



BRIEF ANALYSIS

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Crisis of the Uninsured: 2006 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? In 2005, according to Census Bureau data:

- More than 84 percent (247.3 million) of the 293 million U.S. residents were privately insured or 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 qualified for government programs but have not enrolled, experts estimate.
- Another 17 million live in households with annual incomes above \$50,000 and could likely afford health insurance.

By these estimates, nearly 10 percent theoretically have access but have chosen to forgo insurance. The remaining portion (about 6 percent of the population) earn less than \$50,000 annually.

How Serious Is the Problem? According to a new Census Bureau report, the proportion of people without health insurance was only slightly higher in 2005 (15.9 percent) than it was a decade earlier (15.6 percent in 1996). During this decade, the number of people with health coverage rose by 22 million. However, the number of people without health coverage increased by about 5 million people to 46.6 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 last 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 21 million to 31 million people had been uninsured for a year or more in 2002 — far short of the 46 million figure often cited. This is consistent with a recent report by the National Center for Health Statistics which found that in 2005 only 29 million had been uninsured for more than

a year at the time they were interviewed.

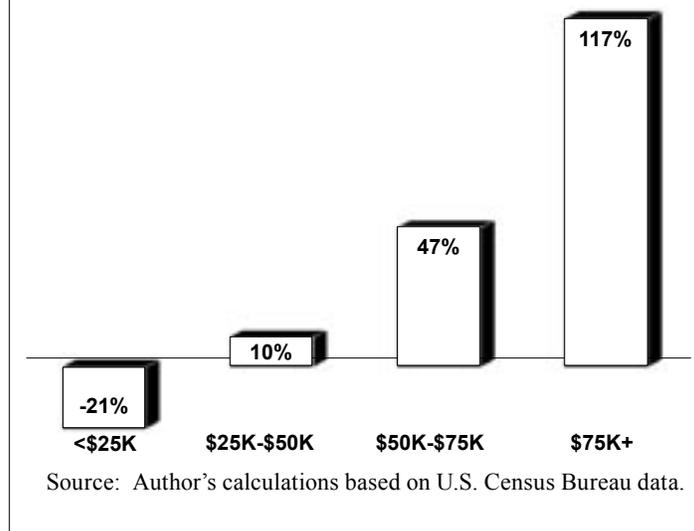
Who Are the Uninsured? The uninsured include diverse groups, each uninsured for a different reason.

Immigrants. Nearly 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. In 2005, some 34 percent of foreign-born U.S. residents lacked 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 non-Hispanic whites at the same income levels. A partial explanation for this disparity is that many immigrants come from cultures without a strong history of paying premiums for health insurance.

The Poor. Among households earning up to \$25,000, the number of uninsured actually decreased by about 21 percent over the past 10 years. [See the figure.] The expansion of Medicaid and SCHIP increased coverage — yet millions of families eligible for these programs do

**Change in the Uninsured
by Household Income
(1996 to 2005)**



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not enroll. When paid staffers at some public hospitals attempt to sign people up in the emergency room, they apparently fail more than half the time!

The Young and Healthy. 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 federal and state legislatures has made it increasingly easy to purchase insurance after people become seriously ill.

Higher-Income Workers. Over the past 10 years, the fastest-growing segment of the uninsured population was middle- and upper-income families. The number of uninsured among these higher-income households actually increased by almost 8 million. The ranks of the uninsured in households earning \$50,000 to \$75,000 increased 47 percent, while households earning above \$75,000 increased 117 percent. 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 1996, about 100 million people lived in households earning more than \$50,000. This rose to nearly 161 million by 2006. In 1996, only about 8 percent of households earning more than \$50,000 were uninsured. By 2005, this had increased to 10.6 percent.

The “Free Care” Alternative. Why buy health insurance if you know that free health care is available once you get sick? Federal law forbids hospital emergency rooms from turning away critical care patients. With the certainty of receiving free emergency care, many people forgo paying for coverage. While estimates vary, free care spending ranges from \$1,049 to a high of \$1,548 per full-time uninsured individual. In addition, the federal and state governments spend more than \$300 billion annually on such “free” public health insurance as Medicaid and state childrens health insurance programs (S-CHIP). Studies show that the expansion of government insurance crowds out private insurance. This means that some people who are privately insured give up their private coverage because they have the opportunity to enroll in a public program.

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 immediate 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,” which forces 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 for the healthy. Because their premiums are far higher than their anticipated medical needs, healthy people are often priced out of the market.

Tax Discrimination. Employees who obtain employer-sponsored insurance receive generous tax subsidies, but there are few tax incentives available to individuals who purchase their own insurance. Also, since the insurance benefit is excluded from the taxable income of workers with employer-provided coverage, the subsidy is greatest for those in higher income tax brackets. On average, the subsidy is worth \$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. Even so, much can be done to reduce the number of uninsured.

Instead of turning to taxpayers to solve the problem, we should use the free care money taxpayers are already providing to subsidize the purchase of private insurance. This is precisely what Gov. Mitt Romney is trying to do in Massachusetts.

Additionally, many of today’s uninsured who do not 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 make coverage more affordable and attractive for healthy and young workers who know their money isn’t wasted if they do not need care in any particular year.

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