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Solutions for Today's Health Policy Challenges

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*Understanding the Uninsured And What to Do About Them**

Every year the U.S. Census Bureau reports that the number of uninsured has grown — reaching 44.8 million Americans in 2005 (revised downward from an earlier release claiming 46.6 million were uninsured). However, this focus on the large uninsured population implies that they are one homogenous lot. They aren't.

Before elected officials look for solutions, it is essential that they understand who the uninsured are, and why they lack coverage. With that information in hand, elected officials can identify targeted solutions to help the uninsured gain access to affordable health insurance coverage.

Who Am I? Understanding the Uninsured. Critics of the U.S. health care system often treat the uninsured as if they all face similar circumstances. Actually, there are numerous differences:

- *The Temporarily Uninsured* — Most people are uninsured for relatively short periods of time, usually as a result of job transition. The federal government estimates that about 45 percent are uninsured for six months or less.
- *The “Young Invincibles”* — The majority of the uninsured are young and, not coincidentally, healthy. According to the Census Bureau, 30.6 percent of the uninsured are between 18 and 24 years old, and another 26.4 percent of the uninsured are between 25 and 34.
- *No Access to Employer-Provided Coverage* — About 80 percent of the uninsured work or live in a household where someone works. In most cases they are lower-income workers, and the employer doesn't offer health insurance.
- *The Chronically Ill* — The chronically ill have been the focus of both Congress and state policymakers. If the chronically ill are uninsured and apply for coverage, they may be denied it or face higher premiums.
- *Workers Facing Tax Discrimination* — Federal tax policy discriminates against people who work for employers (i.e., not self-employed) but buy their own coverage in the individual health insurance market. They use after-tax dollars to purchase their own coverage, while

group insurance is paid for with pre-tax dollars, effectively reducing taxable income.

- *Low-income Individuals* — Income is one of the most important predictors of who has coverage and who does not. The Census Bureau estimates that among those with incomes less than \$25,000, 24.4 percent are uninsured, while only 8.5 percent of those with incomes above \$75,000 are uninsured. Remarkably, a quarter of those lower-income uninsureds are eligible for publicly financed insurance programs but do not enroll.
- *The Voluntary Opt-Outs* — About 17 million Americans have good incomes but choose not to purchase coverage. And the number of uninsured Americans who earn those higher incomes is rising significantly *faster* than those at lower-income levels.
- *Minorities* — While the Census Bureau reports whites have an uninsured rate of 11.3 percent, blacks and Hispanics face a much higher rate — 19.6 percent and 32.7 percent, respectively.

What Should States Do to Increase Access to Affordable Coverage? State policymakers have a number of targeted reforms at their disposal that can increase access to affordable coverage without fundamentally restructuring the health care system, imposing significant new costs, or creating new distortions in the health insurance market.

- *High Risk Pools* — High risk pools provide coverage to those who are medically uninsurable, often the chronically ill. About 1 million Americans fall into this category. But while 34 states have implemented high risk pools, they are often underfunded. Additional state and federal funds would go a long way in stimulating this safety net.
- *Individual Tax Credits* — Both Republicans and some Democrats support tax credits for employees without access to employer-provided coverage. These tax credits would help lower-income workers afford coverage.
- *List Billing* — List billing allows an employer who is not contributing to premiums to help employees purchase individual health insurance. Individuals sign up

for their own policy and agree to have the premiums deducted from their wages. The employer receives a monthly bill for all the employees (hence, a “list bill”) and remits premiums to the insurer.

- *Limited Benefit Plans* — Many of the young, healthy invincibles would get coverage if they had access to affordable policies. Limited benefit plans typically cap an insured person’s reimbursement for medical care either in aggregate (e.g., a \$50,000 annual limit) or with a schedule of benefits (e.g., \$3,000 per day of hospital confinement).
- *Medical Waivers* — An exclusionary waiver, or rider, provides an applicant with a minor chronic medical condition an additional coverage option. In exchange for waiving coverage for the condition, the applicant receives coverage at standard rates.
- *Mandate-Lite Policies* — Mandates require insurance to cover specified health care providers and benefits. And while those policies are more comprehensive, they also make coverage more expensive. By eliminating some (or all) mandated benefits, health insurers are able to offer consumers a range of more-affordable health insurance products.
- *Out-of-State Insurance* — The fact that states regulate individual and small group health insurance differently means that access to affordable coverage can vary significantly from state to state. For example, some states have imposed price controls known as community rating (which is often combined with a requirement to sell any plan to any applicant, known as guaranteed issue) and others have extensive mandated benefits. As a result, the health insurance rates in those states are unaffordable for most. If those same residents were allowed to purchase plans from another state, thereby expanding competition, they might be able to find a policy that meets their needs and pocketbooks.
- *Short-Term Medical Insurance* — Short-term medical insurance is an affordable option for those seeking coverage for a limited time, such as a worker who is between jobs.
- *Employer and Individual Subsidies* — Several states now subsidize coverage for small employers who do not offer health insurance. These programs have proven to be very popular. Other states are providing subsidies directly or indirectly to uninsured individuals.
- *Leveling the Playing Field for Individual Purchasers* — Those who pay for health insurance out of their own pockets should be granted the same pretax treatment of

premium payments afforded to employers and their employees. While this is primarily a federal issue, states can encourage their Washington delegations to act.

- *Wellness* — We know that a healthier population will have lower overall health care costs and therefore lower health insurance premiums. Some innovative, cost-conscious health insurers are now seeking to implement or expand cost-effective wellness programs.
- *Health Savings Accounts* — While not a panacea, HSAs have been enormously successful in attracting the uninsured. More than 30 percent of businesses and individuals choosing HSAs were previously uninsured, according to industry sources. However, a few states still do not provide a tax deduction for contributions to accounts, and a few states still have barriers that make it difficult for HSA plans to be sold.

Conclusion. Our approach focuses on reducing government interference in the private market. Instead of forcing individuals and employers to provide coverage, we encourage them to buy it at much more affordable rates. CAHI’s proposed solutions reduce the cost of health insurance and increase access to a wide range of options, thus making it available and affordable to the many uninsured populations.

**This is an abridged version of the CAHI pamphlet by the same name, available at www.cahi.org.*

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