

EMPLOYMENT-BASED HEALTH INSURANCE (EBI) IS INCOMPATIBLE WITH AN EFFICIENT, AFFORDABLE, EQUITABLE HEALTH CARE SYSTEM AND MUST BE REPLACED BY MARKET-BASED UNIVERSAL HEALTH INSURANCE.

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1. EBI expenditure growth is unsustainable. In 60 years of trying, employers with or without government help have failed to bring health expenditure growth into line with revenue growth. National Health Expenditures (NHE) grow 2.5% per year faster than GDP, doubling its share of GDP every 28 years. .
2. Circumstances prevent most employers from offering employees cost-conscious choices of health plan/delivery systems, thus blocking competition at the individual level. Thus there is little market for efficient selective delivery systems. Even fewer employers offer multiple choices of efficient systems, needed for real competition. (Some employees have choices of plan design from the same carrier—HMO,PPO, POS—with the same uncoordinated FFS providers. This is not competition either at the carrier level or at the delivery system level.)
3. Employers use health insurance to compete for employees by more generous benefits, making employees less and less cost conscious cost, exacerbating cost unconsciousness. A sustainable market system must be based on cost-conscious choice. People ought to choose jobs because they are good at them and enjoy them, not because they have a sick family member.
4. Most employed-insured people have no idea what their health insurance costs, or that it has to come out of their pay. That is a large barrier to public support for and understanding of rational public policy.
5. Employers mostly do not understand health care/insurance. They repeatedly make poor decisions such as:
 - Assigning people to HMOs without a choice or visible financial savings, thus causing the backlash of the 1990s.
 - Favoring high deductibles, confusing lower premiums with lower health care costs. Deductibles will not solve our long term health expenditure problem.
 - Employers lock in FFS and resist cost/quality improving innovation. Employers contribute at 100% or 80% of the premium of the employee's choice, thus robbing health plans of an incentive to reduce premium.
 - About half of employed insured are in self-insured arrangements, to escape state benefit mandates and premium taxes. But self insured arrangements are almost entirely fee-for-service which has many negative consequences such as rewarding overuse and medical errors, and punishing economical behavior by providers. Also, the transactions costs of billing and collecting fee for service are large.
6. Employer based health insurance is very costly to market and administer, roughly 20% of the total, plus employer costs, far more than it would cost if there were

- competitive regional exchanges, like CalPERS, with economies of scale and with Risk Equalization.
7. Risk equalization is essential to a rational competitive market for health insurance and EBI has proved unable to do it (with very few exceptions). (Risk Equalization is a statistical process that compensates health plans for enrolling predictably sicker patients. It has been used for several years in Medicare Advantage, and also in the Dutch national market-based system.)
 8. EBI leaves out too many people and leaves many others insecure.
 9. EBI depresses real wages.
 10. EBI interferes with the efficiency of the job market (“job lock”). It blocks people from going out and starting their own businesses.
 11. EBI interferes with the continuity of care and records as people change jobs and are forced to leave the delivery system of their choice. This gives health plans short term incentives.
 12. EBI is an anachronism in a world in which median job tenure is so short.
 13. The huge and complex variety of plan designs imposes a large, though hard to measure, burden on providers whose clerical staff have to deal with it, thus raising costs for all of us. These variations add no value to consumer choices.
 14. EBI makes Employers, rather than Members (consumers) the customers of health plans. Too often, health plans act to please employers by cutting cost, while antagonizing members by denying claims.
 15. If the employer pays 80-100% of premium, the employee has little or no incentive to make an economical choice, causing the health plan to have little or no incentive to develop and market a significantly more economical health plan. (If the employer contributes 80%, a health plan contemplating a \$1.00 premium reduction would know that the employee who chooses the less costly plan would save only about \$0.12 after tax.)
 16. People are often forced to change health plans and providers when they change jobs. This weakens the incentives of providers and plans to make investments in the long term health of members.
 17. About a third of employed insured are in groups of 100 employees or less. Such groups are far too small to spread costs and risks widely as is needed when costs for some treatments can run into the hundreds of thousands of dollars. Consider Cerezyme for Gaucher’s disease costing some \$300,000 per year.

EBI is a historical accident (WWII wage/price controls) and not a considered policy choice. The tax break, now so costly to public sector budgets, and now so distorting decisions, was far from an informed considered policy choice. It just happened.