



BRIEF ANALYSIS

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Uninsured by Choice

By Devon Herrick

The Census Bureau recently reported that the number of Americans without health insurance fell to around 38.7 million in 2000, down about 600,000 from 1999 and well below the record 44.3 million who were uninsured in 1998. However, with health care costs increasing and the economy slowing, many public health advocates are worried that this number might soon begin to rise. Why do more than 38 million Americans lack health insurance? Who are they?

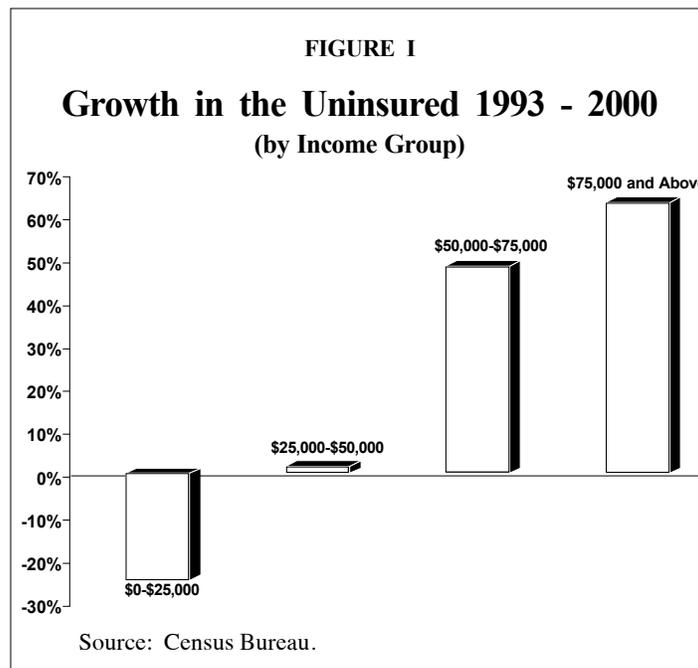
Income and Insurance. A common assumption is that most uninsured Americans simply cannot afford the cost of coverage. However, the evidence points to other factors in many cases. For example, during the last decade, the ranks of the uninsured have increased among affluent households and decreased among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

- From 1993 to 2000 the number of uninsured people in households with annual incomes above \$75,000 increased by 63 percent and the number in households with annual incomes from \$50,000 to \$75,000 increased by 48.2 percent.
- By contrast, the number of uninsured people in households with incomes under \$25,000 fell by 25 percent.
- Almost one-third of the uninsured now live in households with annual incomes above \$50,000.

Eligibility for Government Insurance. Further, many low-income households have access to public programs but fail to take advantage of them. Virtually all children from low-income families are eligible for Medicaid or the State Children's Health Insurance

Program (SCHIP). Yet the parents of about 7.7 million eligible children failed to enroll them. Research by the Urban Institute found that 88 percent knew about the health insurance programs for poor children, but fewer than one-fourth had ever inquired about them.

- 40 percent of those who had not inquired and 16 percent who inquired and didn't apply said they "did not need or want" the programs.
- 14 percent of those who had not inquired and 38 percent who inquired and didn't apply said they didn't want to deal with the "administrative hassles."



Age, Health Status and Insurance. According to the Census Bureau, 40 percent of the uninsured (15.2 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 feel they don't need health insurance. Often, they consider their money better spent on other things.

A study in the Bureau of Labor Statistics' *Monthly Labor Review* found that uninsured consumers tended to be younger than the general population — with a greater portion under age

25. Although not necessarily poor, their average income was lower than the insured. Yet, as Figure II shows, the uninsured spent about the same portion of their income on recreation, alcohol and tobacco as did the fully insured, but spent less than half as much on health care. If the uninsured have unmet health needs, they would likely shift some of this discretionary spending towards health care.

Ethnicity and Health Insurance. Another important factor in whether someone has health insurance is ethnicity. This is especially true with immigrant populations. One-fourth of the uninsured are foreign-born, and 80 percent of those are not citizens. Many likely come from cultures without a long

history of health insurance. For example, nearly a third of all Hispanics lack health insurance.

- A study from Texas found that 54 percent of Hispanics earning less than \$15,000 per year are uninsured, compared with 40 percent of African-Americans and 30 percent of non-Hispanic whites with similar incomes.
- Even at the \$50,000+ household income level, almost a quarter of Hispanics are uninsured, compared with 14 percent of African-Americans and 10 percent of non-Hispanic whites.

Why Don't People Choose to Buy Health Insurance? As with any good or service, the purchase of health insurance has a lot to do with preferences and priorities. Many people complain about a lack of "affordable health insurance," while others contend that health insurance just isn't a good value. Yet, both statements are really people's way of saying they can't buy insurance that suits their needs.

Most health insurance is prepayment for routine care that the insured population is expected to use during the year. However, many people may not wish to divert scarce cash from their budget to pay in advance for physicians' office visits — especially if they may not need them. Often uninsured individuals who are young and healthy do not want to pay high insurance rates that essentially subsidize older, wealthier (less healthy) people. Most of the uninsured realize they can obtain care if needed. Simple physician visits can be paid out-of-pocket. In addition, safety net providers inadvertently create powerful incentives for many

to remain uninsured. Federal law prohibits hospitals from turning away patients in need of emergency care so providers rarely refuse treatment for acute conditions. For example, in Texas, public and private organizations spend an average of about \$1,000 annually on free medical care, including unreimbursed physician services, for each uninsured Texan.

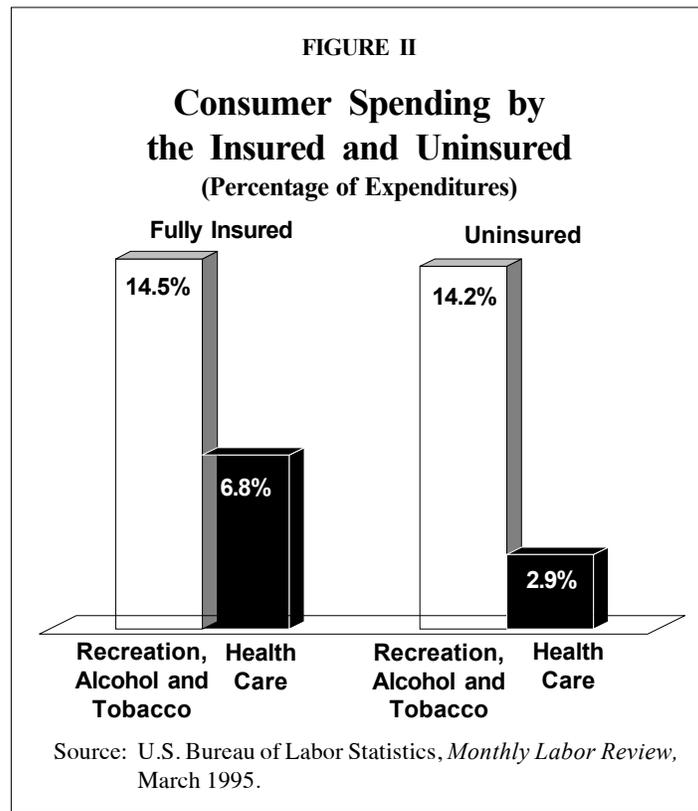
Finally, our current system subsidizes the affluent with tax deductions and the poor with government programs like Medicaid. It provides little help for Americans working at moderate wages who do not have employer-provided coverage.

It's unlikely any program could ever compel all

individuals to obtain coverage. However, part of the solution is to give uninsured, working Americans the option of obtaining private insurance that better suits their needs. This might be in the form of a refundable tax credit that allows low-income people the same tax subsidy that the wealthy currently enjoy. Another good idea is expanding Medical Savings Accounts (or Flexible Spending Accounts) to let people accumulate money tax-free for medical needs. Any funds not needed for medical care could be used for other purposes or rolled over for future health care needs. Under such a program, the number of people who say "health insurance isn't a good

value for the money" would fall — as would the number of those who choose to forgo health insurance.

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