



Health Care Costs and Coverage

Most Americans receive health insurance through their jobs. According to the Current Population Survey (CPS) of the Census Bureau, about 67.4 percent of the working-age population received employment-based insurance in 2001. Despite the economic boom of the 1990s, the share of working-age persons without health insurance increased from 15.1 percent in 1987 to 18.5 percent in 2001. Neither job losses nor part-time employment nor changes in plan sponsorship by small businesses seem to be the cause. Instead, employees who decline to enroll in health insurance and pay premiums account for much of this increase; specifically, the share of employees declining health insurance rose from 12 percent in 1988 to 15 percent in 2001.^{1,2}

The decline in health insurance enrollment appears to be associated with the dramatic rise in health insurance costs during the past two decades, which reflects mostly an increase in the underlying costs of medical care. From 1980 to 2001, medical care prices increased 2.5 percentage points faster (at an annual rate) than overall consumer price inflation. Employees' insurance costs have increased not only because of rising medical care costs but also because employers have shifted a larger percentage of the costs to their workers. A survey finds that employees' contributions for single-person coverage have increased from 11 percent of the total insurance premium in 1988 to 16 percent in 2002. In 1988, employees contributed \$8 toward the cost of their premium; in 2002, employees contributed \$38.³ This latter amount translates to \$25.37 in 1988 dollars—a three-fold increase in real terms.

The accompanying table decomposes the increase in the typical employee-paid premium into the portion resulting from a higher total premium and the portion resulting from the rise in the employee's share. In real terms, about 45.6 percent of the increase in the employee premium is due to an increase in the employee premium share.

Two explanations for the declining share of health

premium costs paid by employers are as follows. First, employers shift more of the premium cost to employees to encourage them to choose low-cost insurance options. Second, because employees have different preferences for health coverage, it is efficient for firms to substitute higher wages for employer-paid health coverage; this flexibility allows employees who value top-notch insurance to purchase it, while other employees may pocket the wage increase for other purchases.⁴

These findings imply that rising health insurance premiums might increasingly impel workers to decline health insurance—which, in addition to changes in eligibility or employer-sponsored coverage, could further increase the percentage of uninsured working-age persons.

—Rubén Hernández-Murillo

¹Cutler, David M. "Employee Costs and the Decline in Health Insurance Coverage." Working Paper No. 9036, National Bureau of Economic Research, July 2002.

²The author does not distinguish, however, how many employees who decline insurance are covered by a spouse or have other alternatives.

³2002 Employer Health Benefits Survey, The Kaiser Family Foundation.

⁴Gruber, Jonathan and McKnight, Robin. "Why Did Employee Health Insurance Contributions Rise?" Working Paper No. 8878, National Bureau of Economic Research, April 2002.

Cost of Single-Person Health Insurance Coverage for a Typical Employee

| | Employee premium share* | Total premium | Employee premium* | Employee premium in 1988 dollars |
|---------------------|-------------------------|---------------|-------------------|----------------------------------|
| 1988 | 11% | \$72.73 | \$8.00 | \$8.00 |
| 2002 | 16% | \$237.50 | \$38.00 | \$25.37 |
| Source of increase | | | Current dollars | Constant dollars |
| Total premium cost | | | \$18.12 | \$9.44 |
| Employee share rise | | | \$11.88 | \$7.93 |
| Total change | | | \$30.00 | \$17.37 |

NOTE: CPI inflation computed between Dec. 1988 and Sep. 2002.

*SOURCE: 2002 Employer Health Benefits Survey, The Kaiser Family Foundation.

