

THE FIRST YEAR OF THE RECESSION: KEY CENSUS INDICATORS OF FAMILY WELL-BEING IN 2008 AND THE ADMINISTRATION'S POLICY RESPONSES IN 2009

Cecilia Elena Rouse
Member, Council of Economic Advisers

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Chair Maloney, Vice Chairman Schumer, Ranking Members Brady and Brownback, and members of the Committee, thank you for inviting me to join you today to discuss the Census Bureau's release of data on income, poverty, and health insurance coverage in the United States in 2008.

The data released today provide an important piece of our overall understanding of the economic conditions that existed during the first year of the current recession. Based on survey data of households last March regarding their income and health insurance coverage during the 2008 calendar year, the data confirm what we had already surmised: along with rising unemployment, last year families were trying to get by with less income, many more had slipped into poverty, and the number of people without health insurance continued to increase. These data confirm that the economic recession was well underway in 2008.

These trends reinforce the need to expand health insurance coverage to more Americans as would be achieved through the President's plan for health insurance reform. They also provide a new lens through which to view the critical importance of the American Recovery and Reinvestment Act of 2009 (ARRA) and many other programs proposed by President Obama designed to help increase incomes, reduce poverty, and pull the economy out of recession.

In my remaining testimony, I would like to first discuss the trends in health insurance coverage in the Census report as well as the implications for health insurance reform as articulated by the President last night. I would then like to review some of the Administration's policies designed to increase incomes and reduce poverty.

Trends in Health Insurance Coverage and the Importance of Health Care Reform

The data released by the U.S. Census Bureau today shed light on the health insurance coverage of U.S. residents during 2008. Survey respondents were considered to be insured if they reported that they were covered by any type of health insurance for all or part of the 2008 calendar year. According to the new Census Bureau estimates, the number of individuals without health insurance increased significantly, from 45.7 million in 2007 to 46.3 million in 2008. The Census data also indicate that the fraction of U.S. residents without health insurance stood at 15.4 percent in 2008, a rate that was slightly higher than that in 2007 and substantially greater than the

rate in 2000 (13.7 percent). The estimated number of U.S. residents without health insurance increased by 7.9 million from 2000 to 2008.

Employment-based Health Insurance Continued to Decline in 2008

These overall changes mask important differences by the type of health insurance that individuals have. The fraction of U.S. residents with employment-based health insurance declined significantly, from 59.3 percent in 2007 to 58.5 percent in 2008, continuing a trend from the past several years. As shown in the following table, there has been a 5.7 percentage point decline in the fraction of U.S. residents with private employment-based health insurance since 2000.

Table 1: Distribution of Types of Health Insurance Coverage among U.S. Residents in 2000, 2007, and 2008 (percentage)

Type of Health Insurance	2000	2007	2008	Δ 2000-08	Δ 2007-08
Any Private Plan	72.6	67.5	66.7	-5.9	-0.8
<i>Employment-Based</i>	64.2	59.3	58.5	-5.7	-0.8
<i>Direct-Purchase</i>	9.6	8.9	8.9	-0.7	0.0
Any Government Plan	24.7	27.8	29.0	+4.3	+1.2
<i>Medicare</i>	13.5	13.8	14.3	+0.8	+0.5
<i>Medicaid/CHIP</i>	10.6	13.2	14.1	+3.5	+0.9
<i>Military Health Care</i>	3.3	3.7	3.8	+0.5	+0.1
Uninsured	13.7	15.3	15.4	+1.7	+0.1

Note: Numbers represent percentages of U.S. residents in each year. Some individuals report coverage from multiple sources.

In contrast, from 2007 to 2008, the fraction of individuals with public health insurance through Medicaid, Medicare, or the military increased substantially, from 27.8 percent in 2007 to 29.0 percent in 2008. Most of this increase was attributable to a rise in the fraction with Medicaid/CHIP (hereafter Medicaid) which was likely driven by the declining incomes caused by the first year of the recession.

Insurance Coverage Declined among Working-age Adults and Increased among Children

The change in health insurance coverage from 2007 to 2008 differed significantly by age. For example, the fraction of adults between the ages of 18 and 64 without health insurance increased significantly, from 19.6 percent in 2007 to 20.3 percent in 2008. As a result, more than one out of every five non-elderly adults was without health insurance in 2008, an increase of more than 3 percentage points since 2000. The report also reveals that the majority of uninsured non-elderly adults worked full-time and that the vast majority worked either full-time or part-time.

In contrast to the change for non-elderly adults, the fraction of children without health insurance *declined* significantly during this same period, from 11.0 percent in 2007 to 9.9 percent in 2008. As a result of this decline, both the number and the fraction of children without health insurance is at its *lowest* level since the Census started collecting comparable health insurance data in 1987. The fraction of elderly U.S. residents without health insurance was almost unchanged, declining slightly from 1.9 percent in 2007 to 1.7 percent in 2008.

A close examination of the Census Bureau's data reveals that the decline in the number of children without health insurance was almost entirely driven by an increase in their Medicaid coverage. From 2007 to 2008, the fraction of children with Medicaid increased from 28.1 percent to 30.3 percent. This more than offset a substantial decline in private health insurance coverage among children, which fell from 64.2 percent to 63.5 percent during the same period. While this strongly suggests that Medicaid has cushioned the effects of the economic downturn on children, even prior to 2007 increases in Medicaid coverage were serving to offset the substantial declines in private health insurance coverage among children, which fell from 70.2 percent in 2000 to 64.2 percent in 2007.

Inequality in Insurance Coverage across Racial/Ethnic Groups and by Income Remains High

The Census Bureau report also shows there was a significant increase in the fraction of non-Hispanic Whites without health insurance, which rose from 10.4 percent in 2007 to 10.8 percent in 2008; there was also a significant increase (from 16.8 to 17.6 percent) among Asians. The corresponding rates in 2008 for Blacks and Hispanics were substantially higher, at 19.1 percent and 30.7 percent, respectively. Interestingly, the fraction of Hispanics without health insurance declined significantly from 2007 to 2008, while there was no statistically significant change in this fraction for Blacks.

The data also reveal that individuals in low-income households remained significantly less likely to have health insurance than other individuals. For example, while 8.2 percent of individuals in households with incomes of \$75,000 or more were without health insurance in 2008, the corresponding fraction for individuals in households with incomes of less than \$25,000 was nearly three times higher at 24.5 percent.

Census Data Do not Reflect the Instability in Health Insurance Coverage during the Year

Before discussing the Administration's policies, it is worth highlighting that the estimates from the Census Bureau are meant to count the number individuals who are continuously uninsured throughout the year. And yet, a big motivation for health insurance reform is to address the instability that results when people are at risk of losing their health insurance when they move, lose their job, or change jobs. Estimates from other surveys regarding the number who are uninsured at some point during the year suggest that the number of those who experience such instability is much higher. For example, data from the *Medical Expenditure Panel Survey* suggest that 70.7 million non-elderly U.S. residents were without health insurance in at least one month during the 2007 calendar year.¹

¹ MEPS data: http://www.meps.ahrq.gov/mepsweb/data_files/publications/st259/stat259.pdf.

Census Data Do Not Reflect Likely Increases in the Rates of Uninsurance during 2009

It is also important to remember that the Census data are from 2008. Recent survey data from Gallup indicate that the fraction of adults without health insurance has continued to increase this year. This is not surprising given the economic downturn, which intensified beginning in September of 2008. Gallup data suggest that 14.7 percent of adults were uninsured in the average month in the first six months of 2008 versus 16.2 percent in the average month in the first six months of 2009.²

The Administration's Strategies to Expand Health Insurance Coverage

The Administration has aggressively worked to ensure that all Americans are covered by health insurance. In February President Obama signed into law an historic expansion of the Children's Health Insurance Program (CHIP) which extended health coverage to 4 million uninsured children. This expansion will reduce the number of uninsured children in the U.S. by approximately 50 percent by 2013. Further, the ARRA included the unprecedented government subsidy of COBRA payments enabling millions of unemployed workers to maintain their health insurance while continuing to look for new employment.

Of course, reform would result in an even larger expansion of health insurance coverage. Reform as specified in current drafts of Congressional legislation and as articulated by the President in his speech to Congress last night would achieve this by providing new tax credits to help people buy insurance and to help small businesses cover their employees.

In the President's plan individuals would be able to shop for health insurance in an exchange, where they could compare the price and quality of alternative insurance products and select the one that best fits their needs. As specified in a July 2009 CEA report, this exchange would differentially benefit small businesses and their employees, who are currently at a serious disadvantage relative to their larger competitors because of the much higher prices they must pay for health insurance.³

The President's plan would provide more stability and security for those who currently have insurance by prohibiting pre-existing conditions exclusions and preventing insurance companies from dropping coverage when people are sick and need it most. It would also cap out-of pocket expenses to protect people financially when they get sick. And it would also eliminate extra charges for preventive care to improve health and save money.

The trends summarized above during the last several years are likely to continue without decisive action. Health insurance premiums are rising three times more rapidly than wages, and thus an increasing share of workers and their families will simply be unable to afford insurance if current trends continue. Additionally, reform-induced reductions in the cost of health insurance will allow workers to take home more of their compensation in the form of earnings.

² Gallup Survey: <http://www.gallup.com/poll/121820/one-six-adults-without-health-insurance.aspx>.

³ Executive Office of the President. Council of Economic Advisers. "The Economic Effects of Health Care Reform on Small Businesses and their Employers." July 25, 2009.

Administration Policies to Reverse the Trends in Income and Poverty

The Committee also asked me to address what steps the Administration is taking to reverse the trends in income and poverty and improve the well-being of families across the country. The largest and most visible strategy pursued by the Administration and Congress was to pass the \$787 billion ARRA. Through a balanced package of state fiscal relief, individual tax cuts, and an increase in the federal safety net, much of the ARRA provides short-run help to the ailing economy. For example, ARRA has helped states maintain important state programs and to retain public sector employees during a time of fiscal distress.

The Recovery Act also includes billions of dollars in tax relief for more than 95 percent of working families to help them retain more of their take-home pay. Today's Census report indicates that 13.2 percent of individuals in the U.S. lived in poverty in 2008 up from 12.5 percent in 2007; 18.5 percent of families with (related) children lived in poverty in 2008. While before the ARRA a family of four with one parent working full time at the minimum wage would fall below the poverty line, reforms to the Making Work Pay and Child Tax Credits would lift them above the poverty line. In total, these provisions of the Recovery Act will help lift more than two million Americans out of poverty in 2009.

The ARRA also included a significant increase in the Supplemental Nutrition Assistance Program (SNAP), funding for food banks and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), as well as an increase and extension of unemployment benefits which are helping millions of struggling Americans while simultaneously helping to buoy the economy by supporting aggregate demand.

The Center on Budget and Policy Priorities estimates that several provisions of the ARRA including improvements in unemployment insurance, the tax credits for working families, and the increase in food stamps prevented 6 million Americans from falling into poverty and reduced the severity of poverty for an additional 33 million more in 2009.⁴

Clearly getting people back to work is also critical for increasing incomes and reducing poverty as changes in income and the poverty rate are highly correlated with employment. As evidence, the poverty rate among those that had worked at some point in 2008 was 6.4 percent compared to 22 percent among those that worked less than one week during the year. To this end, the ARRA increased funding for job training, such as that through the Workforce Investment Act (WIA). Evidence suggests that these types of training programs can improve labor market outcomes for participants by increasing employment rates and wages.⁵ These programs are therefore vital to helping displaced workers retrain for promising jobs in areas of high demand.

⁴ Sherman, Arloc. "Stimulus Keeping 6 Million Americans out of Poverty in 2009, Estimates Show." Center on Budget and Policy Priorities. September 9, 2009.

⁵ See, for example, Dyke, Andrew, C. Heinrich, P. Mueser, K. Troske, and K. Jeon. "The Effects of Welfare-to-Work Program Activities on Labor Market Outcomes." *Journal of Labor Economics*, 2006, 24(3): 567-608; Hotz, V. Joseph, G. W. Imbens, and J. A. Klerman. "Evaluating the Differential Effects of Alternative Welfare-to-Work Training Components: A Reanalysis of the California GAIN Program." *Journal of Labor Economics*, 2006, 24(3):521-566; and Dyke, Andrew, C. Heinrich, P. Mueser, K. Troske, and K. Jeon. "The Effects of Welfare-to-Work Program Activities on Labor Market Outcomes." *Journal of Labor Economics*, 2006, 24(3): 567-608.

Recognizing that we not only want to recover from this recession but also to build an even stronger economy, the ARRA also contained provisions to help boost incomes in the longer term. Two of the best documented long-term public investments to raise incomes are those in early childhood development and public education. The ARRA includes over \$4 billion in increases to the Child Care Development Block Grant, Head Start, and Early Head Start. Further, the ARRA includes one of the largest one-time federal reforms of public education through the Race to the Top Fund.

The President's FY2010 budget goes even further. With the savings achieved by eliminating the Federal Family Education Loan (FFEL) program, the Administration proposes to invest substantially in improving early childhood education and simplify access to federal financial student aid. These savings would also fund the American Graduation Initiative which is an ambitious plan to invest in our nation's community colleges by improving completion rates, renovating and modernizing their infrastructure, making better use of technology, and encouraging innovative curricular and programmatic reform.

Finally, the President's budget also calls for funding promising strategies to help those who were struggling even before the start of the current recession. As one component, his budget proposes investing in innovative, comprehensive strategies for helping neighborhoods. These strategies include improving K-12 education with a full network of supportive services, transformative housing interventions, and programs to individuals with significant barriers to employment to obtain the skills they need to succeed in the workforce. The budget also proposes grants to states to provide home visits to low-income parents and pregnant women. Such home visitation programs have been shown through rigorous research to be highly effective in improving child health and development, readiness for school, and improving parenting ability.

Thank you for giving me an opportunity to review the data in this new Census report and to share the Administration's strategies for returning prosperity to all Americans. I am happy to answer any questions you may have.