

# The Uninsured and Rising Health Costs

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ALLIANCE FOR  
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**E**ven as the U.S. economy continues to grow, so does the number of Americans without health insurance—along with the cost of covering those who do have insurance. At the same time, most analysts agree that the nation's health care system faces a number of other critical challenges including uneven quality and racial and ethnic disparities in access to care and treatment outcomes.

There is general agreement that all of these problems are interrelated. For instance, health care costs have been growing much more quickly than the economy as a whole and the faster costs grow, the more difficult it is for employers and workers to afford health insurance. Consequently, rapidly rising costs tend to lead to larger numbers of uninsured Americans who do not have access to the medical care they need.

Several reports issued in 2005 suggest that both the number of uninsured and rising costs of care remain serious dilemmas. The U.S. Census Bureau reported in August that an estimated 45.8 million people in the U.S. lacked health coverage for all of 2004, up 859,000 from a year earlier. This marked the fourth consecutive year of increases.

In September, the Health Research and Educational Trust and the Kaiser Family Foundation announced that for the sixth year in a row, health care premiums in 2005 grew more than twice as fast as prices overall or workers' earnings. Perhaps as a result, the share of small employers offering health coverage to their employees dropped from 63 percent in 2004 to 59 percent in 2005. This was despite the fact that the average rate of premium increases slowed from 2004.

Addressing the dual problems of rising health costs and the increase in the num-

ber of uninsured requires an understanding of the differences among those who are uninsured, and of the multiple factors driving increased health care spending.

## The Uninsured in 2004

The uninsured are not a homogeneous group. They come from all age groups and ethnicities, and live in all parts of the country. They are uninsured for different reasons and for different lengths of time.

The number of Americans with health insurance increased by more than two million in 2004, to 245.3 million. But the number *without* insurance also rose—by 859,000—to 45.8 million, according to the U.S. Census Bureau. As a result, the percentage of Americans under age 65 who lack health insurance rose slightly from 17.6 percent to 17.8 percent.

**Coverage through work**—The increase in the number of uninsured was largely the result of a decline in the percentage of Americans with job-based coverage. That figure fell from 60.4 percent in 2003 to 59.8 percent in 2004. The number of uninsured increased among both full-time workers (from 20.6 million to 21.1 million) and part-time workers (from 5.9 million to 6.3 million). Likewise, the percentage of both groups who were uninsured increased—from 17.5 to 17.8 among full-time workers and from 23.8 to 25.0 among part-time workers.

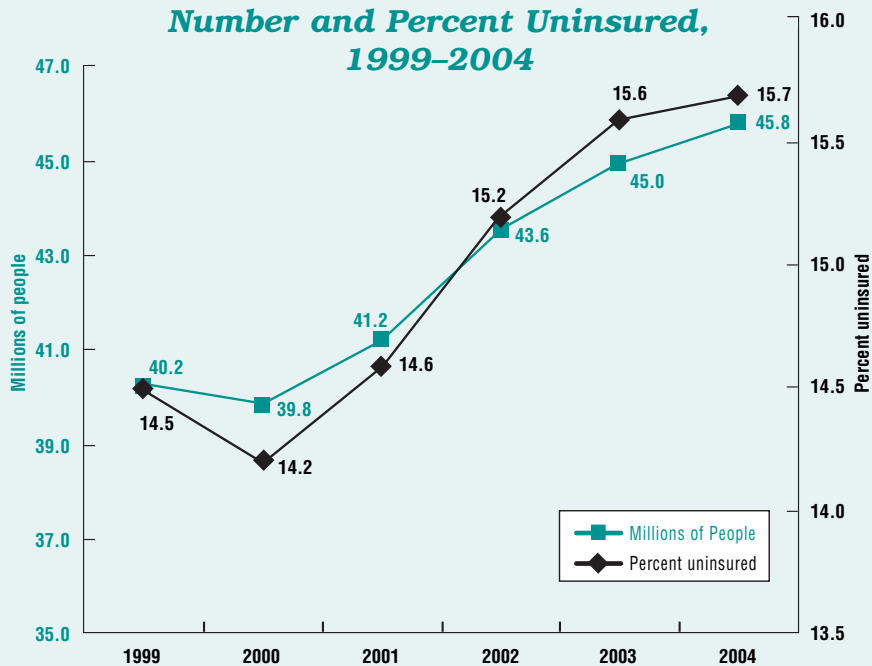
Among those working for the largest firms (1000 or more workers), the percent uninsured increased from 11.0 in 2003 to 11.6 in 2004—a higher rate of increase than for any other firm size. Nonetheless, workers at the smallest firms (fewer than 25 employees) still were almost three times as likely to be uninsured in 2004 (31.1 percent) as workers at larger companies.

## Fast Facts

- ▲ The number of Americans who lacked health insurance for the entire year rose to 45.8 million in 2004, according to the U.S. Census Bureau, up from 45 million in 2003. The percentage of the total population under age 65 lacking health coverage grew to 17.8 percent in 2004, from 17.6 percent the year before.
- ▲ The number of Americans with insurance also grew in 2004, to 245.3 million. That was up 2 million from 2003.
- ▲ The percentage of the population with employer-sponsored coverage declined steadily between 2000 and 2004. The percentage with public coverage, meanwhile, has steadily increased.
- ▲ The premiums employers and workers pay for health insurance rose an average of 9.2 percent in 2005, according to the annual survey by the Health Research and Educational Trust and the Kaiser Family Foundation. That was down from 2004's increase of 11.2 percent, but still marked the sixth straight year in which premiums grew at more than double the pace of prices overall or workers' earnings.
- ▲ The average premium for family coverage by a preferred provider organization, the most popular type of health plan, rose to \$11,090 in 2005, up from \$10,217 in 2004.

**This issue brief, prepared by the Alliance for Health Reform with support from the Robert Wood Johnson Foundation, examines the related topics of Americans without health insurance and rising health care costs. The subject was addressed at a Capitol Hill briefing by the Alliance and the Foundation, and selected material from that event is incorporated into this brief.**

**FIGURE 1**  
**Number and Percent Uninsured,**  
**1999–2004**



SOURCE: U.S. Census Bureau, Historical Health Insurance Tables, Table HI-1 ([www.census.gov/hhes/www/hlthins/historic/hihist1.html](http://www.census.gov/hhes/www/hlthins/historic/hihist1.html))

**Kids' coverage**—In 2004, 8.3 million children lacked coverage, a decrease from 8.4 million a year earlier. The percentage of children uninsured dropped to 11.2, down from 11.4 percent in 2003. A decline in employment-based coverage among children was offset by an increase in enrollment in public programs, notably Medicaid and the State Children's Health Insurance Program (SCHIP). Medicaid and SCHIP covered 455,000 more children in 2004 than in 2003.

**Race/ethnicity**—Among racial and ethnic groups, Hispanics were the most likely to lack coverage. Almost a third of Hispanics (32.7 percent) were uninsured in 2004, a rate that was unchanged from 2003; nonetheless, the number of uninsured Hispanics rose from 13.2 million to 13.7 million. (Note that if the overall population is also growing, rates can remain unchanged even as the number of uninsured increases.) The number of uninsured blacks increased from 2003 to 2004, while the number of uninsured Asians shrank. Both the number and the rate of uninsured non-Hispanic whites increased, from 21.6 million to 22 million, and from 11.1 percent to 11.3 percent.

**State variations**—Though the Census Bureau's state-by-state estimates of the uninsured are not as reliable as the national estimate, its three-year averages show that the chances of being uninsured are related to where one lives, with rates particularly high in the Southwest. For the 2002–2004 period, Texas (25.1 percent) and New Mexico (21.4 percent) had the highest per-

centages of uninsured residents. Minnesota (8.5 percent) had the lowest.

### Health Premiums in 2005

While the Census numbers covered calendar year 2004, the annual survey of employers conducted by the Health Research and Educational Trust (HRET) and the Kaiser Family Foundation found that in 2005 average premiums for employer-provided coverage rose 9.2 percent. Mercer Human Resources Consulting put the average increase at 6.1 percent. Those growth rates marked the second or third straight year of slowing premium increases, however, the growth in premiums continued to far outpace the growth in prices overall (3.5 percent) or workers' earnings (2.7 percent).

Growth in health care premiums and overall health care costs is straining the budgets of businesses and their workers. The average annual premium for a family in a preferred provider organization or PPO, the most popular type of health plan, was \$11,090 in 2005. Of this amount, employers paid an average of \$8,449—or \$162 per week.

Rising costs have resulted in fewer employers offering coverage—60 percent of all firms in 2005 compared with 69 percent in 2000. Some 73 percent of firms not offering coverage cite “high premiums” as a “very important” reason for not including health insurance as an employee benefit. Also mentioned are that the “firm is too small” (52 percent), “employees are covered elsewhere” (33 percent) and that it's “possible to obtain good employees without offering a health plan” (22 percent).

For those with employer-sponsored coverage, the percentage of premiums workers are required to pay has remained relatively constant. But as premiums have risen, so have workers' costs. Between 2000 and 2005, the average monthly premium paid by a worker to cover only him or herself rose 82 percent, from \$28 to \$51, while the worker's dollar contribution toward the average premium for family coverage went up 67 percent, from \$135 to \$226.

Moreover, covered employees are paying more for health care, not only because their premium contributions are rising, but also because they are facing higher cost-sharing requirements. For instance, in 2005, the average annual deductible for single workers in a PPO was \$323—up 58 percent from 2001.

Some 15.2 percent of uninsured workers were eligible for health coverage but declined to take it in 2002. About two-thirds said they declined because of the cost, down from seven out of 10 in

1997. Fewer than 10 percent said they declined because they didn't need or want coverage.

### Outlook for the future

As noted, the rate of increase in premiums has slowed over the past few years. There are indications that this was due to slower growth in underlying health care costs. However, at least two studies predict a steeper rate of premium growth for 2006. An October 2005 study by Hewitt Associates projects a 9.9 percent increase in premiums, up from 9.2 percent in 2005. Mercer Human Resources Consulting predicts a 6.7 percent rise, up from 6.1 percent.

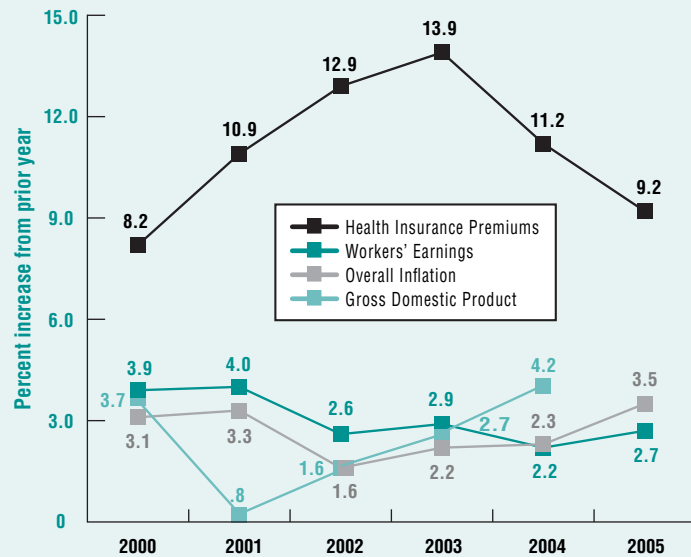
**Utilization review/disease management**—In an attempt to keep costs under control, many employers are using utilization review and disease management programs. The Kaiser/HRET study found that about eight in 10 covered workers are in a health plan that uses case management for high-cost claims. Three-fourths of covered workers must obtain approval from a health plan before receiving inpatient services and more than half (55 percent) must get prior certification for outpatient surgery.

Some 56 percent of covered workers are enrolled in a plan with at least one disease management program. These programs help those with chronic conditions—typically, diabetes, asthma, hypertension and high cholesterol—manage and control their illnesses more effectively and remain healthier longer.

**Consumer-directed plans**—A growing number of employers are considering implementation of consumer strategies that make employees more directly responsible for the cost of the care they choose. The Kaiser/HRET survey found that about 20 percent of employers who offer health insurance make available a high-deductible health plan option. Many of these high-deductible plans are coupled with tax preferred accounts in what are sometimes called “consumer-directed” plans. Relatively few employees are enrolled in such plans—3.5 percent of non-federal covered workers with coverage through their jobs, or about 2.4 million people, this survey found—but the number is growing.

**Retiree coverage**—According to the Kaiser/HRET study, 33 percent of firms with 200 or more workers offered retiree health benefits in 2005. This was virtually unchanged from 2004, but was still down substantially from 1988, when 66 percent of large firms offered health coverage to retirees. In a separate study by the Kaiser Family Foundation and

**FIGURE 2**  
*Increases in Health Insurance Premiums Compared to Other Indicators, 2000–2005*



SOURCE: Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits: 2005 Annual Survey ([www.kff.org/insurance/7315/sections/ehbs05-1-1.cfm](http://www.kff.org/insurance/7315/sections/ehbs05-1-1.cfm)) U.S. Department of Commerce, Bureau of Economic Analysis (2005). ([www.bea.doc.gov](http://www.bea.doc.gov))

Hewitt Associates, one in eight firms with 1,000 or more employees said they had stopped offering subsidized retiree health benefits in 2005 for future retirees, primarily newly hired workers.

**Public programs**—On the public coverage side, while state budgets look better than they have in recent years, rising costs for Medicaid and SCHIP are still outpacing the small increases in state revenues. The Medicaid Commission appointed by Health and Human Services Secretary Michael Leavitt reported in September 2005 that total expenditures for Medicaid rose faster than for any other type of health coverage between 1998 and 2003—a 62 percent increase over that period. Spending on private insurance rose 51 percent for the same period and Medicare expenditures were up 36 percent, the commission noted.

Part of the increase in total Medicaid cost is traceable to enrollment growth: Medicaid and SCHIP added 1.9 million people between 2003 and 2004, according to the Census Bureau—a 5 percent increase. This prevented the number of uninsured persons from growing even more than it already did.

Between 2000 and 2004, 4.8 million children were added to the Medicaid and SCHIP rolls—an increase of 31.5 percent, and an indication of how key the public programs are to covering the nation's low-income children. The number of children on Medicaid and SCHIP grew by 1.87 million in 2003 alone, and by another 455,000 in 2004.

Studies released in October 2005 show a mixed outlook for Medicaid and SCHIP.

A survey of state Medicaid directors conducted for the Kaiser Commission on Medicaid and the Uninsured found that the number of states implementing new restrictions in eligibility, cuts in benefits or increased out-of-pocket spending for patients decreased in FY2005, but is increasing again for FY2006. The growth in Medicaid spending eased in FY2005 for the third year in a row, to 7.5 percent. Even so, this was substantially above the growth in state tax revenues (4.9 percent).

Perhaps ominously, state Medicaid directors said much of the cost growth in the program is caused by factors they can't control, including the growth in health costs generally and declining employer-sponsored coverage.

The cost cutting is likely to continue, at both the federal and state levels. The Medicaid Commission's report outlines six ways of reducing expenses by \$10+ billion over five years. These include higher out-of-pocket spending by Medicaid beneficiaries and tightening the rules governing

the transfer of assets to become Medicaid eligible.

The report parallels some of the Medicaid reform recommendations issued by the National Governors Association in August 2005. The governors' recommendations also include letting states pool their Medicaid populations to negotiate savings from prescription drug makers, helping individuals buy long-term care insurance and setting premiums for the Medicaid programs.

Many uncertainties remain in 2006. Will the number of uninsured continue to rise, despite an improving economy? How will states constrain costs in public insurance programs? Will consumer-driven health plans become a trend among employers? What is certain is that health care coverage and costs will continue to be lively topics of debate on Capitol Hill and throughout the nation.

(For the sources used in this publication, click on the title of this issue brief at [www.allhealth.org](http://www.allhealth.org) under "Publications.")

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The Alliance is a nonpartisan, not-for-profit group committed to the education of journalists, elected officials and other shapers of public opinion, helping them understand the roots of the nation's health care problems and the trade-offs posed by various proposals for change.

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