

HEALTH INSURANCE IS OUT OF FINANCIAL REACH FOR MOST OF THE UNINSURED

Principle: Health Insurance Should Be Affordable to Individuals and Families

Unaffordability is the top reason uninsured adults give for being without coverage. It is also the major reason employed individuals turn down workplace health insurance. To be affordable, contributions toward health insurance premiums should permit individuals and families to pay for the other basic necessities of life, such as rent and food, and to pay any deductibles or co-payments required when using health services.

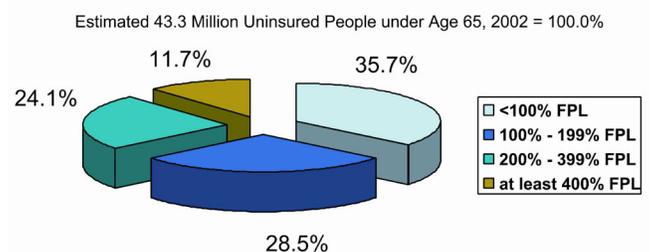
Not all employers offer coverage.

- The federal government encourages private employment-based coverage by offering favorable tax treatment of workers' health benefits, which costs the federal government an estimated \$125 billion in lost revenues in 2000. Nonetheless, more than 80 percent of uninsured children and adults live in families with one or more workers.
- Two-thirds of all firms offer health benefits to at least some of their employees — from 55 percent for small firms (three to nine workers) to 98 percent for large firms (200 or more).
- Half of workers in lower-wage firms — in which at least 35 percent of workers earn \$20,000 or less annually — are covered, compared with 71 percent of workers in all other firms.

Premiums are unaffordable for many working families.

- Growth in health care costs and insurance premiums is outstripping general inflation and family and business incomes. In constant 1998 dollars, the cost of employment-based insurance increased by 260 percent between 1977 and 1998, and the employee's share increased by 350 percent — while median household incomes only increased by 17 percent.
- The average annual premium for an employer-sponsored family policy exceeded \$9,000 in 2003, with workers picking up, on average, 27 percent of the cost. In firms with more than one-third low-wage workers, employees pay an extra \$69 per month compared to the national average.
- For workers earning \$20,000 per year — roughly \$10 per hour — the employee's share for family coverage is more than 16 percent of their pre-tax income.
- The rate of full-time male workers who declined health insurance offers from their employers rose from 6 percent to 10 percent between 1988 and 2001, due to increases in the share of premiums that employees paid.
- While three out of four workers are eligible for continuing health coverage under Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA) when unemployed, only one out of five take up enrollment. Under COBRA, the unemployed person must pay 102 percent of the full premium for previous employment-based coverage, which averaged \$282 per month for individuals and \$756 monthly for family coverage in 2003.

Most Uninsured People Live in Low-Income Households



Note: FPL = federal poverty level, estimated annually (in 2002, 100% of FPL for a family of 4 = \$18,100).

Source: C. Hoffman and M. Wang. 2003. *Health Insurance Coverage in America. 2002 Data Update*. Washington, DC: The Kaiser Commission on Medicaid and the Uninsured.

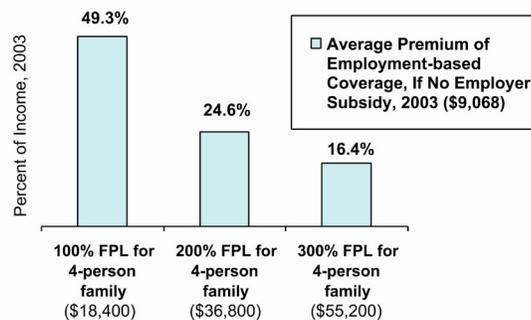
Nongroup policies are even less affordable.

- Just 7 percent of Americans under age 65 purchase individual or family policies on their own.
- A nongroup family insurance policy with a premium comparable to the average employment-based coverage would require an expenditure of roughly 25 percent of pre-tax family income for a family at 200 percent of the federal poverty level (in 2003, approximately \$36,800 annually for a family of four).
- In a recent study of eight nongroup insurance markets, individuals with health problems were quoted a premium price nearly 40 percent higher than potential buyers without health problems.
- Just 29 states have high-risk pools for persons viewed as uninsurable in the individual, nongroup market. There are often waiting lists or closed enrollments.

Uninsured families spend a relatively high proportion of family income on out-of-pocket medical expenses.

- Congress determined that families eligible for State Children's Health Insurance Programs (SCHIP) should not have to pay more than 5 percent of their income on medical costs, including premiums, copayments, and deductibles.
- Families with no insurance for any of their members for the full year were nearly twice as likely to exceed the 5-percent threshold for out-of-pocket expenditures as were fully insured families in 1996.
- Uninsured people are often charged substantially more than their insured counterparts, whose insurance companies can negotiate discounts. The cost to an adult patient of hospital admission in 1999 for treatment of simple pneumonia ranged from \$100 to \$3,434 under fee-for-service plans, but was \$9,812 for a person with no insurance.
- More than half of all current and recently uninsured working-age adults reported difficulties paying medical bills, compared with less than a quarter of insured adults. Of those with severe bill problems, two-thirds reported borrowing from family or friends, and a quarter needed a loan or mortgage on their home.

Without Subsidies, Health Insurance Premiums Are Unaffordable to Low-Income Working Families



Note: FPL = federal poverty level, estimated for 2003.

Source: Institute of Medicine. 2004. *Insuring America's Health: Principles and Recommendations*. Washington, DC: National Academies Press.

Making health insurance more affordable requires public and private action.

- Most uninsured persons will need a substantial employer contribution, government subsidy, or tax incentive to purchase private insurance, or access to a nearly free public coverage program.
- Patient cost-sharing (deductibles and copayments or coinsurance) reduces use of health services and can deter use of appropriate as well as unnecessary services.

Drawn from: *Coverage Matters*, 2001; *Health Insurance Is a Family Matter*, 2002; *Insuring America's Health*, 2004. Institute of Medicine. Washington, DC: National Academies Press.