



BRIEF ANALYSIS

Crisis of the Uninsured: 2007

by Devon Herrick

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 — and to individual choice.

How Big Is the Problem? In 2006, according to Census Bureau data:

- More than 84 percent (250.4 million) of U.S. residents were privately insured or enrolled in a government health program, such as Medicare, Medicaid and the State Children's Health Insurance Programs (S-CHIP).
- Up to 14 million uninsured adults and children qualified for government programs in 2004 but had not enrolled, according to the BlueCross BlueShield Association.
- Nearly 18 million of the uninsured live in households with annual incomes above \$50,000 and could likely afford health insurance.

In theory, therefore, about 32 million people, or 68 percent of the uninsured, could easily obtain coverage but have chosen to forgo insurance. That means that about 94 percent of United States residents either have health coverage or access to it. The remaining 6 percent live in households that earn less than \$50,000 annually. This group does not qualify for Medicaid and (arguably) earns too little to easily afford expensive family plans costing more than \$12,000 per year. However, they could afford the limited benefit plans that are gaining in popularity (see below).

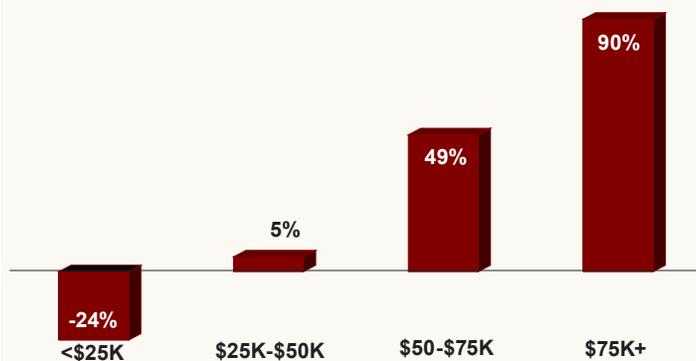
How Serious Is the Problem? According to the Census Bureau, the proportion of people without health insurance was slightly lower in 2006 (15.8 percent) than a decade earlier (16.2 percent in 1997). During the past 10 years the number of people with health coverage rose nearly 25 million, while the number without health coverage only increased about 3.5 million. Both increases are largely due to population growth. Typically, those who lack insurance are uninsured for only a short period of time. The Congressional Budget Office estimated that 21 million to

31 million people had been uninsured for a year or more in 2002 — far short of the 47 million figure cited by proponents of universal health care. Of all the people who are uninsured today, less than half will still be uninsured 12 months from now.

Who Are the Uninsured? It is often assumed that the uninsured are all low-income families. But among households earning less than \$25,000, the number of uninsured actually fell by about 24 percent over the past 10 years. [See the figure.] The uninsured include diverse groups, each uninsured for a different reason:

Immigrants. About 12.6 million foreign-born residents lack health coverage — accounting for 27 percent of the uninsured. In 2006, 83.6 percent of naturalized citizens had coverage — close to the rate of native-born residents (87.8 percent). In contrast, 45 percent of foreign-born noncitizen residents were uninsured. These 10 million uninsured immigrants were more than 20 percent of the total number of uninsured U.S. residents. Income may be a factor — but not the only one. A partial explanation for this disparity is that many immigrants come from cultures without a strong history of paying premiums for private health insurance. In addition, immi-

Percent Change in the Number of Uninsured Americans by Income (1997 - 2006)



Source: Carmen DeNavas-Walt, Bernadette D. Proctor and Jessica Smith, "Income, Poverty, and Health Insurance Coverage in the United States: 2006," U.S. Department of Commerce, U.S. Census Bureau, publication P6-233, August 2007.

grants do not qualify for public coverage until they have been legal residents for more than five years.

The Young and Healthy. About 19 million 18-to-34-year olds are uninsured. Most of them are healthy and know they can pay incidental expenses out of pocket. Using hard-earned dollars to pay for health care they don't expect to need is a low priority for them.

Higher-Income Workers. As the figure shows, the fastest-growing segment of the uninsured population over the past 10 years has been middle- and upper-income families. From 1997 to 2006, the number of uninsured among households earning more than \$50,000 annually actually increased by more than seven million. The ranks of the uninsured in households earning \$50,000 to \$75,000 increased 49 percent, while the number of uninsured households earning above \$75,000 increased 90 percent.

Why the Poor Are Uninsured: The “Free Care” Alternative. Many people do not enroll in government health insurance programs because they know that free health care is available once they get sick. Federal law forbids hospital emergency rooms from turning away critical care patients regardless of insurance coverage or ability to pay. Estimates of spending on free care range from \$1,049 to \$1,548 for each individual who is uninsured for an entire year. This does not include the more than \$300 billion the federal and state governments spend annually on such “free” public health insurance as Medicaid and S-CHIP. Furthermore, there is little incentive to enroll in public programs because families can always sign up when the need arises.

Why the Nonpoor Are Uninsured: State Mandates. Government policies that drive up the cost of private health insurance may partly explain why millions of people forgo coverage. 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.

How to Reduce the Number of Uninsured: Limited Benefit Plans. Some of the uninsured would purchase insurance if policies were more to their liking. The state of Tennessee recently conducted focus groups with blue-collar workers and discovered that what people want is very different from what health policy experts think they should have. For example, there was very little interest in insurance for catastrophic events. Instead, people wanted insurance benefits that pay for primary care visits or prescription drugs. Limited benefit plans designed to meet these patients' demands are the cornerstone of TennCare, the state program to cover low-income families in Tennessee. And these types of plans are gaining in popularity. Insurers say more than a million people already have limited health plans. Employers also are establishing their own plans, especially for part-time workers.

How to Increase the Number of Uninsured: Mandatory Insurance. If millions of people have access to coverage but choose not to enroll, should they be forced to? The logic is simple: If people won't buy health insurance voluntarily, pass a law mandating that they buy it anyway. This is a requirement of the Massachusetts health reform law and many of the other universal coverage proposals. This is also how auto insurance works in 47 states. The problem is: It doesn't work! Recent research by Greg Scandlen, published by the National Center for Policy Analysis, found that the rate of uninsured motorists is very similar to the proportion of people lacking health insurance.

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. This could include deregulating insurance markets to allow affordable plans that are attractive to the young and healthy. It could also include subsidizing the purchase of private insurance using the free-care money taxpayers are already providing. Finally, the use of limited benefit plans could be expanded to make insurance coverage more affordable to low-income families.

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