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Health - Insurance Coverage

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THE WHITE HOUSE

WASHINGTON

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November 13, 1998

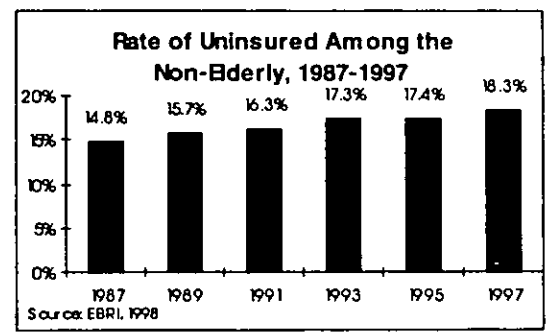
INFORMATIONAL MEMORANDUM TO THE PRESIDENT

FROM: Chris Jennings and Jeanne Lambrew

THROUGH: Bruce Reed, Gene Sperling

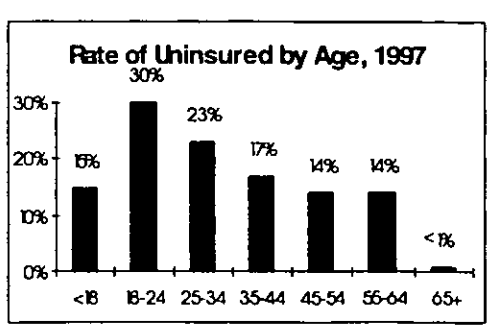
SUBJECT: Recent Uninsured Trends and Analyses

As you know, the Census Bureau recently estimated that 43.7 million Americans are uninsured -- an increase of 1.7 million from 1996 and nearly 5 million from 1992. Insurance coverage is one of the few social indicators that has not improved in the last several years. This contradicts the theory that a strong economy with low unemployment yields a high demand for workers, and thus better benefits like health insurance. It is even more disappointing given record-low health care cost growth in the last several years, which should make insurance more affordable and thus more common. This increase has important consequences since the uninsured are four times more likely to not receive needed health care, have hospitalization rates for preventable conditions that are 50 to 75 percent higher, and place growing uncompensated care burdens on the nation's providers.



Because of the importance of this problem and your expressed interest in these data, we are providing you an analysis of the numbers and recent insurance coverage trends, as well as a summary of their policy implications.

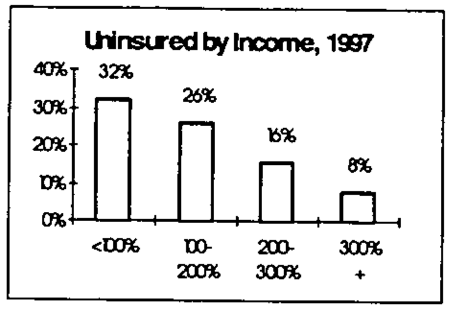
Uninsured by age: Most of the uninsured in America are young; over 80 percent are under age 45 (35.2 million). These uninsured are disproportionately ages 18 to 24 -- 30 percent of whom are uninsured compared to 15 percent of children. The number of uninsured children did not increase in 1997, remaining at 10.7 million. This contrasts dramatically with last year's data that showed that 800,000 of the 1.1 million additional people who were uninsured were children. The change appears to be the result of the unprecedented focus on children's health in 1997. Beginning with the State of the Union and ending with the establishment of your Children's Health Insurance Program (CHIP), the Federal Government and the states started taking actions to address this serious problem. Next year, after Census' data reflects a full year's operation of CHIP, we would expect the number of uninsured children to fall.



11-17-98

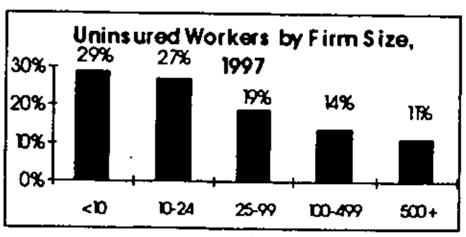
While the likelihood of being uninsured is higher among younger adults, the number of uninsured is growing faster among older adults. One million of the additional 1.7 million uninsured people in 1997 were age 35 or older. The increase is particularly concentrated among people ages 55 to 65: the number of uninsured people in this age group grew faster than all other age groups (7 percent growth). This trend is cause for concern because people ages 55 to 65 become more likely to develop a health problem and less likely to have employer insurance (because their spouses retire and join Medicare, they move to part-time or self-employment which typically does not offer insurance, or they retire). As a result, this age group is disproportionately relies on individual health insurance -- where premiums have been skyrocketing in recent years and underwriting practices remain prevalent. Because of the demographics, there is no doubt that the coverage problem will increase exponentially as the number of people in this age cohort is projected to rise by over 60 percent by 2010.

Uninsured by income: Not surprisingly, people with less income are less likely to have health insurance. Although only 13 percent of the U.S. population, poor Americans (with income less than $16,000 for a family of 4) represent 26 percent of the uninsured -- fully one-third have no insurance. However, reflecting the strong economy, the poverty rate continues to fall and the number of uninsured below 100 percent of poverty did not increase between 1996 and 1997.



Despite the link between lack of insurance and low income, over 80 percent of the uninsured are in working families. The lack of insurance is growing among the middle class; all of last year's additional 1.7 million uninsured had income above the poverty level, with the greatest concentration of people between 100 and 200 percent of poverty. Inexplicably, although still small in number, the uninsured with income above 500 percent of poverty (over $80,000 for a family of 4) rose at an extraordinary 20 percent growth rate in 1997.

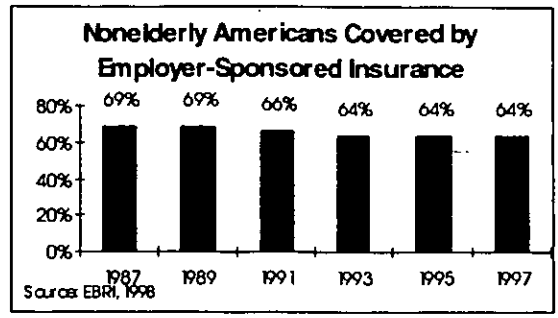
Job characteristics and the uninsured: Workers in small firms are less likely to have access to affordable, job-based health insurance. Nearly half of uninsured workers are in firms with fewer than 25 employees. Compared to over 95 percent of large firms, about half of firms with fewer than 10 employees and three-fourths of firms with 10 to 24 employees offer coverage. These facts underscore the need to find better ways for small businesses to pool resources and leverage to bargain for more affordable benefits.



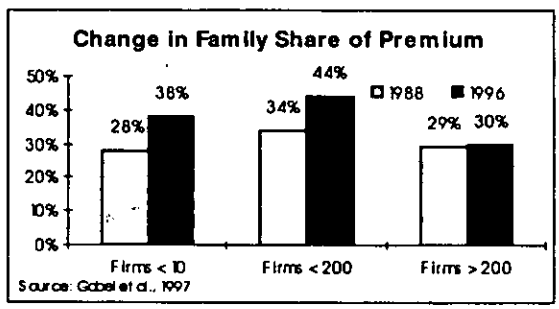
The rate of being uninsured is also high among people who work full time but only for part of the year, most likely due to job change or loss (27 percent). A recent Census study found that over 40 percent of workers with at least one job interruption had a gap in coverage. Because most people are insured through work, insurance coverage often ends with employment changes -- underscoring the importance of the Kassebaum-Kennedy portability and COBRA protections.

11-17-97

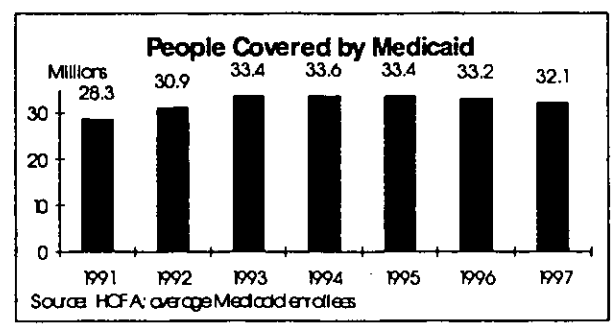
TRENDS IN EMPLOYER-SPONSORED INSURANCE. On the face of it, it does not appear that the increase in the uninsured is directly linked to a decline in employer-sponsored health insurance (ESI). The erosion that occurred in the late 1980s and early 1990s has ended. About 64 percent of nonelderly Americans had employer-based insurance in 1997, virtually unchanged from 1995 and 1996. In recent years, access to job-based health insurance has actually increased, even among small businesses. However, this has not translated into increased ESI coverage because a smaller proportion of people with access to ESI are purchasing it.



Even though more employers are offering health insurance, fewer employees are taking this coverage, primarily because they have to pay more of the premiums. The employee share of premiums has risen, especially in smaller firms. As a result, fewer employees are purchasing this coverage. For example, in 1987, 90 percent of workers in firms with fewer than 10 workers who had access to employer-based coverage took it, compared to 85 percent in 1996. These take-up rates drop as the share of the premium paid by the employee increases. This trend clearly affirms that health insurance affordability plays the most significant role in people's likelihood of buying health insurance.



TRENDS IN MEDICAID. The most notable drop in insurance coverage in 1997, reported by both the Census Bureau and HCFA, appears to come from the number of people covered by Medicaid. There are three possible explanations for this trend. The first and likely most significant factor is that, as the economy has strengthened, fewer people are eligible for Medicaid. This is supported by the fact that the poverty rate has declined, the number of poor covered by ESI has increased, and there was no increase in the number of uninsured children eligible for Medicaid (still 4.7 million). Second, there may be fewer people aware of their continuing Medicaid eligibility in the wake of state and Federal welfare reform. Third, it is becoming more likely that Medicaid beneficiaries misreport that they are covered by private insurance in the Census survey. States have been taking actions to "destigmatize" Medicaid by changing the name of their programs (e.g., TennCare, MinnesotaCare). Also, about 50 percent of Medicaid beneficiaries are enrolled in managed care plans, which are usually private plans. Thus, beneficiaries can easily mistake their coverage for private coverage.



THE PRESIDENT HAS SEEN
11-17-98

FUTURE TRENDS IN THE UNINSURED. Given the complexity of these trends, it is unclear whether the rise in the number of uninsured will continue. Several compelling factors suggest that it will not and may actually decrease modestly. The Office of National Health Statistics projects that the proportion of Americans covered by employment-based insurance will rise as continued low unemployment will make employers more likely to use insurance to attract workers. Medicaid coverage may increase as well as additional low-income parents become eligible because of the "100-hour rule" welfare-to-work regulation you instituted this past summer and/or due to the states' continued use of Medicaid waivers, which have already covered over one million Americans. We also expect to see a decrease in the number of uninsured children beginning to showing up in next year's Census Report as the effects of CHIP take hold.

As the baby boom generation ages, however, more people will move into the 55 to 65 year old age bracket -- where the proportion of people with ESI is declining and uninsured is increasing. Furthermore, significant premium increases for next year, as some recent reports have projected, may make insurance unaffordable to greater numbers of Americans. While these conflicting trends make it extremely difficult to predict the future with any sense of confidence, it seems unlikely that we will see another significant increase in the uninsured next year.

IMPACT OF ECONOMIC AND EDUCATION SUCCESSES ON THE NATION'S HEALTH. This problem of the uninsured contrasts with tremendous improvements in other national health indicators. Your impressive economic accomplishments have had an impact on the costs of health insurance. For the first time in well over 30 years, health inflation was below general inflation in 1995 and 1996, thus actually reducing the real costs of health insurance. Moreover, gains in education, income and employment have contributed towards record high life expectancy (76.5 years for those born in 1997), a record low infant mortality rate (7.1 deaths per 1,000 live births), an AIDS death rate that is half of what it was in 1992, and a record-high immunization rates. And, historic increases in the investment in biomedical research during your Administration offer real hope for new (and hopefully cost-effective) treatments and cures for the diseases that will otherwise place unprecedented burdens on the nation's economy and health care system when the baby boom retires.

POLICY IMPLICATIONS. The uninsured in America remains one of the most challenging domestic social problems. Not only is the problem large in size, it is complex, crossing income, age and geographic boundaries. Despite its complexity, one fact is clear: making health insurance affordable is and always will be the key to significantly expanding coverage. Even for an employee whose employer pays for 80 percent of the premium, the family share of the premium is typically over $1,100 per year -- more than one out of every $10 of income for a minimum-wage worker. This cost is obviously much higher for people without access to employer-based insurance, especially if they have a history of illness. While traditional insurance regulation can help reduce insurance premium variation and discrimination, independent analysts will not project any substantial coverage expansions resulting from these interventions. In a non-mandate environment, they believe that only significant subsidies can induce a substantial reduction in the uninsured.

Ironically, our ability to propose policies to make insurance more affordable is limited by our success in reducing national health spending. In the last 5 years, hundreds of billions of dollars in excess Medicare and Medicaid spending have been squeezed out of these programs and used productively to help eliminate the deficit, finance children's health coverage, extend the life of the Medicare Trust Fund, and to make the Medicaid program a much more predictable and affordable safety net. However, substantial reductions in Medicare and Medicaid mean that these traditionally utilized funding sources cannot be relied on as offsets for major coverage expansions, let alone long-term Medicare reforms. With this in mind, outside funding sources from the tax code, tobacco, or elsewhere would be needed for a significant coverage expansion.

Administration & Republican coverage expansion ideas. The range of coverage options, currently being prepared through the traditional NEC/DPC/OMB budget process, will include some previous and new targeted coverage expansions. As this memo has documented, the most recent data validate the case for coverage expansions to the pre-65 and "workers-in between-jobs" populations. We also will continue to focus on administrative and possibly legislative outreach policies to encourage enrollment in CHIP and Medicaid to ensure your children's health initiative is a success. However, recognizing the questionable political and budgetary viability of these proposals, we are also reviewing options more likely to be well received in this Congress.

First, we are contemplating policies to encourage states to expand using existing options. With the 100-hour rule regulation, all states can now cover parents of children on Medicaid. Other states have used Medicaid 1115 waivers to cover all people up to certain income levels. Because this would likely require greater financial incentives, one option is making coverage expansions a priority on a short list of acceptable uses for the Federal share of state tobacco settlements.

As an alternative to coverage expansion options, we expect Secretary Shalala to advocate for a significant investment in public health infrastructure. This investment would be used to adapt the safety net to the rapidly changing health system. This idea would likely be better received than a coverage expansion by Republicans. However, if not a capped mandatory grant program, it would either require raising the discretionary caps or place a major strain on the current caps. Also, it would likely be perceived by some Democrats as giving up on coverage expansions.

Since there is bipartisan concern about small businesses' problem in accessing insurance, we are also considering enhancing our previously-proposed small business purchasing coalition grant initiative. We could more aggressively encourage these coalitions by directing OPM to provide technical advice for their establishment and operation, so that they more closely resemble FEHBP. We are also examining granting them non-profit status, to facilitate foundation support.

In 1999, Republicans, too, may consider small business group purchasing policies (although in the past, their versions have been significantly flawed). It is more likely, however, that, if Republicans decide to address the coverage issue at all, they will focus on the use of tax incentives for the purchase of individual health insurance. Encouraging individual insurance is intriguing because nation's reliance on voluntary, employer-based coverage has clearly not been an unqualified success. Moreover, if there is to be any significant investment in health care that the Republicans could possibly support, it would almost inevitably come from the tax code.

THE PRESIDENT HAS SEEN
11-17-98

While acknowledging that tax credits are at least initially appealing, they are no panacea. They are extremely inefficient and expensive, as many of the assumed recipients would already have coverage. For independent experts to validate that the previously uninsured would take advantage of this policy, the credit would have to be quite large. In addition, if used for individual (rather than employer-based) insurance, they would require the type of major insurance reforms that have been historically opposed by Republicans. The individual market is the least regulated, most expensive, most "cherry-picked" and most unstable insurance market.

Notwithstanding legitimate concerns, we believe that tax credits may be the only health coverage expansion vehicle that could be produced by this Congress. As such, we are reviewing possible options for your consideration. For example, it might be possible to merge policies to promote small group purchasing coalitions with tax credits for participating employers or employees. Limiting the tax credit to such entities could further encourage a long-overdue expansion of small business coops. However, such approaches also raise equity concerns (e.g., why discriminate against an employee/employer who does not have access to, or does not want to be in, a purchasing coop) and political arguments (e.g., isn't this too similar to the Health Security Act). DPC, NEC, OMB, Treasury and HHS are reviewing this purchasing coalition/tax credit idea and other tax incentive approaches. We will keep you apprised of developments in this area, as well as other coverage options, as the budget process unfolds.

Keep on this,
maybe w/ tie to longterm care

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NEW YORK TIMES REPORT ON NUMBER OF UNINSURED INCREASES

Q: HOW DO YOU RESPOND TO TODAY'S NEW YORK TIMES ARTICLE?

A: We are concerned about any report that shows any increase in the number of Americans who are uninsured. Addressing this chronic problem has been and continues to be a priority for the President and his Administration.

Most of the additional people who are uninsured appear to be Americans who are working, with income above the poverty level but in firms that are not providing affordable coverage. Despite these disturbing findings, it is encouraging to note, however, that the number of uninsured children did not rise. Reducing the number of uninsured children in this nation has always been focal point of the President and First Lady. Their efforts, including approval of an unprecedented number of Medicaid waiver expansions and an emphasis on outreach to eligible but unenrolled children, contributed to ending the unacceptable trend of more children becoming uninsured. Previously, children made up the vast majority of the increase in the number of uninsured.

In every budget, the President has proposed expanding health insurance coverage. He has approved over a dozen Medicaid waiver expansions; signed the Kassebaum-Kennedy law that makes keeping insurance when changing jobs easier; and enacted the Children's Health Insurance Program (CHIP) last year, which will contribute toward the President's goal of covering up to 5 million uninsured children. This year, the President proposed new insurance options for people ages 55 to 65, greater funding and flexibility for states to target uninsured children eligible but not enrolled in Medicaid and CHIP; and a comprehensive tobacco bill that would encourage states to expand coverage. Unfortunately, it appears that Congress will adjourn this year without taking action on any of these critically important initiatives.

Q. ISN'T THE INCREASE THE RESULT OF WELFARE REFORM LEGISLATION THAT YOU SIGNED INTO LAW IN 1996?

A. There is not yet enough information to draw final conclusions about why the number of uninsured increased. However, the increase in the uninsured occurred not among the poor or children, but among working adults. While some of these people may be former welfare recipients who are employed in low-wage jobs without affordable coverage, it is more likely that this reflects the general trends in employer-based coverage. Although overall employer-based coverage has not declined, it may be that more workers are employed in jobs that traditionally do not offer affordable coverage (e.g., in small to mid-sized firms or in part-time jobs). We intend to look more closely into these trends.

Because of his commitment to insurance coverage, the President insisted that a provision be included in the welfare reform bill that requires states to provide Medicaid to people who would have been eligible under the old system. This provision also provides $500 million for outreach to families to make sure they know about this coverage. In addition, as recently as last month, the President announced a new regulation, called the "100 hour rule," that allows states to cover working parents who earn too much to be eligible for Medicaid. Finally, reflecting the President's commitment to maintaining and expanding for children, he included $900 million for children's outreach provisions in this year's budget.

BACKGROUND. On Tuesday, the Census Bureau will release its estimates of the health insurance coverage of Americans for 1997. Although embargoed, they were reported in the New York Times today. Highlights include:

- **Number of uninsured has increased by 1.7 million**: About 43.4 million people had no health insurance coverage in 1997, up from 41.7 million in 1996 and 38.6 in 1992.

- **Number of uninsured children remained constant at 10.7 million.**

- **Number of uninsured poor also did not increase.** About 11.2 million poor Americans were uninsured, unchanged from 1996. The proportion of all uninsured who are poor continues to fall -- showing that this is an increasingly middle-class problem.

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Christopher C. Jennings
09/25/98 10:45:10 AM

Record Type: Record

To: Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP

cc:
Subject: weekly and info around it

Attached are my two final inserts for the weekly. The insert on the Medicare HMO pull-out is no doubt too long, but I am too close to it to determine what is not important enough to not give to him. That is why we have you, right?j

cjweek.92

One last point. You need to know that on Tuesday, the press will report on the Census Bureau's finding that the number of uninsured increased by 1.7 million to 43.4 million. Jeanne Lambrew has an insert that I am reviewing/editing that she feels that she needs to give to Gene Sperling for his weekly. She continues to get criticized for not submitting health care inserts for Gene and continues to be put in a very uncomfortable position. As you know, my primary interest is to make sure the POTUS has the information, but I know it is also very important that DPC gets more than its share of the credit for the work.

The release of the uninsured data is obviously an important development because some of the liberals and the media will be quick to jump on the welfare reform bill as the reason. Although there may be some justification for citing the law's unintended effects (which, by the way, the law was explicitly designed to address) as being one of a number factors, we do not have enough back-up data to really get a good picture of all the reasons. (In fact, it should be noted -- and it will in the insert we are drafting -- that the finding could be an arguably favorable result of welfare reform; Americans previously on welfare are now earning higher wages in an improved economy; unfortunately, their incomes are getting so high -- over 100 percent of poverty that they are no longer qualifying for Medicaid and they are entering the part of the job market that frequently offers no or poor coverage) .

I think we should move fairly quickly to develop an Administration response to this issue. Otherwise, HHS will -- on an off the record basis -- confirm some of the problems, perhaps in a not too flattering light. How do you want to proceed?

cj

I will fax the draft uninsured insert over to you for your review. If you feel strongly that we should also have an insert, I could do an amplification piece.