The 2008 Statistics on Income, Poverty, and Health Insurance Coverage

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September 10, 2009

Last year was the first year – but it will not be the worst year – of a recession. The Census Bureau's latest statistics on income, poverty, and health coverage, published today, reflect the impact of that recession. Household income and Americans' health insurance coverage fell last year, and the poverty rate went up. In some respects the new statistics may show *greater* income losses than typical families actually sustained, a point I'll return to in a minute. There can be little doubt, however, the recession sharply reduced the types of income that the Census Bureau is trying to measure.

A crucial statistic to keep in mind is the Census Bureau's estimate of the number of full-time, year-round workers. Between 2007 and 2008 the number of such workers fell 4.6 million, or 4.2%. Between those two years the number of adults between 18 and 64 increased 0.7%. If the economy were growing at a normal pace we should expect the number of full-time, year-round workers to grow by the same percentage, or 0.7%. The fact that full-time, year-round employment fell 4.2% in a year when the working-age population was growing 0.7% means there was a deficit in full-time, year-round jobs of nearly 5% in 2008.

The fall in full-time, year-round employment was considerably worse for men than for women. Whereas women's employment dropped 3.2%, men's employment fell 5.0%. Men suffered the bigger drop in employment, but women in full-time, year-round jobs suffered a bigger drop in their real earnings. Male earnings fell 1.0% compared with a decline in women's earnings of 1.9%.

The implications of these employment and earnings numbers for income and poverty are pretty straightforward. People who had the good fortune to keep a full-time job saw their real earnings shrink between 1% and 2%. But a sharply smaller percentage of the adult population was working in full-time, year-round jobs. For the folks who lost a full-time or a year-round job, the drop in earnings was bigger than 1% or 2%.

Not surprisingly, the health insurance statistics reflect the trend in employment. In the United States, if you are under 65 and obtain health insurance through your job, you ordinarily lose access to generously subsidized insurance when you lose your job. Last year we saw the continuation of a trend that has been underway since the beginning of this decade. There was further decline in the percentage of Americans covered by employer-sponsored and other private health insurance. For every age group between 18 and 54, the fraction of the population covered by private health insurance fell at least 1.0 percentage point last year compared with 2007. Private coverage fell 0.8 percentage points for 55-64 year-olds, and it also fell for children under 18 and for adults over 65.

There are a couple of bright spots in an otherwise gloomy health insurance picture. Coverage under government insurance plans expanded fast enough to offset the drop in private health coverage for Americans under 18 and past age 65. But government health insurance did not expand fast enough to offset the drop in private health coverage for the adult population between 18 and 64. Since 2000 private health insurance coverage has fallen in every age group in the population (see Chart 1). It has fallen fastest among children and working-age adults under 55, but it has fallen among older age groups as well. Overall health insurance coverage, under either a public or a private plan, has fallen among Americans in every adult age group (see Chart 2). The coverage rate dropped more than 5 percentage points among 25-34 year-olds and fell 4.3 percentage points in the population between 35 and 54.

It's hard to imagine a set of numbers better calculated to reinforce the message delivered by President Obama last night. Private health insurance, mostly provided by employers, is covering a shrinking percentage of the working-age population. The only bright spots in health coverage are for two age groups where the government directly provides insurance or has made efforts to broaden public insurance coverage. The aged have been covered by Medicare since 1966, and starting in the late 1980s the federal government and the states have taken big steps to make health insurance freely available or affordable for children in working-poor families. Outside of those two groups, the situation is pretty grim, and it is getting worse over time. By depriving millions of workers of employment, the recession has made insurance loss an even worse problem.

The drop in employment and real earnings has enormous impacts on the money income statistics and poverty rate. Today's Census Bureau report shows that median household income fell 3.6% and per capita money income fell 3.1% last year. Another division of the Commerce Department, the Bureau of Economic Analysis (or BEA), publishes an alternative set of statistics on aggregate personal income. These statistics show a different and less gloomy picture than the one shown in the Census Bureau's latest report. According to BEA's most recent estimates of 2008 real per capita income, income fell a bit less than 1% last year compared with 2007. (I am using the same price adjustment as the Census Bureau uses rather than the price adjustment used by the BEA to calculate the change in real income.)

What explains the difference between the two sets of estimates, and why is the difference so big? According to the BEA's standard income measure, real disposable personal income, income per person in the United States fell between 2007 and 2008 by less than a third as much as reported in the Census Bureau report.

There are two important differences between the statistics I would like to emphasize. First, respondents to Census household surveys do a good job of reporting their wage earnings and a few other cash income items. All the drop in those income sources is captured fairly accurately by the Census Bureau's income reports. The BEA agrees that gross wages have fallen sharply since the onset of the recession.

Survey respondents are less accurate in the their reports of some of the income items that have increased in the past 20 months. For example, unemployment benefits are under-reported in household surveys, and food stamp benefits are not counted at all when the Census Bureau calculates a household's money income. Most important of all, today's Census Bureau report does not tell us about changes in the personal taxes paid by respondents. American families paid less personal taxes in 2008 than they did in 2007, and they will pay even less taxes in 2009. There are two reasons for the drop in taxes. First, tax payments automatically decline when money incomes fall, and they fall faster in percentage terms than the drop in income. Second, Congress passed major temporary tax cuts in 2008 and again this year. Households got the benefit of paying lower taxes, and the tax cuts improved their disposable incomes. However, the tax cuts did not improve their money income as reported to the Census Bureau, because money income is defined on a before-tax basis. Consequently, the regular tax laws and the temporary tax cuts in the 2008 and 2009 stimulus packages reduced Americans' tax liabilities, partially offsetting the drop in their earned incomes. The substantial reduction in taxes is not reflected in today's Census Bureau report.

Finally, the BEA estimates personal disposable income by including the value of health insurance protection provided in employers' health plans and government health insurance programs (mainly, Medicare and Medicaid). The Census estimate of money income misses most of the value of this insurance protection. Counting the financial cost of this insurance protection would make a big difference in calculating family incomes, especially for families with modest incomes.

I have used a government survey called the Medical Expenditure Panel Survey (or MEPS) to figure out the value of the insurance benefits received by households in different parts of the income distribution. How much does it cost private and government insurers to pay for households' medical care, above and beyond the amount households pay in health insurance premiums? In the case of households in the bottom one-tenth of the income distribution, the cost of those insurance benefits – mostly paid by general taxpayers – is equal to approximately 80% of the total amount of money income received by these low-income households.

Chart 3 shows my estimates of household health care spending for calendar year 2005, where health care spending is measured as a percentage of households' gross money income. I have divided Americans into ten equal sized groups, depending on their household incomes.[1] People are ranked from poorest to richest in terms of their "household-size-adjusted" gross money incomes. The bars in Chart 3 measure total health care expenditures in each tenth of the income distribution as a percentage of the decile's (unadjusted) gross money income. This total spending is in turn divided into the part that is paid for with households' own money income (the lower dark portion of the bar) and with reimbursement from public or private health insurance (the upper light portion of the bar). In calculating the amount of care that is paid with the household's own resources, I have included both the out-of-pocket payments it makes to doctors, hospitals, and other providers and the insurance premiums it must pay to obtain health insurance coverage. For example, Americans in the bottom tenth of the income distribution, on the left, consume medical care that costs 104% of their gross money income. To receive this care they must pay health insurance premiums and doctor, hospital, and pharmacy bills that represent 24% of their gross money income. The remainder of the care they receive is paid by health insurers or is received as uncompensated care from providers. If insurance reimbursements and the value of uncompensated care were counted in households' incomes, we would have to increase the average household income in the bottom one-tenth of the income distribution by 80%.

Note that the value of these net reimbursements declines as a percentage of Americans' gross money income as we move up the income distribution. Near the middle of the income distribution, in the fifth decile, total health care consumption represents 20% of gross money income. Out-of-pocket household payments for insurance premiums and for doctor, hospital, and pharmacy bills represent 8% of gross money income, and net insurance reimbursement payments and uncompensated health care represent 12% of money income.

The actual spending and reimbursement amounts in each tenth of the income distribution are shown in Chart 4. Note that health consumption is relatively equal across the income distribution. People in higher ranks of the income distribution pay for a larger percentage of the care they receive through health insurance premium payments and

[1] In particular, I use a concept called "equivalent" or "household-size adjusted" income, where the gross income of each household is divided by the square root of the number of household members. This adjustment is made to reflect the fact that larger households require more income than smaller ones in order to enjoy the same standard of living.

payments to doctors, hospitals, and pharmacies, while people with lower incomes make smaller out-of-pocket payments for insurance premiums or medical care.

People up and down the income distribution obtain roughly similar amounts of care, if the amount of care is measured by the amount of money spent for the care. This does not mean rich, middle-income, and poor Americans are receiving the same level or quality of care if they face the same health problems. On the contrary, a great deal of research shows that, controlling for the quality of a person's health, poorer Americans tend to receive less care or less costly care than Americans with higher incomes.[2] The reason that total health spending is relatively equal across the income distribution is that Americans with lower incomes also tend to have poorer health. Nonetheless, as the statistics in Charts 3 and 4 make clear, the public and private provision of health insurance finances a substantial share of the health care consumed by U.S. households.

Only a relatively small percentage of the medical consumption that is reimbursed by insurance is reflected in the Census Bureau's estimate of money income. On the other hand, all of it is reflected the BEA's estimate of disposable personal income. This personal income item – government and employer payments for health insurance plans – continued to grow in 2008. Very little of the increase in insurance reimbursement for medical care is reflected in the money income statistics reported to the Census Bureau. It is fully reflected, however, in the disposable personal income statistics, which show a smaller decline in income last year.

There are two implications of this discussion of health insurance and its value to American households:.

- First, the rising cost and value of insurance protection is not captured in the Census Bureau's estimate of money income. Money income measures only part of the resources available to households to pay for their consumption, including consumption of such basic necessities as medical care. Taking account of these other resources, it is unlikely the standard of living of Americans fell as fast as implied by the 3.1% decline in per capita money income reported by the Census Bureau today. This point is especially relevant for many lower income families, because a larger percentage of their consumption is paid for with resources that are not included in the definition of money income.

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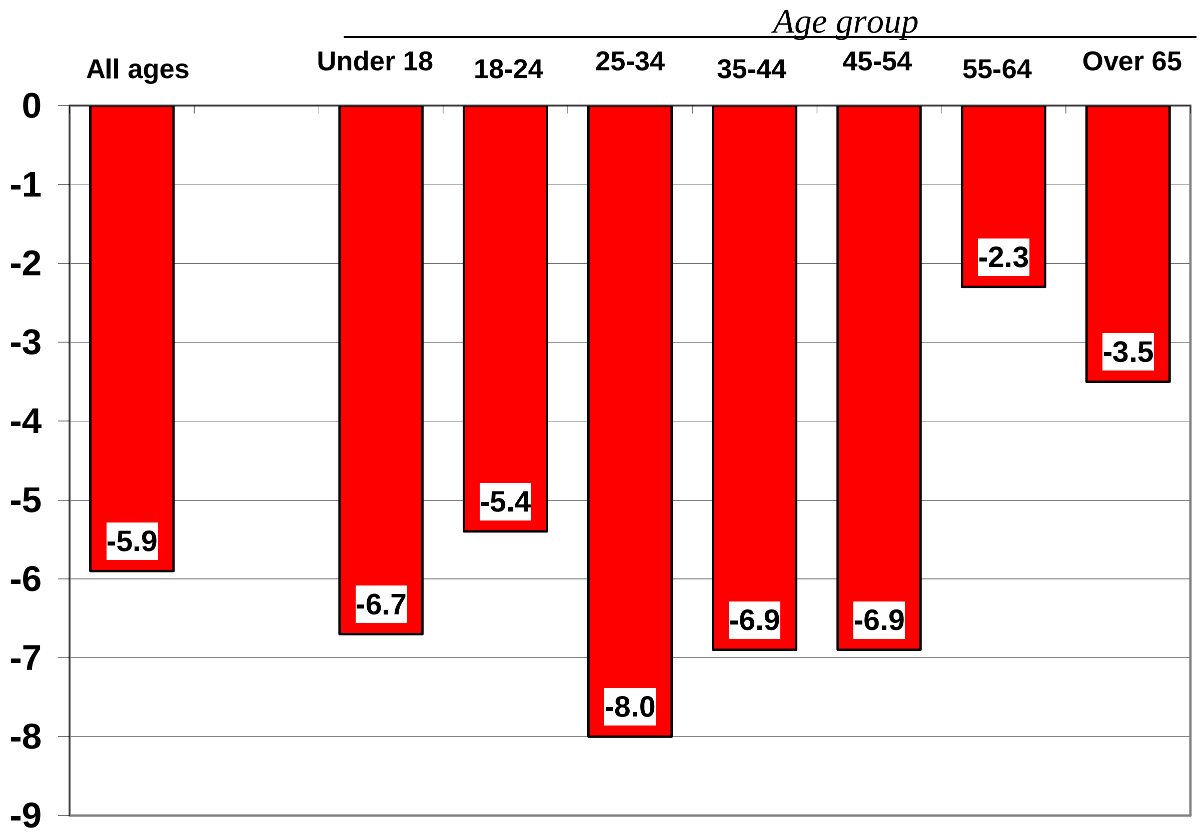
[2] See Gary Burtless and Pavel Svaton, "Health Care, Health Insurance, and the Relative Income of the Elderly and Nonelderly" (with Pavel Svaton), CRR Working Paper 2009-10 (Chestnut Hill, MA: Center for Retirement Research at Boston College, March 2009). [http://crr.bc.edu/images/stories/Working_Papers/wp_2009-10.pdf].

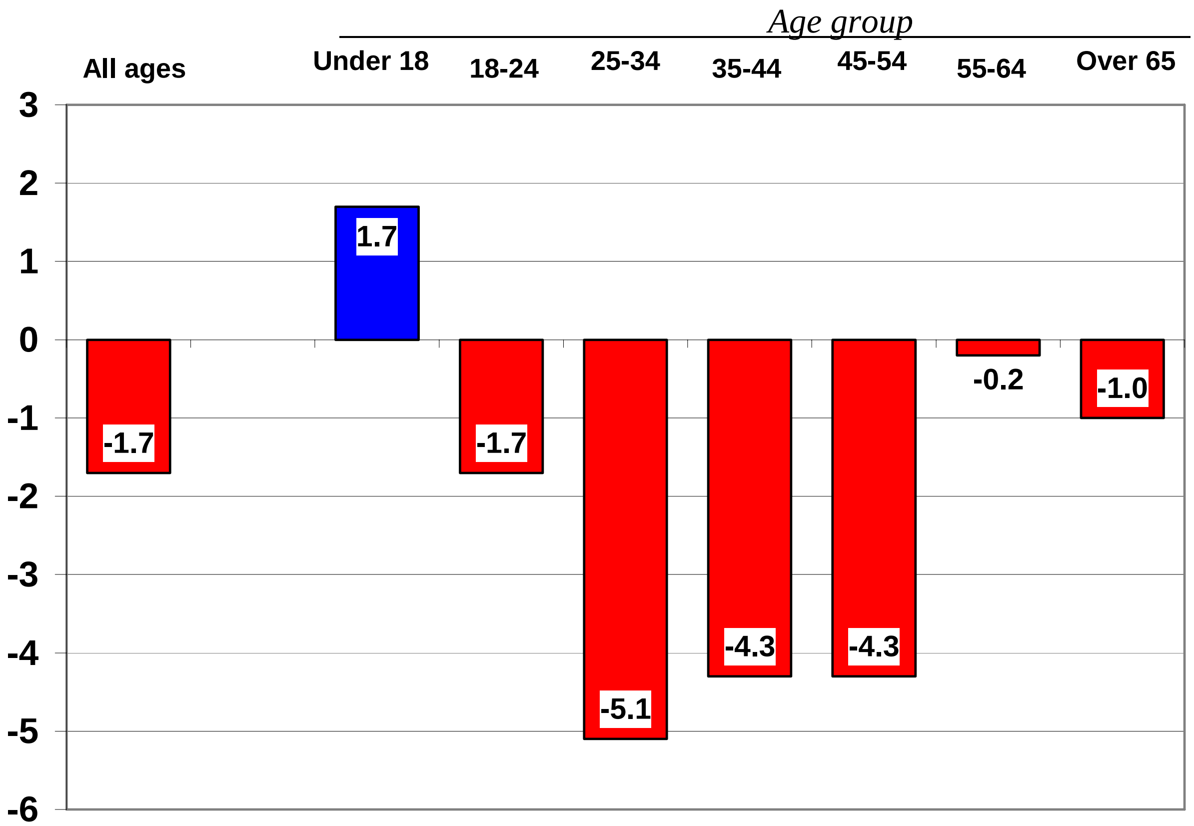
- Second, the BEA's statistics on disposable personal income provide a more comprehensive measure of the resources available to support consumption. However, they only provide an aggregate measure of resources. They do not give any indication of the distribution of income or resources across the population. In particular, they tell us nothing about the welfare loss experienced by the 682,000 Americans who lost health insurance coverage between 2007 and 2008, nor do they shed any light the drop in well-being experienced by the 7.9 million who have lost health coverage in the current decade. For the population as a whole, the decline in per capita income is likely to be closer to the BEA's estimate of 0.9% than to the Census Bureau's estimate of 3.1%. However, for the people who actually lost jobs or health insurance protection last year, the welfare loss is almost certainly much greater than 3.1%.

Chart 1. Change in Percentage of Population Covered by a *Private* Health Insurance Plan, 2000-2008 (percent of population)



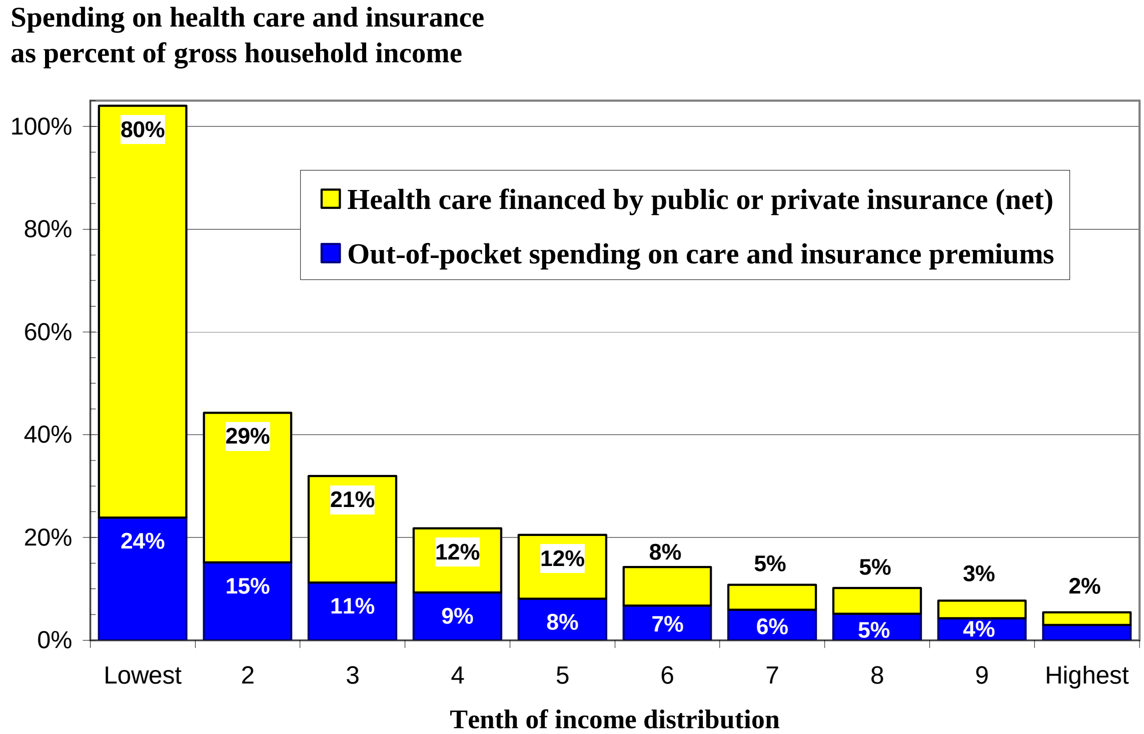
Source: U.S. Census Bureau, P60-236 (September 2008).

Chart 2. Change in Percentage of Population Covered by *Any* Health Insurance Plan, 2000-2008 (percent of population)



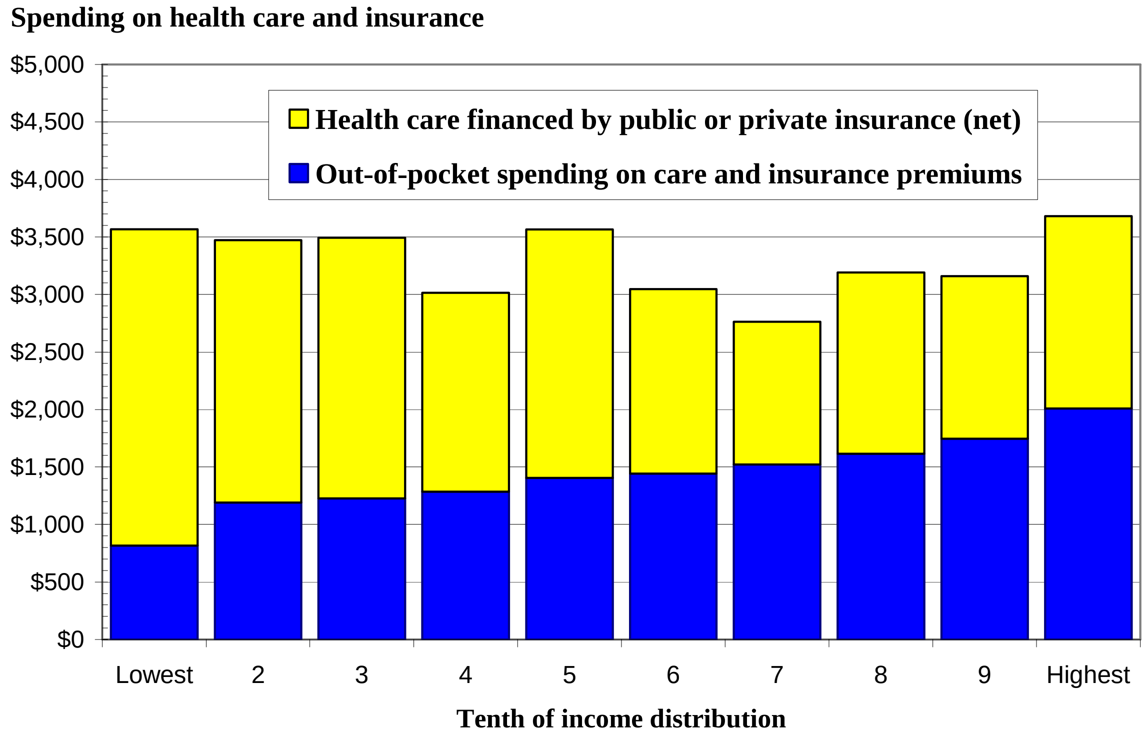
Source: U.S. Census Bureau, P60-236 (September 2008).

Chart 3. Consumption and Financing of Health Care as a Percent of Gross Money Income by Position in the U.S. Income Distribution, 2005



Source: Author's tabulations of 2005 Medical Expenditure Panel Survey (household data).

Chart 4. Health Care Consumption and Financing of Health Care, by Position in the U.S. Income Distribution, 2005



Source: Author's tabulations of 2005 Medical Expenditure Panel Survey (household data).