



Employment Changes Play Major Role in Access to Employer Health Coverage

Research Highlight

POLICY PERSPECTIVE

AMERICANS RELY ON EMPLOYER-SPONSORED HEALTH INSURANCE. ACCORDING TO THIS RESEARCH, THE OVERALL STATE OF THE ECONOMY PLAYS A MAJOR ROLE IN THE STABILITY OF EMPLOYER COVERAGE, ESPECIALLY FOR LOW- AND MODERATE-INCOME FAMILIES. IF DECISION-MAKERS WANT TO IMPROVE THE STABILITY OF COVERAGE, THE NATION NEEDS TO DEVELOP COUNTER-CYCICAL POLICIES SUPPORTING THE PURCHASE OF HEALTH INSURANCE.

Background

Employer-sponsored health insurance is the largest source of coverage in the United States, insuring nearly two-thirds of Americans.^{1,2} In recent years, the proportion of Americans with employer coverage has declined significantly.^{1,2} As declines in employer coverage lead to higher rates of uninsurance and increased strain on public insurance programs, it is critical to understand what drives changes in employer-sponsored insurance coverage rates.

Researchers have identified the state of the economy and health insurance costs as primary drivers of changes in employer-sponsored insurance coverage rates.³ James D. Reschovsky, Bradley C. Strunk and Paul B. Ginsburg of the Center for Studying Health System Change used the nationally representative Community Tracking Study (CTS) Household Survey to quantify the impact of these drivers on changes in employer-sponsored insurance coverage rates during a period of economic growth (1997–2001) and the subsequent recession and recovery (2001–2003).

After accounting for population growth, the authors found that:

- 4.5 million people gained employer-sponsored coverage between 1997 and 2001;
- 9 million people lost coverage between 2001 and 2003.

Their research suggests that employment rates and changes in the availability of higher quality jobs that are more likely to offer insurance were major factors contributing to coverage changes in both periods.

Key Findings

- **Macroeconomic cycles drive short-term changes in employer-sponsored health insurance coverage.** [Chart 1] Gains and losses in coverage over a business cycle are most strongly affected by changes in employment and job quality. More than half of the decline in employer coverage in 2001–2003 was a result of lower employment levels. Likewise, the quality of available jobs, in terms of whether health benefits are included, goes up and down with the economy. For example, during the strong economic growth period (1997–2001), the availability of higher-quality jobs was associated with 816,000 people gaining coverage. While the economy was going through a recession and a slow recovery, average job quality fell. As a result, almost 2.8 million people lost their employer-sponsored insurance. Changing income levels also affect the likelihood that workers will take up employer coverage offers.

Chart 1: Number of People (in millions) Who Gained or Lost Employer-Sponsored Health Insurance (ESI) by Contributing Factor

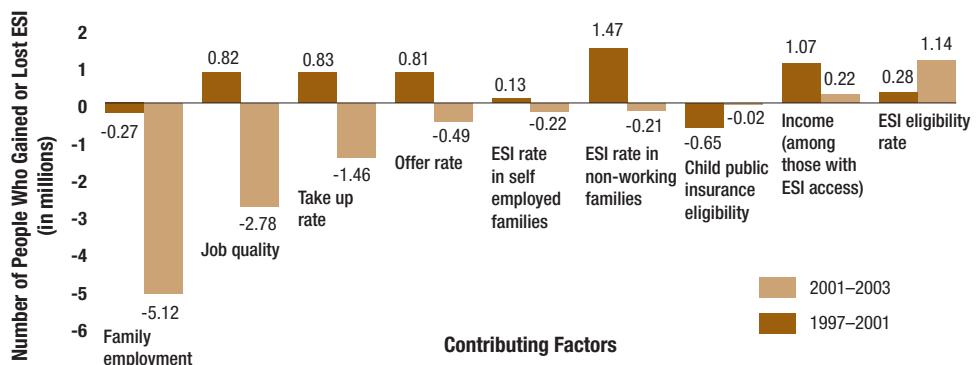
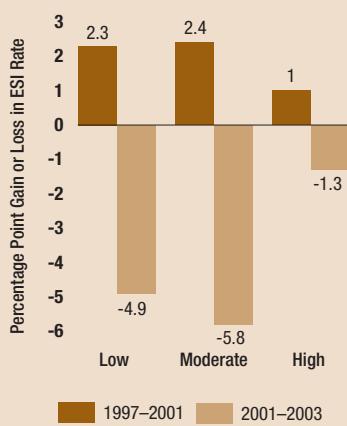


Chart 2: Percentage Point Change in Employer-Sponsored Insurance (ESI) Coverage by Time Period and Predicted Income



- **The rising cost of health insurance is driving employer coverage down.** For many years, health insurance premiums have risen faster than worker wages. That trend accelerated during the 2001–2003 period. During good economic times, when labor markets are tight, employers are more likely to absorb rising health insurance costs rather than pass higher costs on to workers. The opposite occurs during an economic slowdown, such as 2001–2003. Fewer employees enrolled in employer-sponsored insurance plans when employers passed along rising health insurance costs to them. This reduced the number of people covered by employer insurance by nearly 1.5 million.
- **Low- and moderate-income Americans were more directly affected by economic changes than higher-income Americans.** [Chart 2] During 1997–2001, which was characterized by a strong economy and moderate health insurance cost increases, low- and middle-income Americans experienced higher gains in coverage than higher-income Americans. During 2001–2003, middle-income Americans suffered the greatest loss of employer-based insurance, when the employer-sponsored insurance coverage rate for this subgroup dropped by 5.8 percentage points. Coverage rates for low-income Americans during this period also dropped by about 4.9 percentage points.
- **Expansion of public health insurance plans only modestly lowered rates of employer-sponsored insurance.** While expanded public insurance availability was associated with nearly 650,000 fewer people taking up employer-sponsored insurance from 1997 through 2001, there was virtually no effect during the latter study period. The loss of employer-sponsored coverage over the two study periods is fairly small compared to the 3.7 million children enrolled in SCHIP and Medicaid expansion programs by 2003.

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1 DeNavas-Walt C, Proctor BD and Lee CH. *Income, Poverty, and Health Insurance Coverage in the United States: 2004*. Washington: U.S. Census Bureau, 2005. Available at: <http://www.census.gov/prod/2005pubs/p60-229.pdf>

2 Strunk BC and Reschovsky JD. *Trends in U.S. Health Insurance Coverage, 2001–2003*. Washington: Center for Studying Health System Change, 2004.

3 Acs G. "Explaining Trends in Health Insurance Coverage Between 1988 and 1991." *Inquiry*, 32(1):102–110, 1995; Cutler DM. "Employee Costs and the Decline in Health Insurance Coverage." Working paper 9036. Cambridge, MA: National Bureau of Economic Research, 2002. Chernew M, Cutler D and Keenan PS. "Increasing Health Insurance Costs and the Decline in Insurance Coverage." *Health Services Research*, 40(4): 1021–39, 2005; Cooper PF and Schone BS. "More Offers, Fewer Takers For Employment-Based Health Insurance: 1987 and 1996." *Health Affairs*, 16(6): 142–149, 1997.