Healthy California

California's Uninsured:

Crisis, Conundrum or Chronic Condition?

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Contents

The Healthy California Series

This is a briefing paper in the Pacific Research Institute's *Healthy California* series. *Healthy California* is a line of health policy research that addresses issues of immediate concern to Californians. These occasional papers look at the effects of government intervention in Californians' health care, and propose reforms based on individual choice and competitive markets.

Executive Summary

The problem of Californians without health insurance is not as awful as generally portrayed. Most of the discussion revolves around the often unstated assumption that Californians should enjoy health "coverage" that pays for all or most of their health expenditures. However, laws and regulations that force health insurers to provide policies on this basis ensure that many Californians will choose not to buy them.

Findings about Californians and their health insurance are complicated, sometimes confusing, and often contradictory. We can nevertheless say the following:

- The most commonly cited figures for the long-term uninsured likely overstate their numbers by more than 100 percent. The large number of short-term residents (many likely illegal) make the numbers look worse than if we consider only citizens and long-term residents.
- Many families eligible for government programs fail to use them, causing almost a million children to go uninsured.
- Over three quarters of Californians are satisfied with their health insurance.
- Almost all Californians are concerned about their health care.
- With respect to the number of uninsured, California is in line with the rest of the U.S.

Despite the murky picture of the specifics of health insurance coverage in California, we know for certain that lowering the price of health insurance will motivate more people to buy it. Therefore, the following points should be made clear:

- Uninsured Californians enjoy many health services paid for by other people.
- California must allow tax deductibility of Health Savings Accounts (HSAs), which allow individuals to spend their own money on ordinary health services, while insuring against catastrophes.
- California must deregulate the health insurance market. The burden of regulation adds about 30 percent to the cost of health insurance in California.

Introduction

Health care in the United States, and by extension California, is rarely mentioned in the media without reference to the fact that a significant portion of residents lack insurance coverage. Despite this, Californians are generally pleased with their access to health care. More than three in four Californians tell pollsters they are Very or Somewhat Satisfied with their health insurance.[1] Still, 90 percent of Californians also tell pollsters that they are concerned about health care.[2]

Health policy analysts, activists, and academics spend vast sums and expend considerable effort analyzing uninsured statistics and calling the public's attention to the issue through studies, events, and the media. More than 18 groups co-sponsor the annual "Cover the Uninsured Week," a made-for-media event that sponsors more than 2,000 events nationwide. Last year, this week produced no fewer than 105 events in California alone. The purpose of the events is clear, if sometimes unstated[3]: the standard against which the success of the health care system should be judged is universal third party insurance, whereby patients pay little, if any, of their own money directly for health care. Politically correct opinion judges anything short of this as not only a policy failure, but also a moral failure of American society.

This study approaches the challenge of the uninsured from an alternative perspective, rejecting the assumption that such universal coverage is superior to individual choice in health insurance. This study examines the issue of the uninsured in California, asking questions that are often off the table:

- To what degree is the number of uninsured a sign of the system's failure, versus an inevitable characteristic of a free society that allows people to choose how they spend their money?

- How many Californians lack health insurance? Who are they? What do they earn? Why are they uninsured? Why, for example, are 900,000 California children who live in families with low income uninsured when the taxpayers already provide free insurance for this group?[4]

- Does being without third party health insurance mean that Californians have no access to health care services and treatments?

- How does California compare to the rest of the country in providing third party insurance for its residents? If we account for the high number of immigrants, both legal and illegal, does the state compare better or worse?

- What public policies will improve the health insurance market by reducing the risk that Californians will be unable to pay for catastrophically expensive health care?

How Many Uninsured Are There? A Tale of Two Health Surveys

Documenting the number of uninsured residents of California should be straightforward. One either has third party coverage for health care expenses, provided by either government or a private party, or one does not. In practice, it is not so simple. The standard survey that produces statistics most widely cited by the media and other interested parties is the United States Census Bureau's annual report, "Income, Poverty, and Health Insurance Coverage," the most recent of which covers 2004.[5] By this measure, which relies on the Current Population Survey (CPS) and the Annual Social and Economic Supplement (ASEC) conducted annually in March, 45.8 million Americans lacked health insurance in 2004—roughly 15.7 percent of the population.[6] 18.4 percent of Californians lack health insurance.[7] Supposedly, these people have been uninsured for the entire year.

There is another survey that tracks the insurance status of U.S. residents—the Survey of Income and Program Participation (SIPP). The SIPP, also conducted by the United States Census Bureau, collects monthly information on the individuals it tracks. Though the CPS survey reported that 14.6 percent of Americans lacked insurance for all of 2001, the last year for which both surveys are available, the SIPP found that only 6.8 percent, or roughly one in 15 people, went an entire year without health coverage.[8] SIPP does not collect data at the state level. If the national ratios applied to California, the percent of uninsured would drop from 18.4 percent to 8.6 percent.

The difference in the numbers, researchers believe, results from survey methods. The more widely reported number, which also happens to provide the more alarming figure, stems from surveys taken once a year in March. It collects information on myriad issues, including health care, and asks respondents to think back a year. The SIPP, by contrast, collects data monthly and asks people whether they are actually covered by health insurance. There are advantages and disadvantages to each approach. Nevertheless, according to Census Bureau researcher Shailesh Bhandari, "The monthly information makes the SIPP closer to the truth."[9]

The first thing that must be noted is that no one really knows how many Californians are without health insurance, but it's likely that the most widely cited figures overstate the problem by as much as 115 percent. These are the numbers used as inputs by respected bodies such as the California HealthCare Foundation and the Kaiser Family Foundation in their reports. I do not criticize this choice, because the national monthly survey (SIPP) does not provide state-level data. However, we can make a pretty good stab at estimating Californian figures from the less extreme results of the latter survey.

Table 1 shows Californian data presented by the California Health Care Foundation from the Current Population Survey, as well as "scaled down" figures estimated from the more consistently reported SIPP data. (Table 1, and the rest of this paper only count working age Californians and children, because virtually all seniors have health insurance through Medicare.[10])

Table 1 California's Non-Senior Uninsured 2004: Two Estimates

	California HealthCare Foundation estimate	Author's estimate from SIPP
By Citizenship:		
Native-born citizen	15%	7%
Naturalized citizen	22%	10%
Resident over 5 years	42%	25%
Resident under 5 years	54%	20%
By Ethnicity:		
White	12%	6%
Black	19%	9%
Asian	18%	8%
Hispanic	32%	15%
Other	18%	8%
By Age:		
Under 18	12%	6%
18-20	32%	15%
21-24	40%	19%
25-34	31%	14%
35-44	21%	10%
45-54	18%	8%
55-64	16%	7%
By Income:		
Under $25,000	36%	17%
$25,000 to $49,999	24%	11%
$50,000 to $74,999	17%	8%
$75,000 +	9%	4%

Source: California HealthCare Foundation 2005, author's interpolation of U.S. data to California from Bhandari 2004.

Although the data presented at the state level estimate that 15 percent of native-born U.S. citizens living in California are without health insurance, an estimate derived from the more accurate SIPP data puts the figure around 7 percent. Similarly, state-level data estimate that about 36 percent of households with income less than $25,000 annually are uninsured, but an estimate using the SIPP data reckons that figure at about 17 percent.

Who Is Uninsured?

With this cautionary example, and mindful that our "conservative" estimates are simply scaled down numbers derived from national ones, let us return to the estimates that use the more dramatic CPS data, which explicitly report state-level figures. Table 1 reports how many people in a group report not having health insurance, for example, 15 percent of native-born citizens in California. If we look at the number the other way around, asking how many of California's uninsured belong to different age, ethnic, citizenship, and income groups, we see that it is not only the needy who are uninsured.

One thing becomes clear from examining these numbers: actually being covered by third party health insurance is not a simple function of ability to pay for third party coverage. More than 25 percent of California residents who are reportedly without health insurance live in a household that earns at least $50,000 a year, more than three times the federal poverty line for a family of four.[11] A 35 year old Californian man can purchase private health insurance for as little as $58 a month. A family of four can secure a policy for $182 a month.[12] These sums ought to be accessible for households that earn at least $50,000 a year. However, they choose not to buy these "bare-bones" policies. Reasons other than money explain why these people do not have health insurance.

California's uninsured are also disproportionately young. More than four in ten uninsured are younger than 35 years old.[13] Although it is inexpensive to purchase individual health insurance at a young age, more than one in three Californians between ages 18 and 25 are classified as not having health insurance.

Most striking are the Californians who are eligible for free insurance, paid for by the taxpayers, who nevertheless fail to sign up.[14] Roughly one in four non-elderly Californian classified as uninsured are eligible for taxpayer funded health insurance and simply fail to sign up. This is especially the case among children who are ostensibly without health insurance. Nearly two thirds of California's children who reportedly suffer from lack of health insurance in fact suffer only from parents who haven't signed them up for taxpayer-sponsored health insurance.[15] If having third party coverage for health care expenses were a priority for these individuals they would make the effort to obtain coverage.

A Health Insurance Problem or An Immigration Challenge?

It looks like California has more uninsured persons in its population than the U.S. overall does: 18.4 percent versus 15.7 percent, according to the CPS data, which results in much bigger estimates than the SIPP data (as discussed above).

Table 2 presents estimates from the most recent Californian source that directly compares national to state-level data, which gives figures from 2002. This report estimated 20 percent of non-elderly Californians as uninsured compared with 17 percent of all U.S. residents.

Table 2: Non-Senior Uninsured in California and the U.S. 2002, CPS data

	California	U.S.
By Citizenship:		
Native-born citizen	15%	15%
Naturalized citizen	22%	22%
Resident over 5 years	40%	42%
Resident under 5 years	52%	51%
By Age:		
Under 18	14%	12%
18_64	23%	20%
By Income:		
Under $20,000	40%	36%
$25,000 to $39,999	25%	22%
$40,000+	7%	7%
By Ethnicity:		
White	12%	13%
Black	17%	22%
Asian	19%	20%
Hispanic	31%	34%

Source: Lundy, *et al* 2004: Exhibit 3.3, figures rounded

This table presents a bit of a mystery. The good news is that regardless of their race or ethnicity, California residents are less likely to be classified as uninsured than non-Californians. Although California appears to do *better* than the country overall when uninsured status is classified by residency, it does worse when classified by age or income. How can this be, when each of these categories encompasses the whole set of working age Californians?[16] The answer is that because there are so many more of these residents in California than in the rest of the country, it increases our uninsured numbers. For the U.S. as a whole, about 8 percent of the population are non-citizens. For other states with high numbers of non-citizens, such as Texas, Florida, or Florida, the share is about 12 percent. For California, it is 18 percent.[17]

More than 80 percent of U.S. citizens who are residents of California have third party health insurance. By contrast, only about half of non-citizen residents who have been in the United States for less than five years have third-party insurance. Only six in ten non-citizens who have resided in the United States longer than five years are classified as having third-party insurance coverage. These estimates are not significantly different from those for the U.S. as a whole.[18] These folks are more likely not to have health insurance wherever they are in the country. Because there are so many non-citizens in California, they swell the numbers of uninsured.

The former Immigration and Naturalization Service estimated that 26 percent of foreign-born residents of California were undocumented in 2003—that is, they resided in the state illegally.[19] Because our health insurance system is employer- and government-based, it makes sense that California's large undocumented population skews its insurance figures. Once the numbers are corrected for the effects of immigration, California comes into line with the United States overall. By hypothetically adjusting the residency status of Californians to be the same as for the U.S. overall, I estimate that California would only have about 17 percent uninsured (according to the CPS estimates) if our population had the same citizenship and residency mix as the rest of the country. This is the same figure as reported nationally in the source for table 2.

This raises both policy and moral questions that aren't easily answered. On the policy side, what mechanisms exist to provide insurance to individuals who, if identified to authorities, would be deported from the state and country? On the moral side, is it the obligation of California taxpayers to expend resources to purchase insurance for individuals who have violated the law to reside in the state? From a more libertarian perspective, if people have chosen to move to the U.S. and California knowing that they were unlikely to enjoy health insurance, why would the state intervene in that choice by finding ways to provide it for them?

No Insurance, No Health Care?

The implicit assertion contained in much reporting about the uninsured is that being without health insurance is the equivalent of being without access to health care. This is especially true when people from other countries that have compulsory health insurance think of the United States. However, what we call health "insurance" in the U.S. does not simply insure against catastrophic health costs in the same way car insurance insures against the cost of a car crash or household insurance insures against the cost of a fire. It is also the means by which most ordinary health care is pre-paid in a tax-efficient manner. It is certainly not the means by which all health care is obtained. People who do not have health insurance may very well secure health care services, either by paying out of pocket for the care or acquiring care free of charge. Healthcare is often supplied by the government outside its own insurance programs (such as Medicare and Medi-Cal) or provided for "free" by institutions and physicians who are often compelled to do so by law or professional ethics. Indeed, health insurance often insulates people from the direct financial consequences of using health services. In routine cases, it smoothes the payments into monthly premiums and small co-pays, and, in cases where the employer sponsors insurance, does so with pre-tax dollars. In catastrophic cases, it protects individuals from having to liquidate non-retirement investment assets to pay medical bills.

Not having health insurance coverage, in other words, is not the same as not having access to health care. In fact, given the expected costs of most people's medical bills, it is a rational choice for many people to choose not to purchase health insurance, relying on their own means for routine medical expenses, while trusting in charitable care or debt forgiveness for catastrophic events. In a free society where insurance is not compulsory—that is, the government does not force individuals to purchase health insurance, force their employers to buy it for them, or tax them to fund a compulsory government health plan—there will always be a significant portion of the population that chooses not to purchase insurance. The numbers show this may be a perfectly rational choice, especially when the health insurance offered in the U.S. has not allowed individuals to separate ordinary health spending from coverage for catastrophic expenses.

Think like a young adult. One in five uninsured Californians is 18 to 24 years old. With few assets to protect, a sense of invincibility, little experience using the health care system, and no anticipation of immediate need, the private purchase of health insurance does not seem like a good deal. And he or she might be right. Americans in this group spend out of pocket $546 a year on health services. By contrast, they spend $1,636 dining out and another $950 on entertainment.[20] A high deductible health plan would cost $408 annually for a 24 year old male.[21]

If disaster strikes, it would be financially devastating. Insurance exists to prevent human tragedies from becoming financial tragedies. If one has few financial assets to protect, then the issue of getting care somehow, does not necessarily involve paying for it.

The uninsured, while consuming roughly half the care of those with health insurance, nevertheless have access to health care in California and the United States. The publicly- and privately-financed safety net, although imperfect, serves as catastrophic health insurance for the uninsured. It is worth noting that Canadians pay 15 percent of their medical costs directly out of pocket, in a country where allegedly all medically necessary care is covered by a taxpayer funded system. Americans, who rely on a mix of public and private systems, pay out of pocket for 14 percent of their health care.[22]

In 2004, the 45.8 million Americans counted as being without health insurance consumed $124.5 billion of health services—about $2,700 per person.[23] (By contrast, the Canadian population of 32 million, fully "insured" by compulsory, tax-funded health plans, used about $110 billion of health services, or about $3,700 per person)[24] Of this total, the uninsured paid only $32.6 billion, or 26 percent, themselves. The rest of the tab was picked up by government, providers, or charitable foundations.

The United States health care ecology—it's not a system, but a collection of many systems—offers a patchwork of highly subsidized and even free care that essentially serves as a catastrophic health plan for individuals without insurance. Even aside from the $238 billion taxpayers spend on Medicaid—the often completely free health insurance provided to low-income Americans—governments spend $234 billion on special payments to hospitals that serve people without insurance, and $7 billion on health services, much of it delivered through local health clinics.[25] These clinics provide routine medical care, charging a fee based on income, which often means no fee at all. There are also private efforts. Physicians donate over $5 billion of free care.[26] Pharmaceutical companies sponsor more than 150 programs that offer low income Americans without health insurance deeply discounted prescriptions.[27]

All of these programs add up to what is essentially a catastrophic insurance policy for Americans without health insurance. This is reflected in the data. The more care an uninsured person consumes, the lower the portion of care she actually pays for from her own funds. According to health economist Bradley Herring, in 2000, the uninsured spent $336 out of pocket on health care for 36.4 percent of the care they received. At low levels of expenditures, $1 to $250, they paid 76.7 percent out of pocket. Low income individuals with expenditures greater than $2,500 paid for only 13.1 percent of the care they consumed.[28] This approach to safety net care may not be elegant, but it is consistent with both the principles of a free society that allows individuals the autonomy to choose what they consume, and the approach the United States takes to ensuring that other life essentials—food, clothing, and shelter—are adequately provided to everyone who resides inside its borders.

Obstacles to Health Insurance

Many reasons exist why California residents, at any given point in time, may not have third party health care coverage. A very small percent of the population does not work for an employer who offers group coverage and, due to pre-existing health problems, is not insurable in the individual market. For the vast majority of cases, people go without insurance because they would rather spend their money on other items, given the current structure of health insurance offerings. In other words, they don't view health insurance as a good buy. Given the alternatives for free or highly subsidized care, many people are right.

Two studies sponsored by The California Health Care Foundation provide insight into the choices poor and other Californians make in purchasing health care. One study conducted by two University of Chicago economists examined consumption data of Californians who were uninsured and insured. This study found that the uninsured spend more money on alcohol and tobacco, $500 a year, than health care, at $400.[29] Given this group's limited budget of $21,700 a year in expenditures, it may indeed be a rational choice to either decline employer-sponsored health insurance that comes with a co-pay or forgo the opportunity to purchase an individual policy in the private marketplace.

The second survey focused exclusively on California's uninsured who live in households earning at least 200 percent of the federal poverty line.[30] This group is largely white (62 percent), U.S. citizens (90 percent), employed (82 percent), and under 40 years of age (62 percent). They are disproportionately male (62 percent), familiar with private insurance (92 percent have purchased some insurance, 78 percent have previously had health insurance), and in good health (88 percent, self reported). One in ten said "no thanks" to health insurance as it is currently supplied

For many of these Californians, buying health insurance today is simply not a good deal. A full 50 percent of this group reported spending no money on health care in the year prior to the study. Forty-two percent simply didn't consume any health related services. The other 8 percent secured services but were not required to pay for them.

Of the 50 percent who actually consumed health care, half spent less than $300 for health care annually. Some, however, lost their bet: the mean amount spent (the total spending divided by the number of people who were uninsured) as opposed to the median (the figure of which half spent more and half spent less) was $1,083. This means that some likely experienced financial pain by paying for health care directly, and would have benefited from having purchased individual health insurance.

This indicates that the incentives Californians face in deciding whether or not to buy health insurance are perverse. It has not been possible to buy health insurance that is truly "insurance," that is, a policy that pays out only when a beneficiary suffers an illness that is very expensive to treat, while leaving individuals to pay ordinary expenses themselves, as we do in all other areas of our lives. The reason U.S. health insurance looks like this has been fully discussed in a recent book published by PRI.[31] Suffice to say here that the tax code has created a bias that motivates employers, rather than individuals, to buy health insurance, and "manage" care rather than leave individuals the financial means to make their own health spending decisions.

Conclusion

Put in proper perspective, neither the United States nor California is suffering as bad a crisis of the uninsured as often believed. The numbers most often available for analysis overstate the number of people who are uninsured. In California, the state's large immigrant population, a large portion of which does not have health insurance, masks an insurance coverage rate for citizens in line with the U.S. average. Most important, in the United States, health insurance is not really "insurance" as properly defined, but merely one means of paying for health services. This makes spending money on health insurance less attractive for individuals who are view themselves as unlikely to need health services, especially younger people. Finally, the uninsured have access to a highly subsidized safety net of providers that serves as a catastrophic health insurance policy for those with lower incomes and few assets.

This is neither elegant nor ideal. In a society in which individuals are free to choose to purchase or not purchase health insurance, a portion of individuals, including many who could afford health coverage, will choose to spend their money elsewhere.

Policy Recommendations

Short of imposing a government run, compulsory, single payer health care system—and the steep taxes necessary to fund it—or mandating that individuals and employers purchase health insurance and fine those who fail to comply, there will always be some people without health insurance in a free society. The failings of government-sponsored health insurance, a topic beyond the scope of this paper, have been explored extensively elsewhere for years.[32] To date, Americans have been unwilling to trade in private health insurance for a government system. Californians soundly rejected a single-payer plan in 1996 after an extensive examination and debate of its features. In 1994, when California voters were offered the option to mandate that employers purchase health insurance for all employees, they rejected it at the ballot box.

Therefore, any solution to increase health insurance coverage must improve its design, giving people the choice of buying policies that cover catastrophic health expenses for reasonable cost. Policymakers have little ability to reduce the real cost of health care—that is, all the things that have to be given up for health care to be produced. The most attractive options to politicians—price and wage controls—are illusory and destructive. The Canadian experience demonstrates that these drastic measures don't reduce costs, but merely shift them from easily observed monetary expenditures to the less easily observed but no less real human costs of waiting longer for care, often in pain, and often at considerable costs of lost wages.[33]

It is the federal government, not the state, that has rigged the tax code to create the inefficient health insurance market that exists today. Nevertheless, Californian policymakers do exert considerable influence over the environment and terms under which health insurance is purchased and provided, and in so doing they do have the ability to reduce the costs associated with providing health insurance.

There are two steps that Californian policymakers can take to improve the situation. The first is the easiest:

1. **<u>Repeal the California Health Tax.</u>** Health Savings Accounts, which combine a high deductible catastrophic health insurance policy with a tax deductible savings account, promise to make the purchase of health insurance more attractive for many who have failed to purchase insurance. HSAs became available in 2004 as a result of the Medicare Prescription Drug Improvement and Modernization Act of 2003. By March of 2005, more than 1 million accounts were opened nationwide. 37 percent of these accounts and policies were purchased by individuals who were previously uninsured. In most states, both contributions and withdrawals from the accounts are tax free from both state and federal taxes. In California, however, state lawmakers have decided to go their own way and tax contributions to the savings account. This is unfortunate and shortsighted. HSAs are the future of health insurance. They provide for the accumulation of funds in years when

health costs are low, they are portable, and, in the group market, they offer employers a way to generously contribute to employee health expenses at the same time they limit their contribution, similar to the popular 401(k) retirement plans. PRI will soon be launching an online calculator that Californians can use to calculate the value of repealing this tax.

2. **Deregulate the individual insurance market.** State regulations on health insurance, mandating that all policies cover such services as alcohol and drug treatment, in vitro fertilization, acupuncture and chiropractic care, increase the cost of a policy by as much as 30 percent in California, according to the Council for Affordable Health Insurance.[35] Individual health insurance simply appears to be a poor value for many of the uninsured who refuse to purchase it. The state should let individuals and insurers figure out what insurance policies should look like. By offering more choices at lower costs, more Californians and California employers will purchase insurance.

These two steps are critical to ensuring appropriate, catastrophic, health insurance coverage in the Golden State.

Endnotes

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[2] California Opinion Index, Major Issues Facing Californians, 2005
[3] Robert Wood Johnson Foundation. 2005.
[4] Mendez-Luck, *et al* 2004
[5] DeNavas-Walt, *et al* 2005
[6] Ibid.
[7] Ibid. Table 1
[8] Ibid. p. 4
[9] Bhandari, 2004a
[10] California Healthcare Foundation, 2005b
[11] Ehealthinsurance, 2005
Health Insurance Quotes from www.ehealthinsurance.com. Individual policy is offered by Pacific Care, PacifiCare SignatureOptions PPO 70-50/5000, and has $5000 deductible, 30 percent coinsurance. Family policy is offered by BC Life and Health, Basic PPO 2500 and has $2,500 deductible and 20 percent coinsurance.
[12] Ibid. p. 13.
[13] Ibid. p. 14.
[14] Ibid
[15] Mendez-Luck, *et al* 2004
[16] These figures are for those who self-report membership in one ethnic group “alone”, so do not include the entire population, many of whom self-report as members of more than one group.
[17] California Healthcare Foundation, 2003, California HealthCare Foundation 2005: 17.
[18] California HealthCare Foundation, 2005b. This finding is corroborated in California HealthCare Foundation 2005: 17.
[19] U.S. Immigration and Naturalization Service, 2003
[20] U.S. Bureau of Labor Statistics, 2005
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PacifiCare SignatureOptions PPO 70-50/5000, a $5000 deductible with 30 percent coinsurance.
[22] Canadian Institute for Health Information, 2005b
[23] Hadley, Holahan, 2004
[24] Canadian Institute for Health Information, 2005a
[25] Department of Health and Human Service and United States Congress, 2005 the figure of $238 billion reflects total spending of $248 billion minus the portion of Medicaid that governments spend on the uninsured.
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[27] NeedyMeds, 2005

[28] Herring, 2004
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[31] Pipes, 2004
[32] ibid
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