

# Health Issues Brief

**March 2006**

*American employers began providing health insurance after World War II. Their goal was to attract workers in a time of severe workforce shortages. Today, non-stop increases in health care costs are forcing businesses to shift more and more of the burden to employees and especially, retirees. The result is a dramatic upsurge in the uninsured and underinsured.*

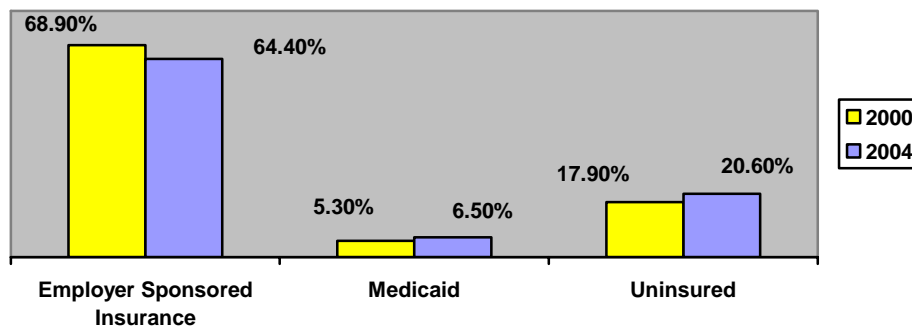
## Growing Uninsured Population Strains Private Sector

Rising insurance costs and cuts in federal health care spending continue to aggravate the growth in uninsured Americans, placing an ever-increasing burden on the private sector. Businesses, consumers, hospitals and private providers alike are feeling the pinch -- and so is the U.S. economy.

Nationally, the uninsured population increased by 4.6 million last year alone -- to 45 million people. Another 16 million were underinsured last year, mostly low- to middle-income people and those with chronic or catastrophic illnesses. Florida has the fourth-highest uninsured rate in the nation, at 21%.

Not surprisingly, the fastest growing segment of the uninsured population is the group just above the Medicaid income limit. Uninsured young adults ages 19-34 comprise 48% of the growth rate.<sup>1</sup>

**Table 1**  
**Changes in Health Coverage, 2000-2004<sup>2</sup>**



### ***Business & Consumers: Caught in the Middle***

*General Motors says health costs add \$1,500 to the price of every car. They plan to cut \$1 billion from their \$5.6 billion annual health care spending for workers and retirees, and their families.*

San Francisco Chronicle 10-19-05

Annual health insurance premiums have increased 73% since 2000, including a 9.2% increase in 2005.<sup>3</sup> The increase is two-and-a-half times the rate of inflation and three times the growth rate of worker wages.<sup>4</sup>

The average annual premium for a family of four is now \$10,880. The premium for a single employee averages \$3,000.<sup>5</sup> Yet, the gross income of a full-time minimum-wage worker is \$10,712.

In 2005, just 60% of businesses offered health coverage, down from 69% in 2000. Of those who maintained coverage, just 33% absorbed their premium increases last year, down from 36% in 2002.

Others are dropping coverage, hiring more part-time workers, or passing on the increases to employees through higher deductibles and co-pays. For example, some employers are switching to high deductible Health Savings Accounts to keep their costs down but again, HSAs shift more costs onto employees. In fact, workers now pay 26% of their annual health insurance premiums—\$1,094 more than in 2000.<sup>6</sup>

"What this country is actually doing is gradually pricing the lower third of the wage and income distribution out of health care," said Uwe Reinhardt, PhD,<sup>7</sup> a Princeton economist. "The success or failure of efforts to control health care costs in the next decade will determine whether those in higher income brackets are similarly shut out."

*Starbucks Chairman Howard Schultz told Congress he spends more on employee health benefits than on coffee.*

Los Angeles Times, 10-05

### ***The Economy: Soaring Premiums Exacerbate Employment Slump***

"A relentless rise in the cost of employee health insurance has become a significant factor in the employment slump, as the labor market adds only a trickle of new jobs each month despite nearly three years of uninterrupted economic growth," noted the *New York Times*.<sup>8</sup>

Similarly, two 2005 studies by National Bureau for Economic Research<sup>9</sup> (NBER) suggested that soaring health insurance premiums have major public policy implications. Besides the swelling of the ranks of the uninsured, NBER said, "increasing rates also boost unemployment, push more workers into part-time jobs, and force employees to sacrifice wages and other benefits just to retain some measure of coverage."

The researchers noted that when premiums rise, part-time workers receive higher wages but are less likely to receive benefits. This means that employers may be shifting to part-time employees with limited benefits in order to avoid premium increases. Full-time workers absorb health costs in the form of lower wages.

"Every 10% increase in health insurance costs reduces the chances of being employed by 1.6%," said one of the NBER studies. "It also reduces hours worked by 1% and increases the likelihood that a worker is employed only part-time by 1.9%."

### ***What's Next?***

"Millions of uninsured workers is a bad proposition for the U.S. economy," said Peter Lee, president of the Pacific Business Group on Health, an employer alliance based in San Francisco. "This has to be seen as a wake-up call to policymakers and health care providers as it puts an increasing burden on an already frayed safety net."<sup>10</sup>

Starbucks' Howard Schultz, whose company spends less on coffee than health benefits, agrees -- and declares the cost of employer coverage a health care crisis. "It's completely non-sustainable," he said, "even for companies that want to do the right thing."<sup>11</sup>

"We are seeing an unraveling of the way we finance health care in the United States," said William Custer, director for Health Services Research at Georgia State University. "It is coming apart at the edges, and those edges are small business and low-wage workers. The levees are breaking."

### ***Next Health Issues Brief: The Impact of the Uninsured on Safety Net Providers***

<sup>1</sup> Kaiser Family Foundation

<sup>2</sup> American Hospital Association, 2004 (2005 data pending)

<sup>3</sup> Kaiser Family Foundation's Annual Employer Health Benefits Survey, 2004

<sup>4</sup> Kaiser Family Foundation

<sup>5</sup> *New York Times*, 8/19/04

<sup>6</sup> Kaiser Family Foundation

<sup>7</sup> *USA Today*, 3/17/2004

<sup>8</sup> *New York Times*, 8/19/04

<sup>9</sup> "Effects of Rising Health Insurance Premiums" & "Labor Market Effects of Rising Health Insurance Premiums," National Bureau of Economic Research, Feb. 2005

<sup>10</sup> *Los Angeles Times*, September 14, 2005