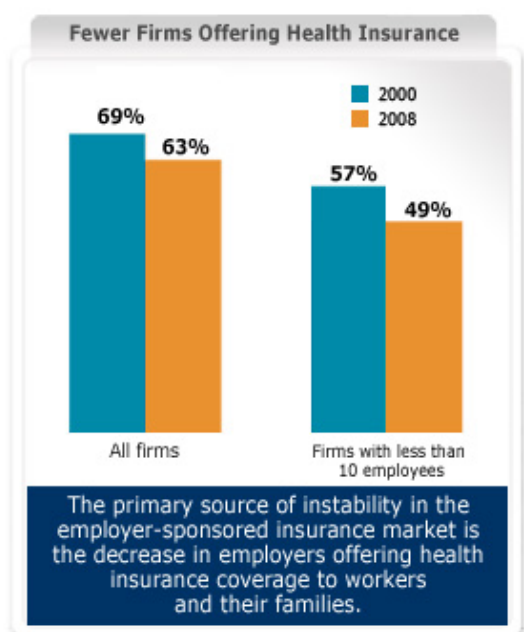


# INSURANCE INSECURITY:

## Families are Losing Employer-Sponsored Insurance Coverage

### Introduction

Health care costs doubled between 1996 and 2006, and costs are projected to rise to 25 percent of Gross Domestic Product (GDP) in 2025.<sup>1</sup> As a result of skyrocketing health care costs and challenging economic times, Americans are finding stable sources of quality health insurance coverage harder and harder to acquire. Sixty-one percent of working age individuals and their families receive employer-sponsored insurance coverage, and this coverage is increasingly in jeopardy.<sup>2</sup> Loss of health insurance even for a short period of time can have devastating financial and health consequences as a result of limited options for meaningful coverage outside the employer-sponsored market.



Source <sup>3</sup>

The primary source of instability in the employer-sponsored insurance market is the decrease in employers offering health insurance coverage to workers and their families. Between 2000 and 2008, the percentage of firms offering health insurance coverage to their employees declined from 69 to 63; for firms employing less than 10 workers, the decline was even greater – from 57 to 49 percent.<sup>3</sup>

Employers also often discontinue dependent coverage, instead of dropping coverage altogether, which forces families to seek alternative coverage. In fact, between 2001 and 2005, employers dropping dependent coverage accounted for 11 percent of the decline in employer-sponsored insurance overall.<sup>4</sup>

Because employer-sponsored insurance is tied to the job, typical life changes can precipitate a loss in health insurance coverage. For example, if an individual or a family member changes jobs, works fewer hours, retires before Medicare coverage begins, or becomes sick, the coverage a family

depends on can instantly disappear. Out of fear of the consequences of lost coverage, Americans regularly make life decisions based on health insurance and not their happiness or health.

The loss of employer-sponsored insurance coverage would not be so harmful to American families if quality, affordable options were available outside the employer market. Unfortunately, coverage outside the employer-sponsored market is unaffordable or does not provide adequate coverage for most Americans.<sup>5</sup> Five percent of non-elderly Americans receive coverage on the individual market, where coverage is more expensive and limited than in employer-sponsored plans.<sup>6</sup>

Left with no place to turn for coverage, the majority of Americans who do not get coverage through their employers or who lose employer-sponsored coverage simply go uninsured.

When working-age adults and their families lose employer coverage, their options are limited, and the potential for dire consequences is significant. Health insurance reform seeks not only to strengthen employer-sponsored insurance, but also to ensure that quality, affordable insurance options are available to all Americans, regardless of their situation.

## Unstable Health Insurance Market

Any gap in insurance coverage can bring financial disaster and have negative health consequences. Yet coverage gaps are common across all categories of Americans, regardless of income, employment status, age, race/ethnicity, and health status. A full 32 percent of working age adults and their families had a gap in health insurance coverage for at least one month in 2006 and 2007.<sup>7</sup> Further, an estimated 87 million people were uninsured at some point during 2007 and 2008.<sup>8</sup>

Even Americans who enjoy employer-sponsored insurance coverage today are not sheltered from gaps in coverage. A full one in six Americans with employer-sponsored insurance in 2006 lost that coverage by 2008.<sup>9</sup> If this trend continues, one in six Americans with employer coverage today will lose their job-based health insurance over the next two years. It is likely that the possibility of coverage loss will only increase, given skyrocketing health care costs and the instability of employer-based coverage.

When an employee and his or her family lose employer coverage, the family must seek alternative coverage. A lapse in coverage, no matter how minor, exposes families to the woes of seeking quality insurance coverage on the individual market, or worse, to the consequences of being uninsured. Increasing instability in the employer market means Americans with employer-sponsored coverage are at constant risk of losing the only source of valuable coverage available to them.



Source <sup>9</sup>

### Loss of employer-sponsored insurance is more likely to lead to uninsurance than coverage in the individual market.

Among all individuals who lost coverage, 85 percent were uninsured for at least one month, while only 13 percent gained individual market coverage for at least one month.<sup>10</sup> The increased likelihood of becoming uninsured rather than obtaining individual market coverage is indicative of the high costs and inadequate coverage available in the individual market. In fact, a recent study found that almost 75 percent of individuals looking for coverage on the individual market never bought a plan. Sixty one percent of those who did not purchase the insurance cited premium cost as the primary reason.<sup>11</sup>

Adults who purchase health insurance on the individual market pay more out-of-pocket costs and spend larger shares of their income on health insurance and health care expenses than those in employer-sponsored insurance. A family that buys insurance on the individual market pays nearly 60 percent more in out-of-pocket costs, such as deductibles and co-payments, than a family that gets insurance through work.<sup>12</sup>



Source <sup>12</sup>

Without viable or affordable options on the individual market, and without the ability to qualify for public insurance, millions of Americans are forced to go uninsured, placing them at high risk for catastrophic financial and health consequences.

The uninsured are less likely to receive preventive care, more likely to be hospitalized for conditions that could have been prevented, and more likely to die in the hospital than those with insurance.<sup>13</sup> Children without insurance have less access to well-child care, immunizations, basic dental services, and prescription medication.<sup>14</sup> Also, uninsured families face greater financial burdens. They struggle to meet basic needs and pay for medical bills – problems that quickly lead to medical debt.<sup>15</sup>

In addition, the problem of being uninsured can serve to haunt families moving forward. Once someone has been uninsured for two months, they are no longer protected from being denied coverage for a pre-existing condition – in any insurance market. Given that roughly half of people who go without insurance for more than two months have chronic conditions, this can have disastrous consequences that last long into the future.

Because the risk of having a chronic disease over a lifetime is high, even those that are currently healthy are at high risk for being uninsurable in the future, facing higher medical costs and poorer health outcomes. Americans born today have an almost one in two chance of being diagnosed with cancer at some time during their lifetime.<sup>16</sup> In addition, even men and women with low total cholesterol levels have a 31-percent and 15-percent chance, respectively, of developing chronic heart disease by the time they are 80. For men and women with high total cholesterol levels, the risk is 57 and 33 percent, respectively.<sup>17</sup>

### ***Americans Losing Employer Coverage***

Based on the experience of Americans who lost health insurance coverage between 2006 and 2008, it can be said that, independent of income, employment status, age, race/ethnicity, gender, and health status, everyone is at risk for losing employer-sponsored insurance. However, it is worth noting that certain categories of people are at a higher risk of losing coverage than others.

**Young adults (18-34) with employer coverage are more likely to lose coverage than older adults (35-64).** One in five younger adults lost coverage over the course of two years. An overwhelming 91 percent of young workers who lost coverage became uninsured, and only nine percent of those who became uninsured found insurance on the individual market – in spite of being relatively healthy and therefore unaffected by discrimination due to pre-existing conditions.<sup>18</sup> Going uninsured can have unintended consequences, even for the young and healthy.

The results of a recent study show that two-thirds of the uninsured (68 percent) go without needed care – including seeing a doctor when sick, filling prescriptions, and following up on recommended tests or treatment – and 51 percent of the uninsured report difficulty paying bills, being contacted by collection agencies for unpaid bills, or changing their way of life to pay medical bills.<sup>19</sup>

Fifteen percent of young adults report having one or more chronic conditions.<sup>20</sup> Going from being healthy to being sick can be as likely as getting into a car accident. Nearly one-quarter of young adults had an emergency room visit in the past year, and young adults have the highest rates of emergency room admittances among all age groups.<sup>21</sup> Going without coverage not only places young adults at great risk for financial ruin should an accident happen or an illness strike, it also discourages the use of preventive care that can ensure a healthy, long life.



**Individuals with employer coverage who reported fair to poor health were more likely than those in good health to lose coverage.** Nearly one in five individuals reporting fair to poor health lost coverage over two years.<sup>22</sup> If a worker or family member becomes sick, the worker sometimes has to quit his or her job or take on fewer hours. And when health insurance is tied to employment, the system abandons people when they need coverage the most.

Without an option of obtaining coverage through an employer, families with a sick member are unlikely to find affordable coverage elsewhere. In 45 states, insurance companies can discriminate against people based on their pre-existing conditions when they try to purchase health insurance directly from insurance companies in the individual insurance market.<sup>23</sup> Insurers can deny them coverage, charge higher premiums, and/or refuse to cover a particular medical condition.



Source <sup>24, 25</sup>

A recent national survey estimated that 12.6 million non-elderly adults<sup>24</sup> – 36 percent of those who tried to purchase health insurance directly from an insurance company in the individual insurance market – were in fact discriminated against because of a pre-existing condition in the previous three years.<sup>25</sup> Another study found that among those with a health problem trying to purchase insurance in the individual market, 70 percent found it difficult or impossible to find affordable coverage, and roughly half were turned down or discriminated against.<sup>26</sup>

As a result, only three percent of people who report fair to poor health and lost their employer-based coverage in 2006 or 2007 found coverage on the individual market. Eighty-four percent went uninsured.<sup>27</sup>

Without the prospect of coverage on the individual market, limited protections exist to ensure families are guaranteed coverage. Through COBRA coverage, Americans can usually

continue their employer-sponsored insurance coverage for 18 months by paying the full premiums themselves (with no employer contribution). Through the Health Insurance Portability and Accountability Act (HIPAA), families that previously had employer-based coverage can be protected by finding new employer-based and sometimes individual coverage, but this is subject to several conditions, including at least 18 months of prior uninterrupted group coverage and less than two months of a coverage gap. Both of these options require large and often unmanageable out-of-pocket costs, and COBRA coverage only continues for a limited time. Ninety percent of the people who lose coverage for at least one month lose coverage for more than two months, rendering them ineligible for the already limited protections available through HIPAA.

The hassle, costs, and uncertainty of trying to maintain insurance coverage can be devastating for people already dealing with life-changing events. Inadequate health insurance coverage often leaves families exposed to the same out-of-pocket costs and barriers as those who are uninsured, leading to financial insecurity and negative health outcomes. Overall, the costs are significantly higher and the coverage less protective without employer-sponsored insurance.

**Individuals with a break in employment are at greater risk for losing employer coverage.** Thirty-seven percent of individuals that were not continuously employed over two years lost employer-sponsored insurance.<sup>28</sup> As our economy worsens and jobs are lost, more and more Americans will be exposed to a market with limited choices or the prospect of going uninsured. Beyond that, millions of workers can feel trapped in a job they do not like because of the fear of losing insurance if they make a switch – a “job lock” that has been estimated to lead people to forgo more than \$3.7 billion in additional wages.<sup>29</sup>

### ***How Health Reform Will Help Stabilize Health Insurance Coverage for Americans***

#### **Create more affordable choices and eliminate discrimination in the health insurance market.**

Health insurance companies often use age, gender, health status, and the presence of medical conditions to charge higher premiums or deny coverage. Health insurance reform will prevent any insurance company from denying coverage based on underlying health status, and it will prohibit insurance companies from charging more if someone is sick, older, or a woman.

Consumer protections in health insurance reform will also ensure that Americans have portable health insurance options. Reform will guarantee that families will always have choices of quality, affordable health insurance if a family member loses a job, switches jobs, retires, moves, or gets sick. Families will no longer have to make life decisions – like whether to retire, work fewer hours, or switch jobs – based on the lack of affordable and meaningful coverage outside of their current employer-sponsored plan. Health insurance reform will create a health insurance exchange so Americans can compare prices and health plans and decide which quality affordable option is right for them.

#### **Make health care affordable and accessible for everyone.**

Americans are frequently forced to make decisions based on their finances and not on what is best for their health. Even with employer-sponsored insurance, Americans pay growing premiums and out-of-pocket costs each year. For young adults who are just starting their careers, employer-based insurance is often not an option. By expanding health insurance to all Americans, providing premium assistance to make it affordable, and creating caps on the health care expenses that people pay out of pocket, health insurance reform will make health care affordable for everyone. Health insurance reform will allow young adults to stay on their parents' employer-based insurance until the age of 26, providing an essential option for coverage.

#### **Strengthen employer-based insurance.**

Nearly three-quarters of small businesses that do not offer benefits cite high premiums as the reason. Premiums are high, in part, because of a “hidden insurance tax” of more than \$1,000 for the unpaid costs of care of the uninsured. Health insurance reform will address this burden by reforming the system and offering affordable insurance options for all Americans. It will also provide small businesses with tax credits to help them provide health insurance for their employees. This will make health care more affordable for small businesses and their workers, solidifying and strengthening employer-based coverage for years to come.



Source <sup>28</sup>

## Sources

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