The existence of successful health insurance plans prevented government intervention until the mid-1950s.

With medical costs on the rise and millions of Americans uninsured, health insurance is a topic of heated debate in the United States. But how did our health insurance system tangle itself up in the first place? Although today we are focused on looking ahead, we may very well find the answer from looking behind through the history of the U.S. medical insurance system.

The American life insurance system was established in the mid-1700s. The earliest forms of health insurance, however, did not emerge until 1850, when the Franklin Health Assurance Company of Massachusetts began providing accident insurance, to cover injuries related to railroad and steamboat travel. From this, sickness insurance covering all kinds of illnesses and injuries soon evolved, but the first modern health insurance plans were not formed until...
Why was medical insurance established so late in American history? One main reason was the poor quality of health care, which deterred people from using hospitals. Until the early twentieth century, medical technology was not very advanced, and hospitals were regarded as unreliable institutions. Sick people often stayed at home to heal, and medical expenditures were quite low. In fact, sickness insurance offered at the time was not even meant to cover medical bills—rather, it was designed to compensate for the sick person’s inability to work and earn money.

In the first few decades of the twentieth century, health care underwent a major transformation. The late 1800s and early 1900s were full of medical advances, from the identification of infectious agents to the development of antitoxins, vaccines, and new medical technologies such as X-ray radiography and blood pressure meters. The abundance of innovation transformed the public image of medicine, and people began to place more trust in medical institutions.

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<th>1850</th>
<th>The Franklin Health Assurance Company of Massachusetts begins providing accident insurance.</th>
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<td>1929</td>
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<td>1940s - 50s</td>
<td>Proliferation of employee benefit plans and expansion of the included health insurance packages.</td>
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<td>1965</td>
<td>Introduction of Medicare and Medicaid programs.</td>
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<td>2007</td>
<td>According to the US Census Bureau, 45.2 million Americans are uninsured.</td>
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The quality of health care was further legitimized by the establishment of medical regulations. In 1904, the American Medical Association created the Council on Medical Education, which developed standards for medical licen-
sure. In 1913, the American College of Surgeons was founded to oversee the accreditation of medical schools. The new regulations ensured the quality of health care and resulted in a smaller but more talented supply of licensed physicians. According to the Economic History Services, the number of medical schools in the country fell from 131 in 1910 to 95 in 1915.

With the rise in regulations and quality of health care, demand for medical services increased while supply of physicians and hospitals was limited. The combination of these factors brought an increase in medical costs, which prompted the development of modern day health insurance.

Medical insurance took stride in 1929 when Dr. Justin Ford Kimball, an administrator at Baylor University Hospital in Dallas, Texas, realized that many schoolteachers were not paying their medical bills. In response to this problem, he developed the Baylor Plan – teachers were to pay 50 cents per month in exchange for the guarantee that they could receive medical services for up to 21 days of any one year.

With the onset of the Great Depression in the 1930s, many other hospitals followed the model of the Baylor Plan, and medical insurance became much more widespread. Pre-paid health plans enabled consumers to be insured but also benefitted hospitals by giving them steady income despite economic turmoil. However, these single-hospital plans also generated price competition, and to avoid this, community hospitals started to work together in creating health coverage plans. In 1939, the American Hospital Association (AHA) first used the name Blue Cross to designate health care plans that met their standards. These plans merged to form Blue Cross under the AHA in 1960. Considered nonprofit organizations, the Blue Cross plans were exempted from paying taxes, enabling them to maintain low premiums. Pre-paid plans covering physician and surgeon services, including the California Physicians' Service in 1939, also emerged around this time. These physician-sponsored plans combined into Blue Shield in 1946 and Blue Cross and Blue Shield merged into one company in 1971.

Meanwhile, private, commercial health insurance companies began to develop. In the 1930s, several significant life insurance companies began to offer health insurance. Coverage for serious medical emergencies was originally designed as a supplement to basic health insurance, but it has since become an integrated aspect of most health insurance plans. Commercial insurance companies also began to charge premiums according to calculations of relative risk, charging more money for older people and for people with a history of a medical condition. Blue Cross and Blue Shield Plans, which were in the nonprofit sector, were forced to compete with commercial health insurance companies, and they eventually began to charge premiums in the same way, despite having previously maintained equal premiums for all consumers.

The 1940s and 1950s also saw the proliferation of employee benefit plans, and the included health insurance packages became more and more comprehensive as strong unions negotiated for additional benefits. During the Second World War, companies competing for labor had limited ability to use wages to attract employees due to wartime wage controls, so they began to compete through health insurance packages. The companies’ healthcare expenses were exempted from income tax, and the resulting trend is largely responsible for the workplace’s present role as the main supplier of health insurance.

The existence of successful health insurance plans prevented government intervention until the mid-1950s. In 1954, Social Security coverage included disability benefits for the first time, and in 1965, Medicare and Medicaid programs were introduced, in part because of the Democratic majority in Congress. In the 1970s and 1980s, more expensive medical
technology and flaws in the health care system led to higher costs for health insurance companies. Responding to higher costs, employee benefit plans changed into managed care plans, and Health Maintenance Organizations (HMOs) emerged. Managed care plans are unique in that they involve a particular network of healthcare providers that have been verified for healthcare quality and that have agreements with the insurer about price and related issues. HMOs were originally primarily nonprofit, but they were quickly replaced by commercial interests, and managed care only succeeded in temporarily slowing the growth of healthcare costs.

Responding to the troubles in the United States health care system, President Bill Clinton proposed a universal health care system in 1993, but it was rejected by Congress. Nonetheless, some developments in health insurance took place in the 1990s, including the Mental Health Parity Act and the Health Insurance Portability and Accountability Act, both passed in 1996. However, ever since the failure of Clinton’s proposal, the health insurance system has never been fundamentally restructured.

According to the U.S. Census Bureau, 45.7 million Americans, or 15.3% of the population, were uninsured in 2007. Clearly, the health insurance system needs major reform. But before proposing ways to solve the current healthcare crisis, it is crucial to understand the history of health insurance in the United States. This history tells us how we got into the crisis in the first place – among other things, it reveals how premiums became dependent on risk, and how workplaces became the primary suppliers of health insurance. Once we elucidate the origin of the system’s problems, hopefully we will have better insight on how the healthcare crisis can be resolved.

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