

BRIEF ANALYSIS

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Uninsured by Choice: Update

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The Census Bureau recently reported that the number of Americans without health insurance rose in 2002 to around 43.6 million, up from 38.7 million in 2000 but below the record 44.3 million who were uninsured in 1998. With health care costs increasing, many public health advocates are worried that this number might rise further. Why do more than 43 million Americans lack health insurance? Who are they?

Income and Insurance. A common assumption is that most uninsured Americans simply cannot afford the cost of coverage. However, the evidence points to other factors in many cases. For example, during the last decade, the ranks of the uninsured have increased among affluent households and decreased among low-income households. [See the Figure.]

- From 1993 to 2002 the number of uninsured people in households with annual incomes above \$75,000 increased by 114 percent.
- The number of uninsured in households with annual incomes from \$50,000 to \$75,000 increased by 57 percent.
- By contrast, the number of uninsured people in households with incomes under \$25,000 fell by 17 percent.

About three-quarters of the rise in the number of uninsured over the past four years has been among households earning more than \$50,000 per year, and

almost half of that has occurred among households earning more than \$75,000 per year. In fact, almost one-third of the uninsured now live in households with annual incomes above \$50,000 and one in five live in households earning more than \$75,000 annually.

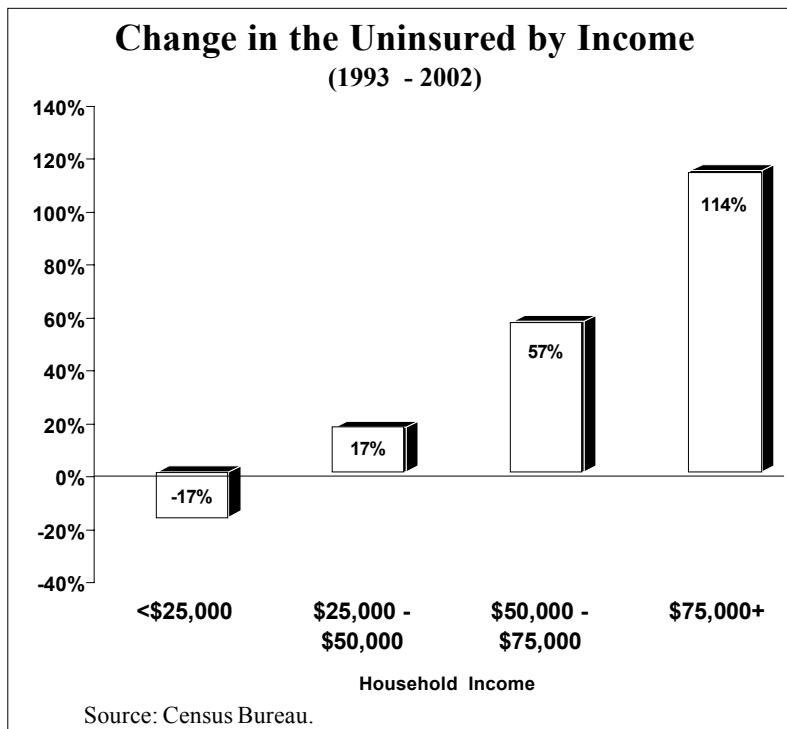
Eligibility for Government Insurance. Another common assumption is that most uninsured Americans simply have no access to affordable coverage. Yet according to research by the public policy arm of Blue Cross Blue Shield Association, approximately 14 million uninsured adults and children are currently eligible for government coverage, such as Medicaid or the

State Children's Health Insurance Program (SCHIP), but have not bothered to enroll. Consider this: Virtually all children from low-income families are eligible for Medicaid or SCHIP. Yet the parents of more than five million eligible children have failed to enroll them. In addition, close to nine million nonelderly adults qualify for Medicaid but are not enrolled.

Age, Health Status and Insurance. Young adults (18-24) are less likely than other age groups to

have health insurance, averaging 70.4 percent in 2002, compared with 82.0 percent of those 25 to 64 and 99.2 percent of those aged 65 and above. Indeed, according to the Census Bureau, 41 percent of the uninsured (17.9 million) are between the ages of 18 and 34. Good health is common in younger people, which may help explain why so many of them don't obtain health insurance. They consider other uses of their money more valuable.

For example, according to the Bureau of Labor Statistics 2001 Consumer Expenditure Survey, households headed by young people between ages 25 and 34



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spend more than three times as much of their income on entertainment and dining out as on out-of-pocket health care expenses. For even younger heads of household (18-to-24-year-olds), the annual expenditure on entertainment and dining out is almost five times more than out-of-pocket spending on health care. By contrast, households headed by individuals ages 65 to 74 spend almost 50 percent more on out-of-pocket health care than on entertainment and food away from home. If the young uninsured had unmet health needs, they likely would shift some of this discretionary spending into health care.

Uninsured Status Duration. Many people assume those without insurance are not covered for years. However, when measured on a monthly basis, spells without health insurance tend to be of short duration. Census Bureau data show that about three-quarters (74.7 percent) of these spells are over within one year, while only 2.5 percent last more than three years. The Blue Cross Blue Shield Association found that of those uninsured households with incomes below \$50,000 who didn't qualify for public coverage, nearly half (5.7 million) were uninsured six months or less.

Government Policies Make Things Worse. Well-meaning government policies increase the ranks of the uninsured. For many people struggling to make ends meet, free care is a substitute for buying coverage. Federal law prohibits hospitals from turning away patients in need of emergency care, so providers rarely refuse treatment for acute conditions. According to an Urban Institute study, public and private organizations spend an average of about \$1,000 on free medical care annually for each uninsured individual.

State governments are also making it increasingly easy for individuals to obtain insurance even after they become ill. State *guaranteed issue* laws encourage people to remain uninsured until they need care. For every sick person who gets insurance, another two or three healthy people drop out because of rising premium costs, thus making the overall level of coverage worse.

Another way government discourages health insurance is by crowding out private insurance with government coverage — principally Medicaid and CHIP — that replaces private coverage. According to a study in the *Quarterly Journal of Economics* on the expansion of government programs in the early 1990s, 50 percent to 75 percent of the new Medicaid spending was offset by a reduction in employer coverage. Employers realize that their low-income employees have a government alternative and would rather have more wages than health insurance. Finally, although government provides tax subsidies for employer-sponsored health insurance of \$141 billion in 2000, there is very little tax subsidy for people who buy their own insurance.

Bush Administration Proposals. President Bush has proposed a refundable tax credit of \$3,000 per family (or \$1,000 per individual) for up to 90 percent of the cost of health insurance. This would allow low-income workers to get the same tax subsidy that the wealthy currently enjoy.

The Administration has also proposed allowing workers with flexible spending accounts (FSAs) to rollover up to \$500 in unused funds each year, and it wants to expand access to medical savings accounts (MSAs) to all employees. Currently, FSAs have a use-it-or-lose-it feature whereby any unused funds are forfeited each year; and currently, only small employers and the self-employed have access to MSAs.

MSAs let people accumulate money tax-free for medical needs. Any funds not needed for medical care can be used for other purposes or rolled over for future health care needs, including paying health insurance premiums between jobs. Thus MSAs help people remain insured. They also make insurance more attractive. According to the Internal Revenue Service, 71 percent of people with MSA plans were previously uninsured.

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