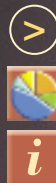


AMERICA'S ACHILLES' HEEL

Job-Based
Health Coverage
and the
Uninsured

A CENTURY FOUNDATION **GUIDE TO THE ISSUES**



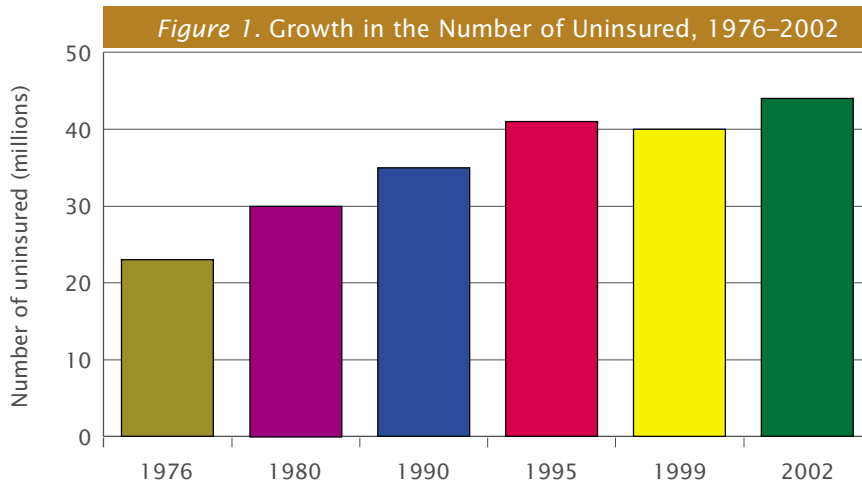
America's Achilles' Heel

Job-Based Health Coverage and the Uninsured

Alone among developed nations, the United States relies primarily on employers to provide health insurance for its citizens. More than 60 percent of Americans obtain medical coverage as a benefit from their own jobs or from family members' jobs. Citizens aged sixty-five and older are entitled to federal Medicare coverage, and some low-income Americans are eligible for Medicaid. But most others whose employers do not provide health insurance either must pay for their own costly coverage or gamble that they will not face major medical bills.

This employer-based system is the principal reason why such a large portion of the population lacks health insurance. As of 2002, 43.6 million Americans under the age of sixty-five—more than 15 percent of the population—had no medical coverage. Since the mid-1970s, the number of uninsured has increased at an average rate of almost 1 million per year (see Figure 1).

Ten years ago, the Clinton administration put forth a proposal for universal health care that tried to loosen the link between employment and health insurance. Congress rejected the proposal. Evidence suggests that the problem of increasing numbers of uninsured Americans will continue as long as the nation's health care system is reliant on employers voluntarily offering insurance.



Source: Sara R. Collins, Karen Davis, and Jeanne M. Lambrew, "Health Care Reform Returns to the National Agenda: The 2004 Presidential Candidates' Proposals," Commonwealth Fund, New York, September 2003, available at http://www.cmwf.org/programs/insurance/collins_reformagenda_671.pdf.

Our Swiss Cheese System

Employer-based health insurance coverage in the United States developed through a combination of historical circumstances, policy decisions, and expedience. A relatively modern phenomenon, private coverage grew rapidly during World War II, when companies faced wage and price controls and competed for labor by offering generous benefits, including health insurance. After the war, tax law evolved so that employees would not have to claim those benefits as taxable income and

corporations could deduct insurance costs from their taxable earnings. These laws, which labor unions strongly supported and remain committed to, were in effect subsidies that encouraged employers to offer health insurance coverage.

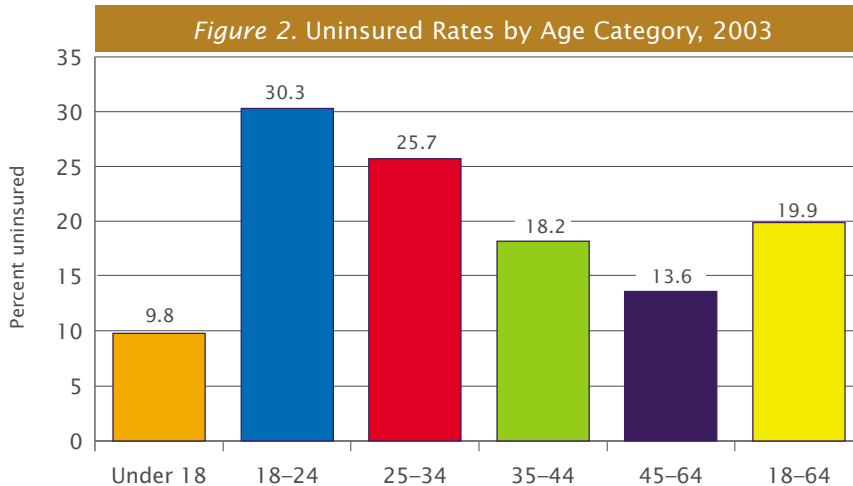
Nevertheless, large numbers of employed Americans do not benefit from employment-based coverage because of the following weaknesses in the system:

- ◆ *Employees in small businesses are much less likely to be offered coverage than those who work for large companies (businesses with more than two hundred employees).* The cost per employee of health insurance is generally lower for large companies because risk is spread among a broader pool of workers. More than a quarter of all working-age Americans in companies with fewer than twenty-five employees are uninsured.¹ These workers account for almost half the total number of uninsured Americans who are employed.
- ◆ *Layoffs and job switching lead to irregular and episodic insurance coverage.* The Congressional Budget Office estimates that 21 million to 31 million Americans go without coverage for a full year or more, while 57 million to 59 million are without coverage at some point during a given year.²

1. Institute of Medicine, *Insuring America's Health: Principles and Recommendations* (Washington, D.C.: National Academy Press, 2004), Table A-2, p. 163.

2. "How Many People Lack Health Insurance and for How Long?" Congressional Budget Office, Washington, D.C., May 12, 2003.

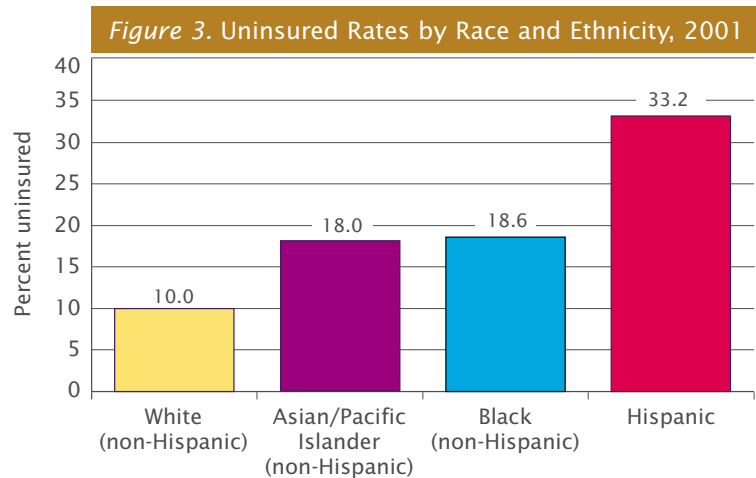
- ◆ *Part-time and temporary workers are more likely to be uninsured.* According to the Kaiser Commission on Medicaid and the Uninsured, 31 percent of Americans in households with only part-time workers are uninsured, compared to 18 percent in households with one full-time worker and just 8 percent in households with two full-time workers.³ This situation looks even more troubling in light of the growing trend for companies to hire temporary workers and consultants to whom they do not offer health and other job benefits.
- ◆ *Nearly one in three young adults between the ages of nineteen and twenty-four lack health insurance.* As Figure 2 shows, younger Americans are most likely to be uninsured because they either are unemployed, have episodic employment, or forgo coverage since they expect to be in good health.



3. "The Uninsured: A Primer, Key Facts about Americans without Health Insurance," Henry J. Kaiser Family Foundation, Menlo Park, Calif., 2003, available at <http://www.kff.org/uninsured/4085.cfm>.

Source: "Health Insurance Coverage: Estimates from the National Health Interview Survey, January–September 2003 Highlights," 2003 Health Interview Survey, Centers for Disease Control and Prevention, Atlanta, March 2004, available at <http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur200403.pdf>.

- ◆ *A substantial percentage of minorities do not have health benefits.* Hispanics (7.7 percent) and African Americans (10.8 percent) have higher unemployment rates than whites (5.2 percent) and are more likely to be employed in jobs without benefits. Their employment status is one reason minorities are more likely to lack health care coverage than whites (see Figure 3).

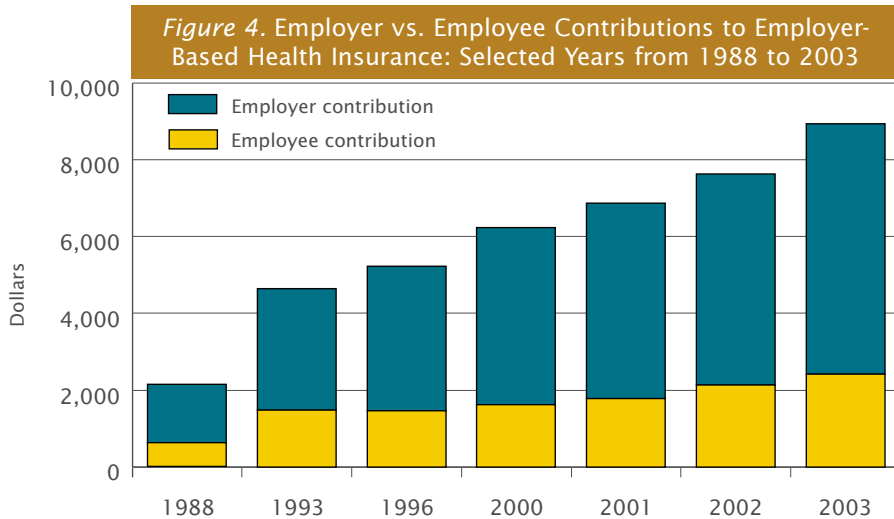


Because health insurance costs for employers continue to rise rapidly—their premiums rose 13.9 percent on average between 2002 and 2003, far outpacing inflation and growth in wages—some companies have dropped employee coverage entirely. The percentage of employers offering health insurance to current workers declined from 69 percent to 66 percent between 2000 and 2003.⁴

Source: “Health Insurance Coverage Status and Type of Coverage by Selected Characteristics: 2001,” Health Insurance Coverage 2001 Current Population Survey, Bureau of Labor Statistics and Bureau of the Census, Washington, D.C., September 2002, available at http://ferret.bls.census.gov/macro/032002/health/h01_000.htm.

4. “Employer Health Benefits 2003 Annual Survey: Summary of Findings,” Henry J. Kaiser Family Foundation, 2003, available at <http://www.kff.org/insurance/ehbs2003-1-set.cfm>.

Among companies that provide coverage, the percentage of total costs paid by the employer has remained steady. But, as Figure 4 shows, both employers and workers are spending more and more on health insurance every year, which puts increasing pressure on employers to reduce benefits and require higher contributions from workers.



Source: 2003 Employer Health Benefits: 2003 Annual Survey, Henry J. Kaiser Family Foundation, 2003, available at <http://www.kff.org/insurance/ehbs2003-abstract.cfm>.

One case in point is Wal-Mart, the nation's largest private employer, which has dropped retiree coverage, instituted a six-month waiting period for benefits for new hourly employees, and declined to pay for flu shots, childhood vaccinations, and other preventive services. Wal-Mart, which cut health care costs to around 60 percent of the average for large companies, may well become a model for other large firms.

Everybody's Problem

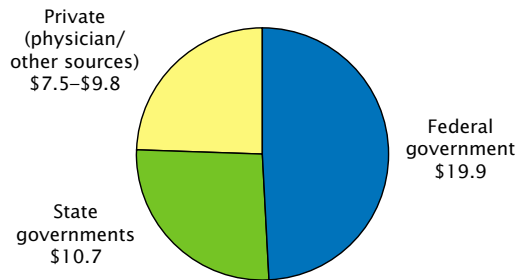
The absence of health insurance coverage harms individuals and has profound social and economic consequences. Individuals without health insurance typically are billed higher amounts than insured Americans for their health care services because health insurance companies have the ability to negotiate prices. Uninsured Americans also are more likely than the insured to use emergency rooms, one of the most expensive sites to receive treatment, for routine care.

Individuals without insurance are less likely to see a physician, to have a regular source of care, to use preventive medical services, or to receive treatment for chronic conditions. Lack of access to such care can have damaging effects on health. Treatable diseases and conditions, such as diabetes, can go undiagnosed in early stages and worsen by the time an uninsured patient seeks care. Moreover, the uninsured receive less appropriate care, based on treatment guidelines, than that obtained by insured Americans. A study commissioned by the Institute of Medicine concluded that 18,000 deaths among adults aged twenty-five to sixty-four are directly attributable each year to the lack of insurance coverage.⁵

5. Institute of Medicine, *Insuring America's Health*, p. 46.

The problem of the uninsured affects all Americans, regardless of their insurance status. On average, uninsured individuals pay only 35 percent of their medical expenses in a given year.⁶ The remainder of this cost is borne by public and private payers and by federal, state, and local taxpayers. In 2001, approximately \$40 billion of uncompensated care—that is, care not paid for out of pocket or by private or public insurance—was provided, three-quarters of it funded by federal and state governments (see Figure 5).

Figure 5. Who Paid for Uncompensated Care, 2001 (in billions)



A large uninsured population puts everyone's health at greater risk. Because the uninsured are less likely to receive preventive services such as vaccinations, an outbreak of an infectious disease such as measles or whooping cough can spread much more quickly. Moreover, hospitals have been forced to cut other programs to make up for the costs of treating uninsured patients.

Finally, American companies face a unique burden in their competition with foreign counterparts because they bear the brunt of paying for the health care

Source: "The Cost of Not Covering the Uninsured: Project Highlights," Henry J. Kaiser Family Foundation, June 2003, Figure 4, available at <http://www.kff.org/uninsured/4118-index.cfm>.

6. Jack Hadley and John Holahan, "Covering the Uninsured: How Much Would It Cost?" *Health Affairs* 22, no. 4 (June 2003), Web exclusive, available at <http://content.healthaffairs.org/cgi/reprint/hlthaff.w3.250v1>.

costs of their workers. Executives at DaimlerChrysler told the *Washington Post* that their worker health care costs per vehicle produced were in the \$1,200–\$1,300 range for a midsize car, about twice the cost of the sheet metal in the automobile.⁷ Health costs per employee in the United States are about ten times those in Canada, where income and sales taxes fund a universal single-payer system.

Possible Cures

Only three of the Organisation for Economic Co-operation and Development (OECD) nations—Mexico, Turkey, and the United States—lack universal or near-universal coverage.⁸ Some proposals for universal health insurance coverage would attempt to expand employer coverage. Others, such as a single-payer system, would phase it out. Some of the most commonly discussed models for reform include:⁹

- ◆ *Expanding Public Programs and Offering a Tax Credit.* This reform would merge existing public programs (Medicare, Medicaid, and the State Children’s Health Insurance Program), expand their scope, and offer a tax credit for moderate-income Americans toward the purchase of health insurance.

7. Kirstin Downey, “A Hefty Dose to Swallow,” *Washington Post National Weekly Edition*, March 15–21, 2004, p. 18.

8. Gerard F. Anderson and Jean-Pierre Poullier, “Health Spending, Access, and Outcomes: Trends in Industrialized Countries,” *Health Affairs* 18, no. 3 (May/June 1999), Exhibit 2, p. 181.

9. For more information, see the Institute of Medicine Web site, www.iom.edu, and the Web site for the Economic and Social Research Institute, http://www.esresearch.org/covering_america.php. One estimate of the cost of providing health care for the uninsured comparable to that received by their insured counterparts is \$34 billion to \$69 billion annually, or 3 percent to 6 percent of the nation’s total \$1.2 trillion health care bill (Jack Hadley and John Holahan, “Covering the Uninsured.”)

- ◆ *Employer and Individual Mandates.* Building on existing employment-based insurance, this proposal would mandate employers to cover all employees and require employees to take this coverage. Premium subsidies would be offered to certain employers to enable them to afford the coverage they offer their employees.
- ◆ *Individual Mandates with Tax Credits.* Under this model, the responsibility for obtaining health insurance would rest with individuals. Individuals and families would receive tax credits to help them purchase health insurance.
- ◆ *Single Payer.* In this scenario, the federal government would collect and disburse all payments for health care, set uniform benefit packages, and create policies and standards for participation by providers and provider systems. Private insurance would be effectively eliminated.

While any of these models conceivably might improve on the current health system, none of them are likely to solve entirely the problems of cost and access that bedevil employer-based coverage. To retain or expand employer coverage probably would require very large subsidies. In all likelihood, the plans based on

tax credits will not offer credits large enough to purchase good and affordable coverage in most areas. A Canadian-style, single-payer plan probably would end employer coverage but would radically disrupt the current system of private insurance coverage. It also could stifle medical innovation if the government refused to pay for expensive new treatments.

One alternative would be to eliminate the current tax breaks for employer-based coverage, to consolidate government-run health insurance programs, to seek other sources of savings (such as gains, over time, from improved public health), and then to use this redirected money to subsidize individual and family-purchased coverage. This could eventually give every American access to excellent basic coverage. Those who wanted more elaborate care would pay higher insurance premiums. In some respects, this model of coverage would resemble the one that members of Congress currently enjoy.

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Manufactured in the United States of America.

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Cover design and illustration: Claude Goodwin

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