

The Causes of the Uninsured

The U.S. Census Bureau recently reported that the proportion of U.S. residents not covered by medical insurance rose from 14.2 percent in 2000 (39.8 million) to 15.2 percent in 2002 (43.6 million). This alarming trend has set the stage for a major public debate over how to reduce these percentages. A starting point in that debate is an understanding of what is contributing to the problem. The following is an explanation of the major factors.

Decline in Employer Coverage The Census Bureau report attributes most of the increase in the uninsured to a continuing decline in employer-provided coverage, going from 62.6 percent in 2001 to 61.3 percent in 2002. Health insurance in the United States is primarily acquired through coverage by one's employer. Yet, as costs have escalated, many small employers have cut back or eliminated coverage for their employees. This forces those employees to obtain coverage either through their spouse or on the open market. Those who do not or cannot pursue either of those options enter the ranks of the uninsured.

Decline in Retiree Coverage Individuals who have retired prior to achieving Medicare eligibility (*i.e.*, 65 years of age) typically depend upon employer-provided retiree health programs for affordable coverage. However, increases in costs for coverage of retirees have exceeded those involving regular employees. According to a 2002 Kaiser/Hewitt survey of large employers, between 2001 and 2002, the total cost of providing retiree health benefits increased by an estimated 16 percent, on average, compared to a 13.7 percent increase for active employees. Not surprisingly, many employers are responding to these rising costs by reconsidering retiree coverage. In the past two years, 44 percent of these employers increased retiree contributions to premiums and 36 percent increased cost-sharing requirements for retirees. Thirteen percent terminated health benefits for future retirees. The survey indicated that, if anything, these trends will accelerate in the coming years. Eighty-two percent plan to increase retiree contributions, while 75 percent will increase cost-sharing obligations. While 5 percent indicated they were likely to terminate subsidized coverage for current retirees, 22 percent said they are very or somewhat likely to terminate coverage for future retirees. The upshot of this trend will be to drive more pre-65 retirees into the ranks of the uninsured.

Unemployment The recent economic slump has increased the number of unemployed individuals. The Commonwealth Fund 2002 Workplace Health Insurance Survey found that, during 2001, when unemployment rates were on the rise, for 52 percent of adults without health insurance at some point during the year, the primary reason was job loss. While most workers losing employer-provided health insurance are eligible to remain covered through COBRA, the survey found that, because of the high costs of such continuation, only 23 percent of employed, insured adults would be very likely to participate in the COBRA program if they lost their jobs.

Self-Employed and Other Categories of Employment Even among those employed, a substantial number are uninsured because of the kind of employment they are in. Many of the uninsured are self-employed and/or employed in agriculture-related jobs where they do not have access to group coverage and can not afford medically underwritten individual policies. According to a September 2000 Employee Benefit Research Institute study, 34 percent of the uninsured were employed in agriculture, forestry, fishing, mining, or construction. Similarly, for those in low-skill, low-wage jobs in price-competitive low-margin industries, the cost of coverage is simply too high

relative to their total wages for it to make economic sense for the employer to offer coverage or for the employee to forego cash wages to get coverage. This is particularly true for short-term or part-time employees in those industries.

Poverty Many individuals are too poor to afford coverage—even through their employer—but do not qualify for public assistance programs. This is particularly true among younger people. According to a recent Commonwealth Fund report, nearly two-fifths of the 12 million young adults who are uninsured live in households with incomes below poverty. Often, employer-sponsored health insurance plans allow children age 19 or older to stay on their parents' policies only if they go to school full time. Thus, those who fail to go to school are dropped from their parents' coverage. Moreover, those without a college education are most likely to become employed in low-wage positions that are least likely to include health benefits—*i.e.*, part-time or temporary work or employment with small businesses. Almost half of workers between the ages of 19 and 29 have jobs that pay less than \$10 per hour and, according to the Commonwealth Fund study, a quarter of all workers who earn less than \$10 an hour are uninsured. Meanwhile, Medicaid and CHIP reclassify all teenagers as adults the day they turn 19. As a result, young adults previously insured under these programs as children typically do not have an option to stay on public coverage unless they qualify as adults for Medicaid, which is generally restricted to very low-income parents or disabled adults.

Choices by Young Workers Young adults aged 18 to 24 are less likely than any other age group to have coverage and this share increased from 28.1 percent in 2001 to 29.6 percent in 2002. Even those in the 25-34 and 35-44 age brackets had higher percentages than the public overall—24.9 percent and 17.7 percent, respectively. Many experts have attributed these high percentages to young, healthy workers opting out of employer-sponsored health plans as employee contributions rise. A recent survey of small business by the Employee Benefit Research Institute found that 19 percent of small employers offering health benefits made changes to their health plan between 2001 and 2002. Sixty-five percent increased deductibles and co-pays; 30 percent increased the employee share of the premium; and 29 percent cut back on the scope of benefits. Meanwhile, of small employers that offer dependent coverage, 35 percent report that employees decline such coverage because they cannot afford the premiums. As observed in a September 30 *Wall Street Journal* article, many young adults have a “feeling of invincibility” and “paltry bank accounts,” and, as a result, about 40 percent of recent college graduates do not obtain health insurance in the first year after graduation.

High-Risk Individuals Certain individuals without employer-sponsored health insurance are unable to obtain coverage in the individual insurance market because of their extensive health care needs and medical expenses. They may be turned down because of an existing or previous illness. While over half the states operate high-risk insurance pools, these have had a limited impact according to a 2001 Commonwealth Fund study. The premiums are high, and coverage typically includes sizeable deductibles and co-payments. Moreover, the pools often impose preexisting-condition exclusions to reduce adverse selection. Some pools have long waiting lists, and some are closed to new applicants altogether. Currently, the pools are completely state run, with about 30 states having high-risk pools that insure over 100,000 people.