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Southwest Economy

Who Doesn't Have Health Insurance and Why

An increase in the number of Americans without health insurance has become an important concern for policymakers. An analysis of the Census Bureau's Current Population Surveys reveals that the number of people in the United States without health insurance at some point during the year has grown from about 31 million in 1987 to nearly 45 million in 2003. The uninsured increased from 14 percent of the total nonelderly U.S. population in 1987 to 18 percent in 2003.

Texas has an even larger proportion of individuals lacking health insurance. The percentage of uninsured in Texas has been consistently about 10 points above the national average (*Chart 1*). In 2003, 27 percent of the Texas population was uninsured.

Health Insurance Issues

The large and growing number of uninsured raises issues for society on at least three levels. It starts with the burden on the uninsured and their families, but it also affects the larger society and influences the labor market.

(Continued on page 2)

Productivity Gains Showing Up in Services

Since the end of World War II, American productivity has risen steadily, with manufacturing leading the way. The service sector has recorded slower productivity growth, restraining the economy's overall performance.

The productivity gap between manufacturing and services has been so persistent that it has acquired a nickname—"Baumol's disease." In the 1960s, New York University economist William Baumol noted that services were inherently labor-intensive, often delivered via one-on-one contact with customers. By their very nature, services resisted efforts to squeeze more output from each hour's work.

That may be changing. Services have been performing better in the current business cycle, nearly catching up with manufacturing. Not that U.S. factories' productivity gains are slacking off; they're as strong as ever. Services pro-

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INSIDE:
Mexico's Export Woes Not All China-Induced

Impact on Health. The uninsured are up to four times less likely to have a regular source of health care. They are about 30 percent more likely than insured adults to go without screenings for diabetes, heart disease and other conditions. According to a 2003 report by the Robert Wood Johnson Foundation, the uninsured are more likely than those who have health coverage to receive second-rate care and to die from health-related problems. Economic research suggests that extending health coverage to the uninsured could improve their overall health on average by 7 to 8 percent.[1]

Impact on Society. Beyond the issue of their health, the uninsured create ripples for society as a whole. First, lack of private coverage can increase dependence on public health insurance programs like Medicaid and Medicare. The trend of coverage rates through employer-sponsored insurance and Medicaid from 1987 to 2003 is somewhat indicative of this phenomenon (*Chart 2*). During the recession of the early 1990s, a drop in employer-sponsored insurance resulted in an increase in coverage by Medicaid. After recovering in the mid- to late '90s, employer-sponsored insurance plunged again in 2000 with a concomitant rise in Medicaid.

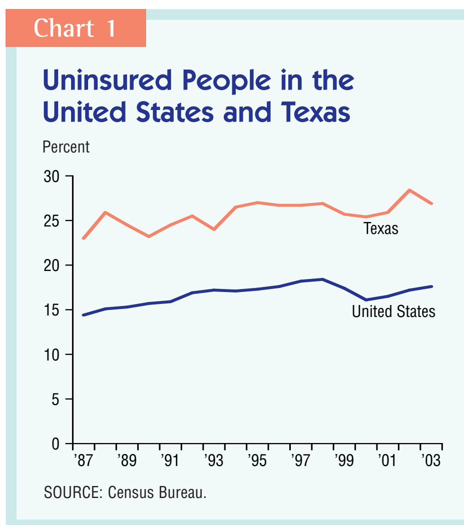
Second, those not eligible for public insurance and not covered by private insurance end up getting treatment at hospital emergency rooms and other facilities. What they cannot pay is eventually financed by tax dollars. Encouraging health insurance coverage through the private market is a superior alternative to this backdoor financing.

Health Insurance and the Labor Market. Lack of health insurance has implications for the labor market. First, health insurance can have important consequences for labor force participation for younger people, particularly single women on welfare. Much of the recent thrust of welfare reform has been to increase work incentives, but individuals who cannot obtain health insurance on the job are more likely to stay on public assistance that comes with Medicaid coverage.

Second, the availability of health insurance affects retirement decisions. Older people not yet eligible for Medicare may decide to keep working if they don't have health insurance outside the job. Access to retiree health insurance increases the likelihood of retirement by 30 to 80 percent.[2]

Chart 1

Uninsured People in the United States and Texas



SOURCE: Census Bureau.

Third, nonavailability of health insurance can induce job immobility, creating what economists have called "job lock." The presence of spousal health insurance increases job turnover by 25 to 40 percent. Job lock poses several potential costs to society: the well-being lost by individuals who cannot move to jobs they want; the productivity lost by unhappy workers; and the positive spillovers lost from good job matches between firms and workers. Estimated costs due to job lock range from as low as $3 billion to as much as $30 billion.[3]

Health issues for the uninsured, spillovers for the health care system and labor market impacts have led to a broad consensus among researchers as well as political leaders that expanding private health insurance coverage would be good public policy. Before designing such a policy, however, it is important to understand who are uninsured and why they do not have coverage.

Who Are the Uninsured?

The likelihood of health insurance coverage is highly correlated with economic status. Fifty-six percent of Americans below the federal poverty guideline were uninsured during some part of the years 2001 and 2002, compared with 16 percent of those whose incomes were more than four times the guideline.

Being employed often means having access to health care coverage. About 60 percent of all Americans obtain coverage through their employer (*Chart 3*), making employer-sponsored insurance the mainstay of the U.S. health insurance system. Employer-sponsored insurance is also the major source of health care coverage in Texas, accounting for more than half of the state's population.

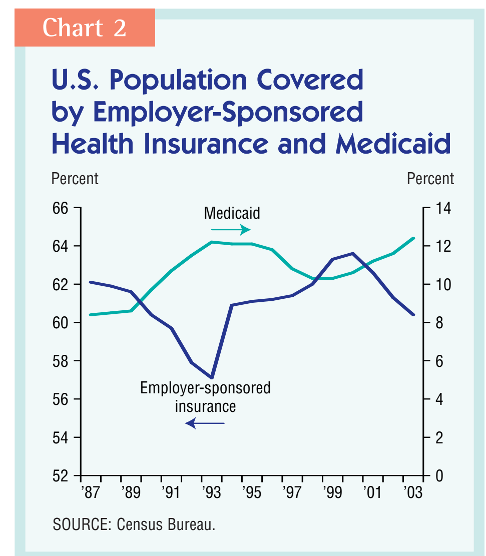
Even though employer-sponsored health insurance plays a prominent role in the U.S health care system, 71 percent of the uninsured were employed either full-time or part-time during 2001–02 (*Chart 4*). The remaining 29 percent were either unemployed or out of the labor force. Texas has a slightly larger percentage of uninsured in the workforce than the nation as a whole.

Race and ethnicity matter, too. One in three people under the age of 65 went without health insurance during some part of 2001–02, but the figure rose to 52 percent for Hispanics and 40 percent for blacks. By contrast, only 23 percent of non-elderly whites had a spell without insurance in the two-year period.[4]

Looking at the overall percentage of uninsured within a demographic group can sometimes be misleading, however. This seemingly large racial gap in health insurance coverage rates may be due to factors other than race. A higher proportion of Hispanics are uninsured than whites and African-Americans, but this may simply reflect Hispanics' larger presence at the lower end of the income distribution. Another important factor may

Chart 2

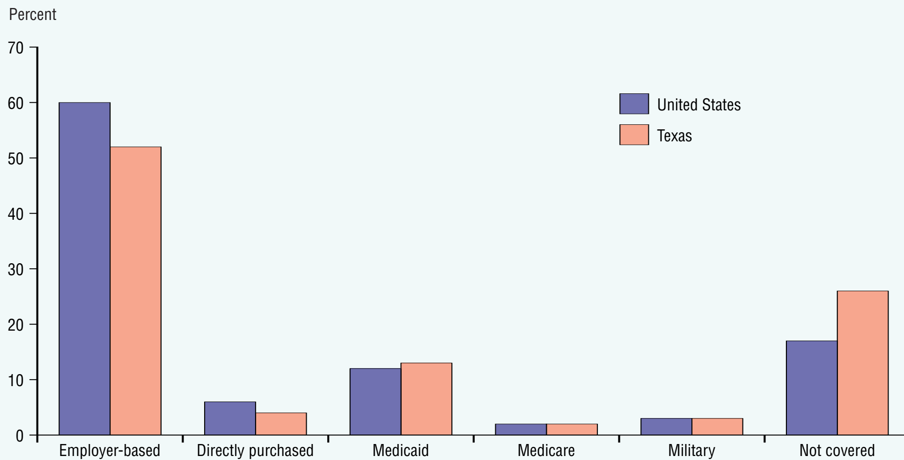
U.S. Population Covered by Employer-Sponsored Health Insurance and Medicaid



SOURCE: Census Bureau.

Chart 3

Sources of Health Insurance, 2003



SOURCE: Census Bureau.

be the greater probability of Hispanics working in smaller firms, where getting group insurance coverage through the employer is difficult.

Table 1 analyzes the correlation of different demographic characteristics with the likelihood of being uninsured. Being Hispanic, black or self-employed is positively correlated with being uninsured. Age, being a native-born, being married, having a college degree, working full-time and belonging to a union are, as expected, negatively correlated with being uninsured. Males are marginally less likely to have health insurance coverage than females.

What Explains the Larger Percentage of Uninsured in Texas?

Texas echoes the rest of the nation in most characteristics of the uninsured, except for the ethnicity factor. Hispanics make up a third of the state's population—much larger than the 13 percent for the United States as a whole. More than half of the uninsured in Texas are Hispanic, compared with 25 percent for the nation (*Chart 5*).

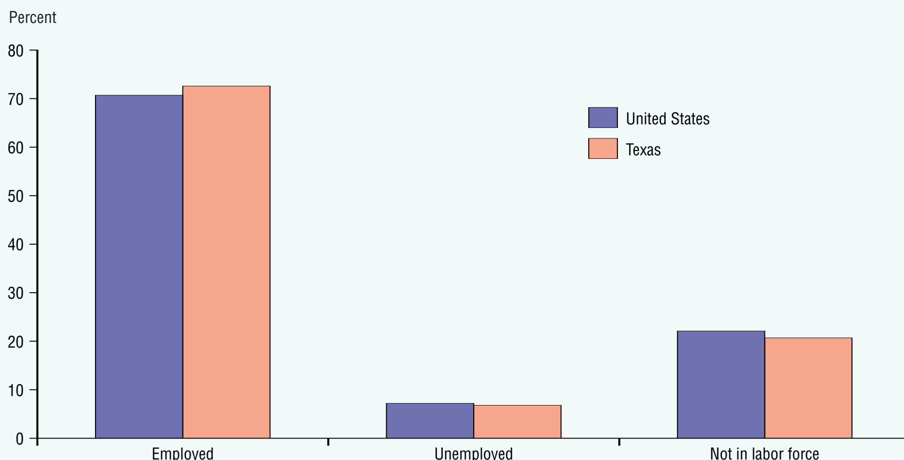
The large Hispanic population helps explain why Texas has a much higher proportion of uninsured. Everything else remaining the same, a Hispanic is more likely not to have health insurance coverage than a non-Hispanic white. Using estimates from Table 1, the expected likelihood of being uninsured is 6 percentage points higher in Texas than in the United States. Demographic characteristics seem to explain more than half of the gap in percentage uninsured between Texas and the rest of the nation. More research is required to determine whether the low rate of health insurance among Hispanics results from factors beyond low incomes and employment at small firms.[5]

The Health Insurance–Employment Connection

Even though employers provide about 90 percent of all private insurance, a job is not a guarantee of health care coverage. The existence of a large number of uninsured among the employed raises questions about why some workers have access to insurance and others don't. It is possible that many workers choose not to enroll in their company's

Chart 4

Distribution of Uninsured by Employment Status, 2001–02



SOURCE: Robert Wood Johnson Foundation.

Table 1

Effect of Household Characteristics on Probability of Being Uninsured

Characteristic	Effect on probability of being uninsured
Hispanic	+.15
Native born	–.14
Union member	–.11
Work full-time	–.10
Self-employed	+.10
Married	–.08
Black	+.06
Other race	+.06
College degree	–.06
Some college	–.03
Children	–.03
Female	+.01
High school degree	+.01
Work part-time	+.01

NOTE: The response variable was whether or not the individual lacks health insurance coverage. The analysis also duly accounted for differences in age, household income, occupation and firm size. Complete results are available from the author on request.

SOURCE: U.S. Census Bureau Current Population Survey, March 2004 Supplement; author's calculations.

health insurance plan. Lack of enrollment is an explanation for the decline in health insurance coverage in the 1990s even in the face of an economic boom.[6]

However, at companies offering health insurance, the enrollment rate continues to be quite high, varying between 80 and 90 percent. Because most of those who are offered insurance choose to enroll, this does not go very far in explaining the level of uninsured. The most important reason why workers lack health care coverage is that many firms do not offer the benefit. Three in four uninsured workers are not offered health insurance coverage.

A potential explanation for some firms not offering health insurance coverage is simply that healthy workers value cash compensation over insurance coverage. These workers choose firms that do not offer health insurance so they can get higher wages. Another reason could be low demand in these firms for coverage simply because the workers are younger or relatively healthy.[7] A third explanation is that firms may find it too costly to offer coverage, perhaps because they're operating with a disproportionate number of minimum-wage workers.[8] Even if the employees would choose coverage, these small firms would find it hard to attract affordable group insurance coverage if their risk pool is not diverse enough, inviting an "adverse selection" that raises rates (see box titled "What Is Adverse Selection?").

Indeed, we do see a negative correlation between offering health coverage and firm size and average wage. Three in four firms with one to nine employees where the average earnings are less than $10,000 a year do not offer health insurance coverage. In contrast, almost all firms with more than 100 employees and average earnings over $30,000 a year offer health insurance coverage. Firms with older employees are also less likely to offer coverage.[9]

What Is Adverse Selection?

An overwhelming proportion of Americans obtain their health care coverage through their jobs. Understanding why involves grasping the concept of adverse selection, which affects the market for most insurance products.

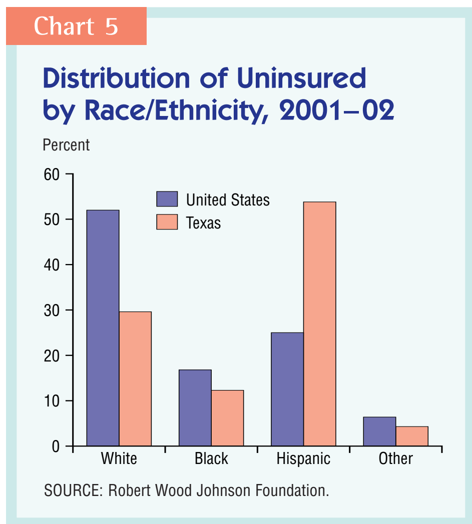
Adverse selection was propounded by Nobel Prize winner George Akerlof in his seminal article "The Market for 'Lemons.'"[1] Imagine that insurers lack the ability to determine the exact health status of individuals and set an average price for a particular group of individuals. The average price would be most attractive to people who face the highest health risks. If the group consists of an above-average number of unhealthy individuals, the insurer would be forced to increase the price. The healthy individuals would then opt out, driving up the price even further. This can lead to a never-ending spiral of rising prices and market instability. In the worst form of adverse selection, a market may not even exist.

A solution to adverse selection in the private health insurance market is to cover groups of individuals not selected on the basis of health.[2] Workplaces, it turns out, are a very efficient mechanism to pool health insurance risk, so employer-sponsored insurance has come to dominate U.S. private health coverage. Nongroup or directly purchased health insurance cannot guard against the adverse selection that can be devastating for insurance markets. As a result, the cost of obtaining nongroup insurance is substantially higher than that available through the employer.

Notes

[1] "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism," by George A. Akerlof, *Quarterly Journal of Economics*, vol. 84, no. 3, 1970, pp. 488–500.

[2] Another solution to the problem is to induce individuals to self-select into an insurance plan based on their health type.



Conclusion

Lack of health insurance coverage is on the rise and is an important public policy issue. Texas has consistently had a higher percentage of uninsured than the national average. The lack of insurance is particularly acute among Hispanics, of which Texas has a large population. Employer-sponsored insurance is the primary source of private health insurance coverage in the United States. Ironically, most of the uninsured are employed and cannot obtain insurance through the workplace. Therefore, the workplace could prove to be an important avenue through which to reduce the number of uninsured.

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Notes

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[1] "The Effects of Private Insurance on Measures of Health: Evidence from the Health and Retirement Study," by Avi Dor, Joseph Sudano and David W. Baker, NBER Working Paper no. 9774, 2003.

[2] "Health Insurance, Labor Supply, and Job Mobility: A Critical Review of the Literature," by Jonathan Gruber and Brigitte Madrian, NBER Working Paper no. 8817, 2002.

[3] There will be a welfare loss if the worker is more productive at the new firm due to a better job match than the existing firm. If the cost of providing health insurance coverage is less than the difference in productivity, then there will be a net gain to society. However, the empirical estimate of such a welfare loss has been found to be modest at best. See Gruber and Madrian, 2002.

[4] "Going Without Health Insurance: Nearly One in Three Non-Elderly Americans," Robert Wood Johnson Foundation, 2003.

[5] The regression analysis accounted for differences in occupation and firm size. Nevertheless, there are some potential sources of bias. For example, tax price of health insurance and actual health status are missing in the regression equation. If either of these is correlated with being a Hispanic or other characteristics, the results would be biased.

[6] "Employee Costs and the Decline in Health Insurance Coverage," by David M. Cutler, NBER Working Paper no. W9036, 2002.

[7] There are reasons to believe that workers are attracted to firms based on their preferences for health insurance coverage. See "Health Insurance Availability at the Workplace: How Important Are Worker Preferences?" by Alan C. Monheit and Jessica Primoff Vistness, *Journal of Human Resources*, vol. 34, no. 4, 1999, pp. 770–85.

[8] However, there is little empirical evidence of wage/fringe benefit tradeoff for minimum wage workers. For a detailed analysis, see "Do Minimum Wages Affect Non-wage Job Attributes? Evidence on Fringe Benefits," by Kosali I. Simon and Robert Kaestner, *Industrial and Labor Relations Review*, vol. 58, no. 1, 2004, pp. 52–70.

[9] See "Taxes and Health Insurance," by Jonathan Gruber, NBER Working Paper no. 8657, December 2001.