



T-126

## **Testimony**

**Before the**

**Committee on Ways and Means  
Subcommittee on Health  
United States House of Representatives**

## **Hearing on Health Insurance Coverage and Uninsured Americans**

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**Witness Disclosure Statement,  
pursuant to Clause 2(g)(4) of Rule XI of the Rules of the House:**

- **The Witness:**

Paul Fronstin is a Senior Research Associate and Director of the Health Security and Quality Research Program at the Employee Benefit Research Institute (EBRI), Washington, DC. EBRI is a private, nonprofit, nonpartisan public policy research organization based in Washington, DC. Founded in 1978, its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions on legislative proposals. Fronstin has been with EBRI since 1993.

- **The Organization:**

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- **Contracts:**

EBRI does not have any contracts with the federal government in 2001, and did not in 1999 or 2000.

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Senior Research Associate and  
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Health Insurance Coverage and Uninsured Americans**

**April 4, 2001**

Madam Chairwoman, and members of the Committee, I am pleased to appear before you today to discuss uninsured Americans. My name is Paul Fronstin. I am a senior research associate and director of the Health Security and Quality Research Program at the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan, public policy research organization based in Washington, DC. EBRI has been committed, since its founding in 1978, to the accurate statistical analysis of economic security issues. Through our research we strive to contribute to the formulation of effective and responsible health and retirement policies. Consistent with our mission, we do not lobby or advocate specific policy solutions.

### **Health Insurance Coverage**

Data from the Census Bureau collected in March 2000, shows that for the first time since at least 1987, the number of Americans without health insurance coverage has declined. In 1998, the number of uninsured (nonelderly) Americans had reached 43.9 million (chart 1). In 1999, the number of nonelderly Americans without health insurance coverage declined to 42.1 million. The percentage of nonelderly Americans without health insurance coverage declined from 18.4 percent in 1998 to 17.5 percent in 1999 (chart 2).

The main reason for the decline in the number of uninsured Americans was the strong economy and low unemployment. Since employment-based health insurance benefits are by far the most common source of health coverage in the United States, it is not surprising that the low rate of unemployment translated into lower rates of uninsured. As a result of the strong economy, more workers and their dependents were covered by employment-based health insurance benefits: Between 1998 and 1999 the percentage of nonelderly Americans covered by employment-based health insurance increased from 64.9 percent to 65.8 percent (chart 3).

Employment-based health insurance coverage increased substantially for adult workers between 1998 and 1999. In 1998, 72.8 percent of workers were covered by an employment-based health plan (chart 4). By 1999, 73.3 percent were covered. The likelihood that an adult worker was uninsured declined from 18.1 percent in 1998 to 17.5 percent in 1999 (chart 5). Even nonworking adults experienced an increase in the likelihood of having employment-based health insurance coverage, increasing from 40.5 percent in 1998 to 41.7 percent in 1999 (chart 6).

The likelihood that a child is covered by employment-based health insurance has been increasing since 1994 (chart 7). In 1994, 58.1 percent of children were covered by employment-based health insurance. By 1999, 61.5 percent were covered. Because of declining enrollment in Medicaid (chart 8),

the percentage of children without health insurance coverage has actually been growing over most of this period. However, between 1998 and 1999, the percentage of children without health insurance coverage declined dramatically from 15.4 percent to 13.9 percent (chart 9).

Despite the State Children's Health Insurance Program (S-CHIP), public health insurance coverage did not increase during this time period. Between 1998 and 1999 the percentage of nonelderly Americans covered by Medicaid and other government-sponsored health insurance coverage did not change (chart 10)—remaining at 10.4 percent in 1999. While the Census Bureau's March Current Population Survey (CPS) does not allow researchers to count the number of children enrolled in S-CHIP, it does appear that some children benefited from expansions in government-funded programs. Findings from the CPS indicate that the percentage of children in families just above the poverty level without health insurance coverage declined dramatically, from 27.2 percent uninsured in 1998 to 19.7 percent uninsured in 1999. Some of the decline can be attributed to expansions in Medicaid and S-CHIP. Between 1998 and 1999, the percentage of near-poor children covered by these programs increased from 39.3 percent to 40.5 percent. However, it appears that expansions in employment-based health insurance had an even larger effect. Specifically, the percentage of near-poor children covered by an employment-based health insurance plan increased from 30.5 percent to 34.5 percent.<sup>1</sup>

## Health Insurance Costs and Benefits

It is notable that the decline in the uninsured occurred at a time when health insurance benefit costs were going up. Since 1998, health insurance cost inflation has been increasing. According to data from a recent study (Gabel et al., 2000), health insurance costs increased 8.3 percent for all firms between spring 1999 and spring 2000, and they increased 10.3 percent for smaller firms (with between three and 199 workers). When health care costs increase, the percentage of Americans covered by an employment-based health insurance plan is expected to decline, with employers shifting the cost of coverage onto workers, or even dropping coverage completely. But as shown above, more workers and their dependents were covered by employment-based health insurance coverage in 1999 than in 1998. Employers have not been shifting the cost onto workers. An annual survey by William M. Mercer indicates that the worker share of the premium has been unchanged since 1993 (William M. Mercer, 2001). In contrast, an annual survey by the Kaiser Family Foundation and the Health Research and Educational Trust found that there was a slight reduction between 1996 and 2000 in the percentage of the premium workers were required to pay (Gabel, et al., 2000).

Despite rising health insurance costs, employers have been increasingly offering health benefits to workers. Between 1998 and 2000, the percentage of small firms offering health benefits increased from 54 percent to 67 percent, with much of that increase occurring among the smallest of the small firms. Most small employers report that offering health benefits helps with recruitment and retention, and keeps workers healthy, which ultimately reduces absenteeism and increases productivity (Fronstin and Helman, 2000). Clearly, many employers realize there is real business value in providing health care coverage to their workers.

Also worth mentioning is that American workers clearly identify health insurance coverage as far and away the single most valued work-place benefit. When asked to rank the importance of all employee benefits, health benefits are by far the benefit most valued by workers and their families. Sixty-five percent of workers responding to a recent EBRI survey rated health benefits as the most important employee benefit (Salisbury and Ostuw, 2000).

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<sup>1</sup> The CPS (and most other surveys) are well known for under-reporting Medicaid coverage and coverage from other government programs. In the case of the CPS, it may not be picking up all Medicaid recipients because some states do not call the program Medicaid. In fact, there is strong evidence that the CPS under-reports Medicaid coverage, based on comparisons of these data with enrollment and participation data provided by the Health Care Financing Administration (HCFA), the federal agency primarily responsible for administering Medicaid. See Paul Fronstin, "Counting the Uninsured: A Comparison of National Surveys," *EBRI Issue Brief* no. 225, Employee Benefit Research Institute, September 2000, for more information.

## Outlook

As long as health benefit costs continue to increase, employers will seek ways to reduce those costs. However, as long as unemployment remains low, employers will likely be unable to modify existing health benefit programs. With low unemployment, the cost of not providing health benefits, such as the cost of recruiting and retaining employees, often outweighs the cost savings that can be attributed to cutting back on health benefits.

Whether the slowing economy has an impact on employment-based health benefits depends on a number of factors. First, massive layoffs have yet to have a substantial impact on the unemployment rate. While the unemployment rate has jumped from a 30-year low of 3.9 percent in October 2000 to 4.2 percent in January 2001, it has remained at 4.2 percent in February and 4.2 percent is still a very low level of unemployment for the nation. Second, the combination of a slowing economy, rising health care costs, and worker uncertainty about the future may make it easier for employers to modify health benefit programs. Even with low unemployment, if employees feared that they could lose their job, employers may have more flexibility to reduce health benefits (and other components of total compensation) in order to control costs in a slowing economy.

Adding to the confusion over the impact of rising health benefits costs on employment-based health benefits may be the release of the March 2001 CPS in the Fall 2001. When those findings are released, the data for 2000 are expected to show that the number of uninsured Americans continued to decline. The drop may even be larger than the 1.7 million decline experienced between 1998 and 1999. As mentioned above, between 1998 and 2000, the percentage of firms with three to 199 employees offering health benefits increased (Gabel et al., 2000). In addition, S-CHIP will continue to expand health insurance coverage. This combination of more employers adding health benefits, along with more children covered by S-CHIP, will result in continued expansion of health insurance coverage. However, it should be noted that the delay in collecting and reporting data often adds to the confusion on health coverage and the uninsured: The data are often misinterpreted as applying towards the current time period, rather than the nearly two-year period prior to the release of the data, when it was collected.

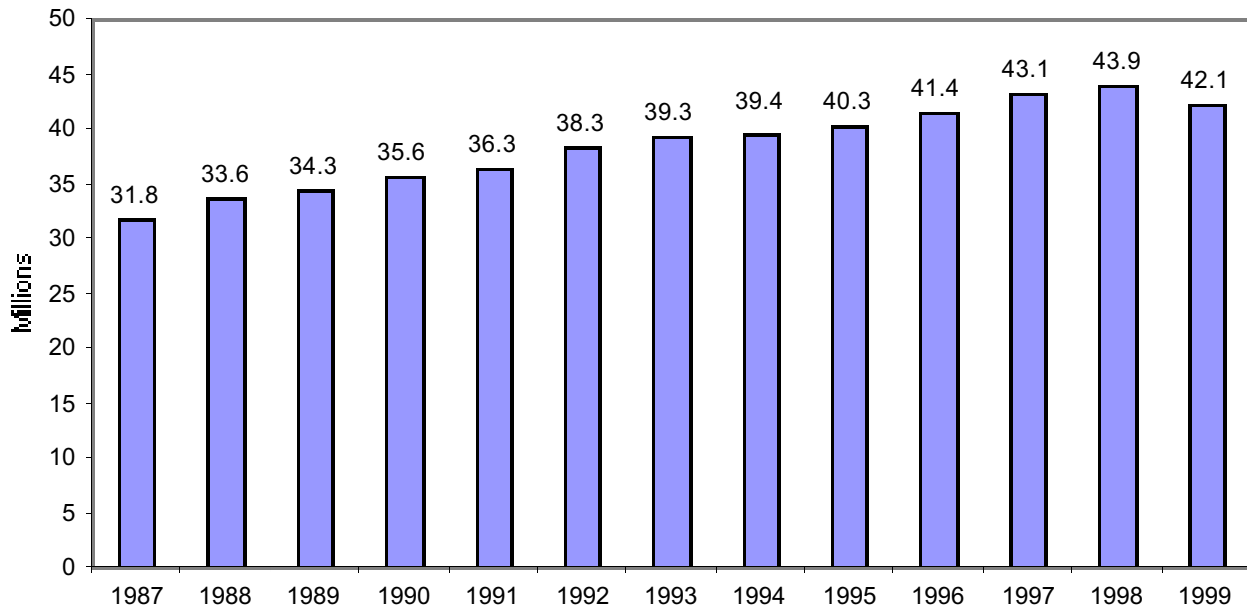
It is also worth noting that while the uninsured declined between 1998 and 1999, it did not drop by 44 million. More than 42 million Americans continue to be uninsured. Even if the number drops again later this year, when the 2000 data are released, it is likely that 40 million Americans will still be uninsured—more than 15 percent of the population. As long as the economy is strong and unemployment is low, employment-based health insurance coverage will expand and the uninsured will gradually decline. However, even if the United States experienced five more years of declines in the uninsured similar to that which occurred between 1998 and 1999, 34 million Americans would still be uninsured in 2005 (chart 11). In contrast, if the economy continues to weaken and health benefit costs continue to increase, the uninsured would quickly start to increase again. Even for those who keep their jobs, small employers would likely drop health benefits, and large employers would likely shift the cost of coverage onto workers, resulting in fewer workers accepting coverage. If the uninsured returned to its 1999 level of 17.5 percent of the nonelderly population, 38 million Americans would be uninsured in 2005. In contrast, if the downturn in the economy was severe and the uninsured represented 25 percent of the nonelderly population, 63 million Americans would be uninsured.

Madam Chairwoman, this concludes my statement. It has been my pleasure to appear before the Committee today. I offer the Committee the assistance of the Employee Benefit Research Institute as you continue your work, which is vital to the economic security of all Americans.

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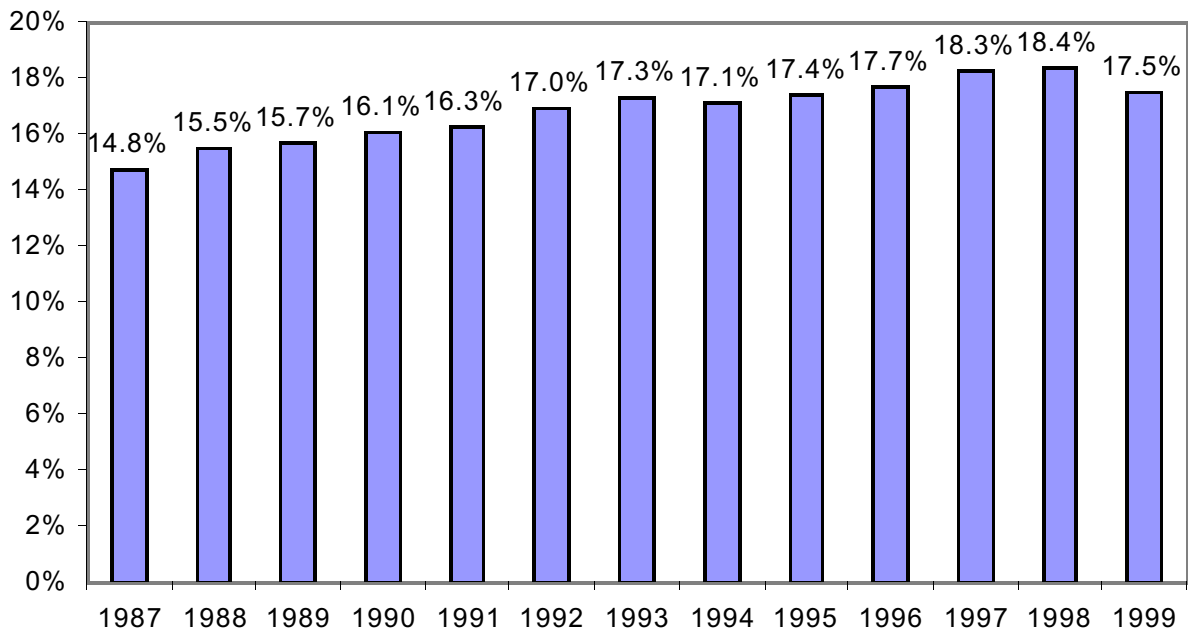
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**Chart 1**  
**Number of Uninsured Americans Ages 0–64, 1987–1999**  
**(millions)**



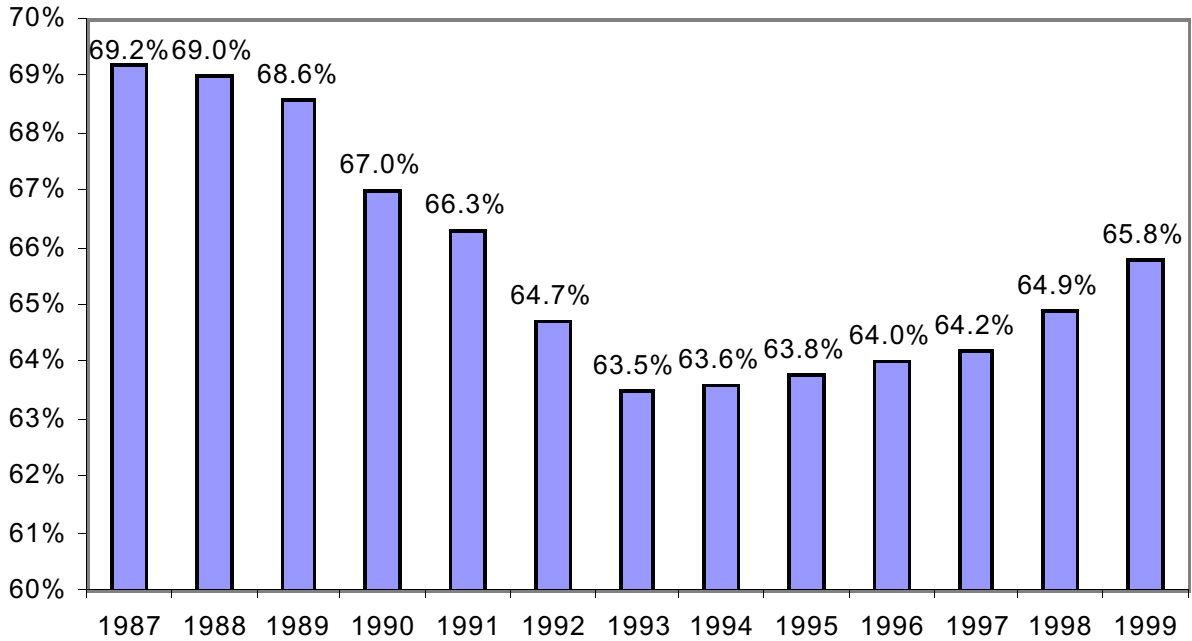
Source: Employee Benefit Research Institute.

**Chart 2**  
**Percentage of Americans Ages 0–64 Without Health Insurance, 1987-1999**



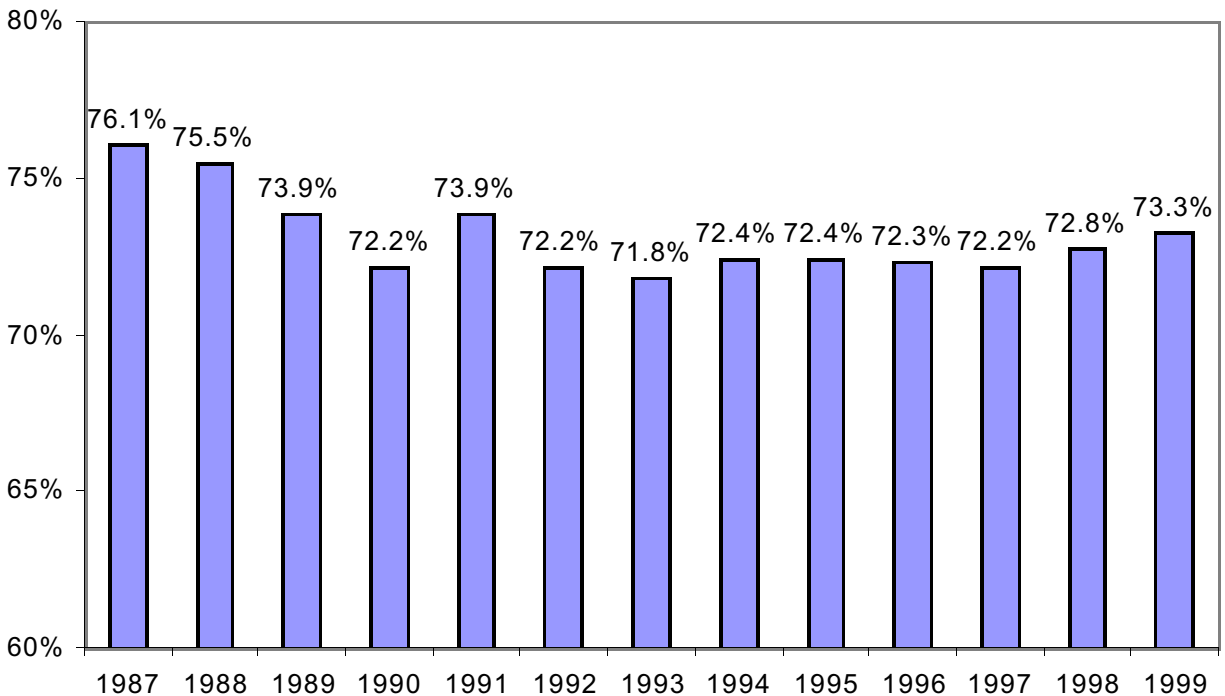
Source: Employee Benefit Research Institute.

**Chart 3**  
**Percentage of Americans Ages 0–64 With Employment-Based Health Insurance Coverage, 1987–1999**



Source: Employee Benefit Research Institute.

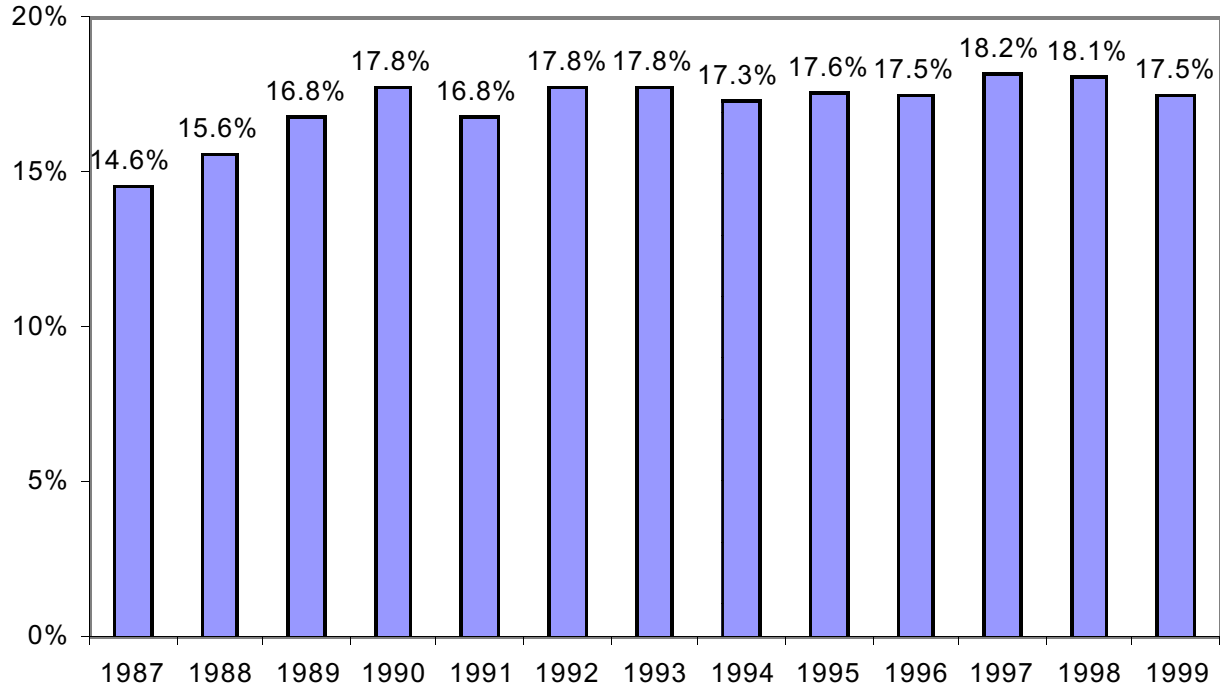
**Chart 4**  
**Percentage of Working Adults, Ages 18–64, With Employment-Based Health Insurance Coverage, 1987–1999**



Source: Employee Benefit Research Institute.

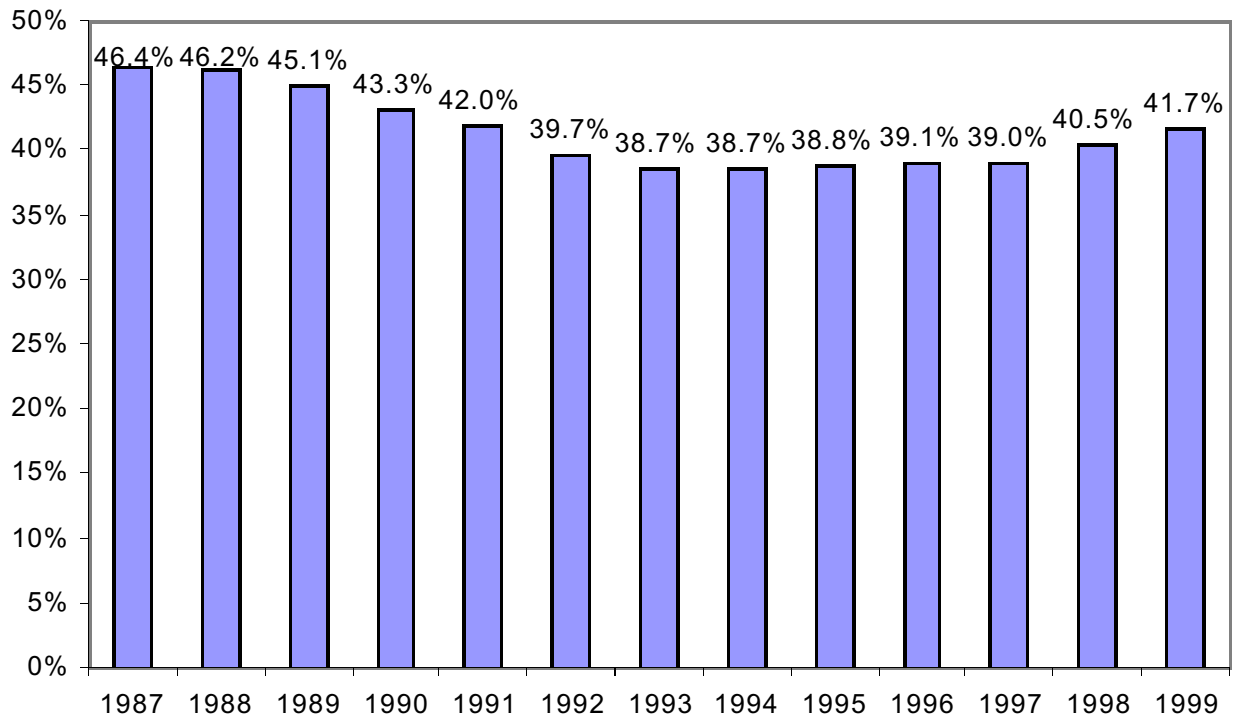


Chart 5  
**Percentage of Working Adults, Ages 18–64,  
 Without Health Insurance Coverage, 1987–1999**



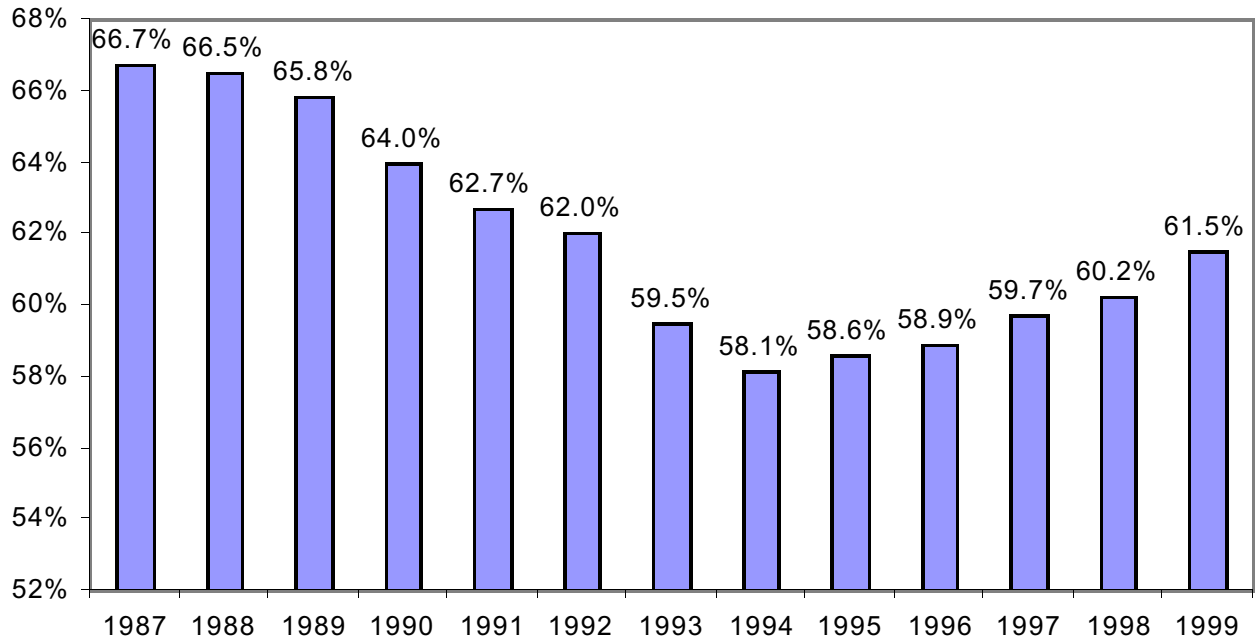
Source: Employee Benefit Research Institute.

Chart 6  
**Percentage of Nonworking Adults, Ages 18–64,  
 With Employment-Based Health Insurance Coverage, 1987–1999**



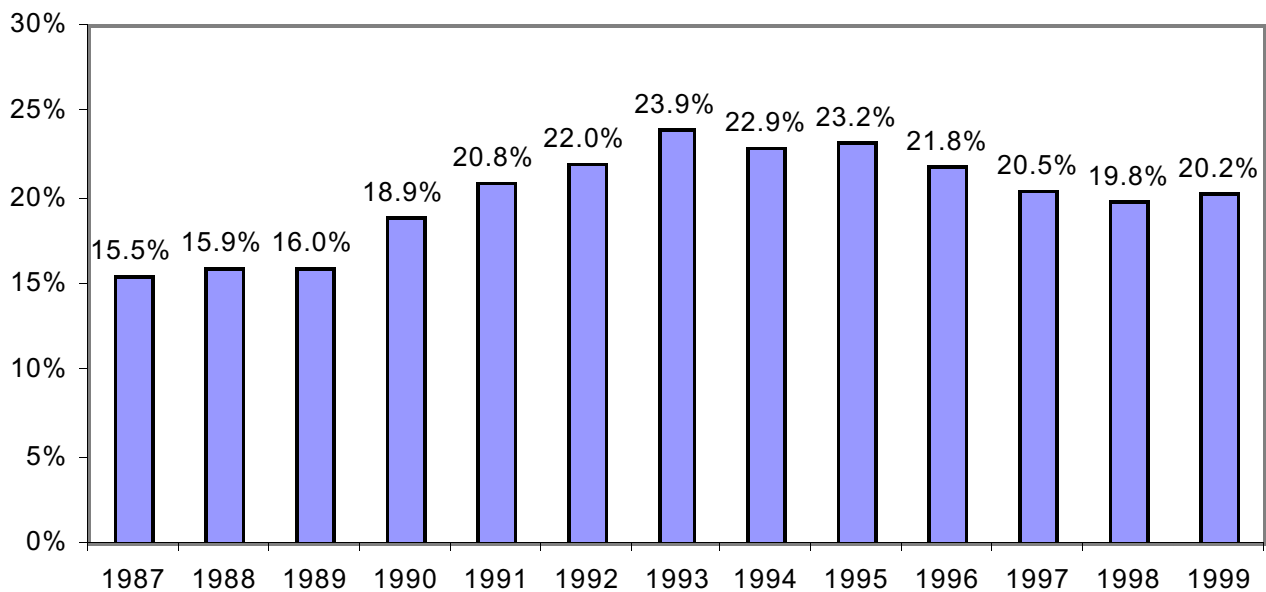
Source: Employee Benefit Research Institute.

Chart 7  
**Percentage of Children, Ages 0–17,  
 With Employment-Based Health Insurance Coverage, 1987-1999**



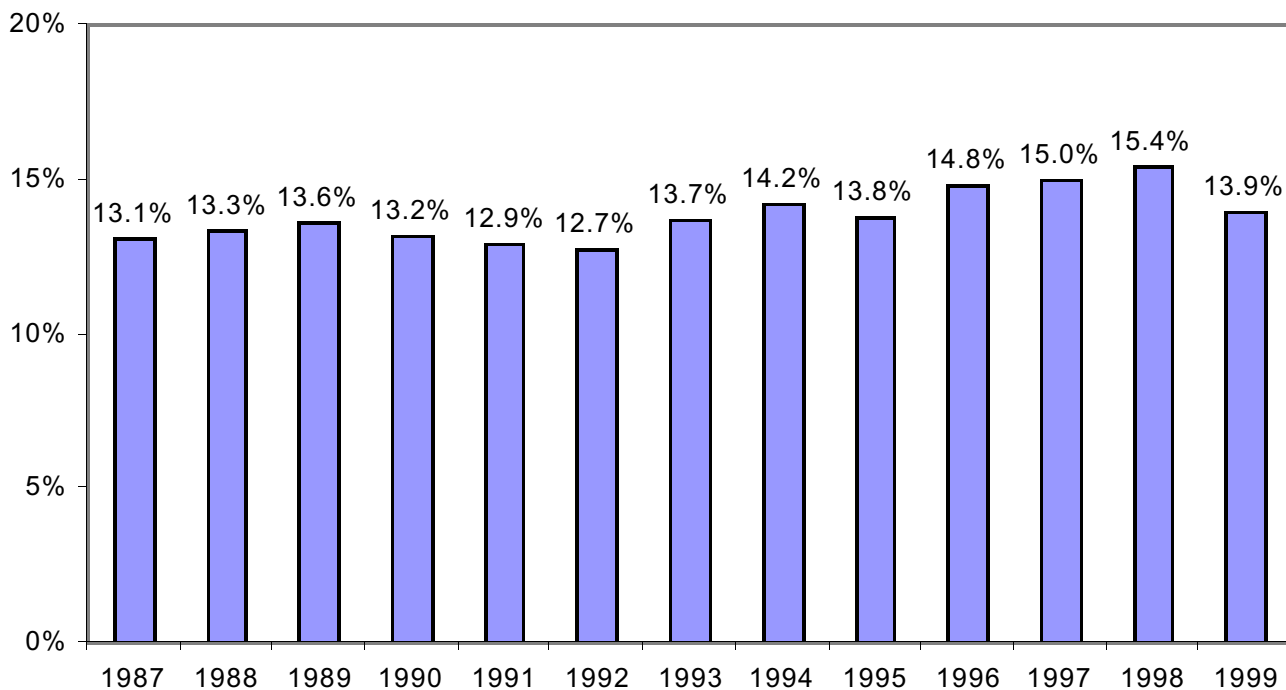
Source: Employee Benefit Research Institute.

Chart 8  
**Percentage of Children, Ages 0–17, With Medicaid, 1987–1999**



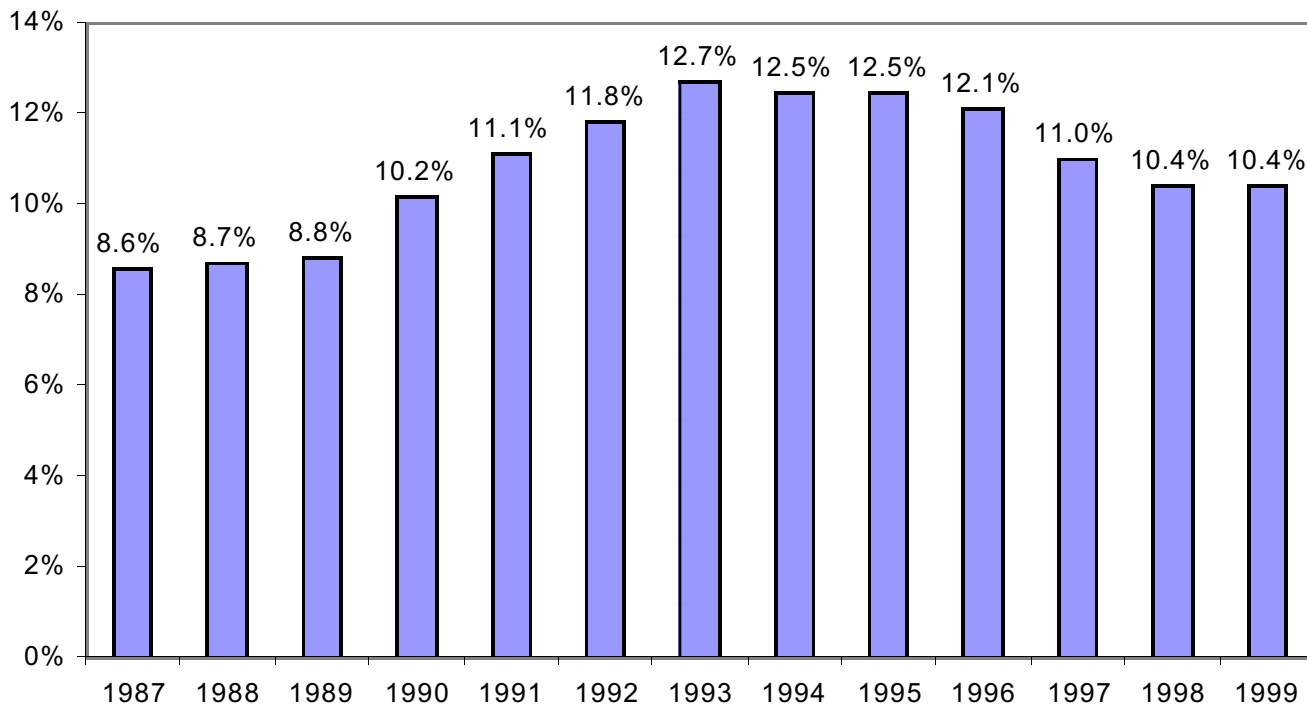
Source: Employee Benefit Research Institute.

**Chart 9**  
**Percentage of Children, Ages 0–17, Without Health Insurance Coverage, 1987–1999**



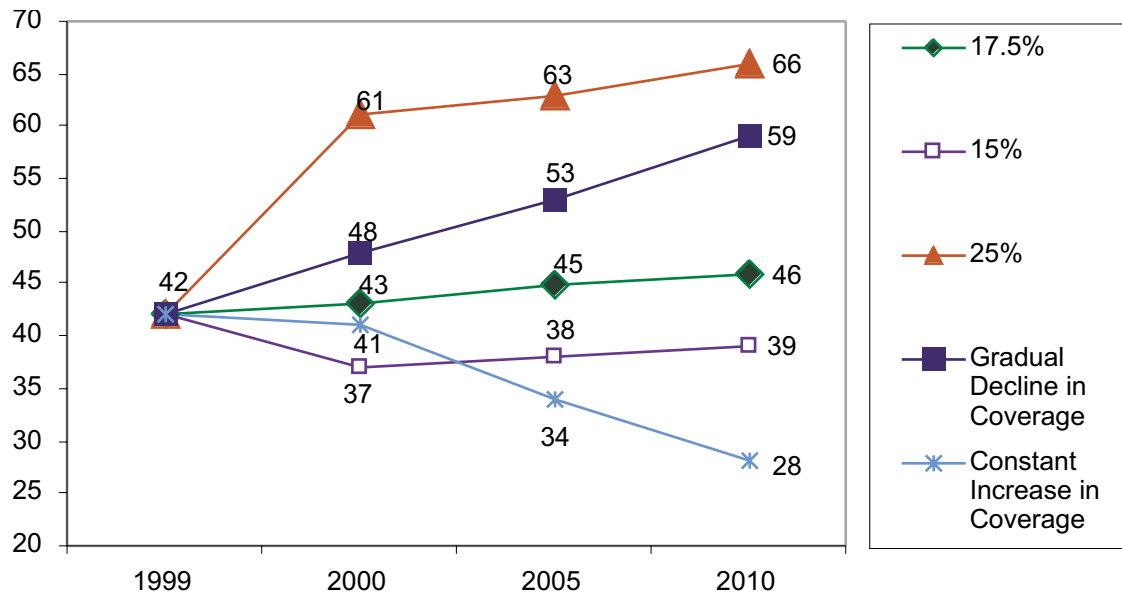
Source: Employee Benefit Research Institute.

**Chart 10**  
**Percentage of Americans Ages 0–64 With Medicaid Coverage, 1987–1999**



Source: Employee Benefit Research Institute.

Chart 11  
**Number of Uninsured Americans, Ages 0-64,  
 Various Assumptions About Percentage Uninsured, 1999-2010**



Source: EBRI.