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THE NUMBER OF AMERICANS WITHOUT HEALTH INSURANCE ROSE IN 2001 AND APPEARS TO BE CONTINUING TO RISE IN 2002

by Leighton Ku

The number of uninsured Americans, which had fallen in 1999 and 2000, rose by about 1.4 million in 2001. New data and studies indicate the increase was due in large measure to the faltering economy, mounting health care costs, and the erosion of private health insurance coverage. The total number of uninsured Americans rose from 39.8 million in 2000 to 41.2 million in 2001, according to new findings from the Census Bureau.

In addition, preliminary data from the National Health Interview Survey, which is administered by the Centers for Disease Control and Prevention (CDC), indicate that the number of uninsured Americans continued to rise in 2002, as well.

“Several signs point to a significant increase in the ranks of the uninsured in 2002,” stated Leighton Ku, Senior Fellow at the Center on Budget and Policy Priorities. “The new CDC data show an increase in the percentage of Americans lacking health insurance during the first quarter of 2002, the period these data cover. In addition, unemployment has averaged 5.9 percent so far this year, well above its 4.8 percent average level in 2001. Health care costs have continued to grow sharply in 2002 and many states facing budget crises have begun cutting their Medicaid programs.”

Ku added, “The fact that the number of people who were uninsured throughout the year rose 1.4 million in 2001, even though unemployment did not rise much until the final months of the year, does not bode well for 2002 and beyond. The increase in the ranks of the uninsured may be substantially larger this year and perhaps next year.”

The main reason the number of Americans without health coverage grew was the erosion of employer-sponsored health coverage. The new Census data show that the proportion of Americans with employer-based coverage fell by one percentage point in 2001, to 62.6 percent.

Three key factors are pushing the number of people with private coverage lower. First, unemployment rates have climbed during the economic downturn, so a large number of newly jobless workers and their dependents have lost employer-sponsored coverage. Second, some smaller businesses are responding to soaring health care costs (which have risen 12.7 percent in the past year alone, according to one survey) by dropping health coverage for their workers. Third, many other businesses are passing along at least part of the increase in health care costs to

their employees, which is likely to have made coverage unaffordable for some workers, particularly low-wage workers, and their dependents.

The number of people without insurance in 2001 would have been much higher had it not been for Medicaid and the State Children's Health Insurance Program (SCHIP), whose caseloads grew to offset much of the loss of private health insurance. However, the ability of these public programs to help fill the gaps in insurance coverage is faltering. Most states are struggling with budget deficits and are trying to hold down Medicaid spending, which is one of the two largest components of state budgets. (States pay a little less than half of all Medicaid costs, on average.) Eighteen states have already adopted or are planning cutbacks in Medicaid eligibility, according to a recent report from the Kaiser Commission on Medicaid and the Uninsured, and Oklahoma just approved major cutbacks that will largely eliminate its SCHIP program and end coverage for about 80,000 people.

"The evidence is overwhelming that [the state fiscal situation in] 2003 will be much worse than 2002 and that states will be forced to make huge spending cuts, particularly in Medicaid," the National Governors Association stated this week.

In addition, the Office of Management and Budget estimates that, under current federal policies, the number of children served by SCHIP will fall by 900,000 between 2003 and 2006 due to limits in federal funding for that program.

Before it adjourns, Congress can prevent the further erosion of health insurance coverage by providing state fiscal relief to states through a temporary increase in the federal matching rate for Medicaid and by bolstering federal SCHIP funding.

Why the Number of Uninsured Americans Rose

The Census Bureau has stated that the loss of employer-sponsored health insurance coverage is "the principal cause of the overall decrease in health insurance coverage."¹ There are three main reasons for the erosion of private health coverage that began in 2001 and may persist in 2002 and beyond:

- **Unemployment Is Higher.** Unemployment is much higher. The unemployment rate averaged 4.8 percent in 2001. During the first eight months of 2002, it averaged 5.9 percent, and the Congressional Budget Office forecasts that it will remain at about six percent until the second half of 2003.

Since the great majority of American workers and their dependents receive health coverage through the workplace, this increase in unemployment means a large number of workers and their dependents no longer have employer-sponsored insurance available to them. Research by noted economist Jonathan Gruber of the Massachusetts Institute of

¹ Census Bureau, Press release, "Health Insurance in American: Number of Americans With and Without Health Insurance Rise, Census Bureau Reports," Sept. 30, 2002.

Technology has found that the number of uninsured individuals grows as the unemployment rate rises because many jobless workers lose private health coverage.²

- **Fewer Businesses Are Offering Health Coverage.** A recent national survey of employers found that the average cost of private health insurance premiums climbed 12.7 percent between 2001 and 2002, driven by increases in prescription drug and hospital costs.³ In response, fewer small businesses are offering health insurance to their workers. The survey of employers found that the percentage of firms with fewer than 200 workers that are offering health coverage fell from 67 percent in 2000 to 61 percent in 2002.
- **Job-Based Coverage Is Becoming Too Expensive for Many Workers.** An increasing number of businesses are passing along health care cost increases to their workers. As a result, these workers are paying more out of their own pockets for employer-sponsored health coverage this year in the form of higher premiums, co-payments, and deductibles. The survey of employers found that a majority of larger firms (with 200 or more employees) increased employee cost-sharing in 2002, and three-quarters expect further increases in the next year.⁴ A 2002 survey of working adults conducted by the Commonwealth Fund found that one-quarter of workers with job-based insurance said their health insurance premiums rose “some” or “a lot” during the past year. Among low-income workers, an even larger share — one-third — said their premiums rose substantially. Many workers also faced larger co-payments or deductibles and reductions in the scope of their health insurance benefits.⁵

Consequently, employees, particularly low-wage workers, are finding health coverage for themselves and their dependents less affordable, and some are dropping their private insurance coverage.

Results from the New Surveys

Census Bureau: Table 1 below summarizes some of the key data from the Census Bureau’s newly released Current Population Survey.⁶

² Kaiser Family Foundation, “Rising Unemployment and the Uninsured,” January 2002.

³ Kaiser Family Foundation and Health Research and Education Trust, “Employer Health Benefits: 2002 Summary of Findings,” August 2002.

⁴ *Ibid.*

⁵ Jennifer Edwards, Michelle Doty, and Cathy Schoen, “The Erosion of Employer-Based Health Coverage and the Threat to Worker’s Health Care: Findings from the Commonwealth Fund 2002 Workplace Health Insurance Survey,” Commonwealth Fund, August 2002.

⁶ Robert Mills, *Health Insurance Coverage: 2001*, Current Population Reports, U.S. Census Bureau, Sept. 30, 2002. In the Current Population Survey, being uninsured means that a person did not have any insurance coverage during the prior year; the March 2002 survey examines insurance status in 2001. In its new report, the Census Bureau expanded the survey sample and changed methodology for 2001 as well as for earlier years. Thus, the number of people who are reported as being uninsured in 2000 in this report differs from the number reported in last year’s report.

Table 1
Changes in the Number of the Uninsured, 1999 to 2001,
Based on the Current Population Survey

| | 2000 | | 2001 | | Change 2000-2001 | |
|---------------------------------------|----------------------|--------------|----------------------|--------------|----------------------|--------------|
| | Number (millions) | Percent | Number (millions) | Percent | Number (millions) | Percent |
| Total U.S. Population | 39.8 | 14.2% | 41.2 | 14.6% | 1.4* | 0.4%* |
| <i>Selected Subpopulations</i> | | | | | | |
| Children, under 18 years | 8.6 | 11.9% | 8.5 | 11.7% | -0.1 | -0.2% |
| Adults, 18 to 64 years | 39.5 | 16.1% | 41.0 | 16.5% | 1.5* | 0.4%* |
| Working adults, 18 to 64 | 30.9 | 17.8% | 32.4 | 18.5%* | 1.5* | 0.6%* |
| Non-citizen immigrants | 8.3 | 41.7% | 8.8 | 42.9%* | 0.4* | 1.2%* |
| Those below the poverty line | 9.5 | 30.2% | 10.0 | 30.7% | 0.5* | 0.4% |

* Differences between levels this year and the prior one are significant with 90 percent or better confidence.

- The number of uninsured children fell slightly in 2001, but this change was not statistically significant. Although the total number of children who were covered by *private* health insurance fell in 2001, this was tempered by an increase in the number covered by Medicaid and SCHIP. The same pattern held true for children who lived in families with incomes below the poverty line.
- Health coverage among working-age adults (aged 18 to 64) fell in 2001. Almost 1.5 million fewer adults were insured, primarily because of the loss of job-based health insurance by workers and their spouses. The loss of coverage was particularly acute for those working in small businesses with fewer than 25 employees. While this was partially offset by an increase in the number of adults covered by Medicaid, there was still a net loss of health coverage. Although Medicaid helps insure millions of working adults, there are important gaps in Medicaid's reach: very few childless adults are covered by Medicaid and, in a majority of states the income eligibility standard for parents is set well below the poverty line.⁷
- The percentage of the population covered by Medicaid rose from 10.6 percent in 2000 to 11.2 percent in 2001.
- The number of uninsured people with incomes below the poverty line, which fell between 1999 and 2000, rose in 2001.
- Health coverage among non-citizen immigrants declined in both 2000 and 2001. More than two-fifths of immigrants lack health insurance coverage. The proportion who are insured has been falling since Congress terminated Medicaid and SCHIP coverage for most recently admitted legal immigrants in the 1996 federal welfare law.

⁷ Matthew Broaddus, et al. *Expanding Family Coverage: States' Medicaid Eligibility Policies for Working Families*, Center on Budget and Policy Priorities, Dec. 2001.

- The Census data also show that health insurance coverage fell in 9 states between 1999 and 2001: Arkansas, Georgia, Indiana, Missouri, Ohio, Oklahoma, Pennsylvania, Rhode Island and Texas. Insurance coverage grew in 14 states: Alaska, Arizona, Idaho, Louisiana, Massachusetts, Montana, Nevada, New Mexico, North Dakota, South Carolina, South Dakota, Virginia, West Virginia and Wisconsin.⁸

Centers for Disease Control and Prevention: Since the economic situation has continued to unravel in 2002, it is useful to augment the Census Bureau data with new data from the CDC's National Health Interview Survey, which provides preliminary data for the first three months of 2002.⁹ The proportion of Americans who were uninsured rose from an average of 14.1 percent over all of 2001 to 14.3 percent in the first quarter of 2002. This increase, while not statistically significant, does suggest a trend of growth in the proportion of Americans who lack coverage. But detailed data yield a more complex view:

- Between 2001 (the average for the year as a whole) and the first quarter of 2002, the proportion of children with *private* health coverage fell from 67.1 percent to 63.8 percent. During the same period, the share of children with Medicaid or SCHIP coverage rose from 23.4 percent to 27.7 percent. Had the growth in Medicaid and SCHIP coverage not taken place, about two million more children would have been uninsured.¹⁰
- Similarly, the proportion of working-age adults (those aged 18 to 64) with private health insurance fell from 73.9 percent in 2001 to 72.8 percent in the first quarter of 2002. Medicaid coverage among these individuals grew from 9.4 percent to 10.4 percent during this period, largely offsetting the loss of private coverage. The growth in Medicaid coverage kept about one million adults from becoming uninsured.¹¹

The Role of Medicaid and SCHIP in Helping the Uninsured During Hard Times

As the data show, the recent growth in Medicaid and SCHIP enrollment has helped counter the erosion of private health insurance coverage. These public insurance programs are designed to cushion the effects of an economic downturn by providing coverage to some of the low-income individuals who lose access to private coverage (for example, when they lose their jobs) and who would otherwise become uninsured. As a result of the current downturn, a recent survey conducted for the Kaiser Commission on Medicaid and the Uninsured found that states

⁸ These changes are based on two-year rolling averages. That is, it compares levels in states for 1999-2000 to levels in 2000-2001.

⁹ Centers for Disease Control and Prevention, National Center for Health Statistics, "Early Release of Selected Estimates Based on Data from the First Quarter 2002 NHIS," Sept. 20, 2002. NHIS measures health insurance coverage differently than the CPS. NHIS measures insurance status on the date of the interview, while CPS inquires about coverage over the entirety of the previous year. Thus, NHIS data can be somewhat more current than CPS data, although the measures of insurance coverage differ methodologically and are not completely comparable.

¹⁰ These differences were statistically significant with 95 percent confidence.

¹¹ These differences did not attain a 95 percent level of statistical confidence. This is primarily because the sample size for one-quarter's worth of NHIS data is much smaller than for a whole year. Calculations show that if these levels were sustained over the entire 2002 sample, the differences would be statistically significant.

expect their total Medicaid enrollment, including elderly and disabled individuals, to rise 8.6 percent in 2002.¹²

Some of the growth in public coverage has occurred simply because the economy deteriorated and more people became income-eligible. Some of the growth might have been caused by program improvements initiated by states in times when their budgets were in better shape. Almost all states have taken steps to expand health insurance coverage for low-income children in Medicaid and SCHIP by making it simpler to enroll in the programs, offering outreach to low-income communities, and/or expanding eligibility.¹³ And a number of states expanded eligibility for insurance coverage for low-income parents.¹⁴

In the past year, however, the tide has begun to turn, as the recession has led to serious state budget problems. States are struggling with serious budget deficits, and many have approved cuts in Medicaid expenditures and are contemplating further cuts. The Kaiser survey found that 18 states have tightened eligibility for Medicaid or plan to do so in 2002 or 2003. For example:

- Missouri took steps to eliminate more than 30,000 low-income parents from coverage. (A court order has delayed implementation of some of these changes.)
- Nebraska effectively reduced the income level at which children, families and other groups can qualify for Medicaid. As a result, an estimated 12 percent of the state's Medicaid enrollees will be dropped.
- New Jersey stopped enrolling additional low-income working parents in their FamilyCare program, although very poor parents who qualify for welfare may still join Medicaid.
- Since the Kaiser study was conducted, Oklahoma has approved major cutbacks in the eligibility of children, seniors, and the disabled.¹⁵ These cutbacks will nearly eliminate the state's SCHIP program and will remove about 80,000 people from coverage. Oklahoma originally planned to implement these eligibility cutbacks by November 1, 2002. It now appears likely the state will delay the eligibility changes until March 1, 2003, although other cutbacks in benefits will go forward as announced.

The dismal fiscal conditions that states face are likely to persist, since state revenues — which have fallen for four straight quarters — generally do not recover from a recession until a year or more after the recession ends. The National Governors Association now predicts that states will impose “draconian spending cuts” during the current fiscal year. Thus, Medicaid and SCHIP cuts could become significantly deeper and more widespread over the coming months. This could prevent these two programs from fulfilling their role of protecting low-income

¹² Vernon Smith, Eileen Ellis, Kathy Gifford, Rekha Ramesh, and Victoria Wachino, “Medicaid Spending Growth: Results from a 2002 Survey,” Kaiser Commission on Medicaid and the Uninsured, Sept. 2002.

¹³ Donna Cohen Ross and Laura Cox, “Enrolling Children and Families in Health Coverage: The Promise of Doing More,” Kaiser Commission on Medicaid and the Uninsured, June 2002.

¹⁴ Broaddus, et al., *op cit*.

¹⁵ This action was approved on September 18 by the Board of the Oklahoma Health Care Authority.

individuals during hard economic times and would cause the number of the uninsured to rise yet higher.

In addition, SCHIP faces *federal* funding problems that are unrelated to states' current budget problems. One is the so-called "SCHIP dip," a \$1 billion decrease in federal SCHIP funding for each of fiscal years 2002 through 2004; this decrease comes just as states' need for SCHIP funds is increasing due to the economic downturn and rising SCHIP enrollment. In addition, billions of dollars of unspent SCHIP funds are scheduled to "expire" and be returned to the U.S. Treasury at the end of fiscal years 2002 and 2003, even though states will badly need these funds in future years. Finally, as a result of flaws in the system that reallocates unspent SCHIP funds among states, the available funds are not going to the states that can best use them to insure more children. The Office of Management and Budget estimates that because of these various problems, the number of children served by SCHIP will fall by 900,000 between 2003 to 2006.¹⁶

Congress Can Prevent the Number of Uninsured Americans from Rising

Before it adjourns this year, Congress can take modest steps in two areas to help ensure that Medicaid and SCHIP can continue to cover low-income children, families, seniors, and the disabled. First, Congress can provide state fiscal relief to reduce the pressure on states to balance their budgets by reducing Medicaid eligibility. In August, the Senate overwhelmingly passed a bipartisan amendment that was part of the generic drugs bill (S. 812) to provide \$9 billion in temporary fiscal relief for states, largely by temporarily increasing Medicaid matching rates. The generic drugs legislation has stalled in the House, however, and is not expected to pass this year.

Second, Congress can shore up federal funding for SCHIP. A bipartisan proposal by Senators Rockefeller, Chafee, Kennedy, and Hatch (S. 2860) would strengthen the program's funding over the longer term by preventing unspent SCHIP funds from reverting to the U.S. Treasury, improving the targeting of SCHIP funds to help states that would otherwise need to cut SCHIP caseloads, and addressing the "SCHIP dip."

By taking these steps, Congress could help ensure that when it comes time to report the number of Americans who were uninsured in 2003, the news will not be too dire.

¹⁶ Edwin Park, Leighton Ku, and Matthew Broaddus, "OMB Estimates 900,000 Children Will Lose Health Insurance Due to Reductions in Federal SCHIP Funding," Center on Budget and Policy Priorities, August 2, 2002. Families USA, "Children Losing Health Coverage," Revised Sept. 19, 2002.