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## Issue Brief

# The Erosion of Employer-Based Health Coverage and the Threat to Workers' Health Care

## Findings from The Commonwealth Fund 2002 Workplace Health Insurance Survey

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**F**or many Americans enrolled in employer-based health plans, insurance premiums and cost-sharing burdens are on the rise. At the same time, many Americans who have lost their jobs and health benefits are finding that temporary coverage is too expensive. According to the new Commonwealth Fund 2002 Workplace Health Insurance Survey, by January 2002, one-third of working adults with employer-sponsored insurance were faced with higher deductibles or copayments or had their benefits reduced compared with the previous year. One of four workers had significantly higher premiums, while two of five had higher premium payments or increased cost-sharing. Low-income workers were the most likely to experience these reduced benefits and increased health care costs.

During 2001, when unemployment rates climbed precipitously, job loss was the primary reason the majority of adults (52%) lacked health insurance at some point during the year. Most workers losing job-based health insurance are eligible to remain temporarily on their former employer's plan, through COBRA.<sup>1</sup> The survey found, however, that, because of its costs, only 23 percent of employed, insured adults would be very likely to participate in the COBRA program if they lost their jobs. Many more individuals would choose COBRA, findings suggested, if government tax credits or premium assistance were available. For example, a premium subsidy equaling 75 percent of the average group premiums more than doubled the proportion of adults—from 23 percent to 59 percent—

who said they would be very likely to purchase COBRA insurance.

While Americans prefer an employer-based health insurance system, their confidence in this system is eroding. Just 44 percent of Americans were very confident about their ability to get high-quality health care through their job in the future.

This issue brief summarizes findings from the Commonwealth Fund 2002 Workplace Health Insurance Survey, which looked closely at issues that emerged from a more comprehensive 2001 survey of employee health insurance.<sup>2</sup> Specifically, the January 2002 survey focused on: 1) changes in employer-based group health insurance, and 2) likely participation rates in COBRA with and without premium assistance.<sup>3</sup>

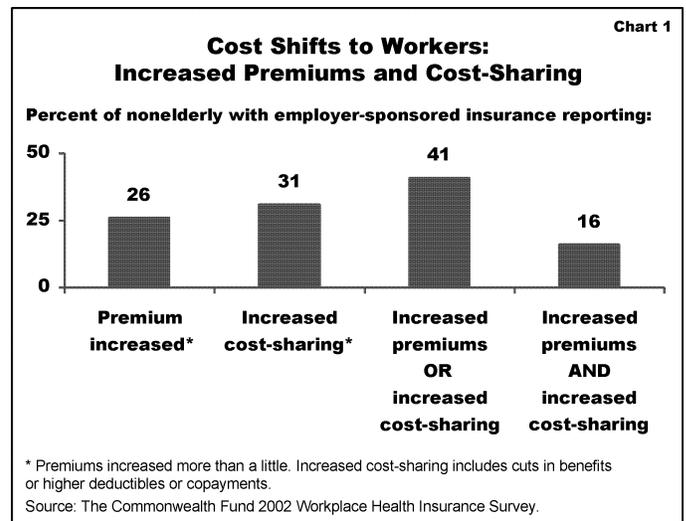
**Triple Burden: Higher Premiums, Increased Cost-Sharing, and Reduced Benefits**

The survey found that many workers are paying a greater proportion of their health insurance premiums than they did a year ago. Moreover, workers reported, health benefits are becoming less comprehensive, both in terms of fewer services covered and increased cost-sharing (e.g., higher copayments and deductibles). Together, these trends mean that workers now face higher out-of-pocket health care costs.

- Two of five (41%) adults with employer-sponsored coverage reported paying more for their premiums, shouldering more in cost-sharing, or receiving reduced benefits in the last 12 months (Chart 1).
  - One-quarter (26%) of employees reported that their premiums increased more than “a little”—either “a lot” or “some.” Overall, 37 percent of employees reported any increase in their premium payments during the past year (Table 1).
  - One-third of employees (31%) reported shouldering more of their health care costs

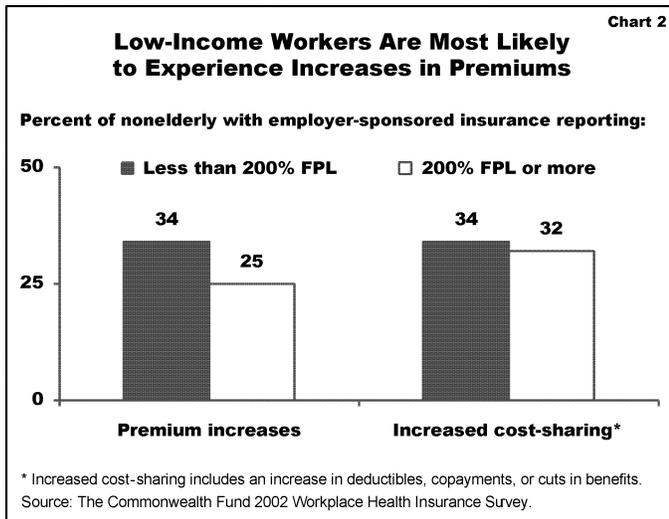
than a year ago because they experienced benefit reductions (4%), increases in copayments and deductibles (19%), or both (8%) (Table 1).

- One of six (16%) adults with employer-sponsored health insurance experienced both greater cost-sharing burdens and premium increases of more than a little. This group of employees is likely paying significantly more out-of-pocket for health care services and coverage (Chart 1).



Low-income workers were more likely than workers with higher incomes to report premium increases. Reports of employers shifting costs to employees were similar across income groups (Chart 2).

- One-third (34%) of low-income workers (less than 200 percent of the federal poverty level, or FPL) with job-based coverage reported that their premiums increased more than a little, compared with 25 percent of higher-income employees.
- Reports of increased cost-sharing varied little by income group: one-third of both low-income and higher-income employees reported increased cost-sharing or reduced benefits (34% vs. 32%, respectively).

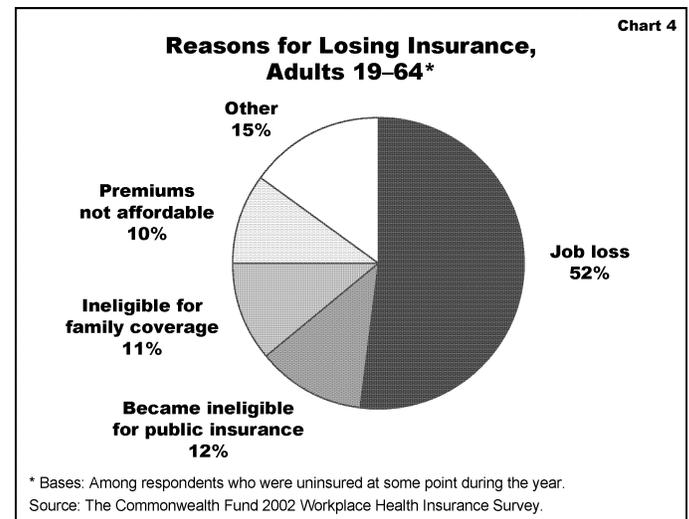
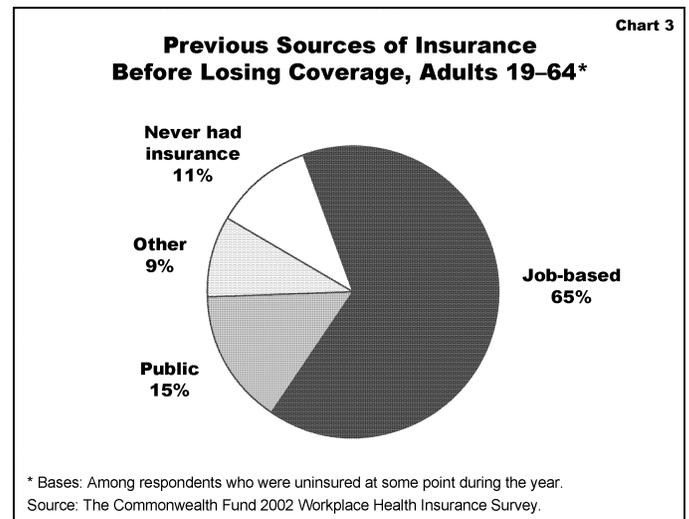


### Job Loss a Leading Reason for Insurance Loss

Because most Americans get their health insurance through their jobs, losing a job often entails a loss of health coverage. The unemployment rate in January 2002 was a third higher than the rate in January 2001 (5.6% vs. 4.2%).<sup>4</sup> This corresponds to a significant loss of insurance among workers.

- Two-thirds (65%) of nonelderly adults who were uninsured at some point during the past 12 months said they had been previously insured either through their own or their spouse's employer. Another 15 percent of adults reported previously having coverage from public insurance, 11 percent reported never having insurance, and 9 percent said they had been covered through other means (such as individually purchased insurance or military or veteran plans) (Chart 3).
- The majority of those surveyed (52%) lost their health benefits either because they or their spouse lost their job. Another 12 percent became uninsured because they were no longer eligible for public insurance. Nearly four of 10 (36%) respondents cited other reasons for losing their insurance, including not being able to afford the

premiums (10%) or no longer being eligible to participate in their family member's plan (11%) (Chart 4).



### Providing Premium Subsidies Could More Than Double COBRA Enrollment

Most unemployed workers who had employer coverage when they were working have the option of continuing coverage under federal COBRA regulations. About two-thirds of workers who lose or leave their jobs may remain

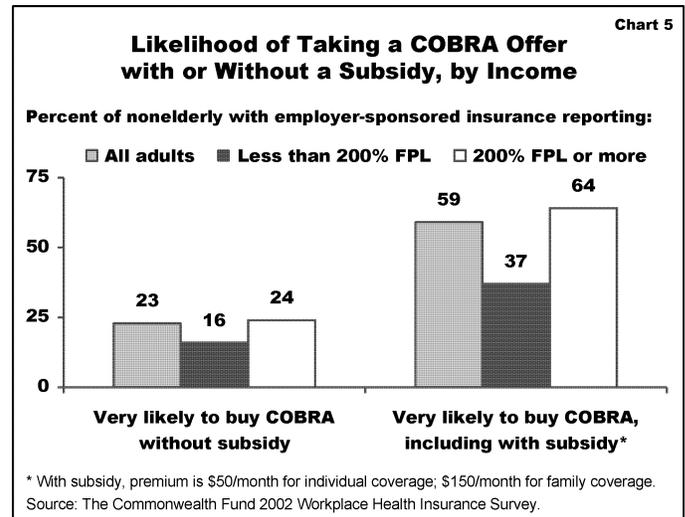
enrolled in their employer's health plan by paying 102 percent of the plan premium for up to 18 months.<sup>5</sup> Even among those eligible for COBRA, the program's costly premiums have resulted in low participation rates among the unemployed.<sup>6</sup>

The Commonwealth Fund 2002 Workplace Health Insurance Survey confirms previous findings that COBRA participation rates are low. According to the survey:

- Only one-quarter of all workers (23%) with employer coverage said they would be “very likely” to participate in COBRA if they lost their job (Chart 5). This rate is similar to participation rates found in earlier studies.<sup>7</sup>
- Just 16 percent of low-income employees were very likely to participate in COBRA compared with 24 percent of higher-income employees. The majority of low-income employees—62 percent—said that it was “not too likely” or “not at all likely” they would participate in COBRA (Table 2).

In late 2001 and again in spring 2002, Congress considered several policies that would help unemployed workers participate in COBRA by paying 60 to 75 percent of their premiums. To gauge public opinion about such subsidies, the 2002 Workplace Health Insurance Survey asked workers how likely they would be to continue participation in their employer plan if they were to lose or change jobs and either had to pay the full premium or were provided with a subsidy that would reduce the employee premium share to \$50 a month for individuals and \$150 a month for families (i.e., rates roughly equivalent to a 75 percent subsidy of the average employer group premium rate<sup>8</sup>). The survey found that twice as many workers, regardless of income, would participate in COBRA if these premium subsidies were offered (Chart 5, Table 2).

- Without a subsidy, just 23 percent of workers reported they would be very likely to participate in COBRA. The likely COBRA participation



rate increased to 59 percent—more than a twofold increase—with a premium subsidy. Another quarter of respondents said they would be somewhat likely to enroll in COBRA with a premium subsidy. In all, four of five workers surveyed (84%) said, in the event of job loss, they would be very or somewhat likely to enroll in COBRA if premium assistance were offered.

- Among low-income employees, nearly four of ten (37%) said they would be very likely to buy COBRA if offered premium assistance—an increase from only 16 percent who said they would be very likely to participate without a subsidy.
- More than twice as many higher-income workers (64%) said they would be very likely to buy COBRA if subsidies were made available—an increase from only 24 percent who would have purchased COBRA without a subsidy.

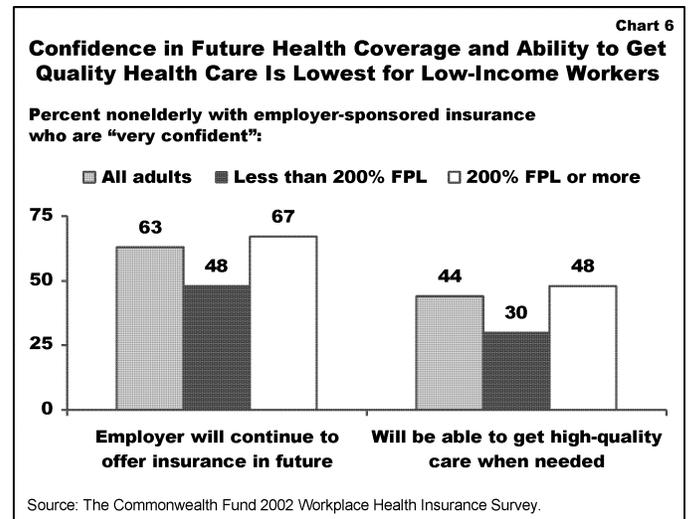
### Support for Employer-Sponsored Insurance Still Strong, Though Outlook Is Less Positive

The survey gauged public satisfaction with the current insurance system by assessing the public's preference for employer-based, individually purchased, or publicly supported insurance, assuming

that affordability was not a barrier. In addition, it asked adults about their confidence in the employer-based system. While the employer-based system emerged as the top choice for health insurance, respondents expressed concerns about its future prospects (Chart 6, Table 3).

- 43 percent of adults favored employer-based coverage, 22 percent favored individually purchased insurance, 15 percent favored a new government program for the uninsured, and 10 percent favored Medicare or Medicaid.
- 52 percent of higher-income adults (200% or more of the federal poverty level) preferred employer-based coverage.
- Low-income adults were more divided in their preferences and tended to be more trusting of public programs: 27 percent preferred employer-based coverage, 21 percent favored a new government program, and 19 percent favored Medicare or Medicaid.
- More insured than uninsured respondents favored employer coverage (45% vs. 34%), yet among both groups employers were the preferred choice. Although there were other differences in the preferences of insured and uninsured respondents, these differences were not statistically significant.
- Only six of 10 workers (63%) surveyed with employer-sponsored benefits were “very confident” that their employer would continue to offer them benefits (Chart 6).
- Low-income employees were even less confident they would continue to receive health benefits. Only 48 percent of low-income employees said they were very confident compared with 67 percent of higher-income employees.
- Just 44 percent of all employees with health benefits were very confident about their ability to get high-quality care in the future (Chart 6).

- Confidence was even lower among low-income employees: only 30 percent of low-income employees were very confident in their continued ability to access high-quality care, compared with 48 percent of higher-income employees.



## Summary

Health benefits have been a key way to recruit and retain qualified employees. Yet, faced with rising health care costs, companies are shifting insurance costs to their employees. The Commonwealth Fund 2002 Workplace Health Insurance Survey found that, as of January 2002, 41 percent of all enrollees in employer-sponsored insurance were aware of a cutback in health insurance benefits and/or higher employee premiums in the last 12 months. One of six had experienced a premium hike as well as a cutback in coverage. As a result, workers expressed concern about whether they would continue to receive health benefits through their employer and whether they would be able to access high-quality care in the future.

Given that the majority of those who lost their health insurance did so because of a job loss, helping unemployed workers purchase COBRA

could potentially reduce the number of uninsured. While only a fraction of unemployed workers would be likely to purchase COBRA if they had to pay the whole insurance premium, more than half (59%) of workers would be very likely to do so if offered a 75 percent subsidy of premium costs. Reducing the number of adults with a short-term loss of insurance would be an important step in improving access to needed care and minimizing the financial repercussions felt by many of the uninsured.

## NOTES

- <sup>1</sup> COBRA, the 1986 Consolidated Omnibus Budget Reconciliation Act, allows certain workers leaving their jobs to retain coverage under their former employers' insurance plans for a fixed period of time by paying the entire premium cost, plus 2 percent for administrative expenses.
- <sup>2</sup> Lisa Duchon, Cathy Schoen, Michelle M. Doty, Karen Davis, Erin Strumpf, and Stephanie Bruegman.

*Security Matters: How Instability in Health Insurance Puts U.S. Workers at Risk*, The Commonwealth Fund, December 2001.

- <sup>3</sup> See the methodology box at the end of this brief for further information about the survey designs.
- <sup>4</sup> Jeanne M. Lambrew, *How the Slowing U.S. Economy Threatens Employer-Based Health Insurance*, The Commonwealth Fund, November 2001.
- <sup>5</sup> Michelle M. Doty and Cathy Schoen, *Maintaining Health Insurance During a Recession: Likely COBRA Eligibility*, The Commonwealth Fund, December 2001.
- <sup>6</sup> Ibid.
- <sup>7</sup> Lambrew, November 2001.
- <sup>8</sup> In 2000, the average COBRA monthly premium was \$225 for an individual and \$600 for a family. Therefore, a 75 percent subsidy would reduce COBRA monthly premiums about \$50 per individual or \$150 per family. (Kaiser/Health Research and Educational Trust Employer Health Benefits 2000 Annual Survey).

**Table 1**

**Insurance Ratings, Benefits, and Plan Experiences of Adults 19–64  
with Employer-Sponsored Insurance, by Poverty Status and Firm Size, 2002**

	<b>Total</b>	<b>Less than 200% FPL</b>	<b>200% FPL or more</b>	<b>Small firms<sup>a</sup></b>	<b>Larger firms</b>
Unweighted sample size		N=131	N=474	N=76	N=480
<b>Weighted percent distribution</b>	100%	20%	80%	15%	85%
<b>Changes in premiums</b>					
Increased a lot/some	26	34*	25	31	25
Increased only a little	11	4	12	11	11
Decreased	3	1	2	0	3
Stayed about the same	49	44	51	39	52
No premium payments	7	7	7	8	5
Don't know/refused	4	11	3	9	3
<b>Changes in benefits</b>					
Cuts in benefits	4	2	5	1	4
Increase in costs (copayments and deductibles)	19	26	18	23	20
Cut in benefits and increase in costs	8	6	9	8	7
Neither	66	59	68	64	66
Don't know/refused	3	7	1	4	2
<b>Increase in premium by more than a little OR cut in benefits OR increase in costs</b>	41	45	40	48	41
<b>Both types of changes: increase in premium by more than a little AND cut in benefits/increased cost-sharing</b>	16	23	16	19	16

<sup>a</sup> Small firms have 20 or fewer employees.

\*  $p < .05$  Chi-square tests of significance comparing poverty groups and firm sizes.

Source: The Commonwealth Fund 2002 Workplace Health Insurance Survey.

Table 2

**Likelihood of Taking COBRA if Offered with and Without a Subsidy,  
Adults 19–64 with Employer-Sponsored Insurance, by Poverty Status, 2002**

	<b>Total</b>	<b>Less than 200% FPL</b>	<b>200% FPL or more</b>
<b>Percent distribution</b>	<b>100%</b>	<b>20%</b>	<b>80%</b>
<b>Taking COBRA without a subsidy</b>			
<i>Likelihood respondent would continue getting health insurance through the employer if had to pay the entire cost of the premium (without subsidy)</i>			
Very likely	23	16*	24
Somewhat likely	26	20	27
Not too likely/Not at all likely	47	62	44
<b>Taking COBRA with a subsidy**</b>			
<i>Likelihood of taking COBRA with a subsidy (person pays no more than \$50 for single premium and \$150 for family premium)</i>			
Very likely	59	37*	64
Somewhat likely	25	36	22
Not too likely/Not at all likely	16	27	14

\* p < .05 Chi-square tests of significance comparing less than 200% FPL and 200% FPL or more.

\*\* Includes those very likely to take COBRA even if no subsidy and those likely to take with a subsidy.

Source: The Commonwealth Fund 2002 Workplace Health Insurance Survey.

Table 3

**Preference for Insurance Coverage in Event of a Loss in Coverage,  
Adults 19–64, 2002**

	<b>Total</b>	<b>Less than 200% FPL</b>	<b>200% FPL or more</b>	<b>Uninsured<sup>a</sup></b>	<b>Insured</b>
<b>What type of health insurance would you PREFER to have, assuming you could afford it?</b>					
Employer	43	27*	52	34	45
Individual	22	19	24	20	22
Medicaid/Medicare	10	19	5	12	9
Insurance from new government program	15	21	11	18	13
Don't know	11	14	8	15	10

<sup>a</sup> Uninsured include respondents who were uninsured when surveyed and those who were insured when surveyed but experienced a coverage gap during the past year.

\* p < .05 Chi-square tests of significance comparing poverty groups and uninsured vs. insured.

Source: The Commonwealth Fund 2002 Workplace Health Insurance Survey.

## SURVEY METHODOLOGY

The Commonwealth Fund 2002 Workplace Health Insurance Survey was conducted by Princeton Survey Research Associates from January 16 through January 31, 2002. The survey consisted of telephone interviews in English with a random, national sample of 1,001 adults, ages 19 to 64, living in households with telephones in the continental United States. To approximate the demographic characteristics of the national population in this age range, the data are weighted to the March 2000 Current Population Survey by age, sex, race or ethnicity, education, household size, geographic region, and telephone service interruption.

The survey has an overall margin of sampling error of  $\pm 3.7$  percentage points. The margin of error for subgroups is higher. Among those with employer-based coverage, workers with incomes less than 200 percent of the federal poverty level have a sampling error of  $\pm 10$  percentage points, and workers with income 200 percent or more of the federal poverty level have a sampling error of  $\pm 5$  percentage points. Workers in small firms have a margin of sampling error of  $\pm 14$  percentage points; workers in large firms have a margin of sampling error of  $\pm 5$  percentage points.

