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HEALTH INSURANCE EXPANSIONS FOR WORKING FAMILIES: A COMPARISON OF TARGETING STRATEGIES

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Using the federal poverty level to determine eligibility under health insurance expansions to uninsured working families is a more effective way to extend coverage than eligibility criteria based on hourly wages or firm size, according to a new study.

In “Health Insurance Expansions for Working Families: A Comparison of Targeting Strategies” (*Health Affairs*, July/August 2002), Columbia University health policy analyst Danielle H. Ferry and colleagues conclude that a poverty-based eligibility criterion is likely to be more efficient and less costly than other criteria. Using data from the March 2000 supplement of the Current Population Survey and other sources, the authors also found that poverty-based approaches are more effective in targeting those without access to employer-sponsored insurance and those with low take-up of such coverage.

In recent years, policymakers have debated a range of incremental health insurance expansion options to cover the more than 40 million uninsured Americans. These include individual tax credits, public program expansions, alternative purchasing options, and employer subsidies. An overlooked aspect of these proposals has been the choice of eligibility standards. Eligibility criteria determine who would get insurance and who would not under health insurance expansions.

Proposals that target families living below and just above the poverty level are better able to address the needs of those without health coverage. This is largely because the uninsured are concentrated among the poor and those lacking access to employer coverage. Compared with individuals in families that include a worker earning low wages (\$6.82 or less an hour) or an employee of a small firm (less than 10 employees), poor or near-poor individuals (up to 200 percent of poverty) have less access to employer-sponsored coverage, are less likely to take up this coverage when it is offered, and are less likely to be covered by employer insurance at all.

Tying insurance expansion eligibility to workers with lower wages or those who work in small firms would not reach as many of the uninsured, the study found. Moreover, doing so would lead to higher numbers of already insured people taking up coverage under public expansion programs. Low-wage workers do not necessarily live in low-income households—they may be married to high-wage earners and thus enjoy greater access to employer coverage compared with poor/near-poor families and small-business employees. In fact, 65 percent of low-wage families include a high-wage worker. Extending coverage based on a wage criterion, the authors conclude, would cover fewer of the uninsured and

ultimately cost more on a per-person basis than a poverty-targeted approach.

Tying eligibility to firm size is the least efficient criteria of the three examined, according to the study. Individuals in small-firm families have greater take-up rates of employer coverage and overall higher insurance coverage rates.

The authors also found that in the case of the poor/near-poor, targeting childless families—historically excluded from subsidized health insurance programs—would be an efficient way to reach the uninsured. Medicaid and other social policies traditionally have given priority to children and parents; as a result, more than half of poor/near-poor families without children are uninsured. Extending new coverage to these individuals would crowd out little existing coverage, the authors noted.

There may be advantages to using the other criteria, however, which policymakers would also have to consider. Wage-based options, for example, would be relatively easy to administer, since employers already carry out many of the administrative functions that would be needed. Moreover, employers could inform workers of their eligibility in conjunction with benefits notification.

Facts and Figures

- In 1999, 63.2 percent of uninsured nonelderly individuals had family incomes below 200 percent of the federal poverty level. Similarly, 75.8 percent of the uninsured in working families had no access to employer coverage in 1998.
- In 2000, 78 percent of workers in small firms had incomes above 200 percent of the poverty level.
- Also in 2000, a total of 9.5 million uninsured individuals were in families that were both poor/near-poor and low-wage. An additional 7.8 million uninsured persons lived in families that were poor or near-poor but did not have a low-wage worker. Only 2.4 million lived in families with a low-wage worker but were not poor or near-poor.