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Health Insurance for Uninsured Children: Doing Health Care Right

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Health care coverage for children is important. Without it, children suffer and society pays. One study reports that 54 percent of children without coverage have not received any well-child visits and 31 percent have not seen a doctor in the past year, compared to only 26 percent and 9 percent, respectively, for children with insurance coverage.[1]

When an uninsured child does access the health care system, it is usually in a very inefficient and costly manner, such as getting care for a preventable condition through a hospital emergency room. The national cost of uncompensated care—treating those without coverage—was an estimated $34.6 billion in federal, state, and local spending in 2004.[2] Thus, this phenomenon does not just harm children, but impacts taxpayers directly and society as a whole.

Defining the Uninsured

Today's health care system is a mix of private and public coverage. According to the most recent U.S. Census data, 68 percent of the population receives their health insurance through the private sector—predominately through the place of work—and 27 percent receive their care through the public sector.[3] This leaves an estimated 15 percent of people without health care coverage.[4]

The results for children are similar. Over 60 percent obtain coverage through the private-sector employer-based system, and 5 percent obtain coverage directly through the private market.[5] Of the 29.7 percent that obtain care through the public sector, the overwhelm-

Talking Points

- The evidence shows that one of the major problems with the existing health insurance markets in the various states is that they are unstable for individuals and families, largely because of the absence of ownership and portability of health insurance policies.
- Addressing the lack of health insurance among children is important, as it is for all uninsured. The focus of policy for children should be family-oriented, and one of the best ways to begin to tackle reform is to address the shortfalls in the overall health care system.
- Policy initiatives should focus on changes in the private and public health care system that increase coverage options and personal control. Such policy solutions will not only address the needs of children, but also improve the health of the system for all Americans.

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ing portion (27 percent) receives care through Medicaid and the State Children's Health Insurance Program (SCHIP).[6] The remaining 11 percent of children are considered uninsured.[7]

While significant, it is important to note that there are a variety of ways to count the uninsured. The commonly referenced Census figures reflect an individual's coverage status at a specific point in time. However, there are other ways to count the uninsured. For example, besides measuring coverage at a specific point in time, other typical and useful measures include the number of people uninsured for the entire year and the number uninsured at any time during the year.

According to a Congressional Budget Office analysis of the uninsured, 26.8 percent of children were uninsured "at any time" in 1998, but only 7.3 percent were uninsured "all year."[8] Moreover, children are more likely to have shorter periods of uninsurance than adults.[9] The evidence shows that one of the major problems with the existing health insurance markets in the various states is that they are unstable for individuals and families, largely because of the absence of ownership and portability of health insurance policies.[10]

Uninsured Children

By Age. Interestingly, by age group, uninsured children actually have lower uninsurance rates than other age groups. In one survey, adults between the ages of 18 and 24 ranked the highest with 31 percent uninsured, followed by those between 25 and 34 with 26 percent uninsured, those between 35 and 44 with 19 percent, and, finally, those between 45 and 64 percent with 15 percent.[11] As mentioned, 11 percent of children (below 18 years of age) are uninsured.[12]

By Family Income. According to estimates by Paul Fronstin at the Employee Benefit Research Institute, an estimated 32 percent of uninsured children are in families with income below federal poverty; 33 percent are in families with incomes between 100 and 200 percent federal poverty; 19 percent are in families with incomes between 200 and 300 percent federal poverty; and 17 percent are in families with incomes above 300 percent federal poverty.[13] Of note, the largest growing segments of uninsured are among middle and upper-income families.[14]

By Family Work Status. Fronstin's analysis also found that of children without coverage, 68 percent

1. Campaign for Children's Health Care, "No Shelter from the Storm: America's Uninsured Children," September 2006, p. 9, at *www.childrenshealthcampaign.org/tools/reports/Uninsured-Kids-report.pdf*.
2. Jack Hadley and John Holahan, "The Cost of Care for the Uninsured: What Do We Spend, Who Pays, and What Would Full Coverage Add to Medical Spending?" Kaiser Commission on Medicaid and the Uninsured *Issue Update*, May 10, 2004, p. 3, at *www.kff.org/uninsured/upload/The-Cost-of-Care-for-the-Uninsured-What-Do-We-Spend-Who-Pays-and-What-Would-Full-Coverage-Add-to-Medical-Spending.pdf*.
3. Carmen DeNavas-Walt, Bernadette D. Proctor, and Cheryl Hill Lee, "Income, Poverty, and Health Insurance Coverage in the United States: 2005," U.S. Department of Commerce, U.S. Census Bureau, August 2006, p. 21, at *www.census.gov/prod/2006pubs/p60-231.pdf*.
4. *Ibid.*
5. *Ibid.*, p. 69.
6. *Ibid.*
7. *Ibid.*
8. Congressional Budget Office, "How Many People Lack Health Insurance and for How Long?" May 2003, p. 7, at *www.cbo.gov/ftpdocs/42xx/doc4210/05-12-Uninsured.pdf*.
9. *Ibid.*, p. 9.
10. Pamela Farley Short and Deborah R. Graefe, "Battery-Powered Health Insurance? Stability in Coverage of the Uninsured," *Health Affairs Web Exclusive*, November–December 2003, at *http://content.healthaffairs.org/cgi/reprint/22/6/244?maxtoshow=&HITS=10&hits=10&RESULTFORMAT=&author1=graefe&andorexactfulltext=and&searchid=1&FIRSTINDEX=0&resourcetype=HWCIT*.
11. DeNavas-Walt *et al.*, "Income, Poverty, and Health Insurance Coverage in the United States: 2005," p. 22.
12. *Ibid.*

were in families with a full-time, full-year worker; 5 percent of uninsured children were in families with a part-time, full-year worker; 6 percent were in families with a full-time, part-year worker; and 4 percent were in families with a part-time, part-year worker.[15] Only 17 percent of uninsured children were in a family with no worker.[16]

Obstacles to Existing Coverage

Obviously, the current patchwork system of public and private health insurance does not work for everyone, including children.

Private-Sector Shortfalls. As noted, an overwhelming percentage of uninsured children are part of working households where at least one family member has a job. However, having a job does not guarantee coverage for workers or dependents. An employer may not offer coverage, as is common in the small-business sector. A worker may not be eligible for employer coverage due to waiting periods or work status. Finally, some workers simply choose not to participate in employer coverage. Of workers who did not participate in employer coverage, 64 percent cited cost as the reason.[17]

Obtaining family coverage outside the place of work can also be difficult. The federal tax code discriminates against those who do not obtain coverage through their places of work. Unlike under the employer-based system, where the full value of the health benefit is excluded from a worker's taxable income, individuals purchasing coverage on their own do not receive such a tax break and must use after-tax dollars to buy coverage.

Moreover, states regulate the individual market, which directly affects those who purchase coverage on their own. Well-intentioned but costly one-size-fits-all state regulations can make coverage unaffordable, especially for those with limited incomes. The Council for Affordable Health Insurance estimates that mandates, for example, can increase the cost of health insurance by 20 to 50 percent, depending on the mandate and state.[18]

Public-Sector Shortfalls. The public sector also has its share of shortfalls in reaching uninsured children, as illustrated by the number of children eligible for but not enrolled in Medicaid and SCHIP. A recent report published by the Kaiser Family Foundation estimates that 74 percent of uninsured children are eligible for Medicaid or SCHIP.[19]

It is common knowledge that access troubles these public programs. The number of doctors who will see new Medicaid patients continues to decline. In a recent analysis of Medicaid physicians, 15 percent of pediatric physicians were not accepting any new Medicaid patients.[20] Moreover, limited access to care results in more Medicaid and SCHIP enrollees showing up at the emergency room. Research has found that Medicaid and SCHIP ER visits account for over 80 percent of hospital admissions.[21]

Cost is another factor. Spending on public programs, such as Medicaid, is consuming a greater

13. Paul Fronstin, "Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2006 Current Population Survey," Employee Benefit Research Institute *Issue Brief* No. 298, October 2006, p. 23, at *www.ebri.org/pdf/briefspdf/EBRI_IB_10a-20061.pdf*.
14. Devon Herrick, "Crisis of the Uninsured: 2006 Update," National Center for Policy Analysis *Brief Analysis* No. 568, September 6, 2006, at *www.ncpa.org/pub/ba/ba568*.
15. Fronstin, "Sources of Health Insurance and Characteristics of the Uninsured," p. 24.
16. *Ibid.*
17. *Ibid.*, p. 16.
18. Victoria Craig Bunce, JP Wieske, and Vlasta Prikazsky, "Health Insurance Mandates in the States 2006," Council for Affordable Health Insurance, March 2006, at *www.cahi.org/cahi_contents/resources/pdf/MandatePub2006.pdf*.
19. John Holahan, Allison Cook, and Lisa Dubay, "Characteristics of the Uninsured: Who Is Eligible for Public Coverage and Who Needs Help Affording Coverage?" Kaiser Commission on Medicaid and the Uninsured, February 2007, p. 4, at *www.kff.org/uninsured/upload/7613.pdf*.
20. Peter Cunningham and Jessica May, "Medicaid Patients Increasingly Concentrated Among Physicians," Center for Studying Health System Change *Tracking Report* No. 16, August 2006, p. 3, at *http://hschange.org/CONTENT/866/866.pdf*.

share of the state and federal budgets. According to the National Governors Association, Medicaid is now the largest state budget item, surpassing educational, transportation, and other key state functions.[22] At the federal level, spending on health care is also increasing at an unmanageable pace. By 2015, health care spending will consume 20 percent of GDP, and the government's share will be one-half.[23]

Finally, public program expansions also affect the stability of private coverage. Research has shown a direct correlation between the expansion of government public programs and the decline in private health insurance. Most recently, Jonathan Gruber and Kosali Simon found that "the number of privately insured falls by about 60 percent as much as the number of publicly insured rises."[24] Gruber and Simon also concluded that the "crowd out" phenomenon is far more dramatic when considering the entire family. Thus, expansions reduce private insurance options for family members more rapidly.[25]

New Strategies for Addressing the Shortfalls of the Current System

Policymakers should focus on solutions to improve the function of the private and public sectors that will help families obtain coverage and control their health care decisions.

A Private-Sector Strategy. Policymakers need to fix the major shortfalls in the private, commercial insurance market that undermine continuity of coverage for children as well as adults. They should take the following steps:

- **Fix the tax treatment of health insurance.** One of the primary roles of the federal government is the federal tax code. President George W. Bush has recently put forth a bold policy initiative to remove the distortion of the tax code with regard to the tax treatment of health insurance. Federal policymakers should seize this unique opportunity and build on the President's proposal by adopting refundable, advanceable tax credits. These tax credits could be designed to assist families in enrolling their children in dependent coverage through the place of work or the non-employer market.
- **Promote an alternative to employer-based coverage.** As noted, not all families fit into the employer-based system. Although insurance reform is primarily the responsibility of state policymakers, there are some federal tools that can expand individual access to affordable coverage. Federal policymakers should look for ways to encourage individuals to obtain health care coverage of their own choice and help to facilitate a more robust non-employer marketplace. Such policies could encourage innovative approaches that preserve the benefits of pooling but promote more personal and portable coverage.

A Public-Sector Strategy. Existing public programs are not working well for enrollees, including children. Policymakers should take the following steps:

- **Add greater personal choice for enrollees.** The traditional public health care design depends on a one-size-fits-all approach. Balancing financing and design can be difficult and undoubtedly results in coverage that does not meet everyone's needs. The Deficit Reduction Act increased flexibility for states to tailor health care services to enrollees. Federal policy-

21. John S. O'Shea, M.D., "The Crisis in Hospital Emergency Departments: The Burden of Federal Regulation," Heritage Foundation *Backgrounder*, forthcoming.
22. National Governors Association and National Association of State Budget Officers, "The Fiscal Survey of States," December 2006, p. 1, at *www.nasbo.org/Publications/PDFs/Fall%202006%20Fiscal%20Survey%20of%20States.pdf*.
23. Christine Boger *et al.*, "Health Spending Projections Through 2015: Changes on the Horizon," *Health Affairs Web Exclusive*, March–April 2006, exhibit 3, p. W-64, at *http://content.healthaffairs.org/?cgi/reprint/25/2/w61* (subscription required).
24. Jonathan Gruber and Kosali Simon, "Crowd-Out Ten Years Later: Have Recent Public Insurance Expansions Crowded Out Private Heath Insurance?" National Bureau of Economic Research *Working Paper* No. 12858, January 2007, p. 2, at *www.nber.org/papers/w12858*.
25. *Ibid.*, p. 28.

makers should build on this first step by giving enrollees more choices from competing networks and insurers for the delivery of their care. Moreover, individual enrollees should have the freedom to use their existing public program allocation and purchase private coverage through the marketplace, which would help many low-income children to mainstream into the private market with their families.

- **Adopt more patient-centered models.** Due to the bureaucratic structure of the public programs, enrollees have little say in the types of services or the way services are delivered, and many are promised a set of benefits but do not always receive them. The Cash and Counseling initiative in Medicaid is a successful example of creating a more patient-centered approach to care in Medicaid. Federal policymakers should use this model throughout all public programs to give enrollees greater control in determining the care and services they receive and from whom they receive them.

A Federal–State Strategy. Federal policymakers should consider ways to partner with the states to address these health care issues by adopting the following approach:

- **Promote Creative Federalism.** There are numerous opportunities to pursue state-based innovations. In light of the federal gridlock on health care policy, many states have begun to take the lead on health care reform. In some respects, this makes sense. There is great diversity at the state level, and blanket federal policies can have varying impacts and outcomes depending on the state.[26] Thus, federal policymakers should encourage state innovation and consider providing federal tools to assist states in addressing their own unique needs.

Conclusion

Addressing the lack of health insurance among children is important, as it is for all uninsured. The focus of policy for children should be family-oriented, and one of the best ways to begin to tackle reform is to address the shortfalls in the overall health care system. Policy initiatives should focus on changes in the private and public health care system that increase coverage options and personal control. Such policy solutions will not only address the needs of children, but also improve the health of the system for all Americans.

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26. Sherry Glied and Douglas Gould, "Variations in the Impact of Health Coverage Expansion Proposal Across States," *Health Affairs Web Exclusive*, June 7, 2005, at *http://content.healthaffairs.org/cgi/reprint/hlthaff.w5.259v1* (subscription required).