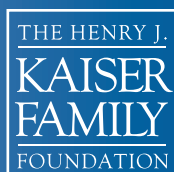


Update on Individual Health Insurance

Kaiser Family Foundation/eHealthInsurance

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eHealthInsurance inc

Background

In recent years, President Bush and other policymakers have proposed to subsidize health insurance coverage that people buy directly from health insurers, usually referred to as individual (or non-group) health insurance. The goals of these proposals are to (1) reduce the number of uninsured people by making individual health insurance more affordable, and (2) address perceived inequities in current tax law, which provides more generous tax subsidies for health insurance received through the workplace than for health insurance purchased directly by individuals. These proposals have generated considerable interest in the products currently offered in the individual health insurance market.

Many people are unfamiliar with the individual health insurance market because most Americans get their health coverage either through their jobs or from a public program. In 2002, about 6.6% of the non-elderly population (16.5 million people) purchased individual health insurance, compared with 65.0% (163.7 million people) covered by employer-based health insurance and 16.2% (40.8 million people) covered by Medicaid or other public coverage. Another 43.3 million non-elderly Americans lacked health insurance for the entire year.¹ If recent federal proposals establishing tax credits or a new tax deduction for individual health insurance were adopted, the number of people receiving coverage through the individual market could markedly increase.

In response to this interest, the Kaiser Family Foundation and eHealthInsurance have initiated a series of reports to provide policymakers and others with information about individual health insurance products and their purchasers. The Kaiser Family Foundation is a non-profit, private operating foundation dedicated to providing information and analysis on health care issues to policymakers, the media, the health care community, and the general public. The Foundation is not associated with Kaiser Permanente or Kaiser Industries. eHealthInsurance is a private, for-profit company that markets health insurance nationally to the individual, family, and small business markets. eHealthInsurance is not a health insurance carrier, but brokers the products of more than 140 market-leading carrier companies across all 50 states. The company is the single-largest source of health insurance nationally for the individual health insurance market.

Most of the data in this report comes from a sample of individual health insurance policies sold through eHealthInsurance. This report provides information about individual health insurance purchasers, premiums, retention rates, and cost sharing. Future reports will update this data and highlight additional information about individual health insurance such as additional individual market demographic data, information about the impact of Health Savings Accounts on the market, small business health insurance trends, and benefits offered.

¹ U.S. Census Bureau, Current Population Survey, 2003 Annual Social and Economic Supplement, at http://ferret.bls.census.gov/macro/032003/health/h01_001.htm. Some people have more than one type of coverage during a year.

Who Buys Individual Health Insurance?

Table 1 shows the age distribution of single individuals and families who purchased individual health insurance policies through eHealthInsurance between January and August of 2003. In the case of families, coverage is sorted by the age of the primary policyholder. As the table demonstrates, purchasers range across the age spectrum. Not surprisingly, family purchasers are somewhat older than single purchasers: 64% of family purchasers are ages 35-64, compared with 36% of single purchasers. Twenty percent of family purchasers are between ages 55 and 64, compared with 12% of single purchasers. Twenty-eight percent of single purchasers are under age 25, compared with 7% of family purchasers.

In looking at gender differences in single purchasers, few are evident (Table 2). For family policies, men (66%) are more likely than women (34%) to be the lead policyholder at most ages.

Table 1.
Distribution of Individual Health Insurance Purchasers (January-August 2003) and the Non-Elderly/Insured Population (2002) by Age

	<18	18-24	25-34	35-44	45-54	55-64	Total
eHealthInsurance Purchasers:							
Single Purchasers	6.8%	21.4%	36.1%	17.8%	6.4%	11.5%	100%
Family Purchasers	2.5%	4.3%	29.7%	37.4%	5.9%	20.2%	100%
U.S. Population Non-Elderly	29.1%	10.9%	15.6%	17.5%	16.0%	10.9%	100%
Uninsured Non-Elderly	19.7%	18.8%	22.6%	18.0%	12.9%	8.1%	100%

Notes: For Single policies, "purchaser" and "age" apply to the person covered by the policy, which could be a child if parents purchase the policy for the child. For Family policies, "purchaser" and "age" apply to the primary person covered by the policy.
Sources: eHealthInsurance purchasers from a sample of policies in force from January-August, 2003. Population and Uninsured data are from the U.S. Census Bureau, Current Population Survey, 2003 Annual Social and Economic Supplement.

Table 2.
Distribution of Individual Health Insurance Purchasers by Gender and Age, January-August, 2003

SINGLE	<18	18-24	25-34	35-44	45-54	55-64	Total
Female	3.1%	10.6%	16.4%	8.2%	3.6%	5.6%	47.6%
Male	3.7%	10.8%	19.7%	9.6%	2.8%	5.9%	52.4%
Total	6.8%	21.4%	36.1%	17.8%	6.4%	11.5%	100.0%
FAMILY	<18	18-24	25-34	35-44	45-54	55-64	Total
Female	1.2%	2.5%	12.3%	12.5%	0.6%	4.6%	33.6%
Male	1.3%	1.8%	17.5%	24.9%	5.3%	15.6%	66.4%
Total	2.5%	4.3%	29.7%	37.4%	5.9%	20.2%	100.0%

Notes: For Single policies, "purchaser," "age," and "gender" apply to the person covered by the policy, which could be a child if parents purchase the policy for the child. For Family policies, "purchaser," "age," and "gender" apply to the primary person covered by the policy.
Source: eHealthInsurance purchasers from a sample of policies in force from January-August, 2003.

How Long Do People Keep Individual Health Insurance Coverage (Retention)?

Another question about the individual health insurance market is how long people keep their individual coverage (or, “retention”). Table 3 shows the percent of policies in effect after 6 months, 1 year, and 2 years, distributed by age and gender. It should be noted that this sample represents major medical policies in force, and does not include “short-term health insurance” policies, which are typically purchased to protect consumers during transition times resulting in gaps in major medical health insurance for 3 to 6 months.

In general, retention rates do not vary significantly between men and women. However, it is clear that younger purchasers (particularly younger men) tend to hold their policies for less time than older purchasers. This distribution makes sense if one considers the different types of people who look to the individual health insurance market for coverage. One group is comprised of people looking for work or between jobs, many of whom expect to get employer-based coverage eventually but who want to protect themselves in the interim. Some of these people may have lost coverage when they left a previous job and found individual coverage more affordable than continuation coverage; others may be new to the job market. Many of these people will buy short-term health insurance plans, and others who buy major medical insurance for this purpose are likely to drop their individual coverage if they get a job that offers health benefits. Other groups of purchasers, however, have a much longer time horizon, including self-employed people, people working at jobs that do not offer health benefits, and early retirees. The individual market is the primary insurance option for these people, suggesting that they would retain their policies for longer periods of time.

Table 3.
Combined Single/Family Policy Retention by Gender and Age, 2002 – 2004

		% of Policies Remaining After:		
Gender	Age	6 Months	1 Year	2 Years
Male	<18	76.0%	58.9%	29.0%
	18-24	78.5%	61.7%	39.9%
	25-34	77.0%	60.9%	38.5%
	35-44	80.5%	65.7%	51.9%
	45-64	85.3%	74.0%	57.8%
Total		79.7%	64.8%	45.7%
		% of Policies Remaining After:		
Gender	Age	6 Months	1 Year	2 Years
Female	<18	77.3%	58.5%	40.1%
	18-24	75.2%	55.4%	39.9%
	25-34	75.6%	58.8%	38.6%
	35-44	79.9%	66.4%	50.2%
	45-64	85.7%	73.3%	62.9%
Total		78.3%	62.2%	45.5%

Notes: “%” is the percent of policies in effect from initial effective date, including both Single and Family coverage. For Single policies, “age” and “gender” apply to the person covered by the policy, which could be a child if parents purchase the policy for the child. For Family policies, “age” and “gender” apply to the primary person covered by the policy. Includes major medical policies; does not include short-term health insurance policies typically purchased for 3-6 month transition periods.

Source: eHealthInsurance policy purchasers tracked through time. The “6 Months” and “1 Year” columns represent a sample of policies sold in 2001 and 2002 with cancellation information through January 2004. The “2 Years” column represents a sample of policies sold only in 2001, and tracked through January 2004.

How Much Are the Premiums for Individual Health Insurance?

Unlike group health insurance premiums, which typically are reported as average dollar amounts for single coverage and family coverage, individual premiums typically vary by the age of the purchaser (or in the case of family coverage, by the ages of the family members). Tables 4 and 5 show the average monthly premiums, with variation by age and region, for single and family policies averaged over the period January 2003 through August 2003. These averages incorporate policies with different benefit and cost-sharing levels, reflecting the policies that people have actually purchased and the premiums that they pay. The table does not necessarily (and is unlikely) to reflect how premiums would vary across ages and regions for a common set of benefits.

Premium data available from eHealthInsurance may differ from premiums available through other sources for various reasons, including differences in the year of the data, the age groupings, purchaser age, and geographical area included in the survey. For example, a survey from America's Health Insurance Plans found average monthly premiums for policies in force in April 2002 to be about \$334 for family coverage and \$173 for single coverage.²

In general, older purchasers pay higher premiums than younger purchasers, reflecting the relatively higher health care costs that people incur as they get older. Premiums generally are higher in the New England/Mid-Atlantic region than in other regions, which could reflect differences in state insurance laws and higher health care costs in general.

As would be expected, family premiums (Table 5) are generally higher than single premiums (Table 4). However, the price differentials between single and family policies are not proportional to the increased number of members covered on a family policy. The average family size for a policy purchased through eHealthInsurance is 2.9, while the premium amount on a family policy is generally less than twice the premium of a single policy. This small premium differential may indicate that families are willing to pay higher deductibles to keep prices down (as discussed below, families are more likely to purchase policies with higher deductibles), or might be a result of insurers spreading marketing and other administrative costs over more people.

² America's Health Insurance Plans, T. Musco and T. Wildsmith, "Individual Health Insurance: New Studies Shed Light on Issues of Affordability, Access, and Plan Design," *Healthplan*, January/February 2004.

The premiums that people pay for individual health insurance are much lower than the total average premiums for group health insurance (\$1,786 for single individually-purchased coverage v. \$3,383 for single employer-based coverage, and \$3,331 for family individually-purchased coverage v. \$9,068 for family employer-based coverage). This substantial difference likely reflects the relatively younger ages of individual health insurance purchasers and less generous individual coverage which may or may not reflect the purchasers' health care needs. It also may reflect the choice that people make when buying health insurance for themselves, paying only for the benefits they believe they will need and use, while employer-based coverage may provide benefits that policyholders do not use.

Table 4.
Average Monthly Single Premiums by Region and Age, January-August, 2003

Region	<18	18-24	25-34	35-44	45-64	Total
Atlantic	\$90.91	\$114.81	\$132.35	\$157.17	\$209.06	\$147.85
Mountain	\$103.84	\$99.02	\$117.93	\$132.40	\$193.12	\$135.44
New England/Mid-Atlantic	\$171.36	\$234.81	\$253.98	\$272.24	\$299.43	\$267.54
North Central	\$86.88	\$102.77	\$110.68	\$130.85	\$179.65	\$127.40
Pacific	\$104.88	\$107.93	\$123.44	\$152.33	\$210.34	\$143.09
South Central	\$89.66	\$87.05	\$99.58	\$125.22	\$182.67	\$123.29
Total	\$97.03	\$115.04	\$130.63	\$155.90	\$209.86	\$148.80

Notes: For Single policies, "age" applies to the person covered by the policy, which could be a child if parents purchase the policy for the child. For Family policies, "age" applies to the primary person covered by the policy.
Source: eHealthInsurance purchasers from a sample of policies in force nationally and sorted by region, averaged over the period January-August, 2003.

Table 5.
Average Monthly Family Premiums by Region and Age, January-August, 2003

Region	<18	18-24	25-34	35-44	45-64	Total
Atlantic	\$105.20	\$199.27	\$264.26	\$297.60	\$339.52	\$296.75
Mountain	\$224.44	\$181.47	\$233.16	\$272.52	\$289.67	\$265.30
New England/Mid-Atlantic	\$100.83	\$200.00	\$432.37	\$475.48	\$541.89	\$489.20
North Central	\$133.01	\$168.66	\$219.25	\$240.79	\$273.08	\$240.74
Pacific	\$115.70	\$182.81	\$246.82	\$280.02	\$323.52	\$276.89
South Central	\$106.26	\$132.47	\$190.49	\$239.68	\$273.99	\$227.46
Total	\$120.37	\$177.73	\$244.76	\$281.05	\$322.12	\$277.62

Notes: For Single policies, "age" applies to the person covered by the policy, which could be a child if parents purchase the policy for the child. For Family policies, "age" applies to the primary person covered by the policy.
Source: eHealthInsurance purchasers from a sample of policies in force nationally and sorted by region, averaged over the period January-August, 2003.

What Are the Enrollee Cost-Sharing Amounts?

Individual health insurance premiums have a substantial range of cost-sharing options, particularly for deductibles. Table 6 shows the distribution of deductibles for combined single and family policies sold between January and August 2003, broken out by age of purchaser. There is no clear preference among purchasers for a particular deductible level: significant proportions of purchasers choose low, moderate and higher deductible plans. Younger purchasers are slightly more likely to choose lower deductible plans, and older purchasers are somewhat more likely to choose higher deductible plans, but the differences are small.

About one-half of single purchasers choose plans with co-payments for physician office visits of less than \$20 (Table 7). More than 80% of purchasers have co-payments of less than \$30.

Table 6.
Distribution of Combined Single/Family Policy Deductibles by Age, January-August, 2003

Deductible	<18	18-24	25-34	35-44	45-54	55-64	Total
<=\$500	32.6%	35.9%	32.2%	24.5%	19.5%	18.8%	28.4%
\$501-\$999	4.7%	4.0%	4.6%	3.6%	2.8%	3.0%	4.0%
\$1,000-\$1,500	27.2%	25.6%	26.8%	29.4%	28.8%	30.6%	27.9%
\$1,501-\$1,999	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.3%
\$2,000-\$3,000	25.1%	21.7%	23.5%	27.4%	29.9%	28.9%	25.4%
>\$3,000	10.1%	12.5%	12.6%	14.8%	18.7%	18.5%	14.1%
Total	100%	100%	100%	100%	100%	100%	100%

Notes: For Single policies, "age" applies to the person covered by the policy, which could be a child if parents purchase the policy for the child. For Family policies, "age" applies to the primary person covered by the policy.
Source: eHealthInsurance purchasers from a sample of policies in force from January-August, 2003..

Table 7.
Trend in Distribution of Single Policy Enrollee Co-Payments for Physician Office Visits, January 2002-August 2003

Co-payment	Jan. 2002	Sept. 2002	Feb. 2003	Aug. 2003
\$0 - \$19	55.2%	56.2%	54.8%	53.4%
\$20 - \$29	26.3%	22.6%	26.8%	26.9%
\$30 - \$39	15.4%	18.1%	14.3%	16.1%
\$40 - \$49	3.0%	4.1%	4.0%	3.6%
Total	99.9%	101.0%	99.9%	100.0%

Source: eHealthInsurance purchasers from a sample of policies in force from January 2002-August 2003.

Summary

Individual health insurance is purchased by people of all ages. Single purchasers tend to be young – only 36% are age 35 or older, although 12% are age 55-64. Family coverage purchasers are older – 64% are age 35 or older.

Premiums for individual health insurance vary considerably around the country. Family premiums are higher than single premiums, but not as high as would be expected given the average family size of 2.9. Individual health insurance premiums are generally less expensive than premiums for group health insurance, reflecting a more modest benefit package. Federal tax policy favors compensation received as health benefits as compared with wages, encouraging employers to offer relatively generous benefits to their employees. Although similar tax benefits are available to self-employed individuals purchasing in the individual market, most people who buy insurance directly in that market do not receive significant tax benefits. Thus, consumers may purchase more basic policies with lower premiums to improve affordability and to cover only the benefits they expect to use.

Almost half of individual health insurance policies are retained for 2 years or longer, with older policyholders keeping their policies longer than younger policyholders. Enrollee deductibles vary considerably, although older purchasers are somewhat more likely than younger purchasers to choose higher deductible plans.

This report provides recent profile information about the individual health insurance market using data from the largest vendor of this type of insurance, eHealthInsurance. The data includes who is buying such insurance, what they are actually paying for this insurance, and buying patterns. The reports that will follow as part of this series will provide trend information in areas of interest such as premiums and cost sharing, and data on other topics such as Health Savings Accounts and small business health insurance trends.

Methodology

Most of the data presented in this report are from a sample of 57,000 individual health insurance policies sold through eHealthInsurance that were in force from January 2003 through August 2003. The individual health insurance products described in this report are major medical health insurance policies. They do not include short-term health insurance policies, which are designed to be held for fewer than 6 months.



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