



## U.S. Health Care Insurance and the Uninsured

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*"Improving the performance of our health care system is without a doubt one of the most important challenges our nation faces... Per capita health care spending in the United States has increased at a faster rate than per capita income for a number of decades. Should that trend continue...the share of income devoted to paying for health care will rise relentlessly."*

—Fed Chairman Ben S. Bernanke

Federal and state governments fund 46 percent of total U.S. health care spending through various programs such as Medicare. The rest is funded by the private sector, typically through employer-sponsored plans from private insurance companies. However, if one does not qualify for government health care and does not receive insurance from an employer, acquiring health insurance can be very difficult and expensive. Gruber (2008) finds that the uninsured tend to be the "working poor."

Health care spending, growing faster than GDP, now accounts for over 15 percent of GDP. More than anything else, it is these rising costs that are affecting the level of coverage: In 2007, the percentage of uninsured Americans rose to 15.3 percent, up from 13.7 percent in 2000, which Buchmueller and Valletta (2006) find is largely caused by employers declining to offer (increasingly expensive) coverage to employees.

A look at the fundamentals behind insurance costs shows that a decrease in costs can decrease the number of uninsured Americans. There are two types of intrinsic market failures that increase the cost of insurance: moral hazard and adverse selection. The [moral hazard](#) in the health care environment is the tendency for those who are insured to overuse their insurance. (There is no incentive to be frugal with the use of health care if most of the costs are covered.) [Adverse selection](#) refers to the fact that insurance is most likely to be bought by those who need it most and therefore will incur the most costs. Because insurance companies can never have full information about the activities and habits of those they insure, they must assume that everyone they are insuring will be high risk and so cannot efficiently set prices based on expected risk (see Akerlof, 1970, for discussion on "[the market for lemons](#)").

But there are ways to limit the effects of these problems: Moral hazard can be minimized if the insurer and the individual share the cost of care through features such as deductibles, copayments, and coinsurance. The use of health savings accounts is a market-based approach to help reduce moral hazard. These savings accounts of pre-tax dollars, funded by individual or employer contributions, can be used toward current and future out-of-pocket medical expenses. In conjunction with high-deductible plans, they can reduce reliance on insurance companies for routine health expenses.

Simply put, insurance functions by allowing those who use less health care to subsidize those who use more. Adverse selection is best handled by increasing the pool of people in a certain insurance group, thereby decreasing the risk for insurance companies that the high health care costs of some individuals will be overwhelming (Nichols, 2007). Expansion of public insurance can be effective here: Placing the uninsured into one large pool can effectively lower insurance costs the way that employer-run company-wide groups do. Also, some policymakers favor mandates that all individuals be insured. In this way there should be no adverse selection because insurance is purchased by all and not only by those who need it. This can be seen as healthy individuals subsidizing unhealthy individuals—who are more likely to buy health care—similar to the way younger individuals subsidize retirees with Social Security payments.

Regardless of how society chooses to address the issue, decreasing the number of uninsured will not bring down the skyrocketing costs of providing health care.

By Ariel Weinberger, Research Associate, Federal Reserve Bank of St. Louis

### [SOURCES](#)

*The views expressed are those of the author and do not necessarily reflect the official positions of the Federal Reserve Bank of St. Louis, the Federal Reserve System, or the Board of Governors.*

## Recent Articles and Further Reading on Health Care and Health Insurance

[“Creating Value-based Competition in Health Care”](#) by Sam Kahan, Federal Reserve Bank of Chicago, *Chicago Fed Letter*, No. 254a, September 2008.

On April 14-15, 2008, the Federal Reserve Bank of Chicago and the Detroit Regional Chamber co-sponsored the second annual forum on health care. This year's program focused on how the health care system's cost, quality, and accessibility could be improved.

[Economic Report of the President: 2008 Chapter 4](#)—“The Importance of Health and Health Care” by Edward P. Lazear, Chairman of the Council of Economic Advisers.

This report discusses the current health care system and opportunities for reforms that would reduce costs, increase access, enhance quality, and improve the health of Americans.

[“Mandatory and Affordable Health Insurance”](#) by Len Nichols, Federal Reserve Bank of St. Louis *Regional Economic Development*, 2007, 3(1), pp. 24-28.

This paper asserts that America's health care system is broken and cannot be repaired with timid half-measures. It suggests that we need both universal coverage and a more efficient delivery system and that these are not competing objectives.

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## Free Data Sources and Reports

**Data:** Health Insurance Coverage  
**Description:** Includes links to data tables derived from the National Health Interview Survey  
**Published by:** U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics  
**Location:** <http://www.cdc.gov/nchs/fastats/hinsure.htm>

**Data:** The Medical Expenditure Panel Survey (MEPS)  
**Description:** A set of large-scale surveys of families and individuals, their medical providers, and employers across the United States  
**Published by:** U.S. Department of Health and Human Services, Agency for Healthcare Research and Quality  
**Location:** <http://www.meps.ahrq.gov/mepsweb/>

**Data:** World Health Statistics 2008  
**Description:** Presents the most recent health statistics for WHO's 193 Member States, including 10 highlights in health statistics, as well as an expanded set of over 70 key health indicators  
**Published by:** World Health Organization  
**Location:** <http://www.who.int/whosis/whostat/2008/en/index.html>

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