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

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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

- > median, 30%
- < $10000, 18%
- $10-19999, 18%
- $20-29999, 17%
- $30-43318, 17%
Probability of Being Uninsured by Middle-Class Income for Adults, 1979 and 2004

- 1979:
  - Below median household income: 21%
  - Above median household income: 6%

- 2004:
  - Below median household income: 32%
  - Above median household income: 10%

< median household income

> median household income
Probability of Being Uninsured by Age, 1979-2004

- Probability of Being Uninsured by Age, 1979-2004
- Below is a bar chart showing the probability of being uninsured by age group for the years 1979 and 2004.
- The chart displays the probability of being uninsured for different age groups: <19, 19-24, 25-34, 35-44, 45-54, 55-64, and total.
- The chart compares the probability of being uninsured for the years 1979 and 2004.

- The chart shows a significant increase in the probability of being uninsured for the 25-34 age group in 2004 compared to 1979.
- The probability of being uninsured for the other age groups also shows some variation between the two years.

- The chart includes a legend indicating the colors used for each year: 1979 (light blue) and 2004 (red).

- Further analysis and discussion of the data would be required to understand the underlying factors contributing to these changes.
Adults’ Probability of Being Uninsured by Education, 1979-2004

- < high school
- HS grad
- some college
- college or more

1979 versus 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 \(\rightarrow\) 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