

**Defining the Problem:  
Who Are the Uninsured  
and Why Are They Uninsured?**

**Katherine Swartz, Ph.D.**  
*Harvard School of Public Health*

**Federal Reserve Bank of Boston  
Conference “Covering the Uninsured”  
*December 5, 2006***

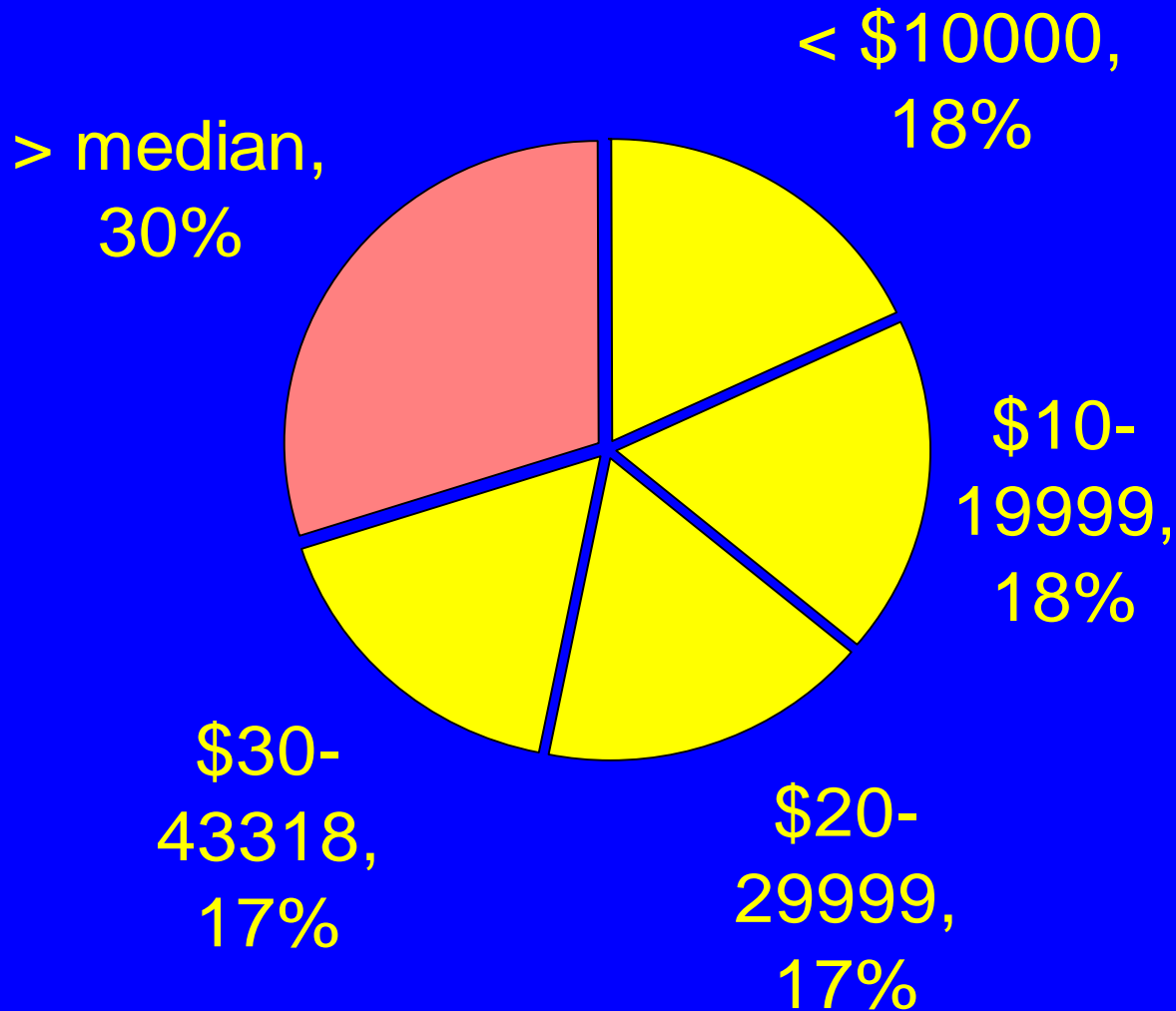
# Outline of Presentation

- **Profile of the uninsured**
- **Changes in who lacks health insurance in the US since 1979 – and why the changes occurred**
- **Why people do not have insurance**
- **Implications for policies**

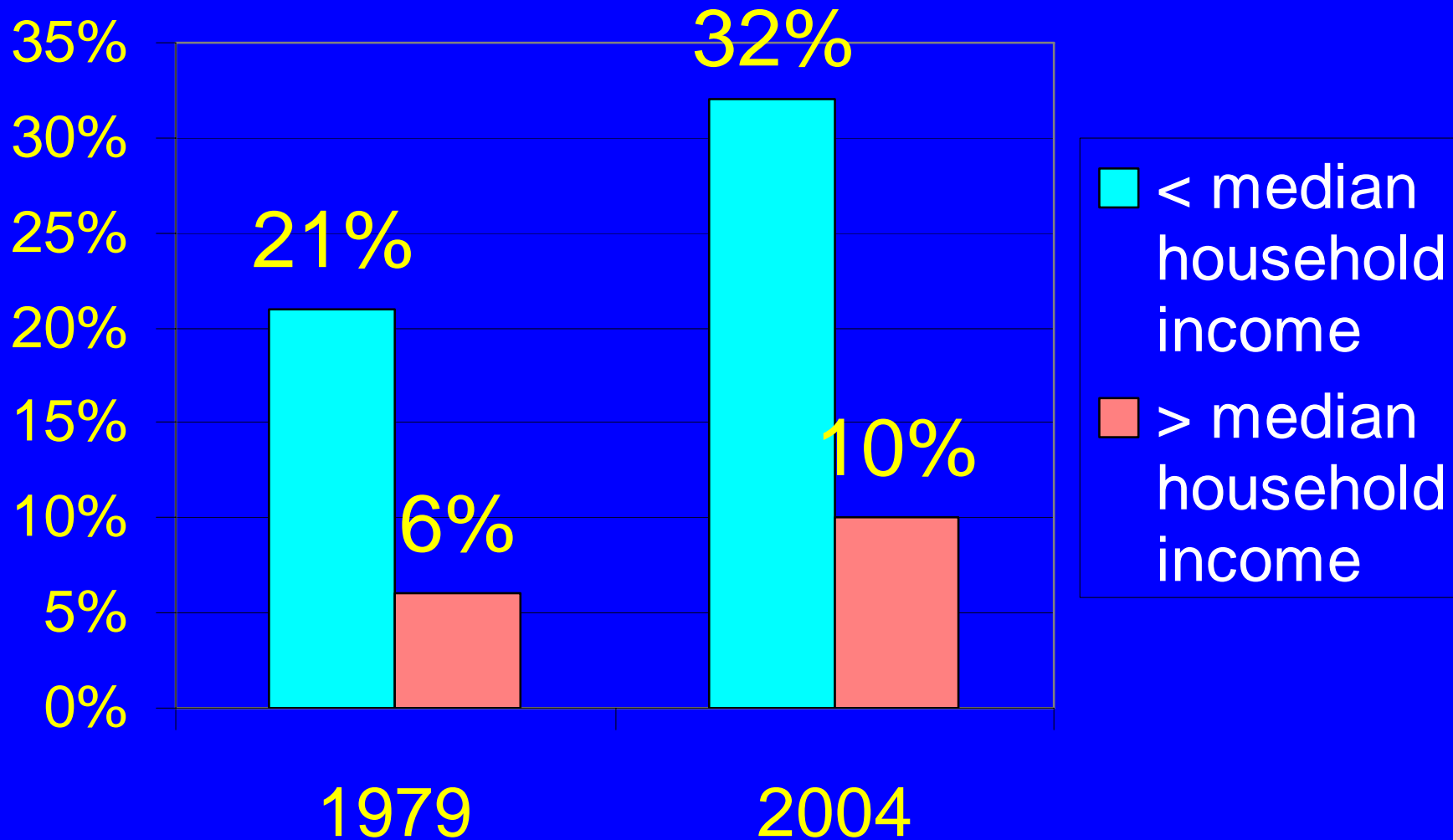
# Who Lacks Health Insurance?

- **46.6 million Americans in 2005 – 1.3 million more than in 2004, almost all of whom lost employer-based coverage**
- **30% had middle-class incomes**
- **Almost 60% are 19 – 44 yrs old**

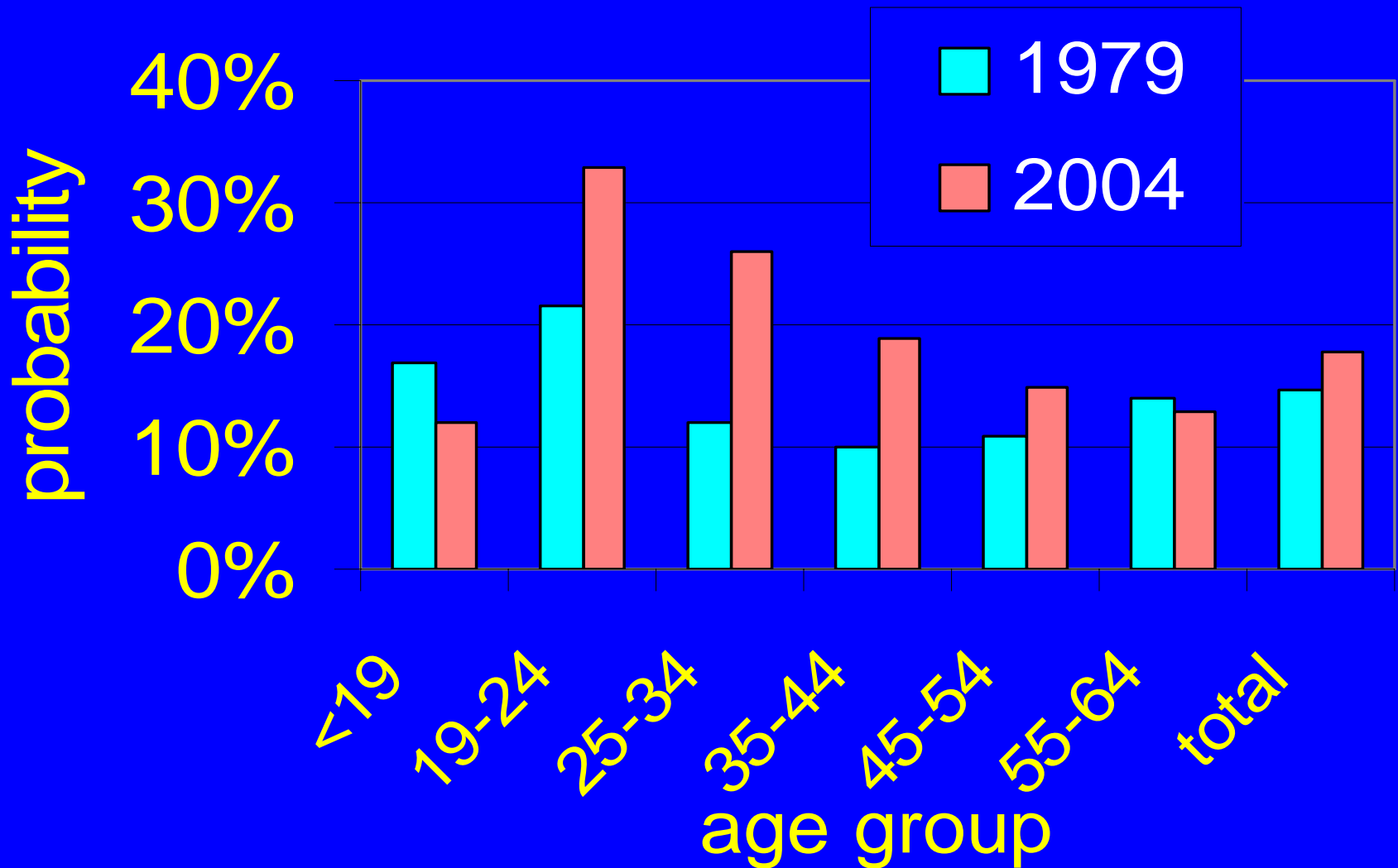
# Income of Uninsured, 2004



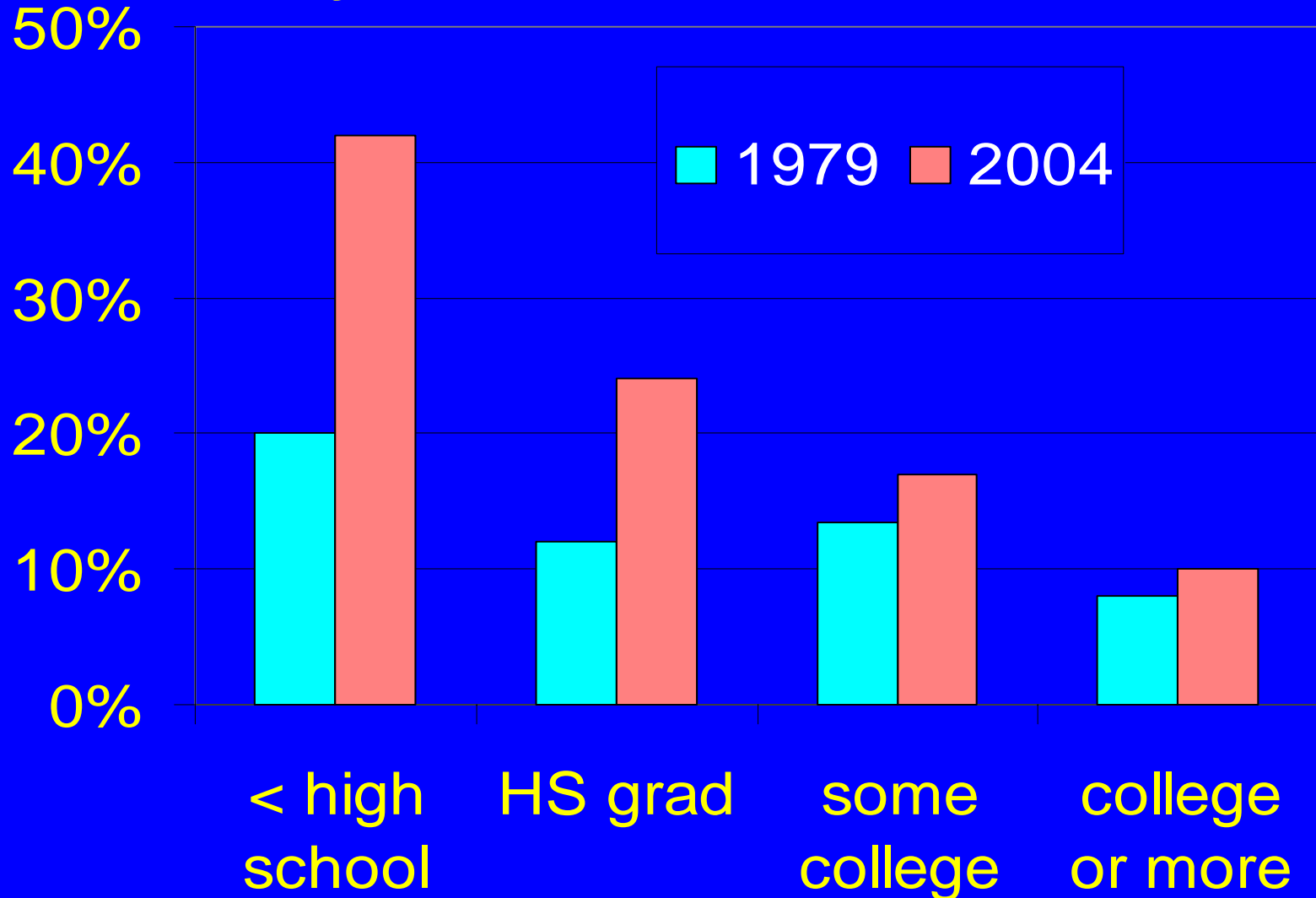
# Probability of Being Uninsured by Middle-Class Income for Adults, 1979 and 2004



# Probability of Being Uninsured by Age, 1979-2004



# Adults' Probability of Being Uninsured by Education, 1979-2004



# **Factors Behind Changes in Uninsured Since 1979**

- **Changing economy and increase in health care expenditures/person**
- **Falling birthrates and changing marriage patterns**
- **Expanded programs for poor and near-poor children and poor adults**



# Changes in Economy

- **Manufacturing to service jobs – manufacturing dropped from 22% of all jobs to 11% since 1979**
- **% of private sector workers in firms with < 50 employees increased from 37% to 43% between 1979 and 2002**
- **Changes in employer-employee relationships – cost of health care an incentive**

# Rising Costs of Health Care

- **More alternatives for treating illnesses and conditions now compared to 25 yrs ago**
- **Per capita health care expenditures rose from \$1,067 in 1980 to \$6,280 in 2004**
- **Health insurance costs an incentive to use more temporary and contract workers**

# Changes in Birthrates and Marriage Patterns

- **Decline in birthrate: 15.9/1000 women in 1980; 14.1/1000 women by 2003**
- **Rise in age of first marriage**
- **Rising labor force participation rates of married women and women with young children**

# **Expansion of Public Programs for Poor and Near-Poor Children**

- **Medicaid eligibility expansions**
- **SCHIPs**
- **Together, almost 40% of all children covered by public insurance**
- **Modest success story – reduced the simple probability of a child being uninsured from 17% to 11.5%**
- **Still, eligible children are not enrolled**

# Summary of Changes

- **Problem for young adults (58% of uninsured are 19 – 44 yrs of age)**
- **Increasingly a middle-class problem due to changes in economy and employer-employee relationships**
- **We're not going back to old economy**

# **Why Do People Have Trouble Obtaining Insurance? (1)**

- Not offered or not eligible for employer-sponsored coverage**
- Few people turn down offered coverage – dynamics issues**

# **Why Do People Have Trouble Obtaining Insurance? (2)**

- **Confusing to apply on one's own – and more expensive than ESI**
- **Those who apply for nongroup coverage: denied coverage or offered policies with exclusions or restrictions**
- **Or offered policies at very high premiums – signal that insurer expects person to be high-cost**

# Higher Premiums in Small Group and Individual Markets

- **Premium = expected costs + loading fee**
- **Loading fee = administrative, marketing costs + payment for bearing risk**
- **Economies of scale in administrative and marketing activities → cheaper in large groups**



# Risk in Insurance

- Risk that costs could be higher than predicted
- Risk of adverse selection in small group and non-group markets
- This second risk is what concerns insurers → disproportionate number of people with extremely high costs

# Forms of Competition – Response to Adverse Selection Risk

- **Market segmentation**
  - Companies specialize
- **Selection mechanisms**
  - Medical underwriting
  - Refusal to issue a policy
  - Exclusion of coverage for pre-existing conditions
  - Many policies with different covered benefits

# Outcome of Competition

- **Focus on selection mechanisms to avoid people predicted to be high-cost – adds to admin costs**
- **Higher premiums discourage younger and lower income workers from buying**

# Implications for Public Policies

- **Public programs and subsidies needed for lower income uninsured – they cannot afford to purchase private coverage**
- **Need for small group and individual market insurance never been greater**

# Implications for Public Policies

- **If we want to retain private insurance, we need to address insurers' concern with adverse selection in these markets**
- **Gov't sponsored reinsurance could do this – and stabilize markets by lowering premiums, bringing in healthy adults**