

RISKY BUSINESS: Working People Losing Health Coverage

June 2004

Association of Washington Public Hospital Districts Children's Alliance Children's Hospital & Regional Medical Center
CHOICE Regional Health Network Community Health Network of Washington Group Health Cooperative Harborview Medical Center
Health Coalition for Children and Youth Healthy Mothers, Healthy Babies King County Health Action Plan League of Education Voters
League of Women Voters of Washington Lutheran Public Policy Office of Washington State Public Health – Seattle & King County
SEIU Local 1199 NW SEIU Washington State Council United Food & Commercial Workers University of Washington Medical Center
Washington Academy of Family Physicians Washington Association of Churches Washington Association of Community and Migrant Health Centers
Washington Citizen Action Washington Dental Service Foundation Washington Education Association Washington for Health Care
Washington Rural Health Association Washington State Association of Local Public Health Officials Washington State Hospital Association
Washington State Nurses Association Washington State Public Health Association Washington State PTA

Executive Summary

Personal bankruptcies in Washington State have tripled over the past fifteen years. Of the nearly 40,000 bankruptcies filed in 2003, approximately half were due to medical debt. The primary factor contributing to this trend is increasing health care costs, which have forced many working people and their families to pay more than they can afford for out-of-pocket expenses including health insurance premiums, co-payments, hospital and clinic expenses, and prescriptions. This is just the tip of the iceberg.

Over the last three years, health insurance premiums have risen four times faster than worker's earnings. Co-payments and deductibles have also increased significantly. Lower income employees have been hit especially hard by these increases, with many now paying nearly 17 percent of their income in out-of-pocket health care expenses. The result is that health insurance and other health care costs are simply becoming unaffordable for many Washington families. Without the ability to reduce or eliminate major expenses like housing or food, many are taking a calculated risk with their health and their children's health and are forgoing health insurance in order to feed and house their kids, pay for clothing and pay taxes. There are few alternatives for these families. They are taking short-term risks, but are making responsible decisions in doing so.

Families of low-income workers without employment-based health insurance need access to state programs like Medicaid and the Basic Health Plan (BHP) in order to access health services and to avoid accruing insurmountable medical debt. Although safety net providers across the state have traditionally provided care to patients regardless of their ability to pay, as the rates of uninsured and underinsured have increased, many of these providers have become overwhelmed by the demand and are struggling to care for all of those in need. Medicaid and BHP are integral for financing the health care of those who cannot otherwise afford it.

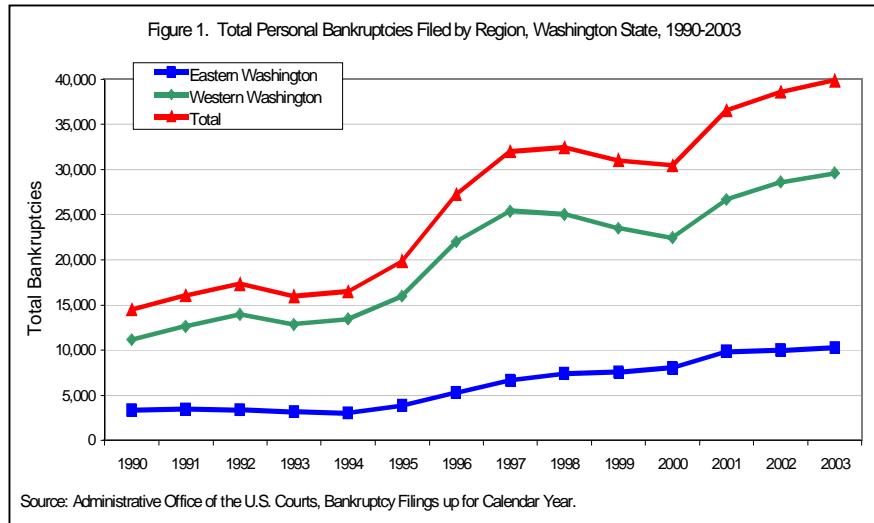
The health consequences of uninsurance or underinsurance are as devastating as the financial consequences of inadequate coverage. Low-income workers and their families who do not have sufficient insurance get less preventive care, have worse health overall, and die more frequently than those with adequate health coverage. In fact, over three hundred people in Washington die each year due to insufficient health insurance. Families that do not have access to either employer-sponsored insurance or to a public insurance plan risk suffering worse health and have an increased chance of financial ruin.

Uninsurance and underinsurance also have profound negative effects on our communities and economy. For instance, the burden of uninsured children is borne by schools, doctors' offices, community health centers, local hospitals and social agencies. In addition, Washington's hospitals, clinics and physicians provide over \$300 million annually in uncompensated medical care, a cost that must be shifted to people who can pay for health services. The safety net is straining with too many patients and too few resources. Community health centers and public hospitals like Harborview Medical Center do not have the capacity to provide primary care, much less specialty care, for all of the uninsured and underinsured.

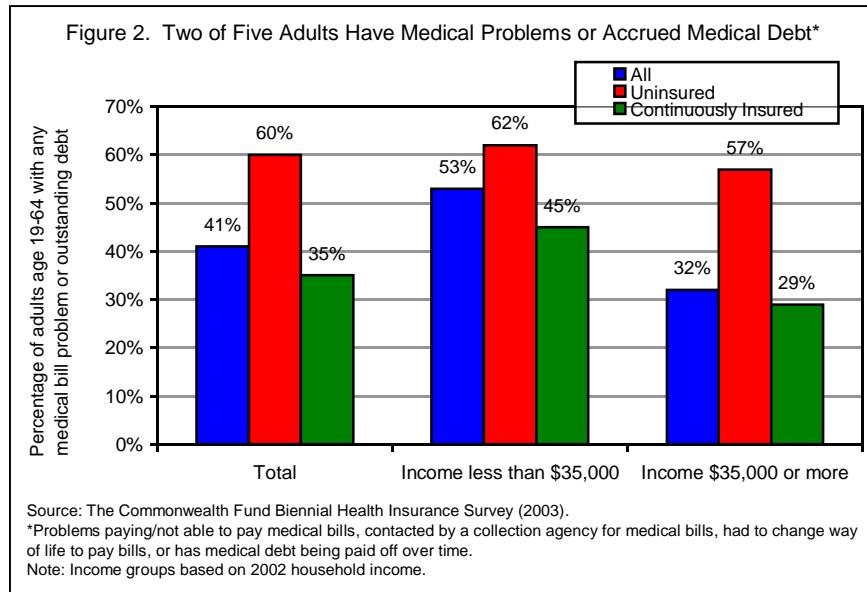
Most people believe families, employers and the public sector should share the financial burden for health coverage. This belief is shared across political lines. Working people, employers, and public decision-makers must come together to develop solutions to ensure working people and their families have access to affordable health insurance and health care services. This will require affordable employer-sponsored insurance, improved access to publicly sponsored insurance, and limits to the growth of health care costs. The solution should not be to exclude working people and their families from affordable health care, or to shift the costs to those who are the most vulnerable.

Working People Facing Financial Ruin

In the last decade, the number of people who have declared bankruptcy in Washington State has almost tripled (see Figure 1).¹ In 1991, fewer than 15,000 people in Washington faced personal bankruptcy, and only 14 percent of these bankruptcies were due to medical debt. But with dramatic increases in health care expenses over the last decade—including the costs of health insurance premiums, co-payments and deductibles—medical bills and debt are now estimated to be the cause of nearly half of the 40,000 personal bankruptcies filed in the state last year.²



People of all income levels are at risk for encountering problems with medical bills or accruing medical debt, with as many as two in five people in the country experiencing financial burdens related to health care costs (see Figure 2).



The problem is much more pronounced for lower-income people—especially those with incomes below \$35,000. But perhaps the worst-case scenario is to be both lower income and uninsured. In 2003, 62 percent of uninsured adults with incomes below \$35,000 had medical bills or medical debt, versus 35 percent of those in the same income category who were insured.³

Surprisingly, having health insurance does not immunize people from experiencing financial

problems due to medical bills. Half of the people forced into bankruptcy because of medical debt have health insurance.⁴ However, because insurance plans are increasingly limiting the scope of

¹ Bankruptcy Statistics (1990 – 2003). The Administrative Office of the U.S. Courts. Available at: <http://www.uscourts.gov/bnkrpctystats/statistics.htm#calendar>.

² Jacoby, M.B., Sullivan, T., and Warren, E. (2001). Rethinking the Debates Over Health Care Financing: Evidence from the Bankruptcy Courts. *New York University Law Review*, 76. 375-418.

³ Collins, S. R., Doty, M. M., Davis, K., Shoen, C., Holmgren, A. L. & Ho, A. (2004). *The Affordability Crisis in U.S. Health Care: Findings From The Commonwealth Fund Biennial Health Insurance Survey*. The Commonwealth Fund.

⁴ Jacoby, M.B., Sullivan, T., and Warren, E. (2001). Rethinking the Debates Over Health Care Financing: Evidence from the Bankruptcy Courts. *New York University Law Review*, 76. 375-418.

their coverage benefits, many people are unexpectedly finding themselves with health problems for which their insurance plan will not cover the costs of treatment.

The financial impacts of unmanageable health care costs can effectively move families from the middle class to the working poor if they are unlucky enough to incur health bills beyond their ability to pay. This is the emerging plight of America's underinsured population.

Health Care Becoming Unaffordable

Everyone—including employers, employees, individual consumers and governments—has been affected by the rising costs of health care.⁵ However, many of these expenses have been passed on to employees and individual consumers at a greater rate than their ability to pay. In the last decade, the overall cost of health insurance premiums, co-payments and deductibles have increased at a rate of about three times the rate of salaries.⁶

I work in a doctor's office and can't afford health insurance on my salary. I have had some recent medical bills because of a new medical problem and I can't afford them on my income.
 — Kalena
 Vancouver, WA

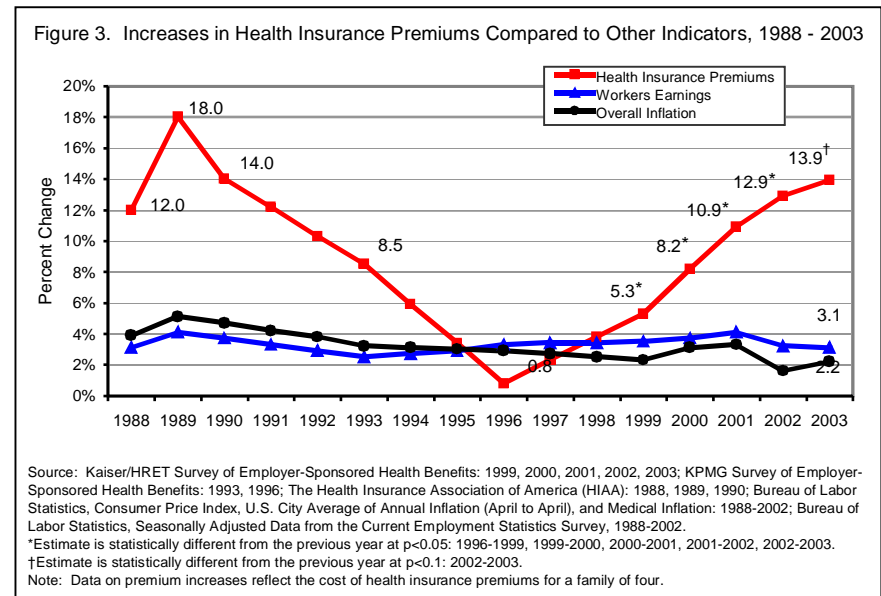
Even with the comprehensive coverage provided by my business, which at that time had a \$2,500 stop loss limit for my family, our out-of-pocket expenses amounted to \$12,209. These costs cover one year. It was a difficult time not only because of the illness, but because I could not work at all in 2001.
 — Doug
 Everett, WA

Last year, premiums for employment-based health insurance increased 13.9 percent, well above the rate of inflation and the growth rate of wages for non-supervisory workers (see Figure 3).⁷ This was the third consecutive year of double-digit increases in premiums.

In an effort to reduce expenses, employers are now asking employees to pay a greater share of their health insurance premiums. In 2003, employee contributions for HMO employee-only coverage rose from 31 percent to 35 percent of premiums. For family coverage, that percentage increased from 50 percent to 57 percent of premiums for HMO plans, and from 53 percent to 58 percent of premiums for PPO plans.⁸

Between 1995 and 2001, Americans' average annual out-of-pocket health expenses rose 26 percent to \$2,182.⁹ Lower income employees have been hit especially hard by these increases, with the average low-income person now paying nearly 17 percent of their income to out-of-pocket health care expenses (see Figure 4).

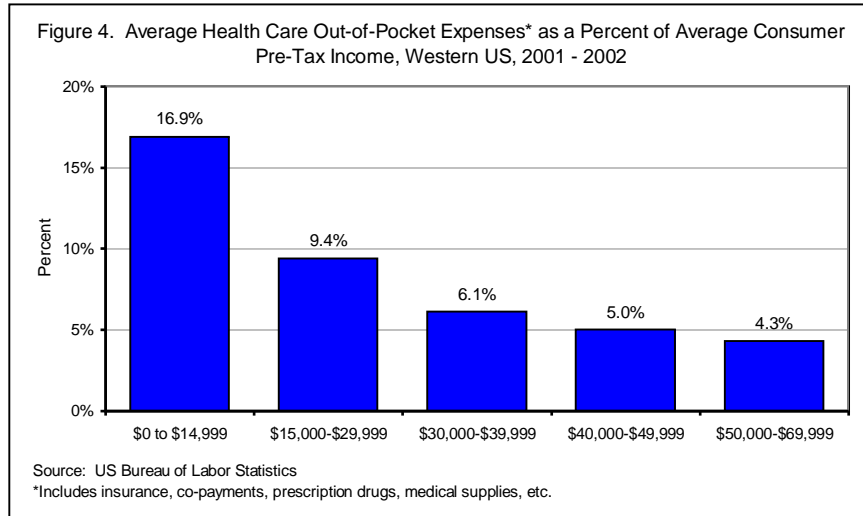
As a result of these increased costs, the number of people enrolled in employer-sponsored



⁵ *Factors Fueling Rising Risking Health Care Costs* (2002). PriceWaterhouseCoopers for the American Association of Health Plans.
⁶ Strunk, B. C. & Ginsburg, P. B. (2004). Tracking health care costs: trends turn downward in 2003. *Health Affairs*, W4, 354-362.
⁷ *Employer Health Benefits 2003 Annual Survey* (2003). The Kaiser Family Foundation and Health Research and Educational Trust.
⁸ *Surprise slow-down in US health benefit cost increase* (2003). Mercer Human Resources Consulting. Available at: <http://www.mercerhr.com/pressrelease/details.jhtml/dynamic/idContent/1121535>.
⁹ *Consumer Expenditures Annual Reports* (1996 - 2002). Bureau of Labor Statistics.

insurance declined by 2.8 million nationally between 2000 and 2002—underlying a 3.8 million increase in the number of uninsured people within the same time period.¹⁰ In 2002, more than

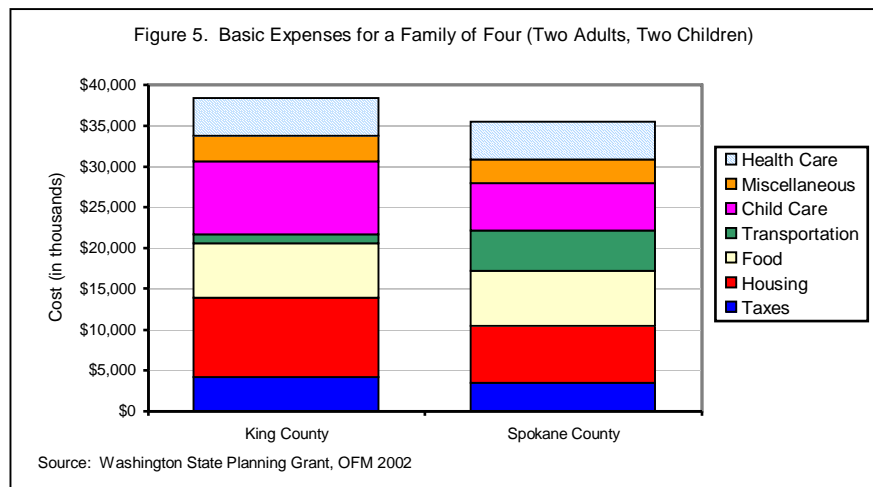
318,000 working adults (and over 100,000 dependents of workers) were uninsured in Washington State. This represents over 11.5 percent of the state’s workers.¹¹ Hundreds of thousands more went without insurance for more than six months during the year.¹²



Are Working People Making Responsible Choices?

As a result of these trends, many working people are deciding not to purchase individual or employment based health insurance and are forgoing health care. They are often characterized as “free-riders”—people who decide not to purchase health insurance and instead use their money for other wants and needs, but expect the health system to care for them when they get sick. But on the contrary, many are working people who have been forced to make a tough decision between paying for health care and paying for basic necessities like housing, food and clothing.

A 2002 study by the Washington State Office of Financial Management revealed that a family of four (including two adults and two school-age children) in King County needed approximately \$34,000 per year in order to cover basic expenses¹³, not including health care (see Figure 5). In order to



pay for health insurance, the family would need significantly more money. If they have access to employer-sponsored insurance, the family’s total income would need to be \$38,000 to cover all expenses. If their employer does not offer insurance, they would have to buy individual insurance

¹⁰ Holahan, J. & Wang, M. (2004). Changes in health insurance coverage during the economic downturn: 2000-2002, *Health Affairs*, W4, 31-42.

¹¹ *Behavioral Risk Factor Surveillance System Online Prevalence Data (1995-2002)*. Division of Adult and Community Health, National Center for Chronic Disease Prevention and Health Promotion, Centers for Disease Control and Prevention.

¹² *Going Without Health Insurance: Nearly One in Three Non-Elderly Americans* (2003). Families USA and the Lewin Group. Available at: http://www.familiesusa.org/site/DocServer/Going_without_report.pdf?docID=273.

¹³ Basic expenses included housing (low cost, but safe and not sub-standard), food (average costs for family size at local grocery stores), transportation (bus in communities with public transportation systems and cars in communities without adequate public transportation), taxes, and miscellaneous (essentials such as clothing, nonprescription medicines, and personal hygiene products).

for each family member and their total family income requirement jumps to \$44,000—assuming all family members are healthy. If anyone in the family has a health problem, the family’s income needs could go up to \$48,000.

I've worked all my life. My small employer can't pay for my insurance and I can't afford the cost on my salary— and anyway they would exclude my current health problems. I have delayed needed tests and am unable to buy medicines because of the costs.
 — Ellen
 Seattle, WA

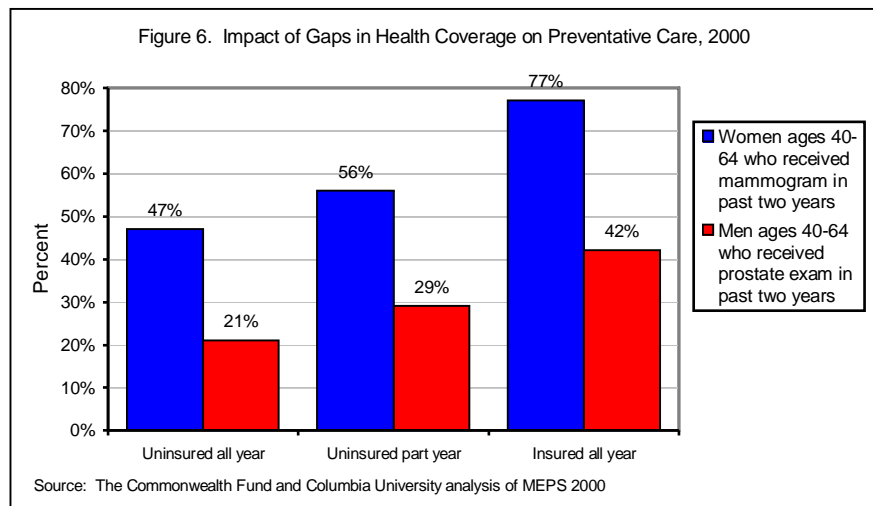
In Spokane County, expenses are slightly less. A family of four would need \$31,000 to cover basic expenses, not including health insurance. If the family purchases employer-sponsored health insurance, total expenses rise to \$35,000. However, if their employer does not offer insurance, the family will need to buy in the individual market and their basic costs rise to \$40,000. If someone in the family is sick, their annual costs will go up to \$41,500.

Clearly, there are few major expenses that low-income families can eliminate. For many people, health insurance is the lowest priority when they are on the edge of financial ruin. Instead, they make the responsible choice to work, to feed and house their kids, and to pay taxes. Unfortunately, if they do not have the resources to pay for the basics and buy health insurance, they take a calculated risk with their own and their children’s health. There are few alternatives for these families. They are taking short-term risks, but are making responsible decisions in doing so.

People Foregoing Health Care

Decreases in the scope of health insurance coverage makes health care less accessible for many people and increases the number of people who become sick or die due to the lack of access to covered services that insurance affords.

Increases in out-of-pocket health expenses reduce the use of preventive, diagnostic and treatment services.¹⁴ In fact, women without adequate insurance are 30 percent less likely to have recommended preventative services like mammograms than women with insurance (see Figure 6).¹⁵ The problem is considerably worse for those with health problems. In 2002, over 25 percent of uninsured people were unable to get needed medical care due to cost.¹⁶ People with employer-sponsored insurance report failing to get needed care when medical problems arose because their share of the costs for care was unaffordable.¹⁷ Doubling co-payments for medicines



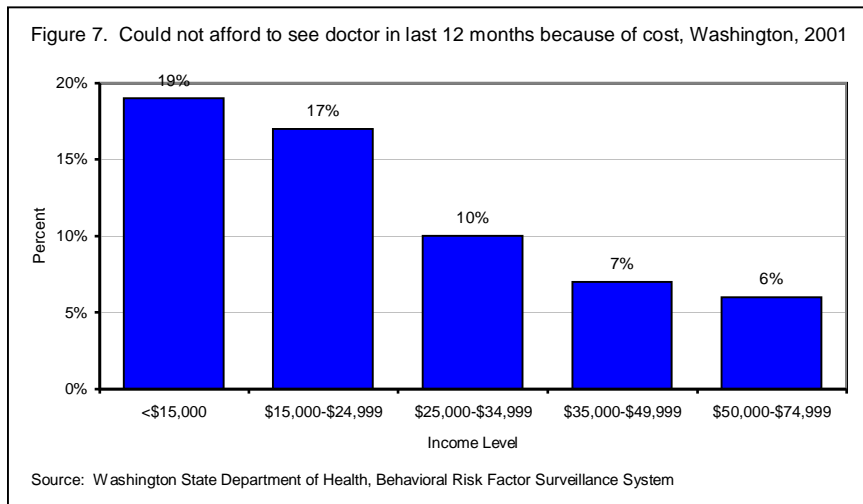
¹⁴ Collins, S. R., Doty, M. M., Davis, K., Shoen, C., Holmgren, A. L. & Ho, A. (2004). *The Affordability Crisis in U.S. Health Care: Findings From The Commonwealth Fund Biennial Health Insurance Survey*. The Commonwealth Fund.

¹⁵ Doty, M. M. & Holmgren, A. L. (2004). *Unequal Access: Insurance Instability Among Low-Income Workers and Minorities*. The Commonwealth Fund.

¹⁶ *Behavioral Risk Factor Surveillance System Online Prevalence Data (1995-2002)*. Division of Adult and Community Health, National Center for Chronic Disease Prevention and Health Promotion, Centers for Disease Control and Prevention.

¹⁷ The Unraveling of Health Insurance (2002). *Consumer Reports*, 67(7). 48-54. Available at: http://www.consumerreports.org/main/detailv2.jsp?CONTENT%3C%3Ecnt_id=157033&FOLDER%3C%3Efolder_id=18151

causes a 25% decrease in the use of needed high blood pressure and diabetes medicines.¹⁸ However, lower-income people are forgoing the most. In 2001, 17 to 19 percent of people in Washington State with incomes below \$24,999 could not afford to see a physician due to cost,



compared to six percent of people with incomes between \$50,000 and \$74,999 (see Figure 7).¹⁹ In addition, a recent survey of uninsured community health center patients in Washington, who are generally lower income, found that 73 percent will avoid needed care due to cost.²⁰

The unfortunate result is that more women die of breast cancer, more people die of heart attacks, and more people are admitted

for avoidable hospitalizations when they are uninsured or underinsured.²¹ In fact, over 300 people die in Washington State every year due to inadequate or no health insurance coverage.²²

We All Foot the Bill

The negative effects of working families losing their health care and the growing levels of medical debt and bankruptcy are not limited to those people described in this report. We all pay for the lack of health coverage for working families. The burden of uninsured children is borne by schools, doctors' offices, community health centers, hospitals and social agencies.²³ In Washington's hospitals, doctors' offices and clinics, over \$300 million in medical costs are shifted to people who can pay for health services on an annual basis.²⁴

Most people believe families, employers and the public sector should share the financial burden for health coverage.²⁵ This belief is shared across political lines. However, there are currently few choices for low-income workers and their families whose incomes are below the level at which insurance is affordable. If they do not have employment-sponsored health insurance, they need state programs like Medicaid and the Basic Health Plan in order to access health services. They cannot all depend on the safety net, which is straining with too many uninsured patients and too few resources. With current funding levels, community health centers and public hospitals like Harborview Medical Center do not have the capacity to adequately address the recent dramatic changes in our state's health system. Families that do not have access to insurance will risk

¹⁸ Goldman D, Joyce G, et al, *Pharmacy Benefits and the Use of Drugs by the Chronically Ill*, JAMA 291(19) 2004

¹⁹ *Behavioral Risk Factor Surveillance System Online Prevalence Data (1995-2002)*. Division of Adult and Community Health, National Center for Chronic Disease Prevention and Health Promotion, Centers for Disease Control and Prevention.

²⁰ Kavoussi, R & Burchfield, E. (2004) *Stretching the Safety Net: The Rising Uninsured at Washington's Community Health Centers*. Community Health Network of Washington.

²¹ Watts, K. (2003). *The Health Consequences of Being Uninsured in Washington*. Unpublished University of Washington Medical Student Research Training Program paper.

²² Institute of Medicine (2002). *Care Without Coverage: Too Little, Too Late*. Washington, DC: National Academies Press.

²³ *Wrong Target: Policies That Hurt Kids And Cost Us All More*. (2004). Working for Health Coalition.

²⁴ *Analysis of Uncompensated Care and Cost Shift*. (2003). Washington State Office of the Insurance Commissioner.

²⁵ Collins, S. R., Doty, M. M., Davis, K., Shoen, C., Holmgren, A. L. & Ho, A. (2004). *The Affordability Crisis in U.S. Health Care: Findings From The Commonwealth Fund Biennial Health Insurance Survey*. The Commonwealth Fund.

suffering worse health and increased risk of financial ruin, and these outcomes clearly have profound effects on our communities and economy.

Recommendations

1. Working people should be able to access affordable health care without going bankrupt. If health insurance is not available through the workplace, it should be available through public programs. Leaving working families without an affordable health care option via employer-sponsored insurance or through public programs is unacceptable and dangerous for the working families in our state—putting them at risk of falling into the working poor, worsening their health, and increasing the burdens on all of our social institutions.
2. Families are expected to contribute to the cost of their care in most insurance programs, but that contribution should not exceed their capacity to afford needed care and to support their families. Many people in Washington State simply do not have the ability to purchase health care without being enrolled in employer-sponsored insurance or in a public program.
3. Increases in the cost of health care needs to be limited. This should be done equitably so that working families do not shoulder the entire burden of rising health care costs. Employers, employees and the public sector must collaborate to develop solutions that will limit the escalating cost of health insurance that underlies the shifting health cost burden.
4. The state, the private sector, and employee groups should use their joint purchasing power to implement improved health systems that improve quality and limit cost growth.