

## Chapter 3



# Sources of Insurance Coverage

**Three out of every five nonelderly people in the state are covered by employer-sponsored insurance, but the percentage of people covered by employer-sponsored insurance is declining—especially among small employers.**

**A**lthough the numbers of North Carolinians without health insurance coverage have increased over the last four years, most North Carolinians have health insurance. In 2004, 61.5% of the nonelderly reported that they had employer-sponsored insurance, and 6.4% reported that they directly purchased health insurance in the nongroup market.<sup>1</sup> Approximately 16% of nonelderly North Carolinians are covered by Medicaid or NC Health Choice, and approximately 3% of the nonelderly have Medicare coverage.<sup>a,b,2,3</sup> Understanding the potential sources of coverage, possibilities of expanding coverage, and barriers to enrollment is important in developing strategies to expand coverage to the uninsured.

## Employer-Sponsored Insurance

Employer-sponsored health insurance (ESI) is the primary source of health insurance coverage for nonelderly North Carolinians. In 2004, of the approximately 7.5 million North Carolinians under the age of 65, more than 61% were covered by ESI.

Even though ESI is the largest source of health insurance coverage, the proportion of individuals covered by ESI has steadily declined over the past few years. In 2000, the ESI coverage rate for all North Carolinians was nearly 68%; today it is six percentage points lower. There was a similar drop among *full-time workers*, from 79% in 2000 to 74% in 2004. This decrease has been concentrated primarily in small employers (see Chart 3.1).<sup>2</sup> The rate of coverage has fallen by more than one percentage point a year for *full-time workers* in firms with less than 100 employees. ESI coverage rates in larger firms are essentially unchanged over this same time frame.

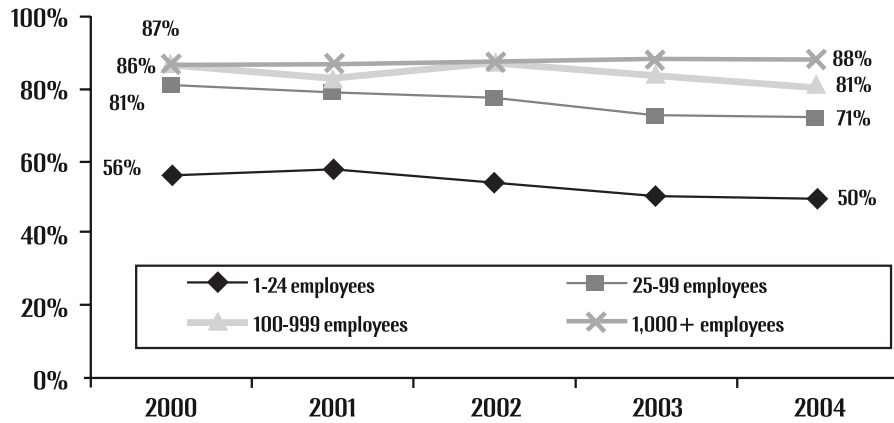
There are three factors that determine whether workers will be covered by employer-sponsored health insurance. First, an employee must work for a firm that offers insurance, or have a spouse that works for a firm with coverage. Premium costs are a major factor that employers consider in determining whether to offer health insurance coverage. Second, the employee (or spouse) must qualify for coverage. Certain individuals, such as part-time or seasonal workers, may not qualify for ESI

<sup>a</sup> Individuals can have more than one source of health insurance coverage during the year. With the exception of NC Health Choice, which is limited to uninsured children, individuals can be covered by multiple health insurance plans at the same time. For example, a working individual can receive employer-sponsored insurance and also be covered under a spouse's plan; an individual can also receive employer-sponsored insurance and Medicaid. In this latter instance, Medicaid would be the secondary payor, paying only for the services that are not covered through the employer-sponsored insurance policy. In addition, individuals can be covered by more than one plan during the year. For example, a child might be covered by NC Health Choice for part of the year and a parent's employer sponsored insurance for another part.

<sup>b</sup> The Current Population Survey historically undercounts the number of people receiving Medicaid and the State Children's Health Insurance Program benefits. Because data are available to identify the exact number of Medicaid, NC Health Choice, and Medicare enrollees, these data are reported here.

**Chart 3.1**

**Percentage of Full-Time Workers Covered by Employer-Sponsored Insurance (North Carolina, 2000-2004)**



Source: Holmes M. Analysis of US Census. Current Population Survey (CPS) 2000-2005 (Calendar years 1999-2004). Cecil G. Sheps Center for Health Services Research, The University of North Carolina at Chapel Hill. 2005. The analyses are based on two-year average of 2000-2005 CPS data weighted more heavily to the most recent year.

**Small employers are much less likely to offer health insurance coverage than large employers.**

even if it is offered through the firm. Third, the employee who is offered insurance must elect coverage. One determinant of whether the employee elects coverage is whether they are or can be covered through a spouse's ESI and how the price of that coverage compares. The fact that an employee of a firm can be covered as a dependent under their spouse's ESI should be kept in mind when viewing statistics on the percent of eligible employees who are enrolled; the percent of employees who actually have coverage will be higher than the percent who are enrolled in *their* ESI. Each of these factors is discussed below.

*In North Carolina, large employers are more likely to offer coverage than small employers.* Small employers (with fewer than 10 employees) are far less likely to offer health insurance coverage than other size firms (see Table 3.1).<sup>4</sup> On average, in 2002-2003, only 29.4% of these firms offered health insurance, compared to 67.5% of firms with 10-24 employees, 79.3% of firms with 25-99 employees, and more than 90% of larger firms in North Carolina. Overall, North Carolina employers were about equally as likely as other employers across the nation to offer health insurance coverage.

**Table 3.1**

**Percent of Firms that Offer Health Insurance, by Size of Firm (2002-2003)**

	Total	<10 employees	10-24 employees	25-99 employees	100-999 employees	1,000+ employees
NC	53.6%	29.4%	67.5%	79.3%	99.3%	98.9%
US	56.7%	36.2%	67.0%	81.7%	94.5%	98.7%

Source: Holmes M. Analysis of Medical Expenditure Panel Survey-Insurance Component. Percent of private-sector establishments that offer health insurance by firm size and State: United States, 2002 and 2003 (Table II.A.2). Agency for Healthcare Research and Quality.

While North Carolina employers overall are about equally as likely to offer coverage as their national counterparts, North Carolina employees who work for very small firms are less likely than the national average to work in a firm that offers insurance coverage (see Table 3.2).<sup>5</sup> Nationally, 46.6% of employees in small firms (with fewer than 10



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employees) had access to employer-sponsored insurance through their job in 2002–2003; whereas, only 36.7% of North Carolina workers in small firms work for a firm that offers insurance.

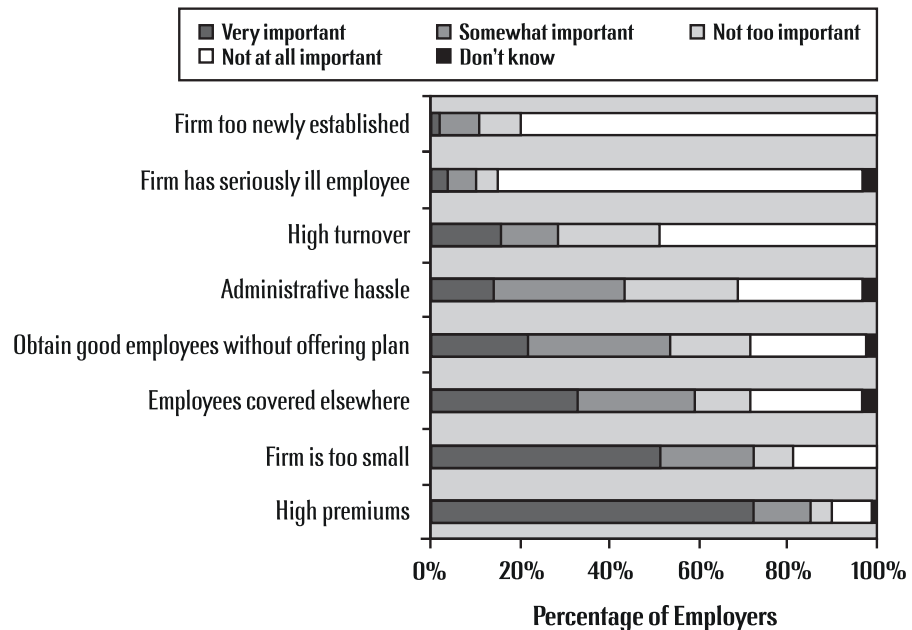
**Table 3.2**  
Percent of Workers Who Work in Firms that Offer Employer-Sponsored Insurance (2002–2003)

	Total	<10 employees	10–24 employees	25–99 employees	100–999 employees	1,000+ employees
NC	87.3%	36.7%	67.7%	81.2%	98.8%	99.3%
US	87.6%	46.6%	71.1%	85.3%	96.2%	99.1%

Source: Holmes M. Analysis of Medical Expenditure Panel Survey–Insurance Component. Medical Expenditure Panel Survey Data (MEPS); Insurance Component, 2002, 2003 (Tables II.B.2). Agency for Healthcare Research and Quality.

The primary reason that some employers do not offer health insurance coverage is high premium costs. In a national survey of employers, 86% of employers that did not offer health insurance listed high premiums as an important reason for not offering coverage (see Chart 3.2).<sup>6</sup> Firm size was also an important factor: 73% noted their “firm was too small” as a reason for lack of coverage. The high cost of health insurance was also noted as a primary concern among the employers who participated in the employer focus groups conducted for this Task Force.

**Chart 3.2**  
Reasons Employers Do Not Offer Coverage (United States, 2005)



Source: Kaiser and Health Research and Education Trust. Employer Health Benefits, 2005 Annual Survey. Chart #11.

On average, premiums for employees were approximately \$3,300 per year for individual employee coverage (2002–2003) or \$8,200 per year for family coverage (see Table 3.3).<sup>7</sup> North Carolina employees pay about the same share of premiums for individual coverage as other employees nationally, but are generally required to pay slightly more for dependent coverage.



**North Carolina employees in all size firms are likely to enroll when they are offered health insurance coverage.**

**Table 3.3**  
Average Employee Premium (2002-2003)

Average premium	Total (employee share)	<10 employees (employee share)	10-24 employees (employee share)	25-99 employees (employee share)	100-999 employees (employee share)	1,000 + employees (employee share)
Employee Only						
NC	\$3,289 (\$558)	\$3,429 (\$242)	\$4,154 (\$626)	\$3,013 (\$500)	\$3,512 (\$546)	\$3,097 (\$607)
US	\$3,335 (\$586)	\$3,700 (\$452)	\$3,438 (\$499)	\$3,300 (\$600)	\$3,302 (\$598)	\$3,280 (\$615)
Family Coverage						
NC	\$8,244 (\$2,235)	\$8,739 (\$2,013)	\$9,901 (\$2,665)	\$7,989 (\$3,167)	\$8,034 (\$2,805)	\$8,197 (\$2,006)
US	\$8,859 (\$2,135)	\$8,944 (\$1,906)	\$8,823 (\$2,441)	\$8,869 (\$2,768)	\$8,721 (\$2,395)	\$8,895 (\$1,942)

Source: Holmes M. Analysis of Medical Expenditure Panel Survey-Insurance Component. Medical Expenditure Panel Survey; Insurance Component, 2002, 2003 (Tables II.C.1., II.C.2., II.D.1, II.D.2). Agency for Healthcare Research and Quality.

\*Cells contain two year averages. Parentheses denotes average employee share.

If employed in a firm that offers insurance, North Carolina employees are generally eligible for coverage and choose to enroll when offered. Employees who work for small firms are generally more likely to be eligible for insurance coverage than employees in larger firms, and are about equally likely to enroll when offered coverage (see Table 3.4).<sup>8</sup>

**Table 3.4**  
Employees Eligible for Coverage, Eligible Who Are Enrolled, and Percent of All Private Sector Employees Enrolled In Firms that Offer Insurance (2002-2003)

	Total	<10 employees	10-24 employees	25-99 employees	100-999 employees	1,000 + employees
Eligible for Coverage						
NC	81.5%	87.9%	83.3%	75.1%	80.9%	82.2%
US	77.8%	81.7%	78.1%	74.5%	75.7%	78.9%
Percent of Eligible who are Enrolled in Coverage						
NC	83.4%	86.2%	79.8%	78.4%	85.5%	83.8%
US	80.7%	80.0%	77.6%	77.5%	79.7%	82.3%
Percent of All Private Sector Employees Enrolled in Coverage in Firms that Offer Insurance Coverage						
NC	68.0%	75.7%	66.4%	58.9%	69.1%	68.8%
US	62.7%	65.4%	60.6%	57.7%	60.3%	64.9%

Source: Holmes M. Analysis of Medical Expenditure Panel Survey-Insurance Component. Medical Expenditure Panel Survey; Insurance Component, 2002, 2003 (Tables, II.B.2.a, II.B.2.a(1), II.B.2.b). Agency for Healthcare Research and Quality.

For North Carolina workers who work for small firms, the problem appears to be that small employers are less likely to offer coverage. In contrast, larger firms are much more likely to offer coverage; but employees may not be eligible for that coverage. Employees in small firms are less likely to be insured because small employers are less likely to offer coverage. North Carolina employees generally are equally or more likely to have insurance coverage from their own employer than other employees nationally (see Table 3.5).<sup>9</sup>

**Table 3.5**

**Percent of All Private Sector Employees Who Have Health Insurance from Their Own Employer (2002-2003)**

	Total	<10 employees	10-24 employees	25-99 employees	100-999 employees	1,000+ employees
NC	59.4%	27.8%	44.9%	47.8%	68.3%	68.4%
US	54.9%	30.4%	43.0%	49.2%	58.0%	64.3%

Source: Holmes M. Analysis of Medical Expenditure Panel Survey-Insurance Component. Medical Expenditure Panel Survey; Insurance Component, 2002, 2003. Agency for Healthcare Research and Quality.

When examining employees in all firm sizes, North Carolina employees have above average coverage by ESI from their own employer as compared to the nation as a whole. Yet, ESI coverage is lower in North Carolina than the national average because North Carolina children are less likely to be covered by ESI.

Table 3.3 provides evidence that suggests North Carolina employees tend to pay slightly more for family coverage than the national average. At the same time, North Carolina median family income was lower than nationally (NC: \$47,112, US: \$53,692).<sup>c,10</sup> A recent study by Monheit and Vistnes demonstrated that roughly half of the decline nationally in dependent coverage between 1987 and 1996 was attributable to the increase in premiums for family coverage.<sup>11</sup> Given this relationship, one would expect that dependent coverage by employer-sponsored insurance would be slightly lower in North Carolina. Indeed, this relationship is borne out, especially with children. Only 80% of North Carolina children with at least one individual in the house with ESI had employer-sponsored insurance coverage, compared to 84% nationally.

## Nongroup Coverage

According to Current Population Survey (CPS) data from 2004, North Carolinians are about equally likely to purchase nongroup coverage as their national counterparts (NC: 6.4%, US: 6.6%).<sup>1</sup> Individuals who purchase nongroup policies are similar to the rest of the state in terms of income, age, and employment status. However, certain groups are more likely to be covered by nongroup policies, including children and young adults 20-24 years old (particularly those working part-time). Those covered by nongroup policies also tend to be less healthy than those with group insurance.<sup>1</sup>

With certain limited exceptions, health insurers are not required to provide nongroup coverage to individuals with pre-existing health problems. The only exception is for people who were previously insured for at least 18 months through an employer-sponsored or governmental plan and who exhausted their COBRA continuation coverage (if applicable).<sup>d,12</sup> The federal Health Insurance Portability and Accountability Act (HIPAA) and state insurance laws require insurers to cover these individuals, but there is no limit on how much these individuals can be charged for their coverage.

c North Carolina was ranked low compared to other states: 41st out of the 50 states and the District of Columbia for median family income.

d The federal Health Insurance Portability and Accountability Act requires insurers to provide coverage to individuals who had 18 months of employer-sponsored or governmental health insurance, and who exhausted COBRA coverage, regardless of their health status.



**The cost of non-group coverage for a 35-year-old man may vary between \$1,500-\$15,000 per year for a comprehensive policy, depending on the person's health status. Premium prices for older individuals or women can be even higher.**

BlueCross BlueShield of North Carolina (BCBSNC) is the only insurer in the state that will voluntarily cover *any* individual—even those who do not meet the HIPAA requirements—regardless of health status or pre-existing condition. However, the premium costs vary considerably, depending on the person's age, health status, county of residence, and health plan coverage. For example, the premium costs for a comprehensive benefit package (\$250 deductible, 20% coinsurance) for a 35-year-old man could range from approximately \$1,680–\$15,600/year, depending on health status and county of residence.<sup>13</sup> The premium costs for the same policy for a 55-year-old man could range from \$4,200–\$36,000/year. A higher deductible plan with more cost sharing (\$1,000 deductible, 30% coinsurance) would range from approximately \$1,320–\$12,000/year for a 35-year-old man, or between \$2,880–\$26,400/year for a 55-year-old man. The premium costs for women are higher, especially if a woman selects maternity coverage. For most individuals with pre-existing health problems, these premiums may be cost-prohibitive.

## Public Health Insurance Coverage

Some low-income, nonelderly individuals have access to publicly-funded insurance coverage through Medicaid, NC Health Choice, or Medicare. However, because of specific eligibility requirements (described below), they do not provide coverage to all low-income individuals.

### Medicaid

Medicaid is a publicly-funded, entitlement program that provides health insurance to certain low-income individuals and families who meet specified eligibility requirements. The program costs are split between the federal, state, and county governments, with the federal government paying almost two thirds of program costs (63.4%) and the state and county paying the remainder (31.1% and 5.5%, respectively). The Medicaid program is administered through the NC Department of Health and Human Services (NC DHHS). In SFY 2004, North Carolina Medicaid program expenditures exceeded \$8 billion.

To qualify for Medicaid, a person must meet specific eligibility criteria, based on categorical eligibility, income, and resources. Congress established certain categories of eligible individuals (categorical eligibility requirements) that include pregnant women, children under age 21, families with dependent children, people with disabilities, or older adults (age 65 or older). Some of these people with disabilities or older adults also qualify for Medicare (“dual eligibles”).<sup>e</sup> Federal law also permits states to cover other individuals who would not otherwise meet the categorical eligibility requirements, such as women diagnosed with breast or cervical cancer or refugees. However, childless adults who are not disabled or elderly will not qualify for Medicaid regardless of their income. Being poor is not sufficient to qualify for Medicaid. An individual must also meet one of the categorical eligibility requirements.

<sup>e</sup> Medicare is the primary payor of Medicare-covered services for the dual eligibles (e.g., those individuals who are eligible both for Medicare and Medicaid). Medicaid is the secondary payor, and also covers Medicaid services that are not otherwise covered by Medicare (such as vision, hearing, and dental).



In addition to categorical requirements, a person must also meet income and, sometimes, resource restrictions. Medicaid income limits vary depending on the program category (e.g., categorical eligibility) and, for children, by the age of the child.<sup>f</sup> For example:

- Pregnant women can have incomes no greater than 185% of the Federal Poverty Guidelines (FPG)<sup>g</sup>
- Children birth through age five can have family incomes no greater than 200% FPG
- Children ages 6–18 can have family incomes no greater than 100% FPG
- Families (including parents) can qualify if their income is no greater than about 37% FPG (slightly higher incomes of up to 57% of the FPG are permitted for working families)
- People with disabilities and/or people who are elderly (65 or older) can qualify if their income is no more than 100% of the FPG

Categorically eligible individuals with higher incomes may also qualify for Medicaid under a separate program category called the *medically needy program*. These individuals must incur medical bills equaling the difference between their countable income and the medically needy income limits. This is similar in some respects to a health insurance deductible; however, the amount of the “deductible” varies depending on the person’s income.<sup>h</sup> Once the Medicaid recipient incurs medical bills equaling the Medicaid deductible, then Medicaid will pay the remaining bills.

Once an individual is deemed categorically eligible, the state also examines the individual’s resources—e.g., money in the bank, other liquid assets, or real property (other than the homesite)—in determining Medicaid eligibility. The intent of the program is to save public subsidies for those most in need. Individuals who have other resources are expected to use those resources before enrolling in a public program.<sup>i</sup> Medicaid resource limits vary by program category.

<sup>f</sup> The federal law establishes income eligibility thresholds, but states are free to increase the income limits for most program categories.

<sup>g</sup> The 2005 FPG is \$19,350/year for a family of four. See Appendix A for the full 2005 Federal Poverty Guidelines.

<sup>h</sup> Medicaid is typically limited to individuals with incomes below the Medicaid income limits. However, some individuals with higher incomes can also qualify. Individuals who meet all the other Medicaid eligibility rules except income can qualify if they have medical bills equaling the difference between their countable income and the state’s Medicaid medically needy income limits. For example: Mr. Smith is a 55-year-old man with disabilities living on \$842/month in Social Security disability income. He currently meets the categorical eligibility requirements (he is disabled), and meets the resource requirements (he has no more than \$2,000 in countable resources). However, his income is too high to meet the general Medicaid income limits for people with disabilities (\$798/month in 2005). Mr. Smith can still qualify if he incurs medical bills equaling the difference between his income and the state’s Medicaid medically needy income limits (currently \$242/month for an individual). This difference is called the “spend-down” or Medicaid deductible. This spend-down is generally calculated on a six-month basis. Medicaid will pay for any additional healthcare expenses over the amount of the spend-down for the rest of the six-month period; after which Mr. Smith will have to incur new bills to meet another six-month deductible.

\$842	– Mr. Smith’s monthly income
–242	– North Carolina’s Medicaid medically needy income limits
\$600	– spend-down or deductible
x 6	– spend-down calculated on a six month basis
\$3,600	– Mr. Smith will need to incur \$3,600 of medical expenses before Medicaid begins covering additional healthcare expenses.

<sup>i</sup> The Medicaid resource limits vary by eligibility category. For example, families can have no more than \$3,000 in countable assets; older adults (65 or older) or people with disabilities can have no more than \$2,000 (individual) or \$4,000 for a couple. There are no resource restrictions for pregnant women or children.



Children are the most likely to be covered by Medicaid. As of July 2005, North Carolina's Medicaid program covered 1,138,352 individuals. Of this number, 412,470 were children, 22,850 were pregnant women, 316,143 were Temporary Assistance for Needy Families (TANF) recipients (children and caretaker relatives), 26,531 were aged, 217,882 were disabled or blind, 37,878 were under Medicare catastrophic care, and 4,598 were either in foster care, were refugees, or had breast or cervical cancer.<sup>14</sup>

## North Carolina Health Choice

NC Health Choice (NCHC) is North Carolina's State Children's Health Insurance Program (SCHIP). Children birth through age five receive their SCHIP coverage through Medicaid; older uninsured children may qualify for NCHC if their family income is too high to qualify for Medicaid, but no more than 200% FPG. The program for older children is administered jointly between the NC DHHS and the NC Teachers' and State Employees' Comprehensive Major Medical Plan (the State Employees' Health Plan or "SEHP"). NC DHHS determines eligibility, but the benefits are administered through SEHP. Children receive comprehensive benefits that are similar to the services covered under Medicaid. However, enrollee cost-sharing is higher than in traditional Medicaid. Families with incomes in excess of 150% of FPG must pay a \$50 one-time enrollment fee each year for one child or \$100 for two or more children. NCHC also imposes certain copayments for different services.

Unlike Medicaid, which is an entitlement program for those who qualify, NCHC has limited funding because it is administered through a block-grant. The federal government pays 73.5% of the costs of covered services, up to a specified limit. The state pays the remaining 26.5% of NCHC costs (counties do not contribute to this program). If the program runs out of state or federal funds, it must either close the program to new enrollees or make other cuts. In fact, North Carolina was the first state in the country to impose an enrollment cap. In January 2001, the program stopped taking new applications, and 34,000 children were placed on a waiting list. Once the cap was lifted, the program began growing again, with growth around 1% per month. In December 2005, there were 134,194 children in the program.<sup>14</sup>

## Medicare

Medicare is a federally administered and funded program that provides health insurance to almost all older adults (age 65 or older) and to certain people under age 65 with disabilities.<sup>j</sup> Eligibility for Medicare is not based on income and assets; instead, to qualify, an elderly or disabled individual must have worked and contributed into the Social Security system.<sup>k</sup> In North Carolina, there were 980,304 older adults

j Individuals cannot qualify for Medicare on the basis of a disability until they have received Social Security disability payments for 24 months. In general, in order to qualify for Social Security disability, a person must have 40 quarters of "creditable coverage," and have a physical or mental impairment that precludes a person from gainful employment and which is expected to last 12 months or end in death.

k Generally, an individual needs 40 work credits paid into the Social Security system, although they may be able to qualify with fewer work credits if they are disabled. An individual can receive up to four work credits/year. A person must have earned \$920 to receive one Social Security or Medicare work credit in 2005 (or \$3,680 to get the maximum of four work credits).





(age 65 or older)<sup>15</sup> and 225,162 people under age 65 who received Medicare on the basis of a disability in July 2003.<sup>16</sup> The federal government sets the program rules and pays 100% of the government's share of healthcare costs.

Without these publicly subsidized health insurance programs, many more individuals would be uninsured. Given the low-income guidelines of Medicaid and NC Health Choice, many would not be able to afford insurance in the private market.



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