IS MEDICAID RESPONSIBLE FOR THE EROSION OF EMPLOYER-BASED HEALTH COVERAGE?

By Leighton Ku and Matt Broaddus

The Census Bureau recently reported that employer-sponsored health insurance coverage in the United States has continued to erode. Between 2000 and 2005, the percentage of Americans with job-based insurance slipped from 63.6 percent to 59.5 percent. Michael Cannon, director of health policy studies at the Cato Institute, has blamed Medicaid for this decline: “Employees can feel free to drop coverage because Medicaid is available for employees. Employees can drop coverage themselves because they know Medicaid is available.”

Cannon’s claim distorts the truth. For most employers and employees, Medicaid cannot provide an incentive to drop job-based health insurance, because few of those who would lose their insurance are eligible for Medicaid. Analyses of Census data for 2005 show that the great majority of the 46.6 million uninsured Americans are not eligible for Medicaid:

- The majority of the uninsured (25.8 million) are childless adults under the age of 65. People without dependent children are generally ineligible for Medicaid, no matter how poor they are.

- Medicaid covers some working parents, but they generally must have extremely low incomes. In the median (or typical) state in 2005, Medicaid was available only to parents whose annual incomes were below 67 percent of the poverty line, or $10,849 for a family of three. Parents with incomes above this level were ineligible. As a result, the overwhelming bulk of full-time working parents are ineligible for Medicaid; they cannot get it if their employer fails to offer coverage. Census data indicate that 9.5 million non-elderly parents who are uninsured have incomes above 67 percent

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2 The estimates below do not attempt to simulate all aspects of Medicaid or SCHIP eligibility in each state, which is quite complicated, but instead analyze Current Population Survey data using simplified eligibility criteria in a typical state.

3 Some childless adults are disabled and therefore could receive Medicaid if they are sufficiently poor, but their disabilities generally would preclude them from working and from employer-sponsored insurance anyway.

Economic research has consistently shown that the principal reason that employer-sponsored insurance is eroding is rising health care costs. Higher health care costs and health insurance premiums lead employers either to pass costs to employees by raising premiums, deductibles and/or copayments or to stop offering health insurance altogether. In addition, increases in the amounts that employees must pay for coverage lead some employees to drop coverage because they have difficulty affording it.

For the limited portion of low-income people who have employer-sponsored insurance, there could be some substitution of Medicaid for private coverage, but Cannon misinterprets the research in this area. He implies that nearly every person who joins Medicaid drops employer-based coverage, so there is no net reduction in the number of uninsured. Several research studies have examined whether Medicaid “crowds out” private health insurance coverage, focusing primarily on expansions of children’s eligibility in the 1990s. The estimated size of an effect varies from study to study because of methodological differences. Some studies find no statistically significant evidence of “crowd out,” while others do. The most common range of estimates suggests that if Medicaid coverage of children rises by 100 children, some 10 to 20 children may shift from employer-based insurance to Medicaid, while 80 to 90 children shift from being uninsured to Medicaid.

Clear evidence of the beneficial effect of Medicaid and SCHIP is found in the marked reduction in the number of uninsured low-income children that occurred after SCHIP was created and after states began taking steps to ease barriers that were impeding the entry of eligible low-income children into Medicaid. Data from three federal agencies all demonstrate that the growth of Medicaid and SCHIP coverage for children far outweighed the modest losses in private coverage and led to sharp reductions in the number of uninsured children. Centers for Disease Control and Prevention data show that the percentage of children with incomes below 200 percent of the poverty line who are uninsured has fallen by more than one-third in recent years, from 22.6 percent of low-income children in 1997 to 13.9 percent in 2005. Census data show the percentage of uninsured low-income children as declining from 24.6 percent in 1997 to 18.7 percent in 2005. The Agency for Healthcare Research and Quality also found a marked reduction in uninsurance among

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5 Publicly-funded insurance coverage for children is somewhat less restrictive: in the median state, children in families with incomes up to 200 percent of poverty ($33,200 for a family of three) are eligible for either Medicaid or the State Children’s Health Insurance Program (SCHIP). Children above that level generally are ineligible. Some 3.2 million uninsured children live in families with incomes above 200 percent of the poverty line, based on the Current Population Survey.


8 These data are based on CBPP analyses of the CDC’s National Health Interview Survey and the Census Bureau’s Current Population Survey. Because CDC and the Census Bureau differ in how they define and measure insurance coverage and conduct their surveys, they produce somewhat different results.
children over the past decade.⁹

In short, the data are quite conclusive in showing that rising health care costs, rather than Medicaid, is the driving force behind the erosion of employer-based coverage. Nor can there be any doubt that Medicaid and SCHIP strengthen insurance coverage for low-income people. Without them, the number of uninsured would be far greater.