EPI

ISSUE BRIEF

ECONOMIC POLICY INSTITUTE | ISSUE BRIEF #259 JULY 30, 2009

THE HEALTH CARE FREE RIDE

Reform should help distribute responsibility for coverage more evenly between industries

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Employer-sponsored insurance (ESI) remains the dominant form of health coverage for the nonelderly, covering 62.9% of this group. However, coverage rates eroded even during the full business cycle between 2000 and 2007, a time that saw the economy expand by 18%.

Besides this overall erosion, ESI has other problems, specifically the uneven coverage rates among different types of employers. The difficulties small businesses have in providing ESI are well-documented (see EPI Issue Brief #258 and Policy Memo #145). Less understood is how inconsistent the pattern of ESI coverage is across all industries: some are very likely to provide ESI to their workers and their dependents while others are quite unlikely to serve as a source of this coverage. A companion EPI Issue Brief (#260) documents similar inconsistancies in health insurance spending across industries. This Issue Brief documents industrial coverage patterns in some detail. Its key findings are:

- A large number of two-earner families rely on employer-sponsored insurance from specific, high-coverage industries. This results in a health system in which high-coverage industries in effect subsidize the health care of low-coverage industries.
- Public administration, mining, information, and manufacturing are the top four industries providing ESI coverage to their own employees, while agriculture/forestry/fisheries, arts/entertainment/recreation, professional services, and other services are the least likely to provide ESI coverage.
- If a worker has access to ESI, it is usually through his or her own employer. But workers in some industries, notably "other services" and arts/entertainment/recreation, are almost as likely to be covered through a spouse's ESI as they are through their own industry.
- The general pattern of high-ESI and low-ESI industries persists when looking at very detailed, matched-industry relationships within families. In other words, employees in high-coverage industries tend to be key providers of dependent coverage to spouses and children.

TABLE 1

ESI coverage rates for married, two-earner couples with kids

	ESI, any	ESI, own	ESI, dependent	Own/any
Sample average	85.9%	56.1%	29.9%	64.8%
Agriculture, Forestry, Fisheries	62.5%	35.0 %	27.5%	56.0%
Mining	87.8	76.0	11.8	86.5
Construction	75.5	49.1	26.4	65.0
Manufacturing	89.7	68.8	20.9	76.7
Wholesale/Retail	83.8	53.2	30.6	63.5
Transportation and Utilities	86.1	66.2	19.9	76.9
Information	92.6	69.7	22.9	75.3
FIRE + Rental/Lease	91.4	59.8	31.6	65.4
Professional Services	83.8	48.6	35.2	58.0
Education, Health, Social Services	91.7	55.8	35.9	60.8
Arts, Entertainment, Recreation	68.5	35.9	32.7	52.4
Other Services	76.0	35.4	40.6	46.6
Public Administration	96.1	81.4	14.7	84.7

SOURCE: Authors' calculations as described in text, using data from the March CPS, 2008.

The current ESI landscape is characterized by large differences in coverage rates across industries. This naturally raises the question of whether or not the current ESI system is plagued with industrial cross-subsidies, with employers in some industries providing services as *de facto* insurance brokers for employers in others.

Findings

Table 1 displays the likelihood of employees in a given industry having any ESI coverage, either through their own job or that of a spouse.[1] Among married, two-earner families with kids, 85.9% of spouses have ESI coverage.

Table 1 also separates out cases where employees receive ESI through their own employers (own-coverage) versus receiving it as a dependent on another's policy (dependent coverage). Own-ESI coverage is highest in public administration, mining, information, and manufacturing, with rates ranging from around 69% to 81%. The lowest rates of own-ESI coverage are in agriculture/forestry/fisheries, other services, arts/entertainment/recreation, and professional services, ranging from only 35% to 49%.

Own-coverage rates clearly dominate in determining whether or not any ESI coverage exists. Nearly 65% of overall coverage rates are determined by own-coverage rates. However, a couple of industries—other services and arts/entertainment/recreation—have dependent coverage rates that rival their own-coverage rates. In fact, employees in "other services" are more likely to receive ESI as a dependent on a spouse's plan than receive it through their own job.

Next, we examine all possible industry-by-industry combinations in our sample of two-earner families to see if the overall patterns seem to change. **Table 2** is a matrix showing all possible industry-by-industry combinations and the probability that each serves as a source of dependent coverage conditional on the industry of employment of their spouse. Besides the overall impression of which industries are high-coverage industries on average, Table 2 shows which industry-by-industry pairings stand out as particularly unbalanced.

The industry-spouse pairing of manufacturing and other services is illustrated by the oval-encircled box. The sum of the percentages given, 82%, represents the share

TABLE 2

Industry-spousal pairings of dependent coverage provision

		1	2	3	4	5	6	7	8	9	10	11	12	13
1	Agriculture, Forestry, and Fisheries		0.0% / 0.0%	25.4% / 12.8%	58.5% / 0.5%	20.6% / 36.7%	66.1% / 0.0%	75.8% / 0.0%	62.2% / 34.1%	35.4% / 19.7%	48.5% / 18.0%	10.7% / 30.3%	20.9% / 22.4%	72.0% / 1.0%
2	Mining	0.0% / 0.0%		38.2% / 61.8%	43.3% / 33.1%	41.5% / 36.6%	0.0% / 100.0%	0.0% / 17.6%	0.0% / 79.3%	7.4% / 66.0%	13.6% / 66.7%	0.0% / 98.0%	0.0% / 62.2%	12.6% / 65.2%
3	Construction	12.8% / 25.4%	61.8% / 38.2%		44.4% / 24.1%	32.7% / 34.0%	43.5% / 30.3%	43.9% /	43.8% / 33.2%	24.2% / 30.2%	38.8% / 39.3%	10.6% / 32.0%	14.5% / 38.2%	52.6% / 25.2%
4	Manufacturing	0.5% / 58.5%	33.1% / 43.3%	24.1% / 44.4%		23.0% / 56.7%	34.1% / 42.6%	35.7% / 50.7%	27.0% / 58.5%	19.4% / 62.4%	22.3% / 65.7%	13.7% / 61.4%	14.3% / 67.7%	53.6% / 42.4%
5	Wholesale/Retail Trade	36.7% / 20.6%	36.6% / 41.5%	34.0% / 32.7%	56.7% / 23.0%		53.1% / 19.0%	65.9% / 27.9%	45.4% / 31.7%	27.3% / 41.3%	37.1% / 45.7%	17.7% / 43.6%	18.3% / 50.8%	71.1% / 15.5%
6	Transportation and Utilities	0.0% / 66.1%	100.0% / 0.0%	30.3% / 43.5%	42.6% / 34.1%	19.0% / 53.1%		20.7% / 68.3%	30.2% / 54.2%	14.1% / 61.5%	23.6% / 60.4%	9.3% / 66.4%	0.0% / 51.6%	45.5% / 42.5%
7	Information	0.0% / 75.8%	17.6% / 0.0%	29.4% / 43.9%	50.7% / 35.7%	27.9% / 65.9%	68.3% / 20.7%		36.9% / 57.6%	25.5% / 65.6%	25.5% / 60.5%	11.2% / 68.1%	13.9% / 73.8%	60.4% / 32.8%
8	Finance, Insurance, Real Estate	34.1% / 62.2%	79.3% / 0.0%	33.2% / 43.8%	58.5% / 27.0%	31.7% / 45.4%	54.2% / 30.2%	57.6% / 36.9%		30.9% / 53.4%	38.4% / 50.2%	29.6% / 41.5%	19.7% / 63.1%	77.1% / 16.6%
9	Professional Services	19.7% / 35.4%	66.0% / 7.4%	30.2% / 24.2%	62.4% / 19.4%	41.3% / 27.3%	61.5% / 14.1%	65.6% / 25.5%	53.4% / 30.9%		42.6% / 37.2%	24.8% / 41.7%	17.8% / 53.1%	83.4% / 11.7%
10	Education, Health services	18.0% / 48.5%	66.7% / 13.6%	39.3% / 38.8%	65.7% / 22.3%	45.7% / 37.1%	60.4% / 23.6%	60.5% / 25.5%	50.2% / 38.4%	37.2% / 42.6%		27.5% / 45.1%	24.8% / 50.3%	79.6% / 14.9%
11	Arts, Entertainment, Recreation	30.3% / 10.7%	98.0% / 0.0%	32.0% / 10.6%	61.4% / 13.7%	43.6% / 17.7%	66.4% / 9.3%	68.1% / 11.2%	41.5% / 29.6%	41.7% / 24.8%	45.1% / 27.5%		16.5% / 25.6%	75.9% / 16.7%
12	Other Services	22.4% / 20.9%	62.2% / 0.0%	38.2% / 14.5%	67.7% / 14.3%	50.8% / 18.3%	51.6% / 0.0%	73.8% / 13.9%	63.1% / 19.7%	53.1% / 17.8%	50.3% / 24.8%	25.6% / 16.5%		77.0% / 7.6%
13	Public Admin	1.0% / 72.0%	65.2% / 12.6%	25.2% / 52.6%	42.4% / 53.6%	15.5% / 71.1%	42.5% / 45.5%	32.8% / 60.4%	16.6% / 77.1%	11.7% / 83.4%	14.9% / 79.6%	16.7% / 75.9%	7.6% / 77.0%	

SOURCE: Authors' calculations as described in text, using data from the March CPS, 2008.

READING TABLE 2

Table 2 should be read as follows: the rows and columns of the matrix match up to possible industry-by-industry employment combinations for the two workers in each of our sample's married families. Industries listed on the vertical have their probability of providing dependent coverage displayed in the bottom-left of each industry/industry cell. Conversely, industries listed on the horizontal have their probability displayed in the top-right of each cell. The bottom-left and the top-right triangle of cells display redundant information, but keeping all the data in the matrix is the only way one can scan along the horizontal or vertical industry consistently and get a reading of dependent coverage rates in the same portion of each cell.

of this industry-spousal pairing where dependent coverage exists. In nearly 68% of these industry-spousal pairings, manufacturing provided the dependent coverage as compared to only 14% when "other services" was the dependent-coverage provider.

In 95% of the industry-spousal pairings in public administration and professional services, dependent coverage is present (as shown in the dotted oval-encircled box). However, similar to the unevenness found in the pairing between manufacturing and other services, public administration provides dependent coverage at substantially higher rates than professional services. In fact, public administration provides dependent coverage *seven times as often* as professional services in families with that industry-spousal pairing.

TABLE 3

Industrial summary of dependent coverage provision

	Couples plus kids	
	Cell 'Wins'	***Weighted***
Economy-wide Average	NA	35.4%
Public Administration	91.7%	70.2
Information	66.7	51.5
Transportion and Utilities	75.0	47.6
Manufacturing	91.7	40.7
Finance, Insurance, Real Estate	58.3	40.4
Education, Health services	33.3	38.1
Mining	83.3	33.0
Professional Services	25.0	29.6
Wholesale/Retail Trade	41.7	29.1
Other Services	8.3	20.2
Arts, Entertainment, Recreation	16.7	19.9
Construction	50.0	19.5
Agriculture, Forestry, Fisheries	33.3	10.5

SOURCE: Authors' calculations as described in text, using data from the March CPS, 2008.

Table 3 provides a summary of our industry-by-industry findings, showing the incidence and weighted probability that employees in each industry serve as *sources* of coverage to dependents across all possible industries. The findings mirror what we have already seen in regards to high- and low-coverage industries. In the first column, we show how often a particular industry provides the dependent coverage in each of the possible matches it has with other industries. Manufacturing, mining, and public administration are clear standouts as sources of dependent coverage while other services, arts/entertainment/recreation, and professional services are relative laggards.

The second column uses dependent coverage shares from Table 2 and weights them by the share of employment in each industry-spouse combination, taking into account the relative likelihood of particular pairings (excluding same industry pairs). Here, public administration is the outstanding provider of dependent coverage, followed by information, transport/utilities, and manufacturing. The least likely providers of dependent coverage are agriculture/forestry/fisheries, construction, arts/entertainment/recreation, and other services.

Conclusion

ESI coverage, while the dominant source of coverage for the nonelderly population in the United States, has huge gaps. At the aggregate level, ESI has been covering a shrinking share of the under-65 population over time. This Issue Brief documents a lesser-known set of gaps: across industries, the incidence of ESI coverage is quite uneven. As a result, current ESI coverage is characterized by extensive cross-subsidies between industries. In constructing large-scale health reform, we might consider leveling the playing field to explicitly correct for these cross-subsidies. A hybrid framework with a play-or-pay requirement could easily compensate the firms covering the costs of dependents. For instance, if a firm's worker was insured through a spouse's employer, the share of payroll contributed on behalf of that worker could be remitted to the firm sponsoring coverage.

The industries that traditionally cover their own employees are also more likely a source of dependent coverage for spouses and kids. Given this, one would think that these industries that are carrying a disproportionate burden would like to see health care reformed in a way that distributes responsibility more evenly. As it stands, some industries are getting a free ride because others are providing insurance for their employees.

Endnote

1. Using data from the March supplement to the Current Population Survey (CPS), we examine a sample of married, two-earner couples with children to uncover where industrial cross-subsidies may exist. Whenever possible, we document whether or not dependent ESI coverage exists in each family and assign the source of this coverage to the industry of the providing spouse/parent. In 20% of the cases, we are not able to assign the source (typically when both parents have their own ESI and children have ESI as dependents). The coding and algorithm used to determine the incidence and assignment of ESI dependent coverage is available from the authors upon request. We conduct a companion analysis on married, two-earner families without children and find comparable results.