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The effect of the availability of charity care to the uninsured on the demand for private health insurance

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Abstract

The economic reasons why some people do not obtain health insurance are unclear. In this paper, I test the hypothesis that the availability of charity care to the uninsured reduces the likelihood of obtaining private coverage. I utilize variation in the availability of charity care across the different markets in the Community Tracking Study's Household Survey (CTS-HS) using an "access to care" measure of the uninsured's cost-related difficulties in obtaining medical care, to both aggregate across the various "safety net" providers and control for its potentially endogenous supply. I find evidence supporting this hypothesis for low-income people, in both the individual market and the employment-based group market. I also estimate a joint model of offer and take-up decisions for the group market sample and find that the availability of charity care reduces low-income workers' offer rates but not their take-up rates.

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1. Introduction

Why do the uninsured in the United States fail to obtain private health insurance? There were almost 44 million people without health insurance in 2002, and various policies are currently under consideration to expand coverage. Despite the significant policy interest in the uninsured, there exists a fair amount of uncertainty about the economic determinants of whether people ineligible for public insurance purchase private insurance. What *is* known is that large subsidies for private health insurance premiums will likely be needed to induce a large number of the uninsured to obtain coverage (Gruber and Levitt, 2000; Pauly and Herring, 2001). Most policymakers focus on issues related to the magnitude of premiums and ways to reduce the net prices for insurance that people face, but an interesting underlying question is *why* is the willingness-to-pay for private coverage of the uninsured so low.

In this paper, I argue that it is not necessarily the *absolute* cost of health insurance that is prohibitive for many of the uninsured; instead, it is the cost of health insurance *relative* to the costs associated with remaining uninsured that is important for one to consider. Various “safety net” providers supply free or subsidized care to the uninsured due to altruistic concerns, which lowers the uninsured’s expected out-of-pocket expenses considerably. Rational economic actors will realize that the availability of charity care lowers the value of obtaining private health insurance coverage, and thus the relative likelihood of purchasing private coverage should decrease.

I present an empirical test of this hypothesis in this paper.¹ Testing this relationship between insurance coverage and the availability of charity care, however, is not clear-cut for two main reasons: there are many different safety net providers of charity care, and these providers may increase their supply of charity care in response to larger numbers of uninsured. To address these issues, I use a local-level “access to care” measure of the absence of cost-related difficulties in obtaining care reported by the area’s uninsured. I argue below that such a measure both appropriately aggregates across the different safety net providers (which serve as substitutes in different areas) and is not subject to reverse causality. I examine the likelihood of obtaining private coverage in the individual market and the employment-based group market separately. Since one must be offered coverage and take up offered coverage to be insured in the employment-based group market, I estimate a simultaneous model of offer and take-up decisions for people in the group market.

Section 2 of the paper reviews some theory regarding the demand for insurance and presents a simple theoretical model to illustrate my hypothesis. Section 3 of the paper details the amount of charity care available to the uninsured by examining medical expenditure data. Section 4 of the paper presents the empirical model and its results for the demand for private insurance as influenced by the availability of char-

¹ In the context of this paper, I consider “charity care” from the patient’s perspective rather than the provider’s perspective, and I define charity care as any medical care for which an uninsured person is not required to pay the full cost. Providers of such care may be reimbursed from other direct or indirect sources, so this medical care may not necessarily be considered “charity” from their perspective. Moreover, I examine the provision of charity care to those who are uninsured and not the provision of public insurance such as Medicaid or SCHIP.

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