

Uninsurance, Uncompensated Care, and Employer-Provided Health Insurance

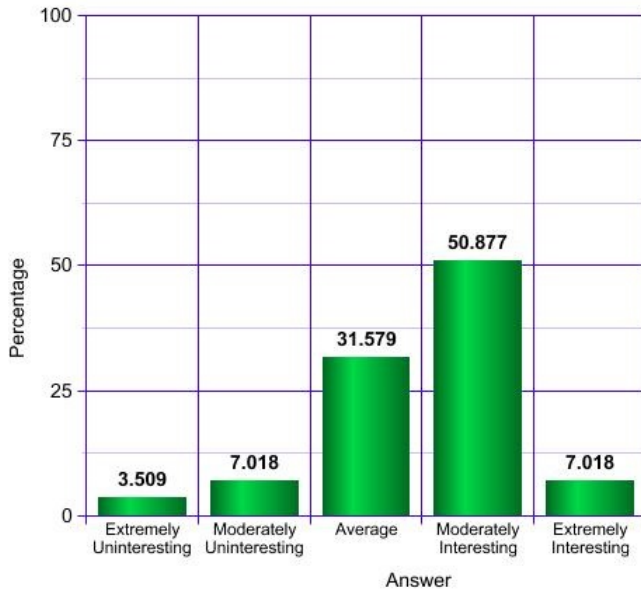
University of Alabama

October 4, 2016

Today's Class

- ▶ Blackboard Survey Results
- ▶ Who is uninsured in America?
- ▶ Who pays for health care of the uninsured population?
- ▶ Origins of Employer-Provided Health Insurance
- ▶ Effects of Employer-Provided Health Insurance on Labor Market

Do you find health economics to be



What topics do you find most interesting?

- ▶ Affordable Care Act, Sin taxes, Obesity, Nutrition
- ▶ I like the real world graphs and statistics. Doesn't really matter what they're about. Data is real and I like it.
- ▶ Welfare economics , Affordable care act, ADD/ADHD medicine
- ▶ I like the discussion of ADHD with respect to the economy because I have ADHD.
- ▶ Although the whole course is derived from it, I find the theory of utility to be fascinating – especially when it is translated to risk and insurance
- ▶ nothing lol
- ▶ I find the actual studies like the ones we are doing our projects on very interesting.
- ▶ Health Insurance

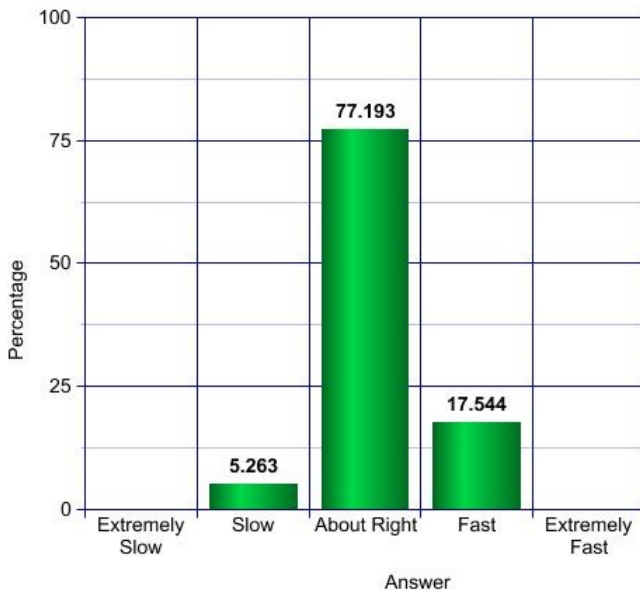
What topics do you find least interesting?

- ▶ I don't know that there is a topic that I don't enjoy; So far the things we've touched on have all been interesting.
- ▶ Econometrics, linear regression. Basically all of the math and looking at hard data.
- ▶ empirics
- ▶ Typical demand and supply stuff....aka the dry stuff
- ▶ Going over research paper after research paper
- ▶ ADHD
- ▶ I haven't found a topic that I really hate, yet. I'm sure I will at some point.
- ▶ The math part.
- ▶ anything with derivatives lol
- ▶ I'm not very interested in insurance.
- ▶ Microeconomics in any form.

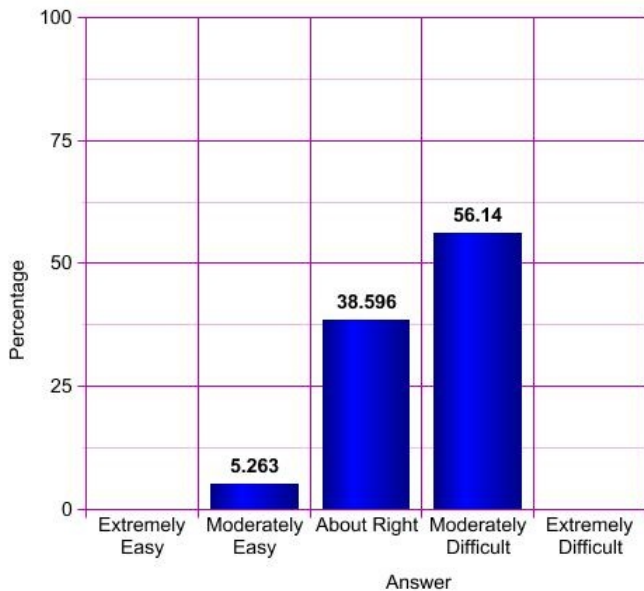
Topics you would like to cover

- ▶ More about how bad the U.S. health care system is and what health care systems around the world look like
- ▶ I would love to have a better understanding of the economics behind the current issues surrounding the Affordable Care Act like insurers dropping out of the program, etc.
- ▶ i like how we are comparing health care policies between the two candidates
- ▶ Marijuana Legalization
- ▶ No specific interests, but I would like to hear more discussion on why we use certain models in certain cases.
- ▶ I feel like we spend a lot of time focused on the United States and other first world nations, so I think it would be interesting to learn about the health economics of developing and third world nations.
- ▶ I wish I had enough time in my life to ponder what I want to see covered in future classes... Just keep doing what you're doing.

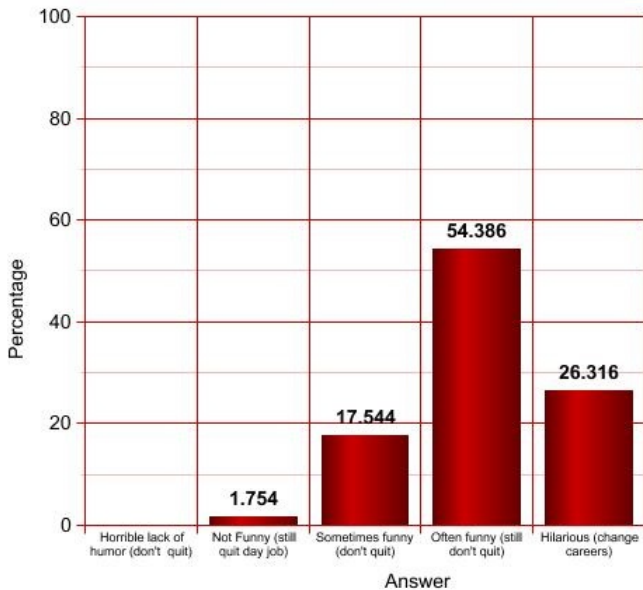
Pace of the Course



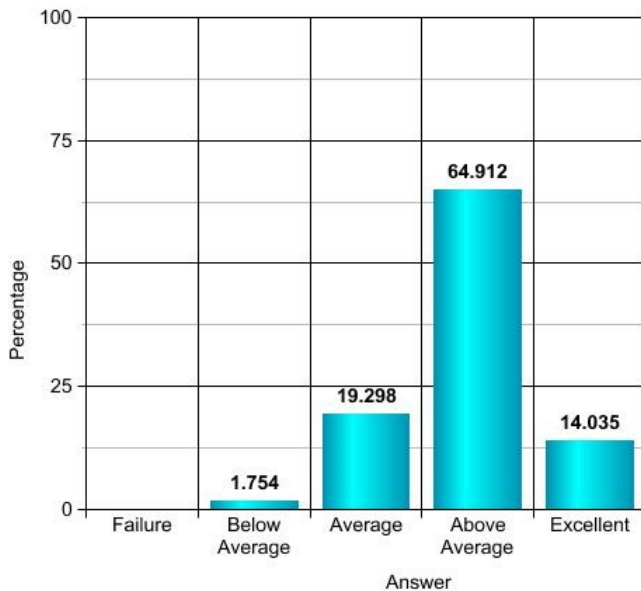
How difficult it the material?



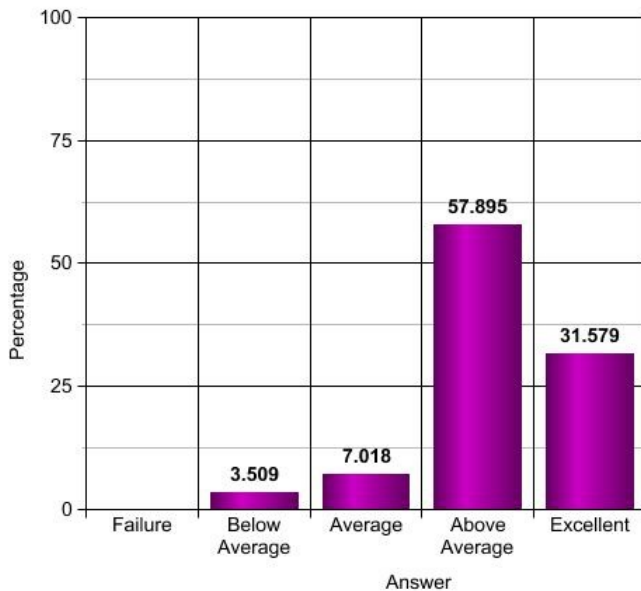
How good are the jokes



Overall rating of course



Overall Rating of Instruction



Comments or Recommendations

- ▶ Doing a great job just like last year.
- ▶ Great teacher, average class.
- ▶ Sorry that you got stuck teaching a senior level class as a Ph.D candidate. That's tough. Not your fault. You're doing a great job relative to the circumstances. Keep up the good work.
- ▶ I like talking about Alabama football at the beginning of every class :)
- ▶ Maybe convert the group project into a large individual paper of some sort. other than that, what you're doing is good. Also, don't stop with the bad jokes.
- ▶ I think you've done an awesome job considering the circumstances. You're a PhD student teaching a class that has historically been taught by the department head (Matt Holt). With everything that's been going on, I think you've done a great job of putting in effort and doing everything you can to take this seriously and put together a good class. Thank you.

Comments or Recommendations

- ▶ multiple choice test and please change the requirement of the group project. Too long and too many pages.
- ▶ I would recommend more structure as it relates to the topics. It is sometimes hard to follow and understand what we have covered.
- ▶ I really like everything you're doing, I love how when a student asks a question and you don't know the answer you come back the next class with the answer... Thank you! One of my favorite teachers
- ▶ The instructor's pronunciation of the word "old" is one of the most incredible things I have ever heard. Keep it up.
- ▶ More Quizzes. When we go over the quiz material it makes the concepts easier to understand.
- ▶ Include videos and examples of what is going on inside the health-care industry.

Comments or Recommendations

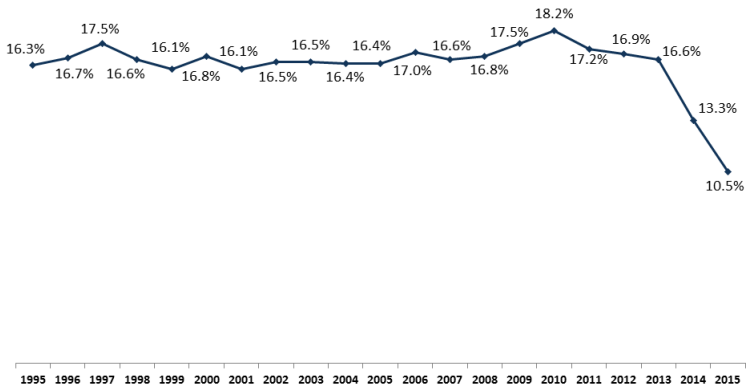
- ▶ Diversify the material for the class jokes. Branch out into something related to a meme.
- ▶ Just wish there was more to do in class than take notes off power points. So maybe on the board examples or problems like on the quiz.
- ▶ Keep making jokes and don't point at the board with your middle finger :)
- ▶ You obviously know your stuff, I like how you do not think you are so above the students, keep on same track
- ▶ Even though you sometimes say the material is boring and you think the class is bored, you do a very good job of keeping the class personable and enjoyable. Went into class a little disappointed to have a grad student as an upper level professor but you have changed my mind completely and am glad I have the opportunity to take one of your classes!

Who is Uninsured in the U.S.?

- ▶ Recall that we discussed the idea of the certainty equivalent- i.e. the amount of income a person is willing to accept to avoid a gamble.
- ▶ In order for a person to accept the certainty equivalent, they have to be risk-averse
- ▶ Risk-averse individuals will purchase insurance, while risk-neutral and risk-loving individuals are better off without insurance.
- ▶ Does that mean that everyone without insurance is risk-neutral or risk-loving? Not necessarily.
- ▶ There are a number of other potential reasons for why a person might not purchase insurance.

Figure 1

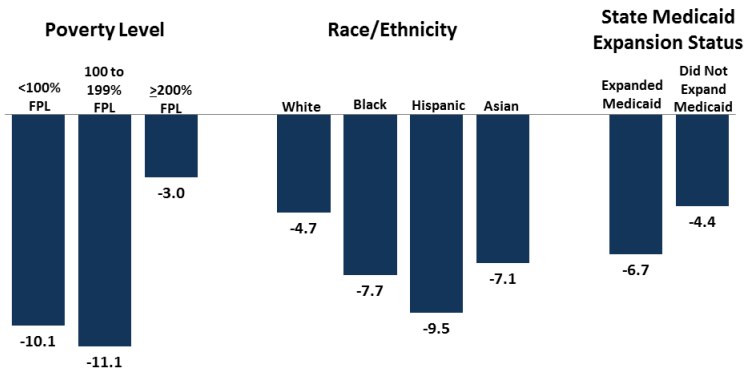
Uninsured Rate Among the Nonelderly Population, 1995-2015



Source: CDC/NCHS, National Health Interview Survey, reported in http://www.cdc.gov/nchs/health_policy/trends_hc_1968_2011.htm#table01 and <http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201605.pdf>.

Figure 2

Percentage Point Change in Uninsured Rate among the Nonelderly Population by Selected Characteristics, 2013-2015



NOTE: Indiana, New Hampshire and Pennsylvania are included as non-expansion states during 2013 and 2014 and as expansion states in 2015.

SOURCE: Cohen RA, Martinez ME, Zammitti EP. Health Insurance Coverage: Early Release of Estimates From the National Health Interview Survey, 2015. National Center for Health Statistics. May 2016. Available from:

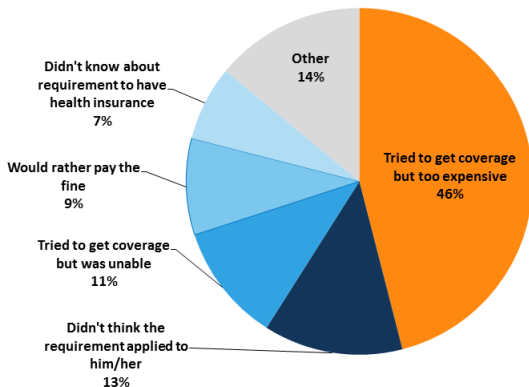
<http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur201605.pdf>.



Figure 3

Primary Reason for Being Uninsured Among Uninsured Nonelderly Adults, 2015

Share who say the primary reason they are uninsured is because they:



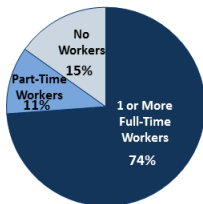
NOTE: "Other" includes respondents who said the primary reason was "some other reason", respondents in the process of signing up for insurance, and respondents who didn't know/refused to respond.

SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted December 1-7, 2015)

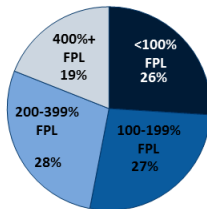
Figure 4

Characteristics of the Nonelderly Uninsured, 2015

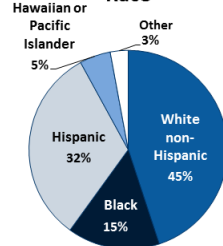
Family Work Status



Family Income (%FPL)



Race



Total = 28.5 Million Uninsured

NOTES: The U.S. Census Bureau's poverty threshold for a family with two adults and one child was \$19,078 in 2015. Data may not total 100% due to rounding.

SOURCE: Kaiser Family Foundation analysis of the 2016 ASEC Supplement to the CPS.

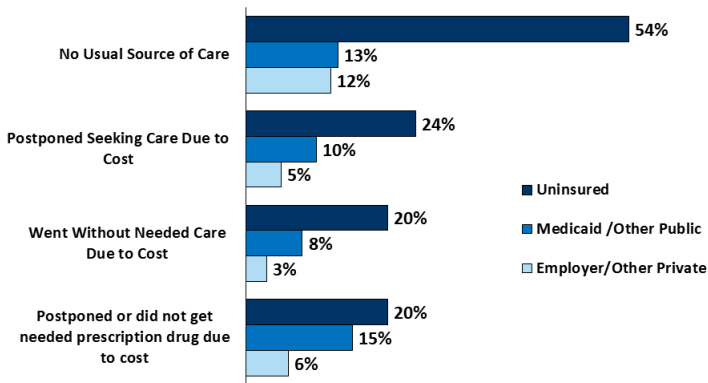
Uninsured Rates Among the Nonelderly by State, 2015



SOURCE: Kaiser Family Foundation analysis of the 2016 ASEC Supplement to the CPS.

Figure 6

Barriers to Health Care Among Nonelderly Adults by Insurance Status, 2015

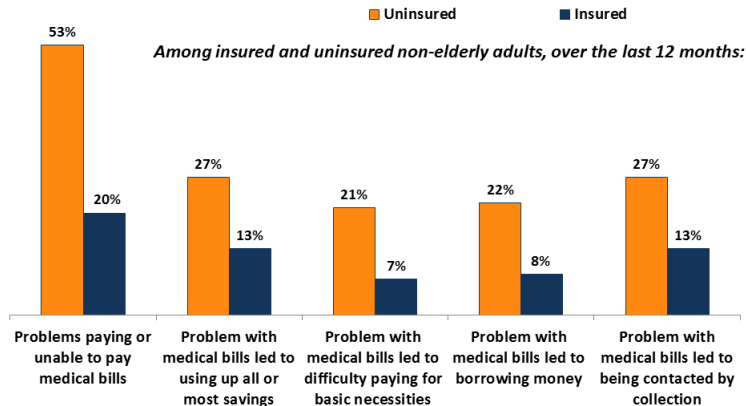


NOTE: Includes barriers experienced in past 12 months. Respondents who said usual source of care was the emergency room were included among those not having a usual source of care. All differences between uninsured and insurance groups are statistically significant ($p < 0.05$).

SOURCE: Kaiser Family Foundation analysis of 2015 National Health Interview Survey.

Figure 7

Problems Paying Medical Bills by Insurance Status, 2015



NOTE: Includes adults ages 18-64. All differences between uninsured and insured groups are statistically significant ($p < 0.05$).

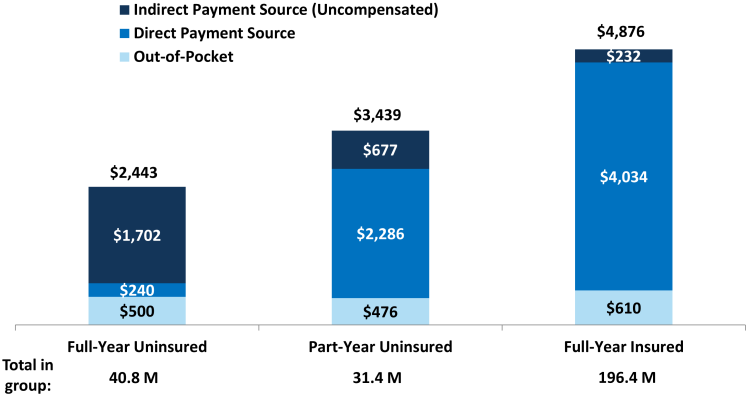
SOURCE: Kaiser Family Foundation/New York Times Medical Bills Survey (conducted August 28-September 28, 2015.)

Uninsurance and Health Care Costs

- ▶ Insurance companies negotiate discounts for members
 - ▶ Obviously, people without insurance do not get these discounts
- ▶ That means that the uninsured population, approximately 28 million people, are paying the “full price” for medical care as opposed to the negotiated price.
- ▶ It is a well-known fact, however, that the uninsured population does not end up paying 100% of their medical bills.
- ▶ The portion of the bill that the uninsured do not pay out-of-pocket is called “uncompensated care.”

Figure 1

Per Capita Medical Spending Among the Nonelderly, by Insurance Status and Source of Payment, 2013

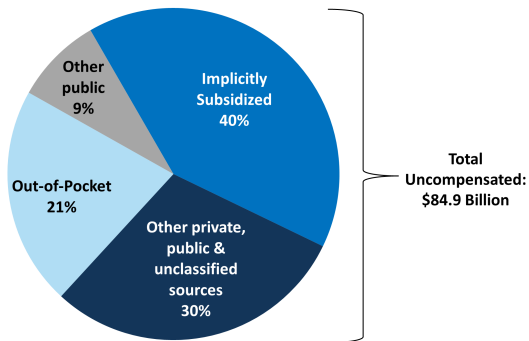


NOTES: "Direct payment source" among the full-year uninsured includes "other public" payments, which are Medicaid payments. These payments may be retroactive or emergency payments provided by Medicaid.

SOURCE: Urban Institute estimates based on 2008-2010 Medical Expenditure Panel Survey.

Figure 2

Aggregate Medical Spending for Nonelderly Uninsured, by Source of Payment, 2013

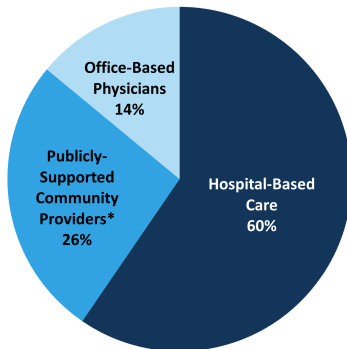


Total Medical Spending = \$121.0 Billion

Note: Includes only spending that occurred while uninsured. "Other Public" spending includes retroactive Medicaid payments.
SOURCE: Urban Institute estimates based on 2008-2010 Medical Expenditure Panel Survey.

Figure 3

Uncompensated Care by Place of Service, 2013



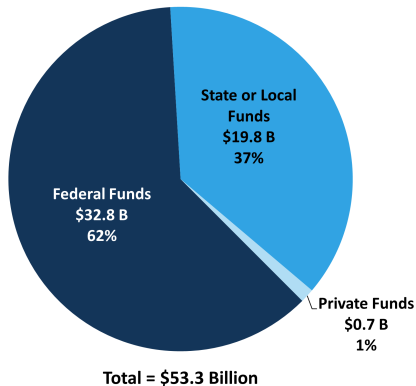
Total = \$74.9 Billion

* Includes community-based providers who receive federal, state or local funds.

Source: Urban Institute estimates derived from provider and government data sources on spending for the uninsured.

Figure 4

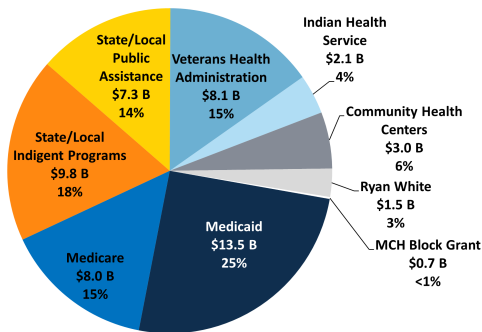
Sources of Funding for Uncompensated Care, 2013



Source: Urban Institute estimates derived from provider and government data sources on spending for the uninsured.

Figure 5

Sources of Funding for Uncompensated Care, by Program, 2013



Total = \$53.3 Billion

Source: Urban Institute estimates derived from provider and government data sources on spending for the uninsured.

Summary

- ▶ There remains a sizable portion of uninsureds within the U.S. population (about 28 million people).
- ▶ A majority of the uninsureds make up individuals that are below 200% of FPL (about \$24,000 per year).
- ▶ Due to not having insurance, these people utilize health care at lower rates, and they pay the “full” non-negotiated price for care.
- ▶ Only about 20% of the uninsureds' care is paid for out-of-pocket, the rest is uncompensated care paid through various channels.

Employer-Provided Health Insurance

- ▶ Employer-provided health insurance coverage accounts for over half of the insurance coverage in the U.S.
- ▶ Though the most common source of insurance coverage in the U.S., the portion of those receiving this form of coverage has been on the decline for the past decade.
- ▶ Despite this decline, employer-provided coverage is expected to still be a leading source of insurance coverage going forward in a post ACA system.
- ▶ In the remainder of this class, we will discuss the origins of employer-provided insurance and its effects on the labor market.

Employer-Provided Health Insurance

- ▶ Recall that the WTP for insurance increases as the probability of loss or amount of loss increases (as the marginal benefit curve shifts upward).
- ▶ If loading costs, or risk premium, is greater than the risk premium that the consumer is WTP, then they do not purchase insurance.
- ▶ Loading costs are smaller for larger groups of people.
 - ▶ Insurance is cheaper for larger companies
 - ▶ Insurance is more expensive for individuals and smaller groups.

Employer-Provided Health Insurance

- ▶ Before modern medicine, hospitals were poorhouses for the indigent to go die (most middle/upper class individuals died at home).
- ▶ The first example of employer-provided insurance was in Dallas, Texas.
- ▶ An administrator at Baylor Medical Center noticed that Americans were spending more money on cosmetics than on health care.
- ▶ The first group plan was offered to a group of Dallas public school teachers, if the teachers paid \$0.50 per month, then Baylor would foot their medical bills.
- ▶ During the Great Depression, the Baylor idea became very popular, and it got the name "Blue Cross."

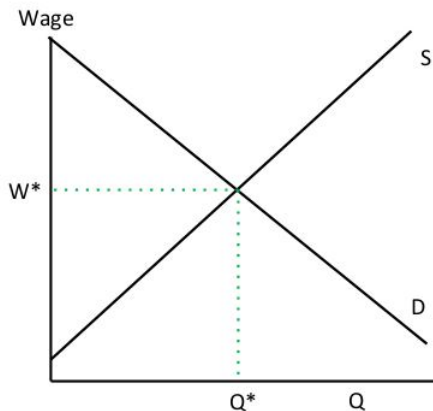
Employer-Provided Health Insurance

- ▶ The Great Depression inspired the idea of employer-provided health insurance, and WWII accidentally spread it everywhere.
- ▶ Began as an unintended result of a temporary tax break from the early 1940s.
- ▶ Prior to WWII, most Americans paid for medical costs out of pocket. Back then, insurance really was insurance, only covering costs of major medical needs such as hospitalizations.
- ▶ During WWII, the federal government was wary of post-war inflation due to huge amounts of government spending. The administration observed the terrible devastation that hyperinflation wreaked on post WWI Germany, and they were determined to hold it in check.
- ▶ In an effort to do do, the federal government implemented wage and price controls during the war.

Employer-Provided Health Insurance

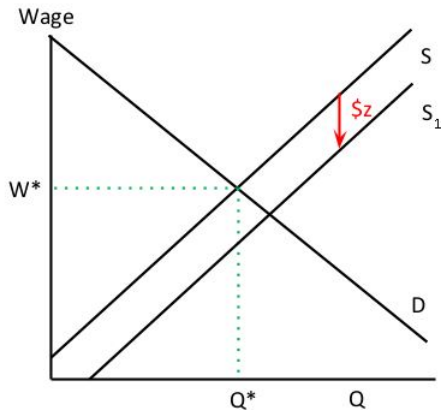
- ▶ In response to wage controls, many labor groups threatened to go on strike.
- ▶ To appease the labor groups, the War Labor Board declared that employer-provided health insurance and other fringe benefits were exempt from both wage controls and income taxes.
- ▶ Since employers could not increase wages, they turned to insurance and other benefits as a way to entice employees.
- ▶ As early as the 1940s, the U.S. presidential administration tried to end these tax breaks and the employer-provided insurance industry, but the market was already too developed. By the mid-1960s, employer-provided health insurance was almost universal.

The Labor Market



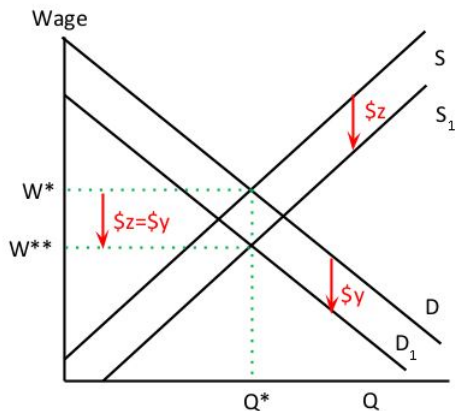
- In the market for labor, firms DEMAND labor and workers SUPPLY labor
- Equilibrium price (wage) and quantity (number of workers)

The Labor Market: Supply Effects



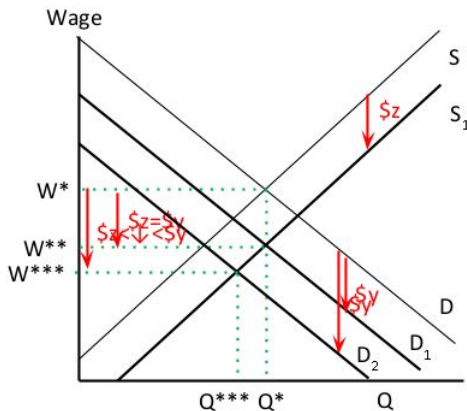
- What happens if workers are paid health insurance that they value at \$z?
- Workers are willing to accept \$z less in wages

The Labor Market: Demand Effects



- But benefit costs company $\$y$
- Company is willing to pay $\$y$ less in wages
- If $\$z = \y then same number of workers!
- Wage decreases by $\$z = \y

The Labor Market: Higher Costs to Firm

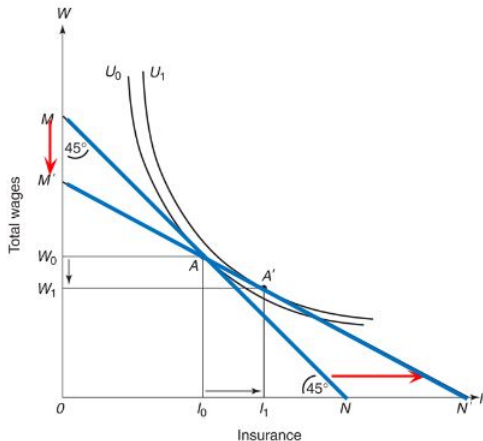


- What if $\$y > \z ?
- Demand curve drops to D_2
- Employment decreases
- Wage decreases by somewhere b/t $\$z$ and $\$y$

The Labor Market

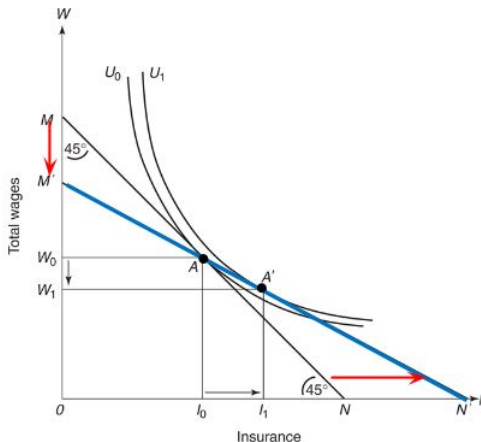
- ▶ The main point is: Employees pay for health “benefits” in the form of lower wages.
- ▶ This is called a compensating wage differential, i.e. a worker has to give up some wages in order to get extra benefits.
- ▶ Whether the lower wage represents the employee benefit ($\$z$) or the employer cost ($\y) is determined by relative elasticities of demand and supply, as well as a comparison of the marginal benefits of providing insurance to workers vs the marginal costs of this insurance to employers.

Tax Preferences



- Health insurance premiums are tax free
 - Subsidy means employees are willing to give up wages for H.I. (M to M')
 - Subsidy also increases amount of insurance that can be purchased (N to N')

Tax Preferences



- Without tax preference
 - Optimal choice is point A on U_0
- With tax preference
 - Optimal choice is point A' on U_1
- More insurance, less wages

The Labor Market

- ▶ Employer-provided insurance leads to “job lock.”
 - ▶ Job lock occurs when less productive workers may stay at jobs for insurance reasons only, leading to decreased economic output because they would not be replaced by more productive workers.
 - ▶ Those who change jobs may be denied coverage, face higher premiums, or only obtain insurance subject to a waiver that excludes coverage.
 - ▶ Those with employer-provided coverage stay on 16% longer, and are 60% less likely to voluntarily leave jobs.
- ▶ There is potential for employer-provided insurance to lead to “marriage lock.”
 - ▶ If I am unemployed, but my spouse has good insurance through her employer, perhaps I am less likely to sever a unhappy marriage.
- ▶ Employer-provided insurance also increases the costs of starting a small business.

Next Class

RAND and Oregon Health Insurance Experiments