

November 25, 2002

## Problem of Lost Health Benefits Is Reaching Into the Middle Class

By JOHN M. BRODER

**T**his article was reported by John M. Broder, Robert Pear and Milt Freudenheim and was written by Mr. Broder.

Diane MacPherson, of Lowell, Mass., lost her job at a relocation management company last November, and with it the health insurance for herself, her husband and their 4-year-old daughter. Her husband works in construction and does not have access to health care coverage at work.

Continuing her family health insurance under the federal Cobra program would have cost \$931 a month, so the couple decided to insure only their daughter, at a cost of \$270 a month. Two months ago, when Ms. MacPherson's unemployment compensation payments ran out, they dropped their health insurance altogether. Although her husband earns about \$75,000 a year, construction work is seasonal and they could not be assured of enough income every month to pay for health insurance.

Then their daughter came down with strep throat. "That was rather humiliating, being in the doctor's office without insurance," Ms. MacPherson said. "You become very obvious to everyone."

The family represents a changing portrait of the 41 million Americans who do not have health insurance today. Once thought to be a problem chiefly of the poor and the unemployed, the health care crisis is spreading up the income ladder and deep into the ranks of those with full-time jobs.

According to recently released Census Bureau figures, 1.4 million Americans lost their health insurance last year, an increase largely attributed to the economic slowdown and resulting rise in unemployment. The largest group of the newly uninsured — some 800,000 people — had incomes in excess of \$75,000. They either lost their jobs, or were priced out of the health care market by rapidly rising insurance premiums, or, like Ms. MacPherson, both.

While it is true that the number of uninsured people rises when unemployment goes up, it is also true that the rolls of the uninsured can expand even when joblessness is going down, as it did through most of the 1990's.

The numbers of uninsured during the last recession from 1990-92 jumped to 35.4 million from 32.9 million. But the number continued to rise even in the boom years of the mid- to late 1990's, reaching 40.7 million in 1998 before dipping slightly in 1999 and 2000.

Labor economists say that much of the job growth during the expansion of the 1990's came in small businesses and in service industries, low-wage, nonunion sectors that are much less likely to offer health insurance as a benefit to new workers. There was also a demographic bulge of young people and recent immigrants entering the work force during the decade, with many of them willing to take jobs that did not offer rich benefit packages.

The problem has long been acute among minorities, immigrants, part-time workers and employees in low-wage service jobs. What is different this time, analysts say, is that the problem is hitting middle-income and upper-income families harder because many of the job losses are in high-wage industries like technology and telecommunications.

Thirty million Americans in working families today — 16 percent of all those in families headed by a worker — lack health care coverage, according to a four-year tracking study by the Center for Studying Health System Change, a nonprofit research group financed by the Robert Wood Johnson Foundation. An additional 16 million Americans — mostly low-income workers — are offered health insurance through their jobs but decline because they get health care from government programs or it is too expensive, the study found.

"The failure of the economic boom to expand employer-based coverage for working families significantly is ominous," the center said in a recent study. It found that the current slowdown and the rising cost of providing health care to employees produced a double whammy: fewer companies are now willing to offer their workers health care coverage, and those that do will demand that employees shoulder a far higher share of the cost.

## **Rising Concerns**

Policy makers and health care analysts say the United States is again confronting a crisis in its medical delivery system.

"The number of uninsured will continue to grow as long as health insurance premiums rise more rapidly than earnings, as they have for a decade," said Drew E. Altman, president of the Henry J. Kaiser Family Foundation, which tracks health coverage trends.

"Losing health benefits is becoming a middle-class issue," Mr. Altman said. "If it had not been for expansions in the child health program and Medicaid, we would have 10 million more uninsured."

The growing number of uninsured and the rising cost of health insurance have stimulated Congressional interest on a scale not seen since 1993 and 1994, when President Bill Clinton tried to remake the health care system and guarantee coverage for all Americans.

The major proposals being debated now fall into two main categories. One approach, favored by Republicans and some Democrats, would provide tax breaks to help individuals, families and small businesses buy health insurance in the open market. The other, preferred by many Democrats, would expand eligibility for Medicaid or the Children's Health Insurance Program to include the parents of some children who are already eligible.

Either plan could have eased the situation of Brian and Anna Brooks, who run a small electrical contracting business in Westminster, Colo. They gave up their health insurance for themselves and their 8-year-old daughter this year to keep their business afloat.

They had already let go four of their five workers and wanted to maintain health coverage for their remaining employee.

Ms. Brooks said that they dropped their health coverage in July after the family premium jumped to \$989 a month from \$489 a month. Business was slow, and their previous income of more than \$60,000 a year had fallen by half.

The effect has been immediate. Mr. Brooks, 50, has stopped taking Lipitor to control high cholesterol and has started taking over-the-counter herbal supplements. Ms. Brooks no longer takes Singulair for asthma and has adopted an exercise program intended to regulate her breathing. Ms. Brooks estimates they are saving \$150 a month by not using prescription drugs.

"We changed our diets a lot in order to help the effectiveness of the supplements, and maybe that's a good thing," she said. They are setting aside \$30 a month for their daughter's medical needs, but one ear infection would quickly empty the pot.

The federal Cobra program, enacted as part of the Consolidated Omnibus Budget Reconciliation Act of 1986, is devised to provide a cushion for those who have recently lost their jobs. It allows workers to maintain their health care coverage for up to 18 months if they assume the full cost of the health coverage provided by their former employer. But many find the cost prohibitive, and only a quarter of workers say they would keep up their coverage under Cobra because of its high cost, according to a new survey from the Commonwealth Fund, a private research group.

### **Betting on Good Health**

The high cost of Cobra coverage presents many people who have recently been laid off with a cruel choice. Audrey Robar of Milwaukee, 63, who lost her job at a private social services agency in September, decided to skip the \$300 a month Cobra package in the expectation that she would soon find another job.

It was a gamble, and she lost.

"She was thinking she could get away with it," her daughter, Eva Robar-Orlich, said in an interview last week.

In the early hours of Oct. 23, Ms. Robar began to suffer chest pain and dizziness. She called her sister to ask whether she could seek medical care immediately and sign up for Cobra later. Her sister, Alden Egan, urged her to call an ambulance right away, but Ms. Robar set down the phone to look for the Cobra documents. Ms. Egan then heard over the open phone line the sound of her sister falling to the floor and quickly called 911. By the time paramedics arrived a few minutes later, Ms. Robar was dead of a heart attack.

"I think the fact that she hadn't paid for Cobra very well could have cost her her life," said Ms. Robar-Orlich. "She deliberated over calling an ambulance at a time when every minute was urgent."

Because the insurance crisis has hit high-income families and millions of middle-class Americans with jobs, advocates for the uninsured have expressed hope that Washington will finally resolve the problem. High-wage workers and small-business owners are a much more effective lobbying force than the unemployed, children and the poor.

Mary R. Greal, president of the Healthcare Leadership Council, an industry coalition seeking coverage for the uninsured, said: "We are very optimistic. More and more people say that the uninsured will be a big issue in the next Congress."

"Lawmakers have seen the new face of the uninsured — it's not a welfare population — and will seek solutions for the employed uninsured," the many working families who lack insurance, Ms. Grealy said. "This is now an issue for Republicans," she added. "It's not just a one-party issue."

Ronald F. Pollack, executive director of Families USA, a consumer group, said that Republicans and Democrats could agree on proposals combining tax credits with some expansion of Medicaid and the Children's Health Insurance Program.

On the other hand, proposals to aid the uninsured could easily touch off a partisan brawl, in which lawmakers fight over the merits of government programs versus the private market.

President Bush has already proposed tax credits and is expected to offer more proposals to help the uninsured as part of his budget early next year.

In his first two budgets, Mr. Bush earmarked a large amount of money for health insurance tax credits: \$89 billion over 10 years, for people who are not covered by an employer's plan and not eligible for public programs. The proposal languished in Congress, but Mr. Bush will have a greater incentive to push for action this year.

"The president wants to develop a record on health care to neutralize this issue going into the 2004 elections," Mr. Pollack said.

The issue is of particular concern to small-business owners, who say they would like to offer their employees health insurance but cannot keep up with the fast-rising premiums. They are a large and influential lobby and an important base for the Republican Party.

Martyn Hopper, the California state director for the National Federation of Independent Business, said that 42 percent of the state organization's 37,000 member businesses did not offer their employees health care coverage. He blames rising premiums and the high cost of doing business in California, which has imposed a number of expensive mandates on employers. Big companies, Mr. Hopper said, can move operations to cheaper locations or offshore, but mom-and-pop businesses are forced to lay off workers or make their employees pay an ever-increasing share of health care costs.

Tom Lucas, who owns two plant nurseries outside Los Angeles, said that he provided health coverage to his 70 employees until the mid-1990's, when the cost became crushing. Mr. Lucas said that some of his workers have spouses with jobs that provided insurance, some drove to Mexico to seek cheap treatment and drugs, and some did without.

He said that health coverage was particularly expensive in California because the legislature had imposed a number of mandates on the policies that employers must offer, including coverage for mental illness, comprehensive cancer screening, substance abuse treatment and weight loss programs.

"Health insurance is a luxury I can't afford for my people," he said. "It's a great perk, but in an industry like my own, it's not reality. There's not enough dollars to go around."

### **Roadblocks to a Solution**

While there is continuing public concern about health care and gathering sentiment in Washington to do something about it, a number of constraints are limiting the likelihood that the growth in the numbers of the uninsured will be reversed any time soon.

Growing federal and state budget deficits will make it difficult to find money to subsidize coverage for the uninsured. The president and members of both parties have promised prescription drug benefits to the elderly, who vote in large numbers, and fulfilling that commitment is a higher political priority for most lawmakers than addressing the problem of the uninsured.

In addition, doctors, hospitals, nursing homes and other health care providers are demanding higher Medicare payments, which will eat up money that could be used to cover people with no insurance. Medical providers are much more effective lobbyists than are the uninsured.

A number of proposals on Capitol Hill would at least incrementally address the problem. One, sponsored by Senators Susan Collins, Republican of Maine, and Mary L. Landrieu, Democrat of Louisiana, would provide tax credits for the health insurance expenses of individuals, families and small businesses; allow small businesses to take a tax deduction for the full cost of their premiums; and allow states to cover low-income parents and legal immigrants under Medicaid and the Children's Health Insurance Program, known as CHIP. The bill would also provide federal money to the states to establish insurance purchasing cooperatives for small businesses and high-risk pools for people who cannot get insurance in the private market because of chronic illnesses.

As Congress debates, however, employers and workers continue to struggle with higher costs and more difficult access to health care.

Mitch Flinchum, the controller at a highway paving company in Burlington, N.C., sees the problems from both ends — as an executive in charge of benefits and as a consumer.

Mr. Flinchum pays more than 10 percent of his \$65,000 annual salary for health insurance for his family, but he considers himself better off than most of his company's 350 workers. Only 119 of the employees accept the coverage, and two-thirds of those pay only for themselves and not their dependents. Mr. Flinchum says most of the workers who decline insurance do so because the premiums are costly and the coverage is so meager.

"When you look at your benefits, you've got massive deductibles, massive co-pays, and unless you have a heart attack or cancer, which would be devastating in itself, it's like you don't have any insurance," he said.

"I don't know where it stops," Mr. Flinchum added. "With a 20 percent increase each year, over time the only two people in this country who will be able to have health insurance are Bill Gates and Warren Buffett. No one else can afford it."