



## Two myths about the U.S. health care system

In the debate over Canada's health care system, the United States provides a convenient scarecrow. We hear constantly that 45 million Americans have no health insurance, that public health care spending is inadequate and that the U.S. system is characterized by unbridled capitalism. These perceptions, however, fall into the category of urban myth. It is true that the U.S. health care system suffers from a number of problems and is far from perfect, but the causes of these problems are not what most people believe.

### The great uninsured masses?

The primary criticism made of the U.S. health care system is its lack of universality and the presence of large numbers of uninsured people, but this problem must be put in perspective. The 45 million uninsured represent a minority in a population of 288 million – 15.6% of the total. As Table 1 indicates, more than two-thirds of Americans hold private health insurance. Most are insured by their employers. A majority of those without private insurance depend on public health insurance systems, namely Medicare, for those aged 65 or over, and Medicaid, for low-income people. These two systems also cover handicapped persons.



Periods without insurance are often caused by transitions such as job changes or family situations. The non-insurance problem is largely a job problem: 57% of those under 65 who were without health insurance throughout 1998 (the latest year for which figures are available) had no full-time jobs or lived in families where nobody did. Tax treatment of medical insurance in the U.S. creates a tight link with employment.

It also has to be noted that a significant proportion of uninsured persons are among those who have the means to pay for private insurance but choose not to. Thus, 17% of

the uninsured lived in households with incomes of at least US\$75,000.<sup>4</sup>

Furthermore, being without insurance is often a temporary situation. About a quarter of the 45 million uninsured lack coverage for periods of less than one year.<sup>1</sup> As the Census Bureau itself confirms, "Health insurance coverage is likely to be underreported."<sup>2</sup> A large number of people declared as uninsured – about 14 million – were eligible for Medicaid or for programs covering children but had either not taken advantage of this or were unaware of it.<sup>3</sup>

The uninsured have at their disposal a safety net, namely the public hospital network: this in fact constitutes a sort of informal hospital insurance. Even the uninsured can obtain health care. The Congressional Budget Office writes that "many people without insurance have access to at least some sources of health care, either through public hospitals, community health centres, local health departments, or Department of Veterans Affairs facilities."<sup>5</sup>

1. Kaiser Commission on Medicaid and the Uninsured, *The Uninsured: A Primer. Key Facts About Americans Without Health Insurance*, November 2004, available at <http://www.kff.org/uninsured/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=50811>.

2. U.S. Census Bureau, *Current Population Reports: Income, Poverty, and Health Insurance Coverage in the United States: 2003*, U.S. Government Printing Office, Washington, August 2004, p. 52, available at <http://www.census.gov/prod/2004pubs/p60-226.pdf>.

3. The Blue Cross and Blue Shield Association, *The Uninsured in America*, January 2005, available at <http://bcbshealthissues.com/issues/uninsured/whoareuninsured/>.

4. U.S. Census Bureau, *op. cit.*, p. 15.

5. Congressional Budget Office, *op. cit.*, p. ix.



Table 1

Health insurance coverage in the United States, 2003

	Percentage of the population*
<b>Insured</b>	<b>84.4</b>
<b>Private insurance (total)</b>	<b>68.6</b>
Through employers	60.4
<b>Public systems</b>	<b>26.6</b>
Medicaid	12.4
Medicare	13.7
Military	3.5
<b>Uninsured</b>	<b>15.6</b>

\* Totals do not match the sum of subcategories because individuals can draw on more than one system.

SOURCE: U.S. Census Bureau, *Current Population Reports: Income, Poverty, and Health Insurance Coverage in the United States: 2003*, U.S. Government Printing Office, Washington, 2004, p. 16, available at <http://www.census.gov/prod/2004pubs/p60-226.pdf>.

The problem of those regarded as the working poor, who are not poor enough to receive social assistance and gain access to Medicaid but who are too poor to buy private insurance, also needs to be put into context. First, as we have just seen, they have a safety net. Second, as we shall see later, their access to private health insurance policies is limited by tax and regulatory issues, not only by financial difficulties.

**A totally private system?**

Another big myth presents the U.S. health care system as totally private, or almost. It is true that most health care establishments are private – either for profit or non-profit – and that private health insurance systems generally run on a for-profit basis (apart from Blue Cross and Blue Shield). But it is incorrect to suggest that public health care spending is low or that no public health insurance system exists in the United States.

The U.S. very clearly has public health insurance systems, Medicare and Medicaid.

Heavy public spending also goes toward various areas such as public hospitals or Department of Veterans Affairs facilities. With everything taken into account, public health care spending in the United States is higher than in most other large western countries (see Figure 1). Public health care spending as a proportion of GDP is 6.6% in the U.S., putting it ninth among the 30 OECD countries. It should be noted that the U.S. comes just after Canada, where public health care spending accounts for 6.7% of GDP. Moreover, per capita government spending is higher in the U.S. than in Canada – \$2,364 compared to \$2,048 at purchasing power parity, based on OECD data.

OECD researchers have made a similar observation: “Local governments, in conjunction with states, play an important role in financing the so-called safety net providers (e.g., county hospitals) that serve the indigent.”<sup>6</sup>

These facts are illustrated by a letter from Susan W. Weathers, a doctor in Texas, published in the *Wall Street Journal* on April 30, 2004. The Canadian system, she explained, “resembles the county hospital where I work. Our patients pay little or nothing. They wait three months for an elective MRI scan and a couple of months to get into a subspecialty clinic. Our cancer patients fare better than the Canadians, getting radiotherapy within one to three weeks. The difference is that our patients are said to have no insurance (a term used interchangeably with no health care) whereas Canadians have ‘universal coverage.’”

A final point to take into account is that private charity exists, from hospitals and doctors as well as from individuals who support charitable organizations. It is estimated that two-thirds of the health care received by the uninsured costs them nothing.<sup>7</sup>

*The permanently uninsured form only a minority of Americans described as lacking health insurance.*

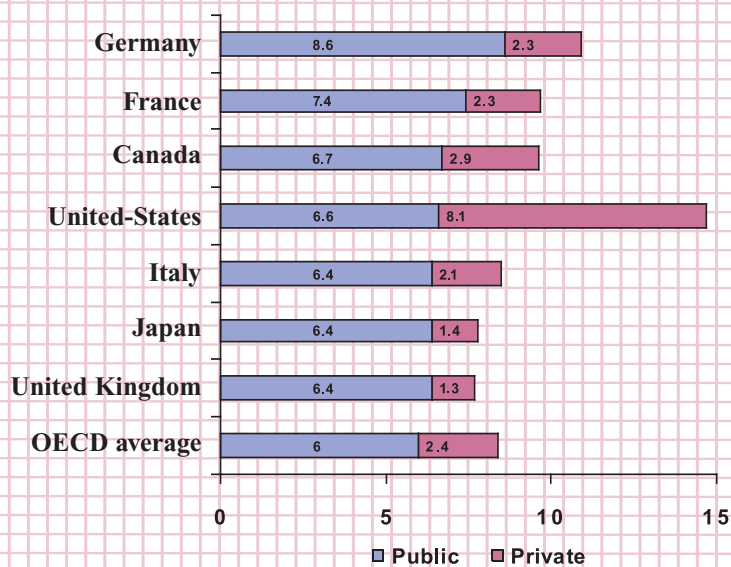
6. Elizabeth Docteur, Hannes Suppanz et Jaejoon Woo, *The U.S. Health System: An Assessment and Prospective Directions for Reform*, OECD Working Papers, No. 350, 27 February 2003, p. 7, available at [http://www.oilis.oecd.org/olis/2003doc.nsf/43bb6130e5e86e5fc12569fa005d004c/a17bfa31f942be2cc1256cdb00332d3c/\\$FILE/JT00140050.PDF](http://www.oilis.oecd.org/olis/2003doc.nsf/43bb6130e5e86e5fc12569fa005d004c/a17bfa31f942be2cc1256cdb00332d3c/$FILE/JT00140050.PDF).

7. Sally C. Pipes, *Miracle Cure: How to Solve America's Health Care Crisis and Why Canada Isn't the Answer*, (San Francisco and Vancouver: Pacific Research Institute and Fraser Institute, 2004), p. 25.



Figure 1

Public and private health care spending as a proportion of GDP, 2002



SOURCE: OECD Health Data 2004, Paris, OECD, 2004 (CD-ROM).

It is true that public spending as a proportion of total health care spending is low in the United States – 44.9% compared to an average of 72.6% among OECD countries and 69.9% in Canada, but this is because Americans add far more private spending to their spending mix, with total spending much higher than elsewhere. Americans spend 8.1% of GDP on health care through private channels, compared to an OECD average of 2.4%. This brings total health care spending to 14.7% of GDP in the United States as against an OECD average of 8.4%. These huge sums explain why Americans have access to the latest medical technologies and the most effective treatments, with short waiting times, despite the gaps in their health care system.

The corollary of this myth is that the health care market in the United States is completely free and that unbridled capitalism runs rampant. In fact, the U.S. health care market is highly regulated at several levels, leading to distortions in the use and supply of care. This explains in part the difficulty that millions of Americans face in paying for private insurance. Standards set by state governments and by federal authorities are ubiquitous in the insurance field, limiting the introduction of cheaper, more

accessible policies. Regulations specify, for example, which medical procedures an insurance policy must cover. Private health care supply is also tightly regulated, both by the medical profession and in the management and financing of health care establishments.

Insurance seldom contains co-payments (with fixed costs for services received) or co-insurance (with a portion of costs charged to policyholders). Policyholders thus have little incentive to seek the best prices, which goes some way toward explaining the escalation in health care costs. The higher resulting costs produce bloated insurance premiums that are beyond the reach of many people. Another phenomenon peculiar to the United States concerns the exaggerated penalties imposed by courts in professional malpractice cases. This also results in higher health care prices.

Tax treatment of insurance policies varies according to whether they are offered by employers or bought by individuals. The latter have to pay in after-tax dollars, whereas insurance spending by employers is tax-exempt for employees. This makes it less expensive for individuals to obtain insurance through their employers than to receive the equivalent in wages and buy their own insurance. Tax treatment in this form makes health insurance heavily dependant on employment. It also leads to overconsumption of insurance by those benefiting from it and has helped swell costs in the health care sector.<sup>8</sup> In addition, it results in the group insurance market being highly developed while the individual insurance market is far less developed, resulting in much higher premiums for the latter.

*The U.S. health care market is highly regulated at several levels, leading to distortions in the use and supply of care.*

8. Melissa A. Thomason, "The Importance of Group Coverage: How Tax Policy Shaped U.S. Health Insurance," *The American Economic Review* Vol. 93, No. 4, September 2003, pp. 1373-1384.



One final matter linked to the absence of a universal public system that is often subjected to unfavourable comment in the Canadian media concerns personal bankruptcies induced by illness. This phenomenon results largely from the explosion in costs, and its extent is highly exaggerated. The authors of a recent U.S. study allege, for example, that medical bills account for half of personal bankruptcies in the United States.<sup>9</sup> The circumstances described in the study substantially dilute the notion of medical bills, however. They include loss of at least two weeks' work income due to illness or accident, the death of a family member, the birth of a child, and alcohol or drug habits.

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## Conclusion

Contrary to myths that have been going around, only a small minority of Americans are involuntarily uninsured on a long-term basis, and even these people generally have access to free health care. Public health care spending is higher in the United States than in most other OECD countries, and the U.S. has sizable public health insurance systems.

The problems of the U.S. health care system largely result not from its private character but rather from the heavy regulation to which it is subjected and from the way the insurance system functions. The tax treatment of insurance and the very low degree of direct involvement by policyholders in controlling health care costs are partly responsible for bloated insurance premiums and for the presence of a certain proportion of uninsured people. As with public financing, when the payer is a third party, costs tend to run wild.

In this regard, it is not very surprising to see that the most innovative solutions proposed for reforming the U.S. health care system resemble those suggested for dealing with problems in the Canadian system. These solutions involve the assumption of greater responsibility by patients receiving care and a liberalization of supply mechanisms, whether in terms of care or its financing. One highly promising suggestion involves health savings accounts, established in 2003 with slightly over a million accountholders across the United States by March 2005. These accounts enable individuals to build tax-free savings for coverage of health care costs while purchasing insurance policies with fairly high deductibles but lower premiums.

Be that as it may, a more realistic perspective of the advantages and flaws of the U.S. health care system would lead to a more pertinent debate than the repetition of unfounded myths.

9. David Himmelstein, Elizabeth Warren, Deborah Thorne and Stefie Woolhandler, "Illness and Injury as Contributors to Bankruptcy," *Health Affairs*, February 2, 2005, available at <http://content.healthaffairs.org/cgi/content/full/hlthaff.w5.63/DC1>.



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