



*ISSUE BRIEF*

**WHO PAYS FOR HEALTH CARE  
WHEN WORKERS ARE UNINSURED?**

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**ABSTRACT:** Employer-sponsored insurance coverage forms the backbone of the U.S. health insurance system, yet there are crucial weaknesses that have contributed to a growing number of uninsured Americans. Ultimately, the lack of employer-based coverage generates public costs in the form of taxpayer bills to fund public insurance or uncompensated care programs for care that would otherwise be paid for through insurance. This report quantifies those costs, using data from the Medical Expenditure Panel Surveys to estimate public program spending and uncompensated care costs for uninsured workers and their dependents. In 2004, uninsured and publicly insured workers and their dependents accounted for \$45 billion in public costs. This includes \$33 billion associated with public program insurance costs and \$12 billion in uncompensated care costs. Public costs associated with uninsured and publicly insured workers and their dependents were 45 percent greater in 2004 than in 1999. All costs are reported in 2004 dollars.

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## **WHO PAYS FOR HEALTH CARE WHEN WORKERS ARE UNINSURED?**

### **Overview**

Employer-sponsored insurance coverage forms the backbone of the U.S. system of health insurance. More than 160 million people, over 60 percent of the under-65 population, have health coverage through their own firm or another employer.<sup>1</sup> Yet, there are crucial weaknesses in the employer-based insurance system—including the voluntary nature of the system and the high costs borne by both employers and employees—that have contributed to the growing number of uninsured Americans. Some workers and family members, especially children, may be eligible for and enroll in public insurance coverage. Those who do not obtain either private or public coverage may forgo health care, draw on savings, or, where available, use safety-net programs to obtain needed care. Ultimately, the lack of employer-based coverage generates public costs in the form of taxpayer bills to fund public insurance programs or uncompensated care that would otherwise be paid for through insurance.

This report uses data from the 2004 Medical Expenditure Panel Survey (MEPS) to quantify the costs to the public when employers do not insure their workers. These costs fall into two categories: 1) those associated with public insurance programs (e.g., Medicaid and the State Children’s Health Insurance Program), and 2) uncompensated care costs of treating people who are uninsured for either the full year or part of the year. These two types of public costs were calculated for all full-time, full-year, non-self-employed workers ages 18–64 and dependents under age 65. The report then compares the costs of full-time, full-year workers in 2004 to equivalent costs in 1999. All costs are reported in 2004 dollars.

Employees of small firms are much more likely than those in larger firms to lack an offer of coverage; consequently, employees of small firms and their family members are more likely to be uninsured or to rely on public programs. Recently, however, there has been an increase in the share of uninsured workers in larger firms.<sup>2</sup> To address this issue, we compare costs across three categories of employed workers: small-firm workers (i.e., workers at firms with between two and 100 employees and only one location), multi-location-firm workers (i.e., workers at firms with between two and 100 employees per location and more than one location), and large-firm workers (i.e., workers at firms with more than 100 employees per location and either one or more locations).<sup>3</sup>

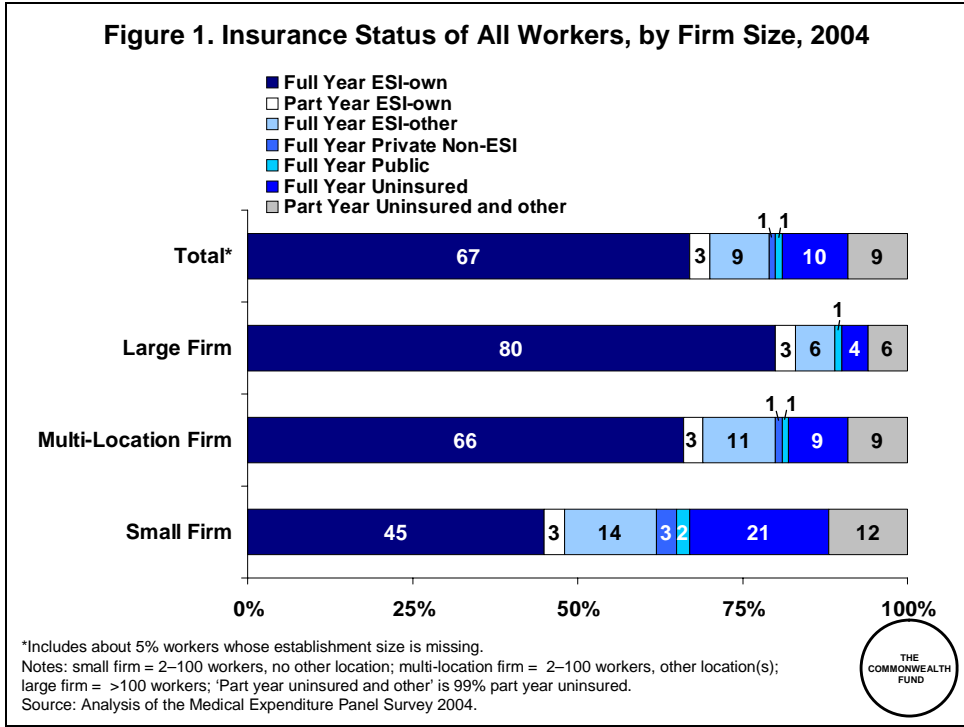
Since 1999, there has been a substantial increase in the number of uninsured and publicly insured full-time workers and families. As a result, there has also been an

increase in public costs. In 2004, 10.8 million full-time workers and their family members were enrolled all year in public health insurance programs, up from 6.3 million in 1999. Additionally, 19.2 million full-time workers and their family members were uninsured in 2004, an increase from 16.2 million in 1999. As a result, the public costs of health care for these workers and their families rose to \$44.5 billion in 2004, up from \$30.5 billion in 1999.

### **Insurance Coverage of Full-Time Workers, 2004**

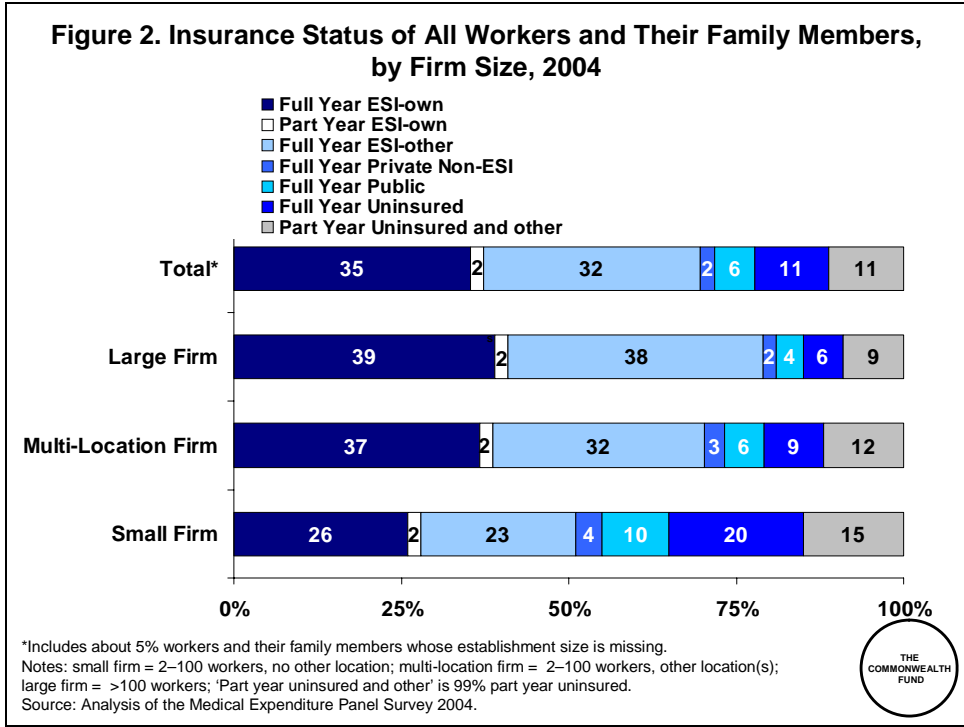
More than two-thirds of full-year, full-time workers get health coverage for the entire year through their own employers (Figure 1, Table 1). About 3 percent of workers are covered for part of the year through their own employers, but do not spend any part of the year uninsured. This may reflect job changes, coverage through a spouse, or having public coverage for part of the year. Another 9 percent of workers are covered for the entire year through the employers of family members. A negligible fraction of workers have public coverage (1%) or coverage through other private sources (1%) throughout the year. Ten percent of workers are uninsured throughout the year. An additional 9 percent are uninsured for some part of the year (or, for a small portion of this group, are insured for the full year by a combination of part-year nongroup and part-year public coverage).<sup>4</sup>

Patterns of job-based coverage vary by firm size. Four-fifths (80%) of large-firm workers and two-thirds (66%) of multi-location-firm workers hold full-year coverage through their own employers (Figure 1, Table 1). In contrast, only 45 percent of small-firm workers have coverage through their jobs for the full year. Most small-firm workers have insurance coverage from some source, but more than 21 percent are uninsured all year. Overall, small firms employ the largest share of uninsured workers. Nonetheless, because larger employers account for a disproportionate share (77%) of overall employment, nearly half of the 9 million full-year uninsured workers are employed at large or multi-location firms.



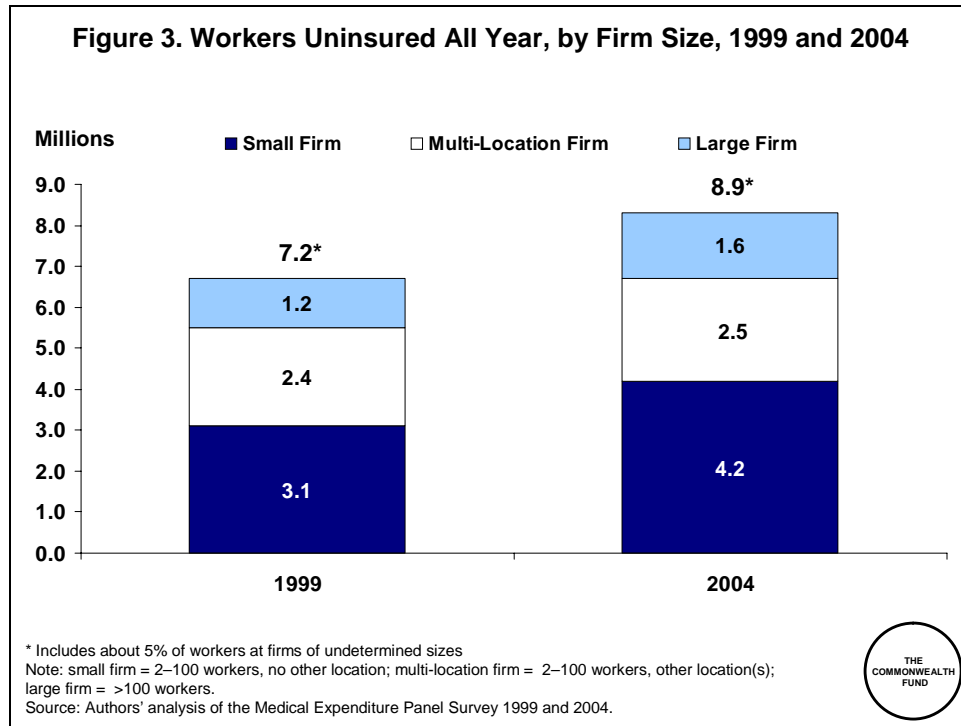
**Insurance Coverage of Families of Full-Time Workers, 2004**

In 2004, nearly 180 million people under age 65 lived in households with a full-year, full-time worker (Table 2). Members of these workers’ households were about as likely to be uninsured as were the workers themselves (Figures 1 and 2). Household members were somewhat more likely than workers to obtain coverage in the nongroup market and much more likely to obtain coverage through public programs. Uninsured workers and their family members were disproportionately associated with small firms. But, because of the scale of employment in large firms discussed previously, in 2004, 52 percent of the 19.2 million full-year uninsured workers and family members were associated with large or multi-location firms (Table 2).



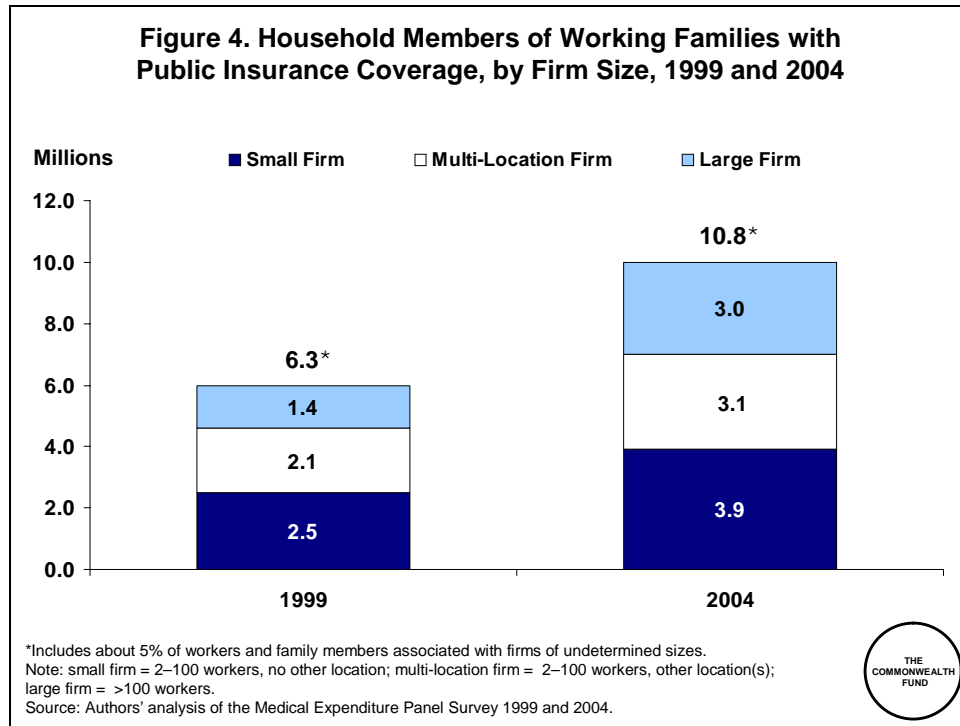
**Changes in Coverage Patterns Since 1999**

The share of full time workers who were uninsured climbed to 10 percent in 2004, up slightly from 8 percent in 1999 (Tables 1, 3). In total, 1.7 million more workers were uninsured in 2004 than were in 1999 (Figure 3). This loss in coverage is a result of the decline of employer-sponsored insurance—workers in 2004 were somewhat less likely to have employer-sponsored insurance than they were in 1999 or to have employer coverage via a family member. The higher rate of uninsured individuals in 2004 occurred mainly among workers in small firms.

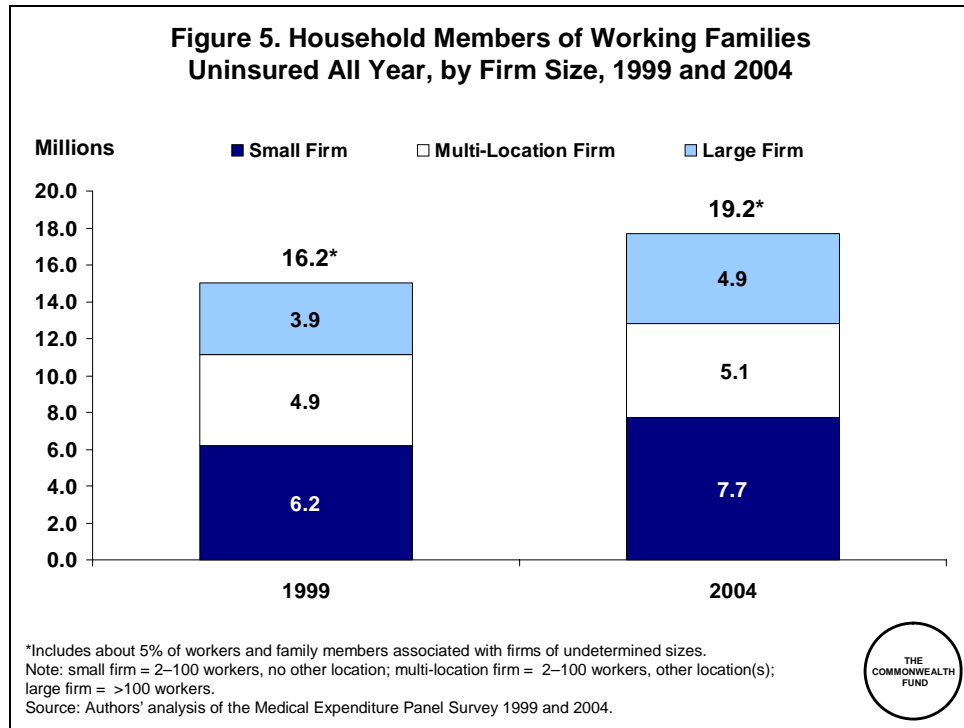


Household members were also somewhat less likely to be covered by a worker's employer-sponsored insurance in 2004 than in 1999. The probability of having health insurance fell by about 3 percentage points among those associated with small establishments and about 1 percentage points in multi-location and larger firms (calculated from Tables 2 and 4).

Offsetting the decline in employer coverage, patterns of public coverage changed markedly (Figure 4). Nearly 11 million workers and family members participated in public health insurance programs in 2004, an increase of about 70 percent since 1999. Of these, 57 percent—or about 6 million people—were workers or family members associated with large or multi-location firms. The proportion of workers and family members enrolled in public health insurance programs increased by two to three percentage points in all employer categories between 1999 and 2004 (Figure 4). Though it remains lower than that of workers employed by small firms, public insurance enrollment increased most rapidly for those associated with large firms. In 2004, about 3 million workers in large firms were enrolled in public health insurance, up from 1.4 in 1999, an increase of more than 100 percent.



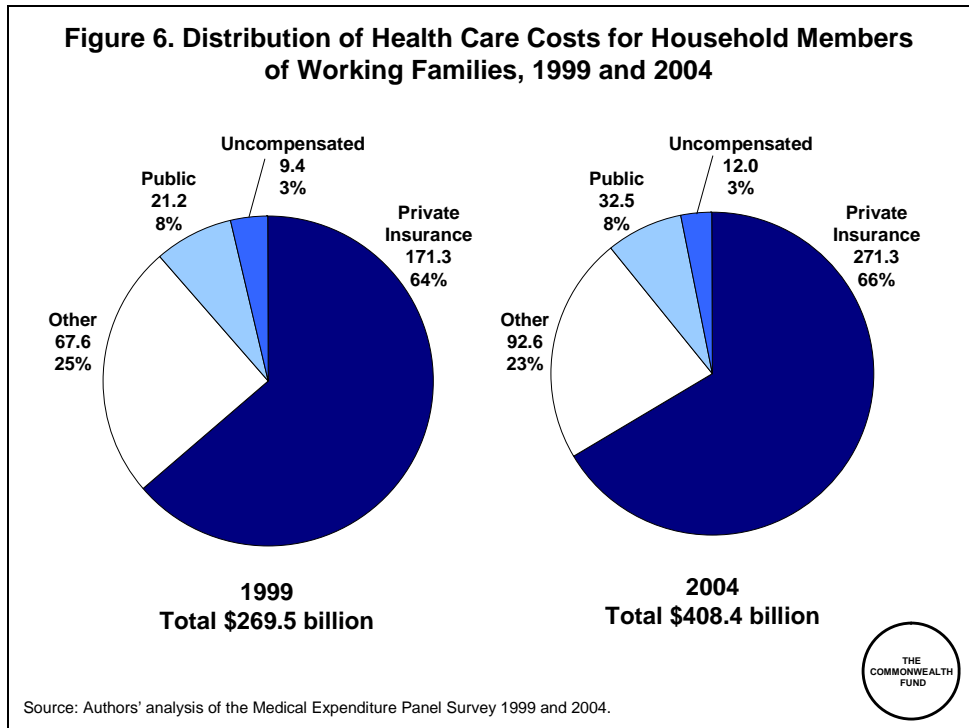
The decline in coverage through a family member's employment was partly offset by this increase in public coverage among employees of large firms. As a result, the share of family members of workers who were uninsured remained unchanged for those associated with multi-location firms and rose by only 1 percentage point for those associated with large firms (calculated from Tables 2 and 4). In contrast, the rate of uninsured people associated with small firms rose by 3.4 percentage points, indicating that an increase in public coverage did not offset the decline in employer-sponsored coverage in this group (Tables 2, 4). Overall, across all firm sizes, the number of uninsured members of working households increased from 16.2 million to 19.2 million between 1999 and 2004 (Figure 5).



### Public Costs of Workers and Family Members

In 2004, full-time workers and their family members incurred health care costs of \$408 billion dollars, an increase of 52 percent since 1999 (Figure 6, Tables 5 and 6). Most health care costs of worker families are paid by private insurance or through other private sources (e.g., out-of-pocket). The share paid by private sources has remained nearly constant over time (Figure 6). But total private insurance costs climbed significantly over the period, increasing by 58 percent.



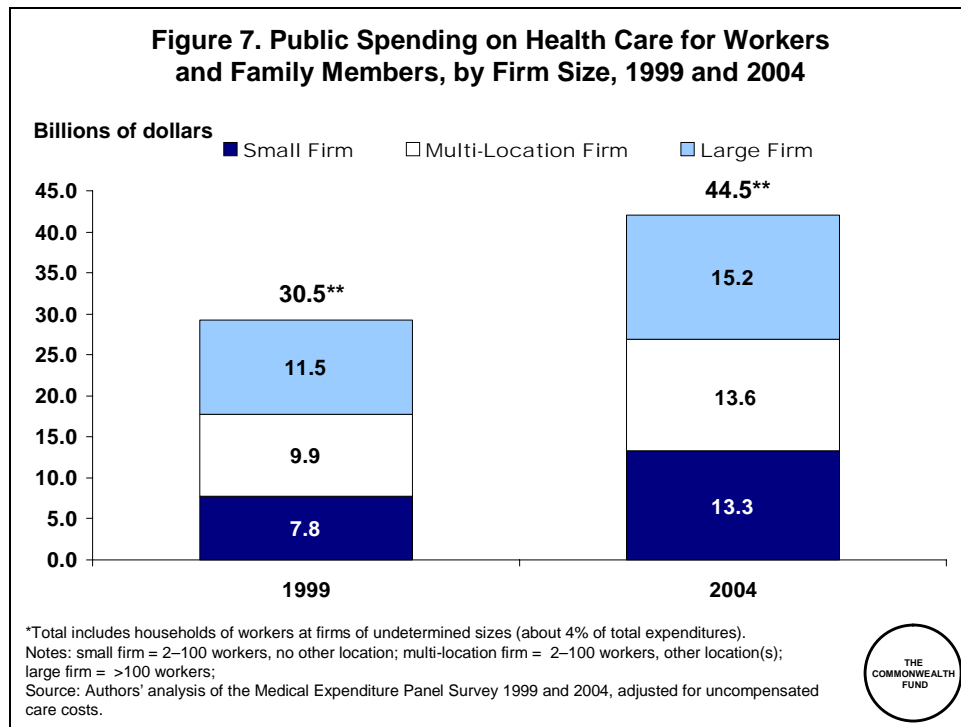


The remainder of the costs is paid by public sources, either through public insurance programs or uncompensated care. While the share of costs paid by public sources has remained roughly constant, the total cost to taxpayers has increased substantially since 1999 to a total of \$45 billion of publicly paid care (Figure 6). Uncompensated care costs increased from \$9.4 billion in 1999 to \$12 billion in 2004. The costs associated with public insurance programs increased from \$21.2 billion in 1999 to \$32.5 in 2004. Overall, total public costs (from both these sources) associated with workers and their families rose by 45 percent, from \$30.5 billion in 1999 to \$44.5 billion in 2004.

The distribution of costs varied according to the different firm sizes. Between 1999 and 2004, the share of total expenses paid by private sources rose by six-tenths of a percentage point for individuals associated with multi-location firms, rose by 1.9 percentage points for those associated with large firms, and fell by 3.6 percentage points for those associated with small firms (calculated from Tables 5 and 6), consistent with the decline in private coverage, which was concentrated in small firms. The share of expenses paid via public sources increased in small firms and declined slightly in multi-location and large firms.

Overall, by 2004, public sources paid for \$15.2 billion of care costs among workers and family members associated with large firms, an increase of about one-third since 1999; \$13.6 billion of care costs for those associated with multi-location firms

(about 37 percent more than in 1999); and \$13.3 billion of care costs for those associated with small firms (about 71 percent more than in 1999) (Figure 7).



## Discussion

Many working people and their families participate in public health insurance programs, use publicly funded health services, or go without health coverage altogether. In some cases employers may not offer benefits. In others, employees may not qualify for benefits or may not have the financial means to participate in coverage.

Large firms are much more likely to offer coverage than are smaller firms. Recently, however, policymakers and advocates have expressed concern about the lack of private health insurance coverage among workers in larger firms. A spate of reports has focused on the public costs incurred by large firms that do not offer substantial coverage. In Tennessee, employees at the largest 20 companies in the state account for 68,000 participants in TennCare, the state's Medicaid program.<sup>5</sup> Some reports suggest that large firms actively encourage their employees and their dependents to enroll in public programs, like the State Children's Health Insurance Program.<sup>6</sup>

Some states have attempted to slow the trend of employers curtailing coverage for workers and their dependents. For instance, in the health reform law enacted in Massachusetts, employers—with the exception of very small firms—are required to share the costs of covering workers.

Consistent with the concerns of advocates and legislators, this paper finds that the public health care costs associated with workers and their family members are rising. A large and growing share of these costs is associated with small firms, mostly due to a declining share of workers (and consequently, their dependents) in these firms who have employer-sponsored insurance. For workers in small firms, this decline has been associated with a marked increase in the levels of uninsured individuals, and in associated uncompensated care costs, as well as an increase in public insurance. For workers in multi-location firms and large firms, the smaller decline in employer-sponsored coverage has been mainly offset by an increase in public coverage. Workers in large firms are less likely than small-firm workers to become uninsured when they have employer-sponsored insurance. While the share of costs paid by public sources has not increased over time, the absolute level of public spending on uninsured workers and their household members has increased very substantially since 1999. In 2004, publicly insured and uninsured workers accounted for \$45 billion in public costs, up from \$31 billion in 1999.

Rising costs have made private health insurance less accessible for many workers. At the same time, expansions in public programs, especially for children, have offered a new source of needed coverage. As policymakers consider further reforms, results from this report suggest they should support plans that combine public program expansions with efforts to maintain or expand employer-sponsored coverage.

## METHODOLOGY AND DEFINITIONS

This report uses the Medical Expenditure Panel Survey (MEPS), 2004 for its main analysis, making comparisons with MEPS, 1999. A worker is someone who works full-time (at least 35 hours a week) for the full year, is 19 to 64 years old, earns at least \$1 per hour in that year's dollars, is not self-employed, and works in an establishment with at least two employees. When a family contains more than one worker, the family members were assigned to the worker employed at the largest-sized firm. Only family members under age 65 were included in the sample. The MEPS data classify workers by establishment size and do not include a firm-size variable. Using the MEPS establishment size variable and a question that asked whether the firm has other locations, the workers were divided into three groups: workers at establishments with 2–100 employees and no other location (small firms); workers at establishments with 2–100 employees and multiple locations (multi-location firms); workers at establishments with more than 100 employees and either one or more locations (large firms).

MEPS data provide monthly insurance status. This report combines these monthly insurance variables to form an annual insurance variable that reflects the insurance status of the subject in a given year. Categories of health insurance status are made mutually exclusive by prioritizing them in the following order: full-year own employer-sponsored insurance, part-year own employer-sponsored insurance, full-year insurance through a family member's employment, full-year other private insurance, full-year public insurance, full-year uninsured, and part-year uninsured.

A modified form of the methodology suggested by Hadley et al.<sup>7</sup> was used to calculate the health care cost of part or full year uninsured workers, and then to calculate their uncompensated care costs.<sup>8</sup>

## NOTES

<sup>1</sup> R. Collins, C. White, and J. L. Kriss, *Whither Employer-Based Health Insurance? The Current and Future Role of U.S. Companies in the Provision and Financing of Health Insurance* (New York: The Commonwealth Fund, Sept. 2007).

<sup>2</sup> S. Glied, J. M. Lambrew, and S. Little, *The Growing Share of Uninsured Workers Employed by Large Firms* (New York: The Commonwealth Fund, Oct. 2003).

<sup>3</sup> About 4% of workers for each year do not report employer size. This group is included in the total numbers, but not in the breakdown by establishment size.

<sup>4</sup> Over 99% of this group spend part of the year uninsured.

<sup>5</sup> J. Commins, D. Flessner, and A. M. Heher, “On the Job and on TennCare,” *Chattanooga Times Free Press*, Jan. 20, 2005, p. A1; and R. Ferrar, “Big Companies Have a Large Number of Workers in Program,” *Knoxville News-Sentinel*, Jan. 30, 2005, p. C1.

<sup>6</sup> A. Dube and K. Jacobs, “Hidden Cost of Wal-Mart Jobs: Use of Safety Net Programs by Wal-Mart Workers in California” (Berkeley, Calif.: UC Berkeley Labor Center, Briefing Paper Series, 2004), available at <http://laborcenter.berkeley.edu/retail/walmart.pdf>, accessed Apr. 04, 2008.

<sup>7</sup> J. Hadley and J. Holahan, “How Much Medical Care Do the Uninsured Use, and Who Pays For It?” *Health Affairs* Web Exclusive (Feb. 12, 2003):w3-66–w3-81.

<sup>8</sup> S. Glied. and B. Mahato, “Health Insurance and Expenditures Among Low-Wage Workers in New York City,” (New York: Columbia Center for the Health of Urban Minorities, Working Paper #1, 2006), available at <http://www.cumc.columbia.edu/dept/chum/objects/publications/health.pdf>, accessed Apr. 04, 2008.

## APPENDIX

**Table 1. Workers by Insurance Status and Firm Size, 2004**

Insurance Status	Total*		Small Firm <sup>a</sup>		Multi-Location Firm <sup>b</sup>		Large Firm <sup>c</sup>	
	(millions)	(percent)	(millions)	(percent)	(millions)	(percent)	(millions)	(percent)
Total (row percent)	88.3	100%	19.8	22%	28.7	32%	35.4	40%
Total	88.3	100%	19.8	100%	28.7	100%	35.4	100%
Full Year ESI-own	59.1	67%	9.0	45%	19.0	66%	28.2	80%
Part Year ESI-own	2.3	3%	0.6	3%	0.8	3%	0.9	3%
Full Year ESI-other	8.3	9%	2.8	14%	3.1	11%	2.2	6%
Full Year Private Non-ESI	1.1	1%	0.6	3%	0.3	1%	0.1	0%
Full Year Public	0.8	1%	0.4	2%	0.2	1%	0.2	1%
Full Year Uninsured	8.9	10%	4.2	21%	2.5	9%	1.6	4%
Part Year Uninsured and other**	7.7	9%	2.3	12%	2.7	9%	2.3	6%

<sup>a</sup> 2–100 workers, no other location; <sup>b</sup> 2–100 workers, other location(s); <sup>c</sup> >100 workers.

\* Includes approximately 5% of workers at firms of undetermined sizes.

\*\* Part-year uninsured and other are 99% part-year uninsured.

Source: Medical Expenditure Panel Survey, 2004.

**Table 2. Workers and Family Members by Insurance Status and Firm Size, 2004**

Insurance Status	Total*		Small Firm <sup>a</sup>		Multi-Location Firm <sup>b</sup>		Large Firm <sup>c</sup>	
	(millions)	(percent)	(millions)	(percent)	(millions)	(percent)	(millions)	(percent)
Total (row percent)	179.5	100%	37.8	21%	55.4	31%	77.0	43%
Total	179.5	100%	37.8	100%	55.4	100%	77.0	100%
Full Year ESI-own	63.5	35%	10.0	26%	20.3	37%	30.0	39%
Part Year ESI-own	3.9	2%	0.8	2%	1.3	2%	1.6	2%
Full Year ESI-other	57.6	32%	8.5	23%	17.5	32%	29.2	38%
Full Year Private Non-ESI	4.4	2%	1.4	4%	1.5	3%	1.4	2%
Full Year Public	10.8	6%	3.9	10%	3.1	6%	3.0	4%
Full Year Uninsured	19.2	11%	7.7	20%	5.1	9%	4.9	6%
Part Year Uninsured and other**	20.2	11%	5.5	15%	6.6	12%	7.0	9%

<sup>a</sup> 2–100 workers, no other location; <sup>b</sup> 2–100 workers, other location(s); <sup>c</sup> >100 workers.

\* Includes approximately 5% of workers and family members at firms of undetermined sizes.

\*\*Part-year uninsured and other are 85% part-year uninsured.

Source: Medical Expenditure Panel Survey, 2004.

**Table 3. Workers by Insurance Status and Firm Size, 1999**

Insurance Status	Total*		Small Firm <sup>a</sup>		Multi-Location Firm <sup>b</sup>		Large Firm <sup>c</sup>	
	(millions)	(percent)	(millions)	(percent)	(millions)	(percent)	(millions)	(percent)
Total (row percent)	87.7	100%	19.0	22%	27.3	31%	37.3	42%
Total	87.7	100%	19.0	100%	27.3	100%	37.3	100%
Full Year ESI-own	59.2	67%	9.4	49%	18.2	66%	29.0	78%
Part Year ESI-own	3.3	4%	0.7	4%	1.1	4%	1.4	4%
Full Year ESI-other	8.4	10%	2.7	14%	2.7	10%	2.7	7%
Full Year Private Non-ESI	1.1	1%	0.5	2%	0.3	1%	0.3	1%
Full Year Public	0.5	1%	0.3	1%	0.1	0%	0.1	0%
Full Year Uninsured	7.2	8%	3.1	17%	2.4	9%	1.2	3%
Part Year Uninsured and other**	7.9	9%	2.4	12%	2.6	10%	2.6	7%

<sup>a</sup> 2–100 workers, no other location; <sup>b</sup> 2–100 workers, other location(s); <sup>c</sup> >100 workers.

\* Includes approximately 5% of workers at firms of undetermined sizes.

\*\* Part year uninsured and other are 99% part-year uninsured.

Source: Medical Expenditure Panel Survey, 1999.

**Table 4. Workers and Family Members by Insurance Status and Firm Size, 1999**

Insurance Status	Total*		Small Firm <sup>a</sup>		Multi-Location Firm <sup>b</sup>		Large Firm <sup>c</sup>	
	(millions)	(percent)	(millions)	(percent)	(millions)	(percent)	(millions)	(percent)
Total (row percent)	176.0	100%	36.8	21%	54.1	31%	77.2	44%
Total	176.0	100%	36.8	100%	54.1	100%	77.2	100%
Full Year ESI-own	64.0	36%	10.3	28%	19.8	37%	31.1	40%
Part Year ESI-own	4.7	3%	0.9	2%	1.6	3%	2.0	3%
Full Year ESI-other	60.2	34%	9.7	26%	17.8	33%	30.3	39%
Full Year Private Non-ESI	3.9	2%	1.3	4%	1.2	2%	1.3	2%
Full Year Public	6.3	4%	2.5	7%	2.1	4%	1.4	2%
Full Year Uninsured	16.2	9%	6.2	17%	4.9	9%	3.9	5%
Part Year Uninsured and other**	20.7	12%	5.9	16%	6.8	12%	7.1	9%

<sup>a</sup> 2–100 workers, no other location; <sup>b</sup> 2–100 workers, other location(s); <sup>c</sup> >100 workers.

\* Includes approximately 5% of workers and family members at firms of undetermined sizes.

\*\* Part year uninsured and other are 85% part-year uninsured.

Source: Medical Expenditure Panel Survey, 1999.

**Table 5. Medical Costs of Workers and Family Members, by Employer Size, 2004**

Medical Cost (in billions of dollars)						
	Total	Private Insurance	Out-of-pocket/other	Public Insurance	Uncompensated	Total Public
Employer Size	(millions)	(millions) (percent)	(millions) (percent)	(millions) (percent)	(millions) (percent)	(millions) (percent)
Total*	408.4	271.3 66%	92.6 23%	32.5 8%	12.0 3%	44.5 11%
Small Firm <sup>a</sup>	72.1	40.5 56%	18.3 25%	9.7 13%	3.6 5%	13.3 18%
Multi-Location Firm <sup>b</sup>	124.4	83.2 67%	27.6 22%	9.5 8%	4.1 3%	13.6 11%
Large Firm <sup>c</sup>	194.9	137.1 70%	42.6 22%	11.6 6%	3.6 2%	15.2 8%

<sup>a</sup> 2–100 workers, no other location; <sup>b</sup> 2–100 workers, other location(s); <sup>c</sup> >100 workers.

\* Includes workers and family members at firms of undetermined sizes (approximately 4% of total expenditures).

Source: Medical Expenditure Panel Survey, 2004, adjusted for uncompensated care costs.

**Table 6. Medical Costs of Workers and Family Members, by Employer Size, 1999**

Medical Cost (in billions of dollars)						
	Total	Private Insurance	Out-of-pocket/other	Public Insurance	Uncompensated	Total Public
Employer Size	(millions)	(millions) (percent)	(millions) (percent)	(millions) (percent)	(millions) (percent)	(millions) (percent)
Total*	269.4	171.3 64%	67.6 25%	21.2 8%	9.4 3%	30.5 11%
Small Firm <sup>a</sup>	52.6	31.9 61%	12.9 25%	4.3 8%	3.5 7%	7.8 15%
Multi-Location Firm <sup>b</sup>	86.0	53.1 62%	23.0 27%	7.3 9%	2.6 3%	9.9 12%
Large Firm <sup>c</sup>	120.1	79.7 66%	28.8 24%	8.5 7%	2.9 2%	11.5 10%

<sup>a</sup> 2–100 workers, no other location; <sup>b</sup> 2–100 workers, other location(s); <sup>c</sup> >100 workers.

\* Includes workers and family members at firms of undetermined sizes (approximately 4% of total expenditures).

Source: Medical Expenditure Panel Survey, 1999, adjusted for uncompensated care costs.