

Health Policy Studies Division

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June 4, 1999

Trends in Private Health Insurance Coverage*

Summary

Despite a healthy economy and a low unemployment rate, health insurance coverage continues to decline. This decline is increasing the number of uninsured individuals.¹ In 1997 an estimated 43 million people, or 16.1 percent of the U.S. population, had no health insurance coverage, up 1.7 million from 1996.² States have been expanding Medicaid and other health programs for certain segments of the population to lower the number of uninsured individuals. For example, the children's health insurance programs initiated in October 1997 are intended to cover low-income children.

Federal and state programs currently exist to address the health insurance needs of poor children and the elderly. Pregnant women below certain income categories and disabled adults also benefit from federal and state public insurance programs, but other adults generally must rely on private insurance for health care coverage. The most formidable challenge for state health policymakers lies in addressing the health insurance needs of uninsured adults, commonly defined as those ages eighteen through sixty-four.

The rising number of uninsured individuals could lead to problems for states, including higher costs from the increased reliance on Medicaid and other publicly funded health programs. Those without insurance are less likely than those with insurance to receive regular health care in a doctor's office and preventive medical services. Moreover, the uninsured are more likely than the insured to use hospital emergency departments for their usual source of care, and adults without health insurance may be up to 50 percent more likely to be hospitalized for manageable illnesses such as diabetes and hypertension.³ Although these factors produce financial burdens for uninsured individuals, they also strain state and local public resources, such as public hospitals and clinics, that provide care to the uninsured.

There are several reasons for the decline in private health insurance coverage, including increased health insurance costs and changes in employment patterns.⁴ Between 1988 and 1996, premiums for employer-sponsored family health insurance coverage increased by 111 percent. Small firms are less likely to offer health insurance to their employees, and part-time and seasonal workers are less likely to be insured. In addition, the agriculture, construction, and service industries are less likely to provide access to health insurance for their employees.⁵

States can estimate the extent of their uninsurance problem, consider tested options to increase coverage, and use the State Children's Health Insurance Program (SCHIP) to extend health insurance coverage to vulnerable populations.

- Prior to SCHIP, one out of every ten children had no health insurance, leaving 10 million children uninsured. By the end of 1998, states had made significant progress in reducing that number and had enrolled almost 1 million previously uninsured children in SCHIP.
- Older children and those living in families with incomes between 100 percent and 300 percent of poverty are less likely to be insured.

Children

The rate of private health insurance coverage among children has been decreasing, just as it has been for other segments of the population. However, unlike for other segments of the population, public programs have addressed the insurance needs of many poor children. Although one out of five nonelderly, uninsured persons is a child, state and federal expansions in Medicaid during the 1980s and 1990s have shrunk the number of uninsured children so they are now less likely than other groups to be uninsured.⁶ Moreover, the passage of SCHIP in 1997 further improves the insurance status of children.⁷

Nonetheless, it is important to remember that although Medicaid and SCHIP will help the majority of poor children, four out of ten uninsured children live in families with incomes higher than 200 percent of poverty. This means that their family incomes are too high to qualify them for Medicaid or SCHIP in most states.⁸

Working Adults

- 17 percent of workers (22 million) were uninsured in 1995.
- 62 percent of uninsured workers are employed by small businesses.
- Workers in agriculture, construction, or the service sector are less likely to be insured.

Most Americans—65 percent in 1995—are covered by private health insurance through employment, either as a worker or as a dependent of a worker. The prevalence of private health insurance coverage among working adults varies based on several factors. Young workers and part-time workers are less likely to have private health insurance, as are those employed by small businesses and in sectors such as construction and agriculture.⁹ According to the Kaiser Commission on Medicaid and the Uninsured, 17 percent of all workers were uninsured in 1995. More than half of these uninsured workers were full-time, full-year employees.

Recent studies of firm size and insurance coverage reveal some important information about health insurance trends. According to General Accounting Office (GAO) data, in 1995 only 50 percent of workers in small firms—those with fewer than ten employees—had private health insurance. By comparison, 82 percent of workers in large firms—those with at least 1,000 employees—and 72 percent of workers in firms of all sizes had private health insurance. Data from 1989 to 1996 show that although the number of small firms offering coverage increased during this period, the percentage of employees with health insurance coverage declined.¹⁰ Premium costs are most often cited as the reason for this decline in insurance “take-up rates,” or the rate at which employees participate in employer-sponsored plans.

Part-time and temporary workers also have experienced lower rates of private insurance coverage than have their full-time counterparts. In 1995 only 59 percent of part-time or part-year employees had private health care coverage, compared with 79 percent of full-time, full-year employees. This difference is more apparent when examining industries that tend to employ a large percentage of seasonal or part-time workers, such as agriculture and the service sector. Only about 60 percent of workers in the agricultural, construction, and services industries were covered by private health insurance, compared with 82 percent of employees in the finance and insurance, mining, and public administration sectors.¹¹

Adults with lower salaries are more likely to be uninsured than are workers with higher salaries. Approximately 75 percent of uninsured workers have salaries of less than \$20,000 per year.¹² Workers with low salaries may not be able to afford their share of the premiums for employer-sponsored health insurance coverage even when it is offered to them, forcing them to join the ranks of the uninsured.

For those who do not obtain health coverage through their employers, a small number of people purchase coverage through the individual insurance market. According to a GAO study, approximately 10 million people (about 4.5 percent of the nonelderly U.S. population) used individual health insurance as their only source of health coverage in 1994. The workers most likely to use private individual health insurance as their primary source of coverage are those who are self-employed or work in agriculture and those who live in the Mountain and Plains states.¹³ However, plans offered through the individual insurance market can be prohibitively expensive for many workers, especially those with preexisting medical conditions.

Early Retirees

- 14 percent of the 21 million near elderly (55- to 64-year-olds) are uninsured.
- 65 percent of the near elderly had employer-sponsored health insurance in 1996.

Early retirees are one of the fastest-growing segments of the population. Also referred to as the “near elderly,” fifty-five- to sixty-four-year-olds have uninsurance rates similar to those found among other adults. However, problems such as decreasing access to private health insurance portend growing uninsurance rates for early retirees.

Individuals in this age group often experience changes in their work status and physical health, both of which can threaten their access to affordable private health insurance coverage. Because Medicare is not generally available until age sixty-five and because both Medicare and Medicaid are available only to the very poor and the disabled in this age group, the vast majority of near elderly must rely on the private insurance market for coverage or become uninsured. Fewer and fewer employers are offering insurance coverage as part of retirement packages, leaving early retirees without the employment connection to the insurance market. Private insurance purchased through a temporary continuation of employer-sponsored insurance can be extremely expensive and is often limited to thirty-six months. Purchasing insurance in the individual market poses additional problems; premium costs can be prohibitive, especially for early retirees for whom the probability of costly medical conditions is higher than for younger adults.¹⁴

Elderly

- In 1997 seniors (ages 65 and older) nationwide spent \$32,765,000 out of pocket on home health and nursing home services.
- Seniors spend about 19 percent of their income on health care, not including home health and nursing home services.

Generally, the lack of health insurance among the elderly population is not a concern for states, because the federal Medicare program provides health insurance for acute care to all Americans ages sixty-five and older. However, the lack of coverage for long-term care and outpatient prescription drugs for this high-risk group leaves the elderly *underinsured*, which is of increasing concern to states because Medicaid often fills in these gaps. Although these shortcomings in the Medicare system are significant, all Americans ages sixty-five and older have access to health insurance for doctor visits and hospitalizations.

What States Can Do

States should be aware of the varying uninsurance rates for different age and population groups. Children and elderly adults benefit the most from existing federal and state programs to provide health insurance, but uninsurance is still a problem for millions of children and underinsurance is a growing problem for seniors. Working adults may not be offered insurance through their jobs, may decide not to accept insurance when it is offered, or may choose not to select dependent coverage. Early retirees face decreasing connections to employment and increasing health problems, making the purchase of private insurance extremely difficult in many cases. States can play an important role in helping stem the growth of uninsurance for all of these population groups.

States are taking several steps to address the uninsurance problem, including the following.

- **Estimating the uninsurance problem.** Uninsurance rates vary greatly from state to state, so many states have begun to evaluate their uninsurance problem. The survey most commonly used to

assess uninsurance rates at the state level is the Current Population Survey (CPS), and other surveys are beginning to yield some state-level estimates. Many states also are partnering with universities or consultants to estimate the size of their uninsured population. However, states need to determine how their rates of uninsurance vary by city and region, and state sample sizes often are too small to facilitate such analysis.

- **Considering state options to increase coverage.** States can increase their understanding of the uninsurance problem and ways to address it by examining options to reform the employer-sponsored and individual insurance markets. Currently, several states are using purchasing pools, enacting small group reforms, and creating high-risk pools to increase health insurance coverage. The National Governors' Association (NGA) Center for Best Practices will release a *StateLine* in fall 1999 examining these state programs in depth.
- **Taking advantage of SCHIP.** Another option available to state policymakers is to increase the rate of insurance coverage of families through SCHIP. Several states have proposed this type of plan, and some believe that SCHIP affords the flexibility needed at the state level to address this issue. For more information regarding this option, see "State Tools to Provide Family Health Insurance Coverage," *Issue Brief* (January 4, 1999), National Governors' Association Center for Best Practices, Washington, D.C.

The NGA Center for Best Practices will continue to track emerging models to address the uninsurance problem and other health insurance issues and report on important developments. In addition, the Center will maintain a page on NGA's web site at <www.nga.org> devoted to covering the latest trends in health insurance coverage. The page will contain links to the most recent publications addressing this topic, as well as links to organizations specializing in the analysis of health insurance. Please refer to this page for additional information on upcoming NGA publications and links to reports cited in this *Issue Brief*.

*This *Issue Brief* was produced through a grant from the Robert Wood Johnson Foundation.

¹ National estimates of the uninsured vary. Several surveys have sought to measure the prevalence of health insurance coverage, but their findings frequently differ. Generally, Current Population Survey (CPS) data are quoted when discussing estimates of the uninsured. CPS estimates are often questioned because of the apparent underreporting of insurance coverage, particularly Medicaid coverage. The Urban Institute adjusts the CPS data to account for this difference in reporting when it produces estimates of the uninsured. Many of the estimates cited in this *Issue Brief* derive from data that have been adjusted by researchers at The Urban Institute.

² Bureau of the Census, *Health Insurance Coverage: 1997*, Current Population Reports, P60-202 (Washington, D.C., September 1998).

³ Kaiser Commission on Medicaid and the Uninsured, *Uninsured in America: A Chart Book* (Washington, D.C.: Kaiser Commission on Medicaid and the Uninsured, 1998).

⁴ U.S. General Accounting Office, *Private Health Insurance: Continued Erosion of Coverage Linked to Cost Pressures* (Washington, D.C., 1997).

⁵ U.S. General Accounting Office, *Private Health Insurance: Continued Erosion of Coverage*.

⁶ Ibid.

⁷ For further information regarding SCHIP and Medicaid, refer to the National Governors' Association's web site at <<http://www.nga.org>>.

⁸ U.S. General Accounting Office, *Private Health Insurance: Continued Erosion of Coverage*.

⁹ U.S. General Accounting Office, *Private Health Insurance: Continued Erosion of Coverage*.

¹⁰ Ibid.

¹¹ Ibid.

¹² Kaiser Commission on Medicaid and the Uninsured.

¹³ U.S. General Accounting Office, *Private Health Insurance: Continued Erosion of Coverage*.

¹⁴ U.S. General Accounting Office, *Private Health Insurance: Declining Employer Coverage May Affect Access for 55- to 64- Year Olds* (Washington, D.C., 1998).