlight three disturbing facts that question the ability of managed care to reduce the rate of increase in health insurance costs and, consequently, national health care spending. First, rates of increase in HMO and PPO plans from 1987 to 1992 moved in tandem with those of conventional plans (Exhibit 2). HMO premium increases are slightly below those of conventional plans for most years, but PPO premium increases equal or exceed those of conventional plans virtually every year.

Second, over 80 percent of employees in California and the West are enrolled in managed care plans. Yet rates of increase in health insurance costs in California are little different than in other parts of the country. Third, the decline in premium increases since 1989 is attributable not to the growth of managed care, but to the health insurance underwriting cycle. Since 1965 health insurers have experienced a well-defined six-year profitability cycle. Three years of underwriting profits (profits net of investment income) are followed by three years of underwriting losses. A price cycle lags the profitability cycle by two years (Exhibit 3). When insurers earn underwriting profits, premium increases are modest two years later. When insurers suffer underwriting losses, premium increases surge two years later. Insurers suffered financial losses from 1986 to 1988 and earned profits from 1989 to 1991. Therefore, the decline in premium increases in 1991 and 1992 is a predictable result of the underwriting cycle.
result of the underwriting cycle.

Although evidence that managed care plans have altered rates of increase in health insurance premiums is meager, the HIAA surveys indicate that managed care plans provide more benefits per premium dollar with less employee cost sharing. Much of the growth of managed care reflects its greater value compared with conventional plans. By implication, much of the potential savings from managed care plans were spent on broader benefits and reduced cost sharing.

Exhibit 3
Increases In Insurance Premiums Compared With Changes In Blue Cross/Blue Shield Underwriting Profits (Led Two Years), 1982-1992

<table>
<thead>
<tr>
<th>Percent premium increase</th>
<th>Percent underwriting gain or loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>4</td>
</tr>
<tr>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>-2</td>
</tr>
<tr>
<td>6</td>
<td>-4</td>
</tr>
<tr>
<td>0</td>
<td>-6</td>
</tr>
</tbody>
</table>

Source: J.R. Gabel and G.A. Jensen, “Can a Universal Coverage System Temper the Underwriting Cycle?” Inquiry (Summer 1992): 249-262, adapted from Figure 2.

aRelates to left y axis.

bBlue Cross/Blue Shield underwriting gain or loss; relates to right y axis.
The Case For Fundamental Change

Sullivan and her colleagues do not spoil a good story. Rather, they provide statistics (although sometimes omitting the analysis) that confirm the anecdotes narrated in the popular press and provide information about other disturbing trends. Small employers are covering fewer Americans, health care expenditures are perhaps larger than reported, and the record of managed care in reducing the rate of increase in health insurance costs is not encouraging. The current set of rules and institutions is obviously inadequate, for it will neither control costs nor provide universal coverage. Fundamental reform of our health care system is necessary. This does not mean that the United States needs to begin anew or that managed care is ruled out but that is a story for another day.

The author thanks Martha Patterson and Thomas Rice for their helpful comments, and Sarah Glover for her excellent secretarial support.

NOTES

5. When one examines data prior to 1957 (using data from employee benefits consulting firms), the same pattern appears: Increases in premiums far outpace increases in employers’ expenditures for health benefits. Hay-Huggins and Foster Higgins are two benefits consulting firms that conducted surveys before HIAA’s surveys began.
10. Figures for 1992 are from the KPMG Peat Marwick Survey of 1,057 employers with 200 or more workers.