

January 2002

Rising Unemployment and the Uninsured

Estimates recently released by the Census Bureau show that there were 38.5 million non-elderly Americans without health insurance in 2000, a slight decrease from 39.0 million in 1999. The drop in the uninsured was driven in large part by an increase in employment-based health insurance -- fueled by what was then a strong economy -- as well as growth in public coverage.

However, there is reason to believe that the outlook for the uninsured has since deteriorated:

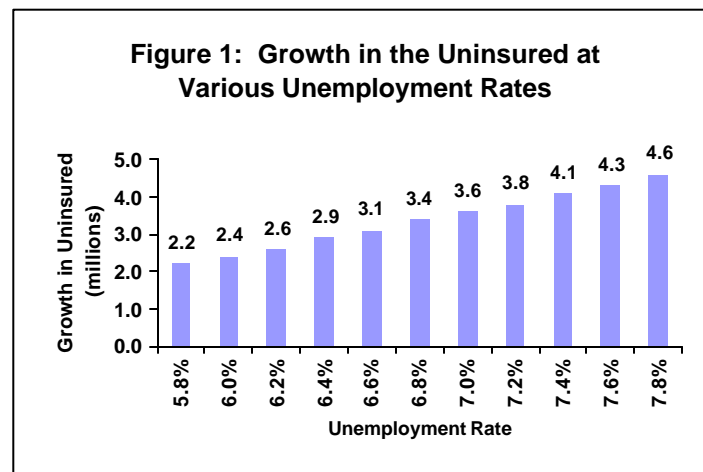
- With the economy slowing down and workers being laid off, fewer people are likely to have access to employer-provided coverage. The unemployment rate grew from 4.0% in December 2000 to 5.8% in December 2001, though still remains below its high point of 7.8% in June 1992 during the most recent recession.
- Health coverage has also become less affordable: premiums for employer-provided insurance grew 11.0% in 2001, the largest increase in almost a decade. Premiums for employer-sponsored coverage now average \$2,650 for singles and \$7,053 for families.¹ While the federal COBRA law allows workers laid off from firms with 20 or more employees to continue coverage at these group rates, the worker must pay the entire premium plus a small administrative fee.

New Analysis on What Rising Unemployment Means for the Uninsured

New analysis by Professor Jonathan Gruber of the Massachusetts Institute of Technology and the National Bureau of Economic Research and researchers at the Kaiser Family Foundation

shows that rising unemployment will likely lead to a substantial increase in the number of people uninsured. Using a statistical model that examines the relationship between the unemployment rate and the percentage of the population uninsured both over time and across states, the analysis shows that every percentage point rise in the unemployment rate leads to an increase of about 1.2 million in the number of people uninsured

(0.5 percent of the non-elderly population). This implies that for every one hundred people losing their jobs, the number of people uninsured grows by 85.²



Since the end of 2000 (when the number of uninsured was last counted), the unemployment rate has risen by 1.8 percentage points (to 5.8%), suggesting an increase of approximately 2.2 million in the number of non-elderly Americans uninsured (see Figure 1). If the unemployment rate rises to 6.8% -- increasing as much as it did in the 1990-92 recession -- our analysis shows that the number of uninsured could grow by 3.4 million over the level in 2000, to almost 42 million.³

The statistical model shows that as unemployment climbs, the number of people with employer-sponsored insurance falls and the number of people with public coverage like Medicaid rises, though not enough to fully cushion the impact of falling employer coverage. If enrollment in public programs like Medicaid were not allowed to expand -- for example, due to cutbacks in response to state or federal budgetary pressures -- the effect of growing unemployment on the uninsured would be even greater.

Issues

As the economy continues to sputter and health insurance premiums rise, it is likely that the number of Americans without insurance will grow, though policy actions by the state or federal governments have the potential to make the problem better or worse. Federal policymakers are considering options to subsidize the cost of health insurance for people who have lost their jobs, as well as an increase in the federal share of Medicaid to ease state fiscal problems. In the past, these types of expansions in public insurance programs like Medicaid have cushioned the impact of growing unemployment on health insurance coverage. However, if state and federal budget pressures lead instead to cutbacks in public insurance programs, growing unemployment could have an even greater effect on the number of uninsured than what the analysis presented here suggests.

Prepared by Jonathan Gruber of the Massachusetts Institute of Technology and National Bureau of Economic Research and Larry Levitt of the Kaiser Family Foundation.

Notes

¹ Kaiser Family Foundation and Health Research and Educational Trust, "Employer Health Benefits, 2001."

² This analysis uses data on the number of uninsured by state and year from the March Current Population Survey (CPS), which measures uninsurance in the prior year, for each year from 1980 through 2000. This uninsured share is related to the unemployment rate in that state in the prior year. The statistical model controls for fixed characteristics of each state and for nationwide time trends in insurance coverage, as well as (in some cases) separate time trends in insurance coverage by state. The estimates for the percentage point change in the uninsurance rate for each percentage point change in unemployment using alternative statistical approaches range from 0.43 to 0.57, and all are highly statistically significant. We use a midpoint estimate of 0.5 for the analysis here.

³ The unemployment rate rose from 5 percent in March 1989 to a high of 7.8 percent in June 1992, so we consider a rise from 4 percent to 6.8 percent.

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