

**Health Insurance and the Unemployed**

Statement of

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before the

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One consequence of today's high unemployment has been the loss of the health insurance coverage that many workers had received as a fringe benefit of their jobs. With unemployment likely to remain above 10 percent through early 1984, this lack of coverage caused by job losses will probably remain high. People who are without health insurance because of unemployment or other reasons may endanger their health by forgoing needed medical care or run serious financial risks in the event of illness.

In my remarks today I will focus on two topics:

- o The effect of the recession on lack of health insurance; and
- o Options to continue medical care coverage for those who lose jobs.

#### THE RECESSION AND OTHER CAUSES FOR LACK OF COVERAGE

In December 1982, over 12 million were unemployed--and 7.4 million of them were out of work because they had been laid off. Among those who had lost jobs, about 5.3 million had already lost coverage under their employer's health insurance plan, and more will lose coverage as their extended insurance benefits expire. If dependents are included, approximately 10.7 million persons lacked health insurance coverage in December because of job loss.

Although unemployment has increased the number of persons without health insurance coverage, roughly 20 million more persons lack coverage for other reasons. Some without coverage are not in the labor force but, even among the employed, about 10 percent of those in the private nonfarm

sector work for firms that do not provide health insurance coverage as a fringe benefit. Others work for firms with plans for which they are not eligible, because of insufficient job tenure or part-time status. In some industries, such as construction, workers move frequently from job to job and so are uncovered by firms' policies, although they may obtain insurance from other sources such as union group plans. Finally, self-employed workers must buy their own coverage, often at high individual rates, and many of them do not do so.

#### Why Unemployment Leads to Loss of Health Insurance

The close link between employment and private health insurance coverage largely explains the extent of health insurance coverage lost because of layoffs. In the private nonfarm sector, which accounts for nearly three-fourths of all employment, almost 90 percent of all employees are employed in firms that offer health insurance as a fringe benefit. Although the majority of these plans provide coverage for some length of time to those who are laid off, only a small portion extend coverage beyond one month. Today, almost 70 percent of the unemployed who have lost jobs have been out of work five weeks or more, so most of them have exhausted their extended coverage.

Because nearly all of the increased unemployment in the past 18 months has consisted of persons laid off, rather than of new entrants or re-entrants to the labor force, a greater proportion of today's unemployed are likely to have lost their health insurance. New entrants and re-entrants, in contrast to job losers, tend to be younger workers or married women, some of whom are covered by their parents' or their spouses' policies.

Although some job losers have coverage under policies held by their spouses, this is a limited source of protection. Even though the number of two-earner families has increased, they make up only 42 percent of all families with at least one spouse in the labor force. Moreover, only about one-quarter of them have two separate family policies that would provide uninterrupted coverage should one earner with coverage become unemployed.

#### Alternatives to Employment-Based Coverage

The high cost of private coverage to individuals and the limited availability of public coverage such as Medicaid, make it difficult for those without group policies to obtain protection against high medical care expenses. Not only is private coverage purchased by individuals more expensive than group plans provided through employment, but the individual must pay its full cost--as compared with an average of only 20 percent for employment-based coverage.

Medicaid, the federal-state program that finances health care for low-income persons, provides coverage only to persons meeting certain categorical requirements. Specifically, groups eligible under this program are single-parent families receiving cash assistance through the Aid to Families with Dependent Children (AFDC) program and the aged, blind, and disabled receiving aid from the Supplemental Security Income (SSI) program.

While in about half the states some two-parent families with an unemployed parent are also eligible, those currently receiving benefits make up a relatively small portion of the total number of families with unemployed parents. Moreover, in recent years, many states have restricted Medicaid eligibility in response to limited state revenues and federal cutbacks, further constraining the extent to which Medicaid serves as an alternative source of coverage for the jobless.

Reliance on free care, such as hospital charity care or care provided by the Veterans Administration (VA), provides only limited access to medical services. A disproportionately large share of charity care is provided in public hospitals, in part because some private hospitals--both for-profit and not-for-profit--seek to limit the number of patients for whom they will not be reimbursed. These public facilities may not be easily accessible for many unemployed and their families. Other sources of free care are not available to all--for example, only veterans may obtain care at VA hospitals.

#### OPTIONS TO INCREASE COVERAGE FOR JOB LOSERS

Proponents of government action to extend coverage to those who lose health insurance as a consequence of unemployment argue that these persons are suffering the effects of economic conditions beyond their ability to influence or anticipate. Opponents, on the other hand, contend that employees and employers have been free to negotiate the length of extended health coverage, so that government intervention is not appropriate.

Policies to deal with the lack of health insurance coverage caused by unemployment may be separated into those that would address the immediate problem caused by today's record level of unemployment and those that would provide a steady means of financing coverage for the jobless in the long run.

#### Options for the Short Run

Any program for providing coverage to those who are currently unemployed, whether public or private, would be costly. Providing coverage to the unemployed under a federal program, such as Medicare, would be perhaps the most rapid means of extending coverage. To extend Medicare in fiscal year 1983 to those who had lost health insurance because of unemployment would cost about \$6 billion, and would thus add significantly to the federal deficit. Such action would also pose serious questions of equity, because the self-employed, as well as some employees, who either lack health insurance or pay for it themselves would be subsidizing coverage of certain unemployed persons through their federal taxes. In addition, a federal program for the unemployed would still leave a large number of persons without coverage--and many of those not covered would have incomes below those of persons who are unemployed, and hence be less able to purchase individual coverage.

An increase in federal spending could be avoided by requiring private employers to provide coverage for their unemployed workers, for example, for six months. This approach would, however, impose high costs on firms in industries already severely affected by the recession, firms that may be in no better position to underwrite such benefits than the federal government.

To avoid the high cost to the public or private sector of providing extended coverage, the government could require that laid-off employees be permitted to continue their health insurance coverage under their previous employers' group plan, provided they paid the premium currently being paid for employed workers. Giving employees the option of retaining group health insurance benefits at their own expense would leave the choice of continued coverage up to those who would directly benefit. On the other hand, many laid-off workers would forgo such coverage because of its cost. Also, while this approach would minimize the impact on industry and government, firms would still experience some increased expense for their health insurance plans, because employees choosing to continue coverage would tend to use more medical care than average, thus driving up the plans' premiums. Firms with many laid-off workers could experience large increases in costs, but much less so than if employers were required to pay all the costs.

#### Options for the Long Run

Though the costs of requiring that employers extend their health insurance coverage to currently laid-off employees who had participated in the firms' plans would be severe, such a mandate could be implemented with a delay of a year or two. This delay would enable employers to plan for the added costs of extending health care coverage to employees laid off in the future. Eligibility for the mandatory extended benefits could be restricted to those who had been employed by the firm for a minimum time, three months for example, and their duration could be limited to some maximum period, six months for example. This would ensure that no more than about 10 percent of job losers would exhaust their extended health insurance coverage in periods with typical unemployment rates.

Using the private sector to provide coverage to the jobless would represent a relatively small change from the current system, since it would make use of existing health insurance plans, and the unemployed would experience no change in their health care benefits. Moreover, the costs of extended coverage would be borne by the employees who would potentially benefit from them, or by their employers. In fact, coverage could be financed when incomes and profits were higher than they would be at the time the benefits were received.

On the other hand, the additional obligations of employers would increase employment costs, especially in cyclically sensitive industries. These added costs could reduce hiring, and some firms might eliminate health plans altogether. Moreover, requiring employers to provide extended health insurance coverage would add somewhat to federal deficits, if employers financed some or all of the additional health insurance expenses by slowing wage increases, since this would shift some compensation from taxable wages into a fringe benefit that is excluded from the federal income tax base.

Employers might choose to purchase a group health insurance policy that included the required extended coverage in the premium paid for those who are working, but firms in industries most sensitive to the business cycle could find it difficult to obtain such policies. Because firms usually have contracts with insurers for limited durations, insurers would likely offer this coverage only at a high premium to firms in unemployment-prone industries. Otherwise, insurers would face the possibility of sustaining a large loss during an unexpected rise in unemployment.

To enable firms to spread the costs of coverage for the unemployed over the entire business cycle, rather than having them concentrated in recessionary periods, the federal government could establish national and state funds similar to those used to finance Unemployment Insurance (UI). An additional payroll tax could be placed on employers with the revenues accruing to state funds established to pay group health insurance premiums for the unemployed. The tax rate could be based on each firm's unemployment experience and the level of its health insurance premium. State funds might also be allowed to borrow from the federal government to cover shortfalls in extended recessions, as the UI funds can now. Loans would then be repaid when unemployment was lower.

### CONCLUSION

In conclusion, for many of those who become unemployed during a recession, a loss of income is compounded by a loss of health insurance coverage. The Congress could take action to assist those who have lost coverage in the current recession; however, any relief for those unemployed today would carry high short-run costs. A wider range of options exists for reducing the loss of health insurance coverage caused by unemployment in the long run. Even if legislation were enacted to extend coverage to those who lose jobs in future years, however, many persons--both employed and unemployed--would still be without health insurance coverage.