

Why the 1%—300,000 “rule” is bunk!

- 1. There is no specific study that concluded a one percent increase in health insurance premiums would increase the number of uninsured by 300,000.**

The CBO Study. June O'Neill, Director of the Congressional Budget Office, in a Nov. 20, 1997 letter to Rep. Charlie Norwood (R-Ga) clarified an estimate on the relationship between health insurance premiums and the uninsured from an in-house CBO analysis of a bill proposed in 1996. O'Neill wrote that CBO's estimate was based only on the mental health parity provision that applied to all private health insurance that was considered by the Senate, but not enacted into law. CBO did not complete a formal estimate of the direct costs of the mandates imposed on private health plans and insurers nor how the bill might affect the number of people covered by insurance, according to O'Neill. She said any mandate on health insurance that raises private premiums could result in some decline in coverage, but because the conditions under which an insurance mandate are imposed vary considerably from proposal to proposal, a reliable estimate of the coverage declines can only be determined by analyzing the specific legislative proposal. "Consequently, the mental health parity estimate cannot be used as a general rule of thumb for the impact of health insurance mandates on insurance coverage," O'Neill said.

- 2. There were no data on actual premiums either quoted to or paid by individual workers in the Lewin analysis.**

The Lewin Study. There was a study conducted by Lewin for the AFL-CIO that examined coverage and health insurance premiums. The initial version of the study was released in November 1997 with a subsequent version in January 1998. This study has been confused by many with the earlier CBO analysis, attributing an interpretation of one particular Lewin result to the CBO. The Lewin study had no direct information on premiums actually paid by workers. The authors synthesized data from the Current Population Survey (CPS), KPMG Peat Marwick, HIAA, Medicare, and Medicaid. Data on individual insurance were not available and hence not included. Separate probability equations were estimated for workers, spouse dependents of workers, and children dependents of workers. Despite the lack of actual data on premiums, the conclusion included a summary estimate of price elasticity of -0.203 percent. A news summary of the study may have converted that result to the 1%—300,000 estimate that was later attributed to the Lewin study itself.

- 3. Both the current and immediate previous CBO Directors have cautioned there is no single valid estimate of the effect of premium increases on health insurance coverage. The Director, Health Financing and Public Health Issues, GAO has testified that the estimate derived from the Lewin studies is unreliable. The Employee Benefits Research Institute (EBRI) in May 2001 concurred, "...the relationship between the provision of health benefits to employees and the cost of providing those benefits is not simple."**

The GAO Summary. Hearing before the Subcommittee On Employer-Employee Relations of the Committee On Education and The Workforce. House of Representatives, Washington, DC, June 11, 1999. Summary of Statement of William J. Scanlon.

Scanlon presented the findings of a study conducted for the Chair of the Senate's Health, Education, Labor and Pension Committee, in July 1998 that analyzed the relationship between private insurance premium increases and changes in the numbers of insured. He quoted CBO Director, Dr. Crippen's conclusion that recent studies have shown employers typically do not stop offering health insurance coverage when premiums increase. Scanlon concluded that the Lewin estimates might not be precise or accurate predictions of potential coverage loss. Limitations in the data, methods and assumptions utilized to make the estimate all contribute to our concern. At the heart of the concern is the fact that the information on the premiums employees paid for insurance was not available and had to be imputed. Since how individuals respond to premium changes is the key issue, having only an estimate of premiums employees face and not the actual amount introduces uncertainty into the results.

The EBRI Analysis. A study released in May 2001 by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan public policy research organization based in Washington, DC, reports that **despite rising health insurance costs, the percentage of small firms offering health benefits between 1998-2000, increased from 54 percent to 67 percent.** The research concludes that employers know the importance of providing health care coverage to retain valuable employees, and are willing to do so without passing on the increased costs to their employees.

For years now the big HMOs have been trying to mislead Congress and the public by saying that a Patients' Bill of Rights could only increase premiums and thereby increase the number of uninsured. The EBRI *Issue Brief*, "Employment-Based Health Insurance Benefits: Trends and Outlook," refutes that notion. EBRI asks and answers a recurring policy question in this debate, "Why would more small employers offer health benefits and make the benefits package richer at a time when the cost of providing those benefits was increasing? The answer is that the relationship between the provision of health benefits to employees and the cost of providing those benefits is not simple." EBRI notes that the recent national decline in the uninsured [in 1999] occurred at a time when health insurance costs were going up. Further, employers did not shift recent cost increases onto workers by decreasing the employer share of the premiums.