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New job, new life, no insurance

By Katherine Swartz | September 12, 2006

MANY OF this year's college graduates are discovering that their health coverage -- whether their own college policy or coverage under their parents' policy -- has just ended. Even graduates who land jobs in their chosen fields will find that many positions do not offer health insurance.

When it comes to coverage, these new members of the labor force have three options. If they were covered by their parents' policies, they can continue to be insured for up to 18 months at 102 percent of the full premium for the same plan, a choice known as COBRA. In Massachusetts, they can purchase a policy in the health insurance market for individuals, where policies typically cost $300 a month without prescription drug coverage and more than $400 a month with it. The third choice is to become uninsured.

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Parents of these graduates are right if they think it was easier when they entered the labor force. Today's college and high school graduates face two problems that their parents did not encounter 25 years ago. A wide variety of occupations now involve large numbers of people with no choice but to be self-employed consultants or to obtain work through temp agencies or contract houses. At least 20 million workers -- one-seventh of the American workforce -- are self-employed or working on contract. More and more firms are relying on these non-permanent but often long-term relationships with workers to get specific tasks done. A major reason is to avoid paying for health insurance and other benefits.

This increasing reliance on non-permanent employees permeates a wide array of occupations for which college is a prerequisite. They include software engineers, accountants, human resource professionals, producers in advertising and broadcasting, writers and editors, even teachers and college professors. Many people in these occupations earn middle-class incomes over a year, but they must constantly hustle to get the next contract to maintain them. Most do not belong to an employer-group that gives them access to low-cost health plans. This puts them at a tremendous disadvantage for

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obtaining, much less affording, health insurance.

The firms in which today's graduates are likely to work are also smaller than the companies that first employed their parents. The growth in new jobs over the past quarter century has been in service industries -- especially business and professional services, health, education, entertainment and financial services. Because service-sector firms are typically small, more people now work in small firms. In 2005, 44 percent of the workforce was employed in establishments with fewer than 50 employees, up from 37 percent in 1979. Because small firms have much higher per-person premiums, only about half of all firms with three to nine employees offered health insurance in 2004, compared with almost all firms with 200 or more employees.

The result? Today, one in four adults ages 25 to 34 and almost one in five adults ages 35 to 44 are uninsured. Many are uninsured because their only choice is to buy their own coverage in the individual insurance market. Premiums for such coverage are significantly higher than those for employer-sponsored policies.

Meanwhile, insurers in the individual and small-group markets are wary of their own potential customers. Because we do not require people to purchase health insurance, insurers suspect that those who apply for coverage are more likely to have high medical expenses. So they charge individuals and small groups higher premiums.

However, these premiums could be reduced substantially if a government reinsurance program took responsibility for most of the costs of the 1 percent of people with the very highest medical expenses -- above $50,000 a year -- in the small-group and individual markets. It would have the same role that Fannie Mae has for mortgages and Sallie Mae has for college loans. Both help millions of people obtain mortgages and student loans for college by being responsible for the worst risks of people defaulting. Likewise, a reinsurance program for health insurance markets would sharply reduce insurers' risks in these markets and reduce premiums to affordable levels.

Bringing young adults into the individual and small-group insurance markets is essential if we want to keep a private health insurance system. Pooling risks does not work unless a lot of insured people have low expenses. To help young adults transition from their parents' insurance policies to their own, we need to make health coverage more affordable. Government-sponsored reinsurance could make that happen.

Economist Katherine Swartz is the author of ``Reinsuring Health: Why More Middle Class People Are Uninsured and What Government Can Do" and a professor at the Harvard School of Public Health. ■