

# The demand for dependent health insurance: How important is the cost of family coverage?

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## Abstract

From the mid-1980s to the mid-1990s, the proportion of non-elderly Americans with employment-based health insurance declined. Roughly 80% of this decline was due to the loss of coverage by dependent family members. During this period, workers became increasingly responsible for the costs of family coverage, while expanded Medicaid coverage provided low-income working families with an alternative to employment-based insurance. We examine the role of out-of-pocket premiums and expanded Medicaid eligibility in households' demand for employment-based family coverage. Cross-sectional results reveal that demand is affected by both factors. We find that between 1987 and 1996, the increase in out-of-pocket premium costs accounted for nearly half of the decline in dependent coverage while expanded Medicaid eligibility represented 14% of the decline.

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## 1. Introduction

From the latter part of the 1980s to the mid-1990s, the proportion of non-elderly Americans covered by employer-sponsored health insurance (ESI) declined markedly, from 70.1% in 1987 to

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64.8% in 1996 (Fronstin, 2003). What was particularly striking about this reduction in coverage, and what distinguishes it from subsequent periods, was that it was dominated by a reduction in coverage for dependent family members. While the percentage of non-elderly Americans with ESI in their own name declined slightly over this period (from 34.3% in 1987 to 33.3% in 1996), the reduction in the proportion of individuals covered as dependents on such health plans fell from 35.8% to 31.5% (some 3.1 million persons), and represented 81% of the total decline.<sup>1</sup> While much research has focused on the overall decline in ESI since the mid-1980s, there has been less effort directed to identifying the precise mechanisms associated with the sizeable decline in dependent coverage over the period cited.

Since the late 1980s, two factors have been frequently cited as affecting the decisions of some households to enroll dependents in ESI. First, employees have become increasingly responsible for bearing the cost of family coverage and this cost remains well in excess of that required for single-person coverage.<sup>2</sup> At the same time, the ability of many low and middle-income families to afford the increased out-of-pocket premium costs for family coverage has deteriorated as real earnings for such households remained relatively stagnant.

Next, the expansion of Medicaid eligibility during the late 1980s and early 1990s also provided low-income working families with an alternative to ESI at no out-of-pocket cost. Such enhanced access to public insurance, together with the rise in out-of-pocket premium costs for ESI, may have induced some households to substitute public for private coverage, especially for dependent children. While estimates of the magnitude of private insurance crowd out vary widely, there has been less effort directed at identifying the precise mechanisms through which such substitution may have occurred. Finally, while the decline in employment-based dependent coverage together with the increased Medicaid enrollment did not increase the overall proportion of uninsured children (Weinick and Monheit, 1999), the shift from private to public sources of coverage raises questions about the equity and efficiency of policies seeking to expand health insurance to disadvantaged groups.

In this paper, we address a specific gap in research related to the decline in ESI by examining factors that affect household decisions to obtain ESI for dependent family members. Our primary focus is to consider whether the insurance decision of a household with dependent family members is sensitive to a worker's out-of-pocket premium costs for single and family coverage. By examining the variation in these out-of-pocket costs across households, we can assess the price sensitivity of the demand for coverage and also gain insight into how increases in worker responsibility for health insurance premiums have affected the insurance status of dependents. We extend this inquiry by assessing the contribution of changes in out-of-pocket premiums and expanded Medicaid eligibility to the decline in rates of ESI and family coverage based on estimates from

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<sup>1</sup> After a period of rising enrollment, available data reveal a decline in ESI and dependent coverage between 2000 and 2003 (Fronstin, 2004). However, this recent decline in dependent coverage was less severe than the earlier decline. For example, the decline in dependent coverage was only 25.8% of the decline in ESI between 2000 and 2003. For a period of comparable length, 1987–1990, the decline in dependent coverage was 69.6% of the overall decline in ESI.

<sup>2</sup> Over our study period, data from the Bureau of Labor Statistics' Employee Benefit Survey on full-time workers in medium and large establishments reveal an increase in the proportion of employees required to contribute to family coverage. For example, in 1988 over 60% of such workers were required to contribute to family coverage; by 1997, that figure had risen to 80%. Annualizing BLS data on average monthly employee contributions for family and individual coverage, and expressing them in 1988 dollars, the marginal cost of family coverage, on average, increased from \$492 in 1988 to \$804 in 1997 or by over 63%. Data from the 1996 Medical Expenditure Panel Survey—Insurance Component indicate that employees paid 16.9% of the costs of single person coverage (\$388) annually compared to 29.1% for family coverage (\$1439) (Branscome et al., 2000).

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