ECONOMIC RESEARCH INITIATIVE ON THE UNINSURED

eriu RESEARCH HIGHLIGHT

NUMBER 5, APRIL 2004

Rising Uninsured Rates: It's Employment, Not the Economy, Stupid

THE PROBLEM

The current economic recovery may not yet be good news for Americans looking to keep or gain back their health insurance coverage. Researchers warn that the threat of becoming or remaining uninsured is substantial, even when the economy is improving.

New research conducted by Cornell University researchers John Cawley and Kosali Simon, funded by the Economic Research Initiative on the Uninsured (ERIU) at the University of Michigan, shows that the economy's effect on coverage is best measured by looking at unemployment rates, which continue to increase well after a recession ends. The most recent recession ended in November 2001, but unemployment continued to rise through June 2003. The economic downturn led to more than one million Americans losing coverage during the recession, and the economy has yet to make up for these losses more than two years into the recovery.

Nearly 70 percent of insured Americans get their coverage through employers. Traditionally, unemployment is a lagging indicator of recession, with employment gains typically taking months or even years to recover to pre-recession levels. Because a net loss of jobs can continue well after a recession ends, those relying on coverage through the workplace remain at risk. The public sector helps some low income groups who lose coverage, but shrinking state budgets and narrow mandates limit the reach of such programs, especially for men.

POLICY PERSPECTIVE

"With the economy growing again, many assume that the pool of insured workers is also expanding. However, unemployment remains high in the current 'jobless recovery,' and there has been little growth in jobs that provide health coverage. Cawley and Simon's study adds further evidence that unemployment is a major factor driving up uninsured rates. Now we need to understand the link between unemployment and coverage for various groups.

Like the uninsured, the unemployed are a heterogeneous population. Coverage policies affect each group differently. A key dimension that hasn't received as much attention is that the median duration of unemployed spells in today's economy is the longest it's been since the government started tracking such data in the late 1960s. People unemployed for longer spells are more likely to lose coverage at some point and to face greater obstacles regaining coverage.

If we want to design policies that reduce the likelihood of someone being without coverage when they need care, we need to better understand the dynamics underlying the unemployment-coverage link."

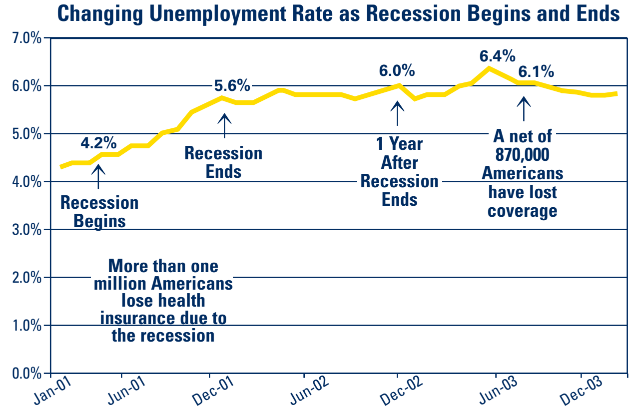
– Catherine McLaughlin, Ph.D.
Professor at the University of Michigan and Director of ERIU

THE FACTS

> **Recession has a domino effect on health care coverage.** During a recession, many lose coverage when they lose their job. Those who remain employed may also lose coverage as employers drop health insurance offerings or shift more costs directly to workers. Full-time jobs also give way to part-time and temporary jobs that don't include health insurance. And while a drop in income makes some eligible for public coverage, state budget pressures force cuts in public sector programs.

> **Job loss can quickly do away with workers' health insurance coverage.** During the 2001 recession the unemployment rate rose from 4.2 to 5.6 percent, and an estimated 1,009,000 Americans lost health insurance coverage because of economic trends. The unemployment rate continued rising after the recession ended. As of August 2003, only an estimated 137,000 Americans gained coverage—a net loss of 870,000 covered Americans.

Changing Unemployment Rate as Recession Begins and Ends



Source: Seasonally Adjusted Unemployment Rate, BLS Table A1.

> **Overall trends mask important differences for men, women and children.** Coverage losses during the recession were much greater for men than for women and children, and men have been less likely to gain coverage during the recovery period. The unemployment effect on coverage is particularly strong for men because government programs do not provide them with the same safety net available to women and children.

The University of Michigan
555 South Forest Street
Third Floor
Ann Arbor, MI 48104-2531

T 734-936-9842
F 734-998-6341
www.umich.edu/eriu

Q&A with John Cawley, Ph.D.

John Cawley, Assistant Professor in Cornell's Department of Policy Analysis and Management, recently co-authored the paper, "Health Insurance Coverage and the Macroeconomy," for ERIU. Cawley's and fellow Cornell Assistant Professor Kosali Simon's work sheds light on an area that surprisingly has been the focus of little research.

Q: How do macroeconomic trends affect the number of people who have health insurance?

A: We found that the unemployment rate is what really matters. The U.S. had two significant macroeconomic events back to back—a national recession from March of 2001 to November of 2001, preceded by the longest continuous economic expansion in U.S. history. We were curious as to what extent those events affected the probability that people had health insurance coverage.

We found recession is the wrong measure of what matters regarding health insurance coverage. Unemployment rate is really what turns out to be the strongest determinant of health insurance coverage, as most people's coverage is linked through an employer. And unemployment rates peak after the end of a recession.

"Clearly one way to soften the blow of the macroeconomy on health insurance coverage is to do something for adult men."

Q: Please quantify the degree to which these bigger trends impact health insurance coverage.

A: A one percentage-point increase in unemployment, like a rise from five to six percent, decreases the probability of coverage by well under one half of one percent. While that may not seem like a significant probability of losing health insurance, when you multiply that by 86.6 million men in the U.S., for example, it gives you huge swings in health insurance coverage.

Q: Do public health insurance programs pick up the slack?

A: For children, we find that SCHIP and Medicaid do operate counter-cyclically. When unemployment rates rise, the government steps up and covers more children.

Q: From an economist's viewpoint, what changes can policymakers make to prevent increases in uninsured rates during rising unemployment?

A: Government-provided health insurance coverage for men is not counter-cyclical. When unemployment rates shoot up, you don't see many more men being covered by the government. There are very gender-specific ways we have chosen to counteract uninsurance caused by the macroeconomy. We've decided to protect women and children and not really adult men. I wouldn't comment on whether that is right or wrong. But clearly one way to soften the blow of the macroeconomy on health insurance coverage is to do something for adult men.

Q: Why is it important for policymakers to know there's a significant connection between higher unemployment and higher uninsured rates when considering solutions?

A: The macroeconomy matters to health insurance coverage. Recession is not what you want to focus on. It would be a mistake to think that because the U.S. is not currently in recession that we still don't have people losing health insurance. Also, because SCHIP and Medicaid aren't fully counter-cyclical, the net effect of higher unemployment is still that more children lose health insurance than gain it.

UPCOMING

This Research Highlight is the fifth in a series of research-based policy documents that address current questions and issues related to the health care coverage debate. The next Research Highlight will examine the effect of Medicaid expansions for parents.

For text of the full interview and paper visit:
www.umich.edu/eriu/findings/highlights.html

For a summary of findings, data, and methods, visit:
www.umich.edu/eriu/findings/findings_cawley.html

Funded by The Robert Wood Johnson Foundation, ERIU is a three-year program shedding new light on the causes and consequences of lack of coverage, and the crucial role that health insurance plays in shaping the U.S. labor market. The Foundation does not endorse the findings of this or other independent research projects.