

A REAPPRAISAL OF PRIVATE EMPLOYERS' ROLE IN PROVIDING HEALTH INSURANCE

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Abstract According to official figures, in 1996, 61% of Americans received health insurance through employers. However, this estimate includes persons who rely primarily on government insurance such as Medicare; workers whose employer contributes nothing towards their premiums; and government employees whose private coverage is paid for by taxpayers.

Methods: To estimate the number of persons whose principal health insurance was paid in whole or part by private sector employers and the number receiving government-paid insurance we analyzed from the 1997 Current Population Survey. Approximately 130,000 persons representative of the U.S. non-institutionalized population were sampled. We considered persons to be covered principally by private sector employer-paid health insurance if they had no public coverage and were covered by insurance from a non-government employer who paid all or part of their premiums. Persons who received Medicaid, Medicare, insurance from former or current military service, or the Indian Health Service were considered as receiving

government insurance. To this standard definition of publicly insured we added government workers and their covered dependents with employer-paid health insurance coverage.

Results: In 1996, 43.1% (CI, 42.7% to 43.5%) of the population depended principally on private sector employer-paid health insurance, 34.2% (CI, 33.8 to 34.6%) had publicly-funded insurance, 7.1% (CI, 6.8% to 7.6%) purchased their own coverage and 15.6% (CI, 15.3% to 15.9%) were uninsured. In only six states was over half of the population covered principally by private sector employer-paid health insurance.

Conclusions: Current definitions of health insurance over-emphasize the role of private employers and underestimate government-paid insurance. Less than half of the U.S. population relies for their principal health insurance coverage on policies that are paid for in part or whole by private sector employers.

Key words: insurance, health; health policy; medically uninsured; Medicare; blacks; Hispanic Americans

Introduction

Employer-paid health insurance, initially nurtured by World War II-era wage controls that did not restrict insurance benefits, has become a common fringe benefit.¹ As a result, most Americans obtain health insurance through their employer. According to the Census Bureau, in 1996, 61.2% of the U.S. population was covered by employment-related insurance, 70.2% had some form of private insurance and 25.9% received insurance through the government.² As a result, private employers have played a major role in shaping recent changes in our health care system.^{3,4} Furthermore, discussions of health care reform often start from the premise that our health insurance system is predominantly private and employer-based. For example, employer mandates were the cornerstone of

President Clinton's unsuccessful attempt at comprehensive health care reform. Subsequent incremental strategies such as the Health Insurance Portability Act of 1996 (formerly known as the Kennedy-Kassebaum bill) or recent Congressional proposals⁵ are also designed to improve shortcomings of employer-provided health insurance.

However, the Census Bureau's method of classifying insurance² as "employer provided" (and the similar method adopted by the Agency for Health Care and Policy Research, AHCPR),⁶ may overstate private employers' role. First, individuals who receive both government insurance and private employer coverage in a given year are either included in both categories² or only in the private insurance category.⁶ However, in most such cases, the government is the primary insurer. For example, in 1992, while three quarters of elderly Medicare beneficiaries had employer-sponsored retiree health benefits or individually purchased private Medigap plans, Medicare and Medicaid paid 67% of their total health care costs; private insurance paid for only 10%; the rest were paid out of pocket.⁷ Second, while military personnel are correctly classified as receiving government insurance, most other federal, state and local government workers who receive health benefits are classified as "privately insured" under an employer-provided plan, which accurately describes their insurance card but not the ultimate

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payers (i.e. taxpayers). Finally, employees who purchase health insurance through an employer who pays none of their premium costs are counted as having employer insurance.

In this paper we analyze data from the Current Population Survey, the standard source of information on health insurance coverage, to estimate the numbers of persons who relied principally on private non-government employers for their insurance during 1996. We also calculate the number of persons for whom the government provides coverage.

Methods

We analyzed data from 1997 March Supplement to the Current Population Survey (CPS), the standard source of national health insurance data. The CPS is a Census Bureau survey of the non-institutionalized population of the United States covering approximately 50,000 households with 130,000 persons. Each March the survey asks detailed questions about health insurance coverage during the previous year.

We considered persons insured if they reported any health insurance coverage during the previous year, either public or private. Persons who received Medicaid, Medicare, insurance from former or current military service, the Indian Health Service or various insurance programs sponsored by individual states were classified as receiving government insurance. We added to this standard definition of "publicly insured" an additional group: government workers (and their covered dependents) whose government employer paid for all or part of their health insurance premium.

We considered persons to have private sector employer-paid health insurance only if they had no public coverage (as traditionally defined) and were covered by insurance from a non-government employer who paid all or part of their premiums. Dependents were classified using new items introduced in the CPS since 1995, which allow identification of the policyholder. Those who reported being covered by a private plan of someone living outside the household (not in the CPS sample) and who could not be classified into one of the above groups were considered as having private employer-paid insurance. Those with private health insurance that was neither paid for by a private sector employer nor the government, were considered as having self-purchased insurance.

Population estimates were derived using weights provided by the Census Bureau to allow extrapolation to the entire U.S. population and which account for factors such as the CPS' complex sampling design, undercoverage, and non-interview of households. We calculated confidence intervals for percentages using $SE = \sqrt{(p(100-p)*b)/x}$ where SE is the standard error, x is the number of people in the base percentage, p is the percentage and b is a parameter estimate provided by the Census Bureau.⁸ For absolute numbers the formula was $SE = \sqrt{(ax^2 + bx)}$, where a is another parameter estimate from the Census Bureau.⁸ Standard errors for state data were further adjusted using state specific parameters. Standard errors of differences were obtained using the formula $SE = \sqrt{(SE_1^2 + SE_2^2)}$ where SE₁ and SE₂ are the standard errors of each estimate.⁸ In keeping with Census Bureau conventions, we considered a difference significant if the ninety percent confidence interval did not include zero.

Results

In 1996, 84.4 % (90%CI, 84.1 to 84.7%) of the population living in the United States, 225.1 million people (CI, 224.3 to 225.9), reported having some form of health insurance. 160.8 million (CI, 160.1 to 161.5) had health insurance through an employer (as policyholders or dependents). There were also 69.0 million (CI, 68.4 to 69.6) people, 25.9% (CI, 25.5% to 26.3%) of the population, who were covered by some form of traditional government insurance, including Medicare, Medicaid, military-associated health insurance (CHAMPUS/CHAMPVA), or the Indian Health Service. Of the 160.8 million with employer insurance, 11.3 million (CI, 11.0 to 11.6 million) also had Medicare, 4.1 million (CI, 3.9 to 4.3 million) had Medicaid, and 3.6 million (CI, 3.5 to 3.7 million) had military-associated insurance. Thus, these 19.0 million (CI, 18.7 to 19.3 million) persons were not considered as receiving their principal health insurance from private employers. (Figure 1)

The remaining 141.8 million (CI, 141.1 to 142.5) people received private insurance through an employer without also receiving traditional government insurance. Among this group, 9.1 million (CI, 8.9 to 9.2) employees or their dependents reported that the employer contributed nothing towards their employer-provided insurance plan and thus were not considered as receiving employer-paid health insurance. Of note, 55.1% (CI, 51.6% to 58.6%) of these 9.1 million persons worked for an employer having over 100 employees. Among the

remaining 132.7 million persons, 22.2 million (CI, 21.8 to 22.6) received insurance from a government employer and thus were not considered as receiving insurance from private sector employers. Lastly, to the remaining 110.5 million persons with private sector employer-paid insurance, we added 4.4 million (CI, 4.2 to 4.6) persons who were covered as dependents by a plan of someone outside the household, which we conservatively assumed was paid for by a private employer. Thus, at most 43.1% (CI, 42.7% to 43.5%) of the population, 114.9 million persons (CI, 114.2 to 115.6 million), depended principally on private sector employer-paid health insurance in 1996. (Figure 1)

91.2 million (CI, 90.6 to 91.8) persons, 34.2% (CI, 33.8% to 34.6%) of the population, were covered by insurance that was provided or purchased by the government; the 69.0 million with traditional public coverage plus 22.2 million employees (and dependents) who had insurance policies paid by their government employer. Among the rest, 7.1% (CI, 6.8% to 7.6%) self-purchased their own health insurance and 15.6% (CI, 15.3% to 15.9%) were uninsured. Figure two presents independent estimates of employer and government health insurance from the Census Bureau² and AHCPR⁶ using the traditional classification system, and from our revised classification system.

Table 1 presents analyses by gender, age and racial/ethnic groups. Females were more likely to receive government insurance and less likely than males to have private sector employer-paid insurance. Adults age 18-64 were more likely to receive private sector employer-paid insurance and much less likely to receive government insurance than children under 18. Virtually all people over 64 were covered by government insurance through Medicare.

Among ethnic/racial groups, 43.7% (CI, 42.2% to 45.2%) of Blacks received insurance from a government source, while only 29.6% (CI, 28.2% to 31.0%) were covered under a private employer-paid plan. Hispanics had low rates of private employer-paid insurance, similar to Blacks at 29.9% (CI, 28.4% to 31.4%), but rates of government insurance similar to non-Hispanic Whites at 31.6% (CI, 30.1% to 33.1%). Blacks were much more likely than Hispanics to receive traditional government insurance, 35.1% (CI, 33.7% to 36.5%) versus 26.2%, (CI, 24.8% to 27.6%) and among adults in the labor force, more likely to work for the government, 19.9% (CI, 18.1 to 21.7%) versus 10.8% (CI, 9.3% to 12.3%). As a result, the uninsurance rate among Hispanics was 33.6% (CI, 32.1% to 35.1%) as

compared to 21.6% (CI, 21.0% to 22.2%) in Blacks and 11.5% (CI, 11.3% to 11.7%) in non-Hispanic Whites.

Data for individual states is presented in Table 2. Rates of private sector employer-paid insurance varied widely from a low of 25.6% (90%CI 22.4% to 28.7%) in New Mexico to 53.8% (90%CI 50.2% to 57.4%) in Wisconsin. Likewise, government coverage varied from 25.2% (90%CI, 22.0% to 28.3%) in Indiana to 51.7% (90%CI, 47.8% to 55.6%) in Alaska. In five states and the District of Columbia, the rates of government provided coverage exceeded those of private sector employer-paid coverage, and in ten states the two rates were not significantly different from each other. In only six states was over half of the population covered only by private sector employer-paid health insurance.

Discussion

Prior estimates of health insurance have led to the view that private sector employers provide and pay for most people's health care. Yet, we found that while over 70% of the United States population was covered by private insurance in 1996, only 43% had health insurance paid by private sector employers as their primary coverage; 35% of the population received insurance which was government provided or purchased, 15% were uninsured and 7% self-purchased their own health insurance. Groups most likely to have private sector employer-paid insurance included males, non-elderly adults, and non-Hispanic whites. While both Blacks and Hispanics were much less likely to receive private sector employer-paid coverage than non-Hispanic Whites, uninsurance rates for Hispanics are particularly high due to low levels of traditional government coverage and lower participation in the government workforce.

Our finding that the role of private business in health insurance is not as extensive as commonly assumed is consistent with national health expenditure data. In 1994, of the \$950 billion spent on health care, private business paid for about 21% of expenditures, government paid for 47% (includes health expenditures on behalf of government employees as well as Medicare, Medicaid and other public programs), and consumers paid directly for about 26%, with the rest coming from non-patient revenues.⁹ Though employers contribute to the Medicare Hospital Insurance Trust Fund, their contributions accounted for less than 25% of Medicare Expenditures in 1994⁹ and are dwarfed by

tax subsidies for employer-provided health insurance, currently estimated at about \$100 billion a year.¹⁰

Prior studies of employer-provided health insurance have highlighted declining rates of coverage.¹¹⁻¹⁴ From 1980 to 1995 levels of private insurance coverage dropped by 9 percentage points.¹⁵ Most studies attribute this decrease to a shift of workers to service industries that often do not provide coverage, a decline in unionization, and increased use of part-time workers. Rising health care costs have also caused some employers who provided insurance to either drop coverage altogether or (more commonly) to increase employee's contributions,^{14, 15} which has resulted in many low wage workers declining coverage.¹⁶ Analysts have also highlighted other problems of employer-provided health insurance, including the regressive nature of premiums and disruptions of continuity of care due to changes in health plan by the employer or employment by the employee.^{4, 17} In addition, employers' health care decisions may be driven more by cost concerns than by the best interests of their employees.⁴

Certain caveats apply to our study. We classified persons simultaneously covered by traditional government insurance and by private sector employers in the government insurance category. Over half of these were Medicare beneficiaries for whom Medicare is the primary payer.¹⁸ Among the 8 million with Medicaid or military-associated insurance who also received private insurance during that year, the relative contributions by each type of insurance may vary. We also considered workers whose employer contributed nothing to their insurance premiums as having self-purchased insurance. About 5 million of these people had insurance through large employers. While these employers made no financial contributions towards health insurance premiums, they may have negotiated for lower premiums and more generous benefits than their employees would have obtained had they purchased coverage individually from insurance companies.

While these assumptions may understate private employers' role in health insurance, we made several assumptions that tend to overstate their role. First, we assigned all 4.4 million dependents receiving

coverage through an out of household policy-holder to the private employer-paid coverage category. Second, as the CPS uses self-reported data, our estimates of Medicaid and Medicare coverage are lower than Health Care Financing Administration (HCFA) enrollment data; it is believed that some people who are enrolled in these programs are unaware of their coverage.² For example in 1995, HCFA reported 37.3 million Medicare and 36.2 million Medicaid enrollees,¹⁹ while the CPS reported 34.7 Medicare and 31.9 million Medicaid recipients.²⁰ Last, as the CPS does not ask individuals whose employers pay only part of their premiums how much the employers pay, we classified persons as receiving employer-paid insurance if the employer made any contribution whatsoever. However, on average employees themselves paid for about 20% to 30% of these premiums in 1996.¹⁵

Other limitations of the CPS should also be highlighted. While the CPS asks respondents about their coverage during the entire previous year, there is some disagreement as to whether responses are actually closer to point-in-time estimates.^{21, 22} As with all surveys sampling and non-sampling errors occur in the CPS. The standard errors for CPS estimates indicate the magnitude of the sampling error. Non-sampling errors (e.g. respondents' inability to recall accurate information, definitional difficulties and errors in data collection and processing) are harder to estimate.⁸

In conclusion, less than half the population receives their principal health insurance coverage from private employers. The majority of the US population receives insurance provided or purchased by the government, pays for their own insurance or is uninsured. Current classifications of employer-provided health insurance over-emphasize the role of private employers and may have encouraged ceding to private firms an inappropriately large role in health care decision making. Accordingly, debates on the future of our health care system (and tabulations by the Census Bureau and AHCPH) should more accurately reflect the more limited role that private employers play in providing coverage. In our view, decisions regarding health care financing and organization are matters of public policy that should be made through a democratic process.

Figure 1. Persons receiving their principal health insurance from private employers in 1996.

160.8 million Covered by a policy purchased by or through an employer

↓ ↪ 19.0 million – Also had Government insurance (e.g. Medicare, Medicaid, military etc.)

141.8million

↓ ↪ 9.1 million – Employer did not contribute towards insurance premiums

132.7 million

↓ ↪ 22.2 million – Government workers or dependents (federal, state, or local)

110.5 million

↓ + 4.4 million – Covered by someone outside the household

114.9 million – Private sector employer-paid health insurance

Figure 2. Estimates of health insurance from the Census Bureau¹, Agency for Health Care and Policy Research² (AHCPR) and the revised classification system³ (using Census Bureau data).



1. Census Bureau estimates of employer insurance include all persons receiving insurance from an employer. Estimates of government insurance include all those who receive Medicare, Medicaid, military health insurance, state sponsored insurance plans, and Indian Health Service. Estimates of self-purchased insurance also include those who receive government insurance. For these reasons, Census Bureau tabulations exceed 100%. (see reference number 2)
2. AHCPR estimates of health insurance are from the Medical Expenditure Panel Survey. Like the Census Bureau, AHCPR estimates of employer insurance include all persons receiving insurance from an employer. However, AHCPR estimates of government insurance exclude anyone who receives private or self-purchased insurance. (see reference number 6)
3. Our revised classification of private sector employer-paid health insurance excludes those who receive government insurance such as Medicare, those employed by the government, and those whose employer pays none of their health insurance premium costs. We use the same categories as the Census Bureau for government insurance and also include those who receive insurance from a government employer. Self-purchased insurance includes those whose employer did not contribute towards their insurance premium but excludes those receiving government insurance.

Table 1. Percent of persons with health insurance by gender, age and race.

	Private Employer- Paid Insurance	Government Insurance	Self-Purchased Insurance	Uninsured
Total	43.1	34.2	7.1	15.6
Gender				
Male ¹	44.7	31.3	6.9	17.1
Female	41.5 ²	37.0 ²	7.3	14.2 ²
Age				
<18	44.9 ²			
18-39	50.0	33.2 ²	7.1 ²	14.8
40-64 ¹	50.4	20.3 ²	7.1 ²	22.7 ²
>64	1.7 ²	25.0	9.9	14.4
		96.7 ²	0.6 ²	1.1 ²
Race/Ethnicity				
Non Hisp. White ¹	47.5	33.2	7.8	11.5
Black	29.6 ²	43.7 ²	5.1 ²	21.6 ²
Hispanic	29.9 ²	31.6	4.9 ²	33.6 ²

1. Denotes reference group

2. Statistically significant difference from reference group $P < .10$

Table 2. Health Insurance by State.

State	Private Employer- Paid Insurance	Government Insurance	Self-Purchased Insurance	Uninsured
Alabama ¹	46.4	33.6	7.2	12.8
Alaska ²	29.1	51.7	5.8	13.4
Arizona	32.9	36.5	6.4	24.1
Arkansas	36.2	35.5	6.7	21.7
California ¹	39.5	33.3	7.1	20.1
Colorado ¹	44.1	28.9	10.4	16.6
Connecticut ¹	50.1	31.9	7.1	11.0
Delaware ¹	49.2	32.1	5.4	13.3
Dist. Columbia ²	28.2	47.9	9.1	14.8
Florida	35.6	37.7	7.8	18.9
Georgia ¹	42.5	33.0	6.7	17.8
Hawaii	41.7	43.9	5.8	8.6
Idaho ¹	39.0	34.1	10.3	16.5
Illinois ¹	50.0	32.1	6.6	11.3
Indiana ¹	54.9	25.2	9.3	10.6
Iowa ¹	49.5	28.0	11.0	11.6
Kansas ¹	46.0	36.1	6.6	11.4
Kentucky	41.3	37.1	6.2	15.4
Louisiana	37.4	33.9	7.8	20.9
Maine ¹	49.4	31.6	7.0	12.1

Table 2. Health Insurance by State. (CONT)

State	Private Employer-Paid Insurance	Government Insurance	Self-Purchased Insurance	Uninsured
Maryland	40.0	39.4	9.2	11.4
Massachusetts ¹	50.3	32.1	5.2	12.5
Michigan ¹	53.6	32.5	5.0	8.9
Minnesota ¹	48.7	32.6	8.5	10.2
Mississippi	36.5	36.2	8.8	18.5
Missouri ¹	43.1	34.2	9.5	13.2
Montana ²	33.8	44.0	8.7	13.6
Nebraska ¹	40.4	34.9	13.4	11.4
Nevada ¹	49.0	31.0	4.5	15.6
New Hampshire ¹	53.4	30.5	6.5	9.6
New Jersey ¹	47.8	29.9	5.6	16.8
New Mexico ²	25.6	44.3	7.8	22.3
New York	39.0	38.3	5.7	17.0
North Carolina ¹	42.9	34.1	7.1	16.0
North Dakota ¹	42.7	35.6	11.9	9.8
Ohio ¹	50.8	32.4	5.3	11.5
Oklahoma ²	34.2	42.1	6.7	17.0
Oregon ¹	45.2	32.5	7.0	15.3
Pennsylvania ¹	49.3	33.8	7.5	9.5
Rhode Island ¹	48.0	36.7	5.4	9.9
South Carolina ¹	40.4	32.9	9.6	17.1
South Dakota	40.2	39.1	11.3	9.5
Tennessee ²	33.8	43.2	7.8	15.2
Texas ¹	38.8	30.0	6.9	24.3
Utah ¹	47.5	32.5	7.9	12.0
Vermont ¹	45.0	35.2	8.7	11.1
Virginia ¹	42.7	37.2	7.6	12.5
Washington ¹	42.0	36.1	8.4	13.5
West Virginia	38.1	42.3	4.7	14.9
Wisconsin ¹	53.8	31.3	6.5	8.4
Wyoming	39.5	41.2	6.0	13.4

1. Private employers significantly more likely to provide insurance than government $P < .10$

2. Government significantly more likely to provide insurance than private employers $P < .10$

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