

P E R S P E C T I V E

Raising Awareness Of Consumers' Options In The Individual Health Insurance Market

If more consumers were aware of the affordable options available to them, more would access individual coverage.

by Vip Patel

ABSTRACT: Lack of consumer awareness of where to get health insurance, what it costs, and what options exist is a critical barrier that prevents many people from obtaining coverage in the individual market (coverage that can include family members). However, a recent study suggests that that three-fourths of the uninsured could find a policy for less than \$2,000 per year and that one-third could find a policy for less than \$1,000 per year. More widespread dissemination of accurate and transparent information on prices, options, and benefits could play a role in expanding insurance coverage.

IMPROVING ACCESS for the uninsured requires expanding the individual market as part of a “triage approach to access.” This triage approach seeks to maximize both access and sources of funds by placing as many people as possible in the group market, then placing the remainder in the individual market if possible, and placing the final remainder in government programs. The employer-group market serves most Americans’ health insurance needs today. The individual market evolved to fill the gaps left by the employer market, including self-employed persons, graduate students, short-term and part-time workers, unemployed or soon-to-be-displaced workers (pending layoff), the smallest of small businesses that cannot obtain group coverage, and persons before they are eligible for Medicare.

Health insurance is costly; however, relative affordability in the individual market compared with other sources of health insurance (employers and government) may not be an issue. Historically, prices for group plans have

been lower than those for individual plans, but this situation is reversing. According to a 2001 premium rate survey conducted in California by Managed Care Online, “Not only were premium increases for individual policies lower than the small group market, but their actual average premium rates were lower than small group average premiums for some categories. An explanation lies in the fact that the individual market is not subject to guaranteed issue, and has strict underwriting, while in contrast, the group market has guaranteed issue, and negligible underwriting.”¹

Many of the uninsured are not candidates for the employer-group market, so unless the individual market is improved, coverage for a large portion of the uninsured cannot be addressed. Most of the discussion about the uninsured focuses on affordability alone, even though the majority of the uninsured have incomes above the federal poverty level (\$8,860 for a single person in the contiguous United States in 2002). Affordability is not the only barrier for the poor, and even those who can af-

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ford health insurance encounter other barriers. These barriers include (1) awareness barriers (lack of awareness about what coverage costs, where to get it, and what is right for them); (2) enrollment barriers (challenges of purchasing and the enrollment process); (3) government barriers (tax disincentives and legislation restricting employers from helping employees to purchase individual coverage); (4) motivation barriers (a sense of impervious health, access to “free” health care at an emergency room, no financial resources to protect); and preexisting condition barriers (underwriting challenges for the severely ill).²

The awareness barrier is a fundamental inhibitor to the growth of the individual health insurance market. Although demographic trends will by themselves fuel growth in the individual market, consumer awareness will be the greatest accelerator. Communicating the facts of accessibility and affordability is the goal, and recently available Internet resources offering price and benefit transparency are a catalyst. Other factors such as government assistance, easier enrollment processes, and helpful purchasing services will enhance this fundamental growth.

The Awareness Barrier

Those closest to the uninsurance problem realize that many more people would purchase health insurance if they were well informed about the affordability and accessibility of individual and family plans. For example, McDonald’s franchises employ thousands of part-time and transitory employees. According to McDonald’s board member Terry Savage, “About half the people that don’t have health insurance probably could find an affordable policy, it’s just that the process is so intimidating.”³

A study by the California HealthCare Foundation in 1999 extensively interviewed the nonpoor uninsured about their perception of health insurance costs. In this study, 68 percent overstated prices, and 53 percent of these persons said that they were likely to purchase a policy after they learned actual prices. The study concludes, “Many of these ‘non-poor uninsured’ may be able to afford and obtain cov-

erage in the individual market.” In addition, “The results indicate that misperception about the cost of health insurance and lack of awareness of the full range of insurance options for individuals may be important factors in the uninsured status of this group.”⁴

The awareness barrier thesis is further validated by the experience of eHealthInsurance Inc., an online health insurance marketplace and broker for individual, family, and small-business health insurance. Each day people approach eHealthInsurance with the misperception that coverage is prohibitively expensive, but when they see the range of options, starting with some very low prices, many of them find they can afford health insurance. Also, eHealthInsurance finds that 40 percent of applications submitted come from people who have been uninsured for at least six months.

The Reality Of Prices

In early 2002 eHealthInsurance analyzed all policies within a time-sequential batch of 23,500 single-coverage policies purchased nationwide through eHealthInsurance. On average, the price of a policy was \$159 per month or \$1,900 per year, with two-thirds of the policies having deductibles below \$1,000. The average policy price rose monotonically from a low of \$1,226 per year for persons under age eighteen to \$3,144 per year for persons ages 45–64. Exhibit 1 shows the distribution of deductibles and copayments for policies purchased during the study period. As a national marketplace, eHealthInsurance distributes insurance from more than 125 insurance companies nationwide. The analysis included policies purchased across states that represent 93.5 percent of the U.S. population. In July 2002 the Health Insurance Association of America (HIAA) released a similar study of the individual market across more than one million policies.⁵ This study explicitly validated the eHealthInsurance analysis: “These results are generally consistent with those of recent prior surveys by eHealthInsurance.”

Roughly 87 percent of these policies in the eHealthInsurance Survey included the “com-

EXHIBIT 1
Distribution Of Single Policies, By Deductible And Copayment Amount, 2002

Deductible	Percent of policies purchased	Copayment	Percent of policies purchased
\$500 or less	43.5%	\$ 0	36.7%
\$501-\$1,000	25.9	5	0.0
\$1,000-\$1,500	7.5	10	9.3
\$1,501-\$2,000	7.8	15	9.2
\$2,001-\$3,000	10.0	20	20.1
More than \$3,000	5.3	25	6.2
		30	10.7
		35-45	7.7

SOURCE: eHealthInsurance Inc., 2002, based on 23,500 single policies across states representing 93.5 percent of the U.S. population.

prehensive” benefits of inpatient care, outpatient care, laboratory tests, and prescription drugs.⁶ The eHealthInsurance survey results seek to portray what actual people purchase with their own money; hence, it includes both more and less comprehensive policies.

Using first-quarter 2002 premiums, eHealthInsurance recently performed a further analysis asking the question, “For those who purchase health insurance, what premiums do people pay by age category (independent of income or financial assistance)?” As shown in Exhibit 2, eHealthInsurance discovered that policies were purchased by 96 percent of persons below age eighteen for less than \$2,000 per year. When all age brackets are considered, 75 percent of the uninsured could find a policy for less than \$2,000 per year (Exhibit 3).

Similarly, eHealthInsurance found that policies were purchased by 55 percent of persons under age eighteen for less than \$1,000 per year. Since people in this group represent 22 percent of the uninsured, roughly 12 percent (55 percent \times 22 percent) of the total uninsured (from this age bracket alone) could find a policy for less than \$1,000. When all age brackets are considered, 33 percent of the uninsured could find a policy for this cost (Exhibit 3).

The above analysis assumes that the uninsured have similar health characteristics and distribution as those who purchased insurance. To correct for this assumption, the above results should be adjusted downward slightly, since roughly 5 percent of the uninsured (2.5 million Americans) cannot purchase health insurance because of health conditions.⁷

EXHIBIT 2
Percentage Of Single Policies Within An Age Bracket That Fall Below A Given Premium Amount, 2002

Annual premiums less than	Age (years)				
	<18	18-24	25-34	35-44	45-64
\$2,000	96%	90%	79%	65%	48%
\$1,667	93	82	69	55	35
\$1,333	83	69	54	41	22
\$1,000	55	42	32	22	10

SOURCE: eHealthInsurance Inc., 2002, based on 23,500 single policies across states representing 93.5 percent of the U.S. population.

EXHIBIT 3
Percentage Of Uninsured Persons Potentially Covered Under Various Premium Options, By Age Group, Assuming That The Uninsured Have Similar Health Characteristics As Those Who Purchased Insurance, 2002

	\$2,000 premium						
	<18	18-24	25-34	35-44	45-64	65+	Total
Percent of uninsured population by age (A)	22%	19%	20%	18%	20%	1%	100%
Percent of policies purchased for less than \$2,000 (C)	96	90	79	65	48	-	
Weighted multiple (A × C)	21.0	17.0	16.1	11.7	9.7	0.0	75.5

	\$1,000 premium						
	<18	18-24	25-34	35-44	45-64	65+	Total
Percent of uninsured population by age (A)	22%	19%	20%	18%	20%	1%	100%
Percent of policies purchased for less than \$1,000 (B)	55	42	32	22	10	-	
Weighted multiple (A × B)	11.9	8.0	6.5	3.9	2.1	0.0	32.5

SOURCES: Population data are from the U.S. Census Bureau, September 2000; insurance policy findings are from eHealthInsurance Inc., 2002, based on 23,500 single policies across states representing 93.5 percent of the U.S. population.

Critical Role Of The Media

The above results contradict general perceptions about the price of health insurance. If roughly one-third of the uninsured could purchase an individual policy for less than \$1,000 per year and three-fourths, for \$2,000 per year, then what would help more of them to purchase an individual policy? One fundamental solution is awareness through the media.

The American public relies heavily on the media for information, and the media can play a key role in educating and motivating Americans to purchase health insurance. At a minimum, the media can make a substantive difference by guiding Americans to investigate their options and decide for themselves using available resources that offer complete information

about prices, options, and benefits.

On the flip side, media should also be careful not to discourage purchasing by spreading the misperception that health insurance is so expensive, people should not even bother to investigate it. When quoting insurance coverage prices, the media should quote individual premiums distinctly, since such coverage is often far cheaper than continuation coverage through the Consolidated Omnibus Budget Reconciliation Act (COBRA), which makes group coverage available for a specified period of time after a person leaves employment. As the Managed Care Online study mentioned above found, premiums for individual coverage can even be lower than those for some small-group policies.

EXHIBIT 4
Average Single Monthly Premiums In The Largest Three States, By Age Group, 2002

State	Population (millions)	Percent of U.S. population	Average single monthly premium, by age group					Guaranteed issue	Community rating
			All ages	18-24	25-34	35-44	45-64		
CA	34.5	12.1%	\$143	\$107	\$132	\$175	\$238	No	No
TX	21.3	7.5	143	108	124	160	228	No	No
NY	19.0	6.7	266	243	267	282	271	Yes	Yes

SOURCE: eHealthInsurance Inc., 2002, based on 23,500 single policies across states representing 93.5 percent of the U.S. population.

When quoting the prices of individual policies, the media also should avoid focusing on aberrations. For example, a recent *Washington Post* article related the experience of only one actual person. This one person lives in New York, a state that has premiums twice as high as those in the two most populous states, California and Texas (Exhibit 4). New York is only one of five states that require both community rating and guaranteed issue, which results in higher premiums there than in most other states.

LACK OF CONSUMER AWARENESS of where to get health insurance, what it costs, and what options exist is a fundamental barrier to overcome. As more people become aware of these things, the purchase of individual coverage will accelerate.

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The author thanks Brett Emerton for his assistance in preparing this paper.

NOTES

1. Managed Care Online, "California HMO Commercial Rate Survey Key Findings 2001," 2001, www.mcareol.com/2001find.htm (17 July 2002).
2. Roughly one out of five applications that eHealthInsurance submits to an insurance company are denied. This is generally consistent with the industry. Individuals submitting applications to more than one insurance company have a greater probability of application acceptance.
3. Terry Savage, interview on NBC Channel 5 (WMAQ, Chicago), 28 May 2002.
4. California HealthCare Foundation, *To Buy or Not to Buy: A Profile of California's Non-Poor Uninsured* (Oakland: CHCF, 1999).
5. T.D. Musco, "Fact Sheet—HIAA Survey: Individual Medical Expense Insurance Affordable, Serves Young and Old" (Washington: Health Insurance Association of America, July 2002).
6. eHealthInsurance Inc., "Fact Sheet: The Cost and Benefits of Individual Health Insurance Plans," 2002, www.ehealthinsurance.com/ehealthinsurance/expertcenter/UITxCreditFactSheet_3.11.02.pdf (17 July 2002).
7. C.F. Meier, "How to Implement Kassebaum-Kennedy: A State Legislators Guide to the Health Insurance Portability and Accountability Act of 1996," Heartland Policy Study no. 78 (Chicago: Heartland Institute, 25 March 1997), 3.