



**Santa Cruz County Medical Society  
and the  
California Medical Association**



## History of Health Coverage in California

- ◆ **Health insurance is born in California.** The idea of health insurance, paying a periodic fee to guard against a major financial catastrophe, came into prominence in California during the 1930's. In 1931 Los Angeles County Medical Association (LACMA) reached an agreement with the Metropolitan Water District to provide health care for its employees. In 1937, for example, the Alameda County Medical Association (ACMA) developed one of the first plans in order to prevent the closure of hospitals when people were unable to pay their bills. Participating employers and employees set aside a small amount each month to guard against that day when hospitalization might be necessary.
- ◆ **CMA Sponsors health coverage legislation.** CMA has been at the forefront of increasing access to health care since the inception of health insurance. In 1935, at the height of the Depression, CMA spent \$50,000 (nearly \$700,000 in 2007 dollars) to study health care for the poor and also sponsored state legislation, Senate Bill 454, to provide universal health care for all Californians. In the next legislative session in 1937, CMA sponsored another bill that would have authorized the association to create its own voluntary health prepayment plan in each county.
- ◆ **Employer-based health coverage.** One of the state's most successful health insurance programs was born in 1937 when Henry J. Kaiser (the largest defense contractor in California) hired physicians to provide medical care for workers and their families. In 1945, because other companies saw the Kaiser system as an attractive worker benefit, Kaiser reorganized into a separate corporate structure—Kaiser Permanente—to provide medical care to employees of other companies.
- ◆ **CMA creates Blue Shield.** In 1939 CMA voted to form a nonprofit membership corporation (which would later become known as Blue Shield) that would offer prepaid monthly memberships to patients who would receive care from member physicians. More than 20,000 patients signed up for coverage in 1940, the first year of operation. Patients received medical coverage for \$2.50 a month (\$33 in 2007 dollars), not including hospitalization. In 1979 CMA divested itself from Blue Shield of California which today is the state's third-largest health plan.
- ◆ **State sets framework for statewide health insurance.** State legislators from Alameda County, impressed by the Alameda County model, brought the idea to the state Legislature where it was quickly enacted. Thus, Blue Cross, created initially as a “public, nonprofit hospital service plan,” was born. It was a public creation with a statutorily defined board of directors and mission; but with the flexibility of a private organization.
- ◆ **Governor Warren Proposal.** Republican Governor Earl Warren in 1945 introduced a bill to create a payroll-tax-funded single payer health insurance plan. In a historic vote, the effort failed 39-38. The public health insurance tides turned in part due to the growth of employer based health coverage. By the late 1970's the concept of employer based health coverage was entrenched as employers began to offer health insurance as a “non-cash” benefit to compete for employees.
- ◆ **President Truman Proposal.** In 1949, President Harry Truman failed to get his nationwide universal health care proposal off the ground.

- ◆ **Medicare and Medicaid.** While health insurance coverage continued to grow during the 1950's, many workers, seniors and the unemployed were not covered. Political pressure at both the national and state level began to build for some form of universal coverage. But it was not until 1966 that major legislation was enacted. With the passage of Titles XVIII (medicare) and XIX (medicaid), the federal government, almost overnight, assured comprehensive health coverage to 20% of the population.
- ◆ **Growth of Health Maintenance Organizations (HMOs) in California.** By 1970 with the expansion of coverage, demand increased rapidly, outstripping supply, resulting in costs increasing at a rate faster than the cost of living. Many policy makers believed that costs would not be contained unless utilization incentives were altered. Prepaid health programs (also referred to as HMOs) were viewed as the best answer to utilization and the cost problem. Accordingly, decreased utilization of health services became the economic driver.
- ◆ **President Nixon Proposal.** In 1971 President Nixon proposed universal coverage through a mix of public and private programs.
- ◆ **Promotion of HMOs in California.** In 1971, the California State Legislature enacted the first of what was to be a series of Medi-Cal reforms. The centerpiece of the 1971 Act was to encourage enrollment in prepaid health programs by creating impediments to fee-for-service utilization (reduced reimbursement, prior authorization, visit limitations). The Department of Health moved rapidly to sign contracts with prepaid health programs in order to enroll Medi-Cal recipients. However, the centerpiece of the 1971 Reform, “prepaid health care,” became a statewide scandal: necessary care was denied to recipients, physician services were sometimes non-existent, patients were enrolled in prepaid programs under false pretenses and Medi-Cal dollars were misappropriated.
- ◆ **Reforming the reform.** The Legislature moved rapidly to “clean up the mess” that had occurred with the implementation of the 1971 Act: Contracts were terminated, fraud violations were referred to district attorneys, standards were introduced by the Department of Health. Most important, the Knox-Keene Act was enacted in 1976 establishing a regulatory framework for licensing and regulating prepaid health plans (HMOs).
- ◆ **Consolidation and for-profit status.** Initially most HMOs were nonprofit entities. For example, by 1980 twelve plans had been licensed by the Department of Corporations under the Knox-Keene Act. Ten of the original twelve plans were nonprofit. Today five health plans control more than 90% of the market and only two major plans are nonprofit entities.
- ◆ **President Clinton Proposal.** In the 1980s and 1990s, as managed care and insurance companies gained increasing power in the marketplace and insurance premiums continued to rise, more Americans found themselves without health insurance. In the early 1990s, President William J. Clinton unsuccessfully pushed for a federal universal coverage plan.
- ◆ **CMA Sponsors Health Coverage Proposals.** CMA-sponsored Proposition 166 was ahead in the polls in the weeks leading up to the November 1992 election. However, the insurance industry and others launched a late and well-funded media blitz that killed the initiative. In October 2003, then-Governor Gray Davis signed the CMA-co-sponsored Health Insurance Act (SB 2), a bill that would have required medium and large companies to provide health coverage to employees. Unfortunately, the following year, a referendum repealed SB2 2.