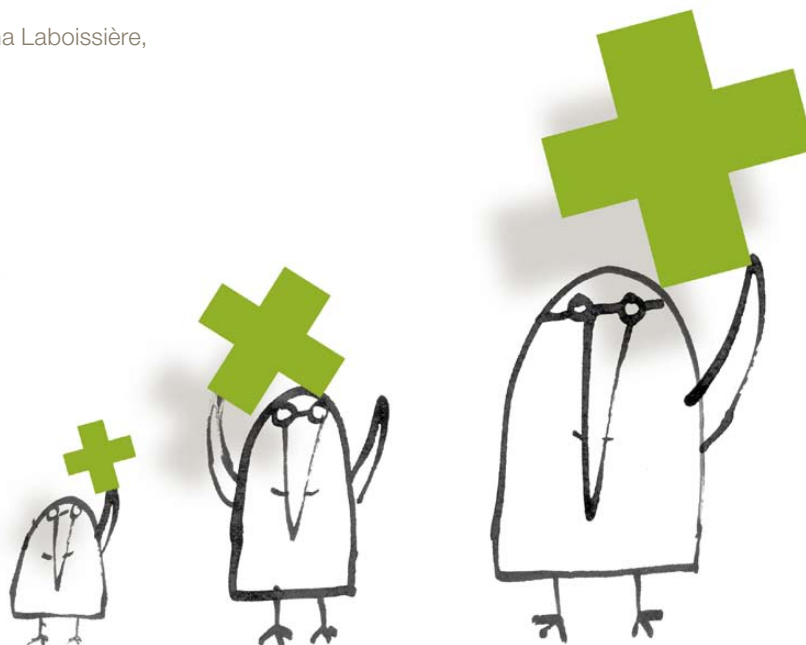


How health care costs contribute to income disparity in the United States

Recent trends in health care costs, health care coverage, and household income have contributed to growing disparities between different income groups in the United States.

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and Lenny T. Mendonca



Over the past 50 years, US workers have come to expect employers to pay for some part of employee health insurance; many consider this an important part of overall compensation. However, recent economic trends have resulted in a growing disparity in health care coverage and affordability. A study by the McKinsey Global Institute (MGI) identified three divergent categories of workers that are emerging from trends in health care coverage and income growth.

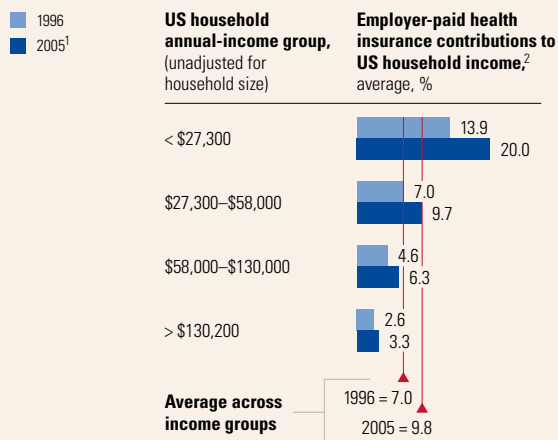
The top-income category (earning on average \$210,100 annually¹) has enjoyed rising incomes and growing employer-paid health care benefits, which have made their out-of-pocket spending on health care a relatively small and affordable portion of total spending. The higher-middle-income category (earning an average of \$84,800 annually) and the lower-middle-income group (earning on average \$41,500), have also seen increasing benefits and incomes—but at a much slower rate, making the uncovered portion of their health care costs ever-more expensive. In the bottom-income category (earning an average of \$14,800 a year), incomes have been stagnant, and their employers are less likely to pay for their health insurance. This group is finding any health care difficult, if not impossible, to afford.

As part of a study of widening income gaps between US households, we found that rising employer-paid health insurance premiums constitute a growing share of the combined income of lower-paid employees—a much larger share than for those who are higher paid. For those workers within the bottom-income group who are insured (22 percent), the ratio of employer-paid premiums to household income is 20 percent. That compares with 3.3 percent for the top-income group, in which nine out of ten workers are insured (Exhibit 1).

¹All average incomes are for 2005. The top-income group represents 10 percent of all households; the higher-middle-, lower-middle-, and bottom-income levels each make up 30 percent of the remainder.

Exhibit 1

Wide gaps



¹Analysis done for years comparable to available detailed household *Current Population Survey* (CPS) data.

²Includes both public- and private-sector employees.

Source: *Current Population Survey*, DataFerrett; US Bureau of Labor Statistics; Medical Expenditure Panel Survey; 2008 *Health Care for America Survey*, American Federation of Labor and Congress of Industrial Organizations, Mar 2008; McKinsey Global Institute analysis

In addition, different income groups now experience strikingly different levels of health care coverage and benefits. Rising health care costs, reflected by spiraling insurance premiums, are widening the discrepancies between income groups in both the levels of enrollment in employer-paid health schemes and insured workers' ability to afford premiums and out-of-pocket health care costs.

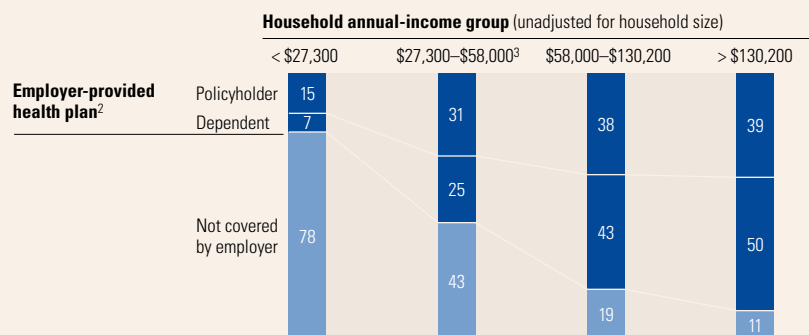
The latest available data, from 1996 to 2005,² shows that the average employer contributions to health insurance premiums grew 5 percent a year in real terms, to \$5,068. Some employers are offering more comprehensive benefits to attract and retain better workers. At the same time, some companies have been prompted to withdraw the offer of employee health care benefits altogether; others have had to limit the number of employees eligible for benefits (for example, by including only full-time workers or those of a certain tenure). Employee contributions to insurance premiums have also been rising, discouraging some from taking up their employers' insurance offers altogether.

Such responses to rising premiums have resulted in stagnating or falling rates of enrollment in employer-paid schemes—a trend that has particularly affected middle-income employees. Put another way, employers are spending more on health care per employee but for fewer employees. In 2005, employer-paid health benefits covered 22 percent of households in the bottom-income group, contrasted with 56 percent of the lower-middle, 81 percent of the upper-middle, and 89 percent of the top income group (Exhibit 2).

²Analysis done for years comparable to available detailed household *Current Population Survey* (CPS) data.

Exhibit 2 Premiums on the rise

US population, 2005,¹ %



¹Analysis done for years comparable to available detailed household *Current Population Survey* (CPS) data.

²Provided through current or former employer or union.

³Figures do not sum to 100%, because of rounding.

Source: *Current Population Survey*, DataFerrett; McKinsey Global Institute analysis

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What's more, because incomes across the four groups of workers have been growing at such different rates in recent years, the average employer-paid premium for a worker in the top 10 percent was more than double the average for someone in the lowest 30 percent of income earners. Gaps in the extent of employer-paid health care services offered to employees at different income levels have thus widened. Employees benefiting from higher premiums receive a proportionately wider choice of health care goods and services. *Q*

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