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Employer-Sponsored Health Insurance Coverage: Sponsorship, Eligibility, and Participation Patterns in 2001

EXECUTIVE SUMMARY

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Executive Summary

Employer-sponsored health insurance coverage (ESI) is the core of the nation's current health insurance system for the non-elderly population. Two-thirds of Americans under age 65 received health insurance coverage through their own employer or through the employer of a family member in 2001. However, about 18.5 million adult workers (including 3.3 million self-employed workers) are uninsured. The limitations of a health insurance system built around employment relationships become increasingly evident in poor economic times when employment rates fall as they have over the past two years and workers lose access to ESI.

Policy proposals to reduce the number of uninsured by addressing the limitations of ESI coverage can best achieve this objective if policy makers have a clear understanding of who obtains ESI coverage, who does not, and why. This report presents a detailed picture of workers' ESI coverage in 2001. Estimates are based on analyses of matched data from the February 2001 Contingent Workers and Alternate Employment Supplement of the Current Population Survey (CPS) and the March 2001 Annual Demographic Survey of the CPS.

Key Findings

Of the nearly 246 million Americans under age 65 (non-elderly) in March 2001, about 124 million were employed adults (19 years old or older and not a full-time student). Of the 111 million adult workers who were not self-employed, 15.1 million or about 13.6 percent of workers were uninsured. About 13 million adults were self-employed. Of these, 3.3 million or about 25 percent were uninsured.

Characteristics of uninsured workers

- The majority of uninsured workers are from low-income families. Nineteen percent of uninsured workers have incomes below the federal poverty line (FPL), which was $14,128 for a family of three in 2001. Thirty-seven percent of uninsured workers are "near-poor," that is, they have family incomes between 100 to 199 percent of the FPL. Thirty-three percent of uninsured workers have "moderate incomes" of between 200 and 399 percent of the FPL. Only 12 percent of uninsured workers have incomes of 400 percent of the FPL or higher, compared to 47 percent of all workers.

- Younger workers are over-represented among the uninsured. About 21 percent of uninsured workers are between the ages of 19 to 24. However, workers in this age group make up only about 10 percent of workers overall. Nearly 32 percent of uninsured workers are of Hispanic ethnicity although Hispanics make up only

12 percent of workers overall. Blacks make up 13 percent of the uninsured compared to about 12 percent of workers overall.

- Workers in small firms (fewer than 10 employees) represent 27 percent of uninsured workers. By comparison, workers in small firms make up only 11 percent of workers overall. Workers in large firms (more than 100 employees) are more likely to have coverage than small firm workers, but 39 percent of uninsured workers work in large firms because such a large percentage of the workforce (66 percent) is employed by large firms.

- Comparing self-employed uninsured to other uninsured workers, a larger fraction of the self-employed are male, have a bachelor's degree or higher, and have family income greater than 400 percent of the FPL.

ESI sponsorship, eligibility, take-up, and insurance coverage rates

For the 111 million adult workers (excluding the self-employed):

- 87 percent worked in a firm that sponsored a health insurance plan for at least some of its workers;

- 94 percent were eligible for their employer's plan;

- 82 percent were offered benefits (the product of the sponsorship rate and the eligibility rate);

- Of those who had an offer of ESI, about 85 percent participated in the health benefits—referred to as the "take-up" rate;

- The product of the sponsorship rate, eligibility rate, and the take-up rate is referred to here as "own ESI coverage rate," which is 69 percent;

- Taking other sources of coverage into account, including ESI coverage from a spouse, private nongroup insurance coverage, Medicaid, and other public coverage, 86 percent of workers had some form of insurance coverage in 2001.

Sponsorship, eligibility, and take-up rates often vary by worker characteristics and type of job. Among the findings:

- Sponsorship rates, eligibility rates, and take-up rates all increase with family income measured as a percentage of the federal poverty line (FPL), with sponsorship rates varying more by income category than take-up rates. Consequently, even when other sources of coverage are taken into account, the health insurance coverage rate is:

- 53 percent for workers in the poorest families with incomes below poverty;

- 66 percent for near-poor families;

- 87 percent for moderate-income families with incomes from 200 to 399 percent of poverty;

- 97 percent for the highest income category of 400 percent of the poverty level or higher.

• Older workers are more likely to work for an employer who sponsors a health plan. Take-up rates are lowest for the youngest workers (aged 19 to 24) although they are still around 80 percent.

• Men and women work in firms that sponsor coverage at nearly identical rates, but women are less likely to be eligible for their employer's coverage. Women are also less likely to participate in health benefits. While men are more likely to have coverage from their own employers, they are less likely than women to have some form of coverage (85 vs. 88 percent).

• Hispanics work in firms that are less likely to sponsor health coverage than Blacks or Whites. Only 70 percent of Hispanics worked in a sponsoring firm, compared to 87 percent of Blacks and 90 percent of Whites. The eligibility and take-up rates of Hispanics, however, are not that different from other race/ethnicity groups.

• Only 54 percent of workers in firms with fewer than 10 employees work in a firm that sponsors a health plan, compared to 95 percent for workers in firms with 100 or more workers.

Why uninsured workers lack ESI

For the 15.1 million uninsured workers employed by a firm, about 64 percent worked for an employer that did not sponsor a health plan, 17 percent were not eligible for the employer's plan, and 20 percent did not take-up their employer's offer of coverage. Uninsured workers were asked directly why they were not eligible for their employer's health plan (if their employer sponsors) and why they declined an offer of ESI (if eligible). The most frequent reason given for not being eligible (43 percent) is not having worked for the employer long enough to be covered by the health plan. The most frequent reason given for not participating in an employers' health plan (52 percent) is that it was too expensive.

Access to ESI coverage within families

Health benefits are often extended to employees' dependents, increasing the likelihood of having coverage in families with more than one adult worker. Access to ESI is defined as having an offer from at least one worker in the family (specifically, a health insurance unit includes members of a nuclear family who can be covered under one health insurance policy—policyholder, spouse, children under 19, and full time students under 23). Access to ESI coverage in working families varies greatly by family income. Half of workers in poor working families and 29 percent of workers in near-poor working families have no ESI offer in the family. In contrast, only 3 percent of families with income more than four times the FPL have no ESI offer in the family. For workers in poor and near-poor families, only 13 percent decline an ESI offer within the family. Workers in higher and moderate-income families are less likely to decline an ESI offer.

Workers who would face high financial risks or burdens without ESI coverage

For many workers, the cost of ESI coverage is much less than what they would have to pay for comparable coverage purchased in the individual (nongroup) market—if such individual coverage is available at all. Unlike ESI coverage, premiums for individual coverage in most states are determined by an applicant's expected health care costs, which increase with age and poorer health, for example. Thus premiums for nongroup coverage tend to be higher for older and less healthy individuals. Workers in less than perfect health who lost their ESI coverage would likely face higher premiums or have difficulty obtaining comparable coverage in the nongroup market. Losing ESI would also be especially burdensome for people in low-income families.

There are about two million workers age 19 to 34, who are poor or near-poor, who have ESI, and have less than very good health (good, fair, or poor health). Despite their relative youth, these workers would have difficulty affording individual coverage if they were to lose their jobs or their access to ESI. There are another 2.5 million low-income workers age 35-64 who are also in less than very good health, who depend on ESI for coverage, and who would likely be far worse off without it.

The ability of these workers to continue to benefit from ESI is tied to their maintaining the capacity to work (despite possible health problems), not losing their job during bad economic conditions, and their employer continuing to offer coverage. Since 1999 ESI offer rates have fallen in small firms. But even if this trend improves, ESI can be an unstable form of coverage for subsets of workers for which there presently is no viable public or private alternative.

Discussion and Conclusion

Encouraging more employers to sponsor ESI coverage would do much to cover uninsured workers, assuming that workers would participate at rates similar to workers who already have access to ESI. Low-income workers, when offered, are less likely to participate in

employer health benefits and many cite affordability as the reason. Addressing the affordability of premiums, therefore, is also a critical component for policies that would reduce the number of uninsured workers. In addition to expanding ESI sponsorship, it is important that current workers with health problems have greater access to coverage options that are not attached to a particular employer.

Proposals to expand coverage hinge on determining who is eligible for the benefits. Eligibility criteria might be based on family income as a percentage of the poverty level, a worker's wages, or employment in a small firm. Basing eligibility on working in a small firm means that some low-income workers who do not work in small firms will not be eligible. Basing eligibility on being a low-wage worker means that some low-wage workers with high family incomes will be made eligible. Thus choosing eligibility rules presents important trade-offs.

Two measures by which eligibility criteria can be compared are the percentage of uninsured individuals who would be made eligible (target effectiveness) and the percentage of people eligible under the proposal who are uninsured (target efficiency). Prior research found that targeting subsidies to low-income workers would be more effective and more efficient than targeting subsidies to low-wage workers or to workers in small firms. This result stems from the especially strong relationship between family income and the likelihood of having coverage.

Broad premium subsidies for low-income workers that would allow choice over what type of coverage to buy (ESI, individual/nongroup coverage, or a publicly-sponsored insurance product) would tend to expand coverage of all types. Allowing workers to apply subsidies to ESI would be much more expensive, however, than more narrowly-tailored proposals such as subsidizing workers who are not offered health benefits to purchase health insurance coverage in the nongroup market using tax-credits. Tax-credits that can only be used for nongroup coverage risk creating an incentive for some firms to stop offering ESI. In addition, as younger and healthier workers opt for nongroup coverage, the current risk-pooling function of ESI is undermined.

Having a better understanding of the gaps in the current employment-based health insurance system provides the context necessary to address the more difficult questions raised by proposals to expand coverage. Policies that seek to expand coverage of a particular type or for particular groups are likely to have consequences on the whole system of health insurance coverage, both favorable and unfavorable, that are difficult to predict. They also require value judgments about what is affordable, which segments of the uninsured population have the greatest need, and whether we should be concerned that some subsidy dollars go to individuals who already have or can afford coverage. As policies, employment patterns, and health insurance markets shift, it will be important to monitor the gaps in health insurance coverage among workers.

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