

# Choosing the Future

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## Transformation, Part II

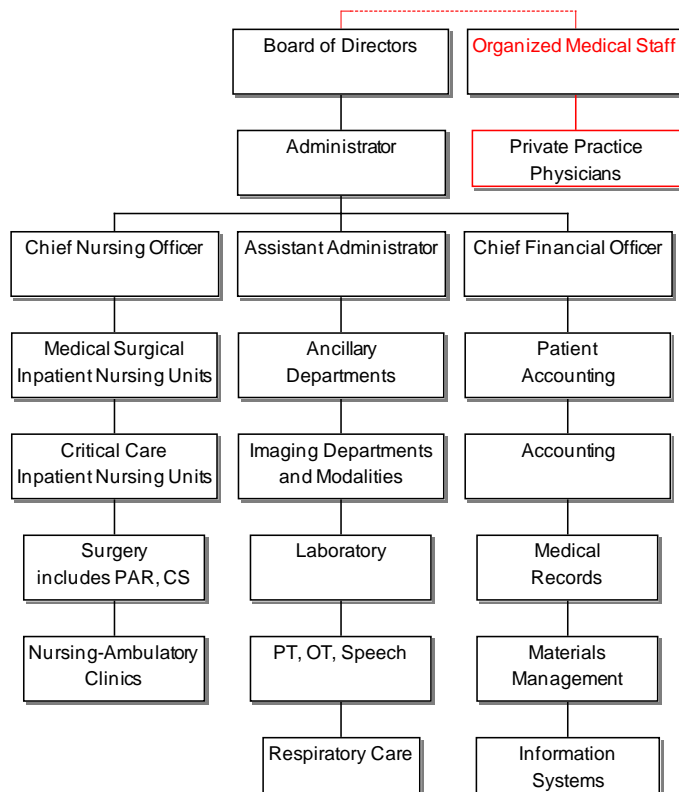
Even many hospital people will be surprised to learn that, until the 1920s, virtually no one in the United States had hospital insurance of any kind.

During the latter stages of World War II in the 1940s, large U.S. employers began offering hospital insurance as an employee benefit as a way around federal wartime-imposed wage and price controls. The exemption of employer payments for health

insurance from employees' taxable income, combined with substantial efficiency advantages of group over individual insurance, fueled rapid expansion. By the mid-1950s, 45 percent of the population had hospital insurance. By 1963, 77 percent of the population had coverage, more than half of the population had coverage for regular medical expenses, and almost one-fourth had major medical insurance. Then, in 1965, Medicare and Medicaid came into being and the Third Party Payment System was launched. The Third Party Payment System reached its zenith with the passage of *The Patient Protection and Affordable Care Act* in 2010. Here are some key "bullet points" along the line of march.

- 1920s: GM contracts with Metropolitan Life to insure 180,000 workers.
- 1930s: Blue Cross offers coverage for hospital care in dozens of states.
- 1940s: Companies offer health insurance as an employment benefit. Federal Hill-Burton Act funds the building of hundreds of hospitals.
- 1960s: Medicare and Medicaid are enacted (1965).
- 1970s: HMOs are created with federal certification, and assistance.
- 1980s: The DRG payment system is introduced for Medicare. Private plans follow suit.
- 1990s: The Health Insurance Portability and Accountability Act is enacted.
- 2000s: The American Recovery and Reinvestment Act is enacted.
- 2010s: The Patient Protection and Affordable Care Act is enacted.

Most hospital people have grown up in the "Standard Model" hospital, the outline of which began to emerge in medieval times. The Standard Model evolved around inpatient nursing units and the entire hospital was structured to provide diagnostic and treatment services to patients admitted to those units organized under top-down centralized management. The standard model changed over time with the growth of medical knowledge, technological development and the specialization which resulted. Although there are variations because of ownership type, size, physical setting, teaching status, and mission, by the end of World War II the Standard Model had matured into the basic structure shown below.



It has been a constant theme on these pages that hospitals, physicians, and the population at large are in the midst of a paradigm shift that will transform the ways in which patient care is delivered, organized, and financed. In our next issue, we'll explore developing trends and possible options or a rapidly approaching future.

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Next Issue: Transformation III (Options)



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