

## Show Me Series Report 9

# Health Insurance Coverage of Dual-Income Families: The Free-Rider Effect and the Cost to Employers

**Summary**  
**December 2006**

In an effort to inform the discussion regarding employer-sponsored insurance (ESI) both in Missouri and nationally, the Missouri Foundation for Health (MFH) contracted with Professor Kenneth E. Thorpe, PhD, of Emory University to examine the distribution of costs associated with ESI coverage among dual-income families. We believe this study builds on existing knowledge and offers significant new insights into ESI coverage, including:

- The decline in the percentage of individuals covered by ESI has continued over the last five years, falling from 59 percent to just 53 percent.
- Large employers are carrying extra health insurance costs because many small employers have either been priced out of the health insurance system, or cannot offer coverage at similarly affordable rates as large employers.
- In 2006, employers providing health insurance to their employees' working spouses are assuming additional costs of more than \$46 billion nationally and \$891 million in Missouri.

### **Background**

The percentage of dual-income families has increased sharply over the past 30 years. Among married couples, in 1970 both spouses were employed in 39 percent of cases, while currently more than 52 percent of married adults both work. At the same time, the share of employers offering health insurance continues to decline, falling to 55 percent from more than 59 percent just five years ago. Both of these trends place increased financial pressure on those employers that continue to offer health insurance benefits.

One area of interest concerns workers who receive health insurance through a spouse's employer rather than their own and the impact that has on the employer providing coverage. Such workers may choose spousal coverage because their own employer does not offer insurance, or they may simply choose the most attractive employer-sponsored benefit. In either case, covering the spouses of employees increases the cost of providing health insurance for employers that continue to offer coverage, and reduces (or does not add to) the cost for employers that do not cover their own workers.

This summary is derived from an in-depth paper that presents new 2006 data for the entire United States and Missouri on the number of dual-income families with ESI, the share of

those receiving coverage through only one employer, and the added costs such employers face in providing coverage to workers they do not employ.

Nationally, there were nearly 31 million families (61.7 million adults) where both adults were employed during the year. In Missouri, almost 682,000 families have dual working spouses. Of these families, 55 percent in the U.S. (34.1 million workers in 17.1 million families) and 51 percent in Missouri (more than 692,000 workers in 346,000 families) have ESI coverage through one spouse's policy. Employers that do not provide insurance to their own workers have been characterized by some as "free-riders" because their workers are receiving health insurance through other employers.

## **Findings**

The economic costs incurred by employers covering both spouses are substantial. This study estimates that nationally the added costs of covering employees' working spouses totaled approximately \$46 billion in additional health insurance premiums in 2006. In Missouri, the overall cost to employers covering employees' working spouses is estimated to be \$891 million for 2006.

Both nationally and in Missouri, the industries that contain the greatest concentration of free-riders include retail, agricultural, fishing, and forestry. Nationally, 45 percent of workers in dual-income families who receive ESI coverage and work in the retail/other services industry depend on their spouse for health care coverage. In agriculture, fishing, and forestry, 42 percent of the workers receive insurance through their husband's or wife's employer. In Missouri these percentages are 38 and 39 percent respectively. However, percentages in other industries are lower and range from 21 to 34 percent nationally and from 21 to 30 percent in Missouri. Both nationally and in Missouri, free-riding employers are most prevalent among the smallest firms — those with fewer than 10 employees. In fact, the concentration of free-rider employers generally decreases as firm size increases.

## **Implications**

The economic impact of free-riding employers on employers that offer family health insurance coverage is substantial. Recent increases in the percentage of dual-income families, as well as a sustained decline in employers offering ESI, place additional financial pressure on those employers that continue to offer coverage. The information presented points to the need for a more equitable method for distributing costs and benefits within the employer-sponsored insurance system.

## **About This Summary**

The information presented here is taken from "Show Me Series Report 9: Health Insurance Coverage of Dual-Income Families: The Free-Rider Effect and the Cost to Employers" prepared at Emory University by Kenneth E. Thorpe, PhD; Jennifer Flome, MPH; and Katya Galactionova, MA. The complete report is an online publication available at [www.mffh.org](http://www.mffh.org).