

A New Safety Net for Low-Income Families

Number 2



America's low-income working families are struggling to get by, too often making impossible choices among food, housing, and health care because their incomes do not stretch far enough. Government safety nets were reformed in the mid-1990s with the promise that work would pay. But that promise remains unfulfilled for many families. This series of essays explores the challenges these vulnerable households face and suggests ways to protect them and help them thrive—urgent goals with far-reaching benefits for our children, our families, and our economic future.

Health Insurance for Low-Income Working Families—Summary

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For many low-income families, work doesn't pay enough to cover the cost of health care. Low-wage workers are less likely than higher-income workers to have access to employer-sponsored health insurance, and they often can't afford to purchase private nongroup insurance. Meanwhile, health care costs are rapidly rising out of reach for even middle-income Americans. We propose comprehensive reform that ensures coverage for everyone at every income level, while still encouraging work.

THE NEED FOR UNIVERSAL HEALTH COVERAGE

Between 2000 and 2005, the number of uninsured Americans grew by 6 million; most of this growth was among low-income working families. Low-wage workers often aren't offered health insurance from their employers, aren't eligible for benefits because of short job tenure or part-time status, or can't afford the premiums. Only 37 percent of adults in low-income working families had employer-sponsored health insurance in 2005.

Low-income families are more likely to have members in fair or poor health than higher-income families. And they're less likely to have assets to draw from when unexpected health problems strike. Many children in low-income families can rely on public insurance, but coverage is limited for low-income adults.

Even for the insured, out-of-pocket health care costs can be a financial burden—premiums, deductibles, coinsurance, and co-payments can quickly add up. And

the current patchwork of employer-based insurance, private nongroup insurance, and public programs isn't enough to meet families' needs.

RECOMMENDATIONS

It's essential that health care reform address coverage for all Americans. Offering insurance to low-income people alone would set up a significant disincentive to work and earn more and would leave many remaining uninsured. If reform must be phased in gradually, changes can begin with low-income people, but it shouldn't stop there.

We propose achieving universal health coverage through an individual mandate—a requirement that everyone obtain at least a minimum level of coverage. But a mandate can't be imposed without guaranteed access to affordable insurance.

- *Guaranteed sources for insurance:* We recommend first setting up state-based purchasing pools that ensure everyone has access to insurance. State participation would be voluntary, but there would be strong financial incentives to do so. These pools will be open to individuals and employers and would include non-elderly Medicaid beneficiaries, SCHIP participants, and state employees. States can design their own purchasing pools, within federal guidelines, but at least one option would have to be comprehensive coverage.
- *Subsidies:* Getting to universal coverage would require the government to step in and provide subsidies for low-income people. Subsidies could cover the full costs for those with incomes below 150 percent of the federal poverty level (FPL), phasing out at 400 percent of FPL where health costs would be capped at 12 percent of income. Additional subsidies would be provided to

purchasing pools to offset the excess costs they face with any adverse selection of enrollees. Both types of subsidies would only be available through state purchasing pools. Since people with expensive health care needs will likely join these purchasing pools, another benefit of income-related subsidies is the incentive they give healthy adults to enroll—changing the ratio of low-cost to high-cost participants.

- *Individual mandate:* Once the purchasing pools are up and running, states and the federal government could implement an individual mandate. Without a mandate, some people won't get coverage until they need it. Governments would be under enormous pressure to continue to reimburse providers who care for the uninsured unless universal coverage was guaranteed. Under an individual mandate, current government spending on the uninsured could be redirected to help finance the reforms.
- *Cost containment:* Long-term reform, though, is dependent on containing the escalating cost of

health care. We need to identify new ways to bring down costs and evaluate promising strategies, such as managed competition through purchasing pools and development of cost-effective treatment regimes.

Current federal and state spending for health care and health insurance can be reallocated to help carry out this proposal or any other major reform package, although additional funds will be needed as well.

OUTCOME

Low-income working families without health insurance are in jeopardy of financial hardship and bankruptcy if a medical emergency hits. And lack of access to medical care can lead to poor health. But they're not alone—rising medical costs and declines in employer-sponsored insurance have made health care a burden for even higher-income Americans. We need comprehensive reform to ensure that everyone, regardless of health care need or income level, has access to affordable coverage.

PREVALENCE OF UNINSURANCE AND FAIR OR POOR HEALTH BY FAMILY INCOME

Source: Medical Expenditure Panel Survey, 2003–05.

FAMILY INCOME AS A PERCENT OF THE FEDERAL POVERTY LEVEL	PERCENT OF WORKING FAMILIES WITH AT LEAST ONE MEMBER UNINSURED	PERCENT OF WORKING FAMILIES WITH AT LEAST ONE MEMBER IN FAIR OR POOR HEALTH	PERCENT OF WORKING FAMILIES WITH AT LEAST ONE MEMBER UNINSURED AND AT LEAST ONE MEMBER IN FAIR OR POOR HEALTH
< 150%	52.84	20.70	11.07
151–200%	41.59	18.32	7.27
201–250%	33.11	19.58	6.63
251–300%	25.51	17.16	4.69
301–401%	17.92	16.34	2.72

For the full report, see "Making Work Pay II: Comprehensive Health Insurance for Low-Income Working Families" by Cynthia D. Perry and Linda J. Blumberg.

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