



## Changes in Employer-Sponsored Health Insurance Coverage

by John Holahan

No. 9

The share of Americans covered by employer-sponsored health insurance fell significantly between 1999 and 2002, in large part because of the downturn in the economy that began in 2000 and the increasing cost of health insurance (Strunk and Ginsburg 2003). The lower rates of coverage affected adults and children at all income levels, but they were particularly noticeable in low-income families.

This Snapshot uses the 1999 and 2002 National Survey of America's Families to examine the changes in employer-sponsored insurance and the factors that contributed to the overall drop in coverage. That drop was caused in part by a decline in employment: With fewer people employed, fewer families could receive coverage through an employer. Another contributing factor was a decline in the number of workers in large establishments, which are more likely to offer health insurance, and a substantial increase in the number of workers in small establishments, which are less likely to offer coverage.<sup>1</sup> Finally, employers required workers to pay a greater share of the costs of coverage, which may have led more workers to reject the insurance offered by their employer.

### Major Findings

Rates of employer-sponsored insurance for the U.S. population under age 65 fell from 70.4 percent in 1999 to 68.2 percent in 2002 (table 1). Had the population not grown, the number of people with employer-sponsored insurance would have fallen by 5.4 million. Rates of coverage dropped for both children and adults, regardless of family income. The declines were significantly greater among low-income children and adults (those with incomes below 200 percent of the federal poverty thresholds) than among their counterparts with higher incomes. Since low-income people are only half as likely to have employer-sponsored health insurance as

people with higher incomes, the impact of reductions in coverage was much greater on low-income families.

As might be expected, decreased employment during an economic downturn translated into fewer people with employer-sponsored coverage. The relationship between employer coverage and the number of workers in a family illustrates this change (figure 1).<sup>2</sup> While the U.S. nonelderly population increased by 8.0 million from 1999 to 2002, the number of adults and children living in families with two full-time workers declined by 1.9 million. At the same time, the number living in families with one full-time worker, only part-time workers, and nonworkers increased by 2.0 million, 3.0 million, and 5.0 million, respectively.<sup>3</sup>

Within each family work status category, the likelihood of having employer coverage was essentially unchanged, except for people living in families with one full-time worker, who experienced a decline from 73.3 percent to 72.0 percent (figure 1). Thus, the overall decline in the rate of employer-sponsored insurance stemmed primarily from an increase in the share of families with lower levels of labor force participation, among whom employer-sponsored insurance is less common.

Because rates of employer-sponsored insurance vary with establishment size, changes in the number of workers or the rates of employer-sponsored insurance by establishment size can be important. The number of workers in small and medium-sized establishments (including the self-employed) increased substantially between 1999 and 2002, while the number of workers in large establishments declined substantially (figure 2).

The overall rate of employer-sponsored insurance among workers declined significantly, from 76.6 percent to 75.1 percent (figure 2). The picture varied by establishment size, however. Employer coverage of workers in small establishments declined from 64.2 percent to

### DATA AT A GLANCE

THE SHARE OF AMERICANS UNDER AGE 65 WITH EMPLOYER-SPONSORED HEALTH INSURANCE FELL FROM 70.4 PERCENT IN 1999 TO 68.2 PERCENT IN 2002.

AMONG LOW-INCOME AMERICANS, THE SHARE FELL FROM 40.3 TO 35.0 PERCENT.



**Table 1. Rates of Employer-Sponsored Insurance, by Income, 1999 and 2002 (percent)**

	All Incomes			Low-Income <sup>a</sup>			Higher-Income <sup>a</sup>		
	'99	'02	Change	'99	'02	Change	'99	'02	Change
<b>All Nonelderly</b>	70.4	68.2	-2.2 <sup>~</sup>	40.3	35.0	-5.3 <sup>~</sup>	84.3	81.9	-2.4 <sup>**</sup>
Children	66.4	63.0	-3.4 <sup>~</sup>	38.5	32.0	-6.5 <sup>~</sup>	85.6	81.6	-4.0 <sup>**</sup>
Adults	72.2	70.5	-1.7 <sup>~</sup>	41.6	37.0	-4.6 <sup>~</sup>	83.7	82.0	-1.7 <sup>**</sup>

Sources: 1999 and 2002 National Survey of America's Families

Notes: Insurance coverage represents status at the time of the survey. Adults are age 19–64. 1999 estimates use new weights based on the 2000 Census and may differ from previously published estimates based on the 1990 Census. Percentage point changes are calculated from unrounded estimates for each year and may therefore differ slightly from calculations based on the rounded estimates given here.

<sup>a</sup> Low-income is defined as below 200 percent of the federal poverty thresholds and higher-income as 200 percent of the federal poverty thresholds and above.

<sup>~</sup> Decrease between 1999 and 2002 is significant at the 0.10 level.

<sup>\*</sup> Difference between low-income and higher-income groups is statistically significant at the 0.10 level.

59.7 percent, but coverage for workers in medium-sized establishments rose from 83.5 percent to 85.0 percent. These findings are consistent with data (not shown) indicating that employer offers of insurance increased in medium-sized establishments but not elsewhere. The decline in employer-sponsored insurance seems to have been the result of the movement of workers from large establishments to medium and, particularly, small ones. As with family work status categories, population shifts into categories where employer-sponsored coverage is less likely appear to explain more of the overall decline than changes in coverage rates within each category.

Part of the reason for the decline in employer-sponsored health insurance may have been decreased employer contributions to premiums (table 2). Employers paid the entire insurance premium for 30.7 percent of workers in 1999, a figure that dropped to 27.6 percent in 2002.<sup>4</sup> This decrease was particularly striking among workers in small establishments, where 39.2 percent of workers had their entire premium paid by employers in 1999, compared with 33.6 percent in 2002. During the same period, the share of workers whose employers paid none of their health insurance premium increased significantly.

## Discussion

The data show a widespread decline in the rates of employer-sponsored health insurance, particularly among low-income families. The causes appear to be the economic downturn and the associated reduction in employment, the increased proportion of workers in small establishments, and the increased cost-sharing requirements attached to employer-sponsored insurance.

The decline in employer-sponsored health insurance among children was more than offset by increased enrollment in Medicaid and the State Children's Health Insurance Program, however, resulting in fewer uninsured children in 2002 than in 1999 (Kenney, Haley, and Tebay 2003). For adults, the increase in public coverage was roughly comparable to the decline in employer-sponsored insurance, so there was no change in the uninsurance rate (Zuckerman 2003).

Thus, while employer-sponsored health insurance coverage has proved vulnerable to economic setbacks, public program expansions have averted an increase in the number of uninsured Americans, at least to date. But the expansion of public coverage has come at a considerable cost. Medicaid expenditures, for example, rose from \$202 billion to \$257 billion between 2000 and 2002, owing in part to the enrollment of more children and nondisabled adults. These costs have contributed to the serious budget pressures being faced by most states, and public programs may have difficulty filling in the gaps in employer-sponsored insurance if those gaps continue to grow (Holahan and Bruen forthcoming).

**Figure 1. Population and Rates of Employer-Sponsored Insurance, by Number of Workers in Household, 1999 and 2002**

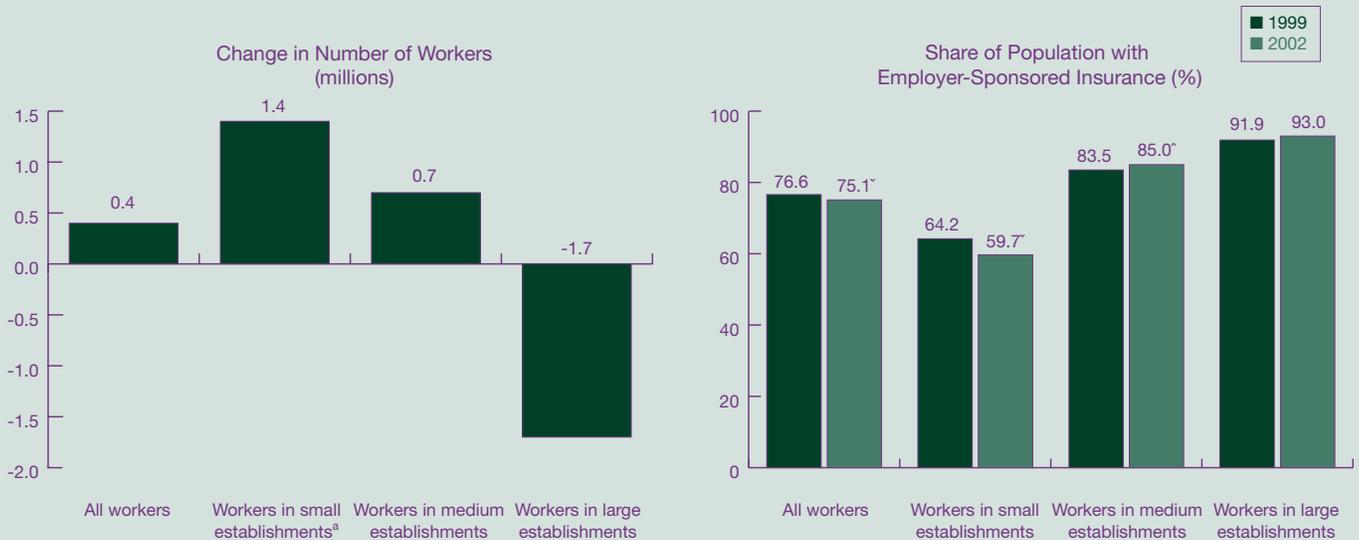


Sources: 1999 and 2002 National Survey of America's Families

Notes: Insurance coverage represents status at the time of the survey. 1999 estimates use new weights based on the 2000 Census and may differ from previously published estimates based on the 1990 Census. Percentage point changes are calculated from unrounded estimates for each year and may therefore differ slightly from calculations based on the rounded estimates given here.

<sup>\*</sup> Decrease between 1999 and 2002 is significant at the 0.10 level.

**Figure 2. Number of Workers and Rates of Employer-Sponsored Insurance, by Establishment Size, 1999 and 2002**



Sources: 1999 and 2002 National Survey of America's Families

Notes: Insurance coverage represents status at the time of the survey. 1999 estimates use new weights based on the 2000 Census and may differ from previously published estimates based on the 1990 Census. Percentage point changes are calculated from unrounded estimates for each year and may therefore differ slightly from calculations based on the rounded estimates given here.

<sup>a</sup> Establishment size is defined as follows: small, 0–24 employees; medium, 25–499 employees; large, 500+ employees.

<sup>\*</sup> Increase between 1999 and 2002 is significant at the 0.10 level.

<sup>\*</sup> Decrease between 1999 and 2002 is significant at the 0.10 level.

**Table 2. Employer Contribution to Employee Health Insurance Premiums, 1999 and 2002 (percent)**

	All Workers			Workers in Small Establishments <sup>a</sup>			Workers in Medium Establishments			Workers in Large Establishments		
	'99	'02	Change	'99	'02	Change	'99	'02	Change	'99	'02	Change
<b>Employer Contribution</b>												
All	30.7	27.6	-3.1 <sup>ˆ</sup>	39.2	33.6	-5.6 <sup>ˆ</sup>	28.5	26.0	-2.5 <sup>˜</sup>	27.4	25.6	-1.8
Some	64.2	65.8	1.6	55.1	57.6	2.5	66.0	67.6	1.6	68.2	69.5	1.3
None	5.2	6.6	1.4 <sup>ˆ</sup>	5.7	8.8	3.1 <sup>ˆ</sup>	5.5	6.5	1.0	4.0	4.9	0.9

Sources: 1999 and 2002 National Survey of America's Families

Notes: Insurance coverage represents status at the time of the survey. 1999 estimates use new weights based on the 2000 Census and may differ from previously published estimates based on the 1990 Census. Percentage point changes are calculated from unrounded estimates for each year and may therefore differ slightly from calculations based on the rounded estimates given here.

<sup>a</sup> Establishment size is defined as follows: small, 0–24 employees; medium, 25–499 employees; large, 500+ employees.

<sup>ˆ</sup> Increase between 1999 and 2002 is significant at the 0.10 level.

<sup>˜</sup> Decrease between 1999 and 2002 is significant at the 0.10 level.

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## Endnotes

- <sup>1</sup> An establishment is a physical location, such as a plant, office, or store, where business is conducted or services are performed. Establishment size is defined as follows: small, 0–24 employees; medium, 25–499 employees; large, 500 or more employees.
- <sup>2</sup> Families are defined as health insurance units. A health insurance unit includes members of a nuclear family who can be covered under one health insurance policy—that is, the policyholder, spouse, children under age 19, and full-time students under age 23. Thus, a 26-year-old man living with his parents is a separate health insurance unit because he is responsible for his own health insurance.
- <sup>3</sup> Those in families with no workers can have employer-sponsored coverage as early retirees or through COBRA, or can be covered by the policy of someone outside the family.
- <sup>4</sup> Questions on premium contributions were asked only of those whose employer offered coverage. Offer rates were not available for the self-employed.

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SNAPSHOTS  
of America's Families



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