THE HENRY J. KAISER FAMILY FOUNDATION

How Non-Group Health Coverage Varies with Income

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Policy makers at the state and federal levels are considering proposals to subsidize the direct purchase of health insurance as a way to reduce the number of uninsured. Approaches include subsidizing premiums for non-group coverage through refundable tax credits or tax deductions. Some proposals would go further and require people to purchase coverage directly if they cannot obtain it through the workplace or a public program such as Medicaid. Whether individuals purchase insurance when other options are unavailable can help inform what individuals perceive as affordable coverage. While non-group health insurance is widely available in most states, the rate of purchase for those with no alternative coverage options is fairly low, suggesting that many do not find available policies attractive at current premiums.

In health policy circles, this low take-up is often considered an affordability problem, and for lower income families, the cost of premiums is undoubtedly a factor. Prices for non-group policies vary considerably: for example, over the 2006-2007 period, annual premiums for single coverage varied by age from $1,163 to $5,090, and between $2,325 and $9,201 for family coverage depending on the age and number of family members covered.[1] The evidence presented here suggests, however, that large numbers of even fairly well-off people remain uninsured rather than purchase non-group coverage when they are not offered coverage at work. This finding may be surprising given the potentially large financial and health risks that arise for individuals and families without health insurance coverage.

This paper looks at whether individuals who are not offered coverage at work and who do not have public coverage purchase non-group coverage. Because affordability is usually associated with available income, we show the percentage who purchase non-group insurance by income relative to the poverty line, which adjusts income for family size.

[1] America's Health Insurance Plans, "Individual Health Insurance 2006-2007: A Comprehensive Survey of Premiums, Availability, and Benefits," Center for Policy and Research, December 2007. Accessed online at: http://www.ahipresearch.org/pdfs/Individual_Market_Survey_December_2007.pdf, January 3, 2008.

Using poverty levels helps inform where along the income distribution subsidies for the purchase of insurance could be reduced or potentially removed entirely, and is the measurement used by most state and federal programs to determine program eligibility. In this short piece, we do not control for the multitude of factors which may enter into an individual's decision to purchase health insurance. Nonetheless, the findings show that many individuals go without insurance rather than the purchase insurance directly, and that the purchase of coverage is more likely at higher income levels.

Research Approach

The analysis uses information on income and health insurance coverage from the Medical Expenditure Panel Surveys' (MEPS) Household Component.[2] We combined data from the 2000 through 2003 MEPS surveys to increase the sample size for smaller sub-groups. All income figures were adjusted to 2003 dollars.

Our purpose is to look at people who have a choice of paying for nongroup health insurance or being uninsured. To do this, we first exclude people who have public coverage during the year because their coverage choices are influenced by the availability and cost of public coverage. People who have access to employer-sponsored insurance also are excluded because their coverage decision is affected by the amount that their employer offers to contribute toward the cost of care.[3] We concentrate on adults aged 19 to 64 because children and the elderly can more easily obtain public coverage, contingent on income and other eligibility criteria, through the publicly-subsidized Medicaid and Medicare programs. The remaining population, which we term "Non-Group Relevant

[2] The Medical Expenditure Panel Survey is a national probability survey of the U.S. civilian population residing outside of institutions, conducted by the Agency for Healthcare Research and Quality (AHRQ). The survey provides detailed information on the demographic characteristics, health care use and health care expenditures costs for this population. For more information, see, http://www.meps.ahrq.gov/mepsweb/about_meps/survey_back.jsp.

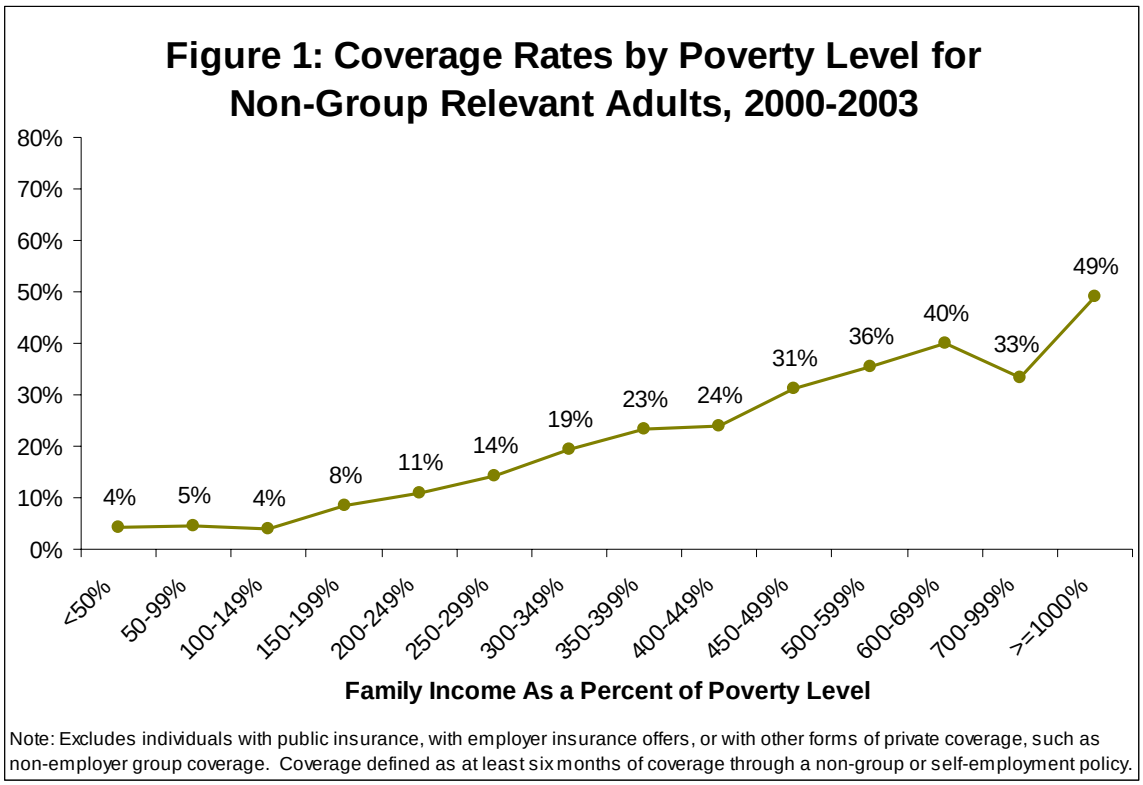
[3] Workers with access to employer-provided health insurance are likely to take it because they generally only need to pay a portion of the premium and because coverage obtained through employment is generally more tax advantaged than coverage purchased directly. Although economic theory would say that the worker is paying the full cost of their health benefits by forgoing other compensation, that tradeoff is likely to occur when a worker accepts employment at a firm offering coverage. Workers cannot generally choose to get the full economic value of the employer's health benefit offer at the point at which they decide whether or not to enroll in their employer's plan, although a minority of workers can trade health insurance for wages or other benefits. See the Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007, Exhibit 12.5, available online at http://www.kff.org/insurance/7672/sections/ehbs07-12-5.cfm.

Adults," includes all non-elderly adults without an offer of employer insurance who either purchased private insurance coverage (defined as six months or more in a given year and referred to as 'private') or decided to forgo coverage (defined as six or more months without insurance) in a given year.[4] We determined family structure and calculated family income relative to the poverty level in terms of health insurance units – adults plus those family members who are typically eligible for coverage under the adults' private health insurance plans. Showing the data this way enables one to compare the income levels of relevant family members to individual coverage rates.

Results

Figure 1 shows the percentages of non-elderly adults who purchased either non-group or self-employment coverage when other sources of health coverage were unavailable or not otherwise obtained (i.e. through an employer or public coverage). For these "Non-Group Relevant Adults," very few purchased an individual health insurance policy at lower income levels. At the lower end of the income distribution, only between 4 and 11 percent purchased coverage with incomes between 50 and 250 percent of the poverty level (between $4,787 and $23,933 in 2003 dollars for an individual below 65 years of age, or between $9,330 and $46,650 for a family of four). As income increased, the coverage rate increased steadily. However, at four times the poverty level ($38,292 for an individual and $74,640 for a family), only about a quarter of individuals purchased coverage. Even for those earning 10 times the poverty level or more ($95,730 for an individual and $186,600 for a family), only about half of these individuals purchased coverage between 2000 and 2003. This strong association with income, and the relatively low rates of purchase for lower income families, highlights the difficulty many face when confronted with the choice of purchasing health coverage or remaining uninsured.

[4] Some of these adults considered as not covered may have had more than six months of total insurance coverage if they obtained three or less months of public coverage in addition to five or less months of private coverage. The number of individuals for whom this is the case is very small and did not affect the results of our analyses when we excluded anyone with a single month or more of public coverage. We also excluded those individuals who either did not know their source of coverage or who stated that they have group insurance, but did not specify that it was through an employer. This latter group includes, e.g., those who have obtained insurance through a trade association. In Appendix 1, we show the results of our analysis including those with private group coverage which was not obtained through an employer.



Note: Excludes individuals with public insurance, with employer insurance offers, or with other forms of private coverage, such as non-employer group coverage. Coverage defined as at least six months of coverage through a non-group or self-employment policy.

Self-Employed Adults

We next look at the purchasing behavior of the self-employed.[5] The self-employed were examined separately because they usually do not receive health insurance through an employer, and thus were more likely to purchase insurance directly. And, unlike most other individuals who purchase insurance directly, the self-employed can deduct their health insurance premiums for health insurance from their incomes.[6] The subsidy for the self-employed is in the form of a deduction from income, which is more valuable to people as their income rises (because their marginal tax rate rises with income, up to a

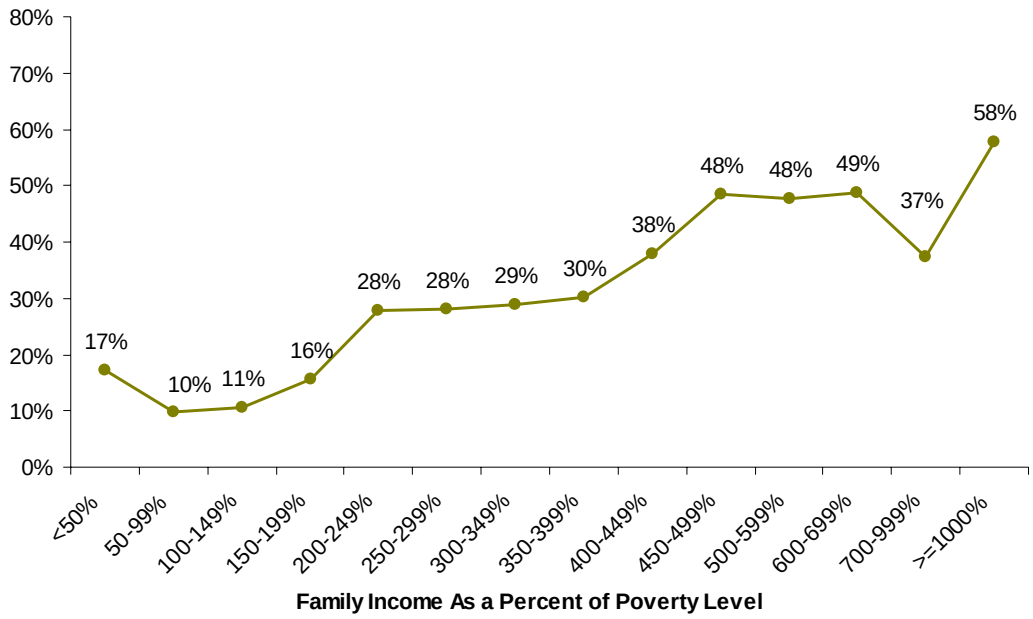
[5] Individuals were defined as self-employed if they responded affirmatively to a question about their self-employment status for at least two consecutive interviews out of the three conducted by AHRQ within a given survey year. We show coverage rates for those self-employed without an employer offer of insurance who also held a self-employed private insurance or non-group policy to reduce the chance that self-employed individuals were obtaining coverage through a spouse's or other family member's plan.

[6] Federal law permits self-employed individuals to deduct the cost of health insurance from their self-employment earnings. This deduction is allowed as long as the self-employment business from which the premiums were paid had a net profit for the year, and the amount that is deducted does not exceed net profit. Department of the Treasury, Internal Revenue Service, "Medical and Dental Expenses (Including the Health Coverage Tax Credit)," Publication 502, Cat. No. 15002Q. Accessed online at: http://www.irs.gov/pub/irs-pdf/p502.pdf, December 21, 2007.

maximum rate). This type of subsidy is different than the subsidies provided or envisioned in many health reform programs or proposals, such as the one enacted in the 2006 Massachusetts health care reform, which provides greater subsidies to people with lower incomes and has subsidy amounts that phase out as income rises.

Figure 2 shows the percentage of non-elderly self-employed adults who purchased private coverage when they had no access to, or did not otherwise obtain, coverage. Like the coverage rates for all Non-Group Relevant Adults, those that were self-employed were more likely to purchase insurance as their family income rose. Between 10 and 16 percent purchased coverage between 50 and 200 percent of the poverty line, and about 30 percent purchased between 200 and 400 percent. A noticeable difference compared with Figure 1 is that the self-employed seemed more likely to purchase insurance. Given the tax deductibility of premiums for the self-employed, this higher rate of purchase makes sense. Still, even with this tax advantage, most of the self-employed did not purchase coverage when faced with the alternative of being uninsured. Only when family income was above 450 percent of the poverty line did close to half of the self-employed purchase insurance.

Figure 2: Coverage Rates by Poverty Level for Self-Employed Non-Group Relevant Adults, 2000-2003

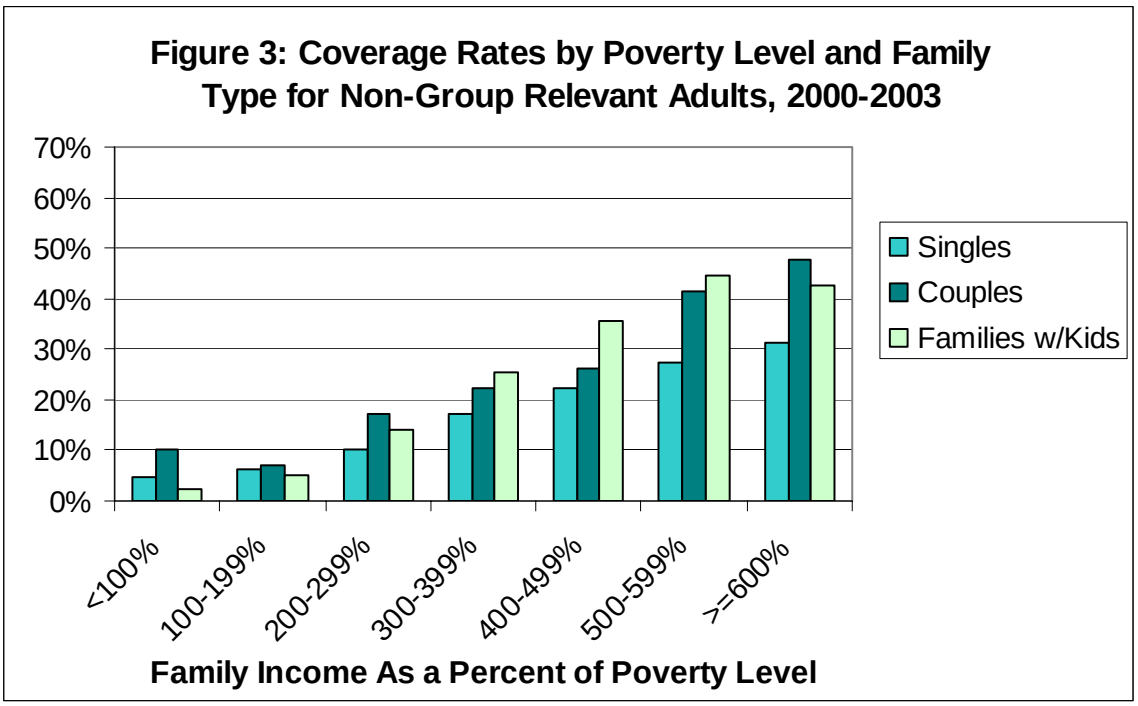


Note: Excludes individuals with public insurance, with employer insurance offers, or with other forms of private coverage, such as non-employer group coverage. Coverage defined as at least six months of coverage through a non-group or self-employment policy.

Private Insurance Coverage Rates by Family Type

Purchasing decisions are not only related to family income, but also the size and structure of families. Analyses which use the poverty line already account for some of the impact of family size with respect to income. However, we also show coverage rates for Non-Group Relevant Adults by three general family types – single persons, couples, and families with children.

As Figure 3 shows, the presence of children did seem to be related to somewhat lower coverage rates than couples without children at incomes below 300 percent of poverty. At higher incomes, families with children seemed to purchase coverage more often than single adult families, perhaps because these families particularly valued health coverage for their children.



Discussion

This paper looks at the percentage of individuals without other coverage options who purchased private non-group health insurance. We find very low coverage rates at lower income levels, suggesting that many people at these incomes were unable to find policies that they felt were affordable. We also show that while coverage rates rose steadily with income, even at high levels of income, most individuals did not purchase coverage (e.g., at four times the poverty level, only about a quarter of individuals purchased coverage). Coverage rates were higher for the self-employed at all income levels, but even for the self-employed most remained uninsured until incomes exceeded four times poverty.

These findings show that policy makers considering ways to encourage more people to purchase non-group coverage face a daunting challenge. Non-group insurance does not appear to be a very popular product, and policy makers may need to make significant changes to improve its attractiveness if non-group coverage rates are to improve dramatically. The current low coverage rates, even at fairly high income levels, suggest that subsidies may need to be fairly substantial in order to encourage a large uptake in purchase, and may need to extend higher up the income scale than some policy makers

may prefer. Other proposed market interventions, such as creating purchasing pools or public exchanges to simplify the process of purchasing coverage, could potentially play a role in improving market participation. Massachusetts has implemented such an approach and other states are considering it.

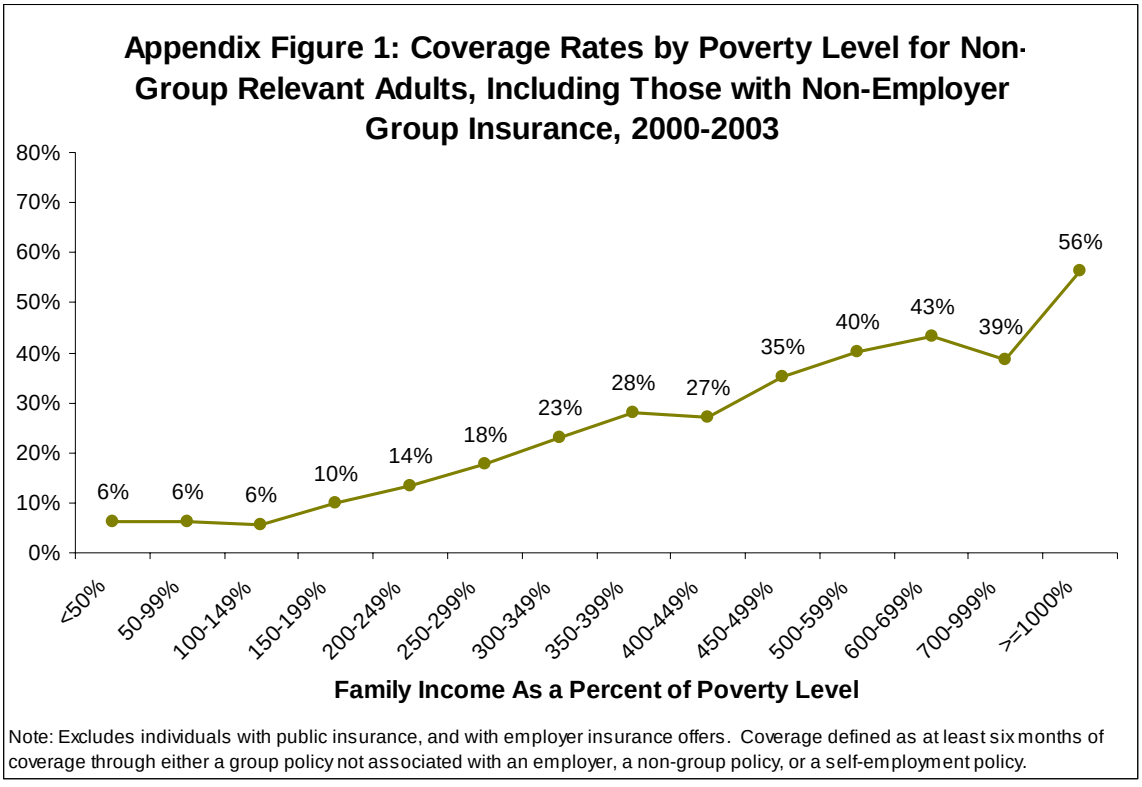
As we noted above, factors other than affordability can affect the decision to purchase non-group coverage. In many states insurers can limit eligibility or increases premiums for non-group applicants due to current health status or health history. These practices reduce the percentage of Non-Group Relevant Adults who become covered. Low coverage rates may also be a sign of other factors associated with lower income families, such as lower levels of financial literacy or less familiarity with insurance products. The need to navigate through a wide range of products and the many factors which shape the financial protection of policies (e.g., deductibles, co-payment rates, out-of-pocket maximums) may be a barrier for some.

While we cannot account for these other factors, its is unlikely that they could be the primary factors in explaining very low rates of coverage among Non-Group Relevant Adults shown above. Most people are relatively healthy and insurance agents and others are available to assist people who may find these products complicated. The low coverage rates that we find suggest that many people whose coverage option is the non-group market either do not view coverage as attractive or do not feel that they can afford it. The low coverage rates also suggest that policy makers may need to take significant actions if their goal is to substantially increase participation in this market.

This paper was prepared by Paul Jacobs and Gary Claxton of the Kaiser Family Foundation.

Appendix 1

The results presented in this paper were created by excluding several groups of individuals from the analysis based on their insurance status, such as those with public coverage or those with offers of employer insurance. We also show in this appendix how our results are affected by including one particular type of insurance category we excluded in Figure 1 – non-employer private group policies. Individuals covered under these types of policies may face similar options to the others we have shown above, and therefore may be a relevant source of coverage to consider. The results in Appendix Figure 1 are a few percentage points higher for each poverty category than those shown earlier in Figure 1. There are even more noticeable differences especially at very high income levels. However, the inclusion of non-employer group coverage does not change the scope or substance of our findings that coverage rates increase proportionately with income and that many individuals find non-employer based coverage a relatively expensive option.



Note: Excludes individuals with public insurance, and with employer insurance offers. Coverage defined as at least six months of coverage through either a group policy not associated with an employer, a non-group policy, or a self-employment policy.

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