

## Overview of U.S. Health Coverage

### History of the U.S. Health Insurance System

In the first half of the 20th century, the increasing effectiveness and rising costs of hospital care drove the development of private insurance. During the World War II labor shortage, companies began competing for workers by offering health insurance as a fringe benefit. Employer-based insurance grew rapidly in the 1950s, becoming the dominant form of health coverage in the United States. However, the elderly and the poor were left without access to affordable coverage. To improve health care accessibility for these populations, Medicare and Medicaid were enacted in 1965. Today, the majority of the population has private insurance, while more than 25 percent of the population has public insurance, and an increasing number of Americans are uninsured.

### Distribution and Trends in Health Coverage

#### Private Insurance

**Employer-sponsored insurance** is the most common source of health coverage for Americans under age 65. An employer may cover the entire cost or only part of the employee's health insurance premiums. The employer may or may not offer coverage for the employee's entire family.

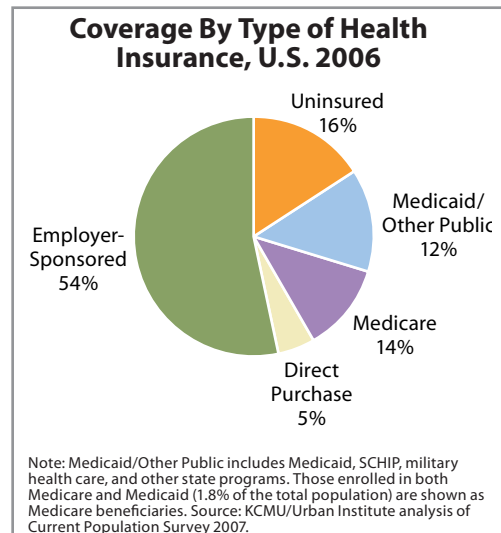
- **Funding:** For single coverage, the employee contributes an average of \$694 while the employer contributes an average of \$3,785. For family coverage, the employee contributes an average of \$3,281 while the employer contributes an average of \$8,824.<sup>1</sup>
- **Trends:** Rates of employer-sponsored insurance have been falling among non-elderly Americans (from 66 percent in 2000 to 61 percent in 2004).<sup>2</sup> Since 2001, premiums for family coverage have increased 78 percent, while wages have gone up 19 percent.<sup>3</sup> In addition, the share of the insurance premium paid by the employer has been shrinking.

**Direct Purchase/Individual Insurance** is a form of private insurance in which the individual pays a premium directly to the insurance company. This type of coverage tends to be expensive and covers only 5 percent of the population.

#### Public Insurance

**Medicare** refers to the federal health coverage program for seniors (age 65 and older) and people with permanent disabilities, end-stage renal disease, and Lou Gehrig's disease. Medicare covers basic health care services, including hospitalizations, physician services, and prescription drugs. Because of gaps in the Medicare benefit package, many beneficiaries have some type of supplemental insurance, such as employer-sponsored insurance, Medicaid, Medigap policies, and/or Medicare Advantage plans.

- **Funding:** Funding for Medicare comes primarily from payroll tax revenues, general revenues, and premiums paid by beneficiaries. In 2006, Medicare benefit payments accounted for 13 percent of federal spending or \$374 billion. Medicare spending is expected to increase to \$564 billion in 2012.<sup>4</sup>
- **Trends:** Medicare covers over 40 million people (14 percent of the population). The number of Medicare beneficiaries is expected to increase, while the number of workers to support beneficiaries



is expected to decline. Spending per person is highly skewed, with ten percent of beneficiaries accounting for two-thirds of expenditures and a disproportionate share of spending occurring in the last year of life.<sup>5</sup>

**Medicaid** refers to the health coverage program for low-income individuals who fit into certain eligibility groups such as children, parents, pregnant women, and people with disabilities. Each state sets its own guidelines and determines eligibility and services by income, assets, and medical need. Through the State Children's Health Insurance Program (SCHIP), each state provides health insurance for uninsured children in families with incomes too high to qualify for Medicaid but too low to afford private insurance. Through either Medicaid or SCHIP, most states cover children up to 200 percent of the federal poverty level (or \$40,000 for a family of four).

- **Funding:** Medicaid is financed jointly by the state and federal governments and administered by the states. In 2008, Medicaid spending will total \$346 billion. The federal government will spend \$196 billion (6 percent of federal spending), and the state governments will spend \$150 billion.<sup>6</sup>
- **Trends:** Medicaid covers over 38 million people (including those enrolled in both Medicare and Medicaid). More than one in four children in the U.S. relies on Medicaid.<sup>7</sup> Medicaid accounts for nearly half of national long-term care spending and finances care for 60 percent of nursing home residents.<sup>8</sup>

**Military and veterans health care** is provided through one of three sources: Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA), Civilian Health and Medical Program of the Uniformed Services (TRICARE/CHAMPUS), or the Department of Veterans Affairs.

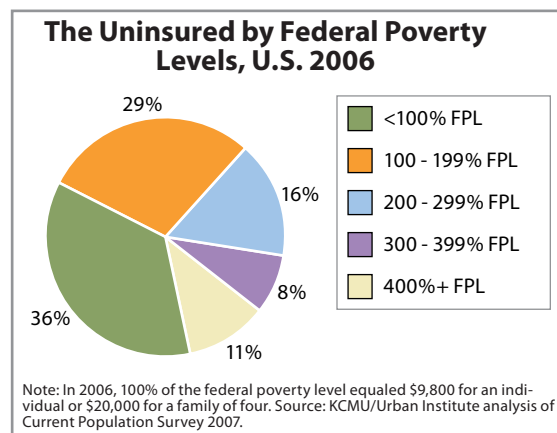
State-specific plans refer to state health insurance programs for low-income uninsured individuals, which may be known by different names in different states.

### The Uninsured

The majority of the uninsured are low-income adults in working families for whom coverage is unaffordable. Sixty-five percent of the uninsured have income levels below 200 percent of the poverty level (or \$40,000 for a family of four). More than 70 percent are from families with one or more full time workers.

**Funding:** When the uninsured receive care, costs are shifted to those who can pay through insurance premiums and taxes.

**Trends:** In 2006, 46.5 million people (16 percent of the population) were uninsured. This number reflects an increase of 9.4 million since 2000.<sup>9</sup> The dominant factor during this time was a decline in employer-sponsored insurance.



### Endnotes

- 1 Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.
- 2 L Clemans-Cope and B Garrett, Changes in Employer-Sponsored Health Insurance: 2001 to 2005, Urban Institute, 2006.
- 3 Kaiser/HRET, 2007.
- 4 Kaiser Family Foundation, Medicare: A Primer, Kaiser Family Foundation, March 2007.
- 5 Kaiser Family Foundation, 2007.
- 6 Centers for Medicare and Medicaid Services (CMS), 2008.
- 7 Kaiser Commission on Medicaid and the Uninsured, The Medicaid Program at a Glance, Kaiser Family Foundation, March 2007.
- 8 Kaiser Commission on Medicaid and the Uninsured, 2007.
- 9 J Holahan and A Cook, "The U.S. Economy and Changes in Health Insurance Coverage, 2000-2006," Health Affairs 27.2 (2008)

This publication was prepared by the Missouri Foundation for Health. Statistics come from the Kaiser Commission on Medicaid and the uninsured/Urban Institute analysis of the U.S. Census Bureau Current Population Survey 2007, unless otherwise indicated.