

BRIEF ANALYSIS

No. 528

For immediate release:

Thursday, September 22, 2005

Crisis of the Uninsured: 2005 Update

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Despite claims that there is a health insurance crisis in the United States, the proportion of Americans without health coverage has changed little in the past decade. The increase in the number of uninsured is largely due to immigration and population growth.

How Big Is the Problem? About 271 million people, accounting for about 93 percent of the population, either have health insurance or have access to it. Specifically:

- More than 84 percent (245.3 million) of the 291 million U.S. residents are privately insured or are enrolled in a government health program, such as Medicare, Medicaid or State Children's Health Insurance Programs (SCHIP).
- An additional 10 million to 14 million adults and children qualify for government programs but have not enrolled.
- Another 16 million live in households with annual incomes above \$50,000 and could likely afford health insurance.

By these estimates, about 9 percent theoretically have access but have chosen to forgo insurance. The remaining portion (about 7 percent of the population) earn less than \$50,000 annually.

How Serious Is the Problem? A better way to look at health coverage may be to count the number of people without health insurance for the past few years. According to Census Bureau figures, the proportion of people without health insurance was about the same in 2004 (15.7 percent) as it was a decade earlier (15.4 percent in 1995). However, the number of people without health

coverage increased by about 5.2 million people to 45.8 million, largely due to population growth. Typically, those who lack insurance are uninsured for only a short period of time — 75 percent of uninsured spells are over in one year or less.

The Congressional Budget Office (CBO) found that Census Bureau surveys give a snapshot of current insurance status rather than revealing the number uninsured for a period of time. The CBO estimated that, in 2002, 21 million to 31 million people had been uninsured for a year or more — far short of the 45 million figure often cited.

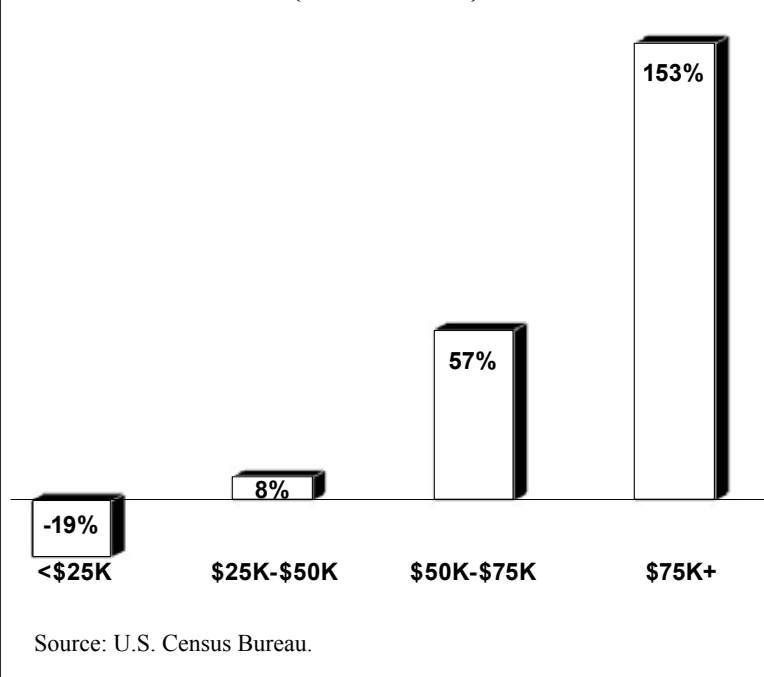
Who Are the Uninsured? The uninsured include diverse groups, each uninsured for a different reason.

Immigrants. Just under 12 million foreign-born residents lack health coverage. Census Bureau data illustrates that this is largely a function of how long they have resided in the United States. For instance, over half (53 percent) have been residents less than 10 years while 82 percent have been residents less than 20 years.

Some 34 percent of foreign-born U.S.

residents lack health insurance compared with only 13 percent of native-born Americans. Although immigrants (including naturalized U.S. citizens) make up slightly less than 12 percent of the population, they make up 26 percent of the uninsured. Income may be a factor — but not the only one. For instance, Hispanics have an uninsured rate 10 percentage points higher than Caucasians with the same incomes. A partial explanation for this disparity is that many immigrants come from cultures without a strong history of private health insurance and are not accustomed to paying premiums for health care when they aren't sick.

Change in the Uninsured by Household Income (1995 to 2004)



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The Poor. Among those earning up to \$25,000 per household, levels of insurance have actually increased by about 19 percent over the past 10 years. [See the figure.] The expansion of Medicaid and SCHIP has increased coverage — yet millions of families eligible for these programs do not enroll. When paid staffers at public institutions attempt to sign people up in hospital emergency rooms and clinics — even as they wait for their medical care — they apparently fail more than half the time!

The Young and Healthy. Federal law forbids hospital emergency rooms from turning away critical care patients. With the certainty of receiving free emergency care, many people may forgo paying for coverage when they are healthy and feel the probability of becoming ill is low. And for moderate health problems, they can likely pay for treatment out of pocket. Most people have access to some type of care; free or charity care, for instance, amounts to more than \$1,000 per uninsured individual each year. This is one reason why nearly 19 million people ages 18 to 34 are uninsured. Most of them are healthy; they know they can pay for incidental expenses out-of-pocket and purchase insurance only when they become seriously ill.

Higher Income Workers. Over the past 10 years, the fastest growing segment of the uninsured population has been middle and upper income families. The numbers of uninsured among these higher income households actually increased by almost eight million. The ranks of the uninsured in households earning \$50,000 to \$75,000 increased 57 percent and increased by 153 percent among households earning above \$75,000. According to a study by Hanns Kuttner, of the University of Michigan, the likely reason is that the number of people living in households earning more than \$50,000 annually has increased substantially. In 1995, about 102 million people lived in households earning more than \$50,000. This rose to nearly 155 million by 2004. In 1995, only about 8 percent of households earning more than \$50,000 were uninsured. By 2004, this had increased to 10.3 percent.

State Mandates. Government policies that drive up the cost of health insurance may partly explain why millions of people forgo coverage. For instance, many

states try to make it easy for a person to obtain insurance after becoming sick by requiring insurance companies to offer instant coverage for pre-existing conditions with no waiting period. Thus, when people are healthy they have little incentive to participate, and tend to avoid paying for coverage until they need care.

Some states also impose “community rating,” forcing insurers to charge the same premium to all, no matter how sick or healthy they are when they purchase insurance. This mandate drives up the cost of insurance. Because their premiums are far higher than their anticipated medical needs, healthy people are often priced out of the market.

Lack of Tax Incentives. Employers who provide insurance receive generous tax subsidies, but there are few tax incentives available to individuals who purchase their own insurance. The insurance benefit is excluded from the taxable income of workers with employer-provided coverage. Thus, the subsidy is greatest for workers in higher income tax brackets. The subsidy is worth, on average, \$2,780 per year to workers earning more than \$100,000. By contrast, it is worth only \$725 to those earning \$20,000 to \$30,000.

Conclusion. Despite claims that the United States is experiencing a health insurance crisis, the proportion of people without insurance coverage has changed little in recent years.

More uninsured workers could afford private health insurance if Congress adopts President Bush’s proposed refundable tax credit of up to \$1,000 per individual (\$3,000 per family). This credit would reduce out-of-pocket insurance costs if it were advanced as insurance premium payments came due. Additionally, many of today’s uninsured who don’t consider health care a “good buy” may change their minds now that health savings accounts (HSAs) are available. Unused HSA funds can be rolled over for use in future years. HSAs will make coverage more affordable for healthy and young workers, who will find insurance more attractive if they know their money isn’t wasted if they don’t need care in any particular year.

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