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COST OF FAILURE: THE ECONOMIC LOSSES OF THE UNINSURED

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In 2000, the Institute of Medicine (IOM) estimated that the "annualized economic cost of the diminished health and shorter lifespan of Americans who lack health insurance is between $65 and $130 billion for each year of health insurance forgone."[1]

After updating the IOM's numbers to reflect growth in the economy and increases in the number of uninsured, we estimate that the poor health and shorter lifespan of the uninsured cost the U.S. economy between $102 billion and $204 billion in 2006. This estimate does not include spillover costs. For example, when medical bills go unpaid, providers attempt to recoup lost revenues by raising the rates for their services. In response, insurers raise premiums. This vicious cycle of "cost shifting" inextricably links the uninsured to rising health care costs and premium rates for the insured.

The economic cost imposed on the nation by the uninsured is as much as and perhaps greater than the public cost of covering them.[2]

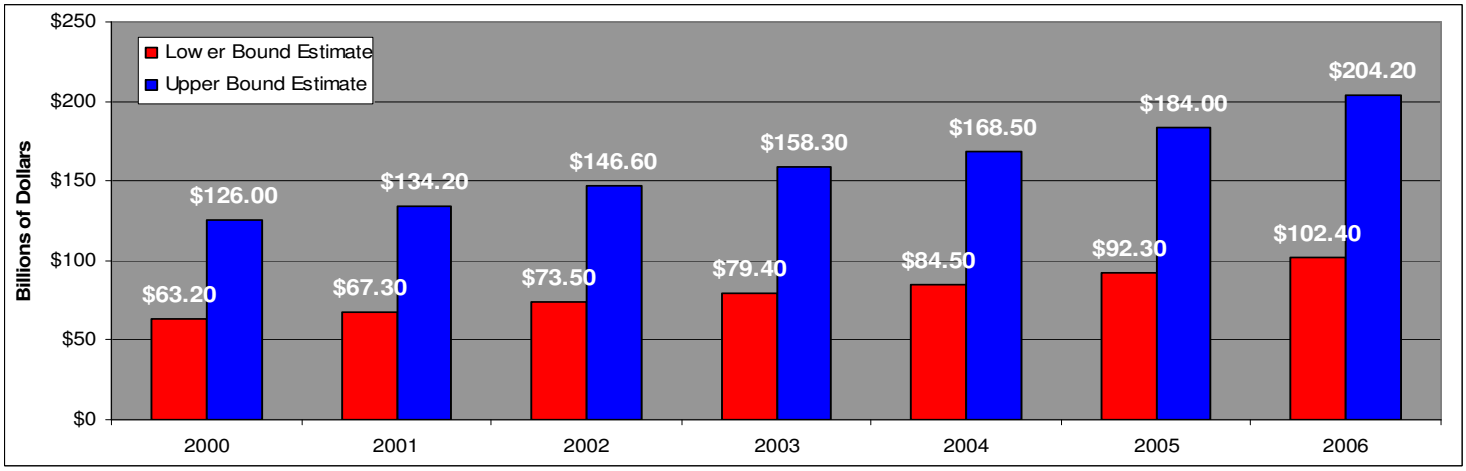
In arriving at its cost estimates, the Institute of Medicine considered the economic losses of uninsured individuals because of premature mortality and unnecessarily prolonged illness.

Since 2000, these cost estimates have increased because a number of driving factors have changed:

- *There are more uninsured Americans.* In 2000, there were 40 million uninsured. The U.S. Census Bureau estimates that 47 million Americans lacked health insurance in 2006.
- *The value of economic output has increased*. In 2006, GDP was $13.2 trillion, up from $9.8 trillion in 2000. This represents a nearly 35 percent increase.

The economic cost of the uninsured increases as the value of lost output and the number of uninsured Americans rises. **Based on these changes, we conclude that a more current estimate of the economic cost of the uninsured is between $102 and $204 billion.** This estimate is for 2006 and pertains only to the productivity of uninsured individuals. It does not reflect the spillover costs to society.[3]

Figure 1. Updating the Institute of Medicine, 2000-06.



Sources: U.S. Census Bureau, "Historical Health Insurance Tables," http://www.census.gov/hhes/www/hlthins/historic/hihistt2.html; Bureau of Economic Analysis, "Current dollar and "real" GDP," http://www.bea.gov/national/xls/gdplev.xls; Elizabeth Richardson Vigdor, "Coverage Does Matter: The Value of Health Forgone by the Uninsured," in *Hidden Costs, Value Lost: Uninsurance in America*, Institute of Medicine (Washington, D.C.: National Academies Press, 2003), 129–69.

Table 1. Updating the Institute of Medicine, 2000–06

	Number of Uninsured	Lower Bound Estimate (billions of current dollars)	Upper Bound Estimate (billions of current dollars)
2000	38.4 million	$63.20	$126.00
2001	39.7 million	$67.30	$134.20
2002	42.0 million	$73.50	$146.60
2003	43.4 million	$79.40	$158.30
2004	43.5 million	$84.50	$168.50
2005	44.8 million	$92.30	$184.00
2006	47.0 million	$102.40	$204.20

Sources: U.S. Census Bureau, "Historical Health Insurance Tables"; Bureau of Economic Analysis, "Currently dollar and "real" GDP"; Elizabeth Richardson Vigdor, "Coverage Does Matter: The Value of Health Forgone by the Uninsured," in Institute of Medicine, *Hidden Costs, Value Lost: Uninsurance in America* (Washington, D.C.: National Academies Press, 2003), 129-169.

Note: The lower and upper estimates of the economic costs of the uninsured for 2000 are slightly lower than the Institute of Medicine's figures for that year because the numbers in the table reflect the U.S. Census Bureau's downward adjustment of the number of uninsured.

BACKGROUND ON THE INSTITUTE OF MEDICINE'S STUDY

In arriving at its estimates, the IOM made three distinct calculations.

- It started with the ***baseline estimate*** that on average the uninsured are 25 percent more likely than the insured to die prematurely.[4] Based on this well-documented assumption, it then recalculated the life expectancy of the uninsured. This new, insurance-adjusted, life expectancy became the baseline calculation for its economic cost estimate.

In order to be as accurate as possible, the IOM made two additional calculations to determine the bounds of its economic cost estimate.

- The first, or ***lower bound estimate***, further lowered the life expectancy figures for the uninsured based on nationwide disease prevalence and the effect of particular diseases on the quality of life. In determining the lower bound estimate, the IOM assumed that there was no difference in disease prevalence based on insurance status.
- The second, or ***upper bound estimate***, further lowered the life expectancy figures for the uninsured based on the differences in disease prevalence between the insured and the uninsured. The IOM correctly assumed that the uninsured have a higher disease prevalence on average than the insured population.[5]

Finally, the IOM assigned a dollar value to a year of perfect health, which it then discounted based on the different calculations of life expectancy. It multiplied these discounted values ($1,645/lower bound estimate; $3,280/upper bound estimate) by the number of uninsured individuals to come up with its cost estimates.

NEW AMERICA FOUNDATION UPDATE

In updating the Institute of Medicine's calculations, we made two further adjustments to the cost estimates.

- First, we indexed the yearly cost estimates to GDP growth to account for the growth of the economy from 2000 to 2006.
- Second, we multiplied these newly indexed cost estimates by the Census Bureau's determination of the number of uninsured.

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NOTES

[1] Institute of Medicine, *Hidden Costs, Value Lost: Uninsurance in America* (Washington, D.C.: National Academies Press, 2003); Wilhelmine Miller, Elizabeth Richardson Vigdor, and Willard G. Manning, "Covering the Uninsured: What is it Worth?" *Health Affairs* web exclusive (March 31, 2004): 157-167.

[2] Sara R. Collins, Karen Davis, and Jennifer L. Kriss, "An Analysis of Leading Congressional Health Care Bills, 2005–2007: Part I, Insurance Coverage," Commonwealth Fund, March 2007.

[3] Because the Census Bureau has not yet released its estimates of the number of uninsured in 2007 or 2008, the most recent, reliable calculations we could make are based on data from 2006.

[4] Peter Franks, Carolyn M. Clancy, and Marthe R. Gold, "Health Insurance and Mortality: Evidence from a National Cohort," *Journal of the American Medical Association* 270, no. 6 (1993): 737-741.

[5] For more information on the effects of insurance on health outcomes, see: Sarah Axeen and Elizabeth Carpenter, "Why Does Health Insurance Matter?" *New America Foundation*, 2008.

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