

***The Deepening Need for Healthcare Solutions:
Future Demand for the Washington Basic Health Plan
(BHP)***

Policy Report

March 12, 2004


Assistant Policy Advisor
Washington Healthcare Authority

Executive Summary

Employers are struggling with the high costs of providing health insurance to their staff. In order to offset the growing financial burden, they have altered employee eligibility criteria, reduced benefit packages, changed hiring patterns, and asked their employees to share in the rising costs. If the financial pressure created by healthcare continues unabated, the make-up of Washington State's uninsured may soon include growing numbers of traditionally-insured workers. This report analyzes the types of workers likely to receive or not receive health insurance from their employer or union in the current market. The features of these two groups have significant policy implications for the Washington Healthcare Authority. Specifically, the Washington Basic Health Plan (BHP)¹ is identified as the program most likely to see growing demand for its services.

The provision of health insurance by an employer is highly linked to the employee's education level, wage/salary, and position in the company. More-educated and higher-paid workers employed as managers, accountants, engineers, etc. disproportionately receive health plans as part of their compensation package. Low-income and low-educated workers are most vulnerable to losing their employer-provided plans in the current market. Additionally, workers in the service sector are less likely to be insured by their employer/union than workers in traditional industries like manufacturing, construction, and utility.

Health insurance provision is an important service due to the costs it deters. Uninsured families can be significantly set-back if one of their members suffers from a long-term disease or a preventable condition, and they are left with unreasonably high medical bills. Low-income individuals and families are particularly vulnerable to these contingencies as they often work paycheck to paycheck. Health insurance helps to keep these individuals and families above the poverty-line and, potentially, from needing other forms of state-assistance. If employers and unions are no longer able to provide these individuals with health plans, BHP will be one of the most viable options for these workers to turn to.

Designed to serve low-income individuals and families not eligible for Medicare, BHP is an ideal program for low-income, uninsured workers that can afford reasonable costs for quality care. Healthcare promises to be an explosive issue during the upcoming political season. BHP is likely to be an attractive program to policy-makers as it requires cost-sharing and has demonstrated fiscal responsibility. This is an ideal time to capitalize on political momentum. The potential for the growth of uninsured, low-income, service sector workers with families should be BHP's primary concern in lobbying the Legislature for increases in funding and enrollment slots.

Introduction

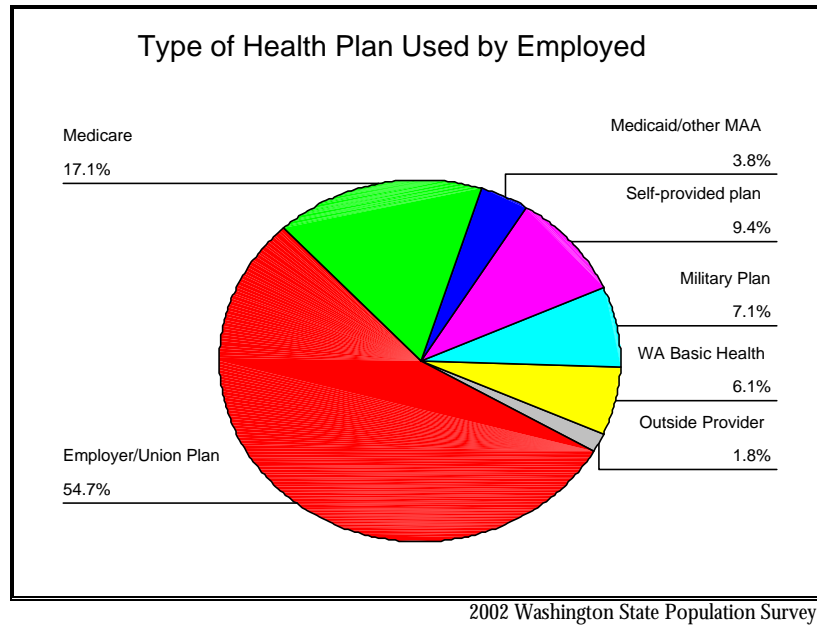
I. Overview

In 2001, between 9.4% and 11.1% of employed people went without health insurance.² The 88.9% to 90.6% of insured workers were predominantly covered by employer/union plans. The pie chart

¹ BHP partners with private insurance companies to supply low-income individuals and families with healthcare plans at negotiated lower-rates. Following an analysis of the individual/family's ability to pay, BHP subsidizes any portion of the monthly premium unreasonable to charge the client. The enrollees in this program contribute, on average, a relatively significant portion of the plan's costs as compared to other government-sponsored plans.

² Based on a two-tailed test with 99% confidence interval.

below demonstrates the significant contribution that employers and unions make to healthcare coverage.³



The public, private, and nonprofit sectors employ 85.2% to 92.0% of Washington’s workforce.⁴ As the state’s major providers of employment and health insurance, the experience of these sectors in providing for their employees will largely shape the healthcare situation and debate. This report is concerned with the types of employees that these sectors are choosing to provide or not provide with health plans. It will examine employee characteristics grouped into two main categories: workplace and individual. This research is primarily concerned with identifying the significant factors that lead an employer to offer their employee a health plan. The characteristics measured are as follows:

Workplace	Individual
A. Industry type	A. Highest Level of Education
B. Position/Skill-set	B. Household Type and Number of children under 14
C. Personal Wage Earnings	C. Gender
D. Hours of Work	D. Age
	E. Race/Ethnicity

II. Data Source and Constraints

All data in this report are provided by the 2002 Washington State Population Survey; a biennial survey of Washington State households concerned with profiling major trends in topics such as income, immigration, healthcare/insurance, employment, and education. In 2002, 6,842 households were surveyed. These housed 17,437 individuals. The survey was done via phone and had a response rate of 47%. An expanded sample was implemented in order to guarantee adequate representation of underserved groups and minorities.

³ See Table 2 in Appendix for listing of the 99% confidence intervals for the percentages in this chart.

⁴ Based on two-tailed test with 99% confidence interval.

Following the previous overview of the health insurance situation of the employed population, the report will focus is on the provision of employer/union health plans to employees. To do this, a subset of the sample was selected according to two criteria: (1.) the individual is employed, and (2.) the individual works in the public, private, or nonprofit sector (these are the sectors where an employer/union provided health plan is available.) There are, however, significant caveats in the use of this data source for this report. They include:

1. The survey did not require respondents to specify if they were offered an employer/union provided health plan. Therefore the data may include individuals who were offered a health plan by their employer/union but did not accept it. This may occur, for example, when a husband and wife (that both work) choose to be covered by only one of the spouse's health plans.
2. Respondents were not asked to specify if they were classified as part-time employees. The survey only measured hours worked. Due to the range of hours worked by both insured and uninsured, the evidence was inconclusive as to the role of part-time status.

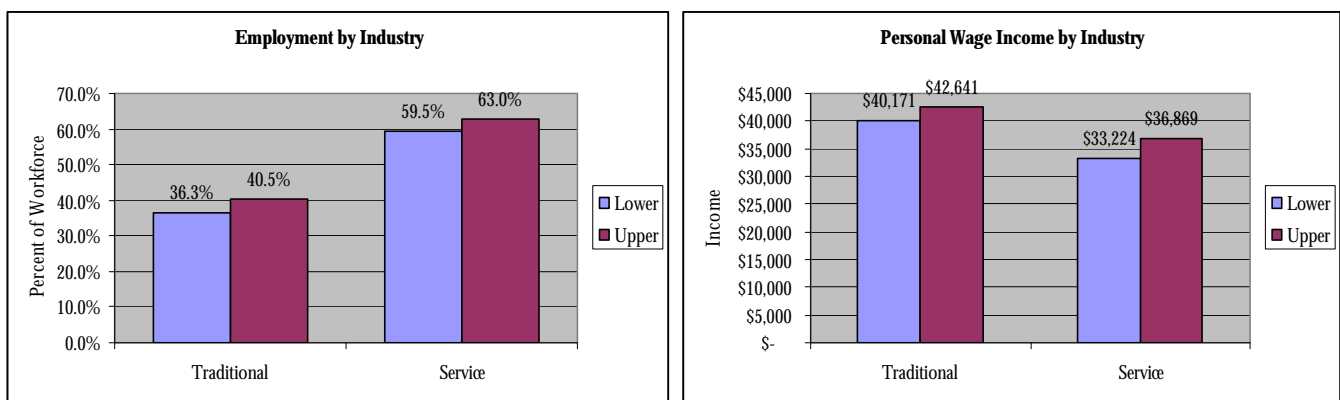
Findings and Policy Implications

I. Workplace:

A. Type of Industry

As the chart below demonstrates, the majority of Washington State's workers are employed in the service industry. Industries such as manufacturing, agriculture, forestry, and construction, where Americans traditionally found employment in the 19th and 20th centuries, are collectively declining as the major American job-makers. This shift toward service industry employment has many well-documented implications for the American workforce. Among the most important include: the demand for increased levels of education in management and high-skilled positions, the growth of unskilled positions in retail and other customer service companies, and the lack of strong support for organized labor.

In Washington State, the service industries employ 59.5% to 63.0% of the workforce.⁵ The



2002 Washington State Population Survey⁶

⁵ Based on two-tailed test with 99% confidence.

⁶ Lower and upper bounds based on two-tailed tests with 99% confidence for both diagrams.

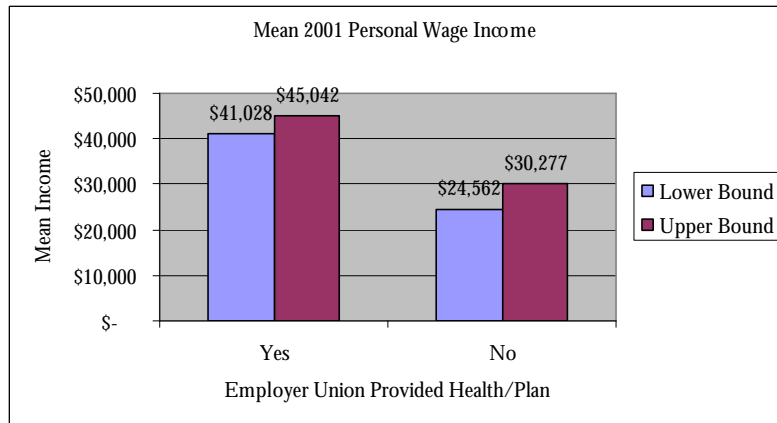
growth in unskilled, low-paying service jobs is demonstrated in the personal wage income chart. Service workers make, on average, between \$2,044 and \$10,675 less than employees in traditional industries.⁷ These income numbers are important when we consider that service workers are also less likely to be offered health insurance by their employers/unions. On average, they receive these benefits 3.2% to 10.9% less often than their traditional industry counterparts.⁸

B. Position/Skill-set

Looking at an individual’s position in his organization and or skill-set highlights more strongly the emergence for different standards for health plan provision. Workers belonging to specialized fields such as management, finance, legal, engineering or IT are provided with health plans by their employer/union 8.2% to 14.5% more often than workers in fields like healthcare practitioner, social service, foods preparation, and sales.⁹ The link between higher organizational positions and the provision of a health plan suggests that employers view it as part of a compensation package that attracts and retains the best workers. If the service industry continues to enroll a decreased proportion of its workforce in health plans, its lower-skilled workers are likely to be the most vulnerable group of employees to the trend. Unlike their traditional counterparts, low-skilled service workers lack the bargaining power (due both to their low skills and underdeveloped unions) and the income to protect themselves from cuts in their compensation package.

C. Personal Wage Earnings

The link between high-skills and more comprehensive compensation packages is also demonstrated in the annual wage earnings data. Workers with employer/union provided health plans make, on average, \$12,956 to \$18,274 more in personal wage income than workers without this fringe benefit.¹⁰ As the chart demonstrates, the mean salary for workers with a health plan is roughly



between \$41,028 and \$45,042. While workers without it make, on average, \$24,562 to \$30,277.¹¹ If industry standards for health plan provision by employers/unions continue to slacken under the pressure of high healthcare costs, the salary figures for uninsured workers suggest that the low-skill/paid workforce will have a difficult time funding their own plan or other healthcare needs.

2002 Washington State Population Survey¹²

D. Hours worked at Main Job

As identified earlier, one of the major weaknesses of the data in this report is the lack of health plan provision statistics for workers identifying themselves as part-time. Part-time workers are often

⁷ Based on z-test using .01 level of significance: z = 2.89. 95% confidence interval expressed.

⁸ Based on a z-test using .01 level of confidence: z = 4.586.

⁹ Based on a z-test using .01 level of confidence: z = 8.04.

¹⁰ Based on a t-test using .05 level of significance: t = -11.517.

¹¹ Intervals based on two-tailed test with 99% confidence.

¹² Lower and upper bounds based on two-tailed test with 99% confidence.

exempt from government regulation or union contracts that traditionally require organizations to provide health plans.

Two competing claims are often made about the decrease in employer-provided health insurance in debates about the issue. The first is that part-time workers are the primary group neglected by employer/unions due to their exemption-status. The second is that full-time workers are equally vulnerable to the trend due to their reclassification as “contracted,” temporary, or seasonal. The data do say that employees without employer/union plans work, on average, 34.5 to 36.5 hours per week. This is roughly 3.4 to 5.0 hours less, on average, than their insured counterparts. (They work an average of 39.3 to 40.1 hours per week.)¹³

The high number of hours worked by the uninsured would seem to support the second major claim. However, there is an equally plausible explanation that may be inflating the hours worked by the uninsured. In this scenario, as described earlier, an employee turns down the company’s health plan offer because they are covered by a self-bought or a spouse/partner’s plan. The data on hours worked lead to equally plausible and therefore inconclusive interpretations. If we are to determine if full-time workers are being dropped from employer eligibility rolls, the specification of full vs. part-time status is needed.

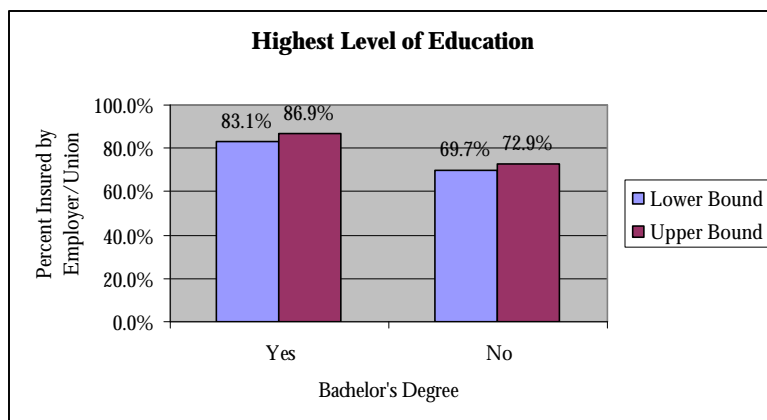
E. Policy Implications for BHP

The data in the workplace section provide strong evidence that health insurance is a standard component of the compensation package for the high-skilled, high-paid workforce. It is not the standard for lower-skilled and lower-paid workers. Employees in the service industries are more likely to be vulnerable to the trend among employers/unions to reduce their health plan eligibility rolls due to rising cost. BHP is likely to see demand for its program among low-income workers in the service sector. These workers are likely to work nearly full-time, but may also be classified as seasonal, temporary, or contracted. Their ability to participate in cost-sharing is likely, but also limited by their low-income status and the transitory nature of jobs in the service industries.

II. Individual

A. Education Level

The statistical evidence on education supports the previous finding that high-skilled workers are



more likely to use an employer/union provided health plan than low-skilled workers. It is assumed that high-skilled workers are likely to have obtained a bachelor’s degree. The chart demonstrates that 83.1% to 86.9% of employees with college degrees receive a health plan. Whereas 69.7% to 72.9% of

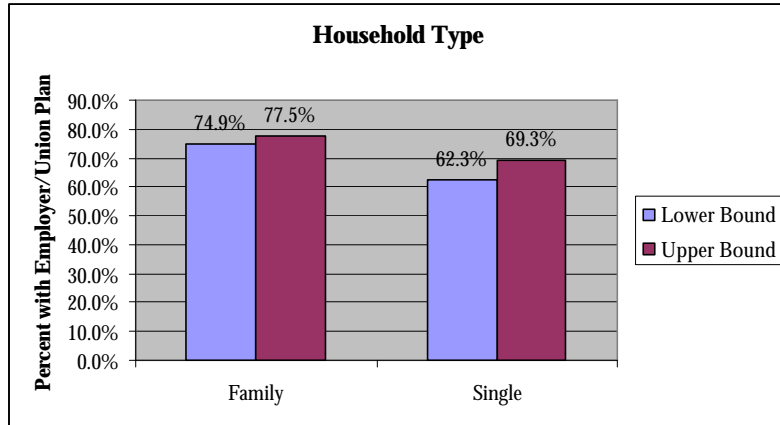
¹³ Intervals based on two-tailed test with 99% confidence. Mean difference based on a t-test using .05 level of significance: $t = -10.38$.

less-educated workers receive the benefit.¹⁴ This represents a statistical difference of 11.2% to 16.1%.¹⁵ Again, the employees with more bargaining power at the negotiation table, are overly represented on their employers' eligibility rolls.

B. Household Type and Number of Children under 14

Employer/union provided health plans are particularly important to families. Individuals are often willing to risk their own health but not that of a family-member.

However, the healthcare costs incurred by single workers are still a necessary concern. The costs of caring for these individuals will be absorbed by their family members they are not living with or the state. The chart at right demonstrates that workers living in families are 6.6% to 14.1% more likely to be insured by an employer/union



plan than single workers.¹⁶ 74.9% to 77.5% of them are insured by their employer whereas 62.3% to 69.3% of single workers have such a plan.¹⁷

An explanation for this finding may be that workers living in families are unwilling to take positions that do not offer health insurance. However, if the decrease in employer-provided health care continues, these positions will no longer be available to low-income workers. Additionally, though both group have an average of less than one child under 14, families without employer-provided plans had slightly more children.¹⁸ This suggests that there are existing families with young children in need of better options.

C. Gender

According to the data available in this survey, women and men receive health plans from their employer/union at an equal rate.¹⁹ There appears to be no discrimination based on gender in employer/union distribution of health insurance as a fringe benefit. 73.2% to 76.7% of men and 74.0% to 77.6% are offered health plans.²⁰

D. Race and Ethnicity

The data available on the relationship between race and the availability of employer/union provided health plans is not as statistically persuasive as the other data in this report. However, with 95% confidence, we can say that minorities receive a health plan as a fringe benefit 0.9% to 6.5% less

¹⁴ Intervals based on two-tailed test with 99% confidence.

¹⁵ Based on a z-test with .01 level of significance: z=-12.988.

¹⁶ Based on a z-test using .01 level of significance: z= 7.626.

¹⁷ Based on a two-tailed test with 99% confidence.

¹⁸ Families without employer-provided plans had .07 to .22 more children than those with the plan. Based on a z-test using .01 level of significance: z = -5.225.

¹⁹ Based on a z-test with .10 level of significance: z=-0.873. P-value = .1908.

²⁰ Intervals based on two-tailed tests with 99% confidence.

frequently than non-minorities.²¹ However, the relationship between race and ethnicity and low-education levels, however, may be a more convincing explanation for this statistical difference than race.

E. Age

Workers with employer/union provided health plans are, on average, 2.85 to 4.34 years older than workers without this benefit.²² Workers with the plan have a mean age between 41.4 and 42.4 years old. Workers without the plan are on average roughly between 37.6 and 39.0 years old. These age ranges are not significantly different and, on their own, are difficult to interpret. The difference in age may be explained by the interpretation that younger workers are more likely to be single and therefore more likely to accept position that does not offer health insurance. Additionally, the data could be skewed by the likelihood that younger workers are less likely to have received higher degrees or moved into higher positions in the company.

However, if younger workers are not offered health plans by their employer/unions due to a change in employer health plan-provision policy that is being grandfathered in, the difference age is an important signal that the population of uninsured workers will increase rapidly in coming years.

F. Policy Implications for BHP

BHP's client-base is likely to consist of traditionally underserved populations. Most predominantly, individuals needing a BHP plan are likely to have less than a college degree. A higher proportion of minorities is likely to need more health insurance options than non-minorities.

The uptake of health insurance by single workers is also an important factor for BHP to consider. The healthcare needs of this population will eventually affect the family-members they are not living with or the state.

Additionally, the data on age suggests that younger workers may suffer from the slackening employer/union standards for health plan provision at a higher rate than older, more experienced workers. Given the interest in health insurance for families, BHP is likely to see a growing need for its program among young families.

Conclusion

I. Recommendations

Low-income, low-skilled service workers will disproportionately suffer from the trend among employers/union to reduce their distribution of healthcare as a fringe benefit. BHP should target their marketing and lobbying narratives around this demographic. Benefit packages should be designed with consideration of the needs and cost-sharing abilities of young, low-income families in particular.

Given that this emerging population in need of programs like BHP is employed, there is an opportunity to implement a new health plan provision strategy. BHP may be able to form a three-way partnership in which these firms, their healthcare provider, and BHP work to offset some of the

²¹ Based on a z-test with .01 level of significance: $z=-2.689$. However, at $\alpha=.01$, confidence interval contained 0, leading to inconclusive finding at the 99% confidence level.

²² Based on a t-test using .05 level of significance: $t=-9.45$.

rising costs. For small firms in particular, the ability to bargain collectively for lower rates from insurance companies may significantly reduce the health plan's costs.

II. Remaining Questions

The high number of hours worked on average by employees without employer/union provided health plans leads to the question of how employers are negotiating around the government regulations, union contracts, and other internal procedures that require provision of this benefit. The use of contracted, part-time, temporary, and seasonal workers is a probable, but only partial explanation for this finding.

The difference in age among workers with and without employer-provided health insurance has several equally plausible explanations. Evidence is needed to determine if younger workers are suffering from changes in compensation policy that are being grandfathered in.

III. Conclusion

The nature of work in Washington as the service sector becomes the predominant employer. The predominance of this younger industry has allowed different standards to emerge for employee compensation than what were acceptable a few decades ago. The sector requires both highly- and lowly-skilled and educated workers. The concern is that this trait, given it correlates significantly with the quality of employee compensation, may increase the polarization of the workforce and society. All of these factors will shape BHP's future as an effective health insurance provider for low-income workers and their families.

Appendix: Tables for Overview Data

Table 1: Insured and Uninsured Workers

Coverage	Frequency	Percent	99% Confidence Interval	
			Lower	Upper
Insured	7280	89.7%	88.9%	90.6%
Uninsured	832	10.3%	9.4%	11.1%
Total	8112	100.0%		

Table 2: Types of Insurance Used by Workers

Type of Plan	Frequency	Percent	99% Confidence Interval	
			Lower	Upper
Employer/Union Plan	387	56.5%	51.6%	61.4%
Medicare	89	13.0%	9.7%	16.3%
Medicaid/other MAA	22	3.2%	1.5%	4.9%
Self-owned plan	58	8.5%	5.8%	11.2%
Military Plan	76	11.1%	8.0%	14.2%
WA Basic Health	40	5.8%	3.5%	8.1%
Outside Provider	13	1.9%	0.6%	3.2%
Total	685	100.0%		

Table 3: Employment By Sector

Sector	Frequency	Percent	99% Confidence Interval	
			Lower	Upper
Government	1727	22.2%	21.0%	23.5%
Private	4620	59.5%	58.1%	60.9%
Nonprofit	529	6.8%	6.1%	7.6%
Self-Employed	777	10.0%	9.1%	10.9%
Family Business	110	1.4%	1.1%	1.8%
Total	7763	100.0%		

Table 4: Employment By Industry

Industry	Frequency	Percent	99% Confidence Interval	
			Lower	Upper
Traditional	1326	38.4%	36.3%	40.5%
Service	2126	61.6%	59.5%	63.0%
Total	3452	100.0%		

Table 5: 2001 Personal Wage Earnings by Industry

Industry	Mean	N	Std. Dev.	99% Confidence Interval	
				Lower	Upper
Traditional	\$ 41,406	1967	\$ 54,780	\$ 40,171	\$ 42,641
Service	\$ 35,047	342	\$ 33,708	\$ 33,224	\$ 36,869
Total	\$ 40,464	2309	\$ 52,241		

Appendix: Recoded Variables

Industry Type:

Traditional	Service
Agriculture, forestry, fishing Manufacturing Construction, mining job Transportation, communication, utility Finance, insurance, real estate	Wholesale, retail Services

Position/Skill-set:

High-position/skill	Low-position/skill
Management Business and Financial Computer and Mathematical Architecture and Engineering Legal	Life, Physical, and Social Science Community and Social Service Education, Training and Library Arts, Design, Entertainment, Sports, and Media Healthcare Practitioners & Technical Healthcare Support Protective Service Food Preparation & Serving Related Building & Grounds, Cleaning & Maintenance Personal Care and Service Sales and Related Office and Administrative Support Farming, Fishing, and Forestry Construction and Extraction Installation, Maintenance, & Repair Productions Transportation and Material Moving Military Specific

Highest level of Education:

Less than a Bachelor's Degree	Bachelor's Degree or higher
Less than 9th grade 9th grade - 12th grade (no high school diploma) High school grad (with diploma) GED Vocational certificate Some college, no degree Associate degree in college	Bachelor's degree Master's degree Professional school degree Doctorate degree

Household Type:

Single	Family
Non-family household (2 or more persons) Single-person household	Husband-wife family household Other family household

Race/Ethnicity:

Minority	Non-minority
Black American Indian/Alaskan Native Native Hawaiian/Other PI Asian	White